BANCA POPOLARE DI MILANO

Annual Report

Year 2016

Annual Report of the Bipiemme Group as at 31 December 2016

BANCA POPOLARE DI MILANO

Cooperative Bank founded in 1865
Parent Company of the BPM – Banca Popolare di Milano – Banking Group
Share capital as at 31.12.2016: Euro 3,365,439,319.02
Milan Companies Register no. 00715120150
Enrolled in the National Register of Cooperative Companies no. A109641
Registered Office and General Management:
Piazza F. Meda, 4 - Milan
www.gruppobpm.it

Member of the Interbank
Guarantee Fund

Registered Bank
and Parent Company of the
BPM - Banca Popolare di Milano - Banking Group
enrolled in the Register of Banking Groups

Please note that as a result of the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l., approved on 15 October 2016, by the respective Extraordinary Meeting of Members, the Banco BPM S.p.A. was formed, effective from 1 January 2017. Banco BPM S.p.A. is the parent company of the namesake Banking Group, with registered office at Piazza F. Meda 4, Milan; VAT no. 09722490969; share capital: € 7,100,000,000.00.

Year 2016

This English version is not an official translation and is not a substitute for the original Italian document. It is for informational purposes only and has been prepared solely for the convenience of international readers.

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Directors and Officers, General Management and Independent Auditors

BANCO BPM SpA Board of Directors

Chairman
Carlo Fratta Pasini

Senior Deputy Chairman
Mauro Paoloni(*)

Vice-Chairmen
Guido Castellotti(*)
Maurizio Comoli(*)

Chief Executive Officer
Giuseppe Castagna(*)

Directors
Mario Anolli
Michele Cerqua
Rita Laura D'Ecclesia
Carlo Frascarolo
Paola Galbiati
Cristina Galeotti
Marisa Golo
Piero Lonardi(*)
Giulio Pedrollo
Fabio Ravanelli
Pier Francesco Saviotti(*)
Manuela Soffientini
Costanza Torricelli
Cristina Zucchetti

General Management

General Manager
Maurizio Faroni

Co-General Managers
Domenico De Angelis
Salvatore Poloni

Board of Statutory Auditors

Chairman
Marcello Priori

Standing Auditors
Maria Luisa Mosconi
Gabriele Camillo Erba
Claudia Rossi
Alfonso Sonato

Alternate Auditors
Chiara Benciolini
Marco Bronzato
Paola Simonelli

Independent Auditors

PricewaterhouseCoopers S.p.A.

(*) members of the Executive Committee

Letter to Shareholders

Dear Shareholders,

At this first General Meeting of Shareholders of Banco BPM S.p.A., you are called upon to approve the financial statements for financial year 2016 of the banks that have, after a long and complex merger process, become the new Banco BPM S.p.A.

These financial statements reflect a number of structural trends that Italian banks are having to face and which present challenges of a nature that cannot be overcome without mutual support for a growing number of institutions in the country. In particular, profitability is declining due mainly to the fact that interest rates have fallen to all-time lows, as well as to competition among banks for levels of credit demand that remain weak and to rigidity in the costs connected to operating more traditional distribution networks.

The bill that healthy banks are having to pay for the instability of their competitors is also significant. In fact, in 2016, Banco Popolare and BPM incurred a charge of 261.7 million euro for contributions to FITD, to the Single Resolution Fund, and to the Italian National Resolution Fund to complete the rescue of four banks and for the writedown of investments in the Atlante Fund and in the FITD's Volunteer Mechanism.

Performance is also being hindered by provisions for non-performing loans brought about by the ongoing economic crisis, the declining value of collateral, and the slowness of compulsory procedures. As recently noted by the Director General of ABI, there is also the issue for the Italian banking industry of the truly incongruous price that the NPL market pays for these loans when selling them in bulk, which is the only way to achieve those reductions in stock that regulators continue to call for and underscore the importance of.

In addition to these factors common to all Italian banks, there have also been the effects of our merger. The financial statements of both banks show a significant one-off cost for the merger as well as for the enhancement of coverage for non-performing loans as agreed upon with the ECB, which impacted on Banco Popolare's financials for 2016, whereas for BPM the effects will be seen on the 2017 financial statements of Banco BPM, along with a much more significant extraordinary gain to be recognized following completion of the merger.

In contrast to the heavy losses that have resulted (1.7 billion euro, 279 million of which for Banco Popolare for the impairment of the goodwill of the subsidiary Banca Aletti and 72.7 million euro of income for BPM), there is the outlook of profitability for the future, which is supported both by the greater strategic reach of the new organization and the start of a process of integration that, despite being in its early stages, has already shown a real potential for achieving the targets of the business plan from now until 2019, even in a landscape more challenging than what has been forecasted.

Therefore, it is the desire of the Board of Directors, whose term began on 1 January of this year, that all employees of Banco BPM should embrace and benefit from the great upward potential that this "new beginning" now brings. It is not so much a matter of taking pride in the only banking merger carried out in 2016—and without having to turn to other banks or contributors for money or other resources—as it is about approaching this opportunity for which we have worked so hard with awareness, industriousness and responsibility.

We are all perfectly aware that the future is beset with difficulties. It will take greater effort from us all in terms of hard work, responsibility and the governance of risks in return for remuneration that, for all levels, will at best be equal to that of the past. In the organization we are now building, it will matter not where you come from, but what you can do, and all of this must be a daily commitment experienced with the confidence that comes from the awareness of much more challenging, at times even dramatic situations that other banks, businesses, and many households are having to face in the communities we serve.

It is with this outlook and attitude that Banco BPM will be taking its first steps as a new, unified bank, one that will remember its roots and one that, as a joint-stock company, will seek to continue providing the sort of service to businesses and households that one expects from the best of mutual banks.

In essence, it is about continuing in our mission, pursuing an orderly, well managed process of integration, and achieving all of the success that the Business Plan has in store for this new organization in terms of capital, asset quality, maintenance of liquidity requirements, the reduction of costs, and growth in revenue and profitability over time. As the logo of the new bank suggests, the horizon is as challenging as it is beautiful.

Verona - Milan, 10 February 2017

The Board of Directors

Notice to convene the ordinary shareholders' meeting

Pursuant to articles 13 and 43 of the Articles of Association, the Ordinary Shareholders' Meeting of Banco BPM S.p.A. shall be convened on single call on **Saturday, 8 April 2017, at 9 o'clock, in Novara, at Complesso Sportivo Comunale del "Terdoppio", Piazzale degli Sport Olimpici, 2** to discuss the following

AGENDA

1) Approval of the 2016 Annual Reports of Banco Popolare – Società cooperativa and of Banca Popolare di Milano - Società cooperativa a responsabilità limitata, inclusive of the executive reports prepared by the Board of Directors and the Board of Statutory Auditors of Banco BPM S.p.A., as well as of the reports prepared by the Auditing firm of Banco Popolare - Società cooperativa and of Banca Popolare di Milano - Società cooperativa a responsabilità limitata; presentation of the consolidated financial statements of Gruppo Banco Popolare and of Gruppo Bipiemme – Banca Popolare di Milano. Relevant and consequent resolutions.
2) Resolutions on remuneration and incentive policies: approval of the report in compliance with current legal provisions. Relevant and consequent resolutions.
3) Banco BPM S.p.A. share-based compensation plans: annual incentive scheme (2017) and three- year incentive scheme (2017-2019). Relevant and consequent resolutions.
4) Authorization request for the purchase and sale of own shares. Relevant and consequent resolutions.
5) Adoption of the General Meeting Rules. Relevant and consequent resolutions.

Please find below all necessary information in compliance with art. 125-*bis* of Lgs.D. 24/02/1998, no. 58 and following amendments (T.U.F.).

Attendance at shareholders' meetings and representation

All shareholders with voting rights who, within the prescribed time limits under the law (5 April 2017, third trading day prior to the date of the General Meeting), have duly sent to the Company the intermediary's notification, certifying that they are entitled to participate in the Shareholders' Meeting and to exercise their voting rights, have the right to participate in the Shareholders' Meeting.

In compliance with art. 83-sexies of T.U.F. and art. 22 of the joint Order by the Bank of Italy and Consob of 22/02/2008 and following amendments/ additions ("Joint Order"), this notification to the Bank shall be based on the records at the end of the accounting day of the seventh trading day prior to the date of the General Meeting (**30 March 2017 - "*record date*"**). Anyone whose shareholding has been recorded after the above date will not be entitled to attend and to vote at the General Meeting.

Shareholders – whose shares are already deposited in a custody and administration account with the Parent Company Banco BPM S.p.A. or with BPM S.p.A. or with another bank of the Group, and as such have already been dematerialized - must in any case, under art. 22 of the Joint Order, give specific instructions by **3 April 2017** that the notification be issued, and obtain an immediate copy thereof, to be used as admission ticket to the Shareholder's meeting.

For Shareholders whose shares are deposited with other authorized intermediaries, note that, pursuant to the above mentioned art. 22 of the Joint Order, the notification instructions must still be submitted no later than 3 April 2017, making sure to obtain a copy of the notification.

The right to attend and to vote at the meeting shall still be valid in the event that the notifications have reached the Company after the above deadline of 5 April 2017, provided they are received before the opening of the meeting.

Shareholders in possession of shares that have not been dematerialized yet, must turn them in to Banco BPM S.p.A. or to another Bank of the Group, or to other authorized intermediary for their dematerialization, and give instructions for the issuance of the notification to participate in the Shareholders' meeting.

Shareholders with voting rights are entitled to be represented by proxy at the Meeting, under the law, and for this purpose may use the proxy form at the foot of the notification issued to the Shareholder by one of the Group banks or by another authorized intermediary, or the facsimile of the proxy form available on the Company's website (www.bancobpm.it - "Corporate Governance – Shareholders' Meetings" section) or at the Head office of Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda, 4 - 20121 Milan).

A proxy may also be appointed via electronic document signed with an e-signature pursuant with art. 21, paragraph 2, of Lgs.D. n. 82, 7 March 2005.

The Chairman of the Board of Directors, in his capacity as Chairman of the Shareholders' Meeting, has full powers, also via staff appointed specifically for this task, to verify the validity of the proxies, and in general the shareholders' actual entitlement to attend the Shareholders' Meeting and to cast their vote, so as to verify whether the meeting has been duly formed, and if the quorum has been reached.

To this purpose, all Shareholders concerned may (i) deliver their paper proxies at the branches of Banco BPM S.p.A. or BPM S.p.A., or (ii) notify the proxies by certified e-mail, at the address assembleasoci@pec.bancobpmspa.it, no later than **6 April 2017**.

In the event that copy of the proxy form is delivered or presented to the Company by the proxies, upon registering to attend the shareholders meeting they will have to attest under their own responsibility the conformity of the copy to the original proxy form and the identity of the holder.

Proxies submitted after the above deadline or at the Shareholders' meeting must in any case be filled out along the same modalities described above.

Proxy designated by the company

The proxy may also be given free of charge – supplemented with voting instructions on all or some of the proposals on the agenda – to Società per Amministrazioni Fiduciarie Spafid S.p.A., Foro Buonaparte, 10 – 20121 Milan, in its capacity as "Designated Proxy" pursuant to art. 135-*undecies* of T.U.F., by the end of the second trading day prior to the General Meeting date (hence no later than **6 April 2017**). The proxy shall be valid exclusively for the

proposals for which voting instructions have been given. The proxy and the voting instructions may be revoked by the above deadline.

To give one's proxy to the Designated Proxy, please use the specific form available on the website (www.bancobpm.it - "Corporate Governance – Shareholders' Meeting" section). If necessary, a paper proxy form will be sent, provided a request is submitted to Spafid S.p.A. assemblee@pec.spafid.it or Banco BPM S.p.A. (Affari Societari di Gruppo – toll-free number 800.013.090).

The original proxy form, complete with the voting instructions for the Designated Proxy, must be submitted by the above deadline of 6 April 2017, to the following address: Spafid S.p.A., Foro Buonaparte, 10 – 20121 Milan, Ref. "Delega Assemblea BPM 2017", either by hand-delivering it during office hours (from 9:00 a.m. to 05:00 p.m.) or by sending it by registered mail with return receipt or courier service. Without prejudice to the delivery of the original proxy form complete with voting instructions, the proxy may also be notified via e-mail at the certified e- mail address assemblee@pec.spafid.it. Sending the proxy form, signed with a digital signature under the law, to the above certified e-mail address meets handwriting requirements.

Additions to the agenda and presentation of new resolution proposals
Shareholders, who even jointly represent no less than 1/40 of the share capital, may ask in writing, within ten days of publication of this notice calling the shareholders' meeting (18 March 2017), for additions to the list of items on the Meeting's agenda (with the exception of matters to be resolved by the General Meeting, under the law, proposed by the Board of directors or based on a project or report submitted by the latter, other than those specified in art. 125-*ter*, paragraph 1, T.U.F.), specifying in the request the additional subject-matters they propose, pursuant to art. 13.3 of the Articles of Association, or proposing new resolutions on items already on the agenda, in compliance with art. 126-*bis* T.U.F.. Shareholders with voting rights may individually present proposed resolutions in the shareholders' meeting.

The written request must be sent to the Company by registered mail (Affari Societari di Gruppo, Piazza Filippo Meda, 4 – 20121 Milan) or by certified e-mail at the certified e-mail address assembleasoci@pec.bancobpmspa.it.

The legitimacy to exercise the right is attested by filing a copy of the notification or certification issued by the intermediary under current legal and regulatory provisions.

Shareholders requesting the addition to the agenda or proposing new resolutions on subject-matters already on the agenda shall prepare a report explaining the reasons for the proposed resolutions on new subject-matters they are submitting to the discussion or the reason for the additional resolution proposals on matters already on the agenda. The report shall be sent to the board of directors within the deadline for the presentation of the request for additions, as described above. The board of directors shall make the report available to the public, together with any additional own assessment, upon publishing the notice of the additions to the agenda or the presentation of new proposed resolutions, along the procedures prescribed by current regulations.

Any additions to the agenda or the proposal of additional resolutions on items already on the agenda are disclosed along the same procedure prescribed for the publication of the notice calling the meeting, at least fifteen days prior to the date scheduled for the General Meeting (23 March 2017). Additional proposed resolutions on items already on the agenda are made available to the public along the procedures prescribed by current regulations, upon publishing the notice of the presentation.

Right to ask questions on items on the agenda
Shareholders with voting rights may ask questions on items on the agenda even before the General Meeting, by sending them no later than the third day prior to the date of the General Meeting (5 April 2017) by certified e- mail at the address assembleasoci@pec.bancobpmspa.it or by mail to Banco BPM S.p.A., Affari Societari di Gruppo, Piazza Filippo Meda, 4 – 20121 Milan.

The applicants must deliver to the Company – through their intermediaries – the notifications certifying their entitlement to exercise this right; in the event that they have instructed their intermediaries to issue the notification to attend the General Meeting, it will be sufficient to specify the notification reference details or at least the name of the intermediary in the application.

Questions that are relevant to the items on the agenda shall be answered under the law during the General Meeting at the latest. The Company may provide a comprehensive answer to questions covering the same content.

Share capital information
The share capital subscribed and paid in by the Company at the date of this notice totals Euro 7,100,000,000.00 subdivided into no. 1,515,182,126 shares with no par value. At the date of this notice, the Company does not hold any own shares.

Documentation
The executive reports on each of the items on the agenda, as well as any other document, including the proposed resolutions, to be published before the General Meeting, shall be made available to the public at the head office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and shall be published on the corporate website (www.bancobpm.it, "Corporate Governance – Shareholders' Meeting" section), as well as on the website of the authorized central storage mechanism www.emarketstorage.com, in compliance with the terms and procedures under the law.

Shareholders are entitled to receive a copy of the documents once they have been regularly filed, upon request to be sent to Banco BPM S.p.A. (Affari Societari di Gruppo – toll-free number 800.013.090, certified e-mail address assembleasoci@pec.bancobpmspa.it).

To receive additional information on the procedure to attend the General Meeting, please contact Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda n. 4 – 20121 Milano), or call the toll-free number 800.013.090 in working days from 9 a.m. to 5 p.m., or, send a request to the certified e-mail address assembleasoci@pec.bancobpmspa.it.

In compliance with articles 125-*bis* T.U.F. and 13.4 of the Articles of Association, this notice to convene – prepared also under art. 84 of Consob's Regulation 11971/99 and following amendments (Issuers Regulation) – is published in full on the corporate website (www.bancobpm.it, "Corporate Governance – Shareholders' Meeting" section), and an abridged version is published on the daily newspapers "Il Sole 24 Ore" and "MF".

On behalf of the BOARD OF DIRECTORS
The Chairman
Avv. Carlo Fratta Pasini

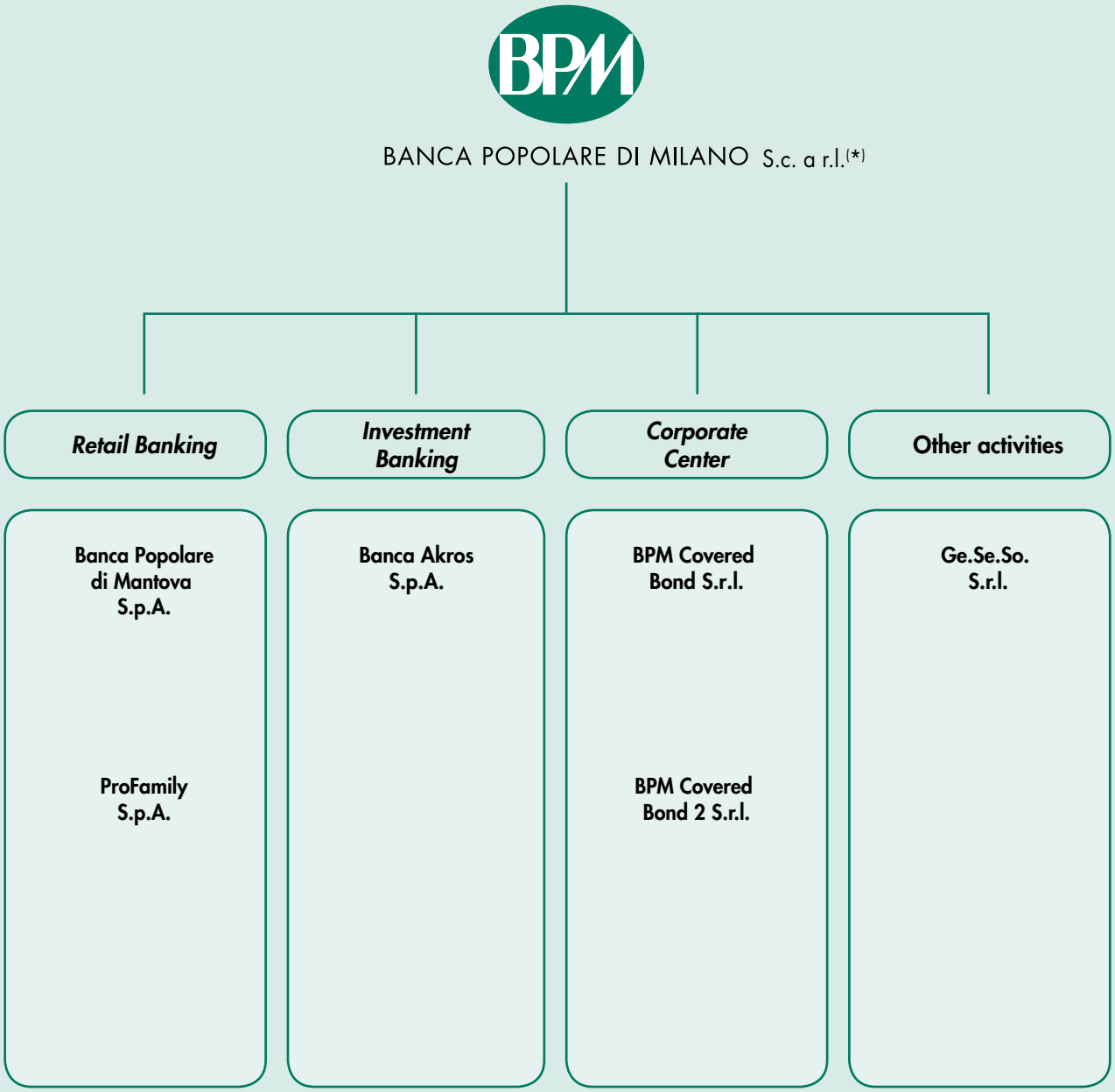
Verona, 28 February 2017

Report and Consolidated Financial Statements of the Bipiemme Group

Year 2016

Key figures and ratios of the Bipiemme Group

Structure of the Bipiemme Group at 31 December 2016



(*) Banca Popolare di Milano is organised into the following separate lines of business: Retail Banking, Investment Banking, Corporate Center and Corporate Banking; the other companies are shown in the table according to their main line of business.

Consolidated reclassified financial statements: general aspects

To provide readers with a more immediate understanding of the Group's net assets and results for the year, a summarised reclassified balance sheet and income statement have been prepared in which line items have been aggregated and reclassified in keeping with market practice in such a way as to provide a clearer picture of performance. To enable the items in the reclassified statements to be easily reconciled with those in the official statements based on the Bank of Italy's Circular no. 262/05, schedules are included in the attachments that provide details of the various reclassifications and aggregations.

The following aggregations have been made in the reclassified balance sheet:

1. "Financial assets carried at fair value and hedging derivatives" include the following line items: 20. "Financial assets held for trading", 30. "Financial assets designated at fair value through profit and loss", 40. "Financial assets available for sale", 80. "Hedging derivatives" and 90. "Fair value change of financial assets in hedged portfolios";
2. "Fixed assets" include the following line items: 100. "Investments in associates and companies subject to joint control", 120. "Property and equipment" and 130. "Intangible assets";
3. "Other assets" include line items: 140. "Tax assets" and 160. "Other assets";
4. "Financial liabilities and hedging derivatives" include line items: 40. "Financial liabilities held for trading", 50 "Financial liabilities designated at fair value through profit and loss", 60. "Hedging derivatives" and 70. "Fair value change of financial liabilities in hedged portfolios";
5. "Other liabilities" include line items: 80. "Tax liabilities" and 100. "Other liabilities";
6. "Provisions for specific use" include line items: 110. "Employee termination indemnities" and 120. "Allowances for risks and charges";
7. "Capital and reserves" include line items: 140. "Valuation reserves", 150. "Redeemable shares", 160. "Equity instruments", 170. "Reserves", 180. "Share premium reserve", 190. "Share capital" and 200. "Treasury shares".

Income statement line items have been reclassified as follows:

- "The profits (losses) on investments carried at equity recognised in line item 240 "Profits (losses) on investments in associates and companies subject to joint control" have been reported on a separate line forming part of "Operating income" in the reclassified income statement, but only with respect to the component relating to the results of investees;
- "Net income from banking activities" includes line item 70. "Dividend and similar income", 80. "Profits (losses) on trading", 90. "Fair value adjustments in hedge accounting", 100. "Profits (losses) on disposal/repurchase", 110. "Profits (losses) on financial assets and liabilities designated at fair value" and 130 b) "Net losses/recoveries on impairment of financial assets available for sale". Line item 100 a) "Profits (losses) on disposal/repurchase of loans" has been removed from this aggregate;
- "Other operating expenses/income" (line item 220) recognised as "Operating expenses" in the statement have been reduced by the recovered portion of "indirect taxes and duties" and increased by the "depreciation of leasehold improvements". This item, reclassified in this way, has been included in "Operating income" in the reclassified income statement;
- "Other administrative expenses" (line item 180. b) in the reclassified income statement have been reduced by the recovered portion of "indirect taxes and duties" discussed in point 3 above. In addition, in 2016 the income arising from the refund of the contributions made in favour of TERCAS by the Interbank Deposit Protection Fund in prior years has been reclassified from the aggregated item "net adjustments for impairment of loans and other operations" to a reduction of "other administrative expenses"; in this way, for the purposes of presenting the reclassified figures this income is offset by the expense – recognised in "other administrative expenses" (line item 180b) – incurred for the contribution made by the voluntary intervention scheme – provided by the IDPF's bylaws – again in favour of TERCAS;
- "Net adjustments to property and equipment and intangible assets" (line items 200 and 210) in the reclassified income statement have been increased by the "depreciation of leasehold improvements" discussed in point 3 above;

- "Net adjustments for impairment of loans and other activities" reported after "Operating profit" in the reclassified income statement include line item 130 net of the sub-item 130 b) "Net losses/recoveries on impairment of financial assets available for sale" (reclassified under "Net income from banking activities") and line item 100 a) "Profits (losses) on disposal/repurchase of loans" (removed from "Net income from banking activities"); in 2016 the income arising from the refund of the contributions made by the Interbank Deposit Protection Fund in prior years has been classified as a reduction of "other administrative expenses" as described at point 4;
- "Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets" in the reclassified format includes line item 260 "Goodwill impairment" and a portion of line item 240 "Profits (losses) on investments in associates and companies subject to joint control" for the part not relating to profits for the current year. It also includes the line item 270 "Profits (losses) on disposal of investments".

Bipiemme Group – Reclassified balance sheet

(euro/000)

Assets	31.12.2016 A	30.09.2016 B	31.12.2015 C	Change A-B		Change A-C	
				Amount	%	Amount	%
Cash and cash equivalents	249,449	206,699	300,714	42,750	20.7	–51,265	–17.0
Financial assets carried at fair value and hedging derivatives:	11,270,196	11,185,266	11,416,540	84,930	0.8	–146,344	–1.3
– Financial assets held for trading	*1,562,491*	*2,001,963*	*1,797,874*	*–439,472*	*–22.0*	*–235,383*	*–13.1*
– Financial assets designated at fair value through profit and loss	*19,240*	*23,974*	*75,543*	*–4,734*	*–19.7*	*–56,303*	*–74.5*
– Financial assets available for sale	*9,633,116*	*9,036,135*	*9,491,248*	*596,981*	*6.6*	*141,868*	*1.5*
– Hedging derivatives	*44,835*	*111,134*	*40,638*	*–66,299*	*–59.7*	*4,197*	*10.3*
– Fair value change of financial assets in hedged portfolios (+/–)	*10,514*	*12,060*	*11,237*	*–1,546*	*–12.8*	*–723*	*–6.4*
Due from banks	2,185,297	2,128,135	1,224,717	57,162	2.7	960,580	78.4
Loans to customers	34,771,008	34,322,837	34,186,837	448,171	1.3	584,171	1.7
Fixed assets	1,031,306	1,212,797	1,199,459	–181,491	–15.0	–168,153	–14.0
Non-current assets and disposal groups held for sale	0	0	0	0	n.a.	0	n.a.
Other assets	1,623,783	1,566,020	1,875,033	57,763	3.7	–251,250	–13.4
Total assets	**51,131,039**	**50,621,754**	**50,203,300**	**509,285**	**1.0**	**927,739**	**1.8**

Liabilities and shareholders' equity	31.12.2016 A	30.09.2016 B	31.12.2015 C	Variazioni A–B		Variazioni A–C	
				Valore	%	Valore	%
Due to banks	7,385,667	6,160,654	4,839,439	1,225,013	19.9	2,546,228	52.6
Due to customers	30,688,439	29,446,529	28,622,852	1,241,910	4.2	2,065,587	7.2
Securities issued	5,687,758	6,985,336	8,849,290	–1,297,578	–18.6	–3,161,532	–35.7
Financial liabilities and hedging derivatives:	1,363,498	1,564,067	1,379,948	–200,569	–12.8	–16,450	–1.2
– Financial liabilities held for trading	*1,215,764*	*1,384,979*	*1,183,557*	*–169,215*	*–12.2*	*32,207*	*2.7*
– Financial liabilities designated at fair value through profit and loss	*94,899*	*97,496*	*129,627*	*–2,597*	*–2.7*	*–34,728*	*–26.8*
– Hedging derivatives	*32,894*	*54,995*	*48,678*	*–22,101*	*–40.2*	*–15,784*	*–32.4*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*19,941*	*26,597*	*18,086*	*–6,656*	*–25.0*	*1,855*	*10.3*
Other liabilities	1,067,266	1,411,712	1,429,895	–344,446	–24.4	–362,629	–25.4
Provisions for specific use	572,655	569,986	434,555	2,669	0.5	138,100	31.8
Capital and reserves	4,291,726	4,386,947	4,338,440	–95,221	–2.2	–46,714	–1.1
Minority interests	1,306	8,430	19,974	–7,124	–84.5	–18,668	–93.5
Net income (loss) for the period (+ / -)	72,724	88,093	288,907	–15,369	n.s.	–216,183	–74.8
Total liabilities and shareholders' equity	**51,131,039**	**50,621,754**	**50,203,300**	**509,285**	**1.0**	**927,739**	**1.8**

Bipiemme Group – Reclassified balance sheet quarter by quarter

(euro/000)

Assets	Year 2016				Year 2015			
	31.12	30.9	30.6	31.3	31.12	30.9	30.6	31.3
Cash and cash equivalents	249,449	206,699	206,240	249,899	300,714	226,822	224,184	209,129
Financial assets carried at fair value and hedging derivatives:	11,270,196	11,185,266	10,425,227	12,478,732	11,416,540	11,965,118	11,715,087	12,780,251
– Financial assets held for trading	*1,562,491*	*2,001,963*	*1,858,106*	*1,876,692*	*1,797,874*	*1,832,200*	*1,824,944*	*2,284,325*
– Financial assets designated at fair value through profit and loss	*19,240*	*23,974*	*33,367*	*32,803*	*75,543*	*80,854*	*81,410*	*105,443*
– Financial assets available for sale	*9,633,116*	*9,036,135*	*8,413,727*	*10,469,201*	*9,491,248*	*9,947,242*	*9,632,210*	*10,208,114*
– Hedging derivatives	*44,835*	*111,134*	*107,758*	*87,336*	*40,638*	*91,173*	*161,979*	*160,497*
– Fair value change of financial assets in hedged portfolios (+ / –)	*10,514*	*12,060*	*12,269*	*12,700*	*11,237*	*13,649*	*14,544*	*21,872*
Due from banks	2,185,297	2,128,135	1,812,384	1,831,511	1,224,717	1,287,592	1,162,731	1,050,829
Loans to customers	34,771,008	34,322,837	34,520,420	34,181,648	34,186,837	33,401,500	33,483,029	32,600,377
Fixed assets	1,031,306	1,212,797	1,209,490	1,215,900	1,199,459	1,167,942	1,156,028	1,127,543
Non-current assets and disposal groups held for sale	0	0	0	0	0	6,118	6,118	0
Other assets	1,623,783	1,566,020	1,523,965	1,583,741	1,875,033	1,459,941	1,561,095	1,541,504
Total assets	**51,131,039**	**50,621,754**	**49,697,726**	**51,541,431**	**50,203,300**	**49,515,033**	**49,308,272**	**49,309,633**

Liabilities and shareholders' equity	Year 2016				Year 2015			
	31.12	30.9	30.6	31.3	31.12	30.9	30.6	31.3
Due to banks	7,385,667	6,160,654	4,728,161	6,098,843	4,839,439	4,550,638	4,494,906	4,171,724
Due to customers	30,688,439	29,446,529	29,616,683	30,896,392	28,622,852	28,577,221	28,777,043	27,589,895
Securities issued	5,687,758	6,985,336	7,070,866	6,280,400	8,849,290	8,281,217	7,867,754	8,677,218
Financial liabilities and hedging derivatives:	1,363,498	1,564,067	1,633,559	1,619,043	1,379,948	1,450,858	1,543,437	1,981,271
– Financial liabilities held for trading	*1,215,764*	*1,384,979*	*1,433,077*	*1,376,168*	*1,183,557*	*1,256,371*	*1,326,834*	*1,746,892*
– Financial liabilities designated at fair value through profit and loss	*94,899*	*97,496*	*102,099*	*132,454*	*129,627*	*132,536*	*157,702*	*161,759*
– Hedging derivatives	*32,894*	*54,995*	*71,194*	*85,526*	*48,678*	*43,438*	*44,092*	*58,053*
– Fair value change of financial liabilities in hedged portfolios (+ / –)	*19,941*	*26,597*	*27,189*	*24,895*	*18,086*	*18,513*	*14,809*	*14,567*
Other liabilities	1,067,266	1,411,712	1,647,236	1,538,829	1,429,895	1,568,866	1,650,859	1,686,438
Provisions for specific use	572,655	569,986	409,908	413,444	434,555	459,406	467,674	502,403
Capital and reserves	4,291,726	4,386,947	4,413,071	4,626,198	4,338,440	4,404,959	4,333,508	4,613,588
Minority interests (+/-)	1,306	8,430	20,107	19,972	19,974	19,816	19,038	19,493
Net income (loss) for the period (+ / -)	72,724	88,093	158,135	48,310	288,907	202,052	154,053	67,603
Total liabilities and shareholders' equity	**51,131,039**	**50,621,754**	**49,697,726**	**51,541,431**	**50,203,300**	**49,515,033**	**49,308,272**	**49,309,633**

Bipiemme Group – Reclassified income statement

(euro/000)

Line item	Year 2016	Year 2015	Change	
			Amount	%
Interest margin	**788,040**	**806,746**	**(18,706)**	**–2.3**
Non-interest margin:	**816,087**	**860,471**	**(44,384)**	**–5.2**
• Net fee and commission income	585,254	605,996	(20,742)	–3.4
• Other income:	230,833	254,475	(23,642)	–9.3
– Profits (losses) on investments carried at equity	22,457	32,577	(10,120)	–31.1
– Net income from banking activities	171,022	181,724	(10,702)	–5.9
– Other operating charges/income	37,354	40,174	(2,820)	–7.0
Operating income	**1,604,127**	**1,667,217**	**(63,090)**	**–3.8**
Administrative expenses:	(1,113,555)	(944,978)	(168,577)	–17.8
a) personnel expenses	(775,296)	(612,382)	(162,914)	–26.6
b) other administrative expenses	(338,259)	(332,596)	(5,663)	–1.7
Net adjustments to property and equipment and intangible assets	(155,647)	(74,773)	(80,874)	–108.2
Operating expenses	**(1,269,202)**	**(1,019,751)**	**(249,451)**	**–24.5**
Operating profit	**334,925**	**647,466**	**(312,541)**	**–48.3**
Net adjustments for impairment of loans and other activities	(420,251)	(342,236)	(78,015)	–22.8
Net provisions for risks and charges	(30,325)	10,758	(41,083)	n.s.
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	140,959	37,433	103,526	276.6
Income (loss) before tax from continuing operations	**25,308**	**353,421**	**(328,113)**	**–92.8**
Taxes on income from continuing operations	47,492	(63,512)	111,004	n.s.
Net income (loss) for the period	**72,800**	**289,909**	**(217,109)**	**–74.9**
Net income (loss) for the period attributable to minority interests	(76)	(1,002)	926	92.4
Net income (loss) for the period attributable to the Parent Company	**72,724**	**288,907**	**(216,183)**	**–74.8**

Basic EPS from continuing operations – euro	**0.017**	**0.066**
Diluted EPS from continuing operations – euro	**0.017**	**0.066**
Basic EPS – euro	**0.017**	**0.066**
Diluted EPS – euro	**0.017**	**0.066**

Bipiemme Group – Reclassified income statement quarter by quarter

(euro/000)

Line item	Year 2016				Year 2015			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Interest margin	**192,665**	**192,298**	**196,575**	**206,502**	**199,930**	**203,936**	**206,759**	**196,121**
Non-interest margin:	**206,825**	**173,211**	**253,454**	**182,597**	**268,321**	**171,497**	**191,007**	**229,646**
– Net fee and commission income	143,583	138,327	152,049	151,295	154,357	144,886	158,461	148,292
– Other income:	63,242	34,884	101,405	31,302	113,964	26,611	32,546	81,354
– Profits (losses) on investments carried at equity	*4,466*	*4,121*	*5,238*	*8,632*	*8,225*	*5,269*	*7,574*	*11,509*
– Net income from banking activities	*49,016*	*22,439*	*86,112*	*13,455*	*100,077*	*10,820*	*12,434*	*58,393*
– Other operating charges/income	*9,760*	*8,324*	*10,055*	*9,215*	*5,662*	*10,522*	*12,538*	*11,452*
Operating income	**399,490**	**365,509**	**450,029**	**389,099**	**468,251**	**375,433**	**397,766**	**425,767**
Administrative expenses:	(271,078)	(382,638)	(225,954)	(233,885)	(287,722)	(209,007)	(220,251)	(227,998)
a) personnel expenses	*(154,270)*	*(306,174)*	*(159,827)*	*(155,025)*	*(160,339)*	*(148,678)*	*(148,632)*	*(154,733)*
b) other administrative expenses	*(116,808)*	*(76,464)*	*(66,127)*	*(78,860)*	*(127,383)*	*(60,329)*	*(71,619)*	*(73,265)*
Net adjustments to property and equipment and intangible assets	(97,234)	(20,641)	(19,305)	(18,467)	(24,067)	(17,582)	(16,629)	(16,495)
Operating expenses	**(368,312)**	**(403,279)**	**(245,259)**	**(252,352)**	**(311,789)**	**(226,589)**	**(236,880)**	**(244,493)**
Operating profit	**31,178**	**(37,770)**	**204,770**	**136,747**	**156,462**	**148,844**	**160,886**	**181,274**
Net adjustments for impairment of loans and other activities	(190,125)	(74,284)	(89,737)	(66,105)	(95,925)	(77,972)	(94,029)	(74,310)
Net provisions for risks and charges	(24,236)	(10,876)	4,498	289	14,638	(4,972)	2,364	(1,272)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	108,973	(185)	30,298	1,873	(19)	(1)	37,453	0
Income (loss) before tax from continuing operations	**(74,210)**	**(123,115)**	**149,829**	**72,804**	**75,156**	**65,899**	**106,674**	**105,692**
Taxes on income from continuing operations	58,665	52,827	(39,778)	(24,222)	11,938	(17,306)	(20,339)	(37,805)
Net income (loss) for the period	**(15,545)**	**(70,288)**	**110,051**	**48,582**	**87,094**	**48,593**	**86,335**	**67,887**
Net income (loss) for the period attributable to minority interests	176	246	(226)	(272)	(239)	(594)	115	(284)
Net income (loss) for the period attributable to the Parent Company	**(15,369)**	**(70,042)**	**109,825**	**48,310**	**86,855**	**47,999**	**86,450**	**67,603**

Bipiemme Group – Key figures

(euro/000)

Key balance sheet figures	31.12.2016 A	30.09.2016 B	31.12.2015 C	Change A-B		Change A-C	
				Amount	%	Amount	%
Loans to customers	34,771,008	34,322,837	34,186,837	448,171	1.3	584,171	1.7
of which: net bad loans	*1,583,386*	*1,577,733*	*1,490,591*	*5,653*	*0.4*	*92,795*	*6.2*
Fixed assets	1,031,306	1,212,797	1,199,459	–181,491	–15.0	–168,153	–14.0
Direct deposits(*)	36,471,096	36,529,361	37,601,769	–58,265	–0.2	–1,130,673	–3.0
Indirect customer deposits	32,625,826	32,516,623	34,060,203	109,203	0.3	–1,434,377	–4.2
of which: assets under administration	*10,479,577*	*10,855,175*	*13,158,758*	*–375,598*	*–3.5*	*–2,679,181*	*–20.4*
of which: assets under management	*22,146,249*	*21,661,448*	*20,901,445*	*484,801*	*2.2*	*1,244,804*	*6.0*
Total assets	51,131,039	50,621,754	50,203,300	509,285	1.0	927,739	1.8
Shareholders' equity (excluding net income (loss) for the period)	4,291,726	4,386,947	4,338,440	–95,221	–2.2	–46,714	–1.1
Own funds	4,729,944	4,870,530	5,020,521	–140,586	–2.9	–290,577	–5.8
of which: Common Equity Tier 1	*4,058,006*	*4,090,475*	*4,037,388*	*–32,469*	*–0.8*	*20,618*	*0.5*

Key income statement figures	31.12.2016 A	30.09.2016 B	31.12.2015 C	Change A-C	
				Amount	%
Interest margin	788,040	595,375	806,746	(18,706)	–2.3
Operating income	1,604,127	1,204,637	1,667,217	(63,090)	–3.8
Operating expenses(**)	(1,001,619)	(729,434)	(1,019,751)	18,132	1.8
of which: personnel expenses(**)	*(607,242)*	*(455,358)*	*(612,382)*	*5,140*	*0.8*
Operating profit	334,925	303,747	647,466	(312,541)	–48.3
Net adjustments for impairment of loans and other activities	(420,251)	(230,126)	(342,236)	(78,015)	–22.8
Income (loss) before tax from continuing operations	25,308	99,518	353,421	(328,113)	–92.8
Net income (loss) for the period attributable to the Parent Company	72,724	88,093	288,907	(216,183)	–74.8

Operating structure	31.12.2016 A	30.09.2016 B	31.12.2015 C	Change A-B		Change A-C	
				Amount	%	Amount	%
Headcount (employees and other personnel)	7,673	7,700	7,743	–27	–0.4	–70	–0.9
Number of branches	652	653	655	–1	–0.2	–3	–0.5

(*) This item consists of: due to customers, securities issued and financial liabilities designated at fair value through profit and loss.

(**) The figure at 31 December 2016 excludes "Solidarity Fund" costs and extraordinary expenses for the merger.

Bipiemme Group – Key ratios

(euro/000)

Structure ratios (%)	**31.12.2016**	**30.09.2016**	**31.12.2015**
Loans to customers/Total assets	68.0	67.8	68.1
Fixed assets/Total assets	2.0	2.4	2.4
Direct deposits/Total assets	71.3	72.2	74.9
Funds under management/Indirect deposits	67.9	66.6	61.4
Loans to customers/Direct deposits	95.3	94.0	90.9
Profitability ratios (%) (annualised)			
Net income (loss)/Shareholders' equity (excluding net income (loss) for the period) (ROE)[a]	1.7	2.7	6.7
Net income (loss)/Total assets (ROA)	0.1	0.2	0.6
Cost/income ratio(*)	62.4	60.6	61.2
Profitability ratios (%) (annualised)			
Net bad loans/Loans to customers	4.55	4.60	4.36
Coverage of gross bad loans to customers	54.7	54.1	54.5
Coverage of gross performing loans to customers	0.49	0.53	0.60
Productivity indicators[b]			
Direct deposits per employee	4,753	4,744	4,856
Loans to customers per employee	4,532	4,458	4,415
Assets under management per employee	2,886	2,813	2,699
Assets under administration per employee	1,366	1,410	1,699
Capital adequacy ratios (%)[c]			
Common Equity Tier 1 ratio	11.48	11.59	11.53
Tier 1 ratio	11.84	12.03	12.06
Total Capital ratio	13.38	13.80	14.33
Information on BPM stock[d]			
Number of shares:	4,391,784,467	4,391,784,467	4,391,784,467
outstanding	4,390,260,208	4,389,924,488	4,390,260,208
treasury shares	1,524,259	1,859,979	1,524,259
Official stock price at the end of the year – ordinary shares (euro)	0.362	0.341	0.925

a) Shareholders' equity at the end of the period.

b) Number of employees at the end of the period including personnel with other types of contract.

c) The ratios at 31 December 2016 do not include the result for the period.

d) The figures refer to BPM shares. The new Banco BPM S.p.A. shares were first listed on 2 January 2017. As a result on the basis of the number of outstanding BPM shares and the exchange ratio (6.386 shares of the old entity for each BPM share) 687,482,024 new Banco BPM shares were issued for the old BPM shares.

(*) Excluding non-recurring expense relating to the "Solidarity Fund" and extraordinary expenses for the merger.

Bipiemme Group – Reclassified income statement excluding non-recurring items

As required by Consob communication DEM/6064293 of 28 July 2006 the table below sets out the effect of non-recurring items on the net income (loss) for the period.

(euro/000)

Line item	Year 2016			Year 2015			Change		Change	
	A = B + C	B	C	D = E + F	E	F	A – D		C – F	
	Net result	Net result from non-recurring transactions	Net result from recurring transactions	Net result	Net result from non-recurring transactions	Net result from recurring transactions	Amount	%	Amount	%
Interest margin	**788,040**	**0**	**788,040**	**806,746**	**0**	**806,746**	**(18,706)**	**–2.3**	**(18,706)**	**–2.3**
Non-interest margin:	**816,087**	**(34,693)**	**850,780**	**860,471**	**39,289**	**821,182**	**(44,384)**	**–5.2**	**29,598**	**3.6**
– Net fee and commission income	585,254	0	585,254	605,996	0	605,996	(20,742)	–3.4	(20,742)	–3.4
– Other income:	230,833	(34,693)	265,526	254,475	39,289	215,186	(23,642)	–9.3	50,340	23.4
– Profits (losses) on investments carried at equity	*22,457*	*0*	*22,457*	*32,577*	*0*	*32,577*	*(10,120)*	*–31.1*	*(10,120)*	*–31.1*
– Net income from banking activities	*171,022*	*(34,693)*	*205,715*	*181,724*	*39,289*	*142,435*	*(10,702)*	*–5.9*	*63,280*	*44.4*
– Other operating charges/income	*37,354*	*0*	*37,354*	*40,174*	*0*	*40,174*	*(2,820)*	*–7.0*	*(2,820)*	*–7.0*
Operating income	**1,604,127**	**(34,693)**	**1,638,820**	**1,667,217**	**39,289**	**1,627,928**	**(63,090)**	**–3.8**	**10,892**	**0.7**
Administrative expenses:	(1,113,555)	(220,807)	(892,748)	(944,978)	(46,641)	(898,337)	(168,577)	–17.8	5,589	0.6
a) personnel expenses	*(775,296)*	*(168,054)*	*(607,242)*	*(612,382)*	*(6,908)*	*(605,474)*	*(162,914)*	*–26.6*	*(1,768)*	*–0.3*
b) other administrative expenses	*(338,259)*	*(52,753)*	*(285,506)*	*(332,596)*	*(39,733)*	*(292,863)*	*(5,663)*	*–1.7*	*7,357*	*2.5*
Net adjustments to property and equipment and intangible assets	(155,647)	(75,625)	(80,022)	(74,773)	0	(74,773)	(80,874)	–108.2	(5,249)	–7.0
Operating expenses	**(1,269,202)**	**(296,432)**	**(972,770)**	**(1,019,751)**	**(46,641)**	**(973,110)**	**(249,451)**	**–24.5**	**340**	**0.0**
Operating profit	**334,925**	**(331,125)**	**666,050**	**647,466**	**(7,352)**	**654,818**	**(312,541)**	**–48.3**	**11,232**	**1.7**
Net adjustments for impairment of loans and other activities	(420,251)	0	(420,251)	(342,236)	0	(342,236)	(78,015)	–22.8	(78,015)	–22.8
Net provisions for risks and charges	(30,325)	(10,000)	(20,325)	10,758	21,915	(11,157)	(41,083)	n.s.	(9,168)	–82.2
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	140,959	120,888	20,071	37,433	(1,422)	38,855	103,526	276.6	(18,784)	–48.3
Income (loss) before tax from continuing operations	**25,308**	**(220,237)**	**245,545**	**353,421**	**13,141**	**340,280**	**(328,113)**	**–92.8**	**(94,735)**	**–27.8**
Taxes on income from continuing operations	47,492	97,732	(50,240)	(63,512)	15,731	(79,243)	111,004	n.s.	29,003	36.6
Net income (loss) for the period	**72,800**	**(122,505)**	**195,305**	**289,909**	**28,872**	**261,037**	**(217,109)**	**–74.9**	**(65,732)**	**–25.2**
Net income (loss) for the period attributable to minority interests	(76)	3	(79)	(1,002)	101	(1,103)	926	92.4	1,024	92.8
Net income (loss) for the period attributable to the Parent Company	**72,724**	**(122,502)**	**195,226**	**288,907**	**28,973**	**259,934**	**(216,183)**	**–74.8**	**(64,708)**	**–24.9**

Bipiemme Group – Consolidated reclassified income statement excluding non-recurring items

	Year 2016	Year 2015
Analysis of non-recurring items:	**(122,502)**	**28,973**
Other income:	**(34,693)**	**39,289**
Net income from banking activities:		
Adjustment to interest in Atlante Fund	(40,145)	–
Value adjustments for the IDPF Voluntary Scheme intervention	(1,921)	–
Profit on sale of ICBPI – earn-out portion	7,373	75,415
Repurchase of bonds	–	(11,504)
Profit on the sale of Edipower	–	338
Write-off BPEL subordinated security	–	(24,960)
Income taxes (a)	11,152	6,940
Operating income, net of income taxes	**(23,541)**	**46,229**
Administrative expenses: a) personnel expenses	**(168,054)**	**(6,908)**
Solidarity Fund charge 2012	(3,054)	(6,908)
Solidarity Fund charge 2016	(165,000)	–
Income taxes (b)	46,215	1,900
Personnel expenses, net of income taxes	**(121,839)**	**(5,008)**
Administrative expenses: b) other administrative expenses	**(52,753)**	**(39,733)**
Extraordinary expenses: resolution fund	(28,849)	(39,733)
Transformation and merger expenses	(23,904)	–
Income taxes (b)	17,152	12,918
Other administrative expenses, net of income taxes	**(35,601)**	**(26,815)**
Net adjustments to property and equipment and intangible assets	**(75,625)**	**–**
Write-down of software	(75,625)	–
Income taxes (b)	22,692	–
Net adjustments to property and equipment and intangible assets, net of income taxes	**(52,933)**	**–**
Net provisions for risks and charges:	**(10,000)**	**21,915**
Provisions for contractual commitments	(10,000)	–
Adjustment to provision for convertible loan	–	17,443
Provisions for contractual commitments relating to the sale of the custodian bank	–	4,472
Income taxes (d)	2,750	(6,027)
Net provisions for risks and charges, net of income taxes	**(7,250)**	**15,888**
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets:	**120,888**	**(1,422)**
Price adjustment custodian bank	1,478	–
Effect of the reclassification of the interest in Anima Holding	108,680	–
Profit on disposal of 2.18% interest in Anima Holding	9,740	–
Profit on disposal of 5% interest in Etica SGR	990	–
Effect of agreement for divestment Pitagora 1936	–	(1,422)
Income taxes (e)	(2,229)	–
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets, net of income taxes	**118,659**	**(1,422)**
Taxes on income from continuing operations:	**97,732**	**15,731**
Income taxes (a+b+c+d+e)	97,732	15,731
Net income (loss) for the period attributable to minority interests	**3**	**101**
Overall effect of the above transactions on minority interests	3	101

Report on operations of the Bipiemme Group

The macroeconomic scenario and the banking system

The international economy

According to the latest estimates of the International Monetary Fund, global GDP is projected to increase by +3.1% in 2016, which is slightly slower than the +3.2% of 2015 (source: World Economic Outlook). The cause of the slowdown is said to be the deceleration of international trade, which should post growth of +1% by year end, which is half the rate from 2015, while industrial production should stabilize at around +1.4%, also slower than in the previous year. Monetary policy of the leading central banks has remained cautious and anchored to a path of low rates, which the exception of the Fed, which, after repeatedly postponing a rate hike, did increase rates in December. In terms of the main emerging markets, growth in China stabilized at around +6.7%, while India continued growing at a faster pace at +7%. Brazil and Russia, meanwhile, are both having to deal with prolonged periods of recession. Among the advanced economies, the United States showed a certain degree of dynamism, while the European Union continued showing moderate growth. As for the world's financial markets, the results of the referendum in Great Britain at the end of June and the outcome of the November elections in the United States have led to heightened volatility. At the end of November, an agreement was reached between the OPEC and non-OPEC oil-producing nations concerning cuts in oil production, and in December the **price of oil** reached 51 dollars a barrel for an increase of +5.3% compared to the previous month and +30% year on year.

In the **United States**, GDP for the third quarter grew by a higher-than-expected +3.5% (+1.4% in the second quarter and +0.8% in the first – source: Bureau of Economic Analysis), making it one of the best growth rates over the last two years. Consumer spending, the driver of growth in the U.S. economy, increased by +3%; fixed non-residential investment, by +1.4%; and exports, by +10%. Unemployment settled at 4.7% in December (4.6% in November, the lowest since the end of 2006), with 156,000 new jobs being created during the month, mailing in healthcare and social services, but also in manufacturing, bringing the number of consecutive months of growth in the U.S. labor market to 75 for the longest streak since 1939 (source: U.S. Department of Labor). Calendar 2016 closed with 2.16 million jobs created for a slowdown compared to 2015 due, most likely, to the fact that the U.S. economy has essentially reached full employment. Consumer prices rose in December by +0.3% monthly and +2.1% on an annual basis.
With the end of 2016 came the end, too, of Barack Obama's second and last term as president of the United States, with the presidential elections in November handing the victory to Donald Trump, who, as a part of his policy agenda, expects to cut taxes, introduce fiscal incentives, and increase defense and infrastructure spending.
The Federal Reserve, at its meeting of 14 December, raised rates by 0.25 basis points, taking them to 0.50-0.75%, while also increasing its estimates of GDP growth in the U.S. to +1.9% for the current year and to +2.1% for 2017 (+0.1 bp compared to September estimates).

GDP growth in **Japan** decreased in the third quarter of 2016 (+1.3% annually and +0.3% compared to the previous quarter) due to a contraction in business investment (with capital expenditures decreasing 0.4%, particularly in steel and in construction) and a sharper drop in inventories, which took away 0.3 percentage points from GDP, whereas consumer spending, which accounts for 60% of the economy, increased by +0.3%. At its final meeting of the year, the Bank of Japan changed its economic outlook, expressing greater confidence in an ongoing recovery, thereby opening future policy to the possibility of an increase in rates.

China posted GDP growth of +6.8% annually in the fourth quarter, and of +1.7% compared to the previous quarter. Growth for the full year 2016 came to +6.7% and, despite being at its lowest levels since 1990 and below the +6.9% of 2015, remained within the five-year target of 6.5-7% set by government (source: National Office of Statistics). Consumption growth fell to +9.6% from the +10.6% of 2015 despite a December acceleration (+10.9%), while fixed investment, including infrastructure spending, rose by +8.1% with the real estate segment increasing +6.9% as compared to the +1% of 2015. The Caixin manufacturing purchasing managers' index (PMI) rose in December to 51.9 points from the 50.9 points of November to remain in growth territory at about the threshold of 50 for the sixth month in a row. It is the best score since January 2013. The service sector also continued growing in December, posting its highest rate of growth in the last 17 months. Inflation for 2016 rose by 2.0%.

The economy of the **euro area** has not yet felt the effects of the referendum in Great Britain. After a deceleration of GDP growth in the second quarter of 2016 (+0.3% vs. +0.5% for the first quarter of 2016), output remained stable at +0.3% again in the third quarter, and estimates are converging on similar growth for the fourth quarter. Both public and private consumption were the leading drivers of growth in the third quarter, while investments decelerated, increasing just +0.2% after +1.2% growth in the second quarter (source: ISTAT Euro Zone Economic Outlook). Among the member states for which data is available, **Germany** posted growth of +1.9% year on year in 2016 (source: Destatis), the highest rate of growth since 2011. This performance was led by public spending (+4.2%), consumer spending, and construction investment. For **France**, the IMF is estimating growth of +1.3%, which is in line with the change for the previous year, whereas the forecasts for **Spain** are pointing to growth of +3.2%.
Industrial production increased by +1.5% in November compared to the previous period and by +3.2% year on year. Growth for the period was driven by an increase in the production of non-durable consumer goods (+2.9%), of intermediate goods (+1.6%), and of energy (+1.2%). Year on year, growth was posted in the production of energy (+5.9%), of non-durable consumer goods (+3.7%), of capital goods (+3.1%), and of intermediate goods (+2.5%).
According to Eurostat numbers released in November, **unemployment** came to 9.8%, which is stable compared to the previous month and down from the 10.5% of November 2015 to reach its lowest level since July 2009. The lowest levels of unemployment among EU member states were seen in the Czech Republic (3.7%) and Germany (4.1%). Compared to November 2015, Croatia posted the greatest improvement in unemployment, which fell from 15.7% to 11.4%.
Annual **inflation** in December jumped to +1.1% (from +0.6% in November), driven by an increase in energy prices (+2.6%), followed by services (+1.3%) and food prices (+1.2%).
At its final meeting of 2016, the **ECB** decided not to change interest rates on main refinancing operations, on marginal refinancing operations, or on deposits with the central bank, which thus stood at 0.00%, 0.25% and -0.40%, respectively. With regard to the unconventional monetary policy measures, the Governing Council decided to continue conducting purchases within the scope of the asset-purchase program at the current monthly rate of 80 billion euro until the end of March 2017, while from April 2017 net purchases will move to 60 billion euro until the end of December 2017 or beyond, if necessary, and until the ECB sees a lasting adjustment in the trend in prices that is in line with its inflation targets.

The Italian economy

Italy's economy accelerated in the third quarter after a slowdown in the spring. According to ISTAT, **GDP** increased by +1% annually in the third quarter (vs. +1% and +0.8% in the first and second quarters, respectively, of 2016) on a change for the period of +0.3% (vs. +0.4% and +0.1% in the first and second quarters of 2016). Favoring this growth were the recovery in investment in capital goods as a result of fiscal incentives and a recovery in inventories. **National demand** contributed 0.3 percentage points to this growth (0.1 p.p. in consumer spending and spending by private social institutions, zero from government spending, and 0.1 p.p. in gross fixed investment), whereas the contribution of net foreign demand was a negative 0.1 percentage points. Indicators for the period pointed to a continuation in the recovery in the fourth quarter of the year, despite the context of heightened uncertainty both domestically and internationally, as the leading economic research institutes are converging on growth of between +0.8% and +0.9% for the full year 2016. **Consumer confidence** in December increased from 108.1 to 111.1 points, returning to the levels of July 2016 (source: ISTAT) on improvement in all segments, from the economy (from 127.6 to 133.8) to the personal and current segments, which rose for the second month in a row. The future component also returned to growth in December (from 113.8 to 116.2) to reach its highest level since June 2016. Conversely, **business confidence** fell from 101.4 to 100.3, although trends by industry were inconsistent. Confidence worsened in the service sector (going from 105 to 102.5) and in construction (from 124.2 to 120.4), whereas the index rose in manufacturing and in the retail segment.
Industrial production increased in November by +0.7% from the previous month and by +3.2% compared to the same period of 2015. The year-on-year trend was the third best of the year behind the +4.4% growth of August and +3.8% growth of January. Energy production rose sharply (+10.6%), while growth was also posted in capital goods (+3.9%) and intermediate goods (+2.4%). Production rose by +1.3% on average for the first 11 months of 2016 compared to the previous year (source: ISTAT).
In December, **inflation** increased by +0.4% monthly and +0.5% compared to December 2015 for the largest increase of the year. The recovery of this indicator reflects an acceleration in price increases in transportation services (+2.6%),

in unregulated energy (+2.4%), and in unprocessed foodstuffs (+1.8%). On average for the year, consumer prices for 2016 decreased by 0.1%, which is the first time this has happened since 1959 (when the decrease was 0.4%).
As concerns **foreign trade**, ISTAT numbers published in November pointed to an increase for the period in both exports (+2.2%) and imports (+1.7%). The trade surplus came to 4.2 billion (vs. 4.0 billion in November 2015). The increase in exports for the period was driven by sales to non-EU markets (+3.4%) and, to a lesser extent, by sales within the EU (+1.2%). All of the main industry groups posted growth, with the exception of durable consumer goods, which saw a slight decline (-0.9%). Year on year, exports increased by +5.7% (EU: +5.7%; non-EU: +5.6%), while imports posted growth of +5.6%, mainly from within the EU (+8.1%). Exports grew sharply year on year to the United States (+15.3%), Japan (+14.1%), and China (+12.8%). For the first eleven months of the year, the trade surplus reached 45.8 billion, increasing by 9.6 billion compared to the same period of the previous year (+69.5 billion net of energy products, for growth of 1.9 billion compared to 2015).
The **public sector borrowing requirement** for 2016 came to 47.7 billion euro for an improvement of roughly 11.2 billion euro compared to 2015 (source: Ministry of the Economy and Finance). Compared to 2015, this improvement reflects both extraordinary factors and the gap between the trend in spending by local and central public bodies, which was slightly lower due to the postponement of a number of payments at year end, and in tax revenues, which remained essentially stable.
In December 2016 alone, there was a (provisional) surplus of roughly 8.900 billion euro for an improvement of about 5.300 billion euro compared to the balance for the same month of 2015 when there was the buy-back of the bonds issued by regional governments.
The **unemployment rate** came to 11.9% in November, rising compared to both the previous month (+0.2 percentage points) and the same month of 2015 (+0.5 percentage points). Nonetheless, the estimate of total number employed was slightly higher than in October (+0.1% or 19,000 jobs). The rate of inactive people aged 15-64 of 34.8% represents a reduction of 0.2 percentage points compared to October and of 1.1 percentage points compared to November 2015, whereas the unemployment rate in the 15-24 age group of 39.4 % is up from both October 2016 (+1.8 percentage points) and November 2015 (+1.6 percentage points).

Financial and foreign exchange markets

Beginning in mid-September, fears surrounding the outcome of the constitutional referendum in Italy and consequent political uncertainty that it could trigger increased the pressure on Italian government securities. At the end of November, the **BTP/Bund spread** reached highs for the year at 188.3 bp, which is nearly double the low for the year in mid-March (95.7 bp). The BTP/Bund spread closed the year at around 172 bp, up 76 bp compared to the same period of the previous year. The prices of **5-year credit default swaps** also reflected the uncertainty surrounding the outcome of the constitutional referendum, and by the end of November this "Italy risk" reached a high for the year at 140.5 before correcting in December to end the year at around 123, up 60% compared to the same period of the previous year.
On the stock markets in 2016, the worst performance was posted on the Italian market, where the **FTSE MIB** index shed 10.2% of its value, while Europe's other leading markets posted growth. Germany's **DAX 30** increased 6.9%; France's **CAC 40** rose 4.9%, and the UK's **FTSE 100** posted the strongest performance, up 14.43%. In the US, the **S&P 500** index closed up 9.54%.

The ***EURO STOXX Banks*** index fell 7.98%, while the **FTSE Italia All Share Banks** index decreased 38.2%.

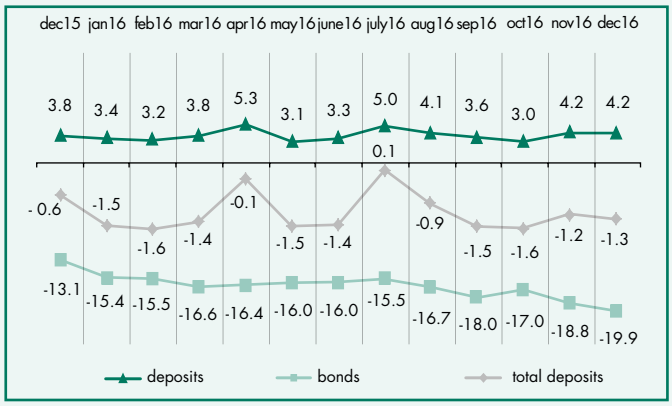
The divergence in monetary policy between the Fed and the ECB (one restrictive and optimistic, the other expansionary and cautious) caused volatility on the foreign exchange markets, and the euro-dollar exchange rage posted a market decline in December, falling to an average of $1.06 for the month and closing the year at $1.05 (vs. $1.09 at the end of 2015).
In 2016, the **euro-yen** exchange rate oscillated between a low of 111.17 in early July and a high of 132.25 at the end of January. By year end, the exchange rate had settled at 123.4, down from the 131 of the end of 2015.

The banking industry

As of December 2016, according to the figures reported in the ABI Monthly Outlook, funding from resident customers, represented by **deposits** (current accounts, time deposits, deposits repayable with notice and repurchase agreements, net of transactions with central counterparties and transactions involving the sale of receivables) and **bonds** (in the hands of resident and non-resident customers and recorded at nominal value, including subordinated liabilities and excluding those repurchased by banks), amounted to approximately 1,676 billion euro. This represents a year-on-year decline of 1.3%, equal to a reduction in the stock of deposits of some 22 billion euro. This trend reflects an increase in deposits of +4.2% and a 19.9% reduction in bonds.

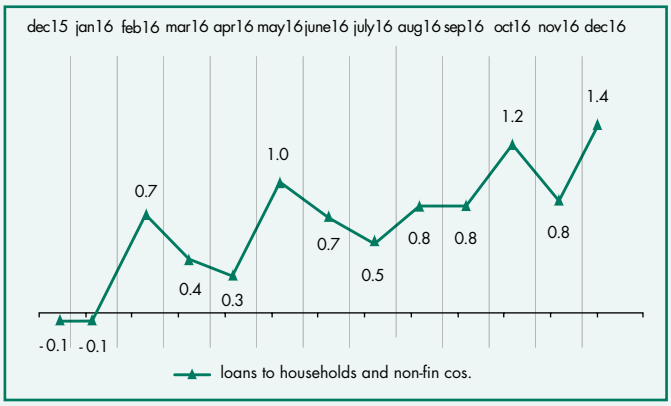
The trend in bank loans to the private sector closed higher (+1.3% year on year) in December. **Loans to non-financial companies and to households** reached 1,406.5 billion at the end of December for a year-on-year increase of +1.4%.

Italian banks: changes in funding



Source: ABI Monthly Outlook – December 2016

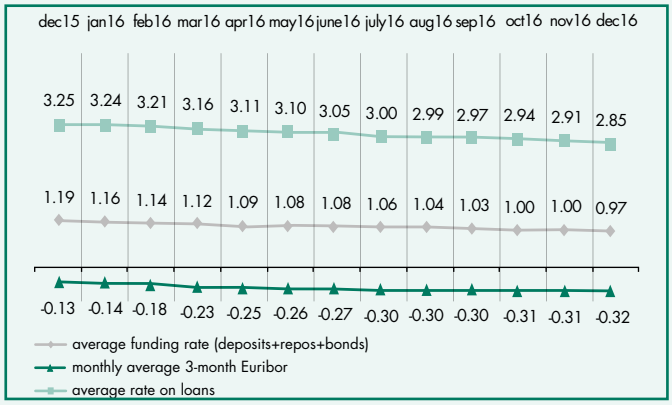
Italian banks: headline changes in loans



Source: ABI Monthly Outlook – December 2016

In November 2016, **gross bad loans** totaled roughly 199.1 billion euro, a decrease of about 2 billion euro from November 2015, while **bad loans net of writedowns** came to 85.2 billion euro, roughly 4 billion euro less than a year earlier, brining the **ratio of net bad loans to total lending** to 4.8% (vs. 4.9% in November 2015).

Interest rates compared with 3-months Euribor-Monthly Averages



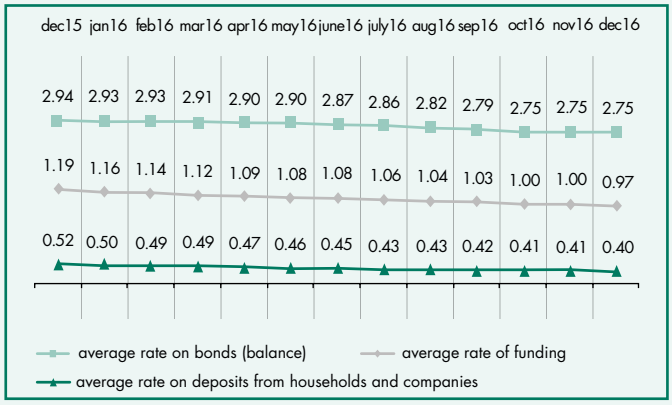
Fonte: Abi Monthly Outlook – dicembre 2016

The average **3-month Euribor** rate for December 2016 stood at -0.32%, as compared to -0.13% in December 2015.

The average rate on 10-year **interest rate swaps** in December 2016 was 0.73% (vs. 0.94% in December 2015).

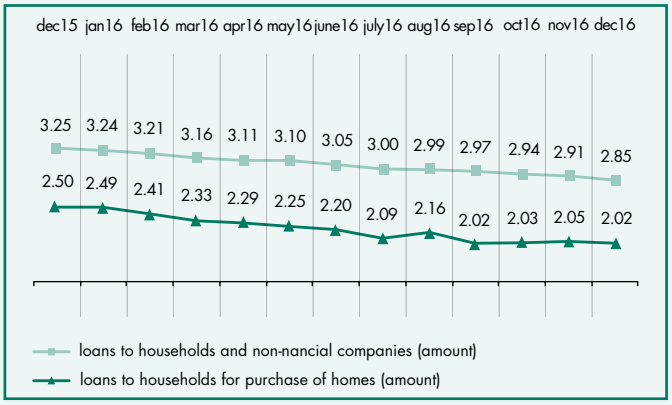
IThe **average interest rate on deposits** in euros applied to households and non-financial companies (on deposits, repos and bonds) in December came to 0.97% (1.19% in December 2015), and the **weighted-average interest rate on loans** to households and non-financial companies came to 2.85% (vs. 3.25% the previous year).
The **spread** between the average rate on loans and the average rate on funding to households and non-financial companies came to 188 *basis points* in December 2016, down 18 basis points on the same month of 2015.

Italian Banks: interest rates on deposits



Source: ABI Monthly Outlook – December 2016

Italian Banks: tendential changes in loans



Source: ABI Monthly Outlook – December 2016

As regards the **securities portfolio**, ABI figures show that this aggregate amounted to 739.3 billion euro in December 2016, compared to 741.4 billion euro in December 2015.

Asset management

Total funds handled by the asset management industry at the end of December came to 1,937 billion euro, with net inflows that in the twelve months of the year exceeded 55 billion euro, including approximately 35 billion euro in collective management schemes and the rest in individual portfolio management schemes. Assets under management in **open-ended Italian and foreign funds** at the end of December came to 900 billion euro, up +6.9% on December 2015. Net inflows since January surpassed 34 billion euro and concerned almost entirely foreign mutual funds (source: Assogestioni).
Italian funds (27% of the total) at the end of December totaled roughly 242 billion euro, for a slight increase compared to the same period of the previous year (+1%). Net funding since the beginning of the year came to 5 billion euro. Conversely, foreign funds (73% of the total) increased by +8.2% since December 2015.
A breakdown of open-ended funds by type of investment shows a predominance of **bond** funds (42%), followed by **flexible** funds (24.2%), and by **equity** funds (21.1%), while **balanced** funds represent 8.3% and **monetary** funds 3.8%. Lastly, **hedge** funds represent 0.5% of the total.
As regards **retail portfolio management** schemes, assets under management amounted to 124 billion euro in December 2016, remaining essentially unchanged from December 2015.

Significant events for Banca Popolare di Milano and the Bipiemme Group

The main events that took place in 2016 are reported below

Governance

On **2 February 2016**, the Management Board of the Bank performed its annual verification of whether or not its members qualified as independent and/or executive directors.

The results are reported in the following table:

Name	Office	Independent as per CFA	Independent as per Code of Conduct	Executive
Mario Anolli	Chairman	YES	NO	NO
Giuseppe Castagna	Managing Director and General Manager	NO	NO	YES
Davide Croff	Board member	NO	NO	YES
Paola De Martini	Board member	YES	YES	NO
Giorgio Angelo Girelli	Board member	YES	NO	NO

On **16 February 2016**, the Supervisory Board of the Bank in office on said date, performed its annual verification of whether the independence requirements were met pursuant to art. 148, paragraph 3, of Legislative Decree 58/98 (i.e. the Consolidated Finance Act, or "CFA") and art. 3 of the Corporate Governance Code for Listed Companies (also known as, simply, the "Code"). Based on these checks, all of the members of the Supervisory Board were found to meet the independence requirements of the CFA; the following Board members met the independence requirements of the Code: Dino Piero Giarda (Chairman), Mauro Paoloni (Deputy Chairman), Marcello Priori (Deputy Chairman), Alberto Balestreri, Andrea Boitani, Angelo Busani, Emilio Luigi Cherubini, Maria Luisa Di Battista, Roberto Fusilli, Donata Gottardi, Piero Lonardi, Alberto Montanari, Maria Luisa Mosconi, Giampietro Giuseppe Omati, Luca Raffaello Perfetti, Cesare Piovene Porto Godi, and Lucia Vitali.

The Ordinary General Meeting of Members of Banca Popolare di Milano was held on **30 April 2016**, under the chairmanship of Dino Piero Giarda. Over 5,000 members were present at the meeting (in person or by proxy).
Having taken note of the consolidated financial statements of the Bipiemme Group as at 31 December 2015, which closed with net income of 289 million euro, and the financial statements of the Parent Company as at 31 December 2015 approved on schedule by the Supervisory Board on 30 March 2016, the General Meeting of Members resolved, in particular, to distribute the net income of Banca Popolare di Milano by paying a dividend of 0.027 euro per share. With reference to the authorization for the purchase and sale of treasury shares, the General Meeting of Members resolved: (i) to authorize the purchase and sale of the Bank's ordinary shares for a total amount of 25 million euro; (ii) to authorize the purchase and sale of treasury shares for the purposes and within the limits set out in the Management Board Report (see Management Board Report on point 3 of the agenda of the General Meeting of Members of 29-30 April 2016 available on the corporate website www.gruppobpm.it, in the "Governance" section under "Archive of General Meeting of Members", "General Meeting of Members of 29-30 April 2016") with the following means and terms: (a) purchases may be made in one or more lots, within the limits of the amount of the "reserves for treasury shares", i.e. 25 million euro, and in any event, as long as the treasury shares – also taking account of the shares held by the Bank's subsidiaries – do not exceed the limit laid down by law; (b) the authorization to purchase treasury shares shall be effective from the date of this Meeting up to the General Meeting of Members called to approve the 2016 financial statements; (c) the authorization includes the power to dispose of treasury shares later, on one or more occasions, even before having completed the purchases, and even to buy back the shares, again in accordance with the limits and conditions laid down in this authorization.

The General Meeting of Members, after approving – to the extent of their sphere of competence pursuant to the law and the Articles of Association – the remuneration policies and the amendments to the Regulations for General Meetings, authorized the purchase and sale of treasury shares and appointed the new Supervisory Board comprising Nicola Rossi (Chairman of the Supervisory Board), Mauro Paoloni and Marcello Priori (Deputy Chairmen), Alberto Balestreri, Carlo Bellavite Pellegrini, Mara Barbara Bergamaschi, Angelo Busani, Massimo Catizone, Emanuele Cusa, Carlo Frascarolo, Roberto Fusilli, Paola Galbiati, Piero Lonardi, Maria Luisa Mosconi, Mariella Piantoni, Ezio Simonelli, Manuela Soffientini and Daniela Venanzi (board members).

On **20 May 2016**, the Supervisory Board verified that all board members met the requirements of professionalism, integrity and independence for holding office laid down by legislation and by the Articles of Association. As concerns independence, the Supervisory Board verified: (i) independence as defined by article 148, paragraph 3, of the CFA for all board members; (ii) independence as defined by article 3 of the Code for: Nicola Rossi (Chairman of the Supervisory Board), Mauro Paoloni and Marcello Priori (Deputy Chairmen), Alberto Balestreri, Carlo Bellavite Pellegrini, Mara Barbara Bergamaschi, Angelo Busani, Massimo Catizone, Emanuele Cusa, Roberto Fusilli, Piero Lonardi, Maria Luisa Mosconi, Mariella Piantoni, Ezio Simonelli, Manuela Soffientini and Daniela Venanzi (board members); and (iii) that Carlo Frascarolo and Paola Galbiati did not meet the requirements of independence as defined by article 3 of the Code.

On the same date, the Supervisory Board also approved the appointment of the following committees:

- Nominations Committee: Nicola Rossi (Chairman), Angelo Busani, Massimo Catizone, Carlo Frascarolo, and Paola Galbiati;
- Remuneration Committee: Nicola Rossi (Chairman), Massimo Catizone, Emanuele Cusa, Roberto Fusilli, and Manuela Soffientini;
- Internal Control Committee: Alberto Balestreri (Chairman), Mauro Paoloni, Carlo Frascarolo, Piero Lonardi, and Ezio Simonelli.

On **27 September 2016**, Davide Croff resigned as a member of the Management Board of Banca Popolare di Milano effective as of 28 September 2016 in observance of regulations concerning interlocking.

On **5 October 2016**, Giorgio Girelli resigned, with immediate effect, from his office as a member of the Management Board of Bank and Chairman of the Board of Directors of the subsidiary ProFamily S.p.A. in observance of regulations concerning interlocking.

On **25 October 2016**, the BPM Supervisory Board – upon recommendation of the Nominations Committee – appointed Graziano Tarantini (chairman of the Board of Directors of the subsidiary Banca Akros S.p.A.) to be a member of the Management Board of Banca Popolare di Milano.

On **2 November 2016**, Graziano Tarantini accepted the appointment to the Management Board of Banca Popolare di Milano and, on 8 November 2016, it was then confirmed that Mr. Tarantini met the requirements of integrity, professionalism and independence as defined by applicable law and by the Articles of Association for the office concerned.

Merger between Banca Popolare di Milano and Banco Popolare

On **23 March 2016**, the cooperative banks Banca Popolare di Milano and Banco Popolare signed a memorandum of understanding for a merger through the incorporation of a new bank in the form of a joint-stock company. As part of the merger, the following was established: *(i)* that Banco Popolare will approve and carry out a capital increase for a total amount of 1,000,000,000 euro; and *(ii)* a spin-off of certain assets, including the branches located in certain historical provinces of BPM, in favor of a banking subsidiary which will be controlled by the new parent company.

The entire transaction is subject to obtaining all regulatory and supervisory authorizations.

The transaction was to be structured as a merger through the incorporation of a new bank. The new parent company, established in the form of joint-stock company, will operate both as a bank and as a holding company with operating functions as well as responsibilities of coordination and management of all the companies belonging to the new group. Through the merger, Banco Popolare and BPM will transform from cooperative banks into joint stock companies in line with the provisions envisaged in the reform of the cooperative banks (the "*Popolari* Reform"). The shares of the new parent company will be listed on Italy's MTA screen-based market.

The merger will be carried out according to the following relative equity interests, which assume the execution of the entire capital increase by Banco Popolare:

- 54% of the new parent company pertaining to the current shareholders of Banco Popolare;
- 46% of the new parent company pertaining to the current shareholders of BPM.

The equity interests are to be confirmed by way of reciprocal due diligence and then amended in order to take into account of the distribution, before the merger, to the shareholders of Banco Popolare and BPM of ordinary dividends for the year ended 31 December 2015. The execution of the merger, as it entails the transformation of each of the two banks into joint-stock companies, will give the shareholders of Banco Popolare and BPM who have not participated in the approval of the merger the right to withdrawal pursuant to Article 2437, paragraph 1, of the Italian Civil Code.

On **10 May 2016**, the Bank announced the positive outcome of the confirmatory due diligence as called for in the memorandum of understanding of 23 March 2016; therefore, the equity interests specified above have been confirmed.

On **16 May 2016**, following approval by their respective administrative boards, Banco Popolare and Banca Popolare di Milano approved the Strategic Plan for 2016-2019 for the new banking group resulting from the merger.

On **24 May 2016**, based on the favorable opinion of the Supervisory Board of BPM, the Board of Directors of Banco Popolare and the Management Board of Banca Popolare di Milano approved the merger plan, which calls for the creation of a new banking company, the "new parent company", in the form of a joint-stock company. This merger plan establishes the following:

- the name of the new parent company is to be Banco BPM S.p.A. The New Parent Company is to have two headquarters, one in Verona and one in Milan. The registered office is to be that of Milan, while the administrative head office is to be that of Verona;
- the new parent company is to adopt the "traditional" model of administration and control based on a Board of Directors and a Board of Statutory Auditors;
- the merger is to take place based on the following equity interests: *(i)* the shareholders of Banco Popolare are to be allocated, collectively, 54.626% of the share capital in the New Parent Company; *(ii)* the shareholders of BPM are to be allocated, collectively, 45.374% of the share capital of the New Parent Company.

On **26 July 2016**, Italy's anti-trust authority issued its authorization of the merger in accordance with Article 16(4) of Italian Law no. 287 of 10 October 1990.

On **8 September 2016**, based on the outcome of the investigation conducted and in the absence of objections by the ECB, the Bank of Italy authorized the merger in accordance with Article 57 of the CBA.

On **9 September 2016**, the European Central Bank issued authorization for the new parent company to conduct banking activities.

On **12 September 2016**, the Management Board of Banca Popolare di Milano, following the authorizations by the various supervisory authorities, resolved to call an Extraordinary Meeting of Members for 14 October 2016 (first call)

or, if necessary, 15 October 2016 (second call) in order to pass resolutions concerning the merger of BPM and Banco Popolare by establishing a new banking company in the form of a joint-stock company.

On **13 September 2016**, Banca Popolare di Milano reported that the settlement value per share of BPM's ordinary shares for which any withdrawal rights should be exercised would be 0.4918 euro in accordance with Article 2437-*ter*, paragraph 3, of the Italian civil code.

On **12 October 2016**, Italy's Institute for the Supervision of Insurance, IVASS, in accordance with Article 68 of Italian Legislative Decree no. 209 of 7 September 2005, authorized the new parent company to hold the qualified equity interests in the following insurance companies held by the companies being merged: AviPop Assicurazioni S.p.A., AviPop Vita S.p.A., Popolare Vita S.p.A., Bipiemme Vita S.p.A., and Bipiemme Assicurazioni S.p.A.

On **15 October 2016**, the Extraordinary Meeting of Members of BPM approved the merger plan (and related deed of merger and articles of association resulting from the merger) for BPM and Banco Popolare, which calls for the creation of a new banking company in the form of a joint-stock company under the name Banco BPM S.p.A. with registered office in Milan and administrative head office in Verona. The merger is to take effect, in accordance with Article 2504-*bis*, paragraphs 1 and 2, of the Italian civil code, upon completion of the registrations required by Article 2504 of the Italian civil code. Fiscal and accounting effects of the merger will also begin on that date.
The merger resulting in Banco BPM will result in the transformation of Banco Popolare and BPM from cooperative banks to a joint-stock company. For this reason, the shareholders and members of Banco Popolare and BPM who did not participate in approval of the merger shall have the right to withdrawal as defined under Article 2437 paragraph 1 of the Italian civil code.

On **25 October 2016**, approval of the merger at the Extraordinary Meeting of Members of BPM of 15 October 2016 was filed with the Milan Company Register. On 26 October 2016, on the company's website (www.grupposbpm.it) and in the newspapers *Il Sole 24 Ore* and *MF*, BPM informed rights holders of their right to withdrawal to be exercised within 15 calendar days from the date of the filing, i.e. by no later than 9 November 2016, under the terms, conditions and procedures specified in the related notice.

On **24 November 2016**, the results of this process of exercising withdrawal rights connected with the merger were released. Specifically, withdrawal rights were exercised in accordance with the Italian civil code for a total of 179,153,607 BPM shares (equal to about 4.08% of share capital) for a total value (given a settlement value of 0.4918 euro per share) of 88,107,743.92 euro.

On **25 November 2016**, BPM opened the option to acquire the shares for which withdrawal rights were executed, in accordance with Article 2437-*quater* of the Italian civil code, with a deadline for participation in said option of 27 December 2016.

On **30 November 2016**, based on an expected effective date for the merger and creation of the new Banco BPM Group of 1 January 2017, Banco Popolare and Banca Popolare di Milano selected the heads of the corporate functions and of the companies of the new Group.

On **13 December 2016**, Banco Popolare and BPM signed the deed of merger of the two banks, which is to be enacted by establishing a new banking company under the name Banco BPM S.p.A. The effective date of the merger is expected to be 1 January 2017, subject to the issuance by Borsa Italiana S.p.A., following completion of the procedures underway at the time, of the authorizations for Banco BPM to list its shares on the MTA screen-based segment of the Italian stock market and for Banco Popolare to list its outstanding bonds on the MTO screen-based segment of the Italian bond market, as well as by CONSOB for publication of the prospectus necessary for such purpose and subject to registration, as of the aforementioned date, of the deed of merger with the competent Company Registers of Verona and Milan in accordance with Article 2504 of the Italian civil code. Subject to issuance of the aforementioned authorizations, the shares of Banco BPM are to be listed on the MTA beginning on 2 January 2017 (along with consequent revocation from trading on the MTA of the shares of the two banks involved in the merger). The merger will result in the cancelation of all outstanding shares of Banco Popolare and of BPM, which are to be replaced, on 1 January 2017, based on the

swap rates established in the merger plan approved by the members and shareholders of the two banks on 15 October 2016 (i.e. one Banco BPM share for one share in Banco Popolare and one Banco BPM share for every 6.386 BPM shares). The treasury shares held by the two banks are to be nullified without any swap.

On **24 December 2016**, Banco Popolare and BPM reported that the registration document and the informational and summary notes (jointly the "Prospectus") related to listing of Banco BPM ordinary shares on the MTA screen-based market organized and managed by Borsa Italiana S.p.A. were filed with CONSOB on 23 December 2016 following notification of the authorizations to publish issued on 23 December 2013 by way of protocol no. 0113422/16 for the registration document and no. 0113428/16 for the Prospectus. The financial instruments concerned by the Prospectus to be listed on the MTA are the ordinary shares of Banco BPM S.p.A., having no nominal value, resulting from the merger (ISIN code IT0005218380). By way of measure no. 8299 of 21 December 2016, Borsa Italiana admitted the shares for trading on the MTA and consequently revoked trading on the MTA for the shares of Banco Popolare and BPM. Borsa Italiana will determine the start date for trading of the shares on the MTA in accordance with Article 2.4.2., paragraph 4, of the stock market regulations, subject to verification of publication of the Prospectus.

On **27 December 2016**, the period for executing option and pre-emption rights on shares in Banca Popolare di Milano withdrawn by rights following approval of the merger came to a close. By the end of this option period, the intention to acquire a total of 2,195,630 shares in the Company (at a price of 0.4918 euro per share) was expressed. The terms and procedures for settlement of the shares purchased following the exercise of option and pre-emptive rights are to be reported by Banco BPM following the effective date of the merger in the manner established by applicable law and, in any event, by public notice in at least one Italian national newspaper and on the Banco BPM website (www.bancobpmspa.it). Any offering on the market of the withdrawn shares not purchased during the option period (in accordance with Article 2437-*quater*, paragraph 4, of the Italian civil code) is to be decided and reported by Banco BPM as required by law following the effective date of the merger.

For more information on the operation as concerns *(i)* the size, scope, and business plan for the new group, *(ii)* the main strategies underlying the merger, *(iii)* the corporate governance of the new parent company, *(iv)* the spin-off, and *(v)* the conditions for the transactions and indicative timetable, see the press releases issued on 23 March, 10 May, 16 May, 24 May, and 1 July 2016 (available in the "Press & Media" > "Press Releases" section of the website www.gruppobpm.it) and the presentations entitled "Creation of the Third Largest Italian Banking Group Leader in the Wealthiest Areas of Italy" and "The New Leading Bank – Building Our Future – Strategic Plan 2016-2019", which were illustrated to the market on 24 March and 16 May 2016 (available in the "Investor Relations" > "Presentations" section of the aforementioned website).

The documentation made available to the members of BPM at the Extraordinary Meeting of Members of 15 October 2016 is available, in Italian, on the website of Banca Popolare di Milano (www.gruppobpm.it) in the section "Governance" > *"Assemblee dei Soci"* > *"Assemblea Straordinaria 14-15 Ottobre 2016"*.

The following documents are also available, in Italian, on the Banca Popolare di Milano website in the section "Investor Relations" > *"Fusione BPM - BP"*: (i) the deed of merger signed on 13 December 2016; (ii) the Articles of Association of Banco BPM S.p.A.; (iii) the prospectus concerning the listing of Banco BPM ordinary shares on the MTA segment of the market organized and managed by Borsa Italiana S.p.A.

Transfer of the BPM branch network

Within the scope of the Memorandum of Understanding and the merger plan, it was established that, subject to completion of the merger, BPM S.c a r.l. could transfer a number of assets encompassing the BPM branch network to an existing banking company that will be, upon completion of the merger, a subsidiary of Banco BPM S.p.A. BPM determined that the recipient of the spun-off assets was to be Banca Popolare di Mantova S.p.A. ("BP Mantova").

The recipient of the spin-off: *(i)* is a joint-stock company and is called the "Banca Popolare di Milano – Società per azioni"; *(ii)* upon completion of the merger, is a subsidiary of Banco BPM S.p.A.; *(iii)* assumes the role of network bank subject to the direction and coordination of Banco BPM S.p.A. (wherein the functions of administration, planning, treasury, and other corporate functions will be centralized); *(iv)* has registered offices and administrative head offices in Milan; and has a "streamlined" organizational structure consistent with the nature of a network bank so as not to entail duplications in costs or other overlap with the organizational structure of the Issuer.

Technically speaking, the spin-off is completed by way of the following actions: *(i)* approval by BP Mantova of an increase in share capital reserved for the transfer by BPM (and, therefore, entirely dedicated to BPM without option rights for the other members of BP Mantova); and *(ii)* subscription and settlement by BPM of said capital increase by transferring the spun-off business division to BP Mantova.

The companies concerned have submitted the authorization requests to the supervisory authorities as required for the spin-off and for the consequent changes in the Articles of Association of BP Mantova.

On **3 August 2016**, the subsidiary BP Mantova announced that – for the purposes of Bipiemme Group's general rationalization process and as part of the action initiated in relation to the merger plan between the Bipiemme Group and the Banco Popolare Group – the Parent Company Banca Popolare di Milano agreed with the main minority shareholders of BP Mantova (and to which they refer) to purchase the related minority interests (altogether representing about 30% of the Bank's share capital). As part of this transaction, mutually agreed upon by the parties, the representatives of the above minority shareholders (i.e. Chairman Carlo Zanetti, Deputy Chairman Michele Colaninno, board member Sergio Corneliani, Chairman of the Board of Statutory Auditors Daniele Girelli, and alternate auditor Alberto Almerighi) submitted their resignations from the corporate bodies of BP Mantova.

On **21 September 2016**, the BPM Management Board and the Board of Directors of BP Mantova, within the scope of their respective authority, approved the spin-off transaction. Specifically:

(i) the BPM Management Board determined that the business unit to be spun off would comprise 635 branches and the assets and liabilities (with the exception of bonds) strictly related to the operations of said branches and their relations with customers, including the bad loans;

(ii) the Board of Directors of BP Mantova, having obtained the favorable opinion of the Related Parties Committee upon completion of the related procedure, resolved to submit to their shareholders, in an extraordinary session, the proposal for an increase in share capital to serve the transfer to be settled in kind by way of the transfer of the aforementioned business unit by BPM – and, therefore, without option rights in accordance with Article 2441(4), first point, of the Italian civil code – for a total value of 4 billion euro (including share premium).

The value of the business unit to be transferred has been the subject of an appraisal prepared by EY S.p.A. in accordance with Article 2343-*ter*, paragraph 2, letter b, of the Italian civil code, wherein it was determined that the economic value of the business unit to be transferred, estimated as at 30 June 2016, is not less than the total value of the aforementioned increase in BP Mantova share capital, including any share premium, which is to be subscribed and settled by way of execution of the transfer.
The spin-off qualifies as a related-party transaction. In this case, BPM has deemed it to be appropriate to apply the exemption allowed under Article 2.8 of the BPM Related Party Procedures (and under Article 14 of the rules adopted by CONSOB by way of resolution no. 17221 of 12 March 2010) in that it is a transaction with a subsidiary and there is no significant interest by other parties related to BPM. BP Mantova, in turn, has begun the preparatory procedures called for by applicable internal and external regulations concerning transactions with related parties "of greater

relevance". In this regard, see the document published by BP Mantova on 28 September 2016 in accordance with Article 5 of the CONSOB Related Party Rules.
The spin-off is to be completed, subject to obtaining the required authorizations, upon completion of the merger (although taking effect immediately prior to efficacy of the merger itself), and is to be an integral and essential part thereof.

On **12 December 2016**, having obtained all supervisory authorizations required by law, the shareholders of BP Mantova, in an extraordinary session, approved the increase in share capital in service of the transfer of the business unit by BPM for a total value of 4,000,000,000.00, of which 326,753,310.60 in par value and 3,676,214,979.40 as share premium (while also approving the changes to the BP Mantova articles of association in relation to the spin-off).

On **13 December 2016**, BPM and BP Mantova signed the transfer agreement for subscription and settlement of the aforementioned capital increase, with the effective date of the transfer to be subject to completion of the merger and beginning immediately prior to the effective date of the merger itself.

Anatocism (compound interest)

Within the scope of the issue of "**anatocism**" (compound interest) in banking relationships, it should be noted that in late 2013 the "Stability Law of 2014" (Italian Law no. 147 of 27 December 2013, article 1, paragraph 629), amending Article 120 of the Banking Code, asserted that "the Interministerial Committee for Credit and Savings (CICR) establishes the terms and methods for the production of interest in transactions undertaken as part of the banking business, providing in any case that: a) in the current account transactions with customers, interest on deposits and interest on loans both have to be calculated on the basis of the same period of time; b) the interest capitalized periodically cannot generate more interest, which in subsequent capitalizations, has to be calculated solely on the principal element".
On 23 December 2014, an appeal filed by the Consumer Movement Association before the Court of Milan was notified to the Bank with the intention of obtaining – with an emergency order – an injunction to block all forms of capitalization of interest expense and, in any case, the application of compound interest as defined above with all the appropriate measures to eliminate the effects.
At first instance, the application was declared inadmissible (order dated 12 January 2015). The Consumer Movement Association appealed against this decision and on 3 April 2015 the Court of Milan ordered the Bank to stop any additional form of compounding of interest expense in relation to contracts for current accounts already in existence or to be concluded with consumers and belonging to the types of account specified by the Association in its appeal, with the obligation to take steps to give adequate publicity to this measure.

The Bank complied with the order of 3 April 2015 and subsequently acted judicially to challenge the assumption of the order and obtain a proper interpretation of Article 120 of the Banking Code.
In August 2015, the Bank of Italy published a proposed CICR resolution in accordance with Article 120(2) of Italian Legislative Decree no. 385 of 1 September 1993 (the Banking Code) as allowed under the aforementioned "Stability Law of 2014". However, this resolution was not then issued.

Article 17-*bis* of Italian Law Decree of 18 February 2016, converted into Law no. 59 of 8 April 2016, amended Article 120(2) of the Banking Code, such that the CICR establishes the terms and methods for the production of interest in transactions undertaken as part of the banking business, providing, in any event, that:

a) in the current account or payment account transactions with customers, interest on deposits and interest on loans both have to be calculated on the basis of the same period of time, which is to be no less than one year; interest is calculated on 31 December of each year and, in any event, at the end of the transaction on which they are due;
b) debit interest, including interest on credit card debt, cannot generate further interest, with the exception of past-due interest, and is to be calculated solely on principal.

In case of current-account and payment-account credit facilities and in case of overdrafts without a credit line or beyond the credit line amount:

1. debit interest must be calculated on 31 December and will become due and payable on 1 March of the following year; in case of termination of the relationship, interest will become immediately due and payable;
2. the customer may authorize, either before or after the fact, the debiting of interest at the moment in which such interest is payable. In this case, the amount debited is considered principal; authorization may be revoked at any time so long as it is prior to the actual debit being applied. The CICR measure was issued on 4 August 2016 and established a deadline for compliance of 1 October 2016. The Bank has made the adaptations required in order to comply with this new legislation.

On 23 November 2016, ruling no. 21951/16 of the Court of Rome was published. With this ruling, the court rejected the Bank's filings and confirmed the injunction issued by the Court of Milan. The Bank appealed this ruling on 30 December 2016.

Issues and maturities of institutional bonds

On **1 June 2016**, Banca Popolare di Milano announced the successful placement of a 7-year covered bond for a total of 750 million euro with institutional investors, thereby completing the third public issue as part of the Guaranteed Bank Bond ("OBG2") program established in September 2015.
The issue has a yield equal to the mid-swap rate plus 46 basis points, while the coupon rate is 0.625% and the final maturity date is to be 8 June 2023. The most significant allocations mainly concerned the foreign market, which accounted for 63% of the total, with the remaining 37% staying within Italy. Banca Popolare di Milano selected Banca Akros, Barclays, BNP Paribas, Citigroup, and Commerzbank to handle placement of the issue.
A 1 billion euro loan issued by the Parent Company as part of the Euro Medium Term Notes (EMTN) Program and a 1 billion euro covered bond fell due in 2016.

Atlante Fund

On **15 April 2016**, after expressing approval of the "Atlante Fund" initiative – an alternative, closed-end investment fund managed by Quaestio Capital Management SGR S.p.A and set up to support share capital increases and purchase non-performing loans of several Italian banks – the Management Board gave mandate to the Managing Director to formulate a binding commitment to the Atlante Fund for a maximum contribution of 100 million euro. The Bank then formalized a binding commitment to subscribe units in the Atlante Fund for a total of 100 million euro.

Ownership structure of Anima Holding

On **20 June 2016** – following the communication issued on 25 June 2015 concerning the transaction involving *(i)* the purchase by Poste Italiane S.p.A. ("Poste") of a 10.3% equity interest held by Banca Monte dei Paschi di Siena S.p.A. ("MPS") in Anima Holding S.p.A. ("Anima"), *(ii)* Poste assuming all MPS rights and obligations under the shareholder agreement concerning the Anima stake, which was originally signed on 5 March 2014 between MPS and Banca Popolare di Milano, the latter of which holds a 16.8% interest in Anima, *(iii)* the commitment for BPM both to sell to parties unaffiliated with either BPM or Poste the portion of the equity investment exceeding the thresholds specified under art. 106 of Legislative Decree no. 58 of 24 February 1998 (the "CFA") within twelve months following the transfer of the shares from MPS to Poste as well as, in the meantime, not to exercise voting rights regarding the shares in excess of said thresholds, noting that the commitment of point *(iii)* herein would have lost effect automatically in the event that CONSOB, when specifically queried, had deemed that the parties involved in the shareholder agreement had not been obligated to publicly issue a takeover bid of Anima – BPM announced that CONSOB, in a communication

of 16 June 2016, determined that the takeover threshold of 25% as specified under article 206, paragraph 1-*bis*, of the CFA applied to Anima.

On **27 June 2016**, BPM reported compliance with the commitment concerning the total Anima equity interest in excess of the thresholds – taking account of the equity interest of Poste – as required by Article 106 of the CFA. Following this sale, as of 27 June 2016, BPM now holds a 14.67% stake in the company.

In **3 October 2016**, Poste informed BPM of their withdrawal from the shareholder agreement signed between Banca Popolare di Milano and Poste on 26 June 2015 in which the parties assigned and bound all shares held in Anima Holding S.p.A. The agreement will become null and void on 16 April 2017.

Share buy-back plan

On **30 April 2016**, with regard to the authorization to purchase and sell treasury shares, the General Meeting of Shareholders authorized the purchase and sale of the Bank's ordinary shares for an amount of no more than 25 million euro, which includes the option to subsequently sell, in one or more transactions, treasury shares held, including prior to having purchased the maximum amount available and to then buy back the shares in compliance with the limits and conditions established at the time of the shareholder authorization.

On **5 July 2016**, having received the required authorization from the European Central Bank, BPM's Management Board approved a plan to purchase treasury shares to be allocated to employees ("Plan") in accordance with the resolution of the Bank's General Meeting of Members of 30 April 2016, with the aim of implementing the provisions of article 60 of the Articles of Association (applicable until 31 December 2016), in accordance with accepted market practice, which provide for the distribution in shares, to all current employees, with the exception of those who hold senior positions, for an amount equal to 5% of gross profit for the year 2015. The duration of the Plan was set by the Management Board to be 6 July 2016 to 26 July 2016 (inclusive), and the total maximum value of BPM shares purchased in execution of the Plan was set at 17 million euro.

On **26 July 2016**, BPM concluded the Plan by purchasing, for the period 6 July to 26 July 2016 (inclusive), a total of 39,875,000 treasury shares (equal to 0.908% of the ordinary shares issued) at a price of 0.3872 per share for a total value of 15,438,884.00 euro. In accordance with article 60 of the Articles of Association, employees were, over the course of the following days, allocated the amounts as envisaged under these provisions within the limits and based on the procedures established therein. As a result, treasury shares held by BPM as at 31 July 2016 numbered 1,859,979.

For more detailed information about this Plan, see the BPM press releases of 5 July, 15 July, and 2 July 2016, which are available on online at www.gruppobpm.it in the section "Press & Media" > "Press Releases".

Other significant events

On **21 December 2015**, the ECB reported that, in January and February 2016, it would begin an assessment of strategy, governance, processes and methodologies regarding non-performing loans as an integral part of its ordinary supervisory activities, and this involved a number of Italian and European banks, including BPM. Following this assessment, the ECB made no specific observations concerning BPM; However, a draft guidance document was issued to banks subject to the Single Supervisory Mechanism, for which there was a public consultation period which came to an end on 15 November 2016. Moreover, with regard to non-performing loans, in conjunction with the ECB issuing authorization for the new parent company to conduct banking activities, the new parent company was asked to provide the ECB, by 31 January 2017, with a plan concerning the reduction of non-performing loans and to provide quarterly supervisory updates on the plan as it progresses.

On **29 January 2016**, Banca Popolare di Milano announced that it signed the second-level collective bargaining agreement with trade unions for over 7,700 employees of the Bipiemme Group. As part of the legislative reference framework, defined with the renewal of the national collective bargaining agreement in March 2015, the new contract focuses on the following aspects: *(i)* enhancement of human resources, through an employee benefit system intended for a number of specific professional profiles also based on the way they perform their tasks related to the level of responsibility, experience and professional qualifications, in the allocated time and in line with the changing demands of the relative organizational and production context; *(ii)* the definition of criteria to ensure transparency, simplification and flexibility with respect to part-time employment and mobility, with the aim to achieve a better work and life balance for employees; *(iii)* the formalization of measures for new hires on supplementary pension systems, resulting in an increase in the employers' contribution to the supplementary fund; *(iv)* the development the welfare policies typical of bank systems, through the confirmation of the current contractual arrangements relating to supplementary health care and welfare, as well as the awarding of a "company social bonus".

On **23 February 2016**, Banca Popolare di Milano appeared in court for the lawsuit filed by Piero Luigi Montani, the bank's former Managing Director – who resigned on 31 October 2013 – for recognition of the compensation payable in the event of resignation for good reason, rejecting all of the plaintiff's claims. The case is currently pending with the Court of Milan.

On **30 May 2016**, the ECB started an inspection concerning credit risk, counterparty risk and the risk control system of the Bipiemme Group. The on-site part of the inspection was concluded on 30 September 2016; the preliminary findings of the audit were discussed on 27 September 2016. On 4 July 2016, the ECB commenced an inspection on the accuracy of the calculation of Bipiemme Group's financial position. The on-site inspection was concluded on 7 October 2016. As of the date of this report, we have still not received the report and the follow-up letter included in the draft recommendations. The information obtained during this inspections as part of the discussions with the audit teams and the discussion on the preliminary findings have been taken into account for purpose of the independent assessment of loans for the preparation of the financial statements as at 31 December 2016. The final results of the audits will be the subject of assessment once we have received the report from the Supervisory Authority.

On **26 September 2016**, Banca Popolare di Milano and the trade unions signed important agreements concerning the general architecture of company benefits and access to the industry's Solidarity Fund. The agreements fall within the context of the merger with the Banco Popolare Group and the 2016-2019 strategic plan presented to the market on 16 May 2016, which calls for a total of 1,800 redundancies between the two companies. The costs and financial benefits are aligned with the total estimated over the period covered by the strategic plan, including among the costs and synergies of the merger. Costs have been expensed entirely during the 2016 financial year.

On **20 October 2016**, following approval of the plan for the merger of Banca Popolare di Milano and Banco Popolare by the companies' shareholders, the international ratings agency Moody's Investors Service increased its long-term deposit rating for BPM to "Ba1" (from "Ba2") and the Baseline Credit Assessment to "b1" (from "b2"). The outlook is "Stable". Moody's also confirmed BPM's short-term ratings at "Not Prime" as part of this ratings action.

On **23 December 2016**, the international ratings agency Fitch Ratings revised its long-term Issuer Default Rating (LT IDG) for Banca Popolare di Milano to "BB-" from "BB+" and its Viability Rating (VR) to "bb-" from "bb+", thereby removing the Rating Watch Negative from 21 April. The agency also confirmed its short-term rating of "B". The outlook is stable. In a press release on that same date, Banca Popolare di Milano expressed disappointment and disagreement with the views of the agency, stating that, in the Bank's opinion, the agency failed to take proper account of the performance of Banco Popolare in terms of strengthening capital with the 1 billion euro capital increase, the increase in coverage, and the reduction in the stock of non-performing loans, which improve the risk profile of the new Group. The agency also failed to take account of the benefits of the merger with Banco Popolare in terms of market positioning, the improvement in profitability through cost and revenue synergies, the sharp reduction in the cost of funding, and the major derisking plan that the new Group will implement by 2019. In that regard, Banca Popolare di Milano stresses that the 2016-2019 business plan of Banco BPM S.p.A. has been approved by the ECB and by the other supervisory bodies in early September after ample, detailed analysis within the scope of the authorizations issued for the merger. It should also be noted that the loan portfolio of the new Group is qualitatively better than the national average thanks

to important collateral and in consideration of the geographic area in which the two banks operate as the country's third largest banking group as of 1 January 2017. Lastly, following the completion of discussions with the supervisory authorities after formal approval in September, no requests for changes to the business plan underlying authorization of the merger were made, so the assumptions and forecasts concerning the level of bad loans and related coverage remained confirmed. Banca Popolare di Milano has thus underscored its total disagreement with the opinion of the ratings agency, which are seen as being harmful to the interests of the Bank and of the various stakeholders.

On **23 December 2016**, labor agreements concerning the merger of Banco Popolare and Banca Popolare di Milano were signed with the trade unions. The agreement reached calls for the following: (i) for the 1,800 redundancies declared in the strategic plan, the possibility to accept up to 2,100 requests for voluntary redundancy, thereby making it possible to exceed the expected, declared targets within the scope of the plan; (ii) 400 new hires to be made during the period covered by the plan; and (iii) the possibility to make voluntary use of 200,000 "solidarity" days, together with other solutions aimed at promoting work-life balance (including flexible and part-time work).

2016-2019 Strategic Plan for the new Gruppo Banco BPM S.p.A.

On 16 May 2016, the administrative bodies of Banco Popolare and Banca Popolare di Milano approved the 2016-2019 Strategic Plan for the new banking group resulting from the merger of these two banks.
The goal of the Strategic Plan is to take advantage of the distinctive traits of the new group, including its unique positioning within the banking industry, and to increase profitability through a business model that is optimized to better serve customers with a complete range of high-value products.

The macroeconomic assumptions underlying the Strategic Plan reflect the consensus published by an authoritative outside source. The outlook is for a gradual normalization of the primary economic indicators, and in particular growth in Italian GDP of 1.0% in 2016, 1.1% in 2017, 1.2% in 2018, and 1.0% in 2019 and an increase in the average 3-month Euribor rate from -0.3% in 2016 to +0.1% in 2019.

The Strategic Plan is based on the following guidelines:

Becoming a leader in a number of Europe's wealthiest regions

The new group will be the third largest banking group in Italy (in number of branches, net lending, and direct and indirect funding) serving 4 million customers with an extensive, multi-channel distribution network and will enjoy a position of leadership in northern Italy, especially in the highly productive regions of Lombardia, Veneto and Piemonte (with market shares of 16%, 10% and 13%, respectively).
The merger will create a national leader in various high-value areas of business (e.g. top 3 in debt and equity brokerage, in consumer credit, and in private banking and top 5 in bank insurance and Asset Management) that is uniquely positioned to take advantage of an extensive network of around 2,467 branches, a portfolio of high-profile brands, and cross-selling opportunities among the various product divisions.
The Strategic Plan is to be managed by a team of experienced professionals with a range of complementary skills, backed by a unique track record in the banking industry.

A banking model that can succeed in all market conditions

The new group will feature an custom offering in all market segments with a renewed focus on:

- **Corporate Accounts:** dedicated division which will see an increase in its share of wallet in high-value services designed to achieve a compound annual growth rate (CAGR) of around 3.8% in gross lending by 2019 while maintaining high levels of profitability;
- **Private Banking:** with an effective customer proposition with a unique catalogue featuring a full range of products and services, evolving the business model from investment management to asset management and taking advantage

of cross-selling and other collaborations with the business divisions in order to achieve a CAGR of around 3.2% in total assets by 2019, primarily through growth in assets under management;

- **Retail and Small Business Accounts:** focusing on customer development and cross-selling through a diverse offering of products for the various customer segments and by streamlining processes in order to achieve a CAGR of around 3.5% both in gross lending and in total client assets by 2019, while maintaining high levels of profitability.

The offering will be backed by a combination of robust product capabilities and greater productivity through the sharing of best practices and by taking advantage of highly recognized brands in order to achieve the following objectives:

- **Assets under Management:** CAGR of around 7%, from the 40.7 billion euro of 2015 to 53.5 billion euro by 2019;
- **Consumer credit volumes:** CAGR of around 5%, from the 1.4 billion euro of 2015 to 1.7 billion euro by 2019;
- **Bancassurance assets under management:** CAGR of around 6%, from the 15.9 billion euro of 2015 to 20.1 billion euro by 2019;
- **Investment banking commissions:** CAGR of around 17%, from the 67 million euro of 2015 to 126 million euro by 2019.

In order to achieve these objectives, the new group will feature an effective organizational structure supported by an advanced model of operations that takes advantage of a cutting-edge IT architecture that will incorporate existing areas of excellence backed by significant investment in digital technology throughout implementation of the Strategic Plan (for over 90 million euro total investment from 2016 to 2019).
The new group will maximize customer contact with the help of a fully integrated, multichannel distribution model that combines:

- an optimized network of 2,082 branches by 2019 for a less dense network that provides a better customer experience;
- significant development work on all other distribution channels, including financial advisors and other specialists and an entirely digital channel.

Human resources will play a key role within this evolving business model, backed by a clear programme of management and development and significant investment in training to develop new business skills (including the expected reallocation of some 800 full-time employees to new roles).

Capital solidity right from the start and enhanced credit quality

The new group will be able to boast capital solidity right from the start with a fully phased-in CET1 ratio of around 12.3% in 2015, which is expected to rise to around 12.9% by 2019 with a dividend-payout target of about 40%. The organic generation of capital thereby offset the conservative estimates concerning the evolution of capital requirements related to market and operational risk, and the capital strength of the new group will further benefit from the extension of AIRB credit risk models throughout the group.
The creation of a new unit dedicated to the management and collection of non-performing loans, alongside the definition of a clear plan to reduce bad debt by factoring at least 8 billion euro of such loans, will make it possible to carefully manage credit quality for the new group in order to achieve the following objectives:

- a cost of risk of around 63 bp by 2019, for a sharp decline from the 2015 levels of over 100 bp;
- better coverage of bad loans from the 57% of 2015 to 59% by 2019 along with an increase in the percentage of secured loans to total non-performing loans from the 58% of 2015 to 72% by 2019;
- a level of nominal deteriorated credit in line with industry best practice, declining from 24.8% in 2015 to 17.9% by 2019;
- a level of net deteriorated credit reduced from 15.7% in 2015 to 11.1% by 2019;
- an improvement in the collection rate from 2.7% in 2015 to 4.5% by 2019.

Finally, our ALM strategy will immediately begin reducing the cost of funding throughout the period of the Strategic Plan, primarily through the following actions:

- a rebalancing of the funding mix with a reduction of retail and wholesale bond (– 5 billion and -4/5 billion euro, respectively) and an increase in certificates of deposit (+ 16 billion euro);
- prudent management of the securities portfolio, the return on which will be affected by the general landscape of lower interest rates and by the impact of IFRS 3 (i.e. fair value for business combinations) on BPM's portfolio.

Significant creation of value

The new group, once fully integrated, will benefit from synergies of around 460 million euro by 2019 as a result of:

- Cost synergies of around 320 million euro (phasing: 40% in 2017, 80% in 2018 and 100% in 2019), including:
  - 140 million euro from downsizing by way of implementing solidarity funds with a capacity of 1,800 FTE;
  - 110 million euro in reduced operating costs, the rationalization of duplicate spending, an increase in buying power, and the reduction in the number of branches;
  - 45 million euro from the migration is a single IT system, which will benefit from an increase in scale;
  - 25 million euro in direct costs associated with the closure of overlapping branches.
- Revenue synergies of around 138 million euro (*phasing*: 40% in 2017, 70% in 2018 and 100% in 2019), including:
  - 105 million euro in revenue synergies in the Corporate segment by taking advantage of areas of excellence (e.g. Banca Aletti and Banca Akros) and the benefits of strengthening our capital base and competitive positioning;
  - 43 million euro in the Retail segment through an alignment of in-house best practices and production levels and an increase in the FTE-size of the commercial unit, including the addition of product specialists, the "door-to-door selling", and the digital branches;
  - 10 million euro in potential "dis-synergies" in revenues resulting from attrition in the customer base in the branches subject to rationalization and a reduction in our share of wallet.

Merger costs, totalling roughly 480 million euro (about 150% of the cost synergies) are expected to be fully recovered by 2018.

In brief, the primary forecasts of the strategic plan and the related compound annual growth rates (CAGRs) are as follows:

- Pre-Provision Income of 2.2 billion euro by 2019 (CAGR 2015-19: +3.1%);
- Normalized net income of 1.1 billion euro by 2019;
- Cost-to-income ratio of 57.8% by 2019;
- RoTE of 9.0% by 2019;
- Fully Phased-in CET1 ratio of 12.9% by 2019, including the 1 billion euro increase in capital for Banco Popolare;
- LCR and NSFR of greater than 100% by 2019;
- Rate of nominal deteriorated credit of 17.9% by 2019 (net deteriorated credit of 11.1%);
- Coverage of bad loans of 59% by 2019;
- Cost of risk of 63 bp by 2019.

The activities of the Bipiemme Group in 2016

The following section describes the main activities related to the commercial, financial, risk management, auditing, compliance, organization, and information technology areas.

1. Sales and marketing

Individuals

Current accounts, customer dynamics, and evolution of the service model

A new consulting model was implemented in early 2016 for our more advanced individual customers. We selected 194 account managers to follow the portfolio of "premium" accounts for customers with assets exceeding 300 thousand euro and expanded the offer of financial services through 5 Asset Management companies.

During 2016, efforts also continued in order to attract new customers and keep existing ones, backed by a series of initiatives such as:

- the offering for the *New Welcome Promo* account, which features 12 months without account fees and the exemption from stamp duties for all of 2016;
- sales campaigns organised by product/service area (e-money systems, lending, insurance, investments and customer retention) supported, where possible, by the targeted use of the contact center in order to increase the penetration of strategic products;
- promotion of the partnership with AC Milan through current-account promotions and prize draws for fans of this Milan soccer team;
- sending a monthly newsletter, to both existing and potential customers to keep them updated on current promotions, provide information on new products and encourage their purchase and use;
- organising contests and sweepstakes to support the different product lines (loans, e-money systems);
- planning "*save the date*" campaigns with particularly advantageous terms and conditions for customers;
- partnering with companies and business networks to raise awareness of the "BPM4U" business model in order to attract new customers through special arrangements with employees of client companies.

e-money

During 2016, focus was placed on initiatives aimed at increasing the penetration of credit/debit products and at optimizing profitability, through:

- marketing initiatives and campaigns on credit cards with payment options (Cartimpronta) and advanced debit cards (Cartimpronta Debit MasterCard);
- repricing manoeuvres on annual fees;
- discontinuing the sale of business cards (for individuals and companies).

A partnership agreement was signed with Amex in December for marketing American Express cards for individual BPM account holders.

We started marketing the new corporate prepaid card "Cartimpronta Business Prepaid" created for companies and entities that want to give their employees a tool that replaces cash and makes it easier to track employee business, travel and petty cash expenses, by minimising the use of cash. The product has an innovative security tool that allows

the company to create a profile for each card based on spending requirements, to ensure the security and safety of the cardholder and to protect the company from fraudulent use through an expense tracking system.

Mortgage loans to individuals and other personal loans

In 2016, the **mortgage** market was particularly challenging with highly competitive offerings by the top financial intermediaries, due to both the trends in benchmark indices and the extremely aggressive marketing campaigns. This situation led to a decline in BPM mortgage applications compared to the previous six-month period, enhanced also by the systematic slowing of applications for subrogations.

With a view to increasing the demand and at the same time reward low-risk customers purchasing a new home, changes were made to the pricing of mortgage loans. In October, we launched a new mortgage loan called "**Chibencomincia"** available only to first-home buyers aged under 40. The product differs from the offerings of competitors as it contains a "no instalment" option for a greater peace of mind in paying instalments.

Profamily **personal loans** issued by the BPM network posted positive results compared with the previous year thanks to the marketing campaigns and initiatives designed to attract new customers and keep existing ones. The activities were supported, where possible, by the targeted use of the contact center and by sending targeted "demos" to select customers.

Insurance

A new specialised figure was introduced into the insurance segment 2016 called the **C.A.M. Consultant** which, thanks to the use of an "insurance check up" based on 19 targeted questions and the innovative "Personal & Family Protection Tool" is able to pinpoint customers' needs and offer the best insurance solution to meet their needs. With this tool, the manager is also able to identify the "gold" version for full coverage and the "silver" version for more limited coverage. The project, launched on several "pilot" micro-markets, was later extended to all 105 micro-markets and 8 class A agencies.

Marketing efforts on insurance products continued in 2016 through monthly campaigns on personal and income protection-related products. Special focus was placed on the *Multiprotezione 5* policy supported by the special discount offered during the underwriting period. the new third-party liability rates for the "Multiprotezione Auto" policy went into effect in December 2016.

Assets under management

In an extremely volatile and uncertain market (Brexit/ US presidential elections), the placement of over 70% of customer assets within assets under management products made it possible to protect the value and accordingly the assets of the Bank also due to broader diversification and investment decisions recommended by the managers through the collaboration with the Active Advisory structure.

The Bank's net inflows grew despite the continued and intense volatility of the market. The positive result was achieved also thanks to an intensive schedule of meetings during the quarter with over 600 *Personal* managers and the continued collaboration with the Wealth Management and Advisory structures facilitating professional growth, as well as the training provided to 194 Premium Managers and the issuance of promoter licenses 70 managers.

Small business – SME Retail

The Group's longstanding commitment to the needs of small and medium enterprise (SME) has enabled constant growth in lending at a pace greater than the industry average, while we have also kept our level of risk at among the lowest in the marketplace due, in part, to our ability to offer products and services that keep pace with the new challenges that businesses have had to face in recent years.

Development of new accounts and Retail SME initiatives

During 2016, we set up a development team that reports directly to central management, but is allocated to the various regional districts to support the acquisition of new small-business accounts (the "Development Team"), which resulted in 25% of financing agreements to go to new customers, which has had a positive impact on credit performance.

Despite the fragility of current economic growth, BPM has continued to support SMEs through efforts such as:

- the "Investiamo nel futuro delle aziende" (Let's invest in the future of business) and the "Aziende in crescita" (Growing companies" campaigns for local enterprises with offerings geared to the needs of the customer. Through these initiative, we have implemented a new commercial model that represents a shift from a product-centric approach to a customer-centric one by diversifying the product offering based on the potential that each business shows in terms of size, industry, and market. The results have confirmed the efficacy of this new approach, which has resulted in 25% growth compared to 2015 in requests for financing, over 95% of which the Bank has been able to satisfy. The industries that have benefited most from this initiative have been wholesale distribution (15%), retail sales (8%), machine engineering (6%), metalworking (7%), agriculture (5%), lodging and other public services (7%), and the service industry (7%);
- long-term loans and other financing to support Retail SMEs and other small businesses increased by 21% on 2015 levels.
- the activation of special territorial tasks forces in 2016 on target areas for the development of new customers and loans;
- the "Welcome Aziende" current account in its three versions- Small, Medium and Large – which saw some 10,000 new accounts opened in 2016;
- the expansion of the service offering by finalizing the agreement with AGID which enables government bodies to take advantage of electronic payment systems, the CBILL payment service for Webank customers, and the new strong authentication system, which increases the security of the online transactions made by our business accounts;
- our offering of receivable-factoring products (pool factoring in partnership with Factorit S.p.A.) and, in particular, the introduction of advances against VAT receivables and other receivables from public administration.

Multi–channel Offering – Contact Center

Our Contact Center became operational for business customers in 2016. The results of the initiatives implemented through this channel have been highly encouraging thanks to the investments made in employee training and to our proven skills in customer profiling. The campaigns carried out by the Contact Center to promote POS terminals were particularly successful which- from a target of some 100,000 businesses – enabled us to achieve a growth of 7% in sales and unsecured loans backed by MCC guarantees to support the growth of corporate customers.

Subsidized Finance

Our initiatives in the area of subsidized finance continued in 2016, including:

- **the New Sabatini credit line,** which features the distribution of financing using CDP funding and a subsidy from the Italian Ministry of Economic Development (MED) of 275 bps in favour of the business being financed. In May, the procedures for this initiative were simplified by way of changes in legislation, which resulted in a significant increase in requests compared to previous months. MED funds were discontinued in September as a result of the depletion of the facility;
- **EIF Microfinance**, which targets start-ups and all other businesses that need speed and simplicity in raising funds (financing limited to 24,500 euro), even when there are limited assets to be used to guarantee the financing;
- **Agreements with Finlombarda, Finpiemonte and Puglia Sviluppo** to support local business, including through conventions with public bodies that offer grants and subsidies to businesses in order to the finance cost of their investments. In this regard, the line of credit subsidy that provided businesses in the Lombardy region with guarantees issued free of charge by Finlombarda for new commercial lines of credit, was particularly well received;
- **EIB financing,** which calls for the use of funds made available by the European Community to support the working-capital needs of businesses or to help them make investments through the use of these revolving funds;
- **Line of credit for female entrepreneurs** for a total of 300 million euro to support women looking to create new businesses, make investments, and contribute to economic recovery;
- **Guarantee consortia** for the subsidized financing of businesses through the selection of the consortia characterised by financial solidity and good prospects for development.

Private Banking

In 2016, the private banking business concentrated on customer relations with a focus on advisory services from a protective point of view, in a scenario characterised by the extremely volatile state of financial markets, spiked by the Brexit referendum vote in favour of leaving the EU which created even more uncertainty, as did the US presidential election and the referendum in Italy at the end of the year. Despite the adverse financial market conditions, the net inflows on managed products remained positive, also thanks to the platform of services and products for the private banking area. BPM's Private Banking structure has maintained its distribution network which consists of 12 private banking branches and 13 offices, located in areas where the Group has a long-standing presence and in other areas that are considered strategic for the growth of this sector, with over 70 account managers.

Product diversification continued throughout the year, with new investment solutions offered to customers both through broadening the offerings of Anima Holding (fixed-term bond funds and Open funds) and the development of a multi-brand offer, thanks to the new distribution agreements with leading international asset management companies. The offer for the insurance segment was also enhanced with innovative solutions for the management of protection requirements and solutions for generation-to-generation handovers.

As regards Banca Akros's *Private Banking* business – focused on a select clientele in the high net-worth segment – the bank continued to develop tailor-made services in asset management, in a context of "open architecture", and in asset administration, leveraging on its capabilities in the execution of orders on domestic and international market.

Multi-channel Banking

Webank

The Webank channel continued its growth in 2016 by acquiring 20,000 new customers with the help of online advertising and longstanding partnerships with leading Italian e-commerce platforms. Webank retained its leadership position in the services and advanced platform for online trading and is one of the key players in online loan brokerage.

In this increasingly crowded and complex competitive landscape and faced with changing consumer needs, Webank has initiated a review and upgrading process for its communication strategy in order to establish a multichannel approach with consumers.
In 2016, this approach, started in 2015, was reflected in the construction of a structured "ecosystem" offering users various channels of communication and information. The new website webank.it lies at the core of the ecosystem. During the year, we completely overhauled the public area of the website which has evolved from a simple web portal into a digital hub for the bank's education, acquisition and caring activities.

In May 2016, the remote digital signature was made available to potential customers looking to open a paperless bank account through recognition via a webcam.

There were further developments in the **investments area**, with the important completion of the financial advisory service, which takes advantage of our physical network to provide online customers with the ability to benefit from in-branch services. The overall layout of the section "investments" in the reserved area of the website was also revamped; the range of asset management products has been further expanded with 29 management opportunities and some 3,600 funds and SICAV funds.
As far as the public area of the website is concerned, a new tool was launched near the end of the year. The new tool is called "Discover what type of investor you are" and is an engagement tool designed to attract potential customers to use the advisory services offered by the bank.

Within the **online trading** segment, the main focus of the development activities was in redesigning the financial reporting services and further developing the T3 trading platform, the market leader, in addition to opening up new markets and advanced financial instruments. Furthermore, the trading functions the Webank app for smartphones were enhanced.

The management of **online loans** continued via the direct channel and the main online brokers, making an important contribution also in terms of new customer acquisitions. The development activities focused on optimising the processes, with the introduction of all-digital management of the finalisation of applications and signing the loan agreement.

Mobile Banking

In 2016 Webank completed its mobile offering with the release of the new app for Windows Mobile.
It also made the Daily-Pay by Jiffy service available (a service provided by Sia for person to person payments). This service permits customers to transfer small sums of money and real time with a simple tap.
New features were introduced for customers with Apple, Samsung and Android smartwatches. With these new features, Banca Popolare di Milano is the first bank on the Italian market to release this type of function. New security standards based on biometrics have been introduced so that customers can now authorise transactions on their device through their fingerprint (TouchID).
Customer accounts increased by 18% and customer devices increased by 27% compared with 2015.
Once again, we received a number of recognitions and awards in 2016, such as the special mention for the "ABI award for innovation in financial services" confirm the ongoing commitment to researching into new and innovative ways to interact with customers.

Banca Popolare di Milano Internet Banking

Almost 60% of BPM customers use the internet banking channel to monitor their situation and to make payments. In 2016, the number of customers with access to the web channel and with devices increased by 4.5% over last year. Operations via the internet banking channel increased by 7.8% in 2016.

Important innovations for Mobile apps for Banca Popolare di Milano were added in 2016. The new version of the app was released for iOS and Android platforms based on the experience of Webank, as was the version for Windows Mobile to complete our mobile offerings. The new app has enhanced user experience and reinvigorated interactions between the bank and customer.
Moreover, Banca Popolare di Milano now offers its customers an authentication and payment approval system using biometric technology (TouchID).
The numbers confirm that the internet banking service is largely appreciated by our customers: mobile banking users increased by 28% compared to 2015 and the number of customer devices grew by 44%. In addition to the quick features in the pre-login area (e.g. topping-up mobile phones and prepaid cards), the new app is also available for Apple, Samsung and Android smartwatches.

Financial advisors

We have completed the development of the new service model and infrastructure for financial advisors who provide off-site services. This platform provides advisors with the utmost flexibility, security, mobility, and visibility in all operations with customers, as well as giving them the ability to accept digital signatures and to operate in a paperless environment. All efforts focused on integration with the other channels and on remaining consistent with other models of operations in order to enable the development of new processes designed to enhance the overall multi-channel experience.

Customer Center

During 2016 technological overhaul of the customer center was completed through the activation of the email and chat channel along with tickets management. We have reached our goal to be able to manage all of the integrated channels on a single platform.
Customer response times via our telephone channel have improved. The percentage of calls answered within 20 seconds increased from 60% (in 2015) to 63%, in line with the Italian Banking Association (ABI) benchmark (ABI – 12th Report on Bank Contact Centers – July 2016).
Significant developments have been made in reactive inbound activities due to the broadening of our offering on the channel (including Webank credit cards, license plates database and policy expiration date, personal loans, Telepass, Extra Money, MasterCard Business Prepaid card for companies) and a greater focus on commercial aspects. The commercial offering indicator has more than doubled compared to the previous period.
Outbound sales efforts in 2016 grew 28% compared to 2015, with around 200,000 contacts handled, especially in the retail SME segment.
As regards the retail market for individuals, the activities of the Customer Center helped to support the business objectives of the network, in particular for insurance products (the renewal of expiring car insurance policies, new car insurance policies, non-life insurance policies) and for loans (loans renewal, new personal loans, mortgages).

Corporate Banking

During 2016, Italy's corporate banking market was highly competitive and complex, marked by the continuation of some events already observed in 2015:

- low levels of inflation;
- strong emphasis of primary credit institutions on growth in lending to customers with high credit standing and on all durations (short and medium term);
- widespread availability of liquidity in the system, further supported by ECB intervention in March 2016.

The Corporate segment continued pursuing a strategy of growth in lending, also through accurately monitoring existing and potential customers. The segment's commercial policy was based on:

- the launch of centrally managed campaigns based on the lending policies and financing needs of the various counterparties (in terms of amounts and types of financing), on the basis of the credit policy guidelines;
- concession of special pricing conditions in support of lending policies;
- a strong emphasis on international business through the launch of new products and the development of commercial agreements in non-EU countries.

Relying on the capabilities of both the central units and the various specialists throughout our territory, the Corporate segment continued assisting clients with their financial needs; in particular, they provided a strong boost to:

- hedging activities;
- structured finance operations, the latter characterised by the search for synergies with the product divisions.

The introduction of new professional figures, which took place in 2015, pertained mostly to the Structured Finance team. The new hires have contributed to strengthening the specialist skills of our staff by business line and by region, thereby increasing our capacity to cover the territory, seize opportunities and assist the commercial network in structuring complex financing operations.

2. Financial activities

Treasury & Investment Banking

The Group's liquidity position remained strong throughout 2016, with a liquidity coverage ratio (LCR) well above the objectives of the Group's Risk Appetite Framework at the end of the December.
With regard to BPM, a 7-year covered bond in the amount of 750 million euro was placed in June, making this the third public issue under the new guaranteed bank bond programme, which began in September 2015. A 1 billion euro EMTN loan and a 1 billion euro covered bond fell due in 2016.

Given the ample liquidity and the favourable conditions of the new monetary policy measures (TLTRO II) implemented by the European Central Bank, the Parent Company has repaid the TLTRO financing received from the 2014 and 2015 auctions for a total of 3.4 billion euro and, at the same time, submitted a request for 6.3 billion euro under the TLTRO II in 2016. This will result in a reduction in interest expense while enabling us to extend the duration of the ECB refinancing operation from 2018 to 2020.

The portfolio of government securities at the end of the year amounted to around 8.5 billion euro, slightly up on the levels recorded at the end of 2015; the financial assets, mainly comprised of Italian government securities, ensured an excellent contribution in financial terms, accompanied by a marginal increase in the average duration of the portfolio.
The uncertain situation on the bond and equity markets linked to global geopolitical risks generated, in the second half of the year, fluctuations in the positive reserves of AFS government bonds, while the management policies based on operations to mitigate the risks on own bonds, made it possible to maintain a good interest margin and to generate an excellent result in the income statement.

Regarding **Banca Akros**, in a market environment characterised by marked tensions and periods of high volatility, also reflected in a marked decline in volumes traded on the main markets, the development of operations and careful risk management has made it possible to achieve positive results in terms of profitability, even if down on last year, as well as high levels of capitalisation and liquidity. During the year, efforts were made to expand the customer base, also by progressively internationalising our commercial efforts, and by offering products and services with innovative features. The following are of particular note in this regard:

- in the area of market making and trading, the positive contribution of over-the-counter trading of bonds and government securities with roughly 25 billion euro in securities traded; also of note was our involvement as co-dealer and market maker in the placement on Italy's MOT market of the ninth issue of Italian government bonds with a maturity of 2024;
- development of operations in equity-based derivative instruments and in hedging instruments and other risk management for customers, also as part of the coverage activities carried out jointly with the Parent Company in the Corporate segment, resulting in significant notional volumes traded in instruments to hedge interest rate risk and exchange rate risk; operations in commodities also continued to perform well;
- in the business of dealing on behalf of third parties, an area in which the Bank has achieved leading positions on the bond and stock markets due, in part, to the contribution of SABE, our dynamic, automated system of best execution; the bank ranked 2nd among intermediaries acting on behalf of third parties on the Italian bond market, 4th in Borsa Italiana's Screen-based Equities Market, 3rd position on the ETF Plus market and 1st position on the SeDeX market and in options on the FTSE MIB Index (Source: Assosim). Customers are offered brokerage services on stock markets also through ESN – European Securities Network LLP, the European partnership in equities research and trading set up by Banca Akros with seven other investment banks which are independent and active on their respective national stock markets;
- in the field of Equity Capital Market, the participation in the placement of the AIM Italia market of a Special Purpose Acquisition Company (SPAC) Innova Italy 1, successfully concluded in October and in the listing of ENAV on the MTA market. Banca Akros also assisted GPI in the listing on the AIM Italia market, and Europa Investimenti Special Situations in the acquisition of a controlling stake in Mediacontech, which is listed on the MTA; it also took part in the increase of capital and acted as Coordinator in the takeover bid launched for Gruppo Green Power;
- in the Debt Capital Market, the bank participated as Joint Lead Manager and Bookrunner in the placement of a bond issued by Onorato Armatori with institutional investors and as Co-manager in the placement of a bond issued by Salini Impregilo. Banca Akros was involved in over twenty issues of leading international issuers, including the European Investment Bank and KFW, a German company; the bank also participated in the placement of two issues of the World Bank to retail investors;
- in Advisory activities, the launch of the "Multiseller NPL" programme, the first open multioriginator platform for the securitisation of non-performing loans, secured by mortgages, by Italian banks, as well as in Credit Advisory, the conclusion of an agreement with SACE, which involves collaboration in financing operations in support of the international growth of Italian excellence, especially in the agro food sector, in which the role of Banca Akros will be that of advisor, arranger and agent for the structuring of syndicated loans.

3. Risk management and the internal control system

Risk Management

2016 was characterized – in addition to the ordinary operations regarding, among other things, consolidation of the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), and the self-assessment of the system of managing operational risks – by completion of activities concerning the Internal Rating System within the AIRB project and by management of the ECB stress tests. During the second half of the year, the function was actively engaged in the integration workstreams with the Banco Popolare, to ensure that on 1 January 2017, the date on which the merger of the two banks took effect, it is fully operational and able to fulfil the regulatory obligations of the new Group.

The following activities were of particular note, presented by type of risk:

Credit Risk

During 2016, we completed the revision of the Internal Rating System required by the *AIRB* project and were then able to put the related models into production.
Work began, in a laboratory environment, on applying the Banco Popolare rating in order to assess the resilience of the BPM portfolio and to define the recalibration of the models on a combined basis. The initial focus of this work was on the Corporate PD models (large companies, SMEs and Small Businesses) and then the LGD (performing and defaulted assets), EAD and individuals PD models. In parallel, the Credit Risk function provided for structuring the monitoring activities of the credit risk mitigation tools for backing the loan portfolio inside the group by developing a dedicated report.
Lastly, we completed the revision and optimisation of the pricing tool used to calculate the indifference spread regarding loans. The Validation and IT unit as well as the Credit Risk function contributed to this activity, which concluded with the publication of the new version of the pricing tool after being approved by the internal committees.

Market Risk

In 2016, we published the Group Regulations and the Regulation of Powers concerning BPM's own portfolio.
Furthermore, we published the internal rules on the hedge accounting process and created a unified database for pricing financial instruments. Lastly, we tackled the critical compliance issues regarding the EMIR process.
Together with the Validation function, the calculation of daily VaR was implemented for the entire BPM banking book, with a focus on the bond option positions. For the latter, the Greeks (Delta, Vega, and Gamma among others) were calculated and monitored on a daily basis; the proposed thresholds for daily monitoring were submitted to the Finance Committee and subsequently approved.
We also conducted the following activities:

- the creation of an in-house tool in Java for daily monitoring and reporting which calculates:
  - Profit&Loss of the banking book and financial portfolio;
  - Use of the RAF limit and of the other indicators set out in the portfolio regulation;
  - Sensitivity and P&L on the Bond Option portfolio, using the Numerix application;
- preparation of market and counterparty risk templates as required by EBA stress testing;
- preparation of quarterly information in order to complete the short-term exercises;
- participation in the additional QIS in order to calculate the capital requirements for counterparty risk based on upcoming SA-CCR regulations;
- completion of the project to integrate the libraries of the Numerix software with the position keeping system of Banca Kondor+, in order to automate the CVA and DVA calculation relating to the mark-to-marketing of derivatives.

Liquidity Risk

During 2016, we continued monitoring and reporting the measurement of interest rate and liquidity risk and verifying their consistency with the RAF and the system of thresholds, and providing appropriate information to the relevant corporate bodies and functions.

We also conducted the following activities:

- updating the system for calculating supervisory reports in relation to liquidity risk, ensuring that the LCR indicator is calculated according to Commission Delegated Regulation (EU) 2015/61 (the " Delegated Act") and reporting on the additional monitoring metrics (the "ALMM") provided for under article 415(3)(b) of Regulation (EU) 575/2013 (the "CRR");

- documenting the identification, measurement, management and monitoring process for liquidity risk as part of the ILAAP (*Internal Liquidity Adequacy Assessment Process*) report;
- updating the internal regulations (policies and procedures) on liquidity risk management and the unit completed its contribution for preparing the interest rate risk management regulations;
- updating the software used to calculate interest rate risk, to enable greater automation in the preparation process for risk metrics and the removal of the non-negative restriction on rates;
- the definition and implementation of a daily forward looking model of operating liquidity indicators;
- as part of ECB stress tests, analysis and calculations of the stress test analysis on net interest income for the year promoted by ECB;
- improvements and refinements were made to the reports generated on liquidity risk and interest rate risk.

Operational Risk

In 2016, in addition to the normal calculation of separate and consolidated capital absorption of operational risk based on the standardized approach (TSA), we also conducted supervisory reports using TSA at a consolidated and separate level for the companies that use the TSA (Banca Popolare di Milano, Banca Popolare di Mantova and ProFamily).
We also completed the activities related to the self-assessment of the operation risk management model of the Banca Popolare di Milano Group for the period from 1 January to 31 December 2015.
We also started and completed the following activities:

- self-assessment of reputation risk;
- self-assessment of operational risk;
- self-assessment of the operational risk management model of the Banca Popolare di Milano Group for the period from 1 January to 31 October 2016.

Finally, with regard to the strategic management of insurance coverage aimed at transferring operational risk onto specialized insurance markets, during the year we obtained a cybercrime policy, renewed the Directors and Officers (D&O) Liability policy and, in view of the merger between the Banco Popolare Group and the Banca Popolare di Milano Group we took out a run off policy on *Director's & Officer's Liability* (D&O). We continued working on the methods for transferring the risk related to the Group's property leases.
Lastly, we also conducted the following activities:

- preparation of operating risk templates as required by EBA stress testing;
- preparation of information in order to complete the short-term exercises;
- participation in the QIS for the parts relating to operational risk.

Auditing and Compliance

Auditing

During 2016, the Audit Function supervised the system of controls using an approach based on risks and processes, in line with current supervisory instructions and aligned with industry best practices.

The following activities were completed:

- 168 compliance audits of processes (including subsidiaries);
- 28 audits on the project for the validation of the model (AIRB project);
- 46 specific checks.

With regard to the auditing of BPM's Commercial Network, Banca Popolare di Mantova and ProFamily, a total of 287 audits were carried out during the period.

Compliance

In 2016 we completed all of the activities under the mandate received from the Management Board related to "enhancing the compliance model": Specialist controls relating to the regulatory areas "Anti-Money Laundering and Anti-Terrorism", "Taxes and FATCA", "Privacy", "Financial disclosures" and "Occupational safety" were established and carried out as part of the compliance specialist's duties.

In line with the aforementioned mandate, during the period under review we relied on a co-sourcer to conduct the highly technical verifications and to enhance the productive capacity of Compliance.
Throughout the entire year intensive efforts were made to prevent risks of non-compliance, with both the issuance of compliance opinions based on the needs of the various structures of the bank, providing support to the groups working on the innovative projects and opinions on products and the activities dealt with in the commercial committee.
All of the assessments provided for in the 2016 plan were completed; additional actions were required and were performed further to the plan.

Compliance and regulatory work also continued during the period in relation of all of the various units of the Bank, from the central offices to the broader network, with the goal of further promoting risk awareness, and we've begun a new project with the goal of providing information on European legislation that is being studied and is likely to be introduced in the future.

4. Organization and Information Technology

Organization

2016-2019 Strategic Plan for Banco BPM

Following the approval of the Banco BPM Strategic Plan guidelines, work began in several project areas and included:

- revising the distribution model and finalising the service model for all customer segments;
- creating a new dedicated NPL management unit;
- establishing the new Group Wealth Management service;
- defining the strategy and operating model of the new Group Corporate & Investment Banking;
- optimising administrative expenses, developing Data Governance activities and the migration to the *Target* information system.

Structural Developments

The main changes to the corporate structure during 2016 concerned the creation of:

- a dedicated unit to ensure timely changes in credit rating, to ensure observance of established lending policies, and to properly apply the rating system, with the aim of making the credit quality process more efficient;
- a new unit ("Real estate Loan Portfolio Management") responsible for overseeing decision-making, the assessment of this portfolio, and activities related to land and building appraisal, in order to manage the real-estate loan portfolio more efficiently and more effectively.

Several changes were also made to the corporate structure of the Market Function; it was redefined in order to create a single unit in charge of the processes related to developing and offering Bank products and services. The operation was achieved by:

- enhancing, as far as possible, the offer on the on-line channel;
- making the supervision and monitoring of the authorised network of off-site financial advisors more efficient, by placing them under the function in charge of the Private Network and which already provides support and financial advisory services to all Group networks.

Lastly, we initiated an organizational analysis of the entire Group to support the merger into Banco Popolare.

Information Technology

During 2016, work in the area of information technology focused primarily on the integration of the Banca Popolare di Mantova and the activities marked with the title "Obligatory Adjustments – DAY 1" related to the merger with Banco Popolare, both scheduled to happen at the beginning of 2017.

With regard to commercial efficacy, the main projects concerned the following:

- **Multichannel 2.0 – "Webank" Direct Channels,** including**:**
  - replacement of the financial reporting services provider for the trading area with the integration of the global leader in market data distribution (Interactive Data) in Webank trading platforms with considerable improvements in performance and data quality;
  - enhancement and review of the derivatives trading offer;
  - expansion of the asset management services offered, with the introduction of the new "PAC Simulator" (to analyse the trend in investments made in SICAV products);
  - enrichment of the services offered, with the possibility to open accounts using a paperless process (recognition via webcam);
  - release of new BPM apps and features for smartphones, tablets and *BpmBanking* to enhance the usability.
- **Multichannel 2.0** – Indirect Channels by extending the sales processes for consumer credit (Profamily) and asset management products to all networks; repricing of credit and management of compound interest and strong authentication;
- **development of CRM** – with the introduction of a multichannel sales and marketing dashboard; multi-channel and multi-step campaign reports; optimisation of the contact form and behavioural models through the use of *Big Data*; the creation of customer journey maps and the acquisition of new information on the customer from web observation and web analytics;
- **contact center** – with the new homepage launched which contains email, chat, multistep campaigns integrated with the other bank channels and reporting and monitoring tools, to gain an overview of the activities and performance of the various channels;
- **pricing and transparency** – with the "price lab" project and the "transparency of banking services" project to meet the guidelines of the Bank of Italy.

With regard to regulatory compliance of the bank's operations, the following activities were conducted in 2016:

- continuation of the emir clearing obligation project on OTC derivatives and the 2016 anti-money laundering project to activate the blocking of cards and securities deposits and the monitoring of certain categories of customers;
- completion of the "CRS- Common Reporting Standard" project;
- upgrade of the IFRS 9 software for reporting non performing loans to the Supervisory Authorities and the transfer of bad loans to Abaco; the reporting of salary assignments to the Central Risk file, the contribution to single customer view and for the adjustment of the reporting bases for reporting financial information (Finrep).

Several projects were implemented to increase the efficiency, solidity and resilience of the bank such as the WorkPlace Strategy project for the renovation of building A3 at the Bezzi site; the development of the dematerialization platform for F23/F24, postal payments, etc.; the implementation of the AIRB approach as required by the control functions; the "New Electronic Loan Dossier" project

Lastly, 2016 saw the continuation of the "strong authentication for individuals and companies" and the "identity and access management 2016" projects, aimed at increasing data security, along with the conclusion of the SRMES project for the migration of historical data relating to the *Fondo Unico Giustizia* (Single Justice Fund) and the Sphera project for the migration of historical data of operating losses.

The distribution network and human resources

The distribution network

As at 31 December 2016, Bipiemme Group's distribution network totalled 717 points of sale and comprised:

- 652 retail branches, including 105 hubs and 3 virtual branches;
- 9 Corporate Centres;
- 14 Private Banking Centres (of which 12 pertain to Banca Popolare di Milano and 2 to Banca Akros);
- 42 ProFamily branches.

Compared with 31 December 2015, the distribution network increased by 12 points of sale. Specifically, the Profamily points of sale increased by 15 units, while the number or retail branches decreased by three units with the closing of two branches at Bayer and Rho Fiera and one of the Banca Popolare di Mantova. Compared with 30 September 2016, the distribution network decreased by one branch (Banca Popolare di Mantova) and increased by one branch (Profamily).

Distribution network	31.12.2016	30.09.2016	31.12.2015	Change	Change
	A	B	C	A – B	A – C
Total branches	652	653	655	–1	–3
Corporate Banking Centres[1]	9	9	9	0	0
Private Banking Centres[2]	14	14	14	0	0
Financial shops and direct branches[3]	42	41	27	1	15
Total distribution network	**717**	**717**	**705**	**0**	**12**

(1) The Corporate Centers handle the following customers: Large Corporate (turnover in excess of 250 million euro), Upper Corporate (turnover between 50 and 250 million euro), and Middle Corporate (turnover between 15 and 50 million euro).

(2) The 14 Private Banking Centers, 12 belonging to Banca Popolare di Milano and 2 to Banca Akros, provide customised advisory services on financial matters.

(3) The Financial shops and direct branches provide financial advice and loans to households.

Branches of Group Banks	31.12.2016		30.09.2016	31.12.2015	Change	
	A	%	B	C	A – B	A – C
Banca Popolare di Milano	635	97.4%	635	637	0	–2
Banca Popolare di Mantova	16	2.5%	17	17	–1	–1
Banca Akros	1	0.2%	1	1	0	0
Total branches	**652**	**100%**	**653**	**655**	**–1**	**–3**

Geographical distribution of branches	31.12.2016		30.09.2016	31.12.2015	Change	
	A	%	B	C	A – B	A – C
Lombardia	407	62.4%	408	410	–1	–3
Piemonte	87	13.3%	87	87	0	0
Lazio	65	10.0%	65	65	0	0
Puglia	36	5.5%	36	36	0	0
Emilia Romagna	28	4.3%	28	28	0	0
Other regions[1]	29	4.4%	29	29	0	0
Total branches	**652**	**100%**	**653**	**655**	**–1**	**–3**

(1) other regions comprise the following branches: 11 (Liguria), 7 (Veneto), 5 (Toscana), 2 (Campania), 1 (Marche), 1 (Molise), 1 (Abruzzo) and 1 (F.V.Giulia)

Other distribution channels

The distribution network, with its strong local roots, is being increasingly enhanced with the services offered by remote channels such as internet banking, the call centre and a network of financial advisors.

The upward trend in internet banking, in terms of distribution and utilisation of services by customers, has continued. As at 31 December 2016, the Bipiemme Group had 785,389 customers using internet banking services, of which 673,796 were individual customers and 111,593 companies. The number of Group customers that use the online channel rose by 5.1% on December 2015, reflecting an increase of about 36 thousand individual customers and 2 thousand companies compared with the same period of the previous year. Overall, about 26 million e-banking and e-trading instructions were transmitted through the Group's on-line channel in 2016.

Lastly, the call center service offered by the Group's commercial banks had roughly 639 thousand customers as at 31 December 2016 compared with 596 thousand at the end of December 2015 (+7.1%).

As regards the network of financial advisors, its main task being to place asset management and asset administration products, there were 59 sole agents (44 of whom report to BPM and 15 to Banca Akros) as at 31 December 2016, up by 7 compared with the end of December 2015 (52 units). This network operates alongside our team of in-house financial advisors, which consists of 219 people (13 more than at December 2015).

Personnel

Group personnel, including employees, project workers and staff on other types of contracts, amounted to 7,673 units at 31 December 2016, down 70 units from the December 2015 figure and 27 units from September 2016. Within this aggregate, people employed in commercial network functions represent 66.8% of the total. Of the total number of employees, 14.8% have a part-time contract.

Personnel (number at year end)	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
a) managers	147	146	146	1	0.7	1	0.7
b) total officials	2,814	2,783	2,798	31	1.1	16	0.6
– of which: 3rd and 4th level	*1,467*	*1,456*	*1,461*	*11*	*0.8*	*6*	*0.4*
c) other employees	4,712	4,766	4,792	(54)	–1.1	(80)	–1.7
Total employees	**7,673**	**7,695**	**7,736**	**(22)**	**–0.3**	**(63)**	**–0.8**
Staff with project-related and other types of contract	0	5	7	(5)	–100.0	(7)	–100.0
Total personnel	**7,673**	**7,700**	**7,743**	**(27)**	**–0.4**	**(70)**	**–0.9**

Number of employees by company	31.12.2016 A	30.09.2016 B	31.12.2015 C	change A–B	change A–C
Banca Popolare di Milano	7,213	7,230	7,264	(17)	(51)
Banca Popolare di Mantova	69	69	69	0	0
Banca Akros	253	256	258	(3)	(5)
ProFamily	87	88	93	(1)	(6)
Ge.Se.So	51	52	52	(1)	(1)
Total employees	**7,673**	**7,695**	**7,736**	**(22)**	**(63)**
Contract staff	0	5	7	(5)	(7)
Total personnel	**7,673**	**7,700**	**7,743**	**(27)**	**(70)**
of which head office personnel	**2,545**	**2,554**	**2,545**	**(9)**	**0**
of which total network personnel	**5,128**	**5,146**	**5,198**	**(18)**	**(70)**

Human Resources

The management and development activities carried out in 2016 were focused on improving typical position-specific skills as well as the management of part-time contracts also with regard to the application of the second-level collective bargaining agreement.

As regards the Network, we concluded the skills assessment, through individual meetings, for the *Personal* Managers currently receiving training to help them pass the exam to become financial promoters. About 600 people took part in this activity. Furthermore, a new model was implemented at the Network for the allocation of Premium customer portfolios to *Personal* Managers.

Remuneration policies

In 2016, the Human Resources function coordinated the Group's remuneration policies (Policy), in compliance with applicable regulations laid down by the supervisory authorities in Italy and Europe, as approved by the Bank's corporate bodies.

As part of the implementation of the remuneration policies, particular emphasis was placed on the following initiatives:

- the incentive scheme, which is designed for the further involvement of and profit-sharing by employees on having achieved or company and Group targets, drawn up bearing in mind the characteristics and peculiarities of each Group company as well as overall consistency at Group level in terms of rules and methods for its application;
- the reward scheme, which forms part of the overall rewards policy for personnel, designed to establish a consistent relationship between responsibility, professionalism, commitment and level of pay. Adjustments to remuneration in particular have enhanced consolidation in the organisational role/job, positively verified in a reasonable period of time in the position and/or increased responsibilities objectively demonstrated and/or the consolidation of professional skills (knowledge and capabilities) applied to the role and/or the specific nature of the role.

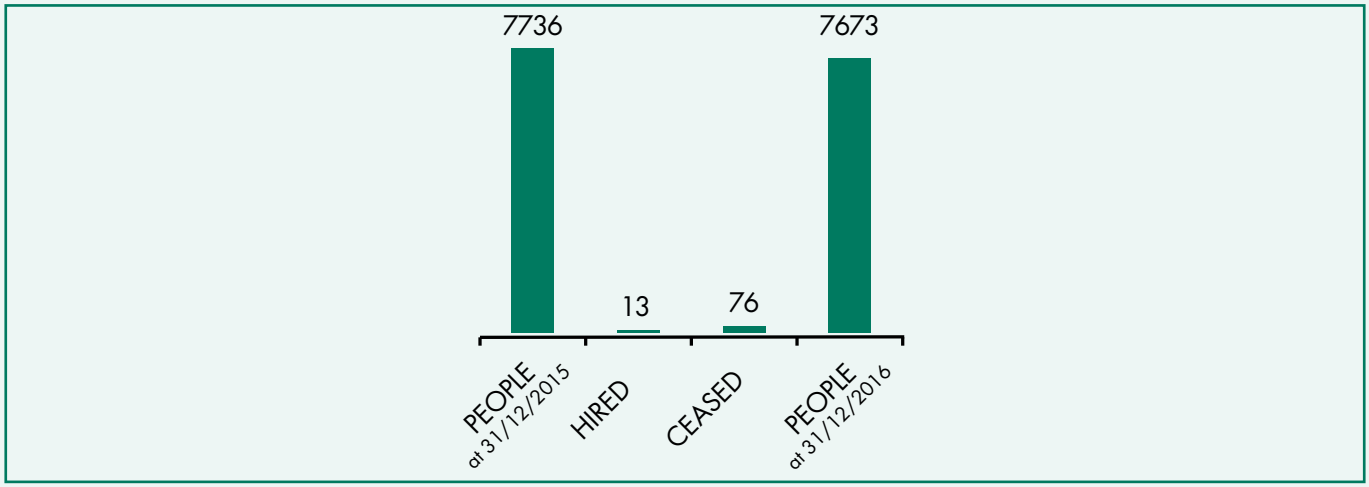
The two systems represent a management tool used by the company to recognise the importance of staff contribution and show appreciation for individual merit.

Personnel management

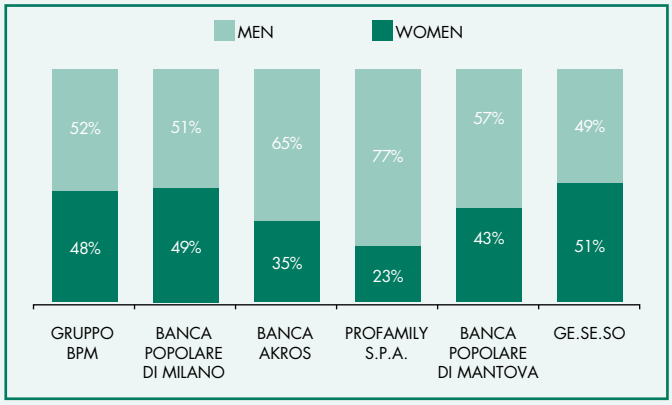
Management pursued the objectives of harnessing human resources throughout the year to ensure professional development and growth, allocating the resources carefully to combine personal and company interests and in compliance with the objectives set out in the plan and the sizing and cost parameters.

During 2016, 13 persons were hired at Group level and 76 employees left the Group. The average age of the Group's workforce was **45 years** of age.

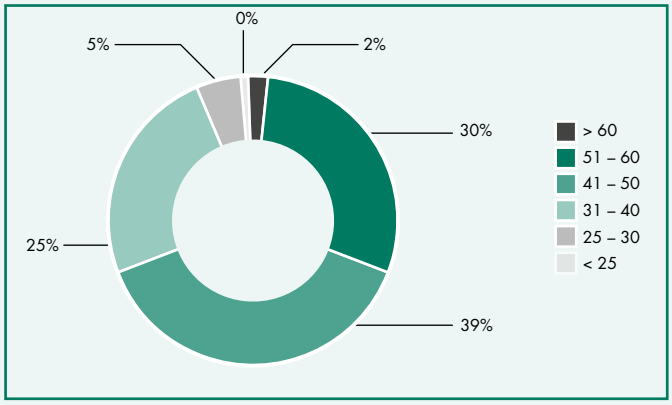
Bipiemme Group – Employees in force at 31.12.2016



Breakdown of employees by gender



Breakdown of employees by age



Training and Development

Development

In line with previous years, during 2016 the structure oversaw the drivers of development to support people in their careers and to make better use of the professional skills available.

The **performance assessment process** was revised so that it can be better shared between those involved in the assessment criteria and the subsequent return of feedback. In December, we started the assessment for 2016. About 7,200 people at Group level were involved in the process.

We started revising the **skills model** to make it more dynamic and in keeping with the flexibility required by the current situation. The principles that guide this process are: simplification, individual accessibility, increased individual responsibility in professional growth processes. The first step was to update the skill profiles of the commercial roles of the retail network.

We completed the **mapping** of the central functions **activities**. On the basis of the interviews conducted with about 150 function heads we were able to update the wealth of company information through in-depth surveys of employee activities in terms of both distribution and the amount of time spent by each individual.

Internship efforts in 2016 involved the selection of interns for positions within the structures of the head office and the commercial network. There were a total of 15 internships provided.

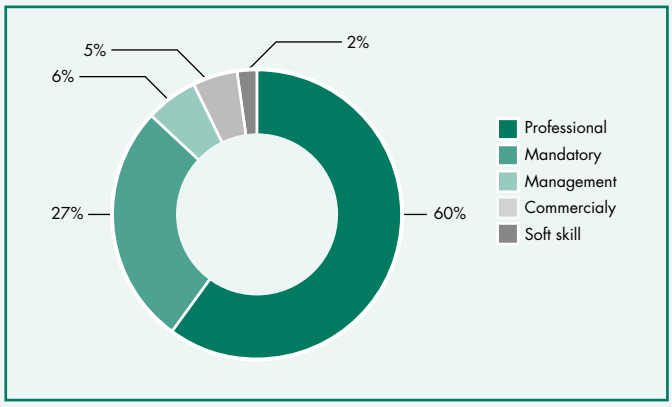
Our close relationships with universities and other training organizations have continued. Dedicated training programmes have been implemented, in collaboration with universities and student associations, for students eager to step foot into employment.

Training

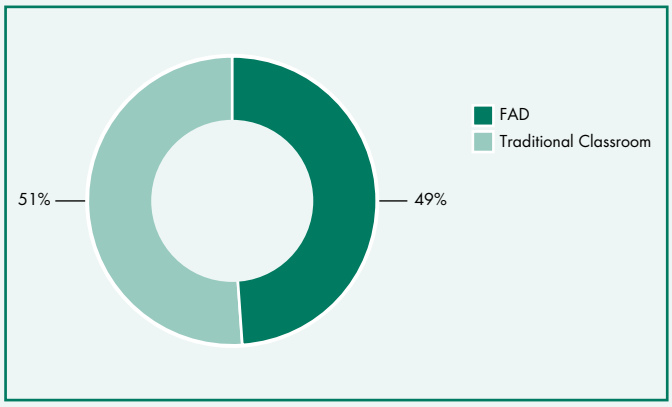
A total of 44,415 days of training were provided throughout the Bipiemme Group during 2016. Of this training, some 98% was dedicated to the Parent Company.

The breakdown by training area shows the main issues covered: 66% was dedicated to training for the development of professional and commercial roles; 7% for management training and the development of soft skills; and 27% was dedicated to other mandatory training, provided both in classrooms and via distance-learning methods.

Breakdown by training area



Breakdown by training method



The 2016 training plan, which was part of a major transformation in the banking sector, concerned:

- **the management, development and updating of skills** with ongoing training provided to foster careers paths and gradual development in the roles;
- **the dissemination of a culture of professional counselling** with specific training projects for Personal, Private Managers and Financial Advisors;
- **the development of lending and credit quality** with a focus on monitoring and containing credit risk and the related financial impacts with specialist training projects for the Small Businesses, Corporate and Loans segment.

- **the management of risks and a more conscious approach to controls,** implementing specific training projects for all professional roles, using different training methods and content based on the risk profile;
- **a managerial approach open to continuous change** which promotes in positions with responsibility the ability to understand, face and handle change with a specific training project for all managers of the commercial network and central structures;
- **the appreciation of diversity and inclusiveness** which promotes diversity as a value for the company and for the business and enhances the corporate image and a positive reputation. Dedicated training projects for Junior Talent Management, Age Management, Parenting, Gender Diversity and Global inclusion;
- **the development and dissemination of the coaching culture and leveraging coaching** as a useful element for the creation of corporate value which facilitates accountability and focus on the objectives;
- **the development of the Bank's expertise and knowledge** to capitalise on existing intellectual property in the company and share it through in-house instructors and content experts ;
- **the development of a digital approach** to ensure the rapid response necessary to survive in the market. Training projects designed for the professional figures in central functions as promoters of the digital culture and to senior positions;
- **mandatory and qualification training** to support the prevention of risks, to protect individuals and the company. Specific training on money laundering was provided to all roles in the company, with different training approaches and content.

Industrial relations

The first part of 2016 was marked by intensive discussions with the trade unions for signing the Banca Popolare di Milano Group's second-level labour agreement. Subsequently, specific agreements were made, within the framework of the second-level labour agreement, to enhance welfare, with particular regard to the supplementary pension fund. We provided for the prompt application of these agreements by implementing all of the legislative and procedural changes necessary.

Agreement was also reached on the FBA training fund for the banking and insurance industries, which comprises 6 projects designed to confirm the central nature of training as a tool for the enhancement, requalification and acquisition of skills needed to support the professional development of human resources, and to ensure the valorisation of diversity and talents and parenting.

Work also started on a contractual discussion of the performance assessment procedure and system of incentives with a view, as was already the case last year, to reward the skills, level of responsibility and merit of employees, in line with remuneration policies and the legislative changes made by the European Supervisory Authority.
The second part of 2016 was, instead, characterised by discussions with trade unions in preparation of the merger with the Banco Popolare Group.
In this regard, against 1,800 redundancies between the two banks, the Bipiemme Group reached an agreement in September to provide access to on a voluntary basis to the Solidarity Fund for 585 employees.

On 19 October 2016, the negotiation process was formally initiated with the trade unions which resulted, on 23 December 2016, in the signing of several agreements in order to regulate:

- the conditions for transferring the legal ownership of employment contracts to the new bank, with explanation on the safeguards for personnel of the former Banca Popolare di Mantova and consortia;
- access, on a voluntary basis, to the Solidarity Fund for up to a maximum number of 2,100 voluntary leavers from the two Groups;
- a participatory and informed industrial relations model designed to accompany the delicate implementation stages of the Strategic Plan.

As of 31 December 2016, there were a total of 18 legal disputes with employees or former employees at Group level, compared with 14 pending legal disputes in December 2015.

Employee Wellbeing

In July 2016, in compliance with the agreements signed, the "Company Social Bonus" was implemented, which is characterised by the important added feature concerning opportunity for colleagues to choose, also in the light of significant changes made to the relevant framework by the legislator; this has enabled colleagues to take advantage, in addition to the already established services, of further opportunities such as support in caring for elderly or dependent family members and the possibility to take advantage of interesting initiatives to make the most of their free time.

Furthermore, we promoted initiatives aimed at providing more visibility to the corporate child care centre "Il Giardino di Bez" through notice boards and window decals as well as through the creation of a website which is about to be released.

We continued organising conferences held by LILT (Italian League for the Fight against Cancer) intended for personnel on issues related to prevention, also by organising check-ups at the company infirmaries. In November, we also launched as series of conferences on parenting, the documentation of which was made available to all employees on the corporate portal in the online library of the *welfare* space similar to that already used for LILT conferences.

Corporate volunteering initiatives continued in 2016 with a number of days and activities dedicated to the project. Lastly, we supported the third edition of "Agile Working Day", an initiative of the City of Milan which allowed employees to work remotely or to work from offices that are easier to reach than the usual workplace.

Personnel administration

2016 saw the expansion in the scope of commissioning operations of the Financial Advisors network in addition to the consolidation of the application called "HR for Me" in BMP Group companies and the activation of monitoring and management reporting functions.

In the second part of the year all the measures were prepared to ensure a good start to the merger between the Bipiemme Group and the Banco Popolare Group.

The Bipiemme Group's scope of consolidation

The following tables show the contribution made by each Bipiemme Group company to total consolidated assets and consolidated net income.

Contribution made by each Group company to consolidated total assets

(euro/000)

Company	% held(*)	Total assets	Eliminations and consolidation adjustments	Contribution to consolidated assets	% Contribution to consolidated assets
Parent Company:					
Banca Popolare di Milano		**48,286,592**	**(1,934,690)**	**46,351,902**	**90.65**
Companies consolidated line-by-line:		**13,891,987**	**(9,112,850)**	**4,779,137**	**9.35**
Banca Akros	100.00	3,124,365	(579,723)	2,544,642	4.98
ProFamily	100.00	1,132,909	(53,191)	1,079,718	2.11
Banca Popolare di Mantova	96.74	584,940	(345)	584,595	1.14
Bpm Covered Bond	80.00	4,001,888	(3,783,907)	217,981	0.43
Bpm Covered Bond 2	80.00	3,078,019	(2,917,571)	160,448	0.31
Bpm Securitisation 3	n.a.	953,632	(828,093)	125,539	0.25
ProFamily Securitisation	n.a.	724,617	(683,825)	40,792	0.08
Bpm Securitisation 2	n.a.	290,222	(265,115)	25,107	0.05
Ge.Se.So.	100.00	1,395	(1,080)	315	0.00
Total		**62,178,579**	**(11,047,540)**	**51,131,039**	**100.00**

(*) Calculated based on the equity ratios

Contribution made by the individual Group companies to consolidated net income

(euro/000)

Company	% held(*)	Net income (loss) as per financial statements	Net income (loss) pertaining to the Group	Consolidation adjustments	Contribution to consolidated net income (loss)	% Contribution to consolidated net income (loss)
Parent Company:						
Banca Popolare di Milano		**65,722**	**65,722**	**(10,632)**	**55,090**	**75.75%**
Companies consolidated line-by-line:		**20,551**	**20,475**	**(2,841)**	**17,634**	**24.25%**
ProFamily	100.00	12,272	12,272		12,272	16.87%
Banca Akros	100.00	6,047	6,047	(2,841)	3,206	4.41%
Banca Popolare di Mantova	96.74	2,337	2,261		2,261	3.11%
Ge.Se.So.	100.00	(105)	(105)		(105)	–0.14%
Total			**86,197**	**(13,473)**	**72,724**	**100%**

(*) Calculated based on the equity ratios

The table below shows a summary of the reconciliation process of shareholders' equity and the net income of the Parent Company and the consolidated net income as of 31 December 2016.

Reconciliation of the Parent Company and consolidated shareholders' equity	(euro/000)
Shareholders' equity of Banca Popolare di Milano	**4,186,735**
Effect of the consolidation of subsidiaries	112,334
Effect of applying the equity method for associates	90,224
Reversal of the writedowns/revaluations on investments	(12,272)
Other adjustments	(12,571)
Consolidated shareholders' equity of the Bipiemme Group	**4,364,450**

Reconciliation of the Parent Company and consolidated net income	(euro/000)
Net income (loss) of Banca Popolare di Milano	**65,722**
Net income (loss) pertaining to companies consolidated line-by-line	20,475
Net income (loss) pertaining to companies consolidated at equity	29,083
Effect of reversing intragroup dividends	(24,974)
Reversal of the writedowns/revaluations of consolidated investments made in BPM's separate financial statements	(12,272)
Other adjustments	(5,310)
Consolidated net income (loss) of the Bipiemme Group	**72,724**

Principal balance sheet aggregates

Banking intermediation for customers

As at 31 December 2016, **direct and indirect deposits** from customers of the Bipiemme Group came to 69,097 million euro, basically in line with 30 September 2016 (+0.1%) and down by 2,565 million euro compared to the end of December 2015 (–3.6%), due to a decrease in both direct deposits (–3.0%) and indirect deposits (–4.2%) penalised by the performance of assets under administration (–20.4%). Compared with 30 September 2016, direct deposits continued to be slightly down (–58 million euro), while indirect deposits picked up slightly (+109 million euro).

Total customer deposits

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Direct deposits	36,471,096	36,529,361	(58,265)	–0.2	37,601,769	(1,130,673)	–3.0
Indirect deposits	32,625,826	32,516,623	109,203	0.3	34,060,203	(1,434,377)	–4.2
of which							
Assets under management	*22,146,249*	*21,661,448*	*484,801*	*2.2*	*20,901,445*	*1,244,804*	*6.0*
Assets under administration	*10,479,577*	*10,855,175*	*(375,598)*	*–3.5*	*13,158,758*	*(2,679,181)*	*–20.4*
Total direct and indirect deposits	**69,096,922**	**69,045,984**	**50,938**	**0.1**	**71,661,972**	**(2,565,050)**	**–3.6**

Direct deposits

Direct deposits

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Due to customers	30,688,439	29,446,529	*1,241,910*	4.2	28,622,852	*2,065,587*	*7.2*
Securities issued	*5,687,758*	6,985,336	*(1,297,578)*	–18.6	8,849,290	*(3,161,532)*	*–35.7*
Financial liabilities designated at fair value through profit and loss	94,899	*97,496*	*(2,597)*	–2.7	*129,627*	*(34,728)*	–26.8
Total direct deposits	**36,471,096**	**36,529,361**	**(58,265)**	**–0.2**	**37,601,769**	**(1,130,673)**	**–3.0**

Raccolta diretta: composizione merceologica

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Current and savings accounts	26,912,015	26,430,456	*481,559*	1.8	24,333,403	*2,578,612*	10.6
Repurchase agreements	3,607,280	2,878,319	*728,961*	25.3	4,161,292	*(554,012)*	–13.3
Other types of loans	169,144	137,754	*31,390*	22.8	128,157	*40,987*	32.0
Due to customers	**30,688,439**	**29,446,529**	**1,241,910**	**4.2**	**28,622,852**	**2,065,587**	**7.2**
Bonds and structured securities	4,131,906	5,131,159	*(999,253)*	–19.5	6,053,696	*(1,921,790)*	–31.7
Subordinated liabilities	1,447,452	1,436,348	*11,104*	0.8	1,463,042	*(15,590)*	–1.1
Repos on own securities repurchased	1,754	301,754	*(300,000)*	–99.4	1,194,440	*(1,192,686)*	n.a.
Other types of loans	106,646	116,075	*(9,429)*	–8.1	138,112	*(31,466)*	–22.8
Securities issued	**5,687,758**	**6,985,336**	**(1,297,578)**	**–18.6**	**8,849,290**	**(3,161,532)**	**–35.7**
Financial liabilities designated a fair value through profit and loss	**94,899**	**97,496**	**(2,597)**	**–2.7**	**129,627**	**(34,728)**	**–26.8**
Total direct deposits	**36,471,096**	**36,529,361**	**(58,265)**	**–0.2**	**37,601,769**	**(1,130,673)**	**–3.0**

Total **direct deposits** - consisting of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss – came to 36,471 million euro at 31 December 2016, slightly down on the end of September 2016 (–58 million euro; –0.2%). Compared with the end of 2015, there was a decrease of 1,131 million euro (–3.0%). Comparing the aggregate figure to the end of 2015 figures, it can be seen that:

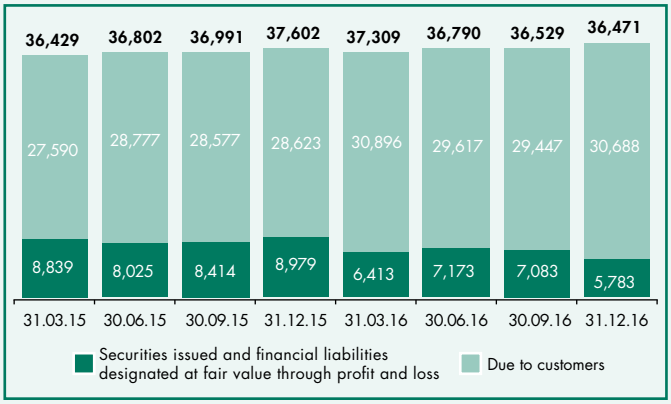
- amounts **due to customers** reached 30,688 million euro for an increase of 2,066 million euro (+7.2%) due to the significant increase in current accounts and savings accounts (+ 2,579 million euro; +10.6%). Within this aggregate, we would like to point out the performance in both current accounts (+2,535 million euro; +11.5%), growth that may be attributed to both corporate and retail accounts, and restricted accounts (+83 million euro; +3.3%). Repurchase agreements declined (–554 million euro; –13.3%) as a result of a decline in operations on the MTS Repo market due to a reduction in the demand for funding following the reduction of the securities portfolio;
- **securities issued,** in the amount of 5,688 million euro, recorded a decrease of 3,162 million euro compared with the end of 2015 (–35.7%). In particular, this aggregate reflects the contraction in repurchase agreements on securities (–1,193 million euro, from 1.2 billion euro to 2 million euro) following the expiration of the related operations, as well as the reduction in bonds and structured securities (–1,922 million euro; –31.7%) due to the combination of the following factors:
  - the redemption of an EMTN in the amount of roughly 1 billion euro at the end of January 2016;
  - the redemption of a covered bond in the amount of roughly 1 billion euro;
  - various decisions by holders of retail bonds (down about 740 million euro) who preferred to shift their investments towards asset management products in particular;
  - the issue of a covered bond in the amount of 750 million euro in June 2016;
- **financial liabilities designated at fair value through profit and loss**, represented by structured bonds placed with retail customers, amounted to 95 million euro and were down compared with the end of 2015 (-35 million euro; –26.8%).

The breakdown of trends in deposits by counterparty points to the solid performance of deposits by retail customers (both individuals and businesses) which, in 2016, increased by 1.8 billion euro (+6.7%) due, in large part, to the performance of current accounts. Conversely, deposits by institutional accounts fell by some 3.0 billion euro, mainly as a result of the significant contraction in funding by way of repurchase agreements (–1.7 billion euro from the start of the year), explained by the decline in demand following the reduction of the securities portfolio, and for a EMTN of about 1 billion euro which fell due at the end of January 2016.

The quarterly analysis shows a slight decrease in direct deposits compared with the previous quarter (–0.2%) due to the following changes:

- an increase in amounts due to customers (+1,242 million euro; +4.2%), attributable to the increase in the core component represented by current accounts and savings accounts (+482 million euro; +1.8%) and the increase in operations on the MTS Repo market for the quarter (+729 million euro; +25.3%);
- a decrease in securities issued and financial liabilities designated at fair value through profit and loss (–1,300 million euro; –18.4%) following the redemption of a covered bond during the quarter and to repurchasing agreements falling due.

Quarterly trend of direct deposits (euro/million)



Direct deposits by counterparty

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Unrestricted current and savings accounts	24,523,761	23,872,424	651,337	2.7	21,989,188	2,534,573	11.5
Restricted deposits and other term deposits	2,560,559	2,699,565	(139,006)	–5.1	2,478,005	82,554	3.3
Securities issued	1,766,754	1,843,459	(76,705)	–4.2	2,536,748	(769,994)	–30.4
of which subordinated	*712,010*	*709,831*	*2,179*	*0.3*	*715,389*	*(3,379)*	*–0.5*
of which CDs	*14,297*	*20,420*	*(6,123)*	*–30.0*	*63,352*	*(49,055)*	*–77.4*
Financial liabilities designated at fair value through profit and loss	94,899	97,496	(2,597)	–2.7	129,627	(34,728)	–26.8
Direct deposits from retail customers	**28,945,973**	**28,512,944**	**433,029**	**1.5**	**27,133,568**	**1,812,405**	**6.7**
Covered bonds and securitisations	2,667,183	3,615,594	(948,411)	–26.2	2,816,333	(149,150)	–5.3
EMTNs and other innovative instruments	1,252,067	1,224,529	27,538	2.2	2,301,769	(1,049,702)	–45.6
Repos entered into with Cassa Compensazione e Garanzia	3,604,119	2,874,540	729,579	25.4	4,155,659	(551,540)	–13.3
Repos on own securities repurchased	1,754	301,754	(300,000)	–99.4	1,194,440	(1,192,686)	–99.9
Direct deposits from institutional customers	**7,525,123**	**8,016,417**	**(491,294)**	**–6.1**	**10,468,201**	**(2,943,078)**	**–28.1**
Total direct deposits	**36,471,096**	**36,529,361**	**(58,265)**	**–0.2**	**37,601,769**	**(1,130,673)**	**–3.0**

The Group's market share of direct deposits (excluding repos with central counterparties) is 1.65% (updated to November 2016), slightly down from December 2015 (1.66%).

Indirect deposits and assets under management

At 31 December 2016, the volume of **indirect deposits from ordinary customers**, measured at market value, came to 32,626 million euro, slightly up compared on the end of September 2016 (+109 million euro; +0.3%) and slightly down from 31 December 2015 (–1,434 million euro; 4.2%).

Indirect deposits from ordinary customers at market value

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Funds	13,697,068	13,254,943	442,125	3.3	12,593,870	1,103,198	8.8
Individual portfolio management[1]	2,070,118	2,105,127	(35,009)	–1.7	2,291,262	(221,144)	–9.7
Insurance-sector reserves	6,379,063	6,301,378	77,685	1.2	6,016,313	362,750	6.0
Total assets under management	**22,146,249**	**21,661,448**	**484,801**	**2.2**	**20,901,445**	**1,244,804**	**6.0**
Assets under administration	**10,479,577**	**10,855,175**	**(375,598)**	**–3.5**	**13,158,758**	**(2,679,181)**	**–20.4**
Total indirect deposits from ordinary customers	**32,625,826**	**32,516,623**	**109,203**	**0.3**	**34,060,203**	**(1,434,377)**	**–4.2**

(1) includes: securities-based portfolio management schemes, fund-based portfolio management schemes and cash accounts

The decrease in the aggregate compared with the end of 2015 reflects the decline in **assets under administration** which decreased by 2,679 million euro (–20.4%) as a result of financial market conditions and the decrease in securities under administration for corporate accounts, which provides zero margins, in addition to the reallocation process by underwriters towards assets under management.

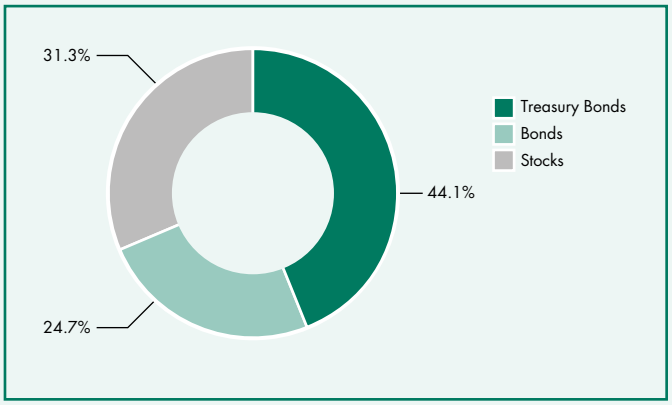
Assets under management (+1,245 million euro; +6% from the end of 2015) benefitted from positive net funding, although below the levels of funding posted for the same period of the previous year. Of particular note was the solid

performance of the funds segment (+1.103 million euro; +8.8%) and insurance reserves (+363 million euro; + 6%). Individual portfolio management, on the other hand, declined by 221 million euro (–9.7%). Net funding was positive in 2016 for a total of 1,055 million euro, including 758 million euro relating to mutual funds and individual portfolio management and 297 million euro relating to insurance products.

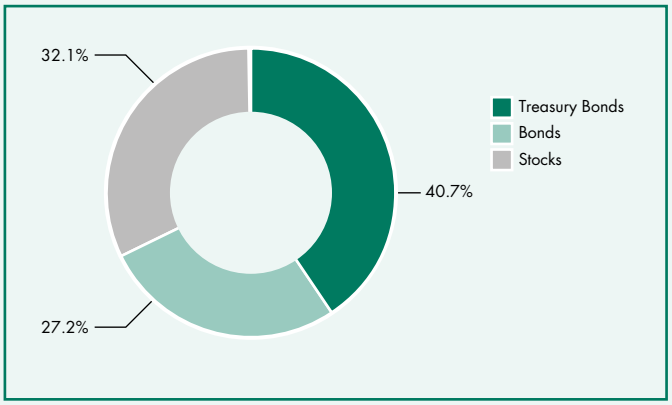
The market share of the Group's funds was 1.52%, essentially unchanged from the 1.49% recorded in December 2015, while new insurance premiums, which came to 1.59% in December 2016, decreased (2.12% in December 2015).

Looking at the breakdown of assets under administration, compared with the end of December 2015, the weighting on government securities (which represent 44.1% of the total, +3.4 p.p.) has grown, while the weighting on bonds (24.7%; –2.5 p.p.) an bonds (31.3%; –0.9 p.p.) both declined.

Distribution of assets under administration at December 2016



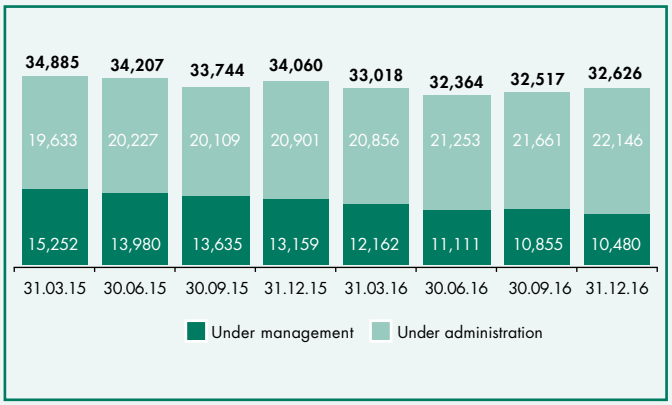
Distribution of assets under administration at December 2015



Indirect customer deposits increased slightly by 109 million euro (+0.3% Q/Q) in the third quarter of 2016 as a result of the following trends:

- an increase in asset management following an increase in the funds segment (+442 million euro; +3.3%) and in insurance reserves (+78 million euro; +1.2%);
- a decline in assets under administration in the amount of 376 million (–3.5%). The trend of previous months continued through the quarter in response to the reallocation of funding towards asset management, the poor performance of the financial markets, and the reduction in securities under administration for Corporate accounts as mentioned above.

Quarterly trend of indirect deposits (euro/million)



Loans to customers

Loans to customers amounted to 34,771 million euro as at 31 December 2016, up 584 million euro (+1.7%) compared with the end of 2015 and up 448 million euro compared with the end of September 2016. Compared with the end of 2015, the rise in the aggregate is mainly attributable to the increase of 457 million euro in mortgage lending (+2.8%) and in other lending (+490 million euro) averaged by the reduction in the item current accounts (–335 million euro).

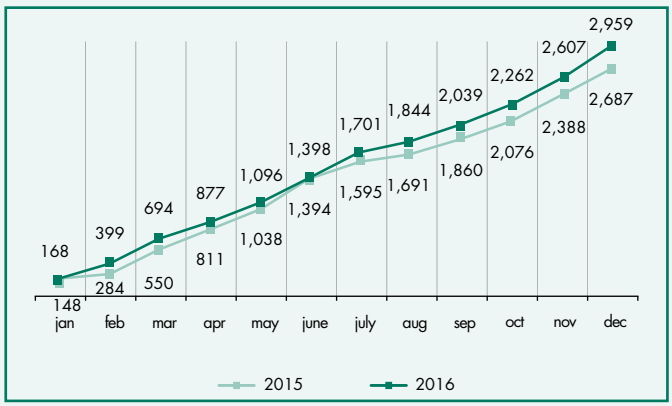
The trend in lending has benefited from the recovery in new mortgages loans and other lending compared with the end of 2015 (up about 4%[1] based on management figures), concentrated for the most part on customers who pose lower risks (approx. 78% of the total). In particular, new mortgage loan disbursements in 2016 came to 1,873 million euro, a slight decline of –4.8% compared with the end of 2015, while other loan disbursements increased considerably (+2,959 million euro) with new disbursements which grew 10.1%, mostly attributable to the increase in the small business segment and at Profamily.

As regards performance by segment – based on period-end management figures – there have been the following changes compared with December 2015:

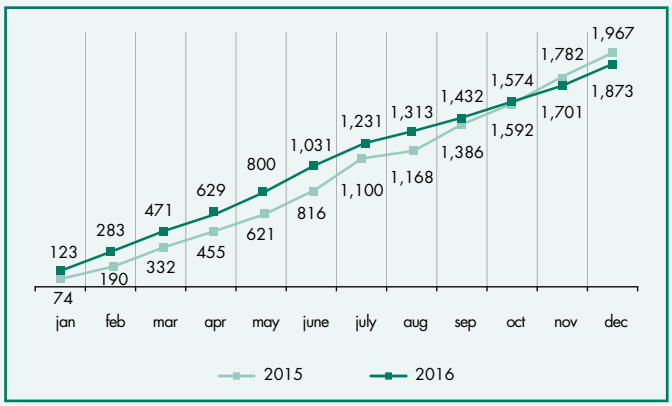
a) loans to individuals have increased (+2.8%);

b) loans to companies have increased (+4.5%).

Loans granted (cumulative amounts) (euro/million)



Mortgage loans granted (cumulative amounts) (euro/million)



Breakdown of loans to customers

(euro/000)

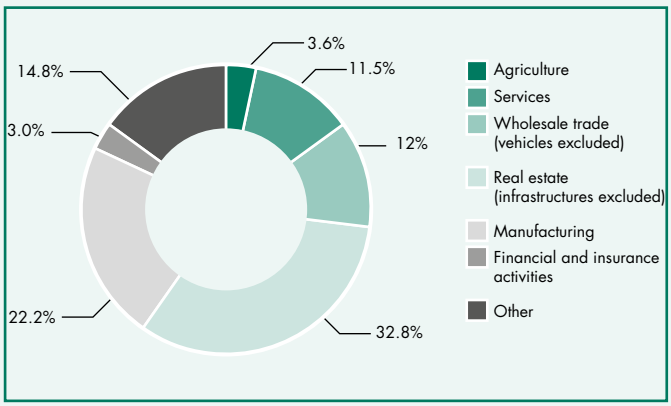
	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Mortgage loans	**16,961,776**	**16,905,187**	**56,589**	**0.3**	**16,505,014**	**456,762**	**2.8**
Other types of loans	**17,785,731**	**17,394,373**	**391,358**	**2.2**	**17,660,797**	**124,934**	**0.7**
Current accounts	2,825,006	2,982,846	(157,840)	–5.3	3,160,116	(335,110)	–10.6
Repurchase agreements	180,095	286,811	(106,716)	–37.2	232,956	(52,861)	–22.7
Credit cards, personal loans and salary assignments	1,543,841	1,502,989	40,852	2.7	1,510,931	32,910	2.2
Finance leases	174,980	166,971	8,009	4.8	196,463	(21,483)	–10.9
Other loans	9,425,817	8,836,449	589,368	6.7	8,936,107	489,710	5.5
Impaired assets	3,635,992	3,618,307	17,685	0.5	3,624,224	11,768	0.3
Total loans to customers	**34,747,507**	**34,299,560**	**447,947**	**1.3**	**34,165,811**	**581,696**	**1.7**
Debt securities	23,501	23,277	224	1.0	21,026	2,475	11.8
Total loans to customers	**34,771,008**	**34,322,837**	**448,171**	**1.3**	**34,186,837**	**584,171**	**1.7**

As regards changes in loans to companies by industry (comprising large, medium, and small enterprises) as of 31 December 2016, there was an increase in loans in nearly all sectors compared with December 2015. Specifically: the service sector (+25.3%), logistics and transport (+10.7%), while in manufacturing there was a significant increase in the electronic (+18.6%) and agro food (+11.8%) sectors (Source: SISBA figures).

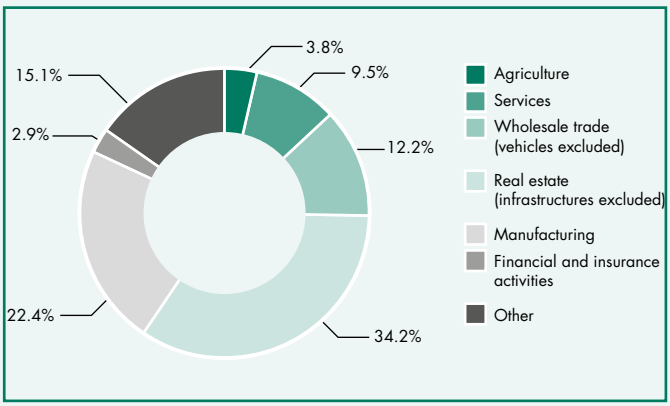
(1) As from 1 January 2015, the time series was updated

The Group's market share of lending (excluding repurchase agreements with central counterparties) came to 2.02% (updated figures as of November 2016), an increase compared to the figure reported in December 2015 (1.96%).

Loans to businesses by industry – December 2016 (in %)



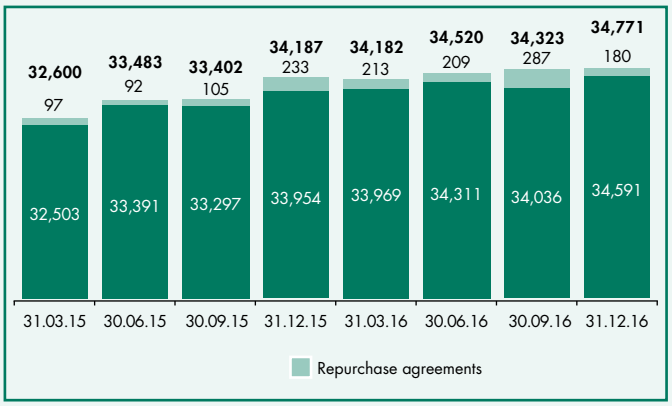
Loans to businesses by industry – December 2015 (in %)



(1) il comparto aziende include (imprese *corporate*. Pmi e *Small business* retail)

Compared to the previous quarter, loans to customers increased slightly (+1.3%) mainly due to the increase in other lending (+589 million euro; +6.7%) and in mortgage loans (+57 million euro; +0.3%); current accounts, on the other hand, declined (–158 million euro; –5.3%).

Quarterly trends in loans to customers (euro/million)

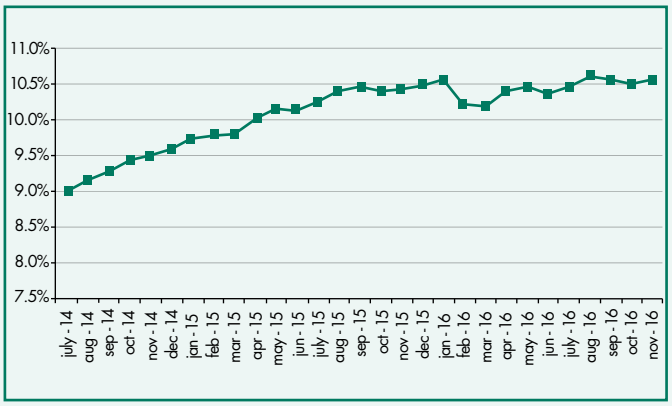


Asset quality

As regards non-performing exposures the related ABI figures, updated in November 2016, show a decrease in gross non-performing loans of 0.97% compared with December 2015, reaching 199.1 billion euro. The ratio of gross non-performing loans to total lending came to 10.5%, confirming the figure reported in the previous quarter, the highest over the past twenty years (it was 9.9% in December 1996). System-wide, the ratio of net non-performing loans to total lending stood at 4.80%, a decrease compared with December 2015 (4.89%).

Bad loans-Italian banking Sector (euro/mld)

Bad loans-business area



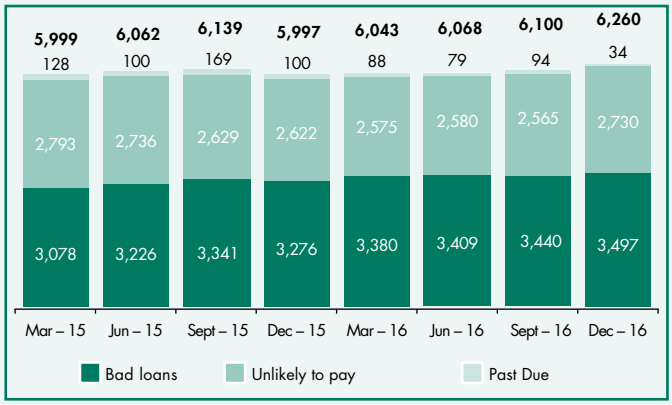
Source: ABI monthly and Bank of Italy, November 2016

With regard to the Bipiemme Group, gross deteriorated loans came to 6,260 million euro at 31 December 2016, an increase compared with December 2015 (5,997 million euro), with an increase in the ratio to total lending from 16.3% in December 2015 to 16.7% in December 2016. The ratio of gross bad loans was at lower levels than that for the industry as a whole (9.3% vs. 10.5% for the industry). The trend in deteriorated loans still mainly reflects the situation in the real estate market despite the fact that it has shown signs of improvement. The flow of new non-performing loans does show a slowing trend compared with the figure at the end of 2015.

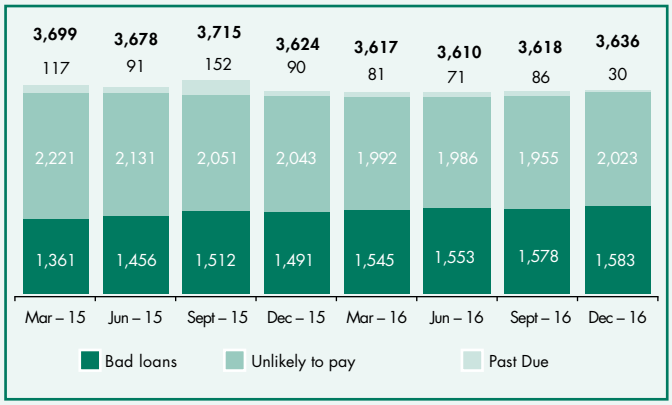
In detail, the following trends have emerged:

- **bad loans** increased by 6.7% during the year, to reach 3,497 million euro. As already mentioned, the flow of new bad loans is mainly due to the impairment of loans by companies operating in the real estate sector (previously classified under the category "unlike to pay" loans). The ratio of gross non-performing loans to total Group loans was 9.3%, versus the 8.9% recorded at the end of 2015 and in line with the previous quarter (9.3%);
- **unlikely-to-pay** loans increased on an annual basis by 4.1% and came to 2,730 million euro. The ratio of gross unlikely-to-pay loans to total lending was 7.3%, basically in line with the figure at the end of 2015 (7.1%);
- **past due positions**, in the amount of 34 million euro, were significantly reduced by 66.2% compared with the figure at the end of 2015 (–66 million euro), mainly during the fourth quarter of 2016 (–64.3%). Past due positions represent 0.1% of the Group's total loans, down on the figure at the end of 2015 (0.3%).

Gross non-performing exposures (euro/million)



Net non-performing exposures (euro/million)



Coverage of deteriorated positions has increased to 41.9% compared to 39.6% in December 2015, supported by a general increase in coverage of loans in the different statuses.

In detail:

- the level of coverage of bad loans came to 54.7%, an increase compared with the December 2015 figure (54.5%). The new flow of bad loans is still for the most part attributable to the real-estate segment and therefore largely made up of loans backed by real guarantees. This level increases to 60.2% if no account is taken of write offs of individual positions made in the past;
- coverage of unlikely to pay loans was 25.9%, in increase compared to December 2015 (22.1%);
- coverage of past due positions came to 11.6%, also up compared to the December 2015 figure (9.3%).

The stock of performing loans increased by 1.8% compared with the December 2015 figure, confirming the positive trend already recorded in the previous quarter. The growth in loans during 2016 was driven primarily by the manufacturing and service sectors. The coverage ratio for performing loans came to 0.49%, as compared to 0.60% for December 2015. This trend may be attributed to the remix of the loan portfolio at the end of the year: the outflow of high-risk positions to the category of non-performing loans was completely offset by the growth in loans to low risk profile customers.

Coverage (%)	Mar-15	Jun-15	Sept-15	Dec-15	Mar-16	Jun-16	Sept-16	Dec-16
Total non-performing exposures	**38.3**	**39.3**	**39.5**	**39.6**	**40.1**	**40.5**	**40.7**	**41.9**
Bad loans	55.8	54.9	54.7	54.5	54.3	54.4	54.1	54.7
Unlikely to pay loans	20.5	22.1	22.0	22.1	22.6	23.0	23.8	25.9
Past due positions	8.4	9.7	9.8	9.3	8.8	10.1	9.2	11.6
Performing loans	0.69	0.67	0.64	0.60	0.56	0.55	0.53	0.49
Total adjustments to loans	**7.1**	**7.2**	**7.3**	**7.0**	**7.1**	**7.1**	**7.2**	**7.4**

Asset quality

(euro/000)

Gross exposure	31.12.2016		30.09.2016		31.12.2015		Change (A - B)		Change (A – C)	
	A	%	B	%	C	%	Amount	%	Amount	%
of which: Non-performing exposures	**6,260,448**	**16.7**	**6,099,857**	**16.5**	**5,997,174**	**16.3**	**160,591**	**2.6**	**263,274**	**4.4**
a) Bad loans	3,496,633	9.3	3,440,488	9.3	3,276,069	8.9	56,145	1.6	220,564	6.7
b) Unlikely to pay loans	2,730,202	7.3	2,565,167	6.9	2,621,568	7.1	165,035	6.4	108,634	4.1
c) Past due positions	33,613	0.1	94,202	0.3	99,537	0.3	(60,589)	–64.3	(65,924)	–66.2
of which: Performing loans	**31,287,097**	***83.3***	**30,869,434**	***83.5***	**30,747,953**	***83.7***	**417,663**	**1.4**	**539,144**	**1.8**
Total gross loans to customers	**37,547,545**	***100.0***	**36,969,291**	***100.0***	**36,745,127**	***100.0***	**578,254**	**1.6**	**802,418**	**2.2**

Total adjustments	31.12.2016		30.09.2016		31.12.2015		Change (A – B)		Change (A – C)	
	A	Coverage %	B	Coverage %	C	Coverage %	Amount	% Difference in coverage	Amount	% Difference in coverage
of which: Non-performing exposures	**2,624,456**	***41.9***	**2,481,550**	***40.7***	**2,372,950**	***39.6***	**142,906**	**1.2**	**251,506**	**2.3**
a) Bad loans	1,913,247	*54.7*	1,862,755	*54.1*	1,785,478	*54.5*	50,492	0.6	127,769	0.2
b) Unlikely to pay loans	707,300	*25.9*	610,136	*23.8*	578,252	*22.1*	97,164	2.1	129,048	3.8
c) Past due positions	3,909	*11.6*	8,659	*9.2*	9,220	*9.3*	(4,750)	2.4	(5,311)	2.3
of which: Performing loans	**152,081**	***0.49***	**164,904**	***0.53***	**185,340**	***0.60***	**(12,823)**	**–0.04**	**(33,259)**	**–0.11**
Total adjustments	**2,776,537**	***7.4***	**2,646,454**	***7.2***	**2,558,290**	***7.0***	**130,083**	**0.2**	**218,247**	**0.4**

Net loans to customers	31.12.2016		30.09.2016		31.12.2015		Change (A – B)		Change (A – C)	
	A	%	B	%	C	%	Amount	%	Amount	%
of which: Non-performing exposures	**3,635,992**	***10.5***	**3,618,307**	***10.5***	**3,624,224**	***10.6***	**17,685**	**0.5**	**11,768**	**0.3**
a) Bad loans	1,583,386	*4.6*	1,577,733	*4.6*	1,490,591	*4.4*	5,653	0.4	92,795	6.2
b) Unlikely to pay loans	2,022,902	*5.8*	1,955,031	*5.7*	2,043,316	*6.0*	67,871	3.5	(20,414)	–1.0
c) Past due positions	29,704	*0.1*	85,543	*0.2*	90,317	*0.3*	(55,839)	–65.3	(60,613)	–67.1
of which: Performing loans	**31,135,016**	***89.5***	**30,704,530**	***89.5***	**30,562,613**	***89.4***	**430,486**	**1.4**	**572,403**	**1.9**
Total net loans to customers	**34,771,008**	***100.0***	**34,322,837**	***100.0***	**34,186,837**	***100.0***	**448,171**	**1.3**	**584,171**	**1.7**

Net interbank position

The net interbank situation at 31 December 2016 reflects net borrowing of 5,200 million euro, down on both the net negative balance at December 2015 (–1,586 million euro) and at September 2016 (–1,168 million euro).

This trend is largely due to the increase in funding from central banks which, compared to the end of September 2016, increased following the increase in the net position with the ECB of roughly 2.8 billion euro represented by Targeted Longer-Term Refinancing Operations, or TLTROs. Please note that in June, the Parent Company repaid TLTROs borrowed through auctions in 2014 and 2015 for a total of 3,350 million euro, while also obtaining 3 billion euro through the TLTRO II at the end of June. In subsequent auctions, it took up 0.5 billion euro at the end of September and 2.8 billion euro at the end of December. As a result, funding from the ECB for open-market operations as at 31 December 2016 totalled 6.3 billion euro all in TLTRO II funds.

Net interbank position

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Due from banks	2,185,297	2,128,135	57,162	2.7	1,224,717	960,580	78.4
Due to banks	7,385,667	6,160,654	1,225,013	19.9	4,839,439	2,546,228	52.6
Total	**(5,200,370)**	**(4,032,519)**	**(1,167,851)**	**–29.0**	**(3,614,722)**	**(1,585,648)**	**–43.9**

Liquidity position

The Group's liquidity position remains strong and the main indicators have remained within the set limits.

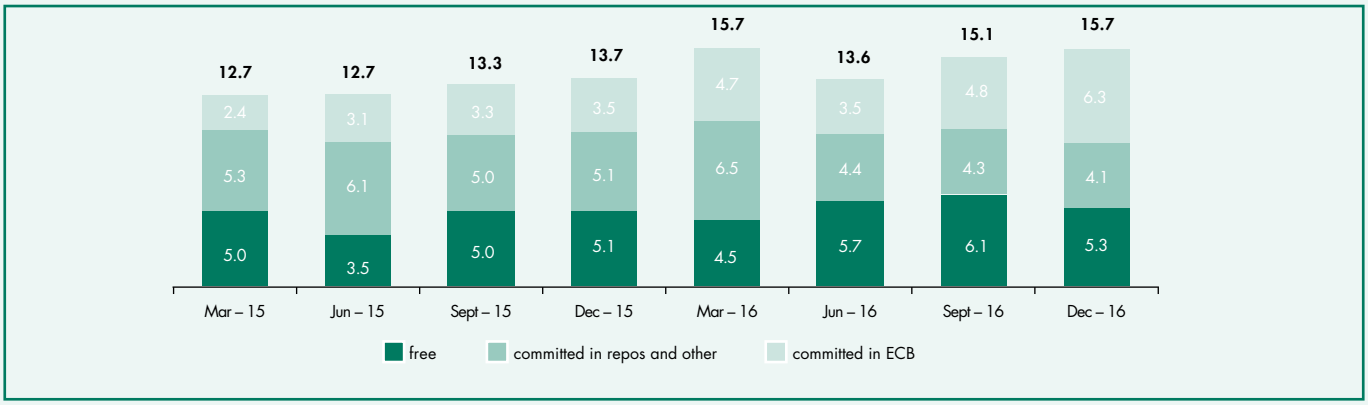
Net liquidity – which represents the sum of assets available for use as collateral plus inflows and outflows over a given time horizon – totalled 5,480 million euro at 31 December 2016, with a time horizon of 1 month, giving a ratio of total assets of 10.7% (vs. 8.6% at the end of December 2015).

Liquidity at three months came to 4,979 million euro for a ratio to total assets of 9.7%.

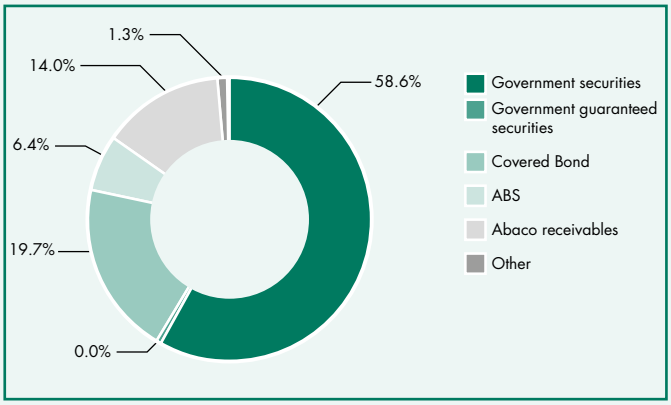
Assets eligible as collateral with the European Central Bank came to 15.7 billion euro at the end of December 2016, which is higher than the previous quarter (up roughly 0.6 billion euro) and are committed for a total of 10.4 billion euro – including 6.3 billion euro committed to TLTROs and other advances – while the remaining 5.3 billion euro is represented by free assets.

The liquidity requirement of commercial banks, which reflects the difference between commercial funding and lending to customers, amounted to 5.5 billion euro at the end of December 2016 (management figures), a slight increase compared with the December 2015 figure (+0.2 billion euro) and the September 2016 figure (+0.8 billion euro) for a greater increase in lending than funds from business customers.

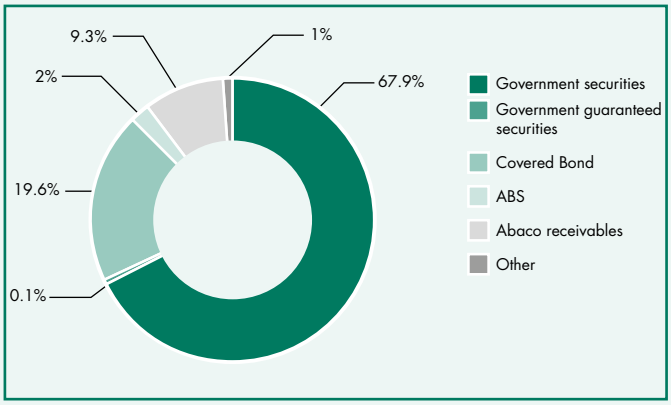
Assets eligible as collateral with the ECB (euro/billion)



Breakdown of total eligible assets at 31 December 2016



Breakdown of total eligible assets at 31 December 2015



Financial assets

The financial assets of the Bipiemme Group, net of financial liabilities, totalled 10,002 million euro, slightly down on the December 2015 figure (–165 million euro; –1.6%) and up from the end of September 2016 (+283 million euro; +2.9%).

In detail:

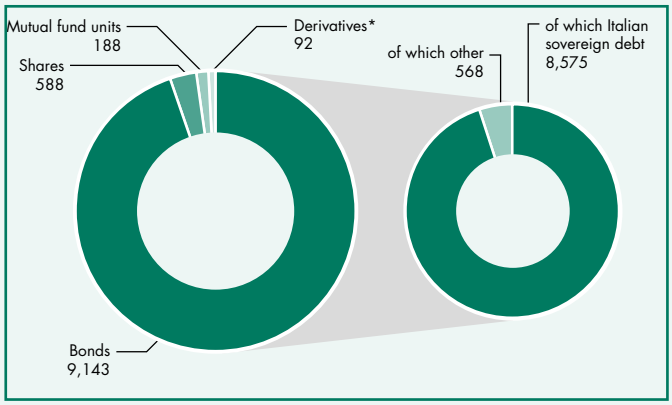
- the **net balance of financial assets and financial liabilities held for trading** was 347 million euro at 31 December 2016, down by 268 million euro (-43.6%) on December 2015 and by 270 million euro on September 2016 (–43.8%). This aggregate is largely represented by the trading book of Banca Akros, whose operations mainly consist of trading, market making and risk management with dynamic hedging strategies within a system of operating limits;
- **financial assets designated at fair value through profit and loss** – which include structured debt securities and other debt securities for which regular valuations are available from independent sources – totalled 19 million euro, a decrease from the end of 2015 following the repayments made during the year (–56 million euro from the end of 2015);
- **Financial assets available for sale** came to 9,633 million euro, up both on December 2015 (+142 million euro; +1.5%) and on September 2016 (+597 million euro; +6.6%). This trend may be attributed to the performance of the Parent Company's securities portfolio.

Financial assets/liabilities of Group: breakdown

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Financial assets held for trading	1,562,491	2,001,963	(439,472)	–22.0	1,797,874	(235,383)	–13.1
Financial assets designated at fair value through profit and loss	19,240	23,974	(4,734)	–19.7	75,543	(56,303)	–74.5
Financial assets available for sale	9,633,116	9,036,135	596,981	6.6	9,491,248	141,868	1.5
Hedging derivatives receivable	44,835	111,134	(66,299)	–59.7	40,638	4,197	10.3
Fair value change of financial assets in hedged portfolios (+ /–)	10,514	12,060	(1,546)	–12.8	11,237	(723)	–6.4
Total financial assets	**11,270,196**	**11,185,266**	**84,930**	**0.8**	**11,416,540**	**(146,344)**	**–1.3**
Financial liabilities held for trading	1,215,764	1,384,979	(169,215)	–12.2	1,183,557	32,207	2.7
Hedging derivatives payable	32,894	54,995	(22,101)	–40.2	48,678	(15,784)	–32.4
Fair value change of financial liabilities in hedged portfolios (+ /–)	19,941	26,597	(6,656)	–25.0	18,086	1,855	10.3
Total net financial assets	**10,001,597**	**9,718,695**	**282,902**	**2.9**	**10,166,219**	**(164,622)**	**–1.6**

Breakdown of net financial assets portfolio (euro/million)



(*) This mainly includes hedging derivatives.

As regards the type of securities in the portfolio, as at 31 December 2016 financial assets are made up of bonds for around 91% (of which 8,575 million euro relating to Italian sovereign debt).

Capital notes and units in mutual funds accounted for roughly 8% of the total, while derivatives – mainly for hedging purposes – were of insignificant amount.

Fixed assets

At 31 December 2016, total **fixed assets**, including **investments in associates and companies subject to joint control**, **property and equipment and intangible assets**, totaled 1,031 million euro, down compared with December 2015 (-14%) and 30 September 2016 (-15%).

I**nvestments in associates and companies subject to joint contro**l, in the amount of 232 million euro, fell from December 2015 (down 110 million euro) and from September 2016 (down 113 million euro) due to the reclassification in the AFS portfolio of the investment in Anima Holding following termination of the shareholder agreement with Poste Italiane in October 2016. The year also saw the effect of the revaluation of SelmaBipiemme Leasing and the sale of a stake in Anima Holding (the interest in which fell from 16.85% to 14.67%) and of a 5% stake in Etica SGR, the interest in which fell from 24.44% to 19.44%.

Property and equipment totaled 718 million euro, decreasing with respect to both December 2015 (down 2.4 million euro, or –0.3%) and in line with the figure at the end of September 2016 (+0.1%).

Intangible assets (mainly software) totaled 82 million euro, declining from both December 2015 (down 55 million euro) and September 2016 (down 70 million euro) due to the impairment of software (75.6 million euro) that is to be eliminated following the merger with Banco Popolare.

Fixed assets breakdown

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Investments in associates and companies subject to joint control	231,677	344,377	(112,700)	–32.7	342,145	(110,468)	–32.3
Property and equipment	718,015	717,128	887	0.1	720,383	(2,368)	–0.3
Intangible assets	81,614	151,292	(69,678)	–46.1	136,931	(55,317)	–40.4
Total fixed assets	**1,031,306**	**1,212,797**	**(181,491)**	**–15.0**	**1,199,459**	**(168,153)**	**–14.0**

Provisions for specific use

At 31 December 2016, the provisions for specific use totaled 572 million euro, including 440 million euro for the provision for risks and charges and the remaining 132 million euro for employee termination indemnities.

Shareholders' equity and capital adequacy

At 31 December 2016, the Group's **shareholders' equity**, including income for the period of 72.7 million euro, totaled 4,364 million euro, a decrease compared with the end of 2015 (–5.7%) and with the end of September 2016 (–2.5%).

Within this aggregate, the reduction in valuation reserves compared to the end of 2015 (down 199.5 million euro, or –90.6%) and the end of September 2016 (down 96.4 million euro, or -82.2%) was mainly the result of the reduction in reserves on financial assets available for sale, which mainly includes the reserves on Italian government securities.

Shareholders' equity of the Group: analysis

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
1. Capital	3,365,439	3,365,439	–	n.a.	3,365,439	–	n.a.
2. Share-premium reserve	–	–	–	n.a.	445	(445)	–100.0
3. Reserves	906,099	905,078	1,021	0.1	753,717	152,382	20.2
4.(Treasury shares)	(621)	(758)	137	18.1	(1,416)	795	56.1
5. Valuation reserves	20,809	117,188	(96,379)	–82.2	220,255	(199,446)	–90.6
6. Capital instruments	–	–	–	n.a.	–	–	n.a.
7. Net income (loss) attributable to the Group	72,724	88,093	(15,369)	n.s.	288,907	(216,183)	–74.8
Total	**4,364,450**	**4,475,040**	**(110,590)**	**–2.5**	**4,627,347**	**(262,897)**	**–5.7**

Valuation reserves of the Group: analysis

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Financial assets available for sale	75,516	178,711	(103,195)	–57.7	272,351	(196,835)	–72.3
Actuarial gains (losses) on defined benefit pension plans	(62,647)	(69,369)	6,722	9.7	(59,082)	(3,565)	–6.0
Cash flow hedge	(3,165)	(2,837)	(328)	–11.6	(4,429)	1,264	28.5
Share of valuation reserves connected with investments carried at equity	(2,337)	(2,759)	422	15.3	(2,027)	(310)	–15.3
Special revaluation laws	13,442	13,442	–	–	13,442	–	–
Total	**20,809**	**117,188**	**(96,379)**	**–82.2**	**220,255**	**(199,446)**	**–90.6**

Minority interests

At 31 December 2016, minority interests totaled roughly 1.3 million euro, a reduction of roughly 19 million euro compared to 31 December 2015 and 7 million euro compared to the end of September 2016. Within the scope of the rationalization of the Bipiemme Group as part of the merger with Banco Popolare, Banca Popolare di Milano increased its stake in Banca Popolare di Mantova to 96.74% as at the end of 2016. The remaining minority interests in Banca Akros (3.11%) were also acquired, bringing the total stake to 100%.

Minority interests: analysis

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
1. Capital	133	1,424	(1,291)	–90.7	2,363	(2,230)	–94.4
2. Share-premium reserve	1,005	2,134	(1,129)	–52.9	11,893	(10,888)	–91.5
3. Reserves	91	4,567	(4,476)	–98.0	4,706	(4,615)	–98.1
4. Treasury shares	–	–	–	n.a.	–	–	n.a.
5. Valuation reserves	1	53	(52)	–98.1	10	(9)	–90.0
6. Capital instruments	–	–	–	n.a.	–	–	n.a.
7. Income (loss) pertaining to minority interests	76	252	(176)	n.s.	1,002	(926)	–92.4
Total	**1,306**	**8,430**	**(7,124)**	**–84.5**	**19,974**	**(18,668)**	**–93.5**

Valuation reserves of minority interests: analysis

(euro/000)

	31.12.2016	30.09.2016	Change A–B		31.12.2015	Change A–C	
	A	B	amount	%	C	amount	%
Valuation reserves: financial assets available for sale	2	106	(104)	–98.1	58	(56)	–96.6
Valuation reserves: actuarial gains (losses) on defined benefit pension plans	(1)	(53)	52	98.1	(48)	47	97.9
Total	**1**	**53**	**(52)**	**–98.1**	**10**	**(9)**	**–90.0**

Valuation reserves for financial assets available for sale

At 31 December 2016, valuation reserves on financial assets available for sale – including the portion attributable to minority interests – totaled a net asset balance of 76 million euro, down 197 million euro on the balance recorded at the end of 2015. This shift compared to December was mainly caused by the contraction in the reserves for Italian debt securities (-171 million euro) due to changes in the portfolio and the drop in equities (–19 million euro) following value adjustments related to both listed and unlisted companies.

Valuation reserves on financial assets available for sale: analysis

(euro/000)

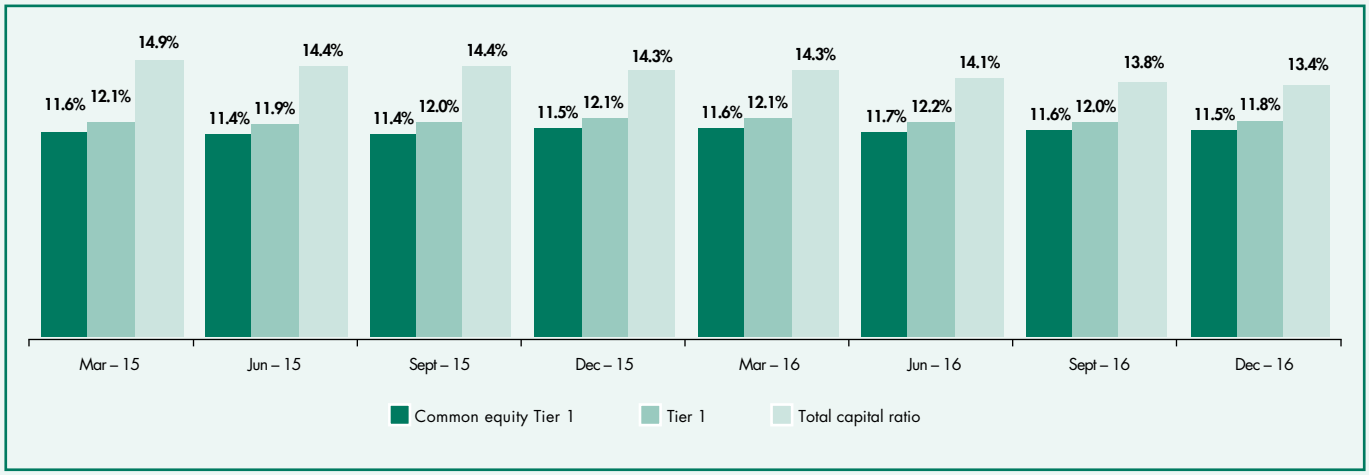
	31.12.2016			31.12.2015			Changes A – B	
	Gross carrying value	Tax effect	Net carrying value	Gross carrying value	Tax effect	Net carrying value	amount	%
	a1	a2	A = a1 – a2	b1	b2	B = b1 – b2		
Debt securities, of which:	**47,920**	**(15,847)**	**32,073**	**312,145**	**(103,228)**	**208,917**	**(176,844)**	**–84.6**
Italian sovereign debt	47,736	(15,784)	31,952	302,904	(100,169)	202,735	(170,783)	–84.2
other	184	(63)	121	9,241	(3,059)	6,182	(6,061)	–98.0
Equities	**35,546**	**(2,900)**	**32,646**	**56,051**	**(3,978)**	**52,073**	**(19,427)**	**–37.3**
Mutual Funds	**16,086**	**(5,287)**	**10,799**	**17,041**	**(5,622)**	**11,419**	**(620)**	**–5.4**
Total AFS valuation reserves	**99,552**	**(24,034)**	**75,518**	**385,237**	**(112,828)**	**272,409**	**(196,891)**	**–72.3**

Own funds and capital ratios

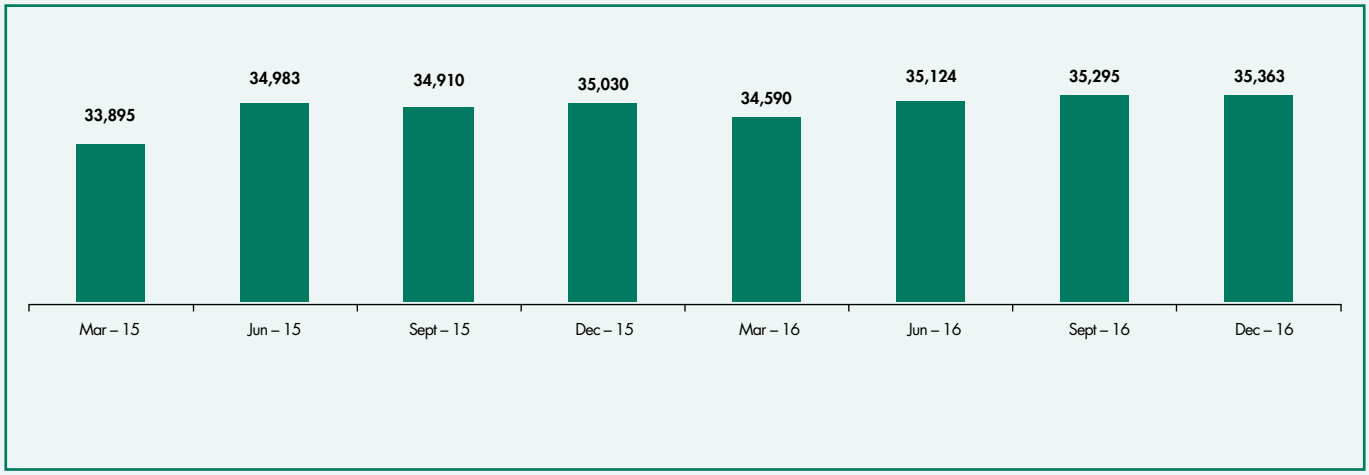
As at 31 December 2016, the Common Equity Tier 1 (CET1) ratio was 11.48% (vs. 11.53% at December 2015); the Tier 1 Capital Ratio was 11.84% (12.06% at December 2015), and the Total Capital Ratio was 13.38% (14.33% at December 2015).
Risk-weighted assets (RWAs), in the amount of 35,363 million euro at 31 December 2016, increased compared to the end of 2015.

Furthermore, the capital ratios do not currently benefit from any effects resulting from the adoption of the AIRB models, which are in the process of being validated.

Quarterly trend in capital ratios



Quarterly trend in risk-weighted assets (euro/million)



Income statement

Financial year 2016 closed with **net income** of 72.7 million euro, as compared to net income of 288.9 million euro as at December 2015. Net of non-recurring items in 2016, which include the 165 million euro charge for the solidarity fund, "normalized" net income totaled 195.2 million euro.

Compared to the previous year, the interest margin remained only slightly lower (–18.7 million euro, or –2.3%), whereas the non-interest margin decreased (–44.4 million euro, or –5.2%) as a result of a reduction in net fee and commission income (–20.7 million euro, or –3.4%), in net income from banking activities (–10.7 million euro, or –5.9%), and the net loss on investments carried at equity (–10.1 million euro, or –31.1%).

Operating expenses, net of the aforementioned non-recurring charge related to the solidarity fund, the extraordinary contributions to the SRF, and the costs related to the merger, trended in line with the previous year (-0.1%), whereas net adjustments to loans increased by 22.8% (+78 million euro) due to an increase in coverage levels, which reached 41.9% of total non-performing exposures as at 31 December 2016, as compared to 39.6% at the end of 2015.

Operating income

As at 31 December 2016, **operating income** came to 1,604.1 million euro for a slight decline compared to the same period of the previous year (–3.8%).

This figure mainly reflects the following trends:

- the decrease in interest margin (–18.7 million euro, or –2.3%);
- the decrease in net fee and commission income of roughly 20.7 million euro (–3.4%);
- a reduction in other income (–23.6 million euro, or –9.3%).

Interest margin

The **interest margin** came to 788 million euro, decreasing compared to the previous year (–18.7 million euro, or –2.3%). Based on average figures, we see that the contraction in the commercial margin (–29.7 million euro) and in the portfolio of BPM securities (–40.3 million euro) were only partially offset by the decline in institutional funding cost (+40.6 million euro) and the reduction in the cost of interbank funding (+10.7 million euro) as described below in relation to changes in interest margin by area of business.

Interest margin

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Interest and similar income	1,017,659	1,160,394	(142,735)	–12.3
Interest and similar charges	(229,619)	(353,648)	124,029	35.1
Total interest margin	788,040	806,746	(18,706)	–2.3

A breakdown of the interest margin by business line on the basis of the allocation of interest income and expense to the various business segments shows the following trends:

- **commercial margin:** a decrease of 29.7 million euro (–4.1%) compared with December 2015, from 721.1 million euro to 691.4 million euro. This change is the combined effect of the reduction in the spread between the lending and deposit rates, which went from 2.17% to 1.99% (–18 bps), and the increase in volumes handled;
- **treasury and investment banking margin:** totaling 144.5 million euro, down roughly 38.1 million euro (–20.9%) compared to 2015 following a reduction in income on the BPM securities portfolio (–40.3 million euro), which was partially offset by the lower cost of interbank funding (+10.7 million euro);
- **interest expense on institutional funding:** a total of 78.6 million euro for 2016, down 40.6 million euro on the end of 2015 due to reduction in the average cost of funding (–68 bps).

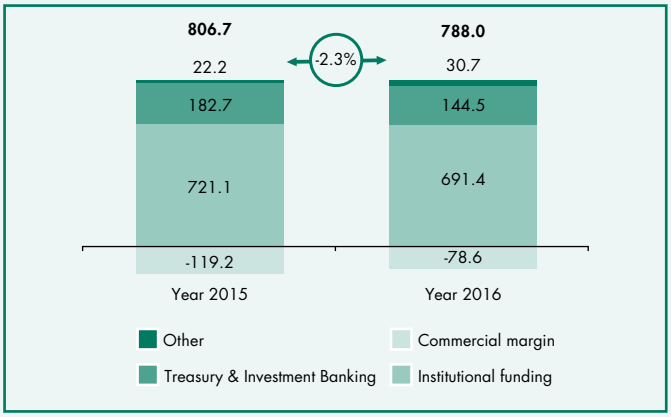
Looking at the **fourth quarter of 2016** specifically, the **interest margin** remained essentially unchanged compared to the prior quarter with an increase in the treasury and investment banking margin (+4.2 million euro) and the 1 million euro reduction in institutional funding, which offset the drop in the commercial margin (–5.3 million euro) as a result of the reduction in the spread between the lending and deposit rates.

The **interest spread** in the fourth quarter of 2016 was 1.89% on average, down 8 bps compared with the previous quarter and 23 bps compared with the fourth quarter of 2015.

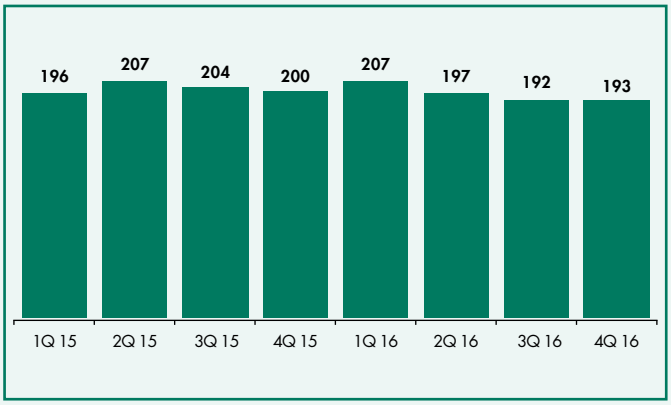
Lending rates were 2.19%, down 12 bps on the third quarter of 2016. Deposit rates, too, continued declining to post an average of 0.30%, down 4 bps from the 0.34% of the previous quarter.

During the fourth quarter, the 3-month Euribor rate fell by an average of 1 bp compared to the third quarter of 2016 to reach –0.31%.

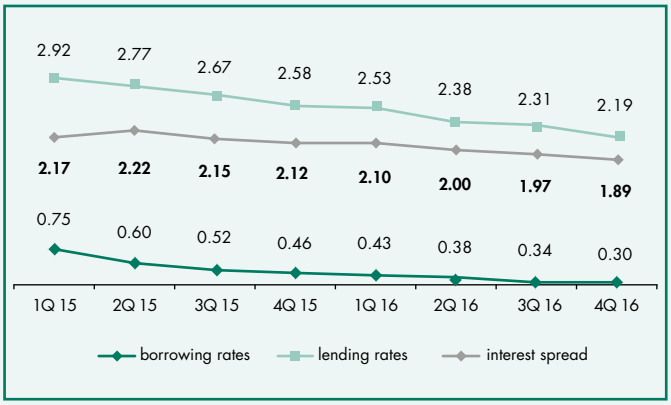
Trend in interest margin by business line (euro/mn)



Quarterly trend in interest margin (euro/mn)



Quarterly trend in the Group's interest rate spread (%)



Non-interest margin

The **non-interest margin**, in the amount of 816.1 million euro at 31 December 2016, decreased 44.4 million euro (-5.2%) from the same period last year. This change was mainly due to an decrease in net fee and commission income of 20.7 million euro, in net income from banking activities (-10.7 million euro), in the net income/loss on investments carried at equity (-10.1 million euro), and in other operating charges/income (-2.8 million euro).

Non-interest margin

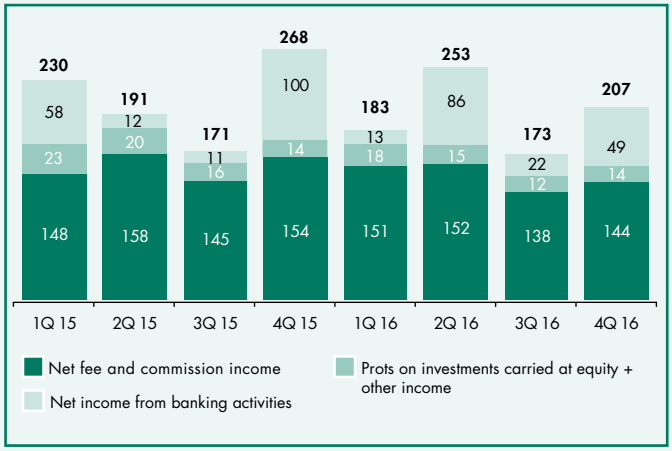
(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Net fee and commission income	**585,254**	**605,996**	**(20,742)**	**–3.4**
Other income:	**230,833**	**254,475**	**(23,642)**	**–9.3**
Gain (loss) on investments measured at equity	22,457	32,577	(10,120)	–31.1
Net income from banking activities	171,022	181,724	(10,702)	–5.9
Other operating charges/income	37,354	40,174	(2,820)	–7.0
Non-interest margin	**816,087**	**860,471**	**(44,384)**	**–5.2**

Non-interest margin for the quarter grew by 33.6 million euro (+19.4%) over the third quarter of 2016. This trend was mainly due to banking activities (+26.6 million euro over Q3), which benefitted from the solid performance of trading activities (+53 million) and of income/loss on the sale or repurchase of financial assets/liabilities (+18 million euro), which offset the negative contribution of net AFS value adjustments (-51.1 million euro).

Net fee and commission income also increased during the fourth quarter of 2016 (+5.3 million euro, or +3.8%) due mainly to an increase in fees and commissions on management, intermediation and advisory services (+8.3 million euro), whereas fees and commissions on payment and collection services decreased (-2.9 million euro).

Quarterly trend in non-interest margin (euro/mn)



The aggregate of profit/(loss) on investments carried at equity and other operating income/expenses also increased slightly (+1.8 million euro).

Net fee and commission income

Net fee and commission income

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Fee and commission income	**658,327**	**678,897**	**(20,570)**	**–3.0**
Fee and commission expense	**(73,073)**	**(72,901)**	**(172)**	**–0.2**
Total net fee and commission income	**585,254**	**605,996**	**(20,742)**	**–3.4**
Breakdown:				
guarantees given and received	34,229	32,799	1,430	4.4
credit derivatives	–	–	–	n.a.
management, intermediation & advisory services	289,073	306,721	(17,648)	–5.8
collection and payment services	66,016	71,623	(5,607)	–7.8
servicing for securitization transactions	–	–	–	n.a.
management of current accounts	54,313	58,473	(4,160)	–7.1
other services	141,623	136,380	5,243	3.8
Total net fee and commission income	**585,254**	**605,996**	**(20,742)**	**–3.4**

Net fee and commission income at the end of 2016 decreased compared to December 2015 by roughly 20.7 million euro (–3.4%). This was due mainly to the reduction in the following aggregates:

- fees and commission on management, intermediation and advisory services (–17.6 million euro) as a result of lower commission income for BPM and Banca Akros on asset management (about –9 million euro) and assets under administration (about -8 million euro);
- fees and commission on collection and payment services (–5.6 million euro);
- fees and commission on the management of current accounts (–4.2 million euro).

Conversely, fees and commissions on other services increased (+5.3 million euro), which may be attributed to financing granted and guarantees given and received (+1.4 million euro).

Profits (losses) on investments carried at equity

This aggregate settled at 22.5 million euro, a decrease of 10.1 million euro compared to December 2015 due mainly to the reduced contribution of the shareholding Anima Holding, which was classified as available for sale in the fourth quarter of 2016.

Net income from banking activities

Net income from banking activities

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Dividends	15,714	13,065	2,649	20.3
Profits (losses) on trading	49,382	37,937	11,445	30.2
Fair value adjustments in hedge accounting	(47)	(9,623)	9,576	99.5
Profits/losses on disposal or repurchase of financial assets/ liabilities	185,459	187,999	(2,540)	–1.4
Profits (losses) on financial assets and liabilities designated at fair value	(8,895)	(5,136)	(3,759)	–73.2
Net losses/recoveries on impairment: financial assets available for sale	(70,591)	(42,518)	(28,073)	–66.0
Total net income from banking activities	**171,022**	**181,724**	**(10,702)**	**–5.9**

Net income from banking activities: analysis by company

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Banca Popolare di Milano	146,652	151,439	(4,787)	–3.2
Banca Popolare di Mantova	33	(7)	40	n.s.
Banca Akros	30,034	33,586	(3,552)	–10.6
Consolidation eliminations/adjustments	(5,697)	(3,294)	(2,403)	–73.0
Total net income from banking activities	**171,022**	**181,724**	**(10,702)**	**–5.9**

Net income from banking activities came to some 171 million euro, decreasing as compared with 2015 (–10.7 million euro, or -5.9%). In detail, this aggregate includes:

- **dividends** from companies classified as financial assets available for sale and trading amounted to 15.7 million euro, compared with 13.1 million for 2015 (+20.3%);
- **profits on trading** came to 49.4 million euro, an increase of 11.4 million euro compared to the end of 2015 as a result of gains on operations of the Parent in derivatives on debt securities, interest rates, and exchange rates;
- **fair value adjustments in hedge accounting** were essentially zero, as compared to the negative 9.6 million euro of 2015, which, however, reflects the interest rate risk hedging transactions and the price on the debt securities held in portfolio and on own bonds;
- **profit on the disposal or repurchase of financial assets/liabilities** came to 185.5 million euro, down 2.5 million euro compared to the same period of 2015 and reflecting gains on government securities and on the sale of equity, which includes a price-adjustment effect (7.4 million euro) for the sale of a 4% interest in ICBPI in 2015;
- **losses on financial assets and liabilities designated at fair value** came to 8.9 million euro as a result of writedowns of convertible bonds;
- **net losses on impairment of financial assets available for sale** amounted to 70.6 million euro, compared with a prior-year loss of 42.5 million euro at December 2015, and include the 40.1 million euro writedown of the investment in the Atlante fund.

Other operating charges/income

Other operating charges and income came to 37.4 million euro at 31 December 2016, down 2.8 million euro (–7%) on the previous year due, in part, to a reduction in the recovery of costs on current and deposit accounts.

Operating expenses

As at 31 December 2016, the aggregate of **operating expenses** – comprising administrative expenses and net adjustments to property and equipment and intangible assets – amounted to about 1,269.2 million euro, an increase of 249.5 million euro (+24.5%) compared with the same period of 2015, mainly due to charges related to the new solidarity fund (165 million euro) and the impairment of software (75.6 million euro).

Operating expenses: analysis

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Administrative expenses:	**(1,113,555)**	**(944,978)**	**(168,577)**	**–17.8**
a) personnel expenses	(775,296)	(612,382)	(162,914)	–26.6
b) other administrative expenses	(338,259)	(332,596)	(5,663)	–1.7
Net adjustments to property and equipment and intangible assets	**(155,647)**	**(74,773)**	**(80,874)**	**–108.2**
Total	**(1,269,202)**	**(1,019,751)**	**(249,451)**	**–24.5**

Operating expenses: analysis by company

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Banca Popolare di Milano	(1,185,328)	(937,665)	(247,663)	–26.4
Banca Popolare di Mantova	(10,339)	(10,401)	62	0.6
Banca Akros	(56,650)	(54,399)	(2,251)	–4.1
ProFamily	(20,297)	(20,573)	276	1.3
Other companies	(3,333)	(2,873)	(460)	–16.0
Consolidation eliminations/adjustments	6,745	6,160	585	9.5
Total operating expenses	**(1,269,202)**	**(1,019,751)**	**(249,451)**	**–24.5**

In detail, personnel expenses in the amount of 775.3 million euro increased by 163 million euro (+26.6%) compared to December 2015 because the aggregate includes the charges for the solidarity fund agreement signed on 23rd September 2016 and expenses in 2016 in the amount of 165 million euro, which will give voluntary access the solidarity fund to up to 585 employees of the Bipiemme Group who will have accumulated their required pension contributions by 31 December 2022.

In addition, based on the trade-union agreement approved on 20 September 2016, costs were recognized related to the new allocation to the BPM pension fund (7.3 million euro), which replaces the allocation of variable amount for active employees, calculated on gross income in accordance with the articles of association.

Net of the charges for the 2016 solidarity fund and the adjustments related to the previous solidarity fund, personnel expenses increased slightly (+1.8 million euro, or +0.3%).

Other administrative expenses: analysis

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
IT expenses	(77,912)	(72,334)	(5,578)	–7.7
Expenses for buildings and furniture	(44,737)	(46,720)	1,983	4.2
Property leases	*(32,934)*	*(34,204)*	*1,270*	*3.7*
Other expenses	*(11,803)*	*(12,516)*	*713*	*5.7*
Purchases of assets and non-professional services	(54,540)	(52,806)	(1,734)	–3.3
Purchases of professional services	(64,018)	(52,041)	(11,977)	–23.0
Insurance premiums	(4,197)	(3,780)	(417)	–11.0
Advertising expenses	(16,192)	(21,953)	5,761	26.2
Indirect taxes and duties	(98,223)	(102,168)	3,945	3.9
Others	(70,584)	(67,763)	(2,821)	–4.2
Total	**(430,403)**	**(419,565)**	**(10,838)**	**–2.6**
Reclassification of "taxes recovered"	83,569	86,969	(3,400)	–3.9
Reclassification of voluntary FITD contribution	8,575	–	8,575	n.a.
Total	**(338,259)**	**(332,596)**	**(5,663)**	**–1.7**

Other administrative expenses totaled 338.3 million euro, an increase of 5.7 million euro (+1.7%) compared with December 2015. The aggregate was reduced by an amount corresponding to the share of direct and indirect taxes recovered. Also in 2016, the income on restitution of the contributions related to the work done for TERCAS by FITD, the Italian interbank deposit guarantee fund in previous years was reclassified from net adjustments/recoveries for the deterioration of credit and other operations to other administrative expenses. In this way, for the purpose of presenting the reclassified figures, this income is offset by the charge recognized among other administrative expenses (income statement item 180 b) – incurred for the contribution made by the Volunteer Mechanism – as envisaged in the FITD bylaws in favor of TERCAS.

Other changes in the aggregate included the following trends:

- an increase in costs for professional services in the amount of 12 million euro, which includes extraordinary charges related to the merger with Banco Popolare and the transformation into a joint-stock company;
- an increase in costs for the purchase of assets and non-professional services in the amount of 1.7 million euro, which includes 3.7 million euro of specialist services related to the merger;
- an increase of 5.6 million euro in IT expenses, mainly for the renewal of lease payments and the purchase of licenses for a number of software products that were previously being leased.

Conversely, the following components posted decreases:

- Advertising expenses (–5.8 million euro) due to a reduction in costs of product campaigns and other promotional activities compared to 2015;
- Expenses for buildings and furniture (–2 million euro) due to the renegotiation of certain property rents and the closure/transfer of agencies.

The "other" category includes the charge for the additional contributions to the Single Resolution Fund (SRF), which came to 28.8 million euro compared to the extraordinary expense of 39.7 million euro in 2015, as well as the ordinary contributions to the SRF and to the Deposit Guarantee Scheme (DGS) in the amounts of 14.4 million euro (13.2 million euro in 2015) and 12.3 million euro (5.9 million euro in 2015), respectively.

Therefore, net of the contributions to the SFR and DGS and the costs for the merger and company transformation, other administrative expenses decreased by roughly 15 million euro (–5.5%).

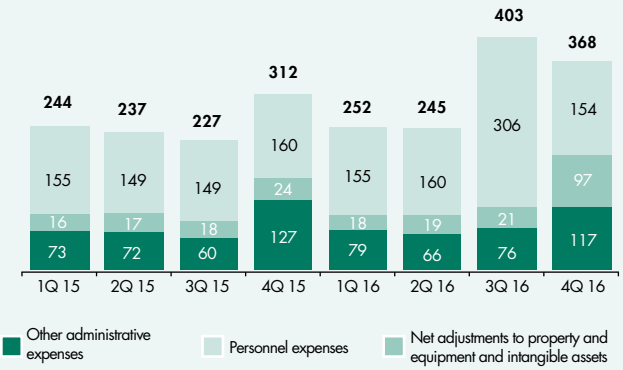
Net adjustments to property and equipment and intangible assets were 155.6 million euro, an increase of approximately 80.9 million euro compared with December 2015 due, above all, to the impairment of software (about 76 million euro) and to the increase in capital expenditure during 2016.

The quarterly analysis of **operating expenses** decreased compared with the third quarter of 2016 by 35 million euro (+8.7%).

In detail, **personnel expenses** in the fourth quarter of 2016 came to 154.3 million euro, a decrease of 151.9 million euro (–49.6%) compared to the third quarter of 2016, a period in which the extraordinary charge for the solidarity fund was recognized in the amount of 165 million euro.

Other administrative expenses increased compared to the third quarter by 40.3 million euro, mainly due to recognition of costs related to the fusion and company transformation (roughly +18 million euro for the fourth quarter) and the additional contribution to the SRF in the amount of 28.9 million euro.

Quarterly trend in operating expenses (euro/mn)



Net adjustments, provisions and other items

Net adjustments for impairment of loans and other activities, in the amount of 420.3 million euro at December 2016, up on the 342.2 million euro posted in the same period of 2015 (+78 million euro; +22.8%). This result includes the write-back on the loan related to the Bipiemme Group's TERCAS FITD (8.6 million euro), which was recognized under item 130d. The breakdown of this aggregate is shown in the table below.

Net adjustments for impairment of loans and other activities: breakdown (euro/000)

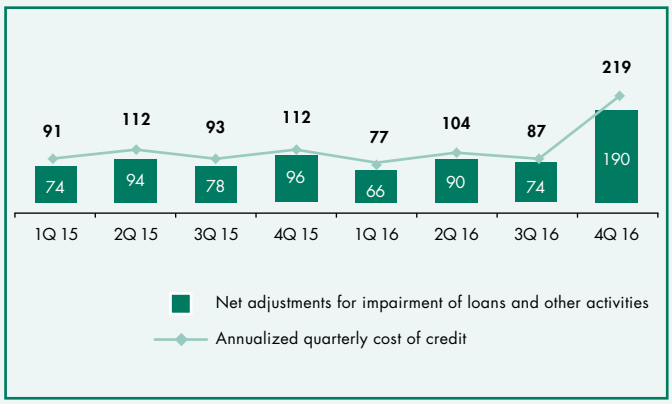
Transactions/ Income elements	Adjustments			Write-backs			Year 2016	Year 2015	Change	
	Specific	Portfolio	Total	Specific	Portfolio	Total			amount	%
Loans:	**(597,925)**	**(14,758)**	**(612,683)**	**151,466**	**46,588**	**198,054**	**(414,629)**	**(332,218)**	**(82,411)**	**–24.8**
Due from banks	–	(1,448)	(1,448)	–	18	18	(1,430)	105	(1,535)	n.a.
Loans to customers	(597,925)	(13,310)	(611,235)	151,466	46,570	198,036	(413,199)	(332,323)	(80,876)	–24.3
Profits/losses on disposal/repurchase of loans	**(23,479)**	**–**	**(23,479)**	**1,694**	**–**	**1,694**	**(21,785)**	**(24,907)**	**3,122**	**12.5**
Other financial activities	**(3,288)**	**(1,236)**	**(4,524)**	**18,950**	**1,737**	**20,687**	**16,163**	**14,889**	**1,274**	**8.6**
Total	**(624,692)**	**(15,994)**	**(640,686)**	**172,110**	**48,325**	**220,435**	**(420,251)**	**(342,236)**	**(78,015)**	**–22.8**

The cost of credit, which is the ratio of annualised net loan adjustments to total loans outstanding, increased from 100 bps at 31 December 2015 to 121 bps at 31 December 2016 (+21 bps). For further analysis, reference should be made to the section in this report regarding Asset Quality.

The quarterly analysis of adjustments on loans and other activities show, in the fourth quarter of 2016, an amount of 190 million euro, up 116 million euro from the previous quarter due to the increase in hedges on non-performing exposures.

The cost of credit shows a similar trend, reaching 219 bps on a quarterly basis.

Quarterly trend in net adjustments for impairment of loans and other activities (euro/mn) and the annualised cost of credit (bps)



Provisions for risks and charges show a negative net balance of 30.3 million euro (vs. a positive balance of 10.8 million euro at the end of December 2015) and mainly includes about 13 million euro for charges relating to reimbursements to customers and 10 million euro in provisions for merger costs.

Profits (losses) from equity and other investments

Profits from equity and other investments came to 141 million euro as at 31 December 2016, as compared to 37.4 million euro for 2015, which included the increase in value of the equity in SelmaBipiemme Leasing following the merger with the shareholding Palladio Leasing.

The main items included in the figure at the end of 2016 were:

- the effect of the price adjustment for the sale of the custodian bank business carried out in previous periods (1.5 million euro);
- income on the sale of a 2.18% interest in Anima Holding (9.7 million euro);
- the further adjustment to the equity investment in SelmaBipiemme Leasing (22.5 million euro) following the merger with Teleleasing, which was also a member of the Mediobanca Group;
- income on the sale of a 5% interest held in Etica SGR (some 1 million euro);
- the write-back on the investment in Anima Holding (108.7 million euro) resulting from the reclassification, which took place in the last quarter of 2016, of the stake held by BPM from the item "Equity investments in associates and companies subject to joint control" to the AFS portfolio.

Net result

Net income was 72.8 million euro at 31 December 2016, down by about 217.1 million euro compared with the net income of 289.9 million euro at the end of 2015. The **net income of the Parent Company**, after recognising **minority interests** of 0.076 million euro, was 72.7 million euro compared with a net income of 288.9 million euro in December 2015 (–74.8%).

Statement of cash flows

The following statement of cash flows of the Bipiemme Group for the year ended 31 December 2016 shows cash absorption of 51.3 million euro, compared with cash absorption of 22.1 million euro in 2015.

During 2016, **operating activities** generated total cash of 132 million euro and in particular:

- **operations** generated cash of 735 million euro, a slight increase from last year;
- **financial assets** absorbed cash of 1,548 million euro, as compared to 2,260 million euro absorbed in 2015;
- **financial liabilities** generated cash of 945 million euro compared to 1,701 million euro generated in December 2015, due essentially to the growth in interbank deposits.

Investing activities absorbed about 65 million euro on the whole, compared to 95 million euro absorbed last year, due essentially to the purchase of property and equipment and intangible assets.

Bipiemme Group – Statement of cash flows (indirect method) (euro/000)

A. OPERATING ACTIVITIES	Year 2016	Year 2015
1. Cash flow from operations	734,622	728,276
2. Cash flow from/used in financial assets	(1,547,537)	(2,259,828)
3. Cash flow from/used in financial liabilities	944,794	1,701,319
Net cash flow from (used in) operating activities	**131,879**	**169,767**
B. INVESTING ACTIVITIES		
1. Cash flow from	29,410	8,790
2. Cash flow used in	(94,812)	(103,532)
Net cash flow from (used in) investing activities	**(65,402)**	**(94,742)**
C. FINANCING ACTIVITIES		
Net cash flow from/ used in financing activities	**(117,742)**	**(97,151)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(51,265)**	**(22,126)**

RECONCILIATION

Line items	31.12.2016	31.12.2015
Cash and cash equivalents at the beginning of the period	300,714	322,840
Net increase (decrease) in cash and cash equivalents	(51,265)	(22,126)
Cash and cash equivalents: foreign exchange effects	0	0
Cash and cash equivalents at the end of the period	**249,449**	**300,714**

Key: (+) generated (–) absorbed

Information on the main Bipiemme Group companies

For a complete description of the Bipiemme Group, information on the 2016 results of the main companies included in the scope of consolidation is shown below. Key income statement and balance sheet figures are provided, together with a brief commentary.

Companies consolidated line-by-line

Banca Akros S.p.A.

Banca Akros – Reclassified balance sheet (euro/000)

Assets	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Cash and cash equivalents	109	37	417	72	n.s.	(308)	–73.9
Financial assets carried at fair value and hedging derivatives:	1,850,273	2,442,727	2,441,934	(592,454)	–24.3	(591,661)	–24.2
– Financial assets held for trading	*1,691,331*	*2,129,532*	*1,929,836*	*(438,201)*	*–20.6*	*(238,505)*	*–12.4*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Financial assets available for sale	*158,942*	*313,195*	*512,098*	*(154,253)*	*–49.3*	*(353,156)*	*–69.0*
– Hedging derivatives	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Fair value change of financial assets in hedged portfolios	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
Due from banks	745,209	669,493	672,523	75,716	11.3	72,686	10.8
Loans to customers	459,878	578,723	522,581	(118,845)	–20.5	(62,703)	–12.0
Fixed assets	39,436	38,736	38,926	700	1.8	510	1.3
Other assets	29,460	26,779	28,971	2,681	10.0	489	1.7
Total assets	**3,124,365**	**3,756,495**	**3,705,352**	**(632,130)**	**–16.8**	**(580,987)**	**–15.7**

Liabilities and shareholders' equity	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Due to banks	558,005	1,082,098	1,461,709	(524,093)	–48.4	(903,704)	–61.8
Due to customers	1,096,788	937,445	667,986	159,343	17.0	428,802	64.2
Securities issued	0	0	0	0	n.a.	0	n.a.
Financial liabilities and hedging derivatives:	1,203,703	1,465,034	1,309,688	(261,331)	–17.8	(105,985)	–8.1
– Financial liabilities held for trading	*1,203,703*	*1,465,034*	*1,309,688*	*(261,331)*	*–17.8*	*(105,985)*	*–8.1*
– Financial liabilities designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Hedging derivatives	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Fair value change of financial liabilities in hedged portfolios	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
Other liabilities	48,096	50,788	43,101	(2,692)	–5.3	4,995	11.6
Provisions for specific use	17,566	19,517	19,085	(1,951)	–10.0	(1,519)	–8.0
Capital and reserves	194,160	197,431	187,213	(3,271)	–1.7	6,947	3.7
Income (loss) for the period (+/–)	6,047	4,182	16,570	1,865	44.6	(10,523)	–63.5
Total liabilities and shareholders' equity	**3,124,365**	**3,756,495**	**3,705,352**	**(632,130)**	**–16.8**	**(580,987)**	**–15.7**

Other information	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Indirect customer deposits (at market value)	1,558,000	1,744,000	2,189,000	(186,000)	–10.7	(631,000)	–28.8
– of which assets under administration	*782,000*	*959,000*	*1,287,000*	*(177,000)*	*–18.5*	*(505,000)*	*–39.2*
– of which assets under management	*776,000*	*785,000*	*902,000*	*(9,000)*	*–1.1*	*(126,000)*	*–14.0*
Headcount at period-end (*)	250	254	255	(4)	–1.6	(5)	–2.0
Number of branches	1	1	1	0	0.0	0	0.0

(*) employees + net secondees + temps + project-based workers

An analysis of the **principal balance sheet** aggregates shows:

- **financial assets and liabilities** consist of securities and financial derivatives, the fair value of which is mainly represented by prices drawn from active markets or determined based on observable parameters (levels 1 and 2). The measurement of regulatory **VaR** ("Value at Risk 99%, 1 day") of the trading book in 2016 was 0.52 million euro on average, stable compared to the previous period; the measurement of VaR, which also incorporates issuers risk (VaR credit spread) was 0.9 million euro on average (vs. 1.1 million euro in 2015);
- the changes in the overall net balance of **amounts due to and from banks** and customers mainly reflects the reduction during the period in the net worth of the proprietary portfolio of financial instruments and also reflects the effect of ordinary repurchase agreements and security lending transactions, which were also entered into with Group banks, and the cash collateral exchanged with counterparties for exposures in OTC financial derivatives;
- **shareholders' equity** totalled about 200 million euro as at 31 December 2016.

the **Common Equity Tier 1** ratio was 18.6% as at 31 December 2016.

Banca Akros – Reclassified income statement (euro/000)

Line items	Year 2016	Year 2015	Change	
			Amount	%
Interest margin	**9,661**	**18,203**	**(8,542)**	**–46.9**
Non-interest margin:	**52,170**	**62,313**	**(10,143)**	**–16.3**
– Net fee and commission income	21,038	27,962	(6,924)	–24.8
– Other income:	31,132	34,351	(3,219)	–9.4
– Dividends from equity investments	*0*	*0*	*0*	*n.a.*
– Net income from banking activities	*30,550*	*33,586*	*(3,036)*	*–9.0*
– Other operating charges/income	*582*	*765*	*(183)*	*–23.9*
Operating income	**61,831**	**80,516**	**(18,685)**	**–23.2**
Administrative expenses:	(51,423)	(49,354)	(2,069)	–4.2
a) personnel expenses	*(28,659)*	*(26,646)*	*(2,013)*	*–7.6*
b) other administrative expenses	*(22,764)*	*(22,708)*	*(56)*	*–0.2*
Net adjustments to property and equipment and intangible assets	(5,228)	(5,045)	(183)	–3.6
Operating expenses	**(56,651)**	**(54,399)**	**(2,252)**	**–4.1**
Operating profit	**5,180**	**26,117**	**(20,937)**	**–80.2**
Net adjustments for impairment of loans and other activities	1,346	(2,941)	4,287	n.a.
Net provisions for risks and charges	1,128	1,997	(869)	43.5
Profits (losses) from equity and other investments	0	0	0	n.a.
Income (loss) before tax from continuing operations	**7,654**	**25,173**	**(17,519)**	**–69.6**
Taxes on income from continuing operations	(1,607)	(8,603)	6,996	81.3
Net result	**6,047**	**16,570**	**(10,523)**	**–63.5**

An analysis of the **principal income statement** aggregates shows:

- a positive **interest margin**, decreasing from 18.2 million euro in 2015 to 9.7 million euro in 2016, largely owing to the reduction in the yields on the own bonds portfolio and the related average volumes.
- a positive **non-interest margin**, in the amount of roughly 52.2 million euro, mainly generated by:
  - **net commission flows** of 21 million euro (vs. about 28 million euro in 2015), achieved via the core activities of collecting and trading orders on regulated markets, including other services such as the provision of access to financial, markets for interconnected professional customers, subscription/placement of equity and bond issues and, in private banking, thanks to individual portfolio management and the fees generated by customers with assets under administration;
  - **net income from banking activities** in the amount of 30.6 million euro (vs. 33.6 million euro in 2015);
- total **operating income** in the amount of 61.8 million euro (vs. 80.5 million euro in 2015);
- **total operating expenses** in the amount of 56.7 million euro (vs. 54.4 million euro in 2015), which includes, in addition to the ten ordinary instalments required, a total of 2.4 million euro in additional contributions paid into the National Resolution Fund.
- **income before tax from continuing operations** (after deducting net adjustments for impairment of loans and net provisions for risks and charges) in the amount of 7.7 million euro (25.2 million euro in 2015);
- **net income** for the period in the amount of 6 million euro (vs. 16.6 million euro in 2015), after tax corresponding to a tax rate of approximately 21%.

Banca Popolare di Mantova S.p.A.

Banca Popolare di Mantova – Reclassified balance sheet (euro/000)

Assets	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Cash and cash equivalents	1,908	5,606	5,782	(3,698)	–66.0	(3,874)	–67.0
Financial assets measured at fair value and hedging derivatives:	11,822	11,844	11,794	(22)	–0.2	28	0.2
– Financial assets held for trading	*150*	*148*	*167*	*2*	*1.4*	*(17)*	*–10.2*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Financial assets available for sale	*11,672*	*11,696*	*11,627*	*(24)*	*–0.2*	*45*	*0.4*
– Hedging derivatives	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Fair value change of financial assets in hedged portfolios	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
Due from banks	12,338	5,348	7,142	6,990	130.7	5,196	72.8
Loans to customers	533,397	520,713	504,863	12,684	2.4	28,534	5.7
Fixed assets	7,510	7,544	7,842	(34)	–0.5	(332)	–4.2
Other assets	17,965	12,556	15,000	5,409	43.1	2,965	19.8
Total assets	**584,940**	**563,611**	**552,423**	**21,329**	**3.8**	**32,517**	**5.9**

Liabilities	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Due to banks	196,748	184,038	178,454	12,710	6.9	18,294	10.3
Due to customers	327,030	311,977	306,276	15,053	4.8	20,754	6.8
Securities issued	11,049	9,980	11,916	1,069	10.7	(867)	–7.3
Financial liabilities and hedging derivatives:	164	164	198	0	0.0	(34)	–17.2
– Financial liabilities held for trading	*164*	*164*	*198*	*0*	*0.0*	*(34)*	*–17.2*
– Financial liabilities designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Hedging derivatives	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
– Fair value change of financial liabilities in hedged portfolios	*0*	*0*	*0*	*0*	*n.a.*	*0*	*n.a.*
Other liabilities	10,317	17,914	18,031	(7,597)	–42.4	(7,714)	–42.8
Provisions for specific use	660	678	879	(18)	–2.7	(219)	–24.9
Capital and reserves	36,635	36,633	35,356	2	0.0	1,279	3.6
Income (loss) for the period (+/–)	2,337	2,227	1,313	110	4.9	1,024	78.0
Total liabilities and shareholders' equity	**584,940**	**563,611**	**552,423**	**21,329**	**3.8**	**32,517**	**5.9**

Other information	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Indirect customer deposits (at market value)	168,422	163,705	181,009	4,717	2.9	(12,587)	–7.0
– of which assets under administration	77,608	75,097	98,668	2,511	3.3	(21,060)	–21.3
– of which assets under management	90,814	88,608	82,341	2,206	2.5	8,473	10.3
Headcount at period-end (*)	73	77	78	(4)	–5.2	(5)	–6.4
Number of branches	16	17	17	(1)	–5.9	(1)	–5.9

(*) dipendenti + saldo distaccati + lavoratori interinali + Co,Co,Pro,

An analysis of the **principal balance sheet** aggregates shows:

Loans to customers amounted to about 533.4 million euro as of 31 December 2016, up 28.5 million euro (+5.7%) with respect to 31 December 2015 and 12.7 million euro (+2.4%) with respect to September 2016. Compared with December 2015, the change was mainly attributable to an increase of 33.6 million euro in mortgage loans (+10.3%), partially offset by the reduction in the item "other lending" (-5.7 million euro; -6.6%). The Bank has continued with its policy of splitting loans, increasing the private and SME component.

As at 31 December 2016, the aggregate "**direct deposits**"- comprising amounts due to customers and securities issued – came to 338.1 million euro, an increase of 19.9 million euro (+6.3%) with respect to 31 December 2015, as a result of the increase in "due to customers" of 20.8 million euro (6.8%) which offset the decrease in "securities issued" (-0.9 million euro; -7.3%).

In detail, comparing the aggregate with the figures reported at the end of 2015, note that:

- **amounts due to customers** came to 327 million euro, an increase of 20.8 million euro (+6.8%), resulting from the increase in "current and savings accounts" (+6.8%);
- **securities issued** amounted to 11 million euro, down 7.3% due to repayments made in the year.

The volume of "**indirect deposits with ordinary customers**", measured at market value, came to about 168.4 million euro at 31 December 2016, down 12.6 million euro (-7.0%) from 31 December 2015 and up 4.7 million euro (+2.9%) compared with September 2016.

Assets under management came to 90.8 million euro, an increase of 8.5 million euro (+10.3%) compared to the end of 2015, primarily due to the positive result of the insurance reserves, while **assets under administration** came to 77.6 million euro, down about 21.2 million euro compared to December 2015 and up compared to September 2016 (+2.5 million euro; +3.3%).

As at 31 December 2015, **shareholders' equity**, including income for the year, totalled 39 million euro, up 2.3 million euro compared with the end of 2015, mainly due to the allocation of profit for 2015 to reserves.

Capital and reserves reached a total of 36.6 million euro including 30.9 million euro for the share premium reserve.

Banca Popolare di Mantova's **financial position** as of 31 December 2016 shows a Total Capital Ratio of 9.02% which is above the minimum level required for 2015 (8.625%) and the trigger of the Risk Appetite Framework (8.70%).

Banca Popolare di Mantova – Reclassified income statement (euro/000)

Line items	Year 2016	Year 2015	Change	
			amount	%
Interest margin	**11,709**	**11,934**	**(225)**	**–1.9**
Non-interest margin:	**5,629**	**5,585**	**44**	**0.8**
– Net fee and commission income	4,928	4,794	134	2.8
– Other income:	701	791	(90)	–11.4
– Dividends from equity investments	*0*	*0*	*0*	*n.a.*
– Net income from banking activities	*33*	*(7)*	*40*	*n.a.*
– Other operating charges/income	*668*	*798*	*(130)*	*–16.3*
Operating income	**17,338**	**17,519**	**(181)**	**–1.0**
Administrative expenses:	(9,465)	(9,535)	70	0.7
a) personnel expenses	*(5,366)*	*(5,338)*	*(28)*	*–0.5*
b) other administrative expenses	*(4,099)*	*(4,197)*	*98*	*2.3*
Net adjustments to property and equipment and intangible assets	(874)	(867)	(7)	–0.8
Operating expenses	**(10,339)**	**(10,402)**	**63**	**0.6**
Operating profit	**6,999**	**7,117**	**(118)**	**–1.7**
Net adjustments for impairment of loans and other activities	(3,424)	(5,090)	1,666	32.7
Net provisions for risks and charges	(13)	36	(49)	n.a.
Profits (losses) from equity and other investments	0	0	0	n.a.
Income (loss) before tax from continuing operations	**3,562**	**2,063**	**1,499**	**72.7**
Taxes on income from continuing operations	(1,225)	(750)	(475)	–63.3
Net result	**2,337**	**1,313**	**1,024**	**78.0**

Operating income amounted to 17.3 million euro as at 31 December 2016, a slight decrease of 181 thousand euro (-1%) compared with the previous year, due to the decrease in the interest margin (–225 thousand euro) and other operating charges/income (–130 thousand euro; –16.3%) partially offset by the increase in net fees and commissions (+134 thousand euro) and net income from banking activities (+40 thousand euro).

In detail:

- the **interest margin** came to 11.7 million euro at the end of 2016, down by 225 thousand euro (–1.9%) from December 2015 also due to the contraction in the commercial margin offset by the lower cost of funding at the Parent Company;
- the **non-interest margin** came to 5.6 million euro at 31 December 2016, slightly higher than the same period in 2015 (+44 thousand euro; +0.8%). This result reflects the increase in net fee and commission income (+134 thousand euro; +2.8%) and the result in banking activities (+40 thousand euro), partially offset by the reduction in other operating charges/income (–130 thousand euro; –16.3%).

The aggregate of **operating expenses** - comprising **administrative expenses** and **net adjustments to property and equipment and intangible assets** – totalled 10.3 million euro as of 31 December 2016, a slight decrease compared to December 2015 (–63 thousand euro; 0.6%).

In detail:

- **personnel expenses** totalled 5.4 million euro as at 31 December 2016, essentially in line with last year (+ 28 thousand; +0.5%);
- **other administrative expenses** came to 4.1 million euro, down 2.3% from December 2015, mainly due to an increase in "tax recoveries" and the gain resulting from the repayment of 81 thousand euro in contributions to the

interbank deposits guarantee fund. Moreover, the item "Other" which shows a positive amount of 26 thousand euro, includes the ordinary contribution of 51 thousand, as required by the European regulation known as the Bank Recovery and Resolution Directive (so-called "bail-in"), the ordinary contribution to the Deposit Guarantee Scheme (DGS) in the amount of 101 thousand euro and the additional contribution to the Single Resolution Fund (SRF) in the amount of 102 thousand euro for a total of 253 thousand euro, entirely offset through recovery from reversal of amounts paid in previous years.

The analysis of the individual items shows, on the other hand, a reduction in "IT expenses" (-108 thousand euro; –21.5%) which only partially offset the increase in the items "Purchase of assets and non-professional services" (+241 thousand euro; +12.6%), "Purchase of professional services" (+100 thousand euro; +34.5%), "Expenses for buildings and furniture" (+64 thousand euro; +8.3%) and "Advertising expenses" (+26 thousand euro; +14.1%).

The cost/income ratio was 59.6%, an increase of 25 bps compared to 59.38% in December 2015.

Net adjustments for impairment of loans and other activities were about 3.4 million euro as at December 2016, down on the 5.1 million euro posted in the same period of 2015 (about –1.7 million euro; -32.7%).

The **cost of credit**, which is the ratio of annualised net loan adjustments to total loans outstanding, decreased from 101 bps at 31 December 2015 to 64 bps at 31 December 2016 (–37 bps).

After having booked taxes of 1.2 million euro, 2016 ended with a net income of some 2.3 million euro, a sharp increase compared with the net income of 1.3 million euro recorded in December 2015.

ProFamily S.p.A.

ProFamily – Reclassified balance sheet

(euro/000)

Assets	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	A	amount	%	amount	%
Cash and cash equivalents	1	0	0	1	n.a.	1	n.a.
Financial assets carried at fair value and hedging derivatives	0	0	0	0	n.a.	0	n.a.
Due from banks	6,019	692	4,318	5,327	n.s.	1,701	39.4
Loans to customers	1,112,118	1,076,069	996,450	36,049	3.4	115,668	11.6
Fixed assets	4,133	4,077	4,649	56	1.4	(516)	–11.1
Other assets	10,638	10,319	10,672	319	3.1	(34)	–0.3
Total assets	**1,132,909**	**1,091,157**	**1,016,089**	**41,752**	**3.8**	**116,820**	**11.5**

Liabilities and shareholders' equity	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	A	amount	%	amount	%
Due to banks	1,041,130	1,002,895	937,346	38,235	3.8	103,784	11.1
Due to customers	2,909	3,092	4,850	(183)	–5.9	(1,941)	–40.0
Securities issued	0	0	0	0	n.a.	0	n.a.
Financial liabilities and hedging derivatives	0	0	0	0	n.a.	0	n.a.
Other liabilities	14,364	13,319	11,554	1,045	7.8	2,810	24.3
Provisions for specific use	1,705	1,888	1,810	(183)	–9.7	(105)	–5.8
Capital and reserves	60,529	60,529	54,861	0	0.0	5,668	10.3
Income (loss) for the period (+/–)	12,272	9,434	5,668	2,838	30.1	6,604	116.5
Total liabilities and shareholders' equity	**1,132,909**	**1,091,157**	**1,016,089**	**41,752**	**3.8**	**116,820**	**11.5**

Other information	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	amount	%	amount	%
Headcount at period-end (*)	103	104	93	–1	–1.0	10	10.8
Number of branches	42	41	33	1	2.4	9	27.3

(*) employees + net secondees + temps + project-based workers

An analysis of the **principal balance sheet aggregates** shows:

- **total assets** reached a total of 1,133 million euro, an increase compared to the 1,016 million euro recorded at the end of 2015. Within this figure, 98% is related to loans to customers, which came to 1,112 million euro, up 11.6% compared with December 2015, mainly relating to outstanding loans to customers;
- **other assets** came to 10.6 million euro and mainly contain 7.2 million euro in tax assets;
- **due to banks**, recorded as liabilities in the financial statements, in the amount of 1,041 million euro, are entirely due to the Parent Company and are attributable to the utilisation of lines of credit related to loans granted;
- **other liabilities**, in the amount of 14.3 million euro, mainly include invoices to be received (6.9 million euro) and payables to Group companies (1.9 million euro);
- **shareholders' equity** came to 72.8 million euro and consisted of share capital in the amount of 50 million euro, including 10.5 million euro in reserves and 12.3 million euro in profit for the current period.

Profamily - Reclassified income statement (euro/000)

Line items	Year 2016	Year 2015	Change	
			amount	%
Interest margin	**39,180**	**34,293**	**4,887**	**14.3**
Non-interest margin:	**6,360**	**3,223**	**3,137**	**97.3**
– Net fee and commission income	4,110	642	3,468	n.a.
– Other income:	2,250	2,581	(331)	–12.8
– Dividends from equity investments	*0*	*0*	*0*	*n.a.*
– Net income from banking activities	*0*	*0*	*0*	*n.a.*
– Other operating charges/income	*2,250*	*2,581*	*(331)*	*–12.8*
Operating income	**45,540**	**37,516**	**8,024**	**21.4**
Administrative expenses:	(18,695)	(18,253)	(442)	–2.4
a) personnel expenses	*(8,081)*	*(7,380)*	*(701)*	*–9.5*
b) other administrative expenses	*(10,614)*	*(10,873)*	*259*	*2.4*
Net adjustments to property and equipment and intangible assets	(1,602)	(2,320)	718	30.9
Operating expenses	**(20,297)**	**(20,573)**	**276**	**1.3**
Operating profit	**25,243**	**16,943**	**8,300**	**49.0**
Net adjustments for impairment of loans and other activities	(6,998)	(8,689)	1,691	19.5
Net provisions for risks and charges	(235)	(88)	(147)	–167.0
Profits (losses) from equity and other investments	0	0	0	n.a.
Income (loss) before tax from continuing operations	**18,010**	**8,166**	**9,844**	**120.5**
Taxes on income from continuing operations	(5,738)	(2,498)	(925)	–37.0
Net result	**12,272**	**5,668**	**2,898**	**51.1**

An analysis of the **principal income statement** aggregates shows:

- **operating income** for 2016 reached 45.5 million euro, up 8.0 million euro on the previous year, resulting from the increase in both interest margin (+4.9 million euro) – which grew due to reduction in the average cost funding – and net fees and commissions (+3.5 million euro) due to the approximately 60% increase in volumes disbursed to the automotive sector;
- **loan adjustments** came to 7 million euro. This figure is down significantly from 2015 (-1.7 million euro), due to the increased efficiency in credit recovery. It's worth noting that in December 2016 the writedown percentages where recalibrated based on the performance analysis of the loan portfolio over a 3-year time span.
- total **administrative expenses** incurred by the company in the year increased to 18.7 million euro compared to 18.3 million euro in 2015. In particular:
  - **personnel expenses** were 8.1 million euro, of which 6.8 million euro pertains to employees;
  - **other administrative expenses** amounted to 10.6 million euro. The main component consists of professional fees and third-party services which came to 4.1 million euro, and mainly include consortium services offered by the Parent Company and the outsourcing services for credit recovery, back-office, contact center, help-desk and digital storage.
- **income before tax from continuing operations** totalled 18.0 million euro, an improvement on the 8.2 million euro recorded at the end of 2015. Income taxes came to 5.7 million euro;
- **net income for the year** was 12.3 million euro compared with last year's income of 5.7 million euro. This result is due to the increase in volumes disbursed to customers, the steady decrease in funding costs and the fact that the bank was able to keep the portfolio at excellent quality levels.

Related party transactions

As the reader will be aware, the rules on related party transactions aim to limit the risk that membership or at least proximity to the company's decision-making centers of by certain parties (i.e. "related parties") might compromise the impartiality of business decisions and exclusive pursuit of the company's interests, with possible distortions in the allocation of resources, exposure of the company to risks not adequately measured or controlled and potential damage to the company and its stakeholders.

In this regard, the Bipiemme Group has adopted special internal regulations, approving the "Regulation of the process of related parties and related entities" (hereinafter the "Regulation"), prepared in accordance with the provisions of the prudential supervision of the Bank of Italy on the subject of associated persons (circular 263/2006, title V, Chapter 5) and the CONSOB Regulation on related party transactions (resolution no. 17221 of 12.3.2010 and subsequent amendments), as well as art. 136 of the Banking Code and available on the website www.gruppobpm.it (to which reference should be made for a detailed description).

In particular, the Group regulation:

i. sets out the criteria for the identification of the Group's related parties and related entities (hereinafter, collectively, "Associated Persons");
ii. defines quantitative limits for the assumption by the Banking Group of risk-weighted assets involving Associated Persons, establishing the methods for their calculation and, at the same time, regulating the system of internal controls over transactions with Associated Persons;
iii. establishes the manner in which transactions with Associated Persons are approved, differentiating between less and more material transactions and defining in this context the role and the duties of the Independent Directors;
iv. identifies cases for exemptions and exceptions for certain categories of transactions with Associated Persons;
v. regulates the disclosure (and accounting) requirements as a result of entering into related party transactions.

Accompanying this regulation (adopted separately by the companies of the Group), we have *(i)* established implementing provisions aimed at defining certain aspects regarding the correct management of transactions with related parties, to optimize the monitoring and management of the related positions by operators, and to identify the specific authorization levels; *(ii)* to collect in a single integrated text (available on www.gruppobpm.it to which reference should be made for details) the internal policies regarding controls over risk assets and conflicts of interest in respect of Associated Persons adopted by the Group.

Therefore, having set out the general legal framework and regulatory system for "related parties" within the Group, it should be pointed out that, with particular reference to the granting of loans (one of the Bank's main businesses), the IT procedures currently used make it possible, among other things, to recognize immediately – and consequently to centralize automatically with the pertinent head office structures – any lines of credit granted to those who are considered to be a related party.

Having said this by way of general introduction, as regards financial year 2016 and, in particular, the relationships between the Bank and its subsidiaries and associates, as well as with other related parties, we would point out that any such transactions have been carried out as part of the Bank's normal day-to-day activities. They are regulated at market conditions for transactions of that type and, where these do not exist, based on an adequate remuneration of the costs incurred to produce the services rendered.

In particular in this context, it should be noted that—without prejudice to the following—in 2016:

- there were no atypical or unusual transactions with related parties or any such that would significantly affect the balance sheet, income statement or financial position or the accuracy of the financial and other information concerning the issuer or that would in any way require disclosure to the market in accordance with the Consob's Issuers Regulation in force;

- all loans to subsidiaries and associates, as well as to other affiliates were subjected to Board approval regardless of the amount, as foreseen in the internal Credit Line Regulations (without prejudice, where applicable, to the instructions on related party/associated persons transactions contained in the "Rules");
- also subject to board resolution – i.e. approved by a unanimous vote of the directors, with the exception of the abstentions by the parties concerned, and with the unanimous vote in favor by the auditing body – are the transactions carried out directly or indirectly (and, thus, also through "close relatives") with persons that fall into the field of application of art. 136 of the Banking Code (concerning obligations of a bank's corporate officers);

at the level of individual transactions:

- for the purposes of the overall process of rationalization of the Bipiemme Group and within the context of the process that has begun in relation to the **merger** between Banca Popolare di Milano S.c.ar.l. (BPM) and Banco Popolare S.C. (which was completed on 1 January 2017 with the creation of a new Bank Parent under the name Banco BPM S.p.A.), in the second half of 2016, BPM reached an agreement with the leading minority shareholders of the subsidiary Banca Popolare di Mantova S.p.A. ("BP Mantova") and related parties for the acquisition of their respective minority interests (on the whole representing around 30% of the share capital of BP Mantova as at the acquisition date). The minority shareholders of BP Mantova were, at the time, classified as related parties; therefore, in this context, specific measures required by applicable laws and (internal and external) regulations concerning related parties were implemented. Given its characteristics, the acquisition was categorized as a "less material" transaction and subject, therefore, to a specific set of regulatory requirements. Furthermore, on 12 December 2016, the shareholders of BP Mantova, in an extraordinary meeting, approved a capital increase totaling 4 billion euro (including share premium) by issuing a total of 125,498,070 ordinary shares without option rights being destined to be subscribed and settled in kind by BPM by transferring the business unit encompassing the entire network of BPM bank branches to BP Mantova (the "Transfer"), including all assets and liabilities strictly connected to relations and operations with BPM customers. This increase in share capital has been categorized as a related party transaction. Therefore, in this context, specific measures required by applicable laws and (internal and external) regulations concerning related parties were implemented. Having met the proper conditions, for BPM the transaction benefitted from the exemptions allowed by law in that it was executed with a subsidiary without the involvement of any other significant related parties;
- on 27 December 2016, the Bank purchased from the Cassa di Risparmio di Alessandria Foundation ("CRAL Foundation") – at the time categorized as a related party by BPM as a strategic partner – its 3.11% interest in the subsidiary Banca Akros S.p.A. Therefore, in this context, specific measures required by applicable laws and (internal and external) regulations concerning related parties were implemented. Given its characteristics, the acquisition was categorized as a "less material" transaction for BPM and subject, therefore, to a specific set of regulatory requirements.

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With reference to the requirements of article 5, paragraph 8, of Consob Regulation 17221/2010 (and subsequent amendments) on interim accounting information, note that as part of its normal operations the Bank carried out a number of transactions with related parties in 2016 that would qualify as being of "greater materiality" (under Consob's regulation and the related internal procedure); in particular, these transactions were carried out with direct or indirect subsidiary companies or associates of the Bank.

In this regard, with particular reference to credit line relationships (understood as the overall credit positions granted), the following is a summary table of the credit line relationships maintained by BPM with these companies, approved or revised by BPM during 2016, and falling within the said materiality parameters.

(amounts in thousands of euro)

Counterparty	Nature of relationship	Total credit granted – minimum	Total credit granted – maximum
Anima Holding S.p.A.	Associated company	130,000	690,000
BPM Covered Bond S.r.l.	Subsidiary company	6,870,664	7,303,650
BPM Covered Bond 2 S.r.l.	Subsidiary company	2,119,997	3,469,997
Factorit SpA	Associated company	290,000	310,000
ProFamily SpA	Subsidiary company	1,122,042	1,321,246
SelmaBipiemme Leasing SpA	Associated company	211,120	411,110

In addition, the Parent Company also carries out routine transactions with Banca Akros S.p.A. involving the specific activities of that subsidiary. These include, in particular, the provision of rotating funds that are used by Banca Akros S.p.A. for operations in the capital markets, as well as overnight transactions and repurchase agreements.

It should also be noted that the Bank has sole the following to the special-purpose vehicle (SPV) BPM Covered Bond 2 Srl (a subsidiary of BPM):

- in the first half of 2016 – as part of a new program to issue covered bonds – a portfolio of residential mortgage loans with a nominal value of roughly 870 million euro, granting the SPV a loan of the same amount. The total value of the portfolio was paid for by BPM Covered Bond 2 Srl using the above loans;
- in the second half of 2016 – as part of the 2015 program to issue covered bonds – a portfolio of residential mortgage loans with a nominal value of roughly 423 million euro, granting the SPV a loan of the same amount. The total value of the portfolio was paid for by BPM Covered Bond 2 Srl using the above loans.

Outlook

Political developments in Europe and the United States and the consequences of the Brexit referendum are the sources of greatest uncertainty that could have a negative impact on global economic growth over the coming months. In 2017, Europe's political scene will be marked by a series of significant elections, including in the **Netherlands** in March, in **France** in April, and in **Germany** in September. Trump's political agenda in the **United States** calls for an increase in import barriers in opposition of multilateral trade agreements as well as greater barriers to immigration, and this could present a series of threats for emerging (and other) nations that depend on the country as a driver of their growth. In **Italy**, the defeat of the referendum opens the door to political uncertainty that, should it prove to continue for longer than expected, could lead to a worsening in consumer and business confidence and interrupt the already fragile turnaround in domestic demand. According to the latest forecasts by Prometeia, GDP for the euro area in 2017 should grow by 1.5% (remaining virtually stable compared to 2016), whereas the United States should see growth of 2.4%. Italy specifically is expected to see growth of 0.7%, which is lower than 2016 performance and will be mainly driven by domestic demand, whereas foreign demand is expected to see negative growth.
In a domestic economy characterized by slow growth, low levels of inflation and interest rates that appear destined to remain at exceptionally low levels, the situation for Italy's banking industry remains delicate as we await solutions to significant contexts of crisis. The focus of regulators and of the market will continue to be on the level of deteriorated loans and on actions that can be taken to normalize loan volumes. Efforts to increase efficiency and adapt the business model in order to regain adequate, sustainable levels of profitability over the medium term will be continuing.

Given this landspace, Banco BPM Group's activities will continue along the current path in compliance with the guidelines set in the Business Plan that was approved in May 2016. The commercial business strategy will continue to be honed to improving the Group's coverage of the territory, the level of its services provided to our customers, and attention to credit activities which, thanks to the sound capital base and the liquidity, ought to confirm, especially in the corporate segment, the signs of a recovery in volumes despite the higher competition. As regards funding, we expect to continue the shift towards on-demand deposits and away from term deposits as well as making greater use of the TLTRO, in so doing bringing down the cost of funding and helping to limit erosion in the spread between lending and deposit interest rates.
Under non-interest income, net fees and commission ought to continue benefitting from the increase in loans and the effects of the economic recovery on bank services, particularly in support of lending. Management, intermediation and advisory services are also expected to grow with the help of development initiatives for the new Group. Careful risk control will be another important lever in profitability, while rationalization and efficiency-improvement efforts will help to contain costs.

Risks and uncertainties

The operations of the Banco BPM Group are exposed to the risk of a macroeconomic trend that differs from that expected, with particular reference to the domestic economy and the territories in which the Group is more present. In addition to the effects of Brexit as mentioned above, further risk factors could come from the emergence of protectionist tendencies and potential turbulence in emerging markets associated with the normalization of monetary policy in the United States. The drop in oil prices and the geopolitical tensions in the Middle East could be causes of more unstable growth, while the uncertainties arising from low inflation in the euro area are currently being fought by highly expansionary monetary policy.

With reference to the aforementioned merger, it should be noted that this type of operation, by its very nature, is exposed to certain risks, including, but not limited to, loss of customers and legal and operational risks.

Opting out of the obligation to publish a prospectus in the event of significant transactions

As allowed by art. 3 of Consob Resolution no. 18079 of 20 January 2012, the Management Board of Banca Popolare di Milano has decided to take advantage of the opt-out provided for in art. nos. 70, paragraph 8, and 71, paragraph 1-bis, of CONSOB Reg. no. 11971/99 (as amended).

Report on Corporate Governance and Ownership Structure (art. 123-bis of the CFA)

The "Report on Corporate Governance and Ownership Structure" containing, among other things, the information required by art. 123-bis of the Consolidated Finance Act, is presented in a separate report from this report and is available at the registered office, as well as on the corporate website (www.bancobpm.it) in the "Corporate Governance" section as required by law.

Consolidated financial statements

Bipiemme Group – Consolidated balance sheet

(euro/000)

Line items – assets		31.12.2016	31.12.2015
10.	Cash and cash equivalents	249,449	300,714
20.	Financial assets held for trading	1,562,491	1,797,874
30.	Financial assets designated at fair value through profit and loss	19,240	75,543
40.	Financial assets available for sale	9,633,116	9,491,248
50.	Investments held to maturity	0	0
60.	Due from banks	2,185,297	1,224,717
70.	Loans to customers	34,771,008	34,186,837
80.	Hedging derivatives	44,835	40,638
90.	Fair value change of financial assets in hedged portfolios (+ / -)	10,514	11,237
100.	Investments in associates and companies subject to joint control	231,677	342,145
110.	Technical insurance reserves reinsured with third parties	0	0
120.	Property and equipment	718,015	720,383
130.	Intangible assets	81,614	136,931
	of which:		
	– goodwill	*0*	*0*
140.	Tax assets	1,064,350	1,101,490
	a) current	*135,558*	*229,901*
	b) deferred	*928,792*	*871,589*
	of which Law no. 214/11	*695,899*	*716,452*
150.	Non-current assets and disposal groups held for sale	0	0
160.	Other assets	559,433	773,543
Total assets		**51,131,039**	**50,203,300**

Bipiemme Group – Consolidated balance sheet

(euro/000)

Line items – liabilities and shareholders' equity		31.12.2016	31.12.2015
10.	Due to banks	7,385,667	4,839,439
20.	Due to customers	30,688,439	28,622,852
30.	Securities issued	5,687,758	8,849,290
40.	Financial liabilities held for trading	1,215,764	1,183,557
50.	Financial liabilities designated at fair value through profit and loss	94,899	129,627
60.	Hedging derivatives	32,894	48,678
70.	Fair value change of financial liabilities in hedged portfolios (+ / -)	19,941	18,086
80.	Tax liabilities	68,114	132,166
	a) current	*141*	*0*
	b) deferred	*67,973*	*132,166*
90.	Liabilities associated with assets and disposal groups held for sale	0	0
100.	Other liabilities	999,152	1,297,729
110.	Employee termination indemnities	132,398	125,451
120.	Allowances for risks and charges:	440,257	309,104
	a) post employment benefits	*86,555*	*91,913*
	b) other allowances	*353,702*	*217,191*
130.	Technical reserves	0	0
140.	Valuation reserves	20,809	220,255
150	Redeemable shares	0	0
160.	Equity instruments	0	0
170.	Reserves	906,099	753,717
180.	Share premium reserve	0	445
190.	Share capital	3,365,439	3,365,439
200.	Treasury shares (-)	(621)	(1,416)
210.	Minority interests (+/-)	1,306	19,974
220.	Net income (loss) for the period (+ / -)	72,724	288,907
Total liabilities and shareholders' equity		**51,131,039**	**50,203,300**

Bipiemme Group – Consolidated income statement

(euro/000)

Line items – income statement		Year 2016	Year 2015
10.	Interest and similar income	1,017,659	1,160,394
20.	Interest and similar expense	(229,619)	(353,648)
30.	**Interest margin**	**788,040**	**806,746**
40.	Fee and commission income	658,327	678,897
50.	Fee and commission expense	(73,073)	(72,901)
60.	**Net fee and commission income**	**585,254**	**605,996**
70.	Dividend and similar income	15,714	13,065
80.	Profits (losses) on trading	49,382	37,937
90.	Fair value adjustments in hedge accounting	(47)	(9,623)
100.	Profits (losses) on disposal or repurchase of:	172,249	163,092
	a) loans	*(13,210)*	*(24,907)*
	b) financial assets available for sale	*185,479*	*200,980*
	c) investments held to maturity	*0*	*0*
	d) financial liabilities	*(20)*	*(12,981)*
110.	Profits (losses) on financial assets and liabilities designated at fair value	(8,895)	(5,136)
120.	**Net interest and other banking income**	**1,601,697**	**1,612,077**
130.	Net losses/recoveries on impairment of:	(469,057)	(359,847)
	a) loans	*(414,629)*	*(332,218)*
	b) financial assets available for sale	*(70,591)*	*(42,518)*
	c) investments held to maturity	*0*	*0*
	d) other financial activities	*16,163*	*14,889*
140.	**Net income from banking activities**	**1,132,640**	**1,252,230**
150.	Net insurance premiums	0	0
160.	Other net insurance income (expenses)	0	0
170.	**Net income from banking and insurance activities**	**1,132,640**	**1,252,230**
180.	Administrative expenses:	(1,205,699)	(1,031,947)
	a) personnel expenses	*(775,296)*	*(612,382)*
	b) other administrative expenses	*(430,403)*	*(419,565)*
190.	Net provisions for risks and charges	(30,325)	10,758
200.	Net adjustments to/recoveries on property and equipment	(38,956)	(41,018)
210.	Net adjustments to/recoveries on intangible assets	(111,557)	(29,125)
220.	Other operating expenses/income	115,789	122,513
230.	**Operating expenses**	**(1,270,748)**	**(968,819)**
240.	Profits (losses) on investments in associates and companies subject to joint control	162,023	70,004
250.	Net result of valuation differences on property, equipment and intangible assets measured at fair value	0	0
260.	Goodwill impairment	0	0
270.	Profits (losses) on disposal of investments	1,393	6
280.	**Income (loss) before tax from continuing operations**	**25,308**	**353,421**
290.	Taxes on income from continuing operations	47,492	(63,512)
300.	**Income (loss) after tax from continuing operations**	**72,800**	**289,909**
310.	Income (loss) after tax from discontinued operations	0	0
320.	**Net income (loss) for the period**	**72,800**	**289,909**
330.	Net income (loss) for the period attributable to minority interests	(76)	(1,002)
340.	**Net income (loss) for the period attributable to the Parent Company**	**72,724**	**288,907**
	Basic EPS from continuing operations – euro	0.017	0.066
	Diluted EPS from continuing operations – euro	0.017	0.066
	Basic EPS – euro	**0.017**	**0.066**
	Diluted EPS – euro	**0.017**	**0.066**

Bipiemme Group – Consolidated statement of comprehensive income

(euro/000)

Line items		Year 2016	Year 2015
10.	**Net income (loss) for the period(*)**	**72,800**	**289,909**
	Other comprehensive income, net of tax, without reversal to the income statement	**(3,695)**	**2,833**
20.	Property and equipment	0	0
30.	Intangible assets	0	0
40.	Actuarial gains (losses) on defined benefit plans	(3,518)	2,908
50.	Non-current assets held for sale	0	0
60.	Share of valuation reserves connected with investments carried at equity	(177)	(75)
	Other comprehensive income, net of tax, with reversal to the income statement	**(195,760)**	**(104,575)**
70.	Hedging of foreign investments	0	0
80.	Foreign exchange differences	0	0
90.	Cash flow hedges	1,264	73
100.	Financial assets available for sale	(196,891)	(105,500)
110.	Non-current assets held for sale	0	0
120.	Share of valuation reserves connected with investments carried at equity	(133)	852
130.	**Total other comprehensive income, net of tax**	**(199,455)**	**(101,742)**
140.	**Total comprehensive income (line items 10+130)**	**(126,655)**	**188,167**
150.	Total consolidated comprehensive income attributable to minority interests	(67)	(922)
160.	**Total consolidated comprehensive income attributable to the Parent Company**	**(126,722)**	**187,245**
(*)	*Net income (loss) for the period attributable to the Parent Company*	*72,724*	*288,907*
	Net income (loss) for the period attributable to minority interests	*76*	*1,002*
	Net income (loss) for the period	*72,800*	*289,909*

The result for the period presented in the statement of comprehensive income includes the changes in value of the assets recognised as a counter-entry in the valuation reserves (net of tax) in the period.

Bipiemme Group – Consolidated statement of changes in shareholders' equity

	Balance at 31.12.2015	Change in opening balances	Balance at 1.1.2016	Allocation of result for the previous year		Changes for the year		
				Reserves	Dividends and other allocations	Changes in reserves(*)	Operations on shareholders' equity	
							Issue of new shares (**)	Purchase of treasury shares
Share capital:	**3,367,802**	**0**	**3,367,802**	**0**	**0**	**0**	**0**	**0**
a) Ordinary shares	3,367,802	0	3,367,802	0	0	0	0	0
b) Other shares	0	0	0	0	0	0	0	0
Share premium reserve	**12,338**	**0**	**12,338**	**0**	**0**	**0**	**(445)**	**0**
Reserves:	**758,423**	**0**	**758,423**	**171,114**	**0**	**789**	**(15,685)**	**0**
a) Retained earnings	736,500	0	736,500	171,114	0	0	0	0
b) Others	21,923	0	21,923	0	0	789	(15,685)	0
Valuation reserves:	**220,265**	**0**	**220,265**	**0**	**0**	**0**	**0**	**0**
a) Available for sale	272,409	0	272,409	0	0	0	0	0
b) Cash flow hedges	(4,429)	0	(4,429)	0	0	0	0	0
c) Actuarial gains (losses) on defined benefit pension plans	(59,130)	0	(59,130)	0	0	0	0	0
d) Non-current assets held for sale and discontinued operations	0	0	0	0	0	0	0	0
e) Portion of valuation reserves connected with investments held at equity	(2,027)	0	(2,027)	0	0	0	0	0
f) Special revaluation laws	13,442	0	13,442	0	0	0	0	0
Equity instruments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Treasury shares	**(1,416)**	**0**	**(1,416)**	**0**	**0**	**0**	**16,279**	**(15,484)**
Net income (loss) for the period	**289,909**	**0**	**289,909**	**(171,114)**	**(118,795)**	**0**	**0**	**0**
Shareholders' equity	**4,647,321**	**0**	**4,647,321**	**0**	**(118,795)**	**789**	**149**	**(15,484)**
Group shareholders' equity	**4,627,347**	**0**	**4,627,347**	**0**	**(118,537)**	**789**	**149**	**(15,484)**
Minority interests	**19,974**	**0**	**19,974**	**0**	**(258)**	**0**	**0**	**0**

(*) The amounts shown in this column mainly represent the charge against income relating to profit sharing arising from the allocation of shares to employees pursuant to article 60 of the bylaws.

(**) The amounts shown in this column represent:

- the allocation of 39,539,280 shares to employees relating to profit sharing for 2015 pursuant to article 60 of the bylaws. Such allocation led to a decrease in the share premium reserve of 444,795 euro and in reserves of 134,392 euro;
- changes in treasury shares which led to a decrease of 18,520 euro in reserves.

at 31 December 2016

(euro/000)

Changes for the year					Comprehensive income 2016	Shareholders' equity at 31.12.2016	Group shareholders' equity at 31.12.2016	Minority interests at 31.12.2016
Operations on shareholders' equity								
Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	*Stock options*	Changes in equity interests(***)				
0	**0**	**0**	**0**	**(2,230)**	**0**	**3,365,572**	**3,365,439**	**133**
0	0	0	0	(2,230)	0	3,365,572	3,365,439	133
0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**(10,888)**	**0**	**1,005**	**0**	**1,005**
0	**0**	**0**	**0**	**(8,451)**	**0**	**906,190**	**906,099**	**91**
0	0	0	0	(8,451)	0	899,163	899,072	91
0	0	0	0	0	0	7,027	7,027	0
0	**0**	**0**	**0**	**0**	**(199,455)**	**20,810**	**20,809**	**1**
0	0	0	0	0	(196,891)	75,518	75,516	2
0	0	0	0	0	1,264	(3,165)	(3,165)	0
0	0	0	0	0	(3,518)	(62,648)	(62,647)	(1)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	(310)	(2,337)	(2,337)	0
0	0	0	0	0	0	13,442	13,442	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	**0**	**0**	**0**	**0**	**0**	**(621)**	**(621)**	**0**
0	**0**	**0**	**0**	**0**	**72,800**	**72,800**	**72,724**	**76**
0	**0**	**0**	**0**	**(21,569)**	**(126,655)**	**4,365,756**	**4,364,450**	**1,306**
0	**0**	**0**	**0**	**(3,092)**	**(126,722)**	**4,364,450**	**4,364,450**	
0	**0**	**0**	**0**	**(18,477)**	**67**	**1,306**		

Bipiemme Group – Consolidated statement of changes in shareholders' equity

	Balance at 31.12.2014	Change in opening balances	Balance at 1.1.2015	Allocation of result for the previous year		Changes for the year		
				Reserves	Dividends and other allocations	Changes in reserves(*)	Operations on shareholders' equity	
							Issue of new shares (**)	Purchase of treasury shares
Share capital:	**3,367,798**	**0**	**3,367,798**	**0**	**0**	**0**	**0**	**0**
a) Ordinary shares	3,367,798	0	3,367,798	0	0	0	0	0
b) Other shares	0	0	0	0	0	0	0	0
Share premium reserve	**11,982**	**0**	**11,982**	**0**	**0**	**0**	**445**	**0**
Reserves:	**622,241**	**0**	**622,241**	**136,061**	**0**	**16,094**	**(15,969)**	**0**
a) Retained earnings	600,443	0	600,443	136,061	0	0	0	0
b) Others	21,798	0	21,798	0	0	16,094	(15,969)	0
Valuation reserves:	**322,007**	**0**	**322,007**	**0**	**0**	**0**	**0**	**0**
a) Available for sale	377,909	0	377,909	0	0	0	0	0
b) Cash flow hedges	(4,502)	0	(4,502)	0	0	0	0	0
c) Actuarial gains (losses) on defined benefit pension plans	(62,038)	0	(62,038)	0	0	0	0	0
d) Non-current assets held for sale and discontinued operations	0	0	0	0	0	0	0	0
e) Portion of valuation reserves connected with investments held at equity	(2,804)	0	(2,804)	0	0	0	0	0
f) Special revaluation laws	13,442	0	13,442	0	0	0	0	0
Equity instruments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Treasury shares	**(854)**	**0**	**(854)**	**0**	**0**	**0**	**16,445**	**(17,007)**
Net income (loss) for the period	**232,933**	**0**	**232,933**	**(136,061)**	**(96,872)**	**0**	**0**	**0**
Shareholders' equity	**4,556,107**	**0**	**4,556,107**	**0**	**(96,872)**	**16,094**	**921**	**(17,007)**
Group shareholders' equity	**4,536,683**	**0**	**4,536,683**	**0**	**(96,589)**	**16,094**	**921**	**(17,007)**
Minority interests	**19,424**	**0**	**19,424**	**0**	**(283)**	**0**	**0**	**0**

(*) The amounts shown in this column mainly represent the charge against income relating to profit sharing arising from the allocation of shares to employees pursuant to article 60 of the bylaws.

(**) The amounts shown in this column represent:

- the allocation of 16,688,831 shares to employees relating to profit sharing for 2014 pursuant to article 60 of the bylaws. Such allocation led to an increase in the share premium reserve of 442 thousand euro;
- changes in treasury shares which led to an increase of 2 thousand euro in the share premium reserve.

at 31 December 2016

(euro/000)

Changes for the year					Comprehensive income 2015	Shareholders' equity at 31.12.2015	Group shareholders' equity at 31.12.2015	Minority interests at 31.12.2015
Operations on shareholders' equity								
Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	*Stock options*	Changes in equity interests(***)				
0	**0**	**0**	**0**	**4**	**0**	**3,367,802**	**3,365,439**	**2,363**
0	0	0	0	4	0	3,367,802	3,365,439	2,363
0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**(89)**	**0**	**12,338**	**445**	**11,893**
0	**0**	**0**	**0**	**(4)**	**0**	**758,423**	**753,717**	**4,706**
0	0	0	0	(4)	0	736,500	731,794	4,706
0	0	0	0	0	0	21,923	21,923	0
0	**0**	**0**	**0**	**0**	**(101,742)**	**220,265**	**220,255**	**10**
0	0	0	0	0	(105,500)	272,409	272,351	58
0	0	0	0	0	73	(4,429)	(4,429)	0
0	0	0	0	0	2,908	(59,130)	(59,082)	(48)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	777	(2,027)	(2,027)	0
0	0	0	0	0	0	13,442	13,442	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	**0**	**0**	**0**	**0**	**0**	**(1,416)**	**(1,416)**	**0**
0	**0**	**0**	**0**	**0**	**289,909**	**289,909**	**288,907**	**1,002**
0	**0**	**0**	**0**	**(89)**	**188,167**	**4,647,321**	**4,627,347**	**19,974**
0	**0**	**0**	**0**	**0**	**187,245**	**4,627,347**	**4,627,347**	
0	**0**	**0**	**0**	**(89)**	**922**	**19,974**		

Bipiemme Group – Consolidated statement of cash flows – indirect method

(euro/000)

A. OPERATING ACTIVITIES	Year 2016	Year 2015
1. Cash from operations	**734,622**	**728,276**
– net income (loss) for the period (+/-)	72,724	288,907
– gains (losses) on financial assets held for trading and on financial assets/liabilities designated at fair value through profit and loss (-/+)	(4,398)	(30,956)
– gains (losses) on hedging activities (-/+)	47	9,623
– net adjustments to/recoveries on impairment (+/-)	489,354	389,798
– net adjustments to/recoveries on property and equipment and intangible assets (+/-)	150,513	70,143
– net provisions for risks and charges and other income/expense	205,519	8,675
– net insurance premiums to be collected (-)	0	0
– other insurance income/expense to be collected (-/+)	0	0
– taxes and duties to be settled (+)	(27,833)	63,512
– net adjustments to/recoveries on discontinued operations net of tax effect (+/-)	0	0
– other adjustments	(151,304)	(71,426)
2. Cash from/used in financial assets	**(1,547,537)**	**(2,259,828)**
– financial assets held for trading	248,266	158,800
– financial assets designated at fair value through profit and loss	47,539	18,440
– financial assets available for sale	(94,328)	171,095
– due from banks: repayable on demand	299,767	2,323
– due from banks: other	(1,261,777)	(242,158)
– loans to customers	(1,016,069)	(2,461,398)
– other assets	229,065	93,070
3. Cash from/used in financial liabilities	**944,794**	**1,701,319**
– due to banks: repayable on demand	(138,734)	(214,845)
– due to banks: other	2,684,962	1,735,720
– due to customers	2,061,011	914,873
– securities issued	(3,177,636)	(78,934)
– financial liabilities held for trading	32,207	(279,888)
– financial liabilities designated at fair value through profit and loss	(34,449)	(23,223)
– other liabilities	(482,567)	(352,384)
Net cash from (used in) operating activities	**131,879**	**169,767**
B. INVESTING ACTIVITIES		
1. Cash from	**29,410**	**8,790**
– sales of investments in associates and companies subject to joint control	28,566	8,780
– dividends collected from associates and companies subject to joint control	0	0
– sales of investments held to maturity	0	0
– sales of property and equipment	844	10
– sales of intangible assets	0	0
– sales of subsidiaries and business branches	0	0
2. Cash used in	**(94,812)**	**(103,532)**
– purchases of investments in associates and companies subject to joint control	0	0
– purchases of investments held to maturity	0	0
– purchases of property and equipment	(37,550)	(45,559)
– purchases of intangible assets	(57,262)	(57,973)
– purchases of ubsidiaries and business branches	0	0
Net cash from (used in) investing activities	**(65,402)**	**(94,742)**
C. FINANCING ACTIVITIES		
– issue/purchase of treasury shares	795	(562)
– issue/purchase of equity instruments	0	0
– dividends distributed and other	(118,537)	(96,589)
Net cash from (used in) financing activities	**(117,742)**	**(97,151)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(51,265)**	**(22,126)**

RECONCILIATION		
Line items	**31.12.2016**	**31.12.2015**
Cash and cash equivalents at the beginning of the period	300,714	322,840
Net increase (decrease) in cash and cash equivalents	(51,265)	(22,126)
Cash and cash equivalents: foreign exchange effects	0	0
Cash and cash equivalents at the end of the period	**249,449**	**300,714**

Key: (+) cash from activities (-) cash used in activities

Consolidated Explanatory Notes

- Part A – Accounting Policies
- Part B – Information on the consolidated balance sheet
- Part C – Information on the consolidated income statement
- Part D – Consolidated comprehensive income
- Part E – Information on risks and related hedging policies
- Part F – Information on consolidated capital
- Part G – Business combinations
- Part H – Related party transactions
- Part I – Share-based payments
- Part L – Segment reporting

Part A
Accounting Policies

A. 1 – General Part

Section 1
Declaration of conformity with IFRS

In application of Legislative Decree no. 38 of 28 February 2005, the financial statements of the Bipiemme Group at 31 December 2016 have been prepared in accordance with the International Accounting Standards/International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the relative interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) as adopted by the European Commission, pursuant to Regulation (EC) no. 1606 of 19 July 2002.

The IAS/IFRS applicable at 31 December 2016 and adopted by the European Commission have been used to prepare the consolidated financial statements, including IFRIC/SIC interpretations. A list of the standards and interpretations applied is included as an attachment to these financial statements.
Reference should be made to "Section 2 – General basis of preparation" below for details of the standards adopted by the European Commission in 2016 and in previous years whose application is planned for 2016 (or future years). Section 2 also discusses the main effects of these for the Group.

Section 2
General basis of preparation

These consolidated financial statements have been prepared pursuant to paragraph 1 of article 38 of Decree no. 136 of 18 August 2015, as Banca Popolare di Milano (hereafter "BPM" or the "Parent Company") is an IFRS intermediary, as defined in article 2, paragraph 1c) of Legislative Decree no. 38 of 28 February 2005 as amended.

The consolidated financial statements have also been prepared in accordance with the instructions issued by the Bank of Italy – in compliance with the powers established by article 9, paragraph 1, of Legislative Decree no. 38/2005 – under the Bank of Italy's Circular no. 262/05 of 22 December 2005 "Bank financial statements: formats and rules for their preparation" and subsequent updates. These instructions establish the format of the financial statements and the related method of compilation, as well as the contents of the explanatory notes, and are binding.

In preparing the consolidated financial statements the IAS/IFRS effective at 31 December 2016 have been applied (including all SIC and IFRIC interpretations) as listed in the attachments to these financial statements. To help interpret and support this application other documents prepared by the IASB or IFRIC to supplement the accounting standards have also taken into account, even if they have not yet been endorsed, including: The Conceptual Framework for Financial Reporting, Implementation Guidance, Basis for Conclusions, IASB Updates and IFRIC Updates.

In addition, the interpretations for applying IAS/IFRS in Italy prepared by the Italian Accounting Board (OIC) and the Italian Banking Association (ABI) have been used, as well as the documents issued by ESMA (European Securities and Markets Authority) and Consob which make reference to specific IAS/IFRS standards or guidelines.

In accordance with article 5, paragraph 2 of Legislative Decree no. 38 of 28 February 2005, the consolidated financial statements have been prepared with the euro as the reporting currency. In particular, in line with the instructions issued by the Bank of Italy, the amounts reported in the financial statements and in the explanatory notes, as well as those indicated in the report on operations, are expressed in thousands of euro unless otherwise specified. Roundings have been made on the basis of the Bank of Italy's recommendations.
The financial statements have been prepared taking into account the following general principles laid down in IAS 1 "Presentation of Financial Statements" and the specific accounting principles endorsed by the European Commission and explained in Part A.2 "Part relating to the main line items in the financial statements" and in compliance with the general assumptions from "The Conceptual Framework for Financial Reporting" issued by the IASB with particular

regard to the fundamental principle regarding the prevalence of substance over form, and the concept of relevance and materiality.

No exceptions have been made to the application of IAS/IFRS.

The explanatory notes and the report on operations provide the information required by international accounting standards, by laws, by the Bank of Italy and by Consob (*Commmissione Nazionale per le Società e la Borsa* – the public authority responsible for regulating the Italian financial markets), as well as other information even if not required but nonetheless deemed necessary to give a true and fair view of the Group's situation.
The consolidated financial statements of the Bipiemme Group at 31 December 2016 relate to the companies (subsidiaries, associates and joint ventures) included in the scope of consolidation as detailed in the below section 3 entitled "Scope of consolidation and consolidation procedures", which also reports the changes that took place during the period.

Evolution of international accounting standards

Changes in the accounting standards adopted by the European Commission

The following table sets out the changes to the standards and interpretations adopted by the European Commission in 2016 or in previous years, application of which became mandatory from 2016, in relation to which no significant effects on the preparation of the consolidated financial statements were identified.

International accounting standards applicable from 2016			
Approved regulation	**Published in the Official Journal of the European Union**	**Titles and comments**	**Effective for annual periods beginning on or after**
28/2015 of 17.12.2014	L 5 of 9.1.2015	**IFRS Annual Improvements Cycle 2010-2012** **Amendment to IFRS 2** "Share-based Payment" Amends the definition of "market condition" and "vesting condition" and adds definitions for "performance condition" and "service condition" which were previously part of the definition of "vesting condition". **Amendment to IFRS 3** "Business Combinations" Provides clarifications on the classification of contingent consideration and the treatment of changes in its fair value. More specifically it specifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date following initial recognition and that changes in fair value may be recognised in either profit and loss or comprehensive income. **Amendment to IFRS 8** "Operating Segments" Clarifies that an entity must disclose the factors used to identify operating segments, the aggregation criteria and the products and services generating revenues for each reportable segment. In addition a reconciliation must be provided of the total of the reportable segment's assets to the entity's assets. **Amendment to IAS 16** "Property, Plant and Equipment" Clarifies that when an item of property, plant and equipment is revalued (and accordingly measured at fair value and not at cost) the revaluation of the gross amount must be consistent with the revaluation of the net amount (meaning that accumulated depreciation must be the difference between gross and net excluding any recognised value adjustments). **Amendment to IAS 24** "Related Party Disclosures" Clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. **Amendment to IAS 38** "Intangible Assets" Clarifies that when an intangible asset is revalued (and accordingly measured at fair value and not at cost) the revaluation of the gross amount must be consistent with the revaluation of the net amount (meaning that accumulated amortisation must be the difference between gross and net excluding any recognised value adjustments).	1 February 2015
29/2015 of 17.12.2014	L 5 of 9.1.2015	**Amendment to IAS 19** "Employee Benefits" – **Defined Benefit Plans: Employee Contributions** The amendments clarifies that contributions to defined benefit plans from employees or third parties reduce the service cost, if stated in the plan's formal terms and conditions, while they only affect revaluations if not linked to service or are discretional.	1 February 2015
2113/2015 of 23.11.2015	L. 306 of 24.11.2015	**Amendments to IAS 16** "Property, Plant and Equipment" **and IAS 41** "Agriculture" - **Agriculture: Bearer Plants** The amendments require bearer plants used to grow produce over several years to be accounted for in the same way as property, plant and equipment in IAS 16 because their operation is similar to manufacturing.	1 January 2016

International accounting standards applicable from 2016			
Approved regulation	**Published in the Official Journal of the European Union**	**Titles and comments**	**Effective for annual periods beginning on or after**
2173/2015 of 24.11.2015	L. 307 of 25.11.2015	**Amendment to IFRS 11** "Joint Arrangements" – ~~**Accounting for Acquisitions of Interests in Joint Operations**~~ The amendment provides new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS 3. In this case all the principles for accounting for business combinations in IFRS 3 are applicable as well as those of all the other IFRS standards that are not in contrast with IFRS 11. In addition, the disclosures required for business combinations by those standards must be provided.	1 January 2016
2231/2015 of 2.12.2015	L. 317 of 3.12.2015	**Amendments to IAS 16** "Property, Plant and Equipment" **and IAS 38** "Intangible Assets" – **Acceptable Methods of Depreciation and Amortisation** Given the existence of different practices the aim of the amendment is to clarify that the revenue-based method is not considered appropriate for depreciating or amortising an asset because the revenue generated by an activity that envisages the use of an asset in general reflects factors not directly connected with the consumption of the economic benefits generated by the asset.	1 January 2016
2343/2015 of 15.12.2015	L. 330 of 16.12.2015	**IFRS Annual Improvements Cycle 2012-2014** **Amendment to IFRS 5** "Non-current Assets Held for Sale and Discontinued Operations" The amendment adds specific guidance for cases in which an entity reclassifies an asset from "held for sale" to "held for distribution" (or vice versa) and cases in which held-for-distribution accounting is discontinued. Reclassifications should not be considered to be changes to a sales or distribution and so the criteria for classification and measurement remain valid. If the criteria for classifying assets as "held for distribution" no longer hold, they must be treated as those no longer classified as "held for sale". **Amendment to IFRS 7** "Financial Instruments: Disclosures" The amendment provides additional guidance to clarify whether a service contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Amendment to IAS 19** "Employee Benefits" The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. **Amendment to IAS 34** "Interim Financial Reporting" The amendment introduces changes designed to clarify that certain of the information requested must be included in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included (for example in the management commentary). The other information in the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.	1 January 2016
2406/2015 of 18.12.2015	L. 333 of 19.12.2015	**Amendment to IAS 1** "Presentation of Financial Statements" – **Disclosure Initiative** The aim of the amendment is to encourage entities to use professional judgement in deciding what information to disclose in the financial statements in order to make disclosures more effective and understandable. In particular a disclosure should not be penalised by an excessive aggregation of individually significant information nor by the separate presentation of individually irrelevant information. Certain specific items can be disaggregated in the primary financial statements or aggregated when such presentation is relevant. The order of the notes may be changed if this facilitates understanding and comparability.	1 January 2016

International accounting standards applicable from 2016			
Approved regulation	**Published in the Official Journal of the European Union**	**Titles and comments**	**Effective for annual periods beginning on or after**
2441/2015 of 18.12.2015	L. 336 of 23.12.2015	**Amendment to IAS 27** "Separate Financial Statements" – **Equity Method in Separate Financial Statements** The amendment permits an entity to recognise investments in subsidiaries, associates and joint ventures in its separate financial statements using the equity method. Accordingly an entity can recognise investments in its separate financial statements either at cost, in accordance with IAS 39 (becoming IFRS 9), or by using the equity method.	1 January 2016
1703/2016 of 22.09.2016	L. 257 of 23.09.2016	**Amendments to IFRS 10** "Consolidated Financial Statements", **IFRS 12** "Disclosure of Interests in Other Entities" **and IAS 28** "Investments in Associates and Joint Ventures" – **Investment Entities: Applying the Consolidation Exception** The aim of these amendments is to clarify the requirements for accounting for investment entities and provide for exemptions in specific situations. Although the standard states that an investment entity is not required to prepare consolidated financial statements because it has to measure all its subsidiaries at fair value, in the case that a subsidiary is not in turn an investment entity and has as its main purpose and activity the provision of services supporting the investing activities of the parent investment entity the latter must consolidate it in accordance with IFRS 10, applying the requirements of IFRS 3 to the acquisition of the subsidiary.	1 January 2016

IAS/IFRS accounting standards and the relative SIC/IFRIC interpretations adopted by the European Commission whose mandatory effective date falls after 31 December 2016

Pursuant to paragraphs 30 and 31 of IAS 8 the following Regulations adopted by the European Commission amend accounting standards already effective, with mandatory application - in the case of financial statements that coincide with the calendar year - from 1 January 2017 or a later date. The Group has not elected early application.

Approved regulation	**Published in the Official Journal of the European Union**	**Titles and comments**	**Effective for annual periods beginning on or after**
1905/2016 of 22.09.2016	L. 295 of 29.10.2016	**IFRS 15** "Revenue from Contracts with Customers"	1 January 2018
2067/2016 of 22.11.2016	L.323 of 29.11.2016	**IFRS 9** "Financial Instruments"	1 January 2018

IAS/IFRS accounting standards, amendments and interpretations issued by the IASB and yet to be adopted by the European Commission

For information purposes, set out below are the accounting standards, amendments and interpretations issued by the IASB, the application of which is subject to adoption by the European Commission and which are consequently not yet applicable to these consolidated financial statements.

Standard/Interpretation/Amendment	Date of IASB approval	Indicative effective date
IFRS 14 "Regulatory Deferral Accounts"	30/01/2014	Annual periods beginning on or after 1 January 2016[1]
Amendment to IFRS 10 "Consolidated Financial Statements" **and IAS 28** "Investments in Associates and Joint Ventures" **– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	11/09/2014	To be established[2]
IFRS 16 "Leases"	13/01/2016	Annual periods beginning on or after 1 January 2019
Amendment to IAS 12 "Income Taxes" – **Recognition of Deferred Tax Assets for Unrealised Losses**	19/01/2016	Annual periods beginning on or after 1 January 2017
Amendment to IAS 7 "Statement of Cash Flows" – **Disclosure Initiative**	29/01/2016	Annual periods beginning on or after 1 January 2017
Amendment to IFRS 15 "Revenue from Contracts with Customers" – **Clarification to IFRS 15**	12/04/2016	Annual periods beginning on or after 1 January 2018
Amendment to IFRS 2 "Share-based Payment"- **Classification and Measurement of Share-based Payment Transactions**	20/06/2016	Annual periods beginning on or after 1 January 2018
Amendment to IFRS 4 "Insurance Contracts" – **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**	12/09/2016	Annual periods beginning on or after 1 January 2018
Amendment to IFRS 12 "Disclosure of Interests in Other Entities", **IFRS 1** "First-time Adoption of International Financial Reporting Standards" **and IAS 28** "Investments in Associates and Joint Ventures"- **IFRS Annual Improvements Cycle 2014-2016**	08/12/2016	The amendment to IFRS 12 for annual periods beginning on or after 1 January 2017; the amendments to IFRS 1 and IAS 28 for annual periods beginning on or after 1 January 2018
IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"	08/12/2016	Annual periods beginning on or after 1 January 2018
Amendment to IAS 40 "Investment Property" – **Transfers of Investment Property**	08/12/2016	Annual periods beginning on or after 1 January 2018

(1) The European Commission has decided not to endorse the standard in its current version but rather to wait until after the final revisions are completed.

(2) The IASB published the amendment to the standard on 17 December 2015, deferring the effective date of the amendments to IFRS 10 and IAS 28 indefinitely.

IFRS 9 "Financial Instruments"

IFRS 9 was adopted through the publication of Commission Regulation (EU) 2016/2067 in the Official Journal of the European Union L.323 on 29 November 2016; the standard is applicable from the commencement date of an entity's first financial year starting on or after 1 January 2018.

IFRS 9 will replace IAS 39 for determining the treatment to be adopted in accounting for financial instruments. In summary the new standard requires the following:

- **Classification and measurement:**
  - Financial assets: IFRS 9 requires financial assets to be classified in three distinct categories: amortised cost, fair value through other comprehensive income (an equity reserve) and fair value through profit and loss on the basis of the business model applied and the contractual nature of the cash flows of the financial instrument. Recognition and derecognition criteria remain essentially unchanged with respect to IAS 39.
  - Financial liabilities: IFRS 9 makes no changes to the present standard apart from those relating to financial liabilities designated at fair value throgh profit and loss for which any change in fair value due to an entity's own credit risk must be recognised in comprehensive income (an equity reserve) and no longer in profit and loss (the standard permits this provision to be early adopted from the endorsement date).

- **Impairment**: an impairment model is introduced based on expected losses, replacing the present model in IAS 39 based on incurred losses. The standard classifies loan impairment in three stages depending on the credit quality of the counterparty, where 12-month expected credit losses are recognised in profit and loss for the stage that includes counterparties with the best credit standing, while full lifetime credit losses are recognised for the other two stages.
- **Hedge accounting**: simplified hedging models are envisaged compared to the current standard by introducing a closer alignment with the way in which the risk is managed.

The Parent Company initiated a project at Group level in the fourth quarter of 2015 to manage the transition to IFRS 9. The aim of this project is to determine the effects of the adoption of the standard on the Group's equity and results using a prudent approach, as well as to identify suitable methods for implementing the standard from an organisational and information systems standpoint, together with appropriate controls to ensure it is effectively applied.
The project is being developed following the means by which the standard is structured and namely: Classification and Measurement (C&M), Impairment and Hedge Accounting. More specifically, responsibility has been assigned jointly to the Accounting and Reporting function and the Risk Management function, as part of which thematic workgroups have been set up on the basis of the above structure. Representatives of the Loans, Commercial, Organisation and IT functions are also actively involved in the workgroups, in turn needed for the analysis and development of applicative solutions. The results that have emerged and the strategic decisions to be taken have been brought to the attention of the Steering Committee, consisting of the heads of all the functions directly or indirectly involved in implementing the standard. At the end of the first phase the results of the impact assessment were reported to the Steering Committee and the Management Board.

Regarding **Classification and Measurement**, in order to comply with IFRS 9, which introduces a model under which the classification of financial assets is directed on the one hand by the contractual cash flow characteristics of an instrument and on the other by management's intentions for holding this instrument, activities were directed towards identifying the business model currently in use, and subsequently to be used, and establishing the means by which SPPI contractual cash flow characteristics testing should be performed.
Guidelines based on decision trees have been established for carrying out SPPI testing on financial assets and target operating models have been built for the two macro-areas finance and loans, taking advantage of the experience gained when carrying out the analyses, currently being finalised, of the composition of the currently existing securities and loans portfolios, in order to identify the proper classification for these on first-time adoption of the new standard.
For debt securities a detailed examination has been performed of the cash flow characteristics of instruments classified in the "financial assets available for sale" and "loans to customers" categories in accordance with IAS 39, in order to identify the existence of any financial assets with contractual characteristics that might not pass the SPPI test and therefore have to be measured at fair value through profit and loss under IAS 39. The above guidelines were used to this end, with an analysis being performed of all assets having a balance exceeding 500,000 euro and maturity before 1 January 2018. The analyses began with reference to 31 December 2015. The results of these analyses showed that only a limited percentage of debt securities would not pass the SPPI test, mainly certain structured securities.
As far as loans are concerned, the approach to the analysis depended on whether the portfolios related to standard products codified on the basis of catalogues or product sheets typical of the retail, small business or mid-corporate sector or to loans with specific contractual characteristics typical of the large corporate and structured finance sector. The analysis for the first type of portfolio concentrated on all the currently distributed product sheets to check the contractual characteristics for the purpose of passing the SPPI test, focusing mainly on the principal technical forms such as mortgage loans, current accounts, international and syndicated. The Commercial function was involved to help accurately identify all the catalogued products, both current and previous. In the case of all the large corporate and structured finance loans, the detailed work consisted of performing a spot test on all the individual loans, with an approach aimed at covering the existing exposure. At the present stage of the analyses, one sole type of standard product has emerged (that involves a completely marginal number of disbursements compared to the Group's overall exposure), and certain large corporate and structured finance contracts which by virtue of specific clauses would lead to the failure to pass the SPPI test. As a result, no significant effects are expected from the credit area either.
The possibility of passing the SPPI test for all financial assets, both loans and debt securities, for which there is a mismatch between the frequency of the instalments and the interest rate tenor will also be checked by carrying out a benchmark cash flow test, for which the methodology is currently being developed in conjunction with Risk Management.

For the financial assets classification driver that the business model represents, the analyses performed have led to the conclusion that the model is tending towards an essential equivalence between the existing trading portfolios and the "sell" business model. This ought to hold for the whole of the trading portfolio managed by Finance in the Parent Company, but also in the subsidiary Banca Akros. The significant portfolio of financial assets available for sale (AFS) can effectively be likened to a "hold to collect and sell" business model, also in the future, and any financial assets that fail to pass the SPPI test (currently very marginal) will out of necessity return to the trading portfolio. As far as the loans and receivables area is concerned, the analyses indicate that on the basis of the past history of sales a "hold to collect" business model is applicable. The steps needed to prepare and formalise the operational rules for performing a business model assessment and carrying out an on-going monitoring of the portfolios affected by IFRS 9 requirements, in particular identifying the thresholds for considering the inclusion of sales that are frequent but not significant (individually and in aggregate) or sales that are infrequent even if of significant amount (typically for amortised cost portfolios), have been included in the work programme for the first half of 2017. Although in general terms the present way in which loans to both retail and corporate counterparties would seem to imply a "hold to collect" business model, the identification of the classification category will be confirmed in light of the way in which financial instruments are being managed at the date of first application of IFRS 9.
At the present stage of the detailed work, for the equity instruments included in the financial assets available for sale portfolio it has been decided to exercise the option available to classify equity investments at fair value through other comprehensive income (FVTOCI without recycling through profit and loss), although this decision is not necessarily final. On the other hand in relation to the possibility provided by the standard to classify financial liabilities at fair value through profit and loss, it is noted that from 1 January 2017 the Banco BPM Group emerging from the merger between BPM and Banco Popolare will recognise the changes in fair value attributable to variations in the credit standing of its own financial liabilities in equity and no longer in profit and loss.
In conclusion, no significant effects are expected to arise on first-time application of the standard as far as C&M is concerned, although a possible increase in the instruments to be measured at fair value through profit and loss can be expected with an overall rise in the volatility of results in the following years. In this respect it is noted that analyses of the accounting treatment of investment funds (open-ended and closed-end funds) are currently in progress, with a possible future increase in income statement volatility in case of the confirmation of the classification at fair value through profit and loss of the instruments currently classified as financial assets available for sale.
No effects are expected to arise, of either a classification or measurement nature, from trading and hedging derivatives.

As concerns **Impairment**, guidelines and operating procedures are currently being drawn up for the following aspects:

- the way of tracking the credit quality of the portfolios of financial assets measured at amortised cost and at fair value through comprehensive income;
- the parameters to be used to determine a significant deterioration in credit risk for a correct allocation of performing exposures in stage 1 or stage 2; as far as "impaired" exposures are concerned, the Group presents an essential alignment of the definitions of accounting and regulatory default and this allows it to consider the current logic of the classification of the exposures as "deteriorated/impaired" as being identical to the future logic of a classification of the exposures within stage 3;
- the models, inclusive of forward-looking information, for staging (relating to the use of the PD as a relative indicator of default) and for the calculation of the expected credit loss (ECL) at one year (for stage 1 exposures) and lifetime staging (for stage 2 and stage 3 exposures). In this respect the Group is currently tending towards the use of future macroeconomic mono-scenarios.

With reference to the tracking of credit quality, a significant deterioration of credit standing must be determined at single relationship level by comparing the quality of the financial instrument on measurement with that on initial disbursement or purchase. Only on first-time application for certain exposure categories (typically purchased debt securities) will it be possible to take advantage of the low credit risk exemption envisaged by the standard, which would lead to considering exposures that at the date of transition to the new standard are investment grade (or equivalent category) in stage 1 and the remaining performing exposures in stage 2.
The following drivers have been established at the present stage of the development of the project; these constitute the principal determinants to be taken into account in assessing "transfers" between different stages:

- the change in the probability of lifetime default compared to initial recognition of the financial instrument in the financial statements; the specific criterion has not yet been established in detail as the assessment is carried out using a "relative" criterion;

- the possible presence of a past due that has been such for at least 30 days; in this case the credit risk of the exposure is considered to be "significantly increased" and therefore the transfer to stage 2 is triggered;
- the possible presence of forbearance measures that are putatively considered to qualify the exposure as one for which the credit risk has "significantly increased" compared to initial recognition.

In the event of exposures represented by debt securities, purchase and sale transactions subsequent to the initial purchase, carried out with reference to the same ISIN, may habitually form part of the ordinary activity of managing the positions. In this situation a methodology must be established to identify the sales and redemptions in order to compare the residual quantities of the individual transactions to be associated with a credit/rating quality on origination with that at the reporting date. To this end it is considered that the "first-in first-out" or "FIFO" method, used for sales and redemptions, enables the portfolio to be managed in a transparent manner and the assessment of credit standing to be constantly updated.
In conclusion, regarding the inclusion of forward-looking factors, and in particular the use of macroeconomic scenarios, assessments are being made as to whether to adopt a "most likely scenario + add on" approach, which for the expected loss (ECL) calculation and stage assignment envisages considering the credit loss determined for the base scenario, which is believed more likely, to which must be added or subtracted an adjustment (add-on), whose method of determination must be established, designed to reflect the effects of the non-linearity of the variables used for influencing the macroeconomic parameters.
The estimation exercises performed to respond to the impact assessment imply that for the Group the impact of the first-time application of the standard in terms of major adjustments, which must be recognised in equity, is sizable but not such as to have adverse impacts on the level of its capital solidity. In this regard, the means by which the major adjustments will be managed for prudential purposes are still being established, since a counter-proposal on the subject against the Basel Committee's proposal has been drawn up by the EBF which is partially reflected in the draft document for proposals to revise article 473 of the CRR. As already noted in response to the EBA's impact assessment and the ECB's thematic review carried out on the Group, it is estimated that when fully operational there will be greater volatility in the income statement due to the transfer of financial instruments from stage 1 to stage 2 and vice versa, caused by the different means of calculating the adjustments and value write-backs compared to present methodologies, and that the measurement of impairment for the calculation of lifetime expected loss on the performing loans classified in stage 2 will be a linear function rising over the duration of the individual relationships.

As far as concerns the final element envisaged for the adoption of the standard, **Hedge Accounting**, the changes regard exclusively general hedges and are strictly connected with the Group's decision to elect the opt-in/opt-out option (the possibility to implement the new IFRS 9 or remain with the old IAS 39). The Bipiemme Group has not yet formalised its decision, which will be made on the basis of the work programme taking place during the first half of 2017, but it is expected that the opt-out option will be chosen on first-time application, meaning that hedging transactions will continue to be dealt with in accordance with IAS 39, the current standard. A decision will then be taken as to whether to keep to that decision in the reporting periods subsequent to 2018.
Following the merger of the Bipiemme Group with the Banco Popolare Group with legal and accounting effect from 1 January 2017, the IFRS 9 project will continue under the centralised management of the new prent Banco BPM S.p.A.. More specifically, a plan for the implementation of the new standard was drawn up in January 2017 extending the range of action and taking into account the results obtained through 31 December 2016 by the two separate projects carried forward independently by the two groups existing before the merger took place. In detail, the Bipiemme Group had actually halted the realisation phase in the second half of 2016, above all from an IT and organisational process standpoint, given that it had been established that after the extraordinary operation these processes would start out from the information system of the former Banco Popolare Group, chosen as the target system of the new group emerging from the merger. In this respect it is noted that the risk parameters will be those already developed by the Credit Risk Management function of the former Banco Popolare Group, which will be suitably adapted and extended to the portfolio of the former Bipiemme Group. Also the targeted architecture for the development of the impairment engine will, when fully operational, be that already designated in the second half of 2016 by the company SGS of the former Banco Popolare Group. The new integrated project with the detailed activities plan kicked off on 6 February 2017.
It is the intention of the new Banco BPM Group, which from an IT standpoint will be based on the old development plan of the former Banco Popolare Group, to run the new system in parallel with the old system starting in the third quarter of 2017 on the basis of the information available at that date and taking into account any possible disclosure requirements; however, at present, we do not expect to make a restatement of the comparative figures at the time of the initial application of IFRS 9 on 1 January 2018, but we will provide detailed information on the transition to the new standard in accordance with IFRS7.

IFRS 15 "Revenue from Contracts with Customers"
The IASB issued IFRS 15 "Revenue from Contracts with Customers" in May 2014. Following a resolution adopted by the IASB in 2015 this standard will be effective for years in progress on 1 January 2018.
IFRS 15 specifies the principles for recognising revenue, introducing an approach that establishing that revenue shall only be recognised when all contractual obligations have been satisfied.
The Group is assessing the impact of IFRS 15, although as a preliminary conclusion believes that the effects of its application will not be significant.

IFRS 16 – Leases
The IASB issued IFRS 16 "Leases" in January 2016 which is effective from 1 January 2019, subject to endorsement by the European Commission. This standard will replace the current IAS 17 and interpretations IFRIC 4, SIC 15 and SIC 27.
The new standard defines a lease from an accounting standpoint as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
The standard requires the lessor and lessee to adopt different accounting treatment for lease contracts. More specifically, the lessee will no longer have to distinguish between finance and operating leases with the resulting recognition in the balance sheet of the assets and liabilities underlying the contract.
Instead, the lessee recognises the "right-of-use" of the leased asset as an asset in the balance sheet, which is then depreciated over the lease term or the asset's useful life. The present value of future lease payments is recognised as a liability which is gradually reduced on settlement of the lease payments and interest accrues on the liability that is recognised in profit and loss.
A lessee can elect not to apply the lessee accounting model for short-term leases (those with a lease term of 12 months or less) or leases of low-value items.
Lessor accounting remains unchanged.
The Group has not yet begun an impact assessment in respect of the new standard.

General principles

The consolidated financial statements have been prepared in accordance with the following general principles laid down in IAS 1 "Presentation of Financial Statements".

Going concern. The accounting principles have been adopted on the basis that Group companies will continue as a going concern; they also respond to the accrual principle, the concepts of relevance and materiality of accounting information and the prevalence of substance over legal form. The assumptions underlying the preparation of the financial statements on a going concern basis are explained in the section of the report on operations entitled "Outlook". It is believed that, at present, there is no uncertainty about the Group's ability to continue in business as a going concern, in accordance with the provisions of IAS 1.

Accrual principle. Except for the statement of cash flows, the financial statements have been prepared in accordance with the accrual principle of accounting, whereby revenues and expenses are recognised according to their economic maturity, regardless of when they are paid, and according to the matching principle.

Consistency of presentation. The methods of presentation and classification of the items in the financial statements remain unchanged from one financial period to the next, except in the case where a change is required by an international accounting standard or by an interpretation or if there is the need to improve the meaningfulness of the accounting presentation. In the event of a change and to the extent possible, the new approach is adopted retroactively and the nature, reason and amount of the items affected by the change are disclosed. The presentation and classification of line items complies with international accounting standards and with the Bank of Italy's instructions for bank financial statements.

Relevance and aggregation. the balance sheet and income statement are made up of line items (indicated by numbers), sub-items (indicated by letters) and other details. Line items, sub-items and other details constitute the account headings of the financial statements. The formats comply with those laid down by the Bank of Italy in Circular no. 262/2005.

New line items can be added provided their content is not the same as others already envisaged in the format and only if the amounts concerned are significant. Other information is provided in the explanatory notes. The sub-items of the tables are grouped together if one the following two conditions occur:

a) the amount of the sub-items is immaterial;

b) combining them makes for greater clarity in the financial statements; in this case the explanatory notes show the sub-items separately.

The tables in the notes are only provided if they contain figures for one of the two years.

No offsetting of balances. Assets and liabilities and costs and revenues are not offset against each other except as required or permitted by IAS/IFRS or by an interpretation of these, or by instructions issued by the Bank of Italy for bank financial statements. Measuring assets net of value adjustments such as the provision for non-performing loans is not considered offsetting.

Comparative information. Comparative figures from previous periods are provided for all information in the financial statements – including that of a qualitative nature if this helps explain the Group's situation – unless IAS/IFRS, or their interpretation, or instructions from the Bank of Italy on the financial statements of banks require or allow otherwise. If the accounts are not comparable, those of the previous period are adjusted to make them so; any lack of comparability and the adjustments made (or the fact that it was not possible to adjust the figures) is disclosed and explained in the notes.

Content of the financial statements

The consolidated financial statements consist of the primary statements (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows prepared using the indirect method) and the explanatory notes, accompanied by the report of the directors on the operations of the group of companies included in the consolidation. The consolidated financial statements have been prepared with clarity and give a true and fair view of the financial position at the balance sheet date and the results of operations, cash flows and changes in shareholders' equity for the year then ended.

Balance sheet and income statement: the balance sheet and income statement are made up of line items, sub-items and other details. For the sake of completeness, in the schedules laid down by the Bank of Italy all of the recommended items are included even if they had a nil balance in both years. In the income statement (tables and explanatory notes), revenues are shown without a sign, whereas costs are shown in brackets.

Statement of comprehensive income: The statement of comprehensive income presents the net income (loss) for the period (income statement line item 320) together with other items of income and expense, net of taxation, that are recognised in shareholders' equity as a counter-entry to valuation reserves; on the basis of the amendment to IAS 1, these items are grouped into two categories depending on whether or not they will be subsequently reclassified to profit and loss if certain conditions take place. This statement has been prepared showing the part attributable to the Group separately from the part attributable to minority interests. As for the balance sheet and income statement, in the schedules laid down by the Bank of Italy all of the recommended items are included even if they had a nil balance in both years.
Negative figures in the statement of comprehensive income are shown in brackets.

Statement of changes in shareholders' equity: this statement shows the composition of and changes during the year in the accounts of shareholders' equity, analysed between share capital, capital reserves, retained earnings, valuation reserves and comprehensive income. Treasury shares are deducted from shareholders' equity. The portions of share capital, reserves and comprehensive income pertaining to minority interests are shown separately from those of the Group.

Statement of cash flows: the statement of cash flows during the year and the previous year has been prepared using the indirect method, whereby cash flows from operations are represented by the result for the year adjusted for costs and revenues of a non-monetary nature. Cash flows are analysed between cash flows generated by operating, investing and financing activities. In the statement, cash flows generated are shown without a sign, whereas cash flows absorbed have a minus sign. As for the balance sheet and income statement, in the schedules laid down by the Bank of Italy all of the recommended items are included even if they had a nil balance in both years.
The statement of cash flows, which has been prepared using the indirect method, follows the requirements of IAS 7.

Content of the explanatory notes: the explanatory notes include the information required by IAS/IFRS and by Circular no. 262/2005 of the Bank of Italy and subsequent updates.
The explanatory notes are subdivided into parts: A – Accounting policies, B – Information on the consolidated balance sheet, C – Information on the consolidated income statement, D – Consolidated comprehensive income, E - Information on risks and related hedging policies, F – Information on consolidated capital, G – Business combinations, H – Related party transactions, I – Share-based payments, L – Segment reporting.
Each part of the note is divided into sections, each of which in turn illustrates one aspect of operations.

Uncertainties in the use of estimates in the preparation of the consolidated financial statements

The preparation of consolidated financial statements also requires the use of estimates that may determine significant changes in the amounts reported in the balance sheet and income statement, and in the information relating to contingent assets and liabilities included therein. The determination of these estimates involves using the available information and making subjective judgements, also on the basis of historical trends, used for deriving reasonable assumptions for reporting the results of operations.

These estimates and assumptions have been made on a going concern basis and are strongly influenced by growing uncertainty in the current economic and market climate, characterised by extremely volatile financial indicators and the very high levels of deterioration in credit quality. The parameters and information used to determine estimates and assumptions are heavily influenced by these factors, which by their nature may undergo developments that are hard to predict. As a consequence, the estimates used may vary from period to period, meaning that in future years the amounts reported in these financial statements may differ materially as a result of changes in the nature of the assumptions made and the amounts of the parameters used.

The estimates are subject to review to take into account any changes that have taken place during the period.

The main areas in which management is required to make subjective judgements are as follows:

- the quantification of losses inherent in risk exposures, typically represented by "non-performing" loans and "performing" loans as well as by other financial assets;
- the use of valuation models for measuring the fair value of financial instruments that are not listed on active markets;
- the determination of the fair value of financial instruments to be used for reporting purposes;
- the quantification of employee-related provisions and allowances for risks and charges;
- the estimates and assumptions relating to the recoverability of deferred tax assets.

The use of estimates in the above cases is closely linked to the evolution of the national and international economic environment and the performance of the financial markets, which cause a significant impact on interest rate trends, price fluctuations, actuarial bases and the creditworthiness of counterparties.

For the assets or liabilities associated with the above cases the most significant estimates made by the Group are for the purpose of the preparation of interim financial reports and may thus be used in the determination of the book

value of these assets and liabilities. The most significant assumptions and estimates adopted accordingly consist of the following:

- for the determination of the fair value of financial instruments not listed in active markets, securities and derivatives, where there is a need to use parameters not derived from the market, the main estimates relate to the development of future cash flows (coupons, dividends, etc.) which are subject to correction factors deriving from probable future events (e.g. default events) as well as the from need to use specific input parameters not directly derived from active markets;
- as far as the estimation of future cash flow from impaired loans is concerned, the elements taken into consideration essentially relate to: cash flows arising from ordinary operations and/or from extraordinary events that are a feature of the debtor's business, the estimated realisable value of any guarantees, as well as the costs expected to be incurred for the recovery of the loan exposure and the expected timing. To determine the estimated future cash flows arising from loans for which no objective evidence of impairment has been identified, meaning collective evaluation, account is taken of information derived from historical series and other observable elements at the measurement date, which permits estimates to be made of the latent loss ("incurred but not reported") in each homogeneous category into which the Group's portfolio has been stratified for the purpose of monitoring the management of credit risk;
- for the quantification of allowances for post-employment benefits, an estimate is made of the present value of commitments, taking into account discounted probable outflows inclusive of financial aspects (interest rates), the expected trend in remuneration and employee turnover rates, as well as demographic aspects (mortality);
- for the quantification of allowances for risks and charges, an estimate is made, where possible, of the amount of outflows needed to meet commitments, taking into account the actual probability of costs being incurred;
- for the determination of the components of deferred taxation, an estimate is made of the probability of taxation arising in the future (taxable temporary differences) and of the reasonable degree of certainty, if this exists, of future taxable amounts as and when the tax deductibility will arise (deductible temporary differences).

Section 3
Scope of consolidation and consolidation procedures

The consolidated financial statements of the Bipiemme Group include the balance sheet and income statement of Banca Popolare di Milano (Parent Company) and its direct and indirect subsidiaries.

Subsidiaries

IFRS 10 governs the consolidated financial statements and establishes how the scope of consolidation should be identified. According to this standard, "control" is the situation in which a company is exposed to the risk of variability in the results because of its links with another company and is able to influence these results through the power held over it. In particular, subsidiaries are companies in which the following three conditions jointly hold:

- power over the company;
- exposure to the risk of variability of the company's results;
- the ability to influence the results through the power held over the company.

Power over the company is the ability to direct the key activities of a company in which the investor holds a participatory interest and/or an interest that consists of other legal or contractual rights.
This power generally flows from the ownership of rights (not necessarily voting rights) that are legally recognised and of which the entity that holds the interest in the company is the owner or which has links with it; rights that give it the power to direct the company's activities: for example, holding a majority of the voting rights (which can also be acquired through agreements with other shareholders) or, in any case, enough of the voting rights to keep the company under control thanks to fragmentation of the other votes or because it has the right to appoint or remove the company's key management personnel. These rights include the power to direct the company to carry out transactions (or to prohibit changes in them) in its own

interest, while they do not include the rights of mere "protection" of the interests of whoever holds them (e.g. a pledge or similar rights).
In any case, in determining the extent of the voting rights for the purpose of checking the existence of control situations, one must also consider potential voting rights (both proprietary and third party), i.e. the rights attached to call options (including those embedded in convertible bonds) or similar instruments on the ordinary shares of investee companies, assuming that such rights can effectively be exercised.

Exposure to the risk of variability of the company's results depends on the presence of returns arising from the investor's relationship with it, which may vary according to the economic performance of the entity making the investment. To this end, the dividends on shares and interest on securities must be considered as well as changes in the value of the investments held.
As regards the ability to influence the results through the power held over the company, in order to identify the entity that actually controls the company it has also to be ascertained whether the power to affect the results is exercised in its own interest (in which case it is the controlling entity or parent company) or on behalf of another entity (in which case it is merely an agent of the real parent company). Various factors have to be taken into consideration for this purpose, such as: the scope of application of this power (i.e. if there are limits or discretion in the way that it is exercised), the right of any other parties to remove or restrict the decisions taken by the entity exercising the power, the extent and variability of the remuneration foreseen for the services provided (the greater the extent and variability of the remuneration compared with the results expected from the company, the more likely that the recipient is the parent), whether or not other interests are held in the company and the related exposure to the risk of variability in the results. For example, having other interests in the company is usually typical of a parent company, especially if its interest is of a subordinated nature that constitutes forms of credit enhancement of the company's other liabilities.

The Group's legal entities are all included in the scope of consolidation on the basis of holding the majority of voting rights at the company's ordinary general meetings, hence legal control.
The only exceptions relate to vehicle companies set up for securitisation operations where, despite the absence of any direct equity interests, BPM (BPM Securitisation 2 S.r.l. and BPM Securitisation 3 S.r.l.) and ProFamily (ProFamily Securitisation S.r.l.) are the holders of contractual rights ("credit enhancement") which give them substantial exposure to the variability in the results of those companies.

Joint ventures or companies subject to joint control

The aim of IFRS 11 is to lay down the accounting treatment of entities that are party to agreements involving jointly controlled activities. The standard has to be applied by the entities participating in joint control agreements.
The accounting treatment and its presentation in the financial statements are based on rights and obligations laid down in the agreement in which the entities are involved; the entities themselves have to ensure that the agreement contains certain specifics in order to help identify the type of arrangement:

- a joint operation, in which the parties that have joint control have rights and obligations for the assets and liabilities involved in the agreement, which are accounted for as assets or liabilities based on the share of assets held jointly or of liabilities incurred jointly, or
- a joint venture, namely a joint control agreement in which the parties have rights to the net assets of the agreement, which can therefore only be accounted for by the equity method.

The Group considers as joint ventures those companies in which the voting rights and joint control over a business activity are equally shared, directly or indirectly, by Banca Popolare di Milano and by another entity. Also considered a joint venture is an investment in which despite the fact that voting rights are not held equally the unanimous agreement of all the parties sharing control is required for taking decisions on material activities.

The only investment that falls into this category is Calliope S.r.l. in liquidazione, which given the nature of the underlying contractual arrangements qualifies as a joint venture.

Associates

Associates, meaning companies subject to significant influence, are defined as all those enterprises over which the Group is able to exercise significant influence but not control. This influence is generally presumed to exist when the Group holds between 20% and 50% of the voting rights, including potential voting rights.
Companies in which an interest of less than 20% of the voting rights are held are also considered subject to significant influence if the power exists to participate in the determination of financial and operating policies by virtue of contractual rights, such as shareholders' agreements of various forms.
These cases involve:

- Bipiemme Vita, for which there is a partnership agreement with the Covéa Group connected with the development of bancassurance activities;
- Etica Sgr, by virtue of shareholders' agreements.

Further information is provided in Section 10 – Investments in associates and companies subject to joint control of Part B of the notes.

Changes in the scope of consolidation

Changes in the scope of consolidation with respect to 31 December 2015 involve the following companies:

Subsidiaries

Changes in the percentage of ownership

Banca Popolare di Mantova S.p.A.
The Parent Company's interest in Banca Popolare di Mantova increased to 96.74% (from 62.91% at 31 December 2015) mainly as the result of the purchase on 3 August 2016 of 355,444 shares equivalent to 30.89% of the capital from the majority shareholder as part of the Bipiemme Group's rationalisation project carried out in the context of the merger between Banca Popolare di Milano and Banco Popolare; in addition, small shareholders purchased further tranches of shares during 2016.

Banca Akros S.p.A.
On 27 December 2016 the Parent Company bought 1,226,391 shares of Banca Akros S.p.A., being 3.11% of its share capital, from Fondazione Cassa di Risparmio di Alessandria and as a consequence holds 100% of that company's capital of 39,433,803 shares at 31 December 2016. This transaction was carried out within the context of the merger with Banco Popolare.

Associates

Changes in the percentage of ownership

Anima Holding S.p.A.
The Parent Company BPM sold 2.17% of the capital of Anima SGR between 23 and 27 June 2016, taking its holding to 14.67%. This transaction became necessary because unless ruled otherwise by Consob, with the purchase by Poste Italiane of 10.3% of Anima Holding in June 2015 BPM had undertaken to sell within a period of 12 months the portion exceeding the mandatory public tender offer threshold of 25% of the total number of shares valid for membership of the shareholders' agreement.
On 31 December 2016 Anima Holding was reclassified from line item "Investments in associates and companies subject to joint control" to line item "Financial assets available for sale" following the failure of BPM and Poste Italiane to renew their shareholders' agreement.

Etica SGR S.p.A.
On 21 June 2016 Banca Popolare di Milano sold an interest of 5% in the capital of Etica SGR to Banca Etica S.c.p.a., thereby reducing its holding from 24.44% to 19.44%. Despite the fact that its interest has fallen below 20% the investment continues to be recognised in line item "Investments in associates and companies subject to joint control" by virtue of continuing contractual agreements.

Companies subject to joint control

Calliope Finance S.r.l. in liquidation
On 12 May 2016 this company was cancelled from the register per article 106 of the CBA following its failure to file an application for entry in the Single Roll of financial intermediaries, after which it was placed in voluntary liquidation.

1. Investments in companies where control is exclusive

The following table lists investments in subsidiaries where control is exclusive. Reference should be made to Part B - Information on the consolidated balance sheet – Section 10. Investments in associated companies and companies subject to joint control for information on investments in jointly-controlled subsidiaries (accounted for under the equity method) and companies over which the Group has significant influence.

	Company name	Registered and operational office	Type of relationship[1]	Investment relationship		Availability of votes[2]
				Investor	Holding %	
	Parent Company					
	Banca Popolare di Milano S.c.a r.l.	Milan				
	Subsidiaries where control is exclusive					
1	Banca Akros S.p.A.	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
2	Banca Popolare di Mantova S.p.A.	Mantova	1	Banca Popolare di Milano S.c.a r.l.	96.74	
3	ProFamily S.p.A.	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
4	Ge.Se.So. S.r.l.	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
5	BPM Covered Bond S.r.l.	Rome	1	Banca Popolare di Milano S.c.a r.l.	80.00	
6	BPM Covered Bond 2 S.r.l.	Rome	1	Banca Popolare di Milano S.c.a r.l.	80.00	
7	BPM Securitisation 2 S.r.l.(*)	Rome	4	Banca Popolare di Milano S.c.a r.l.	N/A	N/A
8	BPM Securitisation 3 S.r.l.(*)	Conegliano	4	Banca Popolare di Milano S.c.a r.l.	N/A	N/A
9	ProFamily Securitisation S.r.l.(*)	Conegliano	4	ProFamily S.p.A.	N/A	N/A

Key:
(1) Type of relationship:
1. majority of voting rights in ordinary general meetings
2. dominant influence in ordinary general meetings
3. agreements with other shareholders
4. other forms of control
5. single management pursuant to article 26, paragraph 1 of Legislative Decree no. 87/92
6. single management pursuant to article 26, paragraph 2 of Legislative Decree no. 87/92

(2) Votes available for ordinary general meetings. Voting rights are only stated if they differ from the percentage held.
(*) These entities are consolidated on a line-by-line basis as the Group has exposure and rights to variable returns from its involvement with those companies (IFRS 10, paragraph 7(b)).

2. Significant judgements and assumptions made in determining the scope of consolidation

With regard to wholly owned subsidiaries, inclusion in the Group's scope of consolidation is basically connected with the concept of holding the majority of voting rights at ordinary general meetings, apart from situations where the Group has legal control.

The only exceptions relate to special purpose vehicles set up for securitisations where, despite the lack of any directly held interests the originating entities of the securitisation, BPM (BPM Securitisation 2 S.r.l. and BPM Securitisation 3 S.r.l.) and ProFamily (ProFamily Securitisation S.r.l.), hold contractual rights ("credit enhancement") which give them substantial exposure to the variability in the results of those companies.

The only jointly-controlled subsidiary in the Group is Calliope Finance S.r.l. in liquidazione which, given the nature of the underlying contractual arrangements, qualifies as a joint venture under IFRS 11.

Associates are considered to be companies in which the Group exerts a significant influence, which is presumed to exist when voting rights of between 20% and 50% are held. In addition, as an exception to this principle, two cases of "investments" have been identified for companies to be included in this category due to the existence of agreements or legal ties deriving from contractual agreements between shareholders: Etica SGR (held as to 19.44%) and Bipiemme Vita S.p.A. (held as to 19%).
Further information in this respect may be found in Section 10 – Investments in associates and companies subject to joint control of these notes.

3. Investments in subsidiaries with exclusive control with significant minority interests

There are no investments in subsidiaries with exclusive control with minority interests in the Bipiemme Group at 31 December 2016. The minority interests in Banca Popolare di Mantova and Banca Akros, which had been identified as significant in the 2015 financial statements, have been considerably reduced and cancelled following their purchase by BPM in 2016, as described in the above paragraph "Changes in the scope of consolidation".

4. Significant restrictions

Within the Bipiemme Group there are no significant legal, contractual or regulatory restrictions that could limit the Parent Company's ability to transfer liquid funds or other assets to other Group entities, nor any guarantees that could limit the distribution of dividends or capital, or loans and advances granted or repaid to other Group entities.

5. Other information

Consolidation procedures

Investments in subsidiaries are consolidated on a line-by-line basis while interests in associates and companies subject to joint control are accounted for using the equity method.
Line-by-line consolidation: this method of consolidation involves combining the contents of subsidiary company balance sheets and income statements on a line by line basis. For consolidation purposes, the carrying amount of the investment in each subsidiary is eliminated against the corresponding portion of its net equity.
Subsidiaries are consolidated line-by-line from the date of acquisition, i.e. from the date when the Group acquires control, and they are excluded from the scope of consolidation from the date on which control is transferred outside the Group.

If the reporting date of the subsidiary is different from that of the Parent Company, the subsidiary provides a separate report specifically for consolidation purposes. If this is not feasible, the Parent Company uses the latest available financial statements (prepared not more than three months prior to the reporting date), adjusted to take account of the main transactions that have taken place during the intervening period.
The financial statements of subsidiaries used to prepare the consolidated financial statements refer to the same period and are prepared with the same accounting policies of the Parent Company, adjusted where necessary for consistency.

All intragroup (or "intercompany") balances and transactions, including any unrealised profits and losses resulting from intragroup transactions and dividends, are eliminated in full upon consolidation. The comprehensive income for a subsidiary is attributed to minority interests even if this means that the minority interests have a negative balance.
If the Parent Company loses control of a subsidiary, it:

- eliminates the assets (including any goodwill) and the liabilities of the subsidiary;
- eliminates the book values of any minority interests in the former subsidiary;
- eliminates any accumulated exchange differences recognised in shareholders' equity;
- recognises the fair value of the proceeds received;
- recognises the fair value of any interest maintained in the former subsidiary;
- recognises any gain or loss in the income statement;
- reclassifies the interest pertaining to the parent company in the items previously recognised in comprehensive income in profit and loss or in retained earnings, as appropriate.

Acquisitions are accounted for under the acquisition method in accordance with IFRS 3 as amended by Regulation no. 495/2009, under which all business combinations, except for those between companies under common control, are treated like genuine business acquisitions for accounting purposes. Application of the acquisition method requires: identification of the acquirer (i.e. the identity of the entity that takes control of a group or entity); the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree); recognition at the acquisition date of the identifiable assets acquired and liabilities assumed (including contingent liabilities) at their respective fair values. In addition, for each business combination, any minority interests in the acquiree must be recognised at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquiree.

Goodwill is initially measured at cost, which arises as the excess of the sum of the consideration paid plus any minority interests over the fair value of the net assets (identifiable assets acquired less liabilities assumed) acquired by the Group. If this sum is lower than the fair value of the net assets acquired, the difference is recognised in profit and loss for the period.

After initial recognition, goodwill is measured at cost less any impairment losses. For impairment testing purposes, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating unit or units of the Group expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.
If goodwill has been allocated to a cash-generating unit and the Group disposes of part of the assets of that unit, the goodwill associated with the business being divested is included in the carrying amount when determining the gain or loss on disposal. The goodwill associated with the divested business is determined on the basis of the relative values of the divested business and the part of the cash-generating unit retained.

The identification of the fair value of the assets acquired and liabilities assumed has to be completed within a year of the acquisition.

In the case of a "step acquisition" (one that takes place in various stages), the acquirer has to recalculate the interest held in the acquiree prior to gaining control at its fair value at the acquisition date and recognise any gain or loss in the income statement.
Changes in the interest in a subsidiary that do not lead to a loss of control do not have any impact on the income statement but are accounted for as changes in Group shareholders' equity.
The costs related to the acquisition (except those for issuing debt securities or equities, which follows the rules laid down in IAS 32 and IAS 39) are recognised in profit and loss in the period in which they are incurred.
Minority interests in each subsidiary are also initially recognised at fair value at the date on which control is obtained. In periods subsequent to that in which consolidation differences are recognised for the first time, the changes in equity of subsidiaries are recognised in the appropriate items of consolidated shareholders' equity.

Consolidation using the equity method: the equity method, which is used to recognise and measure investments in associates and companies subject to joint control, requires an investment to be initially recorded at cost and adjusted thereafter to recognise the investor's share of post-acquisition profits and losses.
At the acquisition date the difference between the cost of the investment and the corresponding portion of the fair value of the investee's equity (meaning its assets, liabilities and contingent liabilities) is calculated.
If the difference is positive, the goodwill pertaining to the associate is included in the carrying amount of the investment and is not amortised or impairment tested.

If the difference is negative, after being submitted to a second valuation test to confirm its value, it is recognised as income in the investor's income statement as an addition to the investor's share of the investee's results in the year in which the investment is acquired.

The income statement reflects the Group's portion of the associate's result for the year. In the event that an associate recognises adjustments directly in equity, the Group recognises its portion of the adjustments in equity and shows this separately in the statement of comprehensive income. The value of the investment is also reduced by the amount of any dividends received periodically by the Group.

The overall value of the investment is subjected to impairment testing in accordance with IAS 28 and IAS 36. If the losses are greater than the carrying amount of the investment, the Group books the losses to the extent of that value, i.e. writing it down to zero without recognising any additional loss unless it has an obligation to make payments on behalf of the associate.

Unrealised gains relating to transactions between and with associates are eliminated on consolidation in proportion to the equity interest held. Any unrealised losses are eliminated on consolidation, unless there is evidence of impairment of the assets transferred.

For the purposes of consolidating investments in associates, their financial statements at the reporting date are used. If the reporting date of associates differs from that of the Parent Company they prepare interim statements at the Parent Company's reporting date for consolidation using the equity method; if this is not practicable, associates prepare financial statements having a balance sheet date not more than three months before the reporting date and the main transactions taking place between the two dates are then taken into consideration.
If no information is available under IAS/IFRS, then the financial statements prepared under local accounting standards are either adjusted accordingly or used directly for consolidation purposes provided the differences between local and international accounting standards are insignificant.

Consolidation of subsidiaries classified as "Non-current assets and disposal groups held for sale and discontinued operations" under IFRS 5: if an investment in a subsidiary is classified as a non-current asset held for sale, it is fully consolidated in accordance with IFRS 5; this means that the assets and liabilities relating to the unit being divested are presented separately from other assets and liabilities in the balance sheet, while a single amount is shown in the income statement to represent the costs and revenues of the operating unit being disposed of. If the fair value of the assets or net assets of the disposal group is lower than their carrying amount an adjustment is made that is recognised in profit and loss.

Section 4
Subsequent events

In relation to the requirements of IAS 10, please note that between 31 December 2016 - the balance sheet date of the consolidated financial statements and 10 February 2017, when the draft financial statements were approved by the Board of Directors of Banco BPM S.p.A. – no events occurred that generate significant impacts on the aggregate figures recognised in the consolidated financial statements.

New corporate and organisational structure of the Banco BPM Group

On 15 October 2016 the respective Extraordinary General Meetings approved the project for the merger between Banca Popolare di Milano S.c. a r. l. and Banco Popolare S. C. and the simultaneous transformation of the resulting entity into an S.p.A. (joint stock company). The merger that led to the formation of Banco BPM S.p.A. is effective from 1 January 2017.

Section 5
Other aspects

Other significant aspects relating to the Group's accounting policies

Contribution to deposit guarantee schemes and resolution mechanisms
By introducing Directives 2014/49/EU of 16 April 2014 (the Deposit Guarantee Schemes Directive – "DGSD") and 2014/59/EU of 15 May 2014 (the Bank Recovery and Resolution Directive – "BRRD") and establishing the Single Resolution Mechanism (Regulation EU no. 806/2014 of 15 July 2014), the European legislator has made significant changes to regulating banking crises, with the strategic objective of strengthening the single market and systemic stability.

Following the transposition of these directives, from 2015 banks are required to make ordinary, and possibly also extraordinary, contributions to the Interbank Deposit Protection Fund (*Fondo Interbancario di Tutela dei Depositi - FITD*) and the National Resolution Fund (*Fondo di Risoluzione Nazionale - FRU*) which were combined into the Single Resolution Fund (*Fondo di Risoluzione Unico - FRU*) in 2016.

As specified in the Bank of Italy's Communication of 19 January 2016 (Contributions to resolution funds: accounting treatment and reports to supervisory authorities) the ordinary contribution has been recognised in the financial statements at 31 December 2016 under line item "180. Administrative expenses: b) other administrative expenses" as from an accounting standpoint it is similar to a levy and falls under the scope of IFRIC 21 "Levies". This interpretation identifies the "obligating event" for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation; in particular, the ordinary contributions for the year may be analysed as follows:

- contributions to the FRU: 14.4 million euro (13.2 million euro in 2015);
- contributions to the FITD: 12.3 million euro (5.9 million euro in 2015).

In addition to the above, on 28 December 2016 the Bank of Italy sent out a communication requiring the payment of additional contributions equivalent to the amount due for two years in accordance with article 1, paragraph 848 of Law no. 208 of 28 December 2015 if the ordinary and extraordinary contributions already paid should turn out to be insufficient for the resolutions under way.
The call for the two additional contributions is related to the overall resolution operation for the four banks (Banca Popolare di Etruria, Banca Marche, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Cheiti) initiated in 2015. The portion of the additional contribution relating to the Bipiemme Group, which amounted to 28.8 million euro, was accordingly charged to income statement line item "180. Administrative expenses: b) other administrative expenses" as a counter-entry to liabilities line item "100. Other liabilities".
The extraordinary contribution to the FRU in 2015 for the resolution of the above four banks was fully charged during the year and amounted to 39.7 million euro.

Interbank Deposit Protection Fund
The banks in the Bipiemme Group are members of the Voluntary Scheme managed by the Interbank Deposit Protection Fund (hereinafter also the FTID's "Voluntary Scheme") that was set up in November 2015 with the aim of intervening in support of member banks in extraordinary administration or those which have failed or are at risk of failing.

In September 2016 the banks of the Bipiemme Group received notification from the FITD that its quota of the contribution amounted to 7.9 million euro, required for intervention in favour of Cassa di Risparmio di Cesena by way of a

reserved capital increase totalling 280 million euro, as authorised by the ECB on 15 September 2016, plus 1 million euro to cover the costs of the intervention and the operations of the Voluntary Scheme.
The contribution paid in this way by the Bipiemme Group represents a participating equity interest relating to the Voluntary Scheme which is classified in the accounting portfolio "Financial assets available for sale" in the amount of 7.9 million euro.
At 31 December 2016 the subsequent measurement of the investment at fair value, quantified in 6 million euro in the light of the specific situation of the underlying asset, led to the need to recognise an impairment loss of 1.9 million euro, which is included in income statement line item "130. Net losses/recoveries on impairment of: b) financial assets available for sale".
At the balance sheet date the Bipiemme Group's residual commitment to pay contributions to the Voluntary Scheme, recognised for accounting purposes as "off balance sheet exposures to borrowers", amounts to 12 million euro.
In this respect as discussed above the treatment of the contribution and the relative commitments are in line with the Bank of Italy's technical note sent out by the FITD to its consortium members on 31 October 2016, which contains a number of answers to the questions raised on the prudential accounting and reporting treatment required to be adopted for the contributions vis-à-vis the Voluntary Scheme.

Italian group tax election
Banca Popolare di Milano and the Italian companies of the Group have elected to file for tax on a group basis since 2004, in accordance with articles 117-129 of the Income Tax Consolidation Act (ITCA) introduced by Decree no. 344/2003. This optional tax regime makes it possible for each of the subsidiaries to calculate its tax charge for the year and then transfer the equivalent taxable income (or tax loss) to the parent company, adjusting for intercompany interest according to the rules on the deductibility of interest expense. It then calculates a single taxable income or tax loss for the entire group, adding together the profits and subtracting the losses of the individual companies, filing a single tax return and declaring a single amount payable to or receivable from the tax authorities.

The Parent Company and the subsidiaries taking part in the Italian group tax regime have signed agreements that regulate the compensatory flows relating to the transfers of taxable income and tax losses. These flows are determined by applying the IRES rate currently in force to the taxable income of the companies concerned. For companies with tax losses, the compensatory flow, calculated as above, is recognised by the consolidating company to the consolidated company for the losses incurred after joining the Italian group tax regime, to the extent that such losses are covered by the taxable income of the Group. The losses incurred prior to joining the Italian group tax regime have to be offset by the consolidated company against its own taxable income in accordance with current tax rules.
The compensatory flows determined in this way are recognised as receivables and payables versus the companies taking part in the Italian group tax regime and classified in "Other assets" and "Other liabilities", with a counter-entry to "Taxes on income from continuing operations".

Country by country reporting
Bank of Italy Circular no. 285 of 17 December 2013 ("Supervisory Provisions for Banks"), in the fourth update of 17 June 2014, provides for the requirement to publish the information required in subparagraphs a), b) and c) in Appendix A of Part One, Title III, Chapter 2 of the Circular.
The information required by the Circular is disclosed in an attachment to these consolidated financial statements.

Deadlines for approval and publication of reports

1. Annual report

Article 154-ter, paragraph 1 of Legislative Decree no. 59/98 (CFA) lays down that the financial statements have to be approved and that the annual report, consisting of the separate and consolidated financial statements, report on operations and the representation referred to in article 154-bis, paragraph 5, has to be published within one hundred and twenty days of the year end.
On 15 October 2016 the respective Extraordinary Members' Meetings approved the merger of Banca Popolare di Milano S.c.a r.l. with Banco Popolare Soc. Coop., which led to the creation of Banco BPM S.p.A. with effect from 1 January 2017.

As the result of the merger of Banca Popolare di Milano S.c.a r.l. with Banco Popolare Soc. Coop. the body responsible for approving the draft financial statements of the two banks at 31 December 2016 is the Board of Directors of the company resulting from the merger, Banco BPM S.p.A., while the representation required by article 154-bis. paragraph 5 of the TUF containing the annual financial report has been provided by the Managing Director and Manager in charge of the corporate accounting documents of Banco BPM S.p.A..

In particular, BPM's draft separate and consolidated financial statements were approved by the Board of Directors of Banco BPM S.p.A. on 10 February 2017 and will be submitted for approval to the General Meeting of the Members of Banco BPM S.p.A. on 8 April 2017.
The consolidated financial statements (consisting of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and explanatory notes) are audited by PricewaterhouseCoopers S.p.A. in accordance with Legislative Decree no. 39/2010, in execution of the resolution of the General Meeting of Members of 11 April 2015 which appointed the firm for the period from 2016 to 2024 inclusive.

2. Half – yearly report

The Bank prepared and approved on 4 August 2016 the half-yearly report of the Bipiemme Group as at 30 June 2016, in accordance with article 154-ter of Legislative Decree no. 58/98 introduced by Legislative Decree no. 195/2007 which adopted the European regulations on the transparency of listed companies (EC/2004/109). The condensed interim financial statements were reviewed by PricewaterhouseCoopers S.p.A. in compliance with Consob Communication no. 97001574 of 20 February 1997 and Consob Resolution no. 10867 of 31 July 1997 and in accordance with the decision of the General Meeting of Members of 11 April 2015.

3. Interim report on operations

The Bank prepared the interim report on operations of the Bipiemme Group as at 31 March 2016 in accordance with article 154-ter, paragraph 5 of Legislative Decree no. 58/98, introduced by Legislative Decree no. 195/2007, and published this on 10 May 2016. The interim report on operations as at 31 March 2016 was not audited.
BPM did not publish an interim report on operations as at 30 September 2016, availing itself of the option provided by the changes to the Consolidated Finance Law (TUF) introduced by Legislative Decree no. 25 of 15 February 2016 which transposes Transparency Directive II into Italian legislation.

A.2 – Part relating to the main line items in the financial statements

The accounting policies adopted in the preparation of the consolidated financial statements at 31 December 2016 with respect to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the recognition of revenues and costs, are described in the following.

1 – Financial assets held for trading

Classification

This category contains debt securities and equities, shares in investment funds and derivatives (except those designated as effective hedging instruments, recognised in assets under "Hedging derivatives") with a positive fair value. They must be held primarily for the purpose of profiting from short-term fluctuations in price or from the operator's profit margin. A financial asset is classified as held for trading if, regardless of why it was acquired, it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking.

Reclassifications to other categories of financial assets are not allowed, except when it is possible to reclassify assets other than derivatives, no longer held for trading purposes, in other categories foreseen by IAS 39 "Financial Instruments: Recognition and Measurement" (investments held to maturity or financial assets available for sale when there are unusual events that are unlikely to recur in the short term, or loans and receivables when there is the intention and ability to hold them for the foreseeable future or until maturity), always assuming that the conditions for recognition are satisfied. The transfer value is represented by the fair value at the time of reclassification. In the event of reclassification, a check is carried out to see if there are any embedded derivatives that have to be separated. The Bipiemme Group has never exercised this option, either for the current year or for previous years.

The derivative is a financial instrument or other contract with all three of the following characteristics:

a) its value changes in response to changes in a specific interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variables;

b) it requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions;

c) it is settled at a future date.

This category consists of financial and credit derivatives.

Financial derivatives have the function of transferring market risks (interest rate risk, foreign exchange risk, price risk) and consist of instruments underlying items such as debt and equity securities, interest rates, stock indices, currencies and commodities. They can assume the most varied and complicated contractual forms which can however be traced to three essential basic models: "futures" or "forwards" (fixed contracts, including the forward purchase and sale of securities and currencies), "options" (option contracts) and "swaps" (swap contracts). These include contracts for the forward purchase and sale of securities and currencies, derivative contracts having or not having underlyings linked to interest rates, indices or other items and currency derivative contracts.
Credit derivatives are contracts enabling the underlying credit risk to a specific item by the party purchasing protection to the party selling protection. In these operations the object of the transaction is the credit risk of the final borrower. This category includes the following main types of contract: "credit default swaps" (other than those regarding signatory loans), "credit default options", "total rate of return swaps", "credit spread options", "credit spread swaps" and "credit linked notes" (limited to the embedded derivative component).

Derivatives include those embedded in other hybrid financial instruments which have been recognised separately from the host instrument to the extent that:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- the embedded instrument, even if separated, meets the definition of a derivative;
- the hybrid instrument is not measured at fair value through profit and loss.

Recognition

Initial recognition of financial assets held for trading takes place, for securities, on the settlement date of the underlying purchase transactions – if settled on schedule according to current market practice (known as "regular way") – and, for derivatives, the trade date. In the case of recognition of financial assets at the settlement date, any changes in fair value recognised between the trade date and the settlement date are recognised in the income statement.

Financial assets held for trading are initially recognised at fair value, which generally corresponds to the price paid, without considering any transaction costs or income which are charged directly to income.
Any derivatives embedded in these complex financial instruments and separated from them from an accounting point of view (see the previous section on "Classification") are recognised at their fair value at recognition date.

Measurement and recognition of items affecting the income statement

Following initial recognition, financial assets held for trading are measured at their current fair value, with any changes being recognised in the income statement. If the fair value of a financial asset becomes negative, it is accounted for as a financial liability.

The fair value of investments listed on active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of investments for which no price is listed on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets. For further details, reference should be made to section A.4 "Fair value disclosures".

Equities for which it is not possible to determine the fair value reliably in accordance with the above guidelines, and the derivatives related to them which have to be settled through physical delivery of the equity instruments, are maintained at cost and written down in the event of impairment losses.

Profits and losses from trading activities and the unrealised gains and losses arising from changes in fair value with respect to the purchase cost, determined on the basis of the weighted average cost on a daily basis, are expensed in the period in which they arise under the item "Profits (losses) on trading", except for financial derivatives linked to the fair value option, whose result is recognised in "Profits (losses) on financial assets and liabilities designated at fair value".

Interest income on debt securities is calculated on the basis of the nominal interest rate. Dividends from equities are recognised when the right to receive them arises. Differentials and margins on derivatives are recognised upon the right to collect them or the obligation to settle them. Interest income and dividends are classified in the income statement under "Interest and similar income" and "Dividends and similar income" respectively. Differentials and margins on derivatives are allocated in the income statement to "Profits (losses) on trading", except for those that are operationally linked to financial assets or liabilities designated at fair value (subject to the fair value option) or linked to financial assets or liabilities classified as held for trading and with settlement of differentials or margins with various maturities ("multiflow" contracts), which are classified in the income statement as "Interest and similar income".

Derecognition

Financial assets are derecognised when the contractual right to receive cash flows from the financial asset is terminated, or if substantially all of the risks and rewards associated with holding that particular asset are transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred, but the Group retains a substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet. In such cases, the transferor recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

2 – Financial assets available for sale

Classification

Investments "available for sale" are financial assets that will be maintained for an indefinite period and that can also be sold for reasons of liquidity, changes in interest rates, exchange rates and market prices. This category excludes derivatives but includes financial assets not otherwise classified as receivables, financial assets held for trading, investments held to maturity and financial assets designated at fair value through profit and loss. In particular, this item includes equity investments not held for trading and which do not qualify as investments in subsidiaries, associates and joint ventures, including direct and indirect private equity investments.

Where allowed by IAS 39, reclassifications to the category "Investments held to maturity" are permitted. It is also possible to reclassify the debt securities not only in "Investments held to maturity" but also in "Receivables" when the company has the intention and ability to hold them for the foreseeable future or until maturity and assuming that the conditions for them to be recognised are satisfied. The transfer value is represented by the fair value at the time of reclassification. The Bipiemme Group has never taken advantage of this possibility, either for the current year or for previous years.

Recognition

Initial recognition of financial assets available for sale takes place on the settlement date of the underlying purchase transactions in the "regular way". Any changes in fair value recognised between the trade date and the settlement date are recognised in shareholders' equity.

Financial assets available for sale are initially recognised at fair value, which generally corresponds to the price paid including any transaction costs or income directly attributable to the instrument concerned.

If, as permitted by IAS 39, the entry is made as a result of reclassification of investments held to maturity or, in the presence of unusual events, of financial assets held for trading, the book value is represented by the fair value at the time of transfer.

Measurement and recognition of items affecting the income statement

After initial recognition, financial assets available for sale are measured at their current fair value, booking:

- to the income statement, the interest calculated under the effective interest rate method (which takes account of the amortisation of both the transaction costs and the difference between cost and the redemption amount);
- to equity (in the revaluation reserve), increasing or decreasing a specific reserve (net of tax), the unrealised gains and losses resulting from the measurement at fair value until such time as the financial asset is derecognised or an impairment loss is recognised. On derecognition of the financial asset from the balance sheet (e.g. in the case of the asset being sold) or on recognition of an impairment loss, the valuation reserve in question is reclassified, in whole or in part, to the income statement. Exchange gains and losses on monetary instruments (e.g. debt securities) are recognised directly in income. Changes in fair value indicated by the line item "Valuation reserves" are also reported in the statement of comprehensive income.

The fair value is determined based on the guidelines already discussed for financial assets held for trading. Equities for which it is not possible to determine the fair value reliably are maintained at cost and written down in the event of impairment losses.

Financial assets available for sale are tested for impairment at the end of each financial year or interim period to identify whether there is objective evidence of a deterioration in quality that might compromise the recoverability of the investment. Objective evidence of impairment, as defined by IAS 39, is identified on the basis of two circumstances:

- if one or more negative events take place after initial recognition of the financial asset;
- if this event has a negative impact on future expected cash flows.

In particular, the factors taken into account as indicators of critical circumstances are: the announcement or launch of financial restructuring plans or, in any case, significant financial difficulties, a significant downgrade in the issuer's rating, a material adverse change in book net equity since the last published financial statements, or a market capitalisation significantly lower than the book net equity.

The indicators relating to market values and parameters are verified with reference to specific information available on the company's situation to determine whether the indications given by the market do in fact reflect difficulties on the part of the company.

Regarding equities, a significant or prolonged decrease in fair value below the original purchase price is objective evidence of impairment (IAS 39, paragraph 61). In this regard, the following quantitative limits have been set for identification of the impairment:

- a decrease in fair value at the balance sheet date exceeding 50% of the original book value;
- a decrease in the fair value below the original book value for a continuous period of:
  - 18 months for equity securities or similar (for example participating instruments).
  - 48 months for units of mutual funds.

In either case exceeding one of these two thresholds means that an impairment loss has to be recognised on the security. However, even if these automatic thresholds are not exceeded, a check should be made for the existence of other symptoms of impairment that require further analysis of a particular financial instrument and may lead to the need for an adjustment.

If there is evidence of an impairment loss, the amount of the write-down, measured as the difference between the asset's original purchase cost and its current fair value, is recognised as an expense in the income statement for the year in "Net losses/recoveries on impairment of financial assets available for sale" including any equity reserve accumulated up to the balance sheet date. If the reasons for impairment no longer exist because of an event that took place after recognising the loss:

- in the case of debt securities or loans and receivables a reversal of the loss is recognised in the income statement up to the book value, while any excess is recognised in a valuation reserve in equity;
- in the case of equities and units of mutual funds a reversal of the loss is recognised in an equity reserve.

Derecognition

A financial asset is derecognised when the right to receive cash flows from the asset has expired, or when all the risks and rewards associated with holding this asset are effectively transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred, but the Group retains a substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet. In such cases, the entity making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

3 – Investments held to maturity

Investments held to maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity.

The Bipiemme Group has not classified any financial assets in this category.

4 – Loans and receivables

Classification

Loans and receivables form part of the wider category of non-derivative financial assets that call for fixed or determinable payments and which are not listed on an active market. They originate when the Group provides money, goods or services directly to a debtor without the intention of selling the related receivable. This category therefore does not include loans and receivables originated with the intention of being sold immediately or in the short term.

Receivables include loans to customers and banks, whether provided directly or acquired from third parties, securities acquired by subscription or private placement with identified or identifiable payments and not listed on active markets, debt securities not listed on active markets deriving from debt restructurings and receivables arising from finance leases. They also include the swaps and repurchase agreements with a forward obligation to resell, other than those for trading purposes, and securities lending transactions in which the collateral is represented by cash that remains entirely at the lender's disposal. Such operations are accounted for as lending transactions and do not lead to any changes in the proprietary securities portfolio. In particular, repurchase agreements are recognised as loans for the amount paid spot. This category also includes operating receivables associated with the provision of financial services as defined in the Consolidated Banking Act (CBA) and the Consolidated Finance Act (CFA).

Reclassifications are not allowed in the other categories of financial assets under IAS 39.

Recognition

Loans are recognised in the financial statements only when the Group is a party to the loan agreement. This means that the loan must be unconditional and the creditor acquires a right to payment of the contractually agreed sums. Initial recognition of the loans takes place on the date of payment or, in the case of a debt security, on the settlement date of the underlying purchase transactions according to the timing provided by market practice ("regular way"), on the basis of the related fair value, which normally corresponds to the amount granted or the price paid, inclusive of the costs/revenues directly attributable to the individual instrument and determinable from the outset of the operation, even if settled at a later date. Costs are excluded even if they have the above characteristics if they are subject to repayment by the debtor or can be considered normal internal administrative costs. In cases where the date of signing the contract does not coincide with the delivery date a commitment to grant finance is recognised; this commitment ends on the date that the funds are disbursed.

For loans concluded on terms other than market conditions, where the fair value is lower than the amount disbursed or settled as a result of applying a lower interest rate than the market rate or the one normally charged for loans with similar characteristics, initial recognition is made for an amount equal to the future cash flows discounted at a market rate. The difference compared with the amount paid/settled is recognised in the income statement on initial booking, except for loans to employees for which this difference is amortised over the shorter of the expected period of employment and the duration of the loan.

Receivables arising from the sale of goods or services are recognised at the time the sale or service is completed, meaning the time at which it is possible to recognise the income and hence the right to its receipt.

If recognition in the category of loans and receivables takes place when the company has the intention and ability to hold them for the foreseeable future or up to maturity, assuming it meets the conditions for booking, for reclassification from financial assets available for sale or from financial assets held for trading, the fair value of the asset at the date of reclassification is taken as the new amortised cost of the asset.

Measurement and recognition of items affecting the income statement

Following initial recognition, receivables are measured at amortised cost, equal to the initial value less any repayments of principal, reduced by value adjustments, increased by any write-backs of impairment losses and adjusted for the accumulated amortisation - calculated under the effective interest rate method - of the difference between the amount paid and that repayable on maturity, which is typically attributable to ancillary costs/revenues booked directly to the individual loan.

The effective interest rate is the rate that equates the present value of future cash flows of loans, principal and interest, estimated during the expected life of the loan, to its initial value, for fixed-rate instruments, or its book value at each repricing date for floating-rate instruments. The estimate of cash flows takes into account all contractual terms which may affect the amounts and maturities, without considering the expected losses on the loan. The calculation includes all the payments between the parties which form an integral part of the interest, even if otherwise specified (fees, expenses, etc.), transaction costs and all other premiums or discounts. From a financial standpoint this accounting method makes it possible to spread the economic effect of the costs/revenue over the residual life of the loan.

The amortised cost method is not used for short-term receivables for which the effect of discounting is immaterial. These receivables are measured at historical cost. The same method is applied to loans without a defined maturity or which can be revoked at any time.

Each time financial statements are prepared, a review of financial assets classified as loans is carried out to identify those which show objective signs of impairment as a result of events occurring after recognition. These signs become visible as a consequence of the following events in particular:

- significant financial difficulties on the part of the issuer or the debtor to settle the payments due;
- situations of default on the part of the issuer or the debtor or non-payment of interest or principal;
- concession to the debtor or issuer, for economic or legal reasons linked to the financial difficulties of the issuer, of facilities that the Group would not otherwise have taken into account;
- probable bankruptcy of the debtor or issuer or their involvement in other insolvency proceedings;
- lack of access to an active market for that particular financial asset because of the financial difficulties of the debtor or issuer;
- deterioration in the quality of a homogeneous group of loans due for example:
  - payment difficulties on the part of debtors within the group;
  - national or local economic conditions that adversely affect the group.

The impairment test for the loans is divided into two phases:

- the phase of individual or specific assessments, in which individual impaired loans are selected and the related losses estimated;
- the phase of collective or portfolio assessments, in which latent potential losses on performing loans are estimated.

First of all a valuation is made of the assets representing impaired exposures (non-performing loans) classified in the various risk categories on the basis of the Bank of Italy's regulations, consistent with IAS/IFRS standards, together with internal provisions establishing the criteria and rules for the transfer of loans within the various risk categories. In this respect it should be noted that the Bank of Italy has revised the definitions of non-performing loan categories as from 1 January 2015.
This revision became necessary in order to adapt previous risk classes to the definition of "Non-Performing Exposure" (NPE) introduced by the European Banking Authority ("EBA") through the issue of Implementing Technical Standards ("ITS"), EBA/ITS /2013/03/rev1 on 24 July 2014.

The "Asset quality" section of Circular no. 272 of 30 July 2008 was accordingly updated (6th update of 7 January 2015), identifying the following categories of non-performing loans:

- **Bad loans:** cash and "off-balance sheet" exposures to borrowers in a state of insolvency (even if not yet established by a court) or substantially similar situations, independent of any loss forecasts made by the bank. Bad loans also include exposures to local authorities (municipalities and provinces) in a state of financial distress for the amount subject to the relevant liquidation;
- **Unlikely to pay:** classification in this category is above all the result of the bank's opinion on the likelihood that the obligor will be able to pay its credit obligations (principal and/or interest) in full without recourse to measures such as enforcing guarantees. This assessment has to be carried out whether or not there are any amounts or instalments past due and unpaid. This means that it is not necessary to wait for explicit signs of an anomaly, such as failure to repay, if there are elements that imply a situation of risk of default on the part of the borrower (for example, a crisis in the industry in which the debtor operates). "Unlikely to pay" status applies to all of the cash and off-balance exposures to the same debtor that finds itself in such as situation;
- **Past due and/or overdrawn:** cash exposures, other than those classified as bad loans or unlikely to pay, that have a past due and/or overdrawn position for more than 90 days at the reporting date. As regards the Bipiemme Group, non-performing past due and/or overdrawn exposures are determined with reference to the position of the individual debtor.

In its ITS the EBA introduces an additional disclosure requirement on forbearance. The term "forbearance" is used by the EBA to indicate debtors that find or could find themselves in difficulty with respect to their loan repayment terms and for which concessions have been made concerning the renegotiation of the original contractual conditions. Accordingly, a necessary condition for the identification of an exposure as forborne is the existence at the time of the request for renegotiation of a situation whereby a debtor is experiencing financial difficulty.

In January 2015 the Bank of Italy issued an update to Circular no. 272 which provides definitions for "non-performing exposures" and "forborne exposures" (i.e. exposures for which concessions have been made), based on the EBA's technical standards. The latter definition does not represent a new category of non-performing loan but is an additional information tool, since the "forborne" loan category applies to all existing risk classes and both performing and non-performing loans may be included in the scope of renegotiation.
The allocation of forborne status may be reversed subsequent to a review of the results and financial position of the debtor. This review process takes place after a period of 2 or 3 years, based on whether the loan is performing or non-performing.

If there is objective evidence of impairment, the amount of the write-downs is equal to the difference between the book value of the asset at the time of the evaluation (amortised cost) and the present value of the expected future cash flows of principal and interest, calculated by applying the effective interest rate on impairment.

The expected cash flows take into account the foreseeable recovery time, the realisable value of any guarantees on the positions, any prepayments received (excluding future loan losses that have not yet arisen), and the costs that will be incurred to recover the loan. The present value of future cash flows of a collateralised financial asset reflects the cash flows that might result from the collateral, net of realisation costs, regardless of the actual probability of realisation. Cash flows related to loans that are expected to be recovered in the short term are not discounted. The original effective interest rate for each loan remains unchanged over time even in the case of a restructuring that has led to a change in the contractual rate and also when the relationship becomes, in practice, non-interest bearing from a contractual point of view. If a loan has a variable interest rate, the discount rate for measuring the loss is the current effective interest rate determined under the contract.

In the event of an adjustment, the book value of the asset is reduced by setting up an allowance for bad and doubtful accounts that offsets the value of the asset and the amount of the adjustment is recognised in the income statement under "Net losses/recoveries on impairment of loans". If the loan is regarded as uncollectable, it is written off against the allowance. If in a subsequent period the amount of the adjustment decreases and the decrease is objectively attributable to an event that occurred after determination of the write-down, as an improvement in the creditworthiness of the borrower, the adjustment recognised previously is eliminated or reduced by booking a write-back to the income statement, although the write-back cannot in any case exceed the amortised cost that the loan would have had if no adjustments had been made previously.

Reversals of impairment losses, like reversals associated with the passage of time, for interest earned in the period on the basis of the original effective interest rate (previously used for calculating the impairment loss), are recognised at each balance sheet date under "Net losses/recoveries on impairment of: loans" in the income statement.

The restructuring of loans from debt to equity instruments (shares, participating instruments, units of mutual funds) via debt/equity swap transactions is equivalent to, from an accounting point of view, a substantial amendment to the original contractual terms leading to the termination of the pre-existing relationship and the resulting fair value measurement of the new relationship, with the recognition in the income statement of a profit and loss equating to the difference between the book value of the terminated loan and the fair value of the financial instruments received.

Loans for which no objective evidence of impairment has been identified ("performing loans") are submitted to collective or portfolio evaluation.

The evaluation of performing loans (loans to borrowers who, at the balance sheet date, have not shown any specific risk of default) takes place for homogeneous categories of loans in terms of credit risk and loss rates are estimated taking into account past statistics and other elements that are observable at the valuation date, which makes it possible to estimate the latent loss in value of each loan category.

For this purpose a model is used that is developed on the basis of risk management methodologies seeking all possible synergies (as permitted by the various regulations) with the advanced approach for evaluating the creditworthiness of a counterparty, as envisaged under current supervisory legislation. From an operational standpoint the best possible proxy for determining the creditworthiness of a counterparty is the rating calculated by the models that have been developed and validated internally. All of the positions identified using the methods explained above are evaluated on a collective basis by determining the amount of adjustments to be recognised in the income statement as the product of the exposure at the balance sheet date, the probability of default (PD) and the loss in case of default (LGD).

The estimation process for the above factors, PD and LGD, takes account of assumptions that permit the closest possible approximation of the notion of "incurred loss", that is, the loss arising from actual events but which has not yet been reflected in the revision of the level of risk of the counterparty ("incurred but not reported"), as envisaged by IAS 39. In particular, a time horizon of one year is used for the identification of a deterioration in creditworthiness that is then corrected by means of a mitigating factor ("Loss Confirmation Period") that represents the time period between the detection of the initial signs of anomalies and the point in time when the default event is recognised by the Group.

The adjustments are determined collectively and recognised in the income statement. At each balance sheet and interim report date, the assessment is updated with reference to the entire portfolio of performing loans as of that date and any additional adjustments or write-backs are recalculated differentially with reference to the entire portfolio.

Interest on the loans is classified in the income statement under "Interest and similar income" and is recognised on an accrual basis. Any gains and losses on disposal are reported in the income statement under "Profits (losses) on disposal or repurchase of: loans".

A similar method is used for determining specific and general write-downs against guarantees given which do not represent derivative contracts. The liabilities resulting from this valuation process are recognised in "Other liabilities" in accordance with the Bank of Italy's instructions. Impairment losses on the guarantees issued and any subsequent write-backs are recognised in the income statement under "Net losses/recoveries on impairment of: other financial activities".

Derecognition

Loans and receivables are derecognised when the right to receive cash flows from the financial asset has expired, or when all the risks and rewards associated with holding the asset in question are effectively transferred or when the asset is regarded as definitively irrecoverable upon completion of all the necessary recovery procedures.

Conversely, if the legal ownership of loans has been effectively transferred and the Group retains substantially all their rewards and benefits, the loans continue to be reported as assets in its balance sheet with the consideration received from the purchaser recognised as a liability.

In such cases, the Group recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

5 – Financial assets designated at fair value through profit and loss

Classification

In general terms the application of the fair value option is extended to all financial assets and liabilities which, if classified otherwise, would give rise to a distortion in the accounting treatment of income and shareholders' equity, as well as to all instruments that are managed and measured at fair value.

The following are therefore included in this category:

- purchased structured instruments (hybrid debt instruments whose return is linked to equity instruments, foreign exchange, credit instruments or indices), other than those allocated to trading instruments;
- debt securities not included in financial assets held for trading and subject to financial hedging for which the fair value is applied in order to reduce and/or eliminate valuation and accounting asymmetries;
- open-ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short-term trading, form part of a suitably documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument, with regular detailed reports on performance provided to management.

Reclassifications to other categories of financial assets are not permitted.

Recognition

Financial assets designated at fair value through profit and loss are initially recognised on the settlement date of the underlying purchase transactions according to the timing provided by market practices ("regular way"). Changes in fair value between the trade date and the settlement date are recognised in the income statement.

Such assets are initially recognised at fair value, which generally corresponds to their purchase price. Transaction costs or proceeds are recognised directly in the income statement.

Measurement and recognition of items affecting the income statement

After initial recognition financial assets are valued at their current fair value.

The fair value of investments listed on active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of investments for which no price is listed on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets. For further details reference should be made to section A.4 "Fair value disclosures".

Gains and losses realised on sale or redemption and the unrealised gains and losses arising from changes in fair value with respect to purchase cost, determined on the basis of the weighted average cost on a daily basis, are expensed in the period in which they arise under the item "Profits (losses) on financial assets and liabilities designated at fair value", to which the capital gains and losses on derivatives linked to the fair value option are also booked.

Under the terms of article 6 of Legislative Decree no. 38 of 28 February 2005, the share of operating profit, corresponding to gains recognised in the income statement, net of the related tax charge, which stems from the application of fair value to instruments other than those for trading and to foreign exchange operations and hedging instruments, is recognised in a restricted reserve that is reduced by the amount of any capital gains that are realised. The amount reported in the restricted reserve refers to the net gains on financial assets and liabilities, not hedged by derivatives, and those on hedged financial instruments.

Interest income on debt securities is calculated on the basis of the nominal interest rate. Dividends from equities are recognised when the right to receive them arises. Interest income and dividends are presented in the income statement under "Interest and similar income" and "Dividends and similar income" respectively.

Derecognition

Financial assets designated at fair value through profit and loss are derecognised when the right to receive the cash flows from the financial asset has expired, or if substantially all the risks and rewards associated with holding that particular asset are transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred, but the bank retains a substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet. In such cases, the Group recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

6 – Hedging transactions

Classification

Transactions hedging risks are designed to neutralise potential losses on a particular item or group of items attributable to a given risk, should a specific risk actually occur. The instruments that may be used for hedging are derivatives (including purchased options) and non-derivative financial instruments, but only to hedge exchange risk. Hedging instruments are classified in the balance sheet under asset line item "80. Hedging derivatives" if positive at the balance sheet date, or under liability line item "60. Hedging derivatives", if negative.

Of those permitted by the standard, the Group uses the following types of hedging:

- **Fair value hedges** divided into:
  - **microhedging:** this has the aim of hedging the risk of changes in the fair value of individual assets or liabilities in the financial statements, or portions thereof, attributable to a particular risk, such as interest rate risk or price risk;
  - **macrohedging:** this has the aim of reducing fluctuations attributable to interest rate risk in the fair value of an indistinct portion (a monetary amount) of a portfolio of financial assets and/or liabilities. Net amounts corresponding to mismatches of assets and liabilities cannot be macrohedged.
- **Cash flow hedges:** the objective of these is to hedge the exposure to changes in future cash flows attributable to particular risks associated with financial statement components. This type of hedging is used to stabilise cash flows generated by interest on floating rate loans or to hedge the risk of a price change on future purchases of financial assets.

Financial instruments are designated as hedging instruments only if they involve a counterparty that is external to the Group, which means that transactions between Group companies and their economic results are eliminated from the consolidated financial statements.

Recognition

Hedging derivatives are initially recognised at the trade date (the date the contract is signed).

Like all derivatives, financial derivative instruments used for hedging are initially recognised at fair value.

Measurement and recognition of items affecting the income statement

Fair value hedges

Financial derivative instruments used for hedging are measured at their current fair value. The fair value of derivatives is based on prices published by regulated markets or provided by financial markets, option pricing models or discounted future cash flow models. For further details reference should be made to section A.4 "Fair value disclosures".

Hedged positions are also carried at fair value, but only for changes in value produced by the risk being hedged (e.g. interest rate risk), "sterilising" the other risk components that are not subject to such transactions and, for hedged positions subject to the amortised cost method and involved in microhedging, with the counter-entry adjusting their amortised cost. In macrohedging operations changes in fair value of hedged positions do not involve adjusting their amortised cost but are recognised in the balance sheet under the asset item "90. Fair value change of financial assets in hedged portfolios" or under the liability item "70. Fair value change of financial liabilities in hedged portfolios".

The accounting treatment of unrealised gains and losses corresponding to changes in fair value depends on the type of hedging. In particular:

- **specific fair value hedge:** the change in the fair value of the hedged item is connected with the change in the fair value of the hedging instrument. Such compensation is recognised through recognition in income statement item "90. Fair value adjustments in hedge accounting" of the changes in value related to the hedged item (as regards the changes produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, therefore constitutes the net economic effect. Recognition in the income statement of changes in the fair value of the hedged item, attributable to the risk being hedged, also applies if the hedged item is a financial asset available for sale; if there is no hedge, this change is recognised in equity. In microhedging transactions the difference between the book value of the hedged position (carried at amortised cost) at the time the hedge comes to an end and what would have been its book value if the hedge had never been activated is amortised to income over the residual life of the hedged item based on the effective rate of return. If the hedged item is sold or redeemed, the unamortised portion of fair value is recognised immediately in profit and loss;
- **generic fair value hedge:** changes in the fair value of assets or liabilities being hedged are recognised in income statement item "90. Fair value adjustments in hedge accounting" and in the balance sheet under asset item "90. Fair value change of financial assets in hedged portfolios" or liability item "70. Fair value change of financial liabilities in hedged portfolios". If the hedging relationship no longer fulfils the conditions for hedge accounting or the hedge relationship is divested, the amount included in asset item 90 or liability item 70 is amortised to the income statement over the estimated life of the hedged items at the time of defining the generic (or "macro") hedge. If the hedge no longer applies as the elements being hedged have been cancelled or reimbursed, the portion of fair value not yet amortised is recognised immediately in profit and loss.

Cash flow hedges

Cash flow hedging derivatives are measured at fair value. The change in the fair value of hedging derivatives:

- is recognised in line item 140. "Valuation reserves" of shareholders' equity if effective;
- is recognised in the income statement line item 90. "Fair value adjustments in hedge accounting" when, in relation to the hedged item, there is a change in the hedged cash flow or the ineffective portion of the hedge.

If the cash flow hedge is no longer considered effective or the hedging relationship has been terminated, the entire amount of the profits or losses arising from the hedging instrument, already recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction takes place or when it is deemed that there is no longer any possibility that the transaction will take place; in the latter circumstances the profits or losses are reclassified from shareholders' equity to the income statement line item 90. "Fair value adjustments in hedge accounting". Changes in fair value indicated by the line item 140. "Valuation reserves" are also reported in the statement of comprehensive income.
Differentials accrued on derivatives to hedge interest rate risk are recognised in the income statement under "Interest and similar income" or "Interest and similar expense" (the same as the accrued interest on the hedged positions).

A transaction qualifies for hedge accounting if there is formal documentation of the relationship between the hedging instrument and risks hedged, of the enterprise's risk management and strategy for undertaking the hedge and of how the hedging instrument's effectiveness will be assessed. Furthermore, the effectiveness of the hedging relation must be tested when initiated and, in the future, over its entire life.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged instruments or of the expected cash flows are offset by those of the hedging instrument. As a result, effectiveness is measured by comparing the above changes, taking into account the intent pursued by the company when the hedge was put in place.

A hedge is effective (within a range of 80%-125%) when the actual and expected changes in the fair value or cash flows of the hedging instrument almost completely neutralise the changes in the hedged item, for the type of risk being hedged.

Effectiveness is assessed at each annual or interim balance sheet date.

Hedge accounting is discontinued in the following circumstances:

a) the hedging derivative ceases to exist or is no longer highly effective;

b) the hedged item is sold or repaid;

c) the hedge is terminated prematurely;

d) the derivative expires or is sold, terminated or exercised.

In cases a), b) and c) the derivative contract is reclassified to trading instruments (under "20. Financial assets held for trading" or "40. Financial liabilities held for trading"). In cases a), c) and d) the hedged instrument is recognised in its category with a value equal to its fair value at the time when it ceases to be effective and returns to being measured according to the class to which it originally belonged.

Derecognition

Financial assets and liabilities used for hedging are derecognised when there is no longer the contractual right to receive the cash flows relating to financial instruments, assets/liabilities hedged and/or derivative object of the hedging transaction (e.g. expiry of the contract, early termination exercised in accordance with the terms of the contract – so-called "unwinding") or when the financial asset/liability is sold, transferring substantially all of the risks/benefits associated with it.

7 – Investments in associates and companies subject to joint control

Classification

This item consists of interests that meet the criteria of IAS 28, investments in companies over which the investor has significant influence, and of IFRS 11, joint ventures. The recognition criteria are consistent with those stated in Section 3 "Scope of consolidation and consolidation procedures".

Recognition

This item consists of interests in joint ventures and associates, which are initially recognised at acquisition cost.

Measurement and recognition of items affecting the income statement

Investments in associates and companies subject to joint control are carried in the balance sheet at equity, which requires initial recognition at cost and subsequent adjustment to calculate the share of profits and losses realised after the acquisition. A pro-rata share of the company's results is recognised under "Profits (losses) on investments in associates and companies subject to joint control" in the consolidated income statement.

The book value of investments in associates and companies subject to joint control is reduced by the dividends received periodically by the Group.

In the event it is necessary to account for changes in value originating from changes in equity in an investee that the investee has not recognised in the income statement (for example, for changes originating from the measurement at fair value of financial assets available for sale), the portion of the changes attributable to the Group is recorded in the line item "Valuation reserves".

If there are signs that the value of an investment may be non-performing, an estimate of the recoverable amount of the investment is made, this being represented by the higher of fair value less costs to sell and value in use. Value in use is the present value of the cash flows that the investment is expected to generate, including its ultimate disposal value, while fair value is determined in accordance with Section A.4 – Fair value disclosures. If the recoverable amount is less than the book value, the difference is recognised in the consolidated income statement under item "240. Profits (losses) on investments in associates and companies subject to joint control".

If the reasons for making a write-down cease to exist due to an event occurring after recognition of an impairment, write-backs are made in the consolidated income statement to the same line item "240. Profits (losses) on investments in associates and companies subject to joint control".

Derecognition

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold and substantially all of the risks and rewards associated with it are transferred. On the other hand the investment is reclassified as a financial instrument in the case of partial disposal that involves the loss of significant influence or joint control.

8 – Property and equipment

Classification

This item mainly includes land and buildings for business purposes and those held for investment purposes, together with equipment, vehicles, furniture, furnishings and equipment of any kind.

Assets used for business purposes are those held for use in the supply of goods and services or for administrative purposes, which are deemed to be used for more than one period, while investment assets include property held to earn rentals, for capital appreciation or both. The land and buildings held are mostly used as branches and offices of the Parent Company and Group companies.

Property and equipment also include leasehold improvements in the case of additional expenses relating to identifiable and separable assets; in this case, the classification relates to the specific category, taking into account the nature of the asset in question. Leasehold improvements are classified under "Other assets" if they relate to property and equipment that is identifiable but not separable.

As regards property, the components relating to land and buildings are treated separately for accounting purposes as they have different useful lives. The subdivision between the value of land and the value of buildings is made on the basis of valuations performed by independent experts. Land is attributed an unlimited useful life and is therefore not depreciated, whereas buildings are depreciated as they have a limited useful life. An increase in the value of the land on which a building stands does not affect the determination of the building's useful life.

If a property includes a portion that is used in the business and a portion that is held for investment purposes, it is classified on the basis of whether these parts can be sold separately or otherwise. If they can be sold separately, they are recognised separately as business property and investment property accordingly. If the portions cannot be sold

separately, the entire property is classified as a business property, unless only an insignificant portion of the property is used for business purposes.

Recognition

Property and equipment are initially recognised at purchase price or production cost, including all directly attributable costs of purchase or of bringing the asset to its working condition.

Non-routine maintenance expenditure is included in the book value of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the enterprise and the cost can be measured reliably. Expenditure on repairs, maintenance or other work to ensure the functioning of assets is recognised as an expense in the period incurred.

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, items of property and equipment, including investment property, are carried at cost less any accumulated depreciation and any accumulated impairment losses. Property and equipment are depreciated over their estimated useful lives by adopting the straight-line method and the amount is recognised as "Net adjustments to/recoveries on property and equipment". Land is not depreciated, regardless of whether it was separately acquired or forms part of the value of buildings, since it has an unlimited useful life. Works of art are not depreciated since their useful life cannot be estimated and their value usually increases over time.

Depreciation starts when the asset is available and ready for use, or when it is in the required place and condition to be able to operate. In the first year of depreciation the charge is recognised in proportion to the period during which the asset is effectively used.

Depreciation ceases when the asset is classified as "held for sale" or, if earlier, from the date when the asset is derecognised. Depreciable assets are adjusted for any impairment losses whenever events or changes in circumstance indicate that their book value might not be recoverable. An impairment loss is recognised for the amount by which the book value of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value, net of any costs to sell, and the related value in use of the asset, understood as the present value of expected future cash flows generated by the asset.

Any adjustments are recognised in the income statement as "Net adjustments to/recoveries on property and equipment".

If the reasons underlying the recognition of an impairment loss no longer exist, the loss may be reversed but by no more than the book value that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.

Apart from specific determination of the useful life of individual assets, the Group depreciates property and equipment over the following useful lives:

- property: from 15 to 30 years;
- furniture, machines, vehicles: from 3 to 10 years;
- plant and leasehold improvements: from 3 to 12 years.

Derecognition

Property and equipment are removed from the balance sheet on disposal or when permanently withdrawn from use and therefore no future benefits are expected from their sale or use. Gains or losses arising from the retirement or disposal of items of property and equipment are determined as the difference between the net disposal proceeds and the book value of the assets and are recognised in the income statement on the date on which the assets are derecognised.

9 – Intangible assets

Classification

Intangible assets are non monetary assets from which the Group will derive future economic benefits, are identifiable even if they lack physical substance, are long-term and originate from legal or contractual rights.

This item consists exclusively of software licences that cannot be associated with a tangible asset. The cost incurred to purchase and implement the specific software is recognised in the balance sheet as "Own software", providing all the rights relating to the software have been acquired; if only the user licence has been purchased this is classified as a "User licence" under Software.

Recognition

Intangible assets are recognised as assets at cost, adjusted for any ancillary charges, if it is probable that future economic benefits attributable to the asset are realised and if the cost of the asset can be reliably determined and provided it consists of identifiable elements, i.e. is protected by legal recognition or negotiable separately from other assets. In the absence of these conditions the cost of the intangible asset is expensed to income in the period incurred.

Internally produced software in the development phase is capitalised when the related costs can be reliably determined; these costs usually consist of the cost of internal staff working on the development project and any other directly related charges. If the technical feasibility of completing the related projects and their ability to generate future economic benefits cannot be demonstrated or if the cost of production cannot be determined reliably the costs are expensed to income.

Measurement and recognition of items affecting the income statement

After initial recognition, intangible assets with a "finite" life are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged on a straight-line basis (or, for intangible assets relating to the enhancement of customer relationships with defined maturity, on a declining basis), which reflects the long-term use of the assets based on their estimated useful life, and amortisation is recognised under "Net adjustments to/recoveries on intangible assets" in the income statement.

Amortisation starts when the asset is available for use, or when it is in the place and condition allowing it to operate in the established manner. In the first year of amortisation the charge is recognised in proportion to the period the asset is effectively used. Amortisation is no longer charged from the earlier of the date when the intangible asset is classified as "held for sale" and the date on which the asset is derecognised. If there is evidence of impairment, the asset's recoverable amount is estimated at each balance sheet date. The amount of the impairment loss, expensed to income under "Net adjustments to/recoveries on intangible assets", is the difference between the book value of an asset and its recoverable value.

Apart from the specific determination of the useful life of individual assets, the Group amortises intangible assets over the following useful lives:

- licenses: over the term of the license;
- software developed internally: 6 years.

The Group has no intangible assets with an "indefinite" life.

Derecognition

An intangible asset is eliminated from the balance sheet on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the book value of the asset.

10 – Non-current assets held for sale

Classification

Non-current assets and disposal groups held for sale are classified as such if their book value will be recovered principally through a sale rather than through continued use. This condition is considered met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale and completion of the sale should be expected within one year of the classification.

In accordance with IFRS 5, discontinued operations are also accounted for separately; these are components that have either been disposed of or classified as held for sale and:

- represent either a separate major line of business or a geographical area of operations;
- form part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- are a subsidiary acquired exclusively with a view to resale.

At 31 December 2016 there were no assets or groups of assets classified as such under IFRS 5.

Recognition

Non-current assets and disposal groups classified as held for sale are measured at the lower of their book value and fair value, less costs to sell.

Measurement and recognition of items affecting the income statement

As a result of being classified in this category these assets are measured at the lower of their book value and the related fair value less costs to sell. In cases where the assets being sold are not fully depreciated, the depreciation process is interrupted from the time they are classified as non-current assets held for sale.
Non-current assets and disposal groups held for sale as well as "discontinued operations" and the related liabilities are shown in specific items under assets ("Non-current assets and disposal groups held for sale") and liabilities ("Liabilities associated with non-current assets and disposal groups held for sale").

The results of valuations, income, expense and profits (losses) on disposal (net of tax), of "discontinued operations" are recognised in the income statement as "Income (loss) after tax from discontinued operations".

Derecognition

Non-current assets and disposal groups held for sale are derecognised on disposal.

11 – Current and deferred taxation

"Current and deferred tax assets and liabilities" respectively include current and deferred tax assets and current and deferred tax liabilities relating to income taxes. These are calculated in accordance with national tax laws and are recognised in the income statement on an accrual basis, in line with the recognition of the costs and revenues that generated them. An exception to this is the tax on items debited or credited directly to shareholders' equity, for which the recognition of the related tax takes place in shareholders' equity for the sake of consistency.

Current taxation: "Current tax assets and liabilities" show the taxes payable or recoverable on the taxable result for the year. These basically relate to the taxes that will be declared in the tax return. Current taxes show the balance between current tax liabilities for the year, calculated on a conservative basis in accordance with current tax legislation, and current tax assets represented by advance payments, tax credits for withholding taxes incurred and other tax credits from previous years for which the Group has requested an offset against future taxation. Current tax assets also include tax credits for which a refund has been requested from the competent tax authority.

Deferred taxation: application of the tax rules to the separate financial statements leads to differences between taxable income and statutory income which may be permanent or temporary in nature. Permanent differences are definitive and consist of costs or revenues which under current tax laws may be non-deductible (totally or partially) or exempt.

Temporary differences are formed when the book value of an asset or liability differs from its tax base, thus giving rise to deferred tax, which is determined on the basis of the "balance sheet liability method". Deferred taxation determined on the basis of this method takes account of the tax effect of the differences, which will lead to taxable or deductible amounts in future periods; it follows that the temporary differences can be divided into "taxable temporary differences" and "deductible temporary differences".

"Taxable temporary differences" arise when the book value of an asset is higher than its value for tax purposes, or when the book value of a liability is lower than its value for tax purposes. These differences indicate a future increase in taxable income and consequently generate "deferred tax", as these differences result in taxable amounts in periods later than those in which they are recognised in the Group's income statement, resulting in a deferral of taxation with respect to the period when it accrues from a statutory point of view.

"Deferred tax liabilities" are recognised for all taxable temporary differences except for equity reserves in suspense for tax purposes or those for which there are no planned distribution to the shareholders.
Differences between lower taxable profit compared with accounting profit are principally the result of:

- positive components of income taxable in periods subsequent to those in which they were recognised for accounting purposes;
- negative components of income that are deductible for tax in periods prior to those in which they are recognised for accounting purposes.

"Deductible temporary differences" arise when the book value of an asset is less than its value for tax purposes, or when the book value of a liability is greater than its value for tax purposes. These differences indicate a future reduction in taxable income, which therefore generates "deferred tax assets" (effectively prepaid taxes), as these differences result in taxable amounts in the year they are recognised, leading to an anticipation of the tax with respect to the period when it accrues from a statutory point of view.

"Deferred tax assets" are recognised in the financial statements for all deductible temporary differences to the extent that they will probably be recovered. This probability is assessed on the ability of the company concerned, or of all the companies taking part in the Group tax regime, to generate positive taxable income against which deductible temporary differences can be offset.

Differences between higher taxable profit compared with accounting profit are principally the result of:

- positive components of income taxed in years prior to those in which they are recognised for accounting purposes;
- negative components of income that are deductible for tax in periods subsequent to those in which they were recognised for accounting purposes.

Deferred tax assets may also be recognised for the carry forward of unused tax losses and unused tax credits.

Deferred taxation is calculated by applying the tax rates that, according to the laws in force at the time of preparing the financial statements, will be applied in the period in which the asset will be realised or the liability settled.

Deferred tax assets and liabilities are offset if they relate to taxes levied by the same tax authority and when there is a legally enforceable right of set-off.

Assets and liabilities recognised as deferred tax assets and liabilities are systematically assessed to take into account any changes in the rules or tax rates, or any other circumstances relating to the individual Group companies.

The amount of the provision for taxation is also adjusted to meet any charges that could arise from tax assessments already notified or in any case from disputes with the tax authorities.

If deferred tax assets and liabilities relate to items affecting the income statement, the counter-entry is recognised in "Taxes on income from continuing operations"; if the amount of deferred tax assets exceeds the aggregate cost for current taxes and deferred tax liabilities, a positive amount of "tax revenue" is shown in the above-mentioned item of the income statement. In cases where deferred tax assets and liabilities relate to transactions that directly involved shareholders' equity (the "valuation reserves") without passing through the income statement (for example, recognition of actuarial gains or losses, valuations of financial instruments available for sale and cash flow hedges), these are recognised with a counter-entry to the specific valuation reserves in shareholders' equity and in the statement of comprehensive income.

The deferred taxation of companies taking part in the Group tax regime is recognised on an accrual basis by the individual companies in their financial statements, as the Group tax regime can only be used to settle current tax positions.

12 – Allowances for risks and charges

Allowances for risks and charges include provisions for risks and charges covered by IAS 37 as well as allowances for employee benefits covered by IAS 19, both post-employment and long-term benefits.

Allowances for risks and charges are liabilities whose amount and timing are uncertain and are recognised in the financial statements when all the following conditions are met:

a) a present obligation exists at the balance sheet date as a result of a past event. The obligation must be of a legal nature (i.e. based on a contract, regulation or other provision of law) or implicit (i.e. arising any time the company generates an expectation in third parties that it will honour its commitments, even if not covered by legal obligations);

b) it is probable that an outflow of financial resources will be required;

c) a reliable estimate can be made of the amount of the obligation.

The following paragraphs provide a description of the contents of the allowances for risks and charges and the way in which they are recognised and measured, analysed between "Allowances for post-employment benefits" and "other allowances" as required by the Bank of Italy.

Allowances for post-employment benefits

"Allowances for post-employment benefits" consist of provisions for employee benefits to be paid after termination of the employment relationship; depending on the legal and economic substance of the obligation, they can be defined contribution or defined benefit plans.

Under defined contribution plans the employer pays contractually established contributions into a separate fund and accordingly has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay all employee benefits. The contribution is accounted for on an accrual basis under "Administrative expenses: a) personnel expenses" as the cost of the benefit to the employee.

Defined benefit plans are structured quite differently. In this case, the Group guarantees benefit payments to those entitled by assuming the actuarial risk itself but not that of the investment, insofar as the amounts set aside to satisfy retired employees' entitlements are not invested in specific assets that are separate from those of the Group in general. These plans are financed by a specific provision recognised in "Allowances for risks and charges: a) post-employment benefits". In this case the future benefits payable are valued by an independent actuary using the "projected unit credit method".

More specifically, this method, also known as the "accrued benefit cost method" pro-rated over the years of service or as the "benefit/years of service method" sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The projection of future payments (including future salary increases for whatever reason: contract renewals, inflation, career promotion, etc.) is carried out on the basis of historical statistics and analyses of the demographic curve; these flows are discounted at a market interest rate. The contributions paid in each period are treated as separate units, recognised and measured individually for the purpose of determining the final obligation.

The amount recognised as a liability is therefore the present value of the liability at the balance sheet date plus the annual interest accruing on the present value of the Group's obligations at the start of the year, calculated using the discount rate for estimating the liability for future outflows adopted at the end of the prior year and adjusted for the portion of actuarial gains/losses.

The rate used to discount the obligations linked to post-employment benefits is determined on the basis of market yields at the reporting date on high quality corporate bonds with an average residual duration equal to that of the liabilities being measured.

The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of obligations at period end, is recognised directly to shareholders' equity under line item "Valuation reserves".

Obligations to employees are evaluated by an independent actuary every six months.

Other allowances

"Other allowances" consist of provisions recognised for the estimated payments to be made for obligations arising from past events. These payments may be of a contractual nature, such as for example those relating to bonuses payable to managers in cash and on a deferred basis, those for amounts to be paid for staff leaving incentives or indemnities and those provided in contractual clauses which trigger on the occurrence of certain specific events, or of a compensatory and/or restitutory nature, such those relating to losses expected to be incurred in legal cases including clawback actions or to customer litigation regarding security brokerage activities.

The amount recognised as an allowance is the best estimate of the outflow of resources embodying economic benefits needed to settle the obligation that exists at the reporting date of the financial statements and reflects risks and uncertainties that are inherent in the facts and circumstances under review.

If deferral of the obligation is significant, with the result that the effect of the time value of money is material, then provisions are discounted to the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. It is usually considered significant if 12 months pass between the date of preparation of the financial statements and the disbursement. The provision made to the allowance is recognised in the income statement, where the interest accruing on allowances that are subject to discounting is also recognised.

Provisions are adjusted, if necessary, at each balance sheet date to reflect the current best estimate; if the reasons for past provisions no longer apply, the amount involved is released to income.

If liabilities are only potential and not likely, no provision is made, but information is given in the notes, except in cases where the probability of incurring a cost is remote or the situation is immaterial.

13 – Payables and securities issued

Classification

Payables and securities issued fall within the broader category of financial instruments and consist of those relationships for which the Group is obliged to pay certain amounts to third parties at certain deadlines.

The items "due to banks", "due to customers" and "securities issued" include the various technical forms of interbank funding and customer deposits, repurchase agreements (forward agreements with an obligation to repurchase) and the funds raised by issuing certificates of deposit, bankers' drafts and bonds in circulation, therefore net of any amount repurchased. "Securities issued" also include securities that are past due but not yet reimbursed at the balance sheet date and exclude portions of debt securities issued but not yet placed with third parties. Payables also include those associated with the provision of financial services as defined in the Consolidated Banking Act and in the Consolidated Finance Act.

Subordinated loans are classified as financial liabilities as their regulations require periodic coupon payments and/or mandatory redemption of capital for a fixed or determinable amount at a specified future date or give the holder the right to request a refund on or after a set date for a fixed or determinable amount.

Recognition

Initial recognition of these financial liabilities is on receipt of the money raised or the issuance of debt securities and is carried out based on the fair value of the liabilities, normally the amount received or the issue price, adjusted for any costs/income directly attributable to each funding transaction or issue and not reimbursed by the creditor. This does not include internal administrative expenses.

The portion of convertible bonds with the characteristics of a liability are recognised as payables less their issue costs. The fair value of the portion of the debt representing a financial liability is determined upon issue using the market price of an equivalent non-convertible bond; this amount, classified as a long-term payable, is adjusted using the amortised cost method until it is extinguished through conversion or redemption. The rest of the amount received is attributed to the conversion option and recognised in shareholders' equity under "Reserves".

Repurchase agreements are recognised as funding transactions for the amount paid spot.

Measurement and recognition of items affecting the income statement

After initial recognition financial liabilities are carried at amortised cost using the effective interest rate method. Exceptions to this are short-term liabilities where the time factor is negligible, which are recognised at the amount received and

any costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Funding instruments subject to an effective hedging relationship are evaluated according to the rules for hedging transactions.

Interest expense on debt instruments is classified as "interest and similar expense".

Derecognition

Financial liabilities are derecognised when they have expired or have been extinguished. The repurchase of securities issued previously is regarded as an extinguishment of the liability or part of it. The difference between the book value of the liability extinguished and the amount paid for its repurchase is recognised in the income statement under "Profits (losses) on disposal or repurchase of: d) financial liabilities".

Any repurchase of securities issued previously is recognised as a decrease in the liability item to which the issue had been booked, while the difference between the book value of the liability and the amount paid to purchase the securities is recognised in the income statement under "Profits (losses) on repurchase of financial liabilities". The re-placement of these securities on the market after their repurchase is considered, for reporting purposes, as a new issue that is recognised at the new placement price, with no effect on the income statement.

14 – Financial liabilities held for trading

Classification

The following items are classified in this category:

- derivative contracts held for trading (except for those designated as effective hedging instruments, recognised in liabilities under "Hedging derivatives") with a negative fair value;
- derivatives linked to assets/liabilities designated at fair value through profit and loss;
- The sub-items "due to banks" and "due to customers" include liabilities arising from short selling as part of securities trading.

Recognition

Initial recognition of financial liabilities held for trading takes place, for the liability in cash, on the settlement date of the underlying operations, if settled on schedule according to market practice ("regular way"); for derivatives, on the trade date. In the case of recognition of financial liabilities on the settlement date, any changes in fair value between the trade date and the settlement date are recognised in income.

Financial liabilities held for trading are recognised on the subscription date at fair value, which generally corresponds to the amount received, without considering transaction costs or income directly attributable to the instrument concerned which are charged directly to income.

Measurement and recognition of items affecting the income statement

Financial liabilities held for trading are measured at current fair value, with the result of the valuation being charged against income. If the fair value of a financial liability turns positive, the item is recognised as a financial asset.

Profits and losses from trading activities and gains and losses on the valuation of the trading book are recognised in the income statement under "Profits (losses) on trading", except for financial derivatives relating to the fair value option whose result is recognised under "Profits (losses) on financial assets and liabilities designated at fair value".

Differentials and margins on derivatives are allocated in the income statement to "Profits (losses) on trading", except for those that are operationally linked to financial assets or liabilities designated at fair value (subject to the fair value option) or linked to financial assets or liabilities classified as held for trading and with settlement of differentials or margins with various maturities ("multiflow" contracts), which are classified in the income statement as "Interest and similar income".

Derecognition

Financial liabilities held for trading are derecognised when the contractual rights to the cash flows cease or when the liability is sold and substantially all of the risks and rewards associated with it are transferred.

15 – Financial liabilities designated at fair value through profit and loss

Classification

Financial liabilities designated at fair value through profit and loss form part of this item, based on the fair value option granted to companies by IAS 39 and the case studies provided in the standard.

This category includes:

- structured instruments issued (hybrid debt instruments whose return is linked to equity instruments, foreign currencies, credit instruments or indices);
- debt securities issued by the Group not included in financial assets held for trading and subject to financial hedging for which the fair value is applied in order to reduce and/or eliminate valuation and accounting asymmetries.

Recognition

These financial liabilities are recognised at the issue date for an amount equal to their fair value, including the value of any embedded derivative, which generally corresponds to the amount received. Any transaction costs (including placement fees paid to third parties) are charged immediately against income.

Measurement and recognition of items affecting the income statement

After initial recognition financial liabilities are measured at current fair value.

The fair value of securities issued listed in active markets is determined with reference to the market bid price reported at the balance sheet date. For unlisted securities issued on an active market, fair value is determined using valuation models and estimation methods that take into account the risk factors relating to the instruments and that are based on observable market data where available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets. Regarding the credit spread on own issues directed at ordinary customers, in order to determine the difference between the original and the current spread as at the reporting date use is made of the implicit spreads in new retail issues made by the Group.

Gains and losses realised on redemption and the unrealised gains and losses arising from changes in fair value with respect to the issue cost are recognised in the income statement in the period in which they arise under the item "Profits (losses) on financial assets and liabilities designated at fair value", in which the capital gains and losses on derivatives linked to the fair value option are also recognised.

Interest expense on debt instruments is classified as "interest and similar expense".

Derecognition

Financial liabilities designated at fair value through profit and loss are eliminated from the financial statements once they have expired or been extinguished. The repurchase of securities issued previously is regarded as an extinguishment of the liability or part of it. The difference between the book value of the liability extinguished and the amount paid for the repurchase is recognised in the income statement under "Profits (losses) on financial assets and liabilities designated at fair value".

Any repurchase of securities issued previously is recognised as a decrease in the liability item to which the issue had been booked. Re-placement of these securities on the market after their repurchase is considered, for reporting purposes, as a new issue that is booked at the new placement price, with no effect on the income statement.

16 – Foreign currency transactions

Classification

Foreign currency assets and liabilities include not only those explicitly denominated in a currency other than the euro, but also those with financial indexation clauses linked to the euro exchange rate against a specific currency or against a specific basket of currencies.

For the purposes of the conversion method to be used foreign currency assets and liabilities are separated into monetary and non-monetary items.

Monetary items consist of sums of money and assets and liabilities that express the right to receive or an obligation to pay fixed or determinable amounts of money (receivables, debt securities, financial liabilities). Non-monetary items (such as equities) are assets or liabilities that do not include the right to receive or an obligation to pay fixed or determinable amounts of money.

Recognition

On initial recognition foreign currency assets and liabilities are translated to the reporting currency by applying the spot exchange rate at the date of the transactions underlying the foreign currency amounts.

Measurement and recognition of items affecting the income statement

At each balance sheet or interim period foreign currency balances are measured as follows:

- monetary items are translated at the spot exchange rate at the closing date;
- non-monetary items carried at historical cost are translated at the spot exchange rate on the date of initial recognition in the financial statements (historical exchange rate);
- non-monetary items carried at fair value are translated using the spot exchange rate at the closing date.

Exchange differences that arise as a result of this process of translation into euro of assets and liabilities denominated in foreign currency relating to monetary and non-monetary items carried at fair value are recognised in the income statement item "Profits (losses) on trading", except for differences attributable to the "valuation reserves" (e.g. those of securities available for sale), which are recognised directly in these reserves.

17 – Insurance assets and liabilities

There are no insurance companies in the Group.

18 – Other information

a) Recognition, measurement and derecognition of other significant items in the financial statements

Cash and cash equivalents

This item consists of currencies that are legal tender, including foreign banknotes and coins and demand deposits at the central bank of the country in which the Group operates.

This item is recognised at face value. The face value of foreign currencies is converted into euro at the spot exchange rate at the balance sheet date.

Other assets

This item consists of assets that are not classifiable elsewhere as assets in the balance sheet. It includes the following:

- gold, silver and precious metals;
- leasehold improvements other than those related to "property and equipment", i.e. those not related to separately identifiable fixed assets. The restructuring costs of commercial property not owned by the Group are recognised as "Other assets" as required by the Bank of Italy's instructions, considering the fact that for the duration of the lease the Group has control over the assets and can obtain future economic benefits from them. These costs are depreciated over a period not exceeding the duration of the lease and are recognised in the income statement under "Other operating expenses";
- tax receivables other than those included in "Tax assets" (e.g. those involved in acting as a tax withholding agent).

Prepayments and accrued income relating to financial assets and liabilities are recognised as an adjustment to the assets or liabilities to which they relate. In the absence of an asset or liability of this nature, for example in the case of a prepayment not attributable to property and equipment or commission income from guarantees pledged, deferrals and accruals are recognised as other assets or other liabilities.

Employee termination indemnities

Employee termination indemnities are designated as "post-employment benefits".

Following the pension reform under Legislative Decree no. 252 of 5 December 2005, introduced by the 2007 Budget Law, the portions of staff termination indemnities that accrued up to 31 December 2006 remain in the company, whereas the amounts accruing from 1 January 2007 onwards can be transferred, at the employee's discretion, to supplementary pension schemes or to a treasury fund managed by INPS.

The consequence of this is that:

- the termination indemnities that accrued before 1 January 2007 (or at the date when the decision was made to assign these to a supplementary pension fund) continue to be shown as a "post-employment benefit" classified as a "defined benefit plan" and, as a consequence, the liability for "accrued termination indemnities" is subject to an actuarial valuation; compared with the methods applied up until 31 December 2006 this valuation no longer

takes account of the average annual increase in wages and salaries as the employee benefits are to be considered almost entirely accrued (with the sole exception of the revaluation equal to a fixed amount of 1.5% plus 75% of the increase in the ISTAT consumer price index). The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the obligation at period end, is recognised directly in shareholders' equity in "Valuation reserves";

- the amounts accruing from 1 January 2007 are considered a "defined contribution plan" as a company's obligation ceases when it pays the accrued indemnities to the fund chosen by the employee, so the amounts involved, which are accounted for on an accrual basis in personnel costs, are determined on the basis of the contributions payable without applying actuarial methods. For the accruing termination indemnities kept in a company and then transferred to INPS the amounts paid year after year to the treasury fund managed by INPS do not include the revaluation applied by law; consequently the cost of revaluing the amounts paid by a company falls on INPS.

This legislation does not apply to Group companies that had fewer than 50 employees at the date the reform came into effect (which specifically regards Banca Popolare di Mantova). For these companies the previous law remains in force, which considers employees' termination indemnities as a defined benefit plan, the accrued amount of which has to be projected into the future to estimate the amount that will have to be paid at the time the employee leaves the company; this is then discounted using the projected unit credit method to take account of the time that will pass prior to the actual payment. The calculation only concerns the termination indemnities accrued for periods of service already rendered and takes account of future wage rises.

Further details on the projected unit credit method can be found in Section 12 "Allowances for Risks and Charges".

Other liabilities

This item consists of liabilities that are not classifiable elsewhere as liabilities in the balance sheet. It includes inter alia:

- the commissions received on initial recognition of guarantees given and subsequent write-downs due to a deterioration in the risks guaranteed;
- payables associated with the purchase of supplies of goods and services;
- tax payables other than those included in "Tax liabilities" (e.g. those involved in acting as a tax withholding agent).

Share capital and treasury shares

Share capital consists of the amount of shares issued net of any capital subscribed but not yet paid at the balance sheet date. The item is shown gross of any treasury shares held by the Parent Company or another Group company. Treasury shares are shown with a minus sign in a specific equity item.

If these shares are subsequently resold, any proceeds are classified in treasury shares up to the amount of the book value of the shares themselves. The difference, positive or negative, between the selling price of the treasury shares and the corresponding book value is recognised as an increase or decrease in shareholders' equity under "Share premium reserve".

Transaction costs relating to an operation on capital, such as an increase in share capital, are accounted for as a reduction in shareholders' equity, net of any related tax benefit.

Dividends on ordinary shares are recognised as a reduction in shareholders' equity in the year in which the shareholders approve their distribution. Any interim dividends paid to shareholders are recognised in the balance sheet liability item "Interim dividends" with a minus sign.

Minority interests

This item represents the portion of consolidated net equity attributable to shares pertaining to minority shareholders, calculated on the basis of equity ratios. The amount is calculated net of any treasury shares repurchased by consolidated companies.

b) Other significant accounting treatments

Finance and operating leases

a) Group company as lessee: the lease agreements entered by Group companies are all operating leases. Total payments due on agreements are accounted for in the income statement under "Administrative expenses: b) other administrative expenses" over the term of the agreements. If an operating lease is extinguished before its maturity, all the payments required by the lessor by way of penalty are recognised as an expense in the period in which the lease is extinguished.

b) Group company as lessor: the lease agreements made by Group companies are operating and finance leases. In the case of finance leases the present value of the payments due by the lessee is recognised as a receivable. The difference between the gross value of the receivable (value of the leased asset net of the advance paid by the customer) and its present value (sum of instalments, principal amount, plus interest, discounted at the contractual rate including any transaction costs and income) is recognised as "Interest and similar income" in accordance with the terms of the agreement, using the effective interest rate method.

Repurchase agreements, securities lending and carry-overs

Repurchase agreements or carry-over transactions by which the Group sells securities to third parties with the obligation to repurchase them in the future at a predetermined price are recognised in liabilities to other banks or customers, depending on the counterparty. Similarly, repurchase agreements or carry-over transactions by which the Group buys securities from third parties with the obligation to repurchase them in the future at a predetermined price are recognised in loans or advances to other banks or customers, depending on the counterparty. The difference between the spot price and forward price of these transactions is recognised as interest (income or expense depending on the circumstances) and recognised on an accrual basis over the life of the operation. Securities lending transactions where the collateral is represented by cash that remains entirely at the lender's disposal are recognised in the financial statements in the same way as repurchase agreements (see above).

In the case of securities lending with collateral consisting of other securities, or without collateral, the lender and the borrower continue to recognise in their balance sheet, respectively, the security involved in the loan and that given as a guarantee (if any). If the security being lent is sold by the borrower, the latter has to book a payable to the lender on the liabilities side of its balance sheet. If, on the other hand, it is used in repurchase agreements, the amount due to the repo counterparty is booked as a liability. The revenue from such transactions is recognised by the lender as "Fee and commission income", whereas the cost incurred by the borrower is recognised as "Fee and commission expense".

Offsetting of financial instruments

Financial assets and liabilities can be offset, showing the net balance in the financial statements, when there is a legal right to do so and when there is the intention to settle the transactions for the net amount or to realise the asset and settle the liability simultaneously.

Share-based payments

Personnel remuneration plans based on shares are recognised in the income statement, with a corresponding increase being made to an equity reserve, at the fair value of the instruments allocated at the grant date, with the cost charged over any allocation period envisaged by the plan.
The fair value of the allocated instruments takes into account the current price of such at the grant date.
Any reduction in the number of instruments granted is accounted for as the derecognition of a part of such.

Securitisations

For operations completed after 1 January 2004, the receivables are derecognised where there is a substantial retention of risks and rewards, even though formally being sold without recourse to a special purpose vehicle (SPV). This occurs, for example, if the Group subscribes to the junior tranche of securities or similar exposures, and therefore bears the risk of first loss and, in the same way, benefits from the performance of the operation. In particular, the Group retains all of the risks and rewards of securitised loans, not proceeding to their derecognition when, according to the specifications of the contracts in place, there is no change in the Group's risk and exposure to them.

The receivables are therefore maintained as assets in the financial statements by recognising:

- in the separate financial statements a payable versus the SPV for the loan received, net of the securities issued by the company and underwritten by the Group as transferor;
- in the consolidated financial statements, as the effect of the consolidation of the SPV, the value of the notes issued by the SPV and subscribed by entities not belonging to the Group.

In covered bond transactions, against the maintenance of the receivables on the assets side of the balance sheet, the value of the covered bonds issued directly by the transferor is recognised among liabilities in the transferor's financial statements (separate and consolidated).
A similar approach is taken in the previous cases in the recognition of income and expense, giving preference to substance over form.

Cost and revenue recognition

Revenues are recognised when they are earned or, in the case of the sale of goods or products, when it is probable that the future benefits will be received and these benefits can be reliably quantified, or, in the case of the provision of services, at the time when they have been rendered. In particular:

- interest is recognised on a pro-rata temporal basis at the contractual interest rate or at the effective rate if amortised cost is applied. Interest income (or interest expense) also includes differentials or margins, positive (or negative), accrued up to the balance sheet date on financial derivatives:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but linked to financial assets/liabilities designated at fair value through profit and loss (under the fair value option);
  c) linked for operational purposes to assets and liabilities classified as held for trading and which provide for the settlement of differentials or margins with several maturities;
- any past due interest provided for in the contract is only recognised in the income statement when actually collected;
- dividends are recognised in the income statement in the period when their distribution is decided and shareholders obtain the right to receive payment;
- net fee and commission income is recognised in the period when the services are rendered, based on contractual agreements. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are recognised as interest. In particular:
  – fees and commissions relating to syndicated loans are recognised as revenue when the organisation of the syndicated loan is completed, provided the Group has not financed part of the loan itself or has financed part of the loan at the same effective interest rate as the other syndicate members;
  – fees and commissions on the negotiation or participation in negotiation of a transaction for another party, such as fees for preparing the purchase of shares or the purchase/sale of a business, are recognised upon completion of the underlying transaction;
  – management fees and other fees relating to advisory services are recognised in accordance with the terms of the related contracts and nonetheless using an appropriate time horizon. Management fees relating to investment funds are accounted for proportionately over the period the service is provided. The same principle applies to fees on wealth management and custody services;

- in addition to the recognition of capital gains/losses and trading profits/losses, net income from trading includes the result of valuing contracts for the purchase and sale of securities not yet settled at the balance sheet date.

Expenses are recognised in the income statement in the periods when the related revenues are recognised; costs that are not directly associated with revenues are charged immediately against income.

A.3 – Disclosures relating to transfers between portfolios of financial assets

The Group has not carried out any portfolio reclassifications of financial assets from categories measured at fair value to categories carried at amortised cost in the current period or in prior periods.

A.4 – Fair value disclosures

Qualitative information

Introduction

Fair value measurements and disclosures are governed by IFRS 13 "Fair Value Measurement", which in paragraph 9 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

As regards the type of financial instruments to be measured at fair value, the requirements of paragraph 9 of IAS 39 remain valid, that is, fair value measurement applies to all financial instruments with the exception of: financial assets classified as "investments held to maturity" and "loans and receivables"; investments in equity instruments for which it is not possible to establish a reliable fair value; and non-trading financial liabilities to which the fair value option has not been applied. Moreover, it is worth reiterating that accounting standards and the Bank of Italy require, in any event, to disclose the fair value of assets and liabilities measured at amortised cost (receivables and payables, securities issued).

IFRS 13 is based on the definition of market based fair value, in that the fair value of assets or liabilities should be measured based on the characteristics thereof that a market participant would take into account.

Fair value measurement assumes a transaction involving the sale of an asset or the transfer of a liability taking place in the principal market for the asset or liability, or in the absence of a principal market the most advantageous market for the asset or liability; if this is not available reference should be made to the most advantageous market, meaning the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs.

Compared with the previous definition provided by IAS 39, there is no emphasis on an "arm's-length transaction between knowledgeable, willing parties", that is, on the neutrality of the transaction, but on a concept of fair value based on an exit price. In fact, the price should reflect the view of the participant that sells the asset or that pays to transfer the liability at the measurement date. There is thus no longer an issue of inconsistency of financial statement presentation between those measuring fair value as a seller and those as a buyer.

Under these circumstances, there is a need for the fair value of financial instruments to reflect the risk an entity will not fulfil an obligation by means of appropriate adjustments to take account of the credit standing of the counterparty.

Fair value levels

The Bipiemme Group identifies a hierarchy of three levels depending on the extent to which the inputs used in the measurements may be observed, as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (**Level 1**). It is accordingly implicit in the concept of fair value hierarchy that the decision on measurement must give priority to the official prices available on active markets;
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as in the case of prices) or indirectly (as derived from prices) (**Level 2**). In the absence of this information, the decision is based on recent transactions (non-active markets for the instrument being measured) or data regarding similar assets and liabilities (the comparable approach) or else valuation techniques based on observable inputs;
- inputs for assets and liabilities that are not based on observable market data (unobservable inputs) (**Level 3**). A lower priority is given to valuation techniques based on unobservable inputs, for example those based on internal models and therefore of a more discretional nature.

Observable inputs are parameters that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability; on the other hand unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the financial instrument.

A financial instrument must be classified in its entirety at a single level; when for the purpose of measuring an instrument inputs belonging to different levels of the hierarchy are used, the instrument being measured is assigned the level in the fair value hierarchy to which the significant input of the lowest level belongs. As a consequence, when observable (level 2) and unobservable (level 3) market inputs are used to measure a financial instrument, if the latter is significant, as defined further in the following, the instrument is classified at level 3 of the fair value hierarchy.

The way in which financial instruments are classified at the three levels is as follows.

Level 1 – Quoted prices (unadjusted) in active markets
This level consists of financial instruments measured by using quoted prices in active markets for identical assets and liabilities without adjustment.

An **active market** is a trading platform where transactions and volumes are such as to guarantee that the observed inputs effectively represent the price at which counterparties are prepared to exchange a specific financial instrument.

A market is active when:

- quoted prices represent **effective and regular market transactions** occurring over a reasonable reference period between independent parties;
- prices are **promptly and regularly available** through stock exchanges, brokers, intermediaries, companies in the sector, quotation services or authorised bodies and are effectively executable.

In this respect and considering the instruments held in portfolio the following are considered active markets:

- the markets of Borsa Italiana (MTS, MOT, MTA, …);
- ECB exchange rates;
- other regulated markets that meet the minimum volume requirements for being called an active market (MTF – Multilateral Trading Facilities);
- unregulated exchange systems (e.g. Bloomberg Trading System) which provide a quotation considered to be active market in accordance with the same requirements.

The above-mentioned markets are considered active markets by virtue of the fact that the Group, directly or indirectly, has access to those markets. If a principal market is not identifiable for a certain specific financial instrument, the most advantageous market is taken.

The price quoted on an active market provides the most reliable evidence of fair value and when available is used without adjustment. Any adjustments lead to the classification of the financial instrument at a lower level (for example the fact that information is not immediately available or that the price is not available at the measurement date).

A market is considered active for a specific financial instrument at a specific date if over the previous 20 working days price variations occur for at least 50% of the working days considered.

The markets where the inputs are observable for certain financial instruments are as follows: securities markets, dealer markets (for example over-the-counter markets whose prices are published), brokered markets (for example electronic trading platforms) and principal-to-principal markets.
The above considerations also apply to short positions in securities (for example technical short positions).

Bid prices are used for financial assets listed on active markets and ask price for financial liabilities, both at the end of the reference period.

Level 2 - Measurement methods based on observable market inputs
For level 2 instruments an input is directly or indirectly "observable" when it is continuously available to all market participants with a regular distribution of information through appropriate channels (stock exchanges, data providers, brokers, market makers, websites, etc.).

The measurement of a financial instrument is based on prices which can be derived from market quotations of similar assets (comparable approach) or by valuation techniques for which all relevant factors – including credit spreads and liquidity – are derived from observable market parameters (mark-to-model approach).

The comparable approach requires the search for transactions on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument being valued. The valuation techniques used in the mark-to-model approach are those commonly used and accepted as market "best practice".

The Group considers level 2 inputs to be quotations other than inputs classifiable as level 1 that are directly observable for the financial instrument (as in the case of prices) or indirectly observable (in the case of quotations that can be derived from prices).
Level 2 inputs are defined as:

- prices quoted for similar assets and liabilities on active markets (comparable approach);
- prices quoted for the instrument being analysed or for similar instruments on inactive markets;
- observable market inputs other than quoted prices (e.g. interest rates or yield curves, implicit volatility, credit risk data, exchange rates);
- market-corroborated inputs, that is, derived from observable market inputs or corroborated by correlation analysis.

The above-mentioned market inputs (directly or indirectly observable) form part of commonly accepted valuation techniques that are used as best practice. In identifying inputs, therefore, a critical approach is taken where elements of discretion may be found by those carrying out the valuation.

As a result market data that are observable for markets that do not qualify as an active market are classified at level 2 (for example an average of Bloomberg contributors that do not qualify as an active market) as are prices resulting from the application of valuation techniques based on level 2 inputs.

Level 3 - Measurement methods based on unobservable market inputs
Level 3 includes all financial instruments that are not quoted on an active market for which the determination of fair value has to be carried out through valuation models that require the use of parameters that are not directly observable in the market.

Unobservable inputs have to be used to the extent that relevant observable inputs are not available and, therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Measurement has to be performed using the best information available in the circumstances, internal data included.

The measurement of assets and liabilities belonging to level 3 is generally carried out using the same valuation methodologies as those used for level 2 instruments; the difference lies in the fact that input parameters used in the pricing model are unobservable. The valuation techniques for the latter, as detailed below, make use of various approaches, depending on the parameter. Unobservable inputs may be: derived using mathematical techniques based on the option quotations of brokers or market-makers (for example, correlations or implicit volatility), arrived at by extrapolation from observable data (for example, credit spread curves), obtained from historical figures (for example, volatility of investment funds) or based on a comparable approach.

In addition positions where the adjustment portion of the fair value that takes into consideration the risk of default is significant compared to the total value of the financial instrument are included in level 3 financial assets and liabilities, as stated in the internal policy.

The above inputs reflect commonly accepted valuation techniques used as best practice. In identifying inputs a critical approach is taken where elements of discretion exist in those carrying out the valuation.

Financial assets whose fair value corresponds to recognition cost are included in level 3.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The following section provides information on the techniques used to measure the financial instruments classified in levels 2 and 3, analysed by type of instrument.

The valuation techniques are used continuously and consistently over time unless alternative valuation techniques exist that provide a more representative measurement of fair value (for example, in the case of the development of new markets, information that is no longer available or new information or different market conditions).
The fair value used for measuring financial instruments is determined on the basis of the criteria set out below, which assume, as indicated above, the use of observable or unobservable inputs.

Assets and liabilities measured at fair value on a recurring basis

Bonds without an official price expressed on an active market

As regards plain vanilla bonds, that is, those without any option or derivative component, a discounted cash flow (DCF) model is used, based on discounted expected future cash flows, which, in the case of floating-rate coupons, is estimated based on forward rates implicit in the curves for the indexing.

In the case of bonds with an option component (for example, structured bonds), the component is estimated based on the same methodologies adopted for stand-alone options and, as described below, consistent with the complexity of the product and widely used by market operators. For these types of securities the level of the fair value hierarchy assigned to the derivative component contributes, on the basis of an analysis of the significance of the amount of the option in comparison to the overall value of the bond, to the definition of the fair value hierarchy level of the bond, as required by specific internal policy.

For bonds measured on the basis of a model, the issuer's creditworthiness is incorporated in the measurement process and is obtained from the credit spread curves of that issuer, if available. In the event that credit spread information is not directly observable, measurement techniques that entail classification in level 3 are generally adopted. These include, for example credit spreads based on internal estimates of default rates.

OTC (over the counter) financial derivatives

This section regards interest rate, currency, share and commodity derivatives, known as over-the-counter (OTC) instruments because they are traded bilaterally by counterparties. These instruments are measured by using suitable pricing models based on input parameters such as interest rate curves, volatility matrices and exchange rates that are normally observable on the reference markets.

The following methods are used to measure such contracts:

- for non-option instruments (interest rate swaps, forward rate agreements, overnight interest swaps, domestic currency swaps, etc.) the valuation techniques adopted belong to the discount cash flow model category in which certain or trend-based cash flows are discounted;
- for financial options:
  - in the case of plain vanilla options, the methods used most often form part of the "forward risk-neutral" framework and are based on analytical Black-like formulae, in which volatility depends on the maturity date and the strike (volatility skew);
  - for the more complex pay-off types (typically share options on baskets of indices or path dependent share options) a numerical method is used based on Monte Carlo simulations, remaining in a risk-neutral environment, under which the option pay-off is measured through simulations using a sufficiently high number of repetitions relating to the evolution over time of the risk factors underlying the option. The price of the derivative is then calculated by taking the discounted arithmetic average obtained for each scenario.

In the case of instruments containing derivative components of a different nature, options and non-options, the measurement is carried out by applying the appropriate valuation method to each component of the instrument.

In addition, the risk of default is also considered to arrive at the determination of fair value. As required by the accounting standard concerned, fair value must take account of the counterparty risk (Credit Valuation Adjustment - CVA) and the risk arising from changes in own creditworthiness (Debt Valuation Adjustment - DVA). To this end the Bipiemme Group has adopted algorithms for determining fair value and the Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA), which are estimated on the basis of market parameters and internal risk (PD, LGD, interest rate curves).
At the stage of determining the CVA and the DVA the calculation algorithms take into consideration:

- the probability of default (PD) of the specific counterparty. This is determined on the basis of the official external rating of the counterparty and the relative default statistics to be found on the market, where available; conversely, this is determined on the basis of an internally assigned rating. A multi-period PD is then determined from these data, based on the residual contract term of the instrument being measured;
- the loss given default (LGD). A uniform value is used depending on the nature of the counterparties that is determined on the basis of market practice.

Even if only traded residually within the Group, other types of derivative consist of credit derivatives consisting of simple single name credit default swap contracts and derivatives traded bilaterally with counterparties. Measurement in these cases is carried out starting from an estimate of the implicit default probability curve for the issuer or issuers underlying the contract, arrived at using a bootstrapping technique based on market price, whereby the expected cash flows from the contract are weighted.

Unlisted equities

These are essentially minority interests in unlisted financial and non-financial companies. These instruments are initially measured with reference to significant transactions in the same stock or similar securities observed over a reasonable period of time compared with the valuation date, to the method of market multiples of comparable companies and, to a lesser extent, to alternative valuation methods based on financial parameters, earnings and net assets.

In particular, for certain minority interests, in line with generally accepted valuation techniques, use is made of the excess capital variant of the dividend discount model (DDM) income approach. This method assumes that a company's economic value is the sum of : 1) the present value of estimated distributable dividends in the "explicit period" (period covered by the business plan); 2) the excess/lack of Common Equity Tier I at the end of the explicit period; 3) the terminal value comprising the perpetual return of normalised dividends.

If suitable information is not available, such as updated business plans, for carrying out a valuation using earnings models, the estimate of the fair value of the equity interest is carried out by starting with the information provided in the most recent set of financial statements, determining a net asset value of the investee.

Securities for which it is impossible to estimate the fair value on a reasonable basis are maintained at their original purchase cost in accordance with IAS 39, paragraph AG 81.

Mutual funds

Fair value is determined by applying the NAV reported by the management company, as this is considered the most reliable estimate of the fair value of the instrument, being an exit value on disposal of the investment, taking account of any adjustments due to dividends and distributions.

Financial liabilities designated at fair value through profit and loss

Bonds issued by Group companies and recognised using the fair value option permitted by IAS 39 are measured using a model that in addition to the inputs used for bonds recognised as assets includes an appreciation of the issuer's creditworthiness. The credit spread used is obtained implicitly from the retail issues made by the Group in the last quarter of reference. The decision to use a level 2 or a level 3 classification essentially depends on the percentage of observable and unobservable inputs used for determining the total fair value of the instrument.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis

For financial instruments recognised as assets at amortised cost and for the most part classified as receivables from banks or customers or as securities issued, fair value is only determined for disclosure purposes.

Amounts due from and to customers and banks

For current receivables and payables or those that can be settled on demand, meaning those due within 12 months, fair value is conventially considered to be book value given the proximity of the settlement date. Certificates of deposit that have a maximum maturity of 18 months are also conventially measured at cost.

For receivables and payables due after 12 months fair value is determined using a valuation method based on a mark-to-model approach whose essential features are as follows:

- identification of future cash flows, corresponding to contractual cash flows. As regards loans to customers, cash flows are weighted based on PD (Probability of Default) and LGD (Loss Given Default). For retail and corporate customers, PD is assigned based on a matrix of reliability ratings used to categorise customers on the basis of internal procedures for assessing creditworthiness. As regards balances included in the line item due from banks, use is made of parameters provided by external rating agencies; the cash flows on non-performing loans are quantified on the basis of the repayment plan. As regards the application of LGD, solely to customers, this is differentiated based on the customer segment and the technical form of the facility;
- discounting of cash flows as explained above, using market interest rates for investments in similar activities. For amounts due from customers and banks not classified as non-performing the risk free rate is adopted since the credit risk is quantified based on PD and LGD parameters.

For debt securities held in the "Due from banks" and "Loans to customers" portfolios, fair value is determined through the use of valuation models, as described above for financial assets and liabilities carried in the balance sheet at fair value.

Given the high proportion of unobservable components, amounts due from and to customers and banks, other than securities, are normally categorised in level 3 of the fair value hierarchy. For this reason, the fair value stated in the financial statements purely for disclosure purposes could significantly differ from prices determined for other objectives.

Securities issued

For bonds carried in the balance sheet at amortised cost the valuation falls into level 1 if there is a quoted price in an "active market"; otherwise, the valuation is carried out by discounting the cash flows on the basis of the relevant interest rate curve. As regards valuation techniques, bonds are valued on the basis of quoted prices, where available, which already include an assessment of credit risk. In the absence of market prices subordinated bonds are measured using internal models, applying a credit spread derived from quotations of subordinated Credit Default Swaps (CDS).

Property and equipment – held for investment purposes

The fair value of properties carried as assets and held for investment purposes is determined on the basis of an estimate carried out on a regular basis by independent external experts who perform their valuation using information concerning the location of a property and the use to which it is put.
The current composition of the property portfolio envisages a level 3 classification.

Valuation techniques

Discounted Cash Flow

Discounted cash flow valuation techniques consist of determining an estimate of the expected cash flows over the life of the instrument. The time horizon is generally obtained from the contractual documentation. The model requires assumptions to be made for determining the cash flows to be discounted and market parameters to be used for determining the discount rate.
The discount rate includes a margin, the spread that reflects the requested conditions for instruments with similar credit risk profiles and liquidity. The fair value of the contract consists of the sum of the discounted expected cash flows.

Credit/Debit Valuation Adjustments

The effect of non-performance risk is also taken into consideration in determining credit risk.
In particular, for derivatives the Bilateral Credit Value Adjustment (bCVA) model also takes fully into consideration the value of variations in own creditworthiness as well as those of the counterparty.
The bCVA depends on the exposure, the probability of default and the loss given default of the counterparties.

Dividend Discount Model

This model is used to determine the market value of a share not listed on an active market and is based on estimated future dividend flows.
An estimate of the dividend expected to be paid is made for each year of the period covered by a company's profit forecasts; an annual dividend growth assumption is made, at a constant rate (g), and the fair value of the equity security is then determined as the sum of the present value of all future dividends, discounted at a rate that takes into account the risk free rate plus a risk premium for an equity investment. This risk premium is determined by referring to a historical series of data.

Option pricing models

These are valuation techniques generally used for financial instruments in which the Group has a right or an obligations based on the occurrence of a future event, such as for example if a financial asset exceeds a certain price or if a reference market parameter (interest rate or foreign exchange rate) exceeds a predetermined strike level. These models estimate the probability that a specific event will occur by incorporating assumptions such as the volatility of estimates or the price of the underlying instrument.
Models commonly recognised as market practice are by way of example Black & Scholes, Black-like and Hull & White.

Net asset value

This valuation technique is used for equity instruments, units of mutual funds or equity securities where the fair value of the instrument is based on the value of the issuer's assets and liabilities. Valuing the instrument by using this technique may take into consideration any contractual features such as for examples restrictions or privileges on the distribution of profits or in the event of liquidation.

Market valuation approach

This valuation technique uses prices generated by market transactions that involve identical or comparable assets, liabilities or groups of assets and liabilities.

Inputs used to measure the fair value of level 2 and 3 instruments

Yield curves

The interest rates to be used in valuation techniques are determined on the basis of a selection of the most suitable financial instruments for each currency (EUR, USD, CHF, GBP, JPY).
For EUR, the curves depend on the reference rate (Euribor 1M, Euribor 3M, Euribor 6M, EONIA).

Credit spread

The credit spreads implicit in the Credit Default Swap curves of the individual issuer are used if available. As an alternative these are deduced from the generic credit curves for sector and rating.

Volatility

Volatility measures the speed and size of the variations in the market price of an instrument, parameter or market index given the actual change in value over time of that specific instrument, expressed as a percentage of the change relating to the price. The greater the volatility of the underlying, the greater the risk connected with the instrument.

Two types of volatility are used:

- implicit: this is the implicit volatility included in the market price of options, meaning the volatility which used in a specific pricing model returns their market value;
- historical: this measures the fluctuations that a price has undergone over a specific past period and is measured as the standard deviation of the historical price over the period.

Correlations

These measure the relationship between the movements of two underlyings over time.
Correlations are inputs in valuing a derivative product where the payoff is determined from a whole series of underlying risks. The level of the correlation used in the valuation of derivatives with several underlying risks depends on a variety of factors, including the nature of those risks.

Loss given default (LGD)/Recovery rate
Loss given default is the percentage of contractual cash flows that is not recovered in the event of default by the counterparty. With all other parameters unchanged, an increase in the LGD implies a fall in the measurement of fair value. The recovery rate is the complement of the LGD with respect to 100%, meaning the percentage of contractual cash flows that are expected to be recovered in the event of default by the counterparty.
Given that losses depend on the specific features of the financial instrument or the transaction, such as the existence of collateral or the subordination ranking, the LGD should be dealt with case by case.

Probability of default (PD)
The probability of default (PD) is an estimate of the probability of not receiving contractual cash flows over a certain temporal horizon. The PD of a debtor depends on the creditworthiness of the particular debtor and current and future market conditions.

Cost of equity (Ke)
Ke (cost of equity) is the minimum return rate that an issuer of equity securities expects to have to offer its shareholders to remunerate their investment.

Growth rate – g
This is the constant growth rate used to estimate future dividends.

A.4.2 Valuation processes and sensitivity

The Group's valuation processes are subject to verification that extends to the valuation techniques for all financial instrument positions.

The valuation, also for accounting purposes, of all financial instruments classified in the HFT, AFS and FVO portfolios is carried out by specific internal functions, depending on the individual Group entity.
The Bipiemme Group has procedures in place and manuals that describe the valuation techniques and inputs used.
For certain valuations relating to a limited group of financial instruments the Group is assisted by external companies that, as the case may be, supply the prices of the assets and liabilities or the pricing models used.

For financial instruments, the fair value of which is based on a valuation model, analysis of the sensitivity of such instruments to market data is carried out by means of standard stress techniques, which, acting on input parameters to the pricing model, determine corresponding changes in the fair value of the instrument. Sensitivity is determined individually for each curve or risk factor by applying to the latter an increase or decrease (shift) of a pre-defined size, obtaining as an output the corresponding change in fair value. In the case of non scalar risk factors, such as those pertaining to an interest rate curve or volatility surface, a uniform shift is generally applied to the entire structure, thus obtaining an estimate of the sensitivity to parallel movements of the corresponding curve.

A.4.3 Fair value hierarchy

Under IFRS 13 the fair value hierarchy must be applied to all financial instruments recognised at fair value in the balance sheet. In this regard, for these instruments top priority is given to the official prices available in active markets and a lower priority to the use of unobservable inputs, as these are more discretionary. Fair value is therefore determined through the use of prices obtained from financial markets in the case of instruments listed on active markets or, for other financial instruments, by using valuation techniques with the aim of estimating fair value (exit price).

Criteria for transfers between levels

The transfer of a financial instrument from level 1 to level 2 of the fair value hierarchy and vice versa is based mainly on the degree of liquidity of the instrument at the time of recognition of its listed price, which determines the use of a listed price in an active market rather than a price obtained from a pricing model. In practice, if, for a financial asset or liability, there are objective indications of a significant loss or the lack of availability of a price in an active market (absence of multiple prices from market makers, prices that have not changed much or which are inconsistent), the instrument is categorised in level 2 of the fair value hierarchy and, in certain cases, recourse is made to a model-based valuation. This valuation technique may no longer be necessary, if, for the same financial instrument, a price in an active market once again becomes available, with a corresponding transfer to level 1.

Such an event mainly arises with debt securities, whereas derivatives listed on regulated markets normally pertain to level 1 given that, for these a price is normally provided by the relevant stock market. Conversely, OTC derivatives are normally valued based on pricing models and thus are categorised in level 2 or 3 of the fair value hierarchy, based on the significance of the input data.

A transfer from level 2 to level 3 and vice versa is determined by the weighting or the significance at various times during the life of the financial instrument of the unobservable input variables compared to the overall valuation of the instrument. In order to define whether an input is significant or not for the purpose of the categorisation of the fair value of an instrument three significance thresholds have been adopted. Of these, the first two relate to the significance of unobservable market parameters while the third specifically relates to adjustments to the fair value of OTC derivatives to reflect the risk that the obligation will not be fulfilled in the mark-to-market.

The two thresholds relating to input data are applied on the basis of whether it is possible (first threshold) or not possible (second threshold) to accurately isolate the components of the financial instrument that, for the valuation thereof, require unobservable inputs. In other words, the first threshold applies if a financial instrument can be exactly unbundled into more simple financial instruments, some of which require unobservable inputs, while the second applies in cases where it is not possible to isolate or unbundle from the instrument the component influenced by the unobservable factor.

In detail:

1. the first threshold (fair value ratio threshold) is defined based on the ratio of the fair value of the contractual component valued with unobservable inputs (for example, an embedded option) to the fair value of the entire contract: if this ratio equals or is less than 5%, the impact of the unobservable input is not considered significant for the purpose of the determination of the fair value and the latter is categorised as level 2; otherwise the contract is classified as level 3;
2. the second threshold (sensitivity ratio threshold) is defined based on the sensitivity of the price of the financial instrument to the unobservable parameter: an input is considered not to be significant for the purpose of the determination of fair value if changes in the unobservable input of plus or minus 5% produce a change in the absolute amount of the fair value of the instrument equal to or less than 5% of the fair value, with a consequent classification as level 2; otherwise, the contract is classified as level 3. The shock is applied to the unobservable parameter in a symmetric manner, thus recognising in the classification any asymmetry of the nonlinearity of the pricing function.

To establish the degree of significance of adjustments made to the fair value of OTC derivatives a materiality threshold is defined for counterparty risk (CVA ratio threshold). This is identified based on the ratio of the amount of the reduction in fair value, which represents the estimate of counterparty risk, to the overall fair value of the contract, that is with the inclusion of counterparty risk. If this ratio is equal to or less than 20%, the impact of the adjustment for counterparty risk is not considered significant for the purpose of the determination of fair value and the latter is assigned to the level in which it would have been classified in the absence of the CVA. Otherwise, the entire fair value is classified as level 3.

A.4.4 Other information

The Group has not applied the option provided by IFRS 13, paragraph 48 to assess a group of financial assets and liabilities on the basis of its net exposure to market risk or credit risk.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: analysis by fair value level

Financial assets and liabilities measured at fair value	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	312,725	1,230,921	18,845	512,315	1,258,972	26,587
2. Financial assets designated at fair value through profit and loss	7,658	10,000	1,582	7,731	19,902	47,910
3. Financial assets available for sale	8,930,998	177,445	524,673	8,870,343	99,619	521,286
4. Hedging derivatives	–	44,835	–	–	40,638	–
5. Property and equipment	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**9,251,381**	**1,463,201**	**545,100**	**9,390,389**	**1,419,131**	**595,783**
1. Financial liabilities held for trading	122,671	1,089,360	3,733	120,942	1,049,494	13,121
2. Financial liabilities designated at fair value through profit and loss	–	94,899	–	–	129,627	–
3. Hedging derivatives	–	32,894	–	–	48,678	–
Total	**122,671**	**1,217,153**	**3,733**	**120,942**	**1,227,799**	**13,121**

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

Level 3 financial assets as a whole amount to 545 million euro and represent 4.8% of the total of financial assets carried at fair value (5.2% at 31 December 2015); level 3 financial liabilities amount to 4 million euro and represent 0.3% of the total of financial liabilities carried at fair value (1% at 31 December 2015).

Among financial assets available for sale are mutual funds including the investment in the Atlante Fund, which has a book value of 41 million euro at 31 December 2016. .As discussed in the report on operations the Atlante Fund is a closed-end alternative investment fund regulated by Italian law that is managed by Quaestio Capital Management SGR S.p.A. It was set up on 29 April 2016 with the aim of sustaining the unexercised portion of future share capital increases promoted by Italian banks and contributing to the disposal of distressed loans held in the portfolios of Italian intermediaries.
Atlante has an equity of 4,294 million euro (4,294 units each of nominal value 1,000,000 euro); as at 31 December 2016 the counter-value of called amounts was 3,445.7 million euro (81.09% of subscriptions). In this context, in April 2016 BPM undertook to acquire 100 of the Fund's units for a total investment of 100 million euro; at 31 December 2016 BPM's payments into the Fund amount to 81.1 million euro (with a residual commitment of 18.9 million euro still to be invested).
The amounts called by the Fund have been used to subscribe the capital increases made by Banca Popolare di Vicenza for 1,810 million euro (of which 146.3 million euro paid in January 2017) and by Veneto Banca for 1,616.6 million euro (of which 296.4 million euro paid in January 2017).
On 31 January 2017, the SGR announced that the Fund's net asset value at 31 December 2016 was 3,480.5 million euro (with each unit having a value of 819,135.413 euro), obtained by valuing the investments held in Banca Popolare di Vicenza and Veneto Banca at cost.

On this basis the valuation of the Fund's equity, obtained by valuing the investees on the basis of independent appraisals performed by experts engaged by the SGR, is 24% lower than the initial value of the investment. These appraisals are based on market multiples (the ratio between price and tangible net assets) applied to the tangible net assets of the two banks at 30 June 2016, to which are added the payments made up to 31 December 2016. As the appraiser has stated, this valuation is subject to considerable uncertainty, the result of the limited availability of objective data and a calculation methodology that is based solely on equity market multiples, despite the existence of unlisted companies and at the beginning a detailed restructuring and merger process. Given the uncertainty as to the future prospects of the assets underlying the Atlante Fund, in determining the investment's book value a reference point was taken as the minimum value of the range of values resulting from the above-mentioned appraisals, moreover not taking into account the capital paid into the investees made by way of the latest call in December 2016. The result of this is an impairment loss of 40.1 million euro compared to a book value of 81.1 million euro, and this is recognised in line item "130. Net losses/recoveries on impairment of financial assets available for sale".

The following table provides an analysis of financial assets carried at fair value in level 3:

Financial assets measured at fair value Analysis by product	**Debt securities**	**Equities**	**Mutual funds**	**Derivatives**	**31.12.2016**	**Debt securities**	**Equities**	**Mutual funds**	**Derivatives**	**31.12.2015**
Financial assets held for trading	330	7	–	18,508	**18,845**	645	11	–	25,931	**26,587**
Financial assets designated at fair value through profit and loss	1,582	–	–	–	**1,582**	47,910	–	–	–	**47,910**
Financial assets available for sale	114,934	232,407	177,332	–	**524,673**	115,891	275,622	129,773	–	**521,286**
Hedging derivatives	–	–	–	–	**–**	–	–	–	–	**–**
Total	**116,846**	**232,414**	**177,332**	**18,508**	**545,100**	**164,446**	**275,633**	**129,773**	**25,931**	**595,783**

As can be seen from this classification, financial assets measured at fair value consist of:

a) Debt securities: 116.8 million euro. These are structured or subordinated debt securities issued directly by leading Italian or international banks.

b) Equities: 232.4 million euro. These are essentially minority interests in unlisted financial and non-financial companies. For certain of these financial instruments, amounting to 1.5 million euro, it has not been possible to make reasonable estimates of fair value. In accordance with IAS 39, paragraph AG 81 these instruments have therefore been maintained at their original purchase cost, which in any case is close to the book net equity value of the companies concerned.

c) Mutual funds: 177.3 million euro. These are:

   i. Real estate funds: 63.5 million euro;

   ii. Mutual investment and similar types of funds: 113.8 million euro.

   These financial instruments are valued on the basis of the NAV communicated by the management company, as this is considered the most reliable estimate of the instrument's fair value, given that NAV is the "exit value". This decision is due to the fact that in accordance with the Group's investment strategies these instruments are intended for a medium/long term investment and their unwinding only occurs on repayment of all or part of the shares decided by the management company after selling off the fund's investments.

d) Financial derivatives: 0.6 million euro entirely recognised as financial assets held for trading. These are financial derivatives valued at fair value stipulated with institutional counterparties and customers. As regards derivatives with customers, financial assets designated at fair value through profit and loss level 3 include, among others, those positions for which the portion of the fair value adjustment that takes account of credit risk (i.e. the "Credit Valuation Adjustment") is significant compared with the overall value of the financial instrument.

Sensitivity analysis based on unobservable inputs (level 3)

The following table sets out an analysis of the sensitivity of the fair value of level 3 instruments to changes in unobservable inputs:

(euro/000)

Valuation techniques and inputs for estimating level 3 fair value – assets and liabilities

Type of instrument	Valuation technique	Input	31.12.2016	
Financial assets/liabilities held for trading			**Assets**	**Liabilities**
Debt securities	Option pricing models	Correlation – market indices	198	
	Option pricing models	Correlation – interest rates	100	
	Cost	Purchase cost	32	0
Total debt securities			**330**	**0**
Equities	Cost	Purchase cost	7	0
Total equities			**7**	**0**
Derivatives	Credit/Debit Valuation Adjustments	PD and LGD	636	
	Option pricing models	Volatility - equity indices	17,872	2,086
Total derivatives			**18,508**	**2,086**
Debt securities (certificates)	Option pricing models	Volatility – financial instruments	0	1,647
Total financial liabilities held for trading			**0**	**1,647**
Total financial assets/liabilities held for trading			**18,845**	**3,728**

Financial assets designated at fair value through profit and loss			**Assets**	**Liabilities**
Bonds	Option pricing models and Credit/Debt Valuation Adjustments	Volatility – equities and PD and LGD	1,582	0
Total debt securities			**1,582**	**0**
Financial assets designated at fair value through profit and loss			**1,582**	**0**

Financial assets available for sale			**Attività**	**Passività**
Debt securities	Option pricing models	Correlation and volatility - inflation	114,934	0
Total debt securities			**114,934**	**0**
Equities	Net asset value	Earnings, net assets or financial data	146,842	0
	Market valuation approach	Market quotations or values of recent transactions	84,026	0
	Cost	Purchase cost	1,539	0
Total equities			**232,407**	**0**
Mutual funds	Net asset value	Earnings, net assets or financial data	177,152	0
	Cost	Purchase cost	180	0
Total mutual funds			**177,332**	**0**
Total financial assets available for sale			**524,673**	**0**
Total			**545,100**	**0**

The following table provides a sensitivity analysis of debt securities, equities and derivatives whose fair value is classified in level 3 of the hierarchy as a result of the use of unobservable parameters.
The sensitivity analysis was carried out by developing a scenario that takes account of a 5% upwards or downwards change in the unobservable inputs used in the valuation techniques described in Section A.4. "Fair value disclosures".

Net sensitivity of fair value to changes in unobservable inputs:

(euro/000)

Net sensitivity of fair value to changes in unobservable inputs of +/- 5%:					
Portfolio classification/type of instrument	**Valuation technique**	**Input**	***31.12.2016***	**Changes**	
				Favourable	**Unfavourable**
Financial assets held for trading					
Derivatives on interest rates	Credit/Debit Valuation Adjustments	PD and LGD	636	30	–30
Equity derivatives	Option pricing models	Volatility – equity indices	17,872	950	–764
Financial assets available for sale					
Debt securities	Option pricing models	Volatility - inflation	113,460	74	–866
		Correlation - inflation		32	–31

A sensitivity analysis was carried out for financial instruments for which the valuation techniques adopted made it possible to do so. The reasons why, for certain instruments, it was not possible to perform a reliable sensitivity analysis are essentially linked to the fact that for the measurement of these instruments valuation techniques were used that were either based on information derived from observed prices of similar market securities or on valuations and/or information provided by third parties.

Disclosures relating to transfers between level 1 and level 2 in 2016

The following transfers took place in 2016:

Financial assets held for trading

- 0.9 million euro from level 1 to level 2;
- 2.9 million euro from level 2 to level 1.

These transfers mainly relate to information becoming available or no longer being available for prices quoted on organised markets and which, due to volumes traded and the frequency of the prices reported, permit or do not permit the instruments to be classified in level 1 on the basis of the above parameters.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(euro/000)

		Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1.	**Opening balance**	**26,587**	**47,910**	**521,286**	**–**	**–**	**–**
2.	**Increases**	**186,805**	**1,381**	**170,484**	**–**	**–**	**–**
2.1.	Purchases	167,356	387	141,725	–	–	–
2.2.	Profits recognised in:						
2.2.1.	Income	18,584	–	8,627	–	–	–
	– of which capital gains	17,966	–	–	–	–	–
2.2.2.	Shareholders' equity	X	X	8,946	–	–	–
2.3.	Transfers from other levels	393	–	–	–	–	–
2.4.	Other increases	472	994	11,186	–	–	–
3.	**Decreases**	**194,547**	**47,709**	**167,097**	**–**	**–**	**–**
3.1.	Sales	167,954	–	3,673	–	–	–
3.2.	Redemptions	3	38,738	10,511	–	–	–
3.3.	Losses recognised in:						
3.3.1.	Income	1,849	8,971	55,332	–	–	–
	– of which capital losses	212	8,766	55,317	–	–	–
3.3.2.	Shareholders' equity	X	X	44,147	–	–	–
3.4.	Transfers to other levels	23,753	–	13,761	–	–	–
3.5.	Other decreases	988	–	39,673	–	–	–
4.	**Closing balance**	**18,845**	**1,582**	**524,673**	**–**	**–**	**–**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

(euro/000)

		Financial liabilities held for trading	Financial liabilities designated at fair value through profit and losse	Hedging derivatives
1.	**Esistenze iniziali**	**13,121**	**–**	**–**
2.	**Aumenti**	**3,792**	**–**	**–**
2.1.	Emissioni	1,688	–	–
2.2.	Perdite imputate a:			
2.2.1	Conto Economico	2,086	–	–
	– di cui minusvalenze	2,086	–	–
2.2.2	Patrimonio Netto	X	X	–
2.3.	Traferimenti da altri livelli	–	–	–
2.4.	Altre variazioni in aumento	18	–	–
3.	**Diminuzioni**	**13,180**	**–**	**–**
3.1	Rimborsi	–	–	–
3.2.	Riacquisti	2	–	–
3.3.	Profitti imputati a:			
3.3.1.	Conto Economico	4,391	–	–
	– di cui plusvalenze	(58)	–	–
3.3.2.	Patrimonio Netto	X	X	–
3.4.	Trasferimenti ad altri livelli	8,764	–	–
3.5.	Altre variazioni in diminuzione	23	–	–
4.	**Rimanenze finali**	**3,733**	**–**	**–**

A.4.5.4 Assets and liabilities not measured at fair value or valued at fair value on a non-recurring basis: analysis by fair value level

(euro/000)

Financial assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2016				31.12.2015			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Investments held to maturity	–	–	–	–	–	–	–	–
2. Due from banks	2,185,297	–	29,617	2,172,018	1,224,717	–	4,602	1,224,973
3. Loans to customers	34,771,008	–	40,325	36,427,651	34,186,837	–	–	37,213,017
4. Investment properties	21,198	–	–	36,522	22,939	–	–	36,926
5. Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**36,977,503**	**–**	**69,942**	**38,636,191**	**35,434,493**	**–**	**4,602**	**38,474,916**
1. Due to banks	7,385,667	–	–	7,385,667	4,839,439	–	–	4,848,133
2. Due to customers	30,688,439	–	–	30,688,439	28,622,852	–	–	28,622,852
3. Securities issued	5,687,758	3,778,095	1,833,117	106,646	8,849,290	4,958,705	3,835,456	138,112
4. Liabilities associated with non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**43,761,864**	**3,778,095**	**1,833,117**	**38,180,752**	**42,311,581**	**4,958,705**	**3,835,456**	**33,609,097**

Disclosures relating to sovereign debt exposure

With reference to the request made by ESMA (European Securities Markets Authority) by way of Communication ESMA/2011/226 of 28 July 2011 and by Consob by way of Communication DEM/11070007 of 5 August 2011, in respect to the figures shown at 31 December 2016 in A.4.5.1 "Accounting portfolios: analysis by fair value level" the following is the Bipiemme Group's exposure to sovereign debt, the majority of which consists of Italian government securities.

The table sets out the following information for the accounting portfolios, analysed by country:

- fair value hierarchy level;
- nominal value;
- book value at 31 December 2016;
- effect of the valuation recognised in the income statement for the year for securities classified as "Financial assets held for trading" and "Financial assets designated at fair value through profit and loss";
- effect of the gross overall valuation recognised at the date of the balance sheet in shareholders' equity under "Valuation reserves", in relation to securities classified as "Financial assets available for sale".

Financial assets measured at fair value: debt securities (euro/000)

	L1				L2				L3		
Accounting portfolios/issuer	**Nominal value**	**Book value 31.12.2016**	**Measurement difference recognised in income**	**Measurement difference recognised in equity**	**Nominal value**	**Book value 31.12.2016**	**Measurement difference recognised in income**	**Measurement difference recognised in equity**	**Nominal value**	**Book value 31.12.2016**	**Measurement difference recognised in income**
1. Financial assets held for trading	**115,207**	**121,471**	**–3,383**	**X**	**915**	**775**	**182**	**X**	**7**	**8**	**–**
Italy	114,897	121,166	–3,373	X	114	131	1	X	–	–	–
Austria	209	214	1	X	64	68	–	X	–	–	–
Argentina	101	91	–11	X	737	576	181	X	–	–	–
Greece	–	–	–	X	–	–	–	X	3	3	–
United States	–	–	–	X	–	–	–	X	3	3	–
Germany	–	–	–	X	–	–	–	X	1	2	–
2. Financial assets designated at fair value through profit and loss	**–**	**–**	**–**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
3. Financial assets available for sale	**8,630,272**	**8,676,218**	**–9,683**	**47,123**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Italy	8,406,050	8,453,979	–9,573	47,736	–	–	–	–	–	–	–
United States	199,222	196,098	–	–1,536	–	–	–	–	–	–	–
Spain	25,000	26,141	–110	923	–	–	–	–	–	–	–
Total	**8,745,479**	**8,797,689**	**–13,066**	**47,123**	**915**	**775**	**182**	**–**	**7**	**8**	**–**

For comparative purposes the following was the situation at 31 December 2015.

Financial assets measured at fair value: debt securities (euro/000)

Accounting portfolios/issuer	L1				L2				L3		
	Nominal value	Book value 31.12.2015	Measurement difference recognised in income	Measurement difference recognised in equity	Nominal value	Book value 31.12.2015	Measurement difference recognised in income	Measurement difference recognised in equity	Nominal value	Book value 31.12.2015	Measurement difference recognised in income
1. Financial assets held for trading	**141,526**	**158,972**	**729**	**X**	**2388**	**2,046**	**–8**	**X**	**8**	**9**	**–**
Italy	140,361	157,864	778	X	257	302	15	X	–	–	–
Austria	224	230	3	X	711	718	–1	X	–	–	–
Argentina	21	14	2	X	1,420	1,026	–22	X	–	–	–
Greece	–	–	–	X	–	–	–	X	3	3	–
United States	–	–	–	X	–	–	–	X	3	4	–
Other countries	920	864	–54	X	–	–	–	X	2	2	–
2. Financial assets designated at fair value through profit and loss	**–**	**–**	**–**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
3. Financial assets available for sale	**8,381,511**	**8,777,370**	**–1,918**	**302,851**	**–**	**–**	**–**	**–**	**5**	**5**	**–**
Italy	8,353,140	8,749,016	–1,918	302,905	–	–	–	–	5	5	–
United States	18,371	18,292	–	28	–	–	–	–	–	–	–
Spain	10,000	10,062	–	–82	–	–	–	–	–	–	–
Total	**8,523,037**	**8,936,342**	**–1,189**	**302,851**	**2,388**	**2,046**	**–8**	**–**	**13**	**14**	**–**

The following table sets out these amounts restated by issuer:

(euro/000)

Analysis by issuer	Nominal value	Book value 31.12.2016	Measurement difference recognised in income	Measurement difference recognised in equity
Italy	**8,521,061**	**8,575,276**	**–12,945**	**47,736**
Financial assets available for sale	8,406,050	8,453,979	–9,573	47,736
– of which maturing in 2017	1,471,500	1,489,739	–1,577	17,127
– of which maturing from 2018 to 2019	1,803,550	1,865,560	–6,359	60,936
– of which maturing from 2020 to 2023	3,035,000	3,033,671	–1,202	–122
– of which maturing after 2023	2,096,000	2,065,009	–435	–30,205
Financial assets held for trading	115,011	121,297	–3,372	X
Argentina	**838**	**667**	**170**	**–**
Financial assets held for trading	838	667	170	X
Austria	**273**	**282**	**1**	**–**
Financial assets held for trading	273	282	1	X
Greece	**3**	**3**	**–**	**–**
Financial assets held for trading	3	3	–	X
United States	**199,225**	**196,101**	**–**	**–1,536**
Financial assets available for sale	199,222	196,098		–1,536
Maturing from 2020 to 2023	199,222	196,098	–	–1,536
Financial assets held for trading	3	3	–	X
Spain	**25,000**	**26,141**	**–110**	**923**
Financial assets available for sale	25,000	26,141	–110	923
Maturing after 2023	25,000	26,141	–110	923
Germany	**1**	**2**	**–**	**–**
Financial assets held for trading	1	2	–	X
Total	**8,746,401**	**8,798,472**	**–12,884**	**47,123**

In addition to these exposures, asset item 70 "Loans to customers" includes net exposures of 627 million euro to the Italian government and to Italian local public bodies.

For comparative purposes the following was the situation at 31 December 2015.

(euro/000)

Analysis by issuer	Nominal value	Book value 31.12.2015	Measurement difference recognised in income	Measurement difference recognised in equity
Italy	**8,493,763**	**8,907,187**	**–1,125**	**302,905**
Financial assets available for sale	8,353,145	8,749,021	–1,918	302,905
- of which maturing in 2017	1,234,999	1,245,448	–	8,839
- of which maturing from 2018 to 2019	2,653,646	2,781,249	–95	122,361
- of which maturing from 2020 to 2023	1,619,500	1,688,704	–147	57,091
- of which maturing after 2023	2,845,000	3,033,620	–1,676	114,614
Financial assets held for trading	140,618	158,166	793	X
Argentina	**1,441**	**1,040**	**–20**	**–**
Financial assets held for trading	1,441	1,040	–20	X
Austria	**935**	**948**	**2**	**–**
Financial assets held for trading	935	948	2	X
Greece	**3**	**3**	**–**	**–**
Financial assets held for trading	3	3	–	X
United States	**18,374**	**18,296**	**–**	**28**
Financial assets available for sale	18,371	18,292		28
Maturing from 2020 to 2023	18,371	18,292	–	28
Financial assets held for trading	3	4	–	X
Spain	**10,000**	**10,062**	**–**	**–82**
Financial assets available for sale	10,000	10,062	–	–82
Maturing after 2023	10,000	10,062	–	–82
Germany	**922**	**866**	**–54**	**–**
Financial assets held for trading	922	866	–54	X
Total	**8,525,438**	**8,938,402**	**–1,197**	**302,851**

In addition to these exposures, asset item 70 "Loans to customers" included net exposures of 503 million euro to the Italian government and to Italian local public bodies at 31 December 2015.

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

IAS 39 requires a financial instrument to be initially recognised at its fair value, which is normally the amount paid or collected for the transaction; in other words at the cost or amount paid for financial assets or the amount received for financial liabilities. On initial recognition the fair value of a financial instrument does not always coincide with the price paid or received; this difference is defined as "day one profit/loss".

If there is a difference between these values the instrument must be recognised at fair value rather than at transaction price, but only if the fair value is calculated from other observable market transactions on the same instrument or if it is determined by the use of valuation techniques, whose inputs originate from information derived from observable markets. In such cases the difference between the transaction price and the fair value on initial recognition is immediately charged against income. This criterion applies to the instruments that fall into one of the classes that require the instrument to be recognised at fair value through profit and loss: fair value option and trading book.

The following is specified with regard to these categories:

1. Instruments listed on an active market. The concept of "day one profit" is not usually applied in this case since on initial recognition in the financial statements the fair value of a financial instrument which falls under level 1 of the fair value hierarchy coincides with the transaction price.

2. Instruments not listed on an active market. In this case, classification of the financial instrument in levels 2 or 3 of the fair value hierarchy leads to a different accounting treatment of the difference between fair value and the transaction price.

In the case of level 2 in many cases initial recognition sees fair value substantially coinciding with transaction price. Any differences between transaction price and fair value are recognised in the income statement on the first remeasurement of the financial instrument.

In the case of level 3, the presence of model risk and/or input not directly observable in the market significantly influences the result of the valuation for comparison with transaction price. If the difference is positive it is amortised over the residual life of the financial instrument ("day one profit") or over the holding period if this is expected to be shorter; if the difference is negative it is charged directly against income for purposes of prudence ("day one loss").

Subsequent to initial recognition of the fair value, mark-to-model valuations are performed with the same methodology and the same input sources used when the fair value was calculated on day one.

Subsequent changes in fair value after day one will therefore be based on variations in the related risk factors to which the instrument is exposed (interest rates, equity prices, exchange rates, etc.) and must be recognised directly in the income statement.

At the date of these consolidated financial statements there were no significant amounts for which recognition in the income statement had been suspended.

Part B
Information on the consolidated balance sheet

Assets

Section 1 – Cash and cash equivalents
Line item 10

This item consists of currencies having legal tender, including foreign bank notes and coins, and unrestricted deposits with the central bank.

1.1 Cash and cash equivalents: analysis

	31.12.2016	31.12.2015
a) Cash	249,449	300,714
b) Unrestricted deposits with central banks	–	–
Total	**249,449**	**300,714**

Section 2 – Financial assets held for trading
Line item 20

This line item consists of financial assets (debt securities, equities, mutual funds, derivatives) classified in the trading portfolio, including expired and impaired derivatives.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 for derecognition from the financial statements ("sold but not eliminated") and impaired assets.

2.1 Financial assets held for trading: analysis by product

Line item/amount	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
A. Cash assets								
1. Debt securities	**190,769**	**75,930**	**330**	**267,029**	**331,342**	**168,345**	**645**	**500,332**
1.1 Structured securities	1,090	57,621	218	58,929	1,552	102,381	519	104,452
1.2 Other debt securities	189,679	18,309	112	208,100	329,790	65,964	126	395,880
2. Equities	**71,766**	**–**	**7**	**71,773**	**73,448**	**–**	**11**	**73,459**
3 Mutual funds	**420**	**–**	**–**	**420**	**4**	**–**	**–**	**4**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total A	**262,955**	**75,930**	**337**	**339,222**	**404,794**	**168,345**	**656**	**573,795**
B. Derivatives								
1. Financial derivatives	**49,770**	**1,154,991**	**18,508**	**1,223,269**	**107,521**	**1,090,627**	**25,931**	**1,224,079**
1.1 trading	49,770	1,154,648	18,508	1,222,926	107,521	1,089,689	25,909	1,223,119
1.2 linked to the fair value option	–	343	–	343	–	938	22	960
1.3 other	–	–	–	–	–	–	–	–
2. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 trading	–	–	–	–	–	–	–	–
2.2 linked to the fair value option	–	–	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–	–	–
Total B	**49,770**	**1,154,991**	**18,508**	**1,223,269**	**107,521**	**1,090,627**	**25,931**	**1,224,079**
Total (A+B)	**312,725**	**1,230,921**	**18,845**	**1,562,491**	**512,315**	**1,258,972**	**26,587**	**1,797,874**

Reference should be made to Part A "Accounting Policies" for the criteria used to determine the fair value of financial instruments and their classification into the three levels of the fair value hierarchy.

Line item "B.1.2 – Financial derivatives linked to the fair value option" includes the fair value of derivatives relating to instruments for which the fair value option has been adopted. These derivatives are mainly to hedge the risks implicit in the issue of bonds for which the Group has elected the fair value option available under IAS 39, paragraph 9.Such risks arise from possible fluctuations in interest rates and the presence of options that are embedded in the structured securities issued.

Analysis of sub-item A.1.1 "Structured debt securities"

Line item/amount	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
– Credit linked notes	–	–	–	–	–	–	–	–
– Reverse convertibles	–	–	–	–	–	–	–	–
– Reverse floaters	29	–	12	41	27	50,663	9	50,699
– Index linked	3	48,607	199	48,809	3	42,349	504	42,856
– Other	1,058	9,014	7	10,079	1,522	9,369	6	10,897
Total	**1,090**	**57,621**	**218**	**58,929**	**1,552**	**102,381**	**519**	**104,452**

Subordinated financial assets

A. Cash assets	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
1.2 Debt securities - Other	**9,902**	**733**	**–**	**10,635**	**19,969**	**2,153**	**–**	**22,122**
– Issued by banks	2,686	733	–	3,419	17,873	1,153	–	19,026
– Issued by financial institutions	628	–	–	628	1,160	428	–	1,588
– Issued by insurance companies	6,588	–	–	6,588	936	–	–	936
– Issued by other companies	–	–	–	–	–	572	–	572
Total	**9,902**	**733**	**–**	**10,635**	**19,969**	**2,153**	**–**	**22,122**

2.2 Financial assets held for trading: analysis by debtor/issuer

Line item/amount	31.12.2016	31.12.2015
A. Cash assets		
1. Debt securities	**267,029**	**500,332**
a) Governments and central banks	121,992	160,835
b) Other public entities	262	212
c) Banks	121,229	232,166
d) Other issuers	23,546	107,119
2. Equities	**71,773**	**73,459**
a) Banks	3,280	1,529
b) Other issuers:	68,493	71,930
– insurance companies	4,159	3,822
– financial institutions	5,156	77
– non-financial companies	59,174	68,023
– others	4	8
3. Mutual funds	**420**	**4**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**339,222**	**573,795**
B. Derivatives		
a) Banks	687,727	791,977
– Fair value	687,727	791,977
b) Customers	535,542	432,102
– Fair value	535,542	432,102
Total B	**1,223,269**	**1,224,079**
Total (A + B)	**1,562,491**	**1,797,874**

The analysis of financial assets by the business sector to which debtors and securities issuers belong has been made in accordance with the classification recommended by the Bank of Italy.

Section 3 – Financial assets designated at fair value through profit and loss Line item 30

This line item consists of all the cash financial assets (debt securities, equities, mutual funds) designated at fair value through profit and loss on the basis of the "fair value option" permitted by IAS 39, IAS 28 and IFRS 11.

The following instruments are classified in this category:

- debt securities with embedded derivatives;
- debt securities not classified as financial assets held for trading, which have been hedged;
- open-ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short-term trading, from an operational and financial standpoint form part of a duly documented investment strategy designed to achieve an overall return based on the change in the fair value of the instrument itself, with regular detailed reports on their performance being provided to the Group's management.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be derecognised from the financial statements ("sold but not eliminated") and non-performing assets.

3.1 Financial assets designated at fair value through profit and loss: analysis by product

Line item/amount	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
1. Debt securities	**7,658**	**10,000**	**1,582**	**19,240**	**7,731**	**19,902**	**47,910**	**75,543**
1.1 Structured securities	–	10,000	1,582	11,582	–	19,902	14,249	34,151
1.2 Other debt securities	7,658	–	–	7,658	7,731	–	33,661	41,392
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**7,658**	**10,000**	**1,582**	**19,240**	**7,731**	**19,902**	**47,910**	**75,543**
Cost	**4,811**	**8,858**	**12,560**	**26,229**	**4,815**	**47,973**	**19,068**	**71,856**

The criteria used to determine the fair value and the classification of financial instruments in the three levels of the fair value hierarchy are defined in Part A "Accounting Policies".

The amounts at cost correspond to the purchase cost of financial assets held at the balance sheet date.

Purpose of using the fair value option and the financial assets concerned

Type of transaction/ amount	Natural hedges	Structured financial instruments	Portfolios of financial assets managed internally on a fair value basis	31.12.2016	Natural hedges	Structured financial instruments	Portfolios of financial assets managed internally on a fair value basis	31.12.2015
1. Debt securities	**7,658**	**11,582**	**–**	**19,240**	**41,392**	**34,151**	**–**	**75,543**
1.1 Structured securities	–	11,582	–	11,582	–	34,151	–	34,151
1.2 Other debt securities	7,658	–	–	7,658	41,392	–	–	41,392
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	**–**	**–**	**–**		**–**	**–**	**–**	
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**7,658**	**11,582**	**–**	**19,240**	**41,392**	**34,151**	**–**	**75,543**

This table provides details of table 3.1 above and shows the book value (fair value) of assets for which the fair value option has been adopted, distinguishing the type of use.

Subordinated financial assets

Subordinated securities issued by insurance companies amounting to 7.658 million euro are held in the portfolio of assets designated at fair value through profit and loss at the balance sheet date.

3.2 Financial assets designated at fair value through profit and loss: analysis by debtor/issuer

Line item/amount	31.12.2016	31.12.2015
1. Debt securities	**19,240**	**75,543**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	10,000	58,051
d) Other issuers	9,240	17,492
2. Equities	**–**	**–**
a) Banks	–	–
b) Other issuers:	–	–
– insurance companies	–	–
– financial institutions	–	–
– non-financial companies	–	–
– others	–	–
3. Mutual funds	**–**	**–**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**19,240**	**75,543**

The analysis of financial assets by the business sector to which debtors and securities issuers belong has been made in accordance with the classification recommended by the Bank of Italy.

Section 4 – Financial assets available for sale
Line item 40

This line item consists of all the financial assets (debt securities, equities, etc.) classified in the "available for sale" portfolio. Equities essentially include interests in companies which, in accordance with international accounting standards, are no longer defined as equity investments.

The underlying technical forms also include sold assets that do not satisfy the requirements of IAS 39 to be derecognised from the financial statements ("sold but not eliminated") and non-performing assets.

4.1 Financial assets available for sale: analysis by product

Line item/amount	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
1. Debt securities	**8,689,239**	**99,646**	**114,934**	**8,903,819**	**8,826,814**	**56,294**	**115,891**	**8,998,999**
1.1 Structured securities	–	–	114,934	114,934	–	56,294	115,886	172,180
1.2 Other debt securities	8,689,239	99,646	–	8,788,885	8,826,814	–	5	8,826,819
2. Equities	**240,824**	**77,799**	**232,407**	**551,030**	**41,618**	**43,325**	**275,622**	**360,565**
2.1 At fair value	240,824	77,799	230,868	549,491	41,618	43,325	273,854	358,797
2.2 At cost	–	–	1,539	1,539	–	–	1,768	1,768
3. Mutual funds	**935**	**–**	**177,332**	**178,267**	**1,911**	**–**	**129,773**	**131,684**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**8,930,998**	**177,445**	**524,673**	**9,633,116**	**8,870,343**	**99,619**	**521,286**	**9,491,248**

The criteria used to determine the fair value and the classification of financial instruments in the three levels of the fair value hierarchy are defined in Part A "Accounting Policies".

In accordance with the provisions of IAS 39 on the derecognition of financial assets, line item "1.2 Other debt securities" also includes securities pertaining to repurchase agreements pertaining to own securities of 3,970 million euro (4,157.6 million euro at 31 December 2015).

Line item "2. Equities" includes equity interests that do not qualify as subsidiaries, associates or joint ventures.

The following table shows the composition of securities carried at fair value, as well as those valued at cost, which have been maintained at their initial book value as it is not possible to determine a reliable fair value, as required by IFRS 7, paragraph 30.

Composition of line item 2.1. Equities at fair value	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
Banks	–	43,440	139,486	182,926	–	43,325	162,961	206,286
Financial institutions and other companies	240,824	34,359	91,382	366,565	41,618	–	110,893	152,511
Total	**240,824**	**77,799**	**230,868**	**549,491**	**41,618**	**43,325**	**273,854**	**358,797**

Composition of line item 2.2. Equities at cost	% holding	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
Visconti S.r.l.	10.34	–	–	1,137	1,137	–	–	1,137	1,137
Other equities	N/A	–	–	402	402	–	–	631	631
Total		**–**	**–**	**1,539**	**1,539**	**–**	**–**	**1,768**	**1,768**

The following table sets out financial assets with a subordination clause:

Subordinated financial assets

	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
1. Debt securities								
1.2 Other debt securities								
Issued by banks	13,022	–	–	13,022	20,005	–	–	20,005
Total	**13,022**	**–**	**–**	**13,022**	**20,005**	**–**	**–**	**20,005**

4.2 Financial assets available for sale: analysis by debtor/issuer

Line item/amount	31.12.2016	31.12.2015
1. Debt securities	**8,903,819**	**8,998,999**
a) Governments and central banks	8,676,218	8,777,375
b) Other public entities	–	–
c) Banks	227,601	192,184
d) Other issuers	–	29,440
2. Equities	**551,030**	**360,565**
a) Banks	182,968	206,286
b) Other issuers:	368,062	154,279
– insurance companies	–	4,582
– financial institutions	290,248	52,982
– non-financial companies	77,814	96,715
– other	–	–
3. Mutual funds	**178,267**	**131,684**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**9,633,116**	**9,491,248**

The analysis of financial assets by the business sector to which debtors and securities issuers belong has been made in accordance with the classification recommended by the Bank of Italy.

Mutual funds: analysis by category of closed funds

The following table provides details of the main types of investments in mutual funds, the balance of which, at the respective dates, is reported in table 4.2 under line item 3 "Mutual funds".

Line item/amount	31.12.2016	31.12.2015
Equity	63,867	15,035
Bonds/money market	12,134	10,022
Real estate	63,498	65,179
Other	38,768	41,448
Total	**178,267**	**131,684**

"Other" also includes investments in Sicar (Société d'Investissement en Capital à Risque) and in private equity firms.

4.3 Financial assets available for sale with specific hedges

Line item/amount	31.12.2016	31.12.2015
1. Financial assets with specific fair value hedges	**1,667,793**	**1,182,643**
a) interest rate risk	1,667,793	735,802
b) exchange rate risk	–	–
c) credit risk	–	–
d) price risk	–	446,841
e) several risks	–	–
2. Financial assets with specific cash flow hedges	**114,937**	**115,886**
a) interest rate risk	114,937	115,886
b) exchange rate risk	–	–
c) other	–	–
Total	**1,782,730**	**1,298,529**

Section 5 – Investments held to maturity
Line item 50

The Group had no investments held to maturity at the balance sheet date.

Section 6 – Due from banks
Line item 60

This line item consists of financial assets not quoted on an active market (level 2 and level 3) that are due from banks (current accounts, security deposits, debt securities, etc.) and are classified in the loans and receivables portfolio. They include operating receivables connected with the provision of financial services.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and non-performing assets.

6.1 Due from banks: analysis by product

Type of transaction/amount	31.12.2016				31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**390,459**			**390,459**	**105,590**	**–**	**–**	**105,590**
1. Restricted deposits	–	X	X	X	–	X	X	X
2. Compulsory reserve	390,441	X	X	X	105,573	X	X	X
3. Repurchase agreements	–	X	X	X	–	X	X	X
4. Other	18	X	X	X	17	X	X	X
B. Due from banks	**1,794,838**	**–**	**29,617**	**1,781,559**	**1,119,127**	**–**	**4,602**	**1,119,383**
1. Loans	1,765,820	–	–	1,781,559	1,115,302	–	–	1,119,383
1.1 Current accounts and unrestricted deposits	757,543	X	X	X	457,776	X	X	X
1.2 Restricted deposits	137,830	X	X	X	150,590	X	X	X
1.3 Other loans:	870,447	–	–	–	506,936	–	–	–
– Repurchase agreements	52,831	X	X	X	32,002	X	X	X
– Finance leases	–	X	X	X	–	X	X	X
– Other	817,616	X	X	X	474,934	X	X	X
2. Debt securities	29,018	–	29,617	–	3,825	–	4,602	–
2.1 Structured securities	–	X	X	X	–	X	X	X
2.2 Other debt securities	29,018	X	X	X	3,825	X	X	X
Total	**2,185,297**	**–**	**29,617**	**2,172,018**	**1,224,717**	**–**	**4,602**	**1,224,973**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine fair value.

Subordinated financial assets

The Group had no loans to banks with subordination clauses at the balance sheet date, as at the end of the previous year.

Non-performing assets

The Group had no non-performing loans to banks at the balance sheet date, as at the end of the previous year.

6.2 Due from banks with specific hedges

There were no amounts due from banks with specific hedges at the balance sheet date, as at the end of the previous year.

6.3 Finance leases

No financing had been granted for finance lease contracts at the balance sheet date, as at the end of the previous year.

Section 7 – Loans to customers
Line item 70

This line item consists of financial assets not quoted on an active market (level 2 and level 3) that are represented by loans to customers (mortgage loans, finance leases, factoring, debt securities, etc.) and are classified in the loans and receivables portfolio.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and non-performing assets.

7.1 Loans to customers: analysis by product

Type of transaction/ amount	31.12.2016						31.12.2015					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	31,111,515	–	3,615,850	–	–	36,427,651	30,541,587	–	3,598,644	–	–	37,169,429
1. Current accounts	2,825,006	–	722,855	X	X	X	3,160,116	–	716,884	X	X	X
2. Repurchase agreements	180,095	–	–	X	X	X	232,956	–	–	X	X	X
3. Mortgage loans	16,961,776	–	1,850,738	X	X	X	16,505,014	–	1,807,949	X	X	X
4, Credit cards, personal loans and salary agreements	1,543,841	–	109,892	X	X	X	1,510,931	–	100,132	X	X	X
5. Finance leases	174,980	–	70,126	X	X	X	196,463	–	62,538	X	X	X
6. Factoring	–	–	–	X	X	X	–	–	–	X	X	X
7. Other loans	9,425,817	–	862,239	X	X	X	8,936,107	–	911,141	X	X	X
Debt securities	23,501	–	20,142	–	40,325	–	21,026	–	25,580	–	–	43,588
8. Structured securities	14,331	–	–	X	X	X	13,880	–	–	X	X	X
9. Other debt securities	9,170	–	20,142	X	X	X	7,146	–	25,580	X	X	X
Total	**31,135,016**	**–**	**3,635,992**	**–**	**40,325**	**36,427,651**	**30,562,613**	**–**	**3,624,224**	**–**	**–**	**37,213,017**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine fair value.

Current account balances due from customers include transactions "in transit" or "in suspense" relating to such accounts at year end; these balances are not affected by non-cash debits and credits relating to bill and document collection services.

"Other loans" mostly relate to advances on bills, documents and similar instruments subject to collection, other amounts not settled via current accounts, receivables from post offices and PDC, derivative transaction margin changes at clearing houses, documents discounted without recourse and operating loans associated with the provision of financial services (those associated with the payment of supplies of goods and non-financial services are shown under "Other assets").

Discounted bills are recognised at their face value, less any deferred income; they also include those sent for collection by the Group's own branches or others.

This item also includes lease contracts that involve transfer of the risks, with the Group as lessor, relating to assets under construction and those waiting to be leased.

The non-performing column includes bad loans, unlikely to pay and past due, net of value adjustments, as defined by the Bank of Italy. Details of these exposures are given in Part E of the notes – Asset quality, in accordance with the provisions of IAS 39 on the derecognition of financial assets.

Subordinated financial assets

Type of transaction/amount	31.12.2016	31.12.2015
7. Other loans: subordinated loans granted to insurance companies	30,886	38,492
9. Other debt securities	4,340	4,609
Total	**35,226**	**43,101**

Subordinated financial assets due from insurance companies at 31.12.2016 refer to loans granted by the Parent Company to Bipiemme Vita S.p.A. which have the following features:

a) 8 million euro granted on 27/6/2003 with unspecified maturity – interest rate 12-month Euribor + 250 b.p;

b) 26.05 million granted on 21/3/2012 with 10 year fixed maturity – interest rate 12-month Euribor.

The "Other debt securities" of 4.3 million euro represent PHARMA Finance securities originating from third party securitisations and are subordinated by their terms to superior classes.

Line item 3. "Mortgage loans" consists of the balances at the respective dates of the following portfolios of securitised loans:

	Performing	Non-performing	31.12.2016	Performing	Non-performing	31.12.2015
• BPM Securitisation 2 S.r.l.:						
– transaction carried out in 2006 for 2,011.3 million euro	233,517	31,469	**264,986**	288,443	35,527	**323,970**
• BPM Securitisation 3 S.r.l.:						
– self-securitisation of commercial mortgage backed securities (CMBS) carried out in the third quarter of 2014 for 864 million euro(*) and in 2016 for 638 million euro	803,533	13,231	**816,764**	517,925	5,221	**523,146**
• BPM Covered Bond S.r.l.:						
– transactions carried out in 2008 for 1,218 million euro, in 2009 for 1,305 million euro, in 2010 for 1,616 million euro, in 2011 for 639 million euro, in 2013 for 993 million euro and in 2014 for 1,294 million euro	3,749,899	33,389	**3,783,288**	4,354,910	102,868	**4,457,778**
• BPM Covered Bond 2 S.r.l.:						
– transaction carried out in 2015 for 2,120 million and in 2016 for 1,294 million	2,940,324	3,806	**2,944,130**	2,011,102	1,407	**2,012,509**
Total	**7,727,273**	**81,895**	**7,809,168**	**7,172,380**	**145,023**	**7,317,403**

(*) The Bank has fully subscribed the securities issued by the special purpose vehicle.

Line item 4. "Credit cards, personal loans and salary agreements" consists of the balances at the respective dates of the following portfolios of securitised loans:

	Performing	Non-performing	31.12.2016	Performing	Non-performing	31.12.2015
• **ProFamily *Securitisation* S.r.l.:**						
– transaction carried out in 2015 for 712.6 million euro(*)(**)	681,337	946	**682,283**	683,789	2	683,791

(*) Profamily S.p.A. has wholly subscribed the securities issued by the special purpose vehicle.

(**) The operation is a revolving structure for the first 18 months; additions were made to the performing loan portfolio in 2016 to leave the initial total amount unchanged.

For details of the above transactions reference should be made to the following sections of Part E of these explanatory notes "Information on risks and related hedging policies":

1.1 – Credit risk

- "C. Securitisation transactions"
- "E.4 Covered bond transactions"

1.3 – Liquidity risk

- Self-securitisations

7.2 Loans to customers: analysis by debtor/issuer

Type of transaction/amount	31.12.2016			31.12.2015		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	**23,501**	**–**	**20,142**	**21,026**	**–**	**25,580**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	23,501	–	20,142	21,026	–	25,580
– non-financial companies	20,952	–	3,260	19,483	–	3,260
– financial companies	2,549	–	16,882	1,543	–	22,320
– insurance companies	–	–	–	–	–	–
– other	–	–	–	–	–	–
2. Loans to:	**31,111,515**	**–**	**3,615,850**	**30,541,587**	**–**	**3,598,644**
a) a) Governments	475,990	–	–	353,828	–	–
b) Other public entities	151,032	–	448	148,703	–	678
c) Other parties	30,484,493	–	3,615,402	30,039,056	–	3,597,966
– non-financial companies	15,568,746	–	3,037,987	15,065,576	–	2,975,824
– financial companies	2,700,393	–	100,956	3,062,405	–	121,616
– insurance companies	47,467	–	–	55,582	–	–
– other	12,167,887	–	476,459	11,855,493	–	500,526
Total	**31,135,016**	**–**	**3,635,992**	**30,562,613**	**–**	**3,624,224**

The analysis of financial assets by the business sector to which debtors and securities issuers belong has been made in accordance with the classification recommended by the Bank of Italy.

7.3 Loans to customers: assets with specific hedges

There are no loans to customers with specific hedges at the balance sheet date, as at the end of the previous year.

7.4 Finance leases

The disclosures required by IAS 17, paragraph 47 are set out below.

Reconciliation between the gross investment in leases and the present value of the minimum payments due at the balance sheet date

	31.12.2016	31.12.2015
Gross investment in leases	**351,318**	**357,650**
Deferred financial income	69,023	72,924
Net investment	**282,295**	**284,726**
Unguaranteed residual value	–	–
Present value of minimum payments due	**282,295**	**284,726**
Adjustments	(37,189)	(25,725)
Book value: line item 5. "Finance leases" in table 7.1	**245,106**	**259,001**
Performing	174,980	196,463
Non-performing	70,126	62,538

Time bands	**31.12.2016**	**31.12.2015**
Within 1 year		
Gross investment	**9,873**	**12,412**
Present value of minimum payments due	9,744	12,219
Adjustments	(4,230)	(4,754)
Net exposure	**5,514**	**7,465**
– of which non-performing	*2,463*	*2,586*
Between 1 and 5 years		
Gross investment	**15,848**	**15,684**
Present value of minimum payments due	14,251	14,704
Adjustments	(1,584)	(1,393)
Net exposure	**12,667**	**13,311**
– of which non-performing	*3,103*	*2,866*
Beyond 5 years		
Gross investment	**325,597**	**329,554**
Present value of minimum payments due	258,300	257,803
Adjustments	(31,375)	(19,578)
Net exposure	**226,925**	**238,225**
– of which non-performing	*64,560*	*57,086*

The finance lease portfolio at 31 December 2016 consists of 765 contracts; the investments related to properties for 98%, functional assets for 1.5% and motor vehicles for the remainder.

Section 8 – Hedging derivatives
Line item 80

This line item consists of financial derivatives used for hedging purposes which have a positive fair value at the balance sheet date.

8.1 Hedging derivatives: analysis by type of hedge and level

	31.12.2016					31.12.2015				
	FV				NV	FV				NV
	L1	L2	L3	Total FV		L1	L2	L3	Total FV	
A) Financial derivatives	**–**	**44,835**	**–**	**44,835**	**1,835,000**	**–**	**40,638**	**–**	**40,638**	**2,129,197**
1) Fair value	–	44,835	–	44,835	1,835,000	–	39,884	–	39,884	2,012,965
2) Cash flows	–	–	–	–	–	–	754	–	754	116,232
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B) Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**44,835**	**–**	**44,835**	**1,835,000**	**–**	**40,638**	**–**	**40,638**	**2,129,197**

Key:
FV = Fair value NV = Notional value L1 = Level 1 L2 = Level 2 L3 = Level 3

The criteria used to determine the fair value and the classification of financial instruments in the three levels of the fair value hierarchy are defined in Part A "Accounting Policies".

The table presents the positive book value (fair value) of hedging derivative contracts, including the amount accruing at the balance sheet date, for fair value hedges accounted for by hedge accounting. This instrument is used to account for hedges of financial instruments recognised in balance sheet items that do not envisage their measurement at fair value through profit and loss.

The hedging of financial liabilities represented by securities is normally accounted for by using the fair value option. The fair value option is adopted for structured debt securities and fixed-rate securities issued by Group banks, whose risk of changes in fair value has been hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading portfolio.

Reference should be made to the information provided in Part E – Information on risks and related hedging policies – Section 1.2 – Market risks for the objectives and strategies underlying hedging transactions.

8.2 Hedging derivatives: analysis by hedged portfolio and type of hedge (book value)

Type of transaction/amount	Fair value						Cash flow		Foreign investments
	Specific hedging					Macro hedging	Specific hedging	Macro hedging	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Several risks				
1. Financial assets available for sale	1,359	–	–	–	–	x	–	x	x
2. Loans and receivables	–	–	–	x	–	x	–	x	x
3. Investments held to maturity	x	–	–	x	–	x	–	x	x
4. Portfolio	x	x	x	x	x	–	x	–	x
5. Other transactions	–	–	–	–	–	x	–	x	–
Total assets	**1,359**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	28,765	–	–	x	–	x	–	x	x
2. Portfolio	x	x	x	x	x	14,711	x	–	–
Total liabilities	**28,765**	**–**	**–**	**–**	**–**	**14,711**	**–**	**–**	**–**
1. Forecast transactions	x	x	x	x	x	x	–	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	–	x	–	–

This table analyses the positive fair value of hedging derivatives by the asset or liability hedged and the type of hedge contract.The item "Cash flows – Specific hedging 1. Financial assets available for sale" includes the positive fair values of forward hedging derivatives on purchases of government securities.

As far as the detail of hedged portfolios is concerned:

Specific hedging of fair value

Line item 1." Financial assets available for sale" relates to the positive fair value of financial derivatives hedging interest rate risk for a total notional amount of 300 million euro on fixed-income government securities.

Line item 1. "Financial liabilities" consists of the positive value of the financial derivatives taken out by the vehicle BPM Covered Bond with external counterparties to hedge the interest rate risk on the interest payable on the fixed-rate covered bonds issued by the Parent Company; the fixed-rate coupons of the covered bonds are converted to floating rate couponsat Euribor plus a spread.

Macrohedging of fair value

Line item 2. "Portfolio" relates to the positive fair value of financial derivatives for a notional amount of 410 million euro acquired to hedge the interest rate risk of a portfolio of core deposits and 25 million euro acquired to hedge mortgage loans.

Section 9 – Fair value change of financial assets in hedged portfolios Line item 90

This item consists of the positive balance of fair value changes in the assets covered by macrohedges against interest rate risk.

9.1 Fair value adjustment of hedged assets: analysis by hedged portfolio

Fair value adjustment of hedged assets: analysis by hedged portfolio/amount	31.12.2016	31.12.2015
1. Positive adjustment	**10,514**	**11,237**
1.1 of specific portfolios:	10,514	11,237
a) loans and receivables	10,514	11,237
b) financial assets available for sale	–	–
1.2 overall	–	–
2. Negative adjustment	**–**	**–**
2.1 of specific portfolios:	–	–
a) loans and receivables	–	–
b) financial assets available for sale	–	–
2.2 overall	–	–
Total	**10,514**	**11,237**

The adjustment for financial assets hedged by fair value macrohedges relates to a mortgage loan portfolio of 10.5 million euro of which:

- 6.22 million euro relating to existing loans for which the hedge is still effective;
- 4.28 million euro for the residue of ineffective transactions to be released to income on a temporal basis.

The related hedging derivatives, which had a negative valuation at 31 December 2016, are recognised as liabilities in the balance sheet under line item "Hedging derivatives".

Income and expenses arising from the valuation of hedging derivatives and the hedged portfolio are recognised in the income statement under the line item "Fair value adjustments in hedge accounting".

9.2 Assets covered by macrohedges against interest rate risk

Hedged assets	31.12.2016	31.12.2015
1. Loans and receivables	189,286	97,928
2. Financial assets available for sale	–	–
3. Portfolio	–	–
Total	**189,286**	**97,928**

The table sets out the nominal value of assets covered by macrohedges against interest rate risk as per table 9.1.

Section 10 – Investments in associates and companies subject to joint control Line item 100

This item consists of investments in companies subject to joint control (IFRS 11) and companies subject to significant influence (IAS 28).

10.1 Investments in associates and companies subject to joint control: disclosures

	Company name	Share capital in euro/ Original currency	Registered office	Operational head quarters	Type of relationship[1]	Nature of investment		Voting rights[2]
						Investor	Percentage held %	
A	**Companies subject to joint control**							
	Unlisted financial companies							
1.	Calliope Finance S.r.l.	600,000	Conegliano (TV)	Conegliano (TV)	1	Banca Popolare di Milano S.c.a r.l.	50.00	
B	**Companies subject to significant influence**							
	Unlisted financial companies							
1.	SelmaBipiemme Leasing S.p.A.	41,305,000	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	40.00	
2.	Factorit SpA.	85,000,002	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	30.00	
3.	Etica SGR S.p.,A.	4,500,000	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	19.44	
	Unlisted insurance companies							
4.	Bipiemme Vita S.p.A.	179,125,000	Milan	Milan	2	Banca Popolare di Milano S.c.a.r.l.	19.00	

Key:
(1) Type of relationship: 1. joint control 2. significant influence
(2) Voting rights at ordinary shareholders' meetings. Voting rights are only shown if they differ from the percentage holding.

BPM sold the following partial interests in 2016:

1. a 5% holding in Etica SGR S.p.A.;
2. a 2.18% holding in Anima Holding S.p.A..

Anima Holding was reclassified from the line item "Investments in associates and companies subject to joint control" to the line item "Financial assets available for sale" at 31 December 2016 following the failure of BPM and Poste Italiane to renew their shareholders' agreement.

10.2 Significant investments in associates and companies subject to joint control: book value, fair value and dividends received

Company name	Book value		Fair value	Dividends received
	31.12.2016	31.12.2015		
A. Companies subject to joint control				
1. Calliope Finance S.r.l.	194	702	X	–
B. Companies subject to significant influence				
1. SelmaBipiemme Leasing S.p.A.	91,771	66,426	X	–
2. Factorit S.p.A.	68,777	70,273	X	2,448
3. Etica SGR S.p.A.	1,919	2,308	X	649
4. Anima Holding S.p.A.	–	134,862	–	12,628
5. Bipiemme Vita S.p.A.	69,016	67,574	X	1,225
Total	**231,677**	**342,145**	**X**	**16,950**

The fair value of investments in companies subject to significant influence is only provided for listed companies.

10.3 Significant investments in associates and companies subject to joint control: accounting information

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Net adjustments to/recoveries on property and equipment and intangible assets	Income (loss) before tax from continuing operations	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) for the period (1)	Other comprehensive income (net of tax) (2)	Comprehensive income (3)= (1) + (2)
A. Companies subject to joint control														
1. Calliope Finance S.r.l.	–	11,174	92	10,978	125	1,605	975	–	(894)	(900)	–	(900)	–	(900)
B. Companies subject to significant influence														
1. SelmaBipiemme Leasing S.p.A.	X	2,597,888	183,975	2,517,317	41,542	80,547	X	X	11,576	7,675	–	7,675	(1,398)	6,277
2. Factorit S.p.A.	X	1,597,419	49,487	1,390,557	37,064	66,822	X	X	30,119	20,760	–	20,760	2	20,762
3. Etica SGR S.p.A.	X	14,260	4,474	4,905	3,991	25,211	X	X	5,200	3,446	–	3,446	(50)	3,396
4. Bipiemme Vita S.p.A.	X	6,836,939	201,359	1,514,126	5,264,309	1,175,249	X	X	27,870	18,786	–	18,786	(81)	18,705

The table sets out details of all companies subject to joint control or subject to significant influence. The figures shown are taken from the financial statements at 31 December 2015 except for those of SelmaBipiemme Leasing S.p.A. which are taken from the financial statements at 30 June 2016. The "total revenues" column shows the overall amount of income items with plus signs before income taxes.

10.4 Non-significant investments in associates and companies subject to joint control: accounting information

Section 10.3 sets out details relating to all the companies subject to joint control or subject to significant influence.

10.5 Investments in associates and companies subject to joint control: changes during the year

	31.12.2016	31.12.2015
A. Opening balance	**342,145**	**293,797**
B. Increases	**162,589**	**72,570**
B.1 Purchases	–	–
B.2 Write-backs	–	–
B.3 Revaluations	162,531	71,426
B.4 Other increases	58	1,144
C. Decreases	**273,057**	**24,222**
C.1 Sales	28,171	8,780
C.2 Adjustments	–	–
C.3 Other decreases	244,886	15,442
D. Closing balance	**231,677**	**342,145**
E. Total revaluations	**–**	**–**
F. Total adjustments	**6,899**	**6,899**

Detail of changes during the year

B. Increases	**162,589**
B.3 Revaluations	**162,531**
■ Profits on investments carried at equity	42,737
■ Profits on disposal	11,114
■ Anima Holding S.p.A. – write-up to fair value following reclassification to assets available for sale	108,680
B.4 Other increases	**58**
■ Change in revaluation reserves of investments carried at equity	58
C. Decreases	**273,057**
C.1 Sales	**28,171**
■ Partial sale of Etica SGR S.p.A.	1,395
■ Partial sale of Anima Holding S.p.A.	26,776
C.3 Other decreases	**244,886**
■ Dividends paid during the year	16,950
■ Losses on investments carried at equity	508
■ Change in revaluation reserves of investments carried at equity	763
■ Reclassification of Anima Holding S.p.A. to assets available for sale	226,665
F. Total adjustments	**6,899**
■ SelmaBipiemme Leasing S.p.A.	6,899

10.6 Significant judgements and assumptions made in establishing the existence of joint control or significant influence

Part A – Accounting Policies, paragraph "A.1 – General Part" and Section 3 – Scope of consolidation and consolidation procedures of the notes explain the general criteria for the significant judgements and assumptions made in establishing the presence or otherwise of control over an investee or another entity, as well as the existence of a joint control agreement or the ability to exercise significant influence.

Bipiemme Vita S.p.A.
In the case of Bipiemme Vita S.p.A., despite holding an equity interest of less than 20% BPM is of the opinion that it is able to exercise significant influence as it has signed a shareholders' agreement with the other shareholder Covéa (which holds 81% of the voting rights) that contains the rules of corporate governance as well as the business aspects of the partnership including, among other things, the fact that the insurance company should have access to the distribution networks of the Bipiemme Group for a period of 10 years from the closing date (8 September 2011), with the possibility of renewal on expiry.

Anima Holding S.p.A.
In June 2015 Poste Italiane S.p.A. ("Poste") acquired the 10.3% interest held by BMPS in Anima Holding S.p.A. ("Anima"), at the same time taking over from BMPS all its rights and obligations pursuant to the shareholders' agreement based on the Anima shares originally entered into by MPS and BPM on 5 March 2014.

As a result of this transaction BPM is required to sell to third parties that are not related parties to BPM and/or Poste its entire interest exceeding the threshold causing the requirement for a public tender offer ("OPA") to trigger, pursuant to article 106 of Legislative Decree no. 58 of 24 February 1998 ("CFA"), by and no later than twelve months from the date of completion of the sale of the Anima shares held by MPS to Poste, and in the meantime not to exercise its voting rights relating to the interest exceeding such threshold. On 16 June 2016, Consob issued an opinion stating that the threshold applicable in the case of Anima is the 25% of share capital for an OPA pursuant to article 106, paragraph 1-*bis* of the CFA. On 27 June 2016 BPM announced that it had complied with the commitment for the sale of the interest in Anima exceeding the OPA threshold (taking account of the shares held by Poste), and its interest has in fact fallen to 14.67%.

On 14 October 2016 Poste notified BPM of its wish to terminate the shareholders' agreement, which from 16 April 2017 will no longer be effective between the parties. Finally, on 5 December 2016 Poste confirmed its plan to strengthen its partnership with Anima Holding by contributing BancoPosta Fondi SGR to Anima by the end of the first half of 2017, with a resulting increase of its interest up to a maximum of 24.9%.

Up until 30 September 2016 BPM had classified its interest in the share capital of Anima as an investment in an associate in accordance with IAS 28, as two of the requirements stated in that standard were satisfied at the beginning of the operation:

- it held more than 20% of the investee's share capital; and
- there were agreements between shareholders dealing with the investee's corporate governance, such as the appointment of directors, the need for votes exceeding ordinary majorities for the approval of board and shareholder decisions on certain corporate matters and the impossibility to sell an interest below certain set percentage thresholds, which led to the presumption that it had significant influence over operations.

In 2014, despite the fact that its interest fell below the 20% threshold identified in the standard as a presumption of significant influence, BPM decided that the requirement to classify the investment as an associate continued to exist by virtue of the significance of the contents of the shareholders' agreement.

With the failure to renew the shareholders' contract in October 2016, BPM now believes that the presumptions of IAS 28 for classifying the interest as an associate no longer exist. As a result, the investment in Anima has been reclassified in the separate and consolidated financial statements of BPM at 31 December 2016 from the items "Investments in subsidiaries, associates and companies subject to joint control" and "Investments in associates and companies subject

to joint control", respectively, to "Financial assets available for sale". More specifically, in accordance with IAS 39 the financial asset is recognised on the basis of its fair value, with the difference with its previous book value being recognised in profit and loss.

A gain has been recognised in the income statement in the line items "Profits (losses) on investments in subsidiaries, associates and companies under joint control" and "Profits (losses) on investments in associates and companies under joint control" for the difference between fair value at 31 December 2016, based on stock market price, and the previous book value of the investment in the separate and consolidated financial statements respectively.

10.7 Commitments relating to investments in companies subject to joint control

There were no commitments relating to investments in companies subject to joint control at the balance sheet date.

10.8 Commitments relating to investments in companies subject to significant influence

SelmaBipiemme Leasing S.p.A.

SelmaBipiemme Leasing (hereafter "Selma") is controlled by Mediobanca.
BPM, Mediobanca and Compass have entered a shareholders' agreement, whose term has been extended to 31 December 2016, which regulates their reciprocal rights and obligations in terms of the company's governance and disposal of the investment (providing for reciprocal sale and purchase options).
Call options have been taken out by Mediobanca and put options have been taken out by BPM for BPM's investment in Selma; these can be exercised on the one hand in the event of cancellation or failure to renew the commercial agreement on the part of BPM, a change of control over BPM, the sale of more than 50% of BPM's branch network or if there is no longer exclusive collaboration with Selma, and on the other in the event of cancellation of the commercial agreement on expiry by Selma.
These options must be exercised within 180 days of the event that triggers the exercising of the option. The strike price for Mediobanca will be equal to the pro-rata share of Selma's net equity as shown in its latest financial statements; the price will discount the restructuring charges that Selma will have to pay if it loses BPM's distribution channel. The strike price for BPM will be equal to its pro-rata share of the company's economic value determined on the basis of a method laid down in the agreement.
The agreement also includes a call option for BPM to buy Mediobanca's investment in Selma, in the event that Mediobanca loses control over Selma, or if a banking or insurance group acquires control over Mediobanca. The strike price of the option, which must be exercised within 180 days of the event, will be equal to its pro-rata share of Selma's economic value determined on the basis of the method laid down in the agreement.

Factorit S.p.A.

On 29 July 2010, Banca Popolare di Milano and Banca Popolare di Sondrio ("BPS") bought 30% and 60.5% respectively of the share capital of Factorit S.p.A. from Banca Italease, which kept the remaining 9.5%. On the same day BPM and BPS signed a shareholders' agreement to regulate the company's governance; in particular, BPM has the right to appoint two out of the seven directors, the chairman of the Board of Statutory Auditors and an alternate statutory auditor. These agreements also provide for:

- BPM's willingness to sell a shareholding of not more than 5% of Factorit's share capital to Banca Italease, or to Banco Popolare or to another company controlled by it, at conditions to be negotiated;
- a right to sell in favour of BPM in the event that BPS decides to sell 50% of Factorit's share capital plus one share.

By way of an exchange of correspondence finalised on 4 February 2015, BPM and BPS extended the term of the shareholders' agreement which continued to hold until the date of the shareholders' meeting approving the financial statements of Factorit S.p.A. for the year ended 31 December 2015.

Bipiemme Vita S.p.A.

On 8 September 2011 – following the agreements signed on 19 April 2011 by Banca Popolare di Milano and the Covéa Group (the "parties") to set up a strategic partnership in bancassurance selling life and accident insurance – the Covéa Group completed its acquisition of 81% of Bipiemme Vita S.p.A., which also holds 100% of Bipiemme Assicurazioni S.p.A..

The sale agreement provides for a mechanism whereby the price will be increased on the achievement of certain business targets by Bipiemme Vita and Bipiemme Assicurazioni – in the period comprising the year ended 31 December 2011 up to the year ending 31 December 2020 – with the potential price increase to be determined by means of an "Earn Out Vita" (up to a maximum of 11.7 million euro) and an "Earn Out Danni" (up to a maximum of 2.5 million euro). Any price adjustment will be calculated at the end of this period, subject to renewal of the strategic partnership with the Covéa Group.

In addition the Sale and Purchase Agreement requires BPM to pay indemnification for any losses that Bipiemme Vita may incur as a result of any default involving:

(i) securities in the trading portfolio of Italian sovereign debt;

(ii) securities in the trading portfolio of bank bonds;

(iii) securities in the investment portfolio of Greek sovereign debt (for which default also includes the restructuring of debt assuming a recovery rate of 79%).

The indemnification obligation also extends to any loss recognised when, in the event of exceptional future liquidity needs on the part of Bipiemme Vita due to extraordinary redemptions of insurance contracts outstanding at 31 August 2011, Bipiemme Vita may have to sell the securities indicated above.

During the course of 2012 the indemnification mechanism for the Greek government securities referred to in point iii) was activated, as provided for in the contract (difference between the nominal value and the recovery rate of 79%), which led to an award to Covéa of around 7.3 million euro (already provided for in the 2011 financial statements). So, as things stand, no further compensation is due on such securities.

As concerns the maximum indemnification obligation for the securities referred to in points i) and ii) – taking into account repayments and sales that have taken place – it is believed that there is no need to make any provision as the risk of any indemnification is considered remote.

The agreements also include reciprocal options which, on the occurrence of certain extraordinary events involving one or both parties – including by way of example non-compliance and/or non-renewal of the partnership agreements (termination for breach of the partnership agreement or of the distribution arrangements), any change of control over the parties, liquidation or insolvency/bankruptcy of the parties, a decision-making stalemate regarding a proposal to wind up and liquidate Bipiemme Vita and/or Bipiemme Assicurazioni, the revocation of the state of liquidation or the appointment or dismissal of liquidators (a "triggering event") – BPM or the Covéa Group may, depending on the party affected by the event in question, exercise their option to acquire the other party's interest in Bipiemme Vita, or sell their own interest to the other party. The strike price of the options is determined according to a predetermined reciprocal mechanism based on a valuation of the life and accident businesses.

For the first five years of the strategic partnership there is provision for a penalty in favour of the Covéa Group if the option is exercised linked to certain types of triggering events originated by BPM (termination due to breach of the partnership agreement or of the distribution agreements); the amount of this penalty decreases over time from the date of signing the partnership agreements.

Aedes BPM Real Estate SGR S.p.A.

BPM sold its investment in Aedes BPM Real Estate SGR S.p.A. in December 2015. In this respect the sales price was adjusted upwards by 395 thousand euro on the basis of the net equity of Aedes BPM Real Estate SGR S.p.A. at 31 December 2015.

10.9 Significant restrictions

There are no significant restrictions requiring disclosure within the meaning of IFRS 12.

10.10 Other information

The associate SelmaBipiemme Leasing has a 30 June year end and accordingly its latest financial statements are for the year ended 30 June 2016. In order to measure the investment in this company using the equity method, a pro-forma income statement was prepared consisting of the results for the second half of the year ended 30 June 2016 and the results approved by the Company for the six months ended 31 December 2016.

Section 11 – Technical insurance reserves reinsured with third parties Line item 110

This line item had a nil balance at the balance sheet date as there are no insurance companies in the Group.

Section 12 – Property and equipment Line item 120

12.1 Functional property and equipment: analysis of assets measured at cost

Asset/amount	31.12.2016	31.12.2015
1.1 Owned assets	**696,817**	**697,444**
a) land	291,539	291,489
b) buildings	295,227	307,817
c) furniture	26,735	25,813
d) electronic equipment	17,159	15,184
e) other assets	66,157	57,141
1.2 Assets acquired under finance leases	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other assets	–	–
Total	**696,817**	**697,444**

12.2 Investment properties: analysis of assets measured at cost

Asset/amount	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**21,198**	**–**	**–**	**36,522**	**22,939**	**–**	**–**	**36,926**
a) land	4,639	–	–	6,752	4,660	–	–	6,774
b) buildings	16,559	–	–	29,770	18,279	–	–	30,152
2. Assets acquired under finance leases	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–	–	–
Total	**21,198**	**–**	**–**	**36,522**	**22,939**	**–**	**–**	**36,926**

This line item consists of property and equipment (buildings, plant, machinery and other tangible assets, including work of art) used in the business, which are governed by IAS 16, and investment properties (land and buildings), which are governed by IAS 40.

12.3 Functional property and equipment: analysis of revalued assets

There are no items of functional property and equipment measured at fair value at the balance sheet date, as at the end of the previous year.

12.4 Investment properties: analysis of assets measured at fair value

There are no investment properties measured at fair value at the balance sheet date, as at the end of the previous year.

12.5 Functional property and equipment: changes during the year

Asset/amount	Land	Buildings	Furniture	Electronic systems	Other assets	Total
A. Opening balance, gross	**291,489**	**881,712**	**134,680**	**202,871**	**231,998**	**1,742,750**
A.1 Total net reductions in value	–	573,895	108,867	187,687	174,857	1,045,306
A.2 Opening balance, net	291,489	307,817	25,813	15,184	57,141	697,444
B. Increases	**62**	**28**	**4,986**	**9,922**	**22,648**	**37,646**
B.1 Purchases	–	–	4,980	9,922	22,648	37,550
B.2 Capitalised improvement expenditure	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases recognised in:	–	–	–	–	–	–
– a) shareholders' equity	–	–	–	–	–	–
– b) income	–	–	–	–	–	–
B.5 Foreign exchange gains	–	–	–	–	–	–
B.6 Transfers from investment properties	–	–	–	–	–	–
B.7 Other increases	62	28	6	–	–	96
C. Decreases	**12**	**12,618**	**4,064**	**7,947**	**13,632**	**38,273**
C.1 Sales	–	31	1	–	–	32
C.2 Depreciation	–	12,587	4,018	7,937	13,585	38,127
C.3 Impairment adjustments recognised in:	–	–	–	–	–	–
– a) shareholders' equity	–	–	–	–	–	–
– b) income	–	–	–	–	–	–
C.4 Fair value decreases recognised in:	–	–	–	–	–	–
– a) shareholders' equity	–	–	–	–	–	–
– b) income	–	–	–	–	–	–
C.5 Foreign exchange losses	–	–	–	–	–	–
C.6 Transfers to	–	–	–	–	–	–
– a) investment properties	–	–	–	–	–	–
– b) non-current assets held for sale	–	–	–	–	–	–
C.7 Other decreases	12	–	45	10	47	114
D. Closing balance, net	**291,539**	**295,227**	**26,735**	**17,159**	**66,157**	**696,817**
D.1 Total net reductions in value	–	585,807	112,929	195,624	188,408	1,082,768
D.2 Closing balance, gross	291,539	881,034	139,664	212,783	254,565	1,779,585
E. Measurement at cost	**–**	**–**	**–**	**–**	**–**	**–**

12.6 Investment properties: changes during the year

	Land	Buildings	Total
A. Opening balance	**4,660**	**18,279**	**22,939**
B. Increases	**–**	**106**	**106**
B.1 Purchases	–	–	–
B.2 Capitalised improvement expenditure	–	–	–
B.3 Fair value increases	–	–	–
B.4 Write-backs	–	–	–
B.5 Foreign exchange gains	–	–	–
B.6 Transfers from functional use	–	–	–
B.7 Other increases	–	106	106
C. Decreases	**21**	**1,826**	**1,847**
C.1 Sales	–	812	812
C.2 Depreciation	–	829	829
C.3 Fair value decreases	–	–	–
C.4 Impairment adjustments	–	–	–
C.5 Foreign exchange losses	–	–	–
C.6 Transfers to other asset portfolios	–	–	–
a) buildings for functional use	–	–	–
b) non-current assets held for sale	–	–	–
C.7 Other decreases	21	185	206
D. Closing balance	**4,639**	**16,559**	**21,198**
E. Measurement at fair value	**–**	**–**	**–**

12.7 Commitments to purchase property and equipment

Contractual commitments to purchase property and equipment (unexecuted orders) amount to 2.925 million euro at the balance sheet date (1.859 million euro at 31 December 2015).

Section 13 – Intangible assets
Line item 130

This item consists of the following intangible assets as per IAS 38, which are all measured at cost.

13.1 Intangible assets: analysis by asset type

Asset/amount	Finite life	Indefinite life	31.12.2016	Finite life	Indefinite life	31.12.2015
A.1 Goodwill	**x**	**–**	**–**	**x**	**–**	**–**
A.1.1 Pertaining to the Group	x	–	–	x	–	–
A.1.2 Pertaining to minority interests	x	–	–	x	–	–
A.2 Other intangible assets	**81,614**	**–**	**81,614**	**136,931**	**–**	**136,931**
A.2.1 Assets at cost:	81,614	–	81,614	136,931	–	136,931
a) Internally generated intangible assets	188	–	188	325	–	325
b) Other assets	81,426	–	81,426	136,606	–	136,606
A.2.2 Assets at fair value:	–	–	–	–	–	–
a) Internally generated intangible assets	–	–	–	–	–	–
b) Other assets	–	–	–	–	–	–
Total	**81,614**	**–**	**81,614**	**136,931**	**–**	**136,931**

Line item A.2.1 "Other assets" with finite life consists solely of software.

As part of the combination between Banco Popolare and BPM it is planned to integrate the information systems of the two banks;this envisages the migration of the data contained in the information system currently used by BPM to that of Banco Popolare in 2017.

Accounting standards require a critical analysis to be performed at the end of each year of the utilisation of an entity's software: if this shows that the software will no longer be used or that the period of time over which the software is able to provide the expected economic benefits has decreased, an entity must recognise an impairment loss or make changes to the asset's depreciation plan to account for a shorter useful life.

As a consequence, for measurement purposes a review had to be performed of the software being used by BPM that will be disposed of or be put to other uses following the above migration.

For the software identified as being subject to disposal, following the above-mentioned decision to use the system adopted by Banca Popolare as a target, a write-down of 75.6 million euro was recognised in profit and loss to take account of the resulting revision of its useful life. This write-down has been recognised in the income statement in line item "210. Net adjustments to/recoveries on intangible assets" as part of "write-downs".

A.2 Other intangible assets

As required by paragraph 118a) of IAS 38, it is noted that software is fully classified as an intangible asset with a finite useful life; amortisation is being charged over periods between 3 and 7 years.

13.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: internally generated		Other intangible assets:		Total
		Finite life	Indefinite life	Finite life	Indefinite life	
A. Opening balance, gross	**–**	**3,083**	**–**	**536,838**	**–**	**539,921**
A.1 Total net reductions in value	–	2,758	–	400,232	–	402,990
A.2 Opening balance, net	–	325	–	136,606	–	136,931
B. Increases	**–**	**–**	**–**	**57,262**	**–**	**57,262**
B.1 Purchases	–	–	–	57,262	–	57,262
B.2 Increase in internal intangible assets	x	–	–	–	–	–
B.3 Write-backs	x	–	–	–	–	–
B.4 Fair value increases recognised in	–	–	–	–	–	–
– shareholders' equity	x	–	–	–	–	–
– income	x	–	–	–	–	–
B.5 Foreign exchange gains	–	–	–	–	–	–
B.6 Other increases	–	–	–	–	–	–
C. Decreases	**–**	**137**	**–**	**112,442**	**–**	**112,579**
C.1 Sales	–	–	–	–	–	–
C.2 Adjustments	–	137	–	111,420	–	111,557
– amortisation	x	137	–	35,795	–	35,932
– write-downs	–	–	–	75,625	–	75,625
+ shareholders' equity	x	–	–	–	–	–
+ income	–	–	–	75,625	–	75,625
C.3 Fair value decreases recognised in	–	–	–	–	–	–
– shareholders' equity	x	–	–	–	–	–
– income	x	–	–	–	–	–
C.4 Transfers to non-current assets held for sale	–	–	–	–	–	–
C.5 Foreign exchange losses	–	–	–	–	–	–
C.6 Other decreases	–	–	–	1,022	–	1,022
D. Closing balance, net	**–**	**188**	**–**	**81,426**	**–**	**81,614**
D.1 Total net reductions in value	–	2,895	–	507,622	–	510,517
E. Closing balance, gross	**–**	**3,083**	**–**	**589,048**	**–**	**592,131**
F. Measurement at cost	**–**	**–**	**–**	**–**	**–**	**–**

13.3 Other information

The following disclosures are made as required by paragraphs 122 and 124 of IAS 38:

- there are no intangible assets that have been revalued; as a result, there are no restrictions on the distribution to shareholders of the revaluation surpluses that relate to intangible assets (paragraph 124b) of IAS 38);
- there are no intangible assets that have been acquired under a government grant (paragraph 122c) of IAS 38);
- there are no intangible assets that have been pledged as security for liabilities (paragraph 122d) of IAS 38);
- contractual commitments for the purchase of intangible assets (unexecuted orders) amount to 2.765 million euro at 31 December 2016 (1.555 million euro at 31 December 2015) (paragraph 122e) of IAS 38);
- there are no leased intangible assets.

Section 14 – Tax assets and liabilities
Asset line item 140 and liability line item 80

The following types of temporary difference gave rise to the recognition of deferred tax assets:

14.1 Deferred tax assets: analysis

The following types of temporary difference gave rise to the recognition of deferred tax assets:

Description	31.12.2016	31.12.2015
Deferred tax assets with counter-entry to the income statement:	**876,398**	**840,600**
a) DTA under Law no. 214/2011	**695,899**	**716,452**
• Write-downs of loans to customers	568,513	587,973
• Goodwill and other intangible assets	112,264	128,479
• Tax losses under Law no. 214/2011	15,122	–
b) Other	**180,499**	**124,148**
• Write-downs of amounts due from banks	921	487
• Tax losses	9,815	–
• Adjustments to financial assets held for trading and financial liabilities designated at fair value through profit and loss	–	–
• Adjustments to securities issued	11,188	8,721
• Adjustments to financial liabilities held for trading and financial liabilities designated at fair value through profit and loss	–	–
• Impairment adjustment to guarantees pledged recognised as other liabilities	11,190	13,437
• Allowances for risks and charges	103,570	66,507
• Costs mainly of an administrative nature	7,029	3,987
• Write-downs of hedging derivatives	–	3,301
• Difference between tax basis and book value of property and equipment and intangible assets	34,308	26,576
• Other items	2,478	1,132
Deferred tax assets with counter-entry to shareholders' equity:	**52,394**	**30,989**
– Valuation reserves:	**26,438**	**5,012**
• Losses on financial assets available for sale	26,438	5,012
– Other:	**25,956**	**25,977**
• Actuarial gains/losses on employee allowances and other items	23,478	22,259
• Cost of share capital increases	2,478	3,718
Total sub-item 140 b) Deferred tax assets	**928,792**	**871,589**

Tax credit arising from the conversion of deferred tax assets recognised in the financial statements (Law no. 214/2011)

Article 2 of Legislative Decree no. 225 of 29 December 2010 (the "mille proroghe", an annual decree extending the life of various government measures), converted with amendments to Law no. 10 of 26 February 2011 and subsequently amended by article 9 of Legislative Decree no. 201 of 6 December 2011 (the "Monti" decree), converted with amendments to Law no. 214/2011, provides for the introduction of rules for the conversion to tax credits of a portion of certain deferred tax assets recognised in the financial statements if a company's separate financial statements show a loss for the financial year.

Pursuant to the aforementioned rules, items which can be transformed into tax credits, within certain limits, are deferred tax assets relating to loan write-downs not yet deducted from taxable income under paragraph 3 of article 106 of the ITCA, as well as those relating to goodwill and other intangible assets that are deductible over more than one fiscal period for income tax purposes.

With respect to the quantification of the amount that can be converted, the law states that the amount of the deferred tax asset that can be converted is that which results from multiplying the loss for the financial year by the ratio of the relevant deferred tax asset to the sum of share capital and reserves. The law also provides for another possibility for conversion, concerning a deferred tax asset arising from tax losses, governed by paragraph 56-*bis* of the aforementioned article 2.

The tax credit resulting from the conversion of a deferred tax asset is non-interest bearing, it may be used for offsetting in accordance with article 17 of Legislative Decree no. 241/1997, it may be sold at nominal value in accordance with the procedure set out by article 43-*ter* of Presidential Decree no. 602/1973 and, lastly, a refund may be requested for any balance remaining after offsetting.

In the above table the deferred tax asset under Law no. 214/2011 is presented separately from other traditional deferred tax asset components in order to take account of their different nature.
More specifically, the amounts shown in the table represent the portion of deferred tax assets that is potentially capable of being converted to tax credits at the balance sheet date.

The rules relating to the conversion to a tax credit of a deferred tax asset introduce a means of recovery of the asset that are supplementary to the ordinary rules to be applied when there is a loss for the financial year or a tax loss.

This method provides certainty of recovery, whatever the circumstances, of a deferred tax asset under Law no. 214/2011, automatically meeting the requirements of probable recovery of the deferred tax asset as required by IAS 12.

Other deferred tax assets

The above table also provides details of other deferred tax asset components that differ from those under Law no. 214/2011. Deferred tax assets are recognised to the extent that recovery is probable on the basis of a Group company's ability to generate positive taxable income on an ongoing basis. The assessment of the likelihood of the recovery of other traditional deferred tax assets was performed on the basis of available information represented by the "2016-2019 business plan" of Banco BPM S.p.A..

The tax rates in force were used for the computation of deferred tax assets for IRES and IRAP purposes.

14.2 Deferred tax liabilities: analysis

The following types of temporary difference gave rise to the recognition of deferred tax liabilities:

Description	31.12.2016	31.12.2015
Deferred tax liabilities with counter-entry to the income statement:	**18,370**	**15,821**
• Revaluation of financial assets held for trading and financial assets designated at fair value through profit and loss	3,557	–
• Revaluations of hedging derivatives	8,867	7,717
• Portion of implicit fees in bonds measured at fair value recognised as other liabilities	–	–
• Portion of the provision for employee termination indemnities already recognised for tax purposes	5,946	6,063
• Adjustments to financial liabilities measured at fair value and securities issued	–	2,006
• Depreciation of property and equipment and amortisation of intangible assets already recognised for fiscal purposes	–	–
• Other items	–	35
Deferred tax liabilities with counter-entry to shareholders' equity:	**49,603**	**116,345**
– Valuation reserves	**49,603**	**116,345**
• Gains on financial assets available for sale	49,603	116,345
• Actuarial gains/losses on employee allowances	–	–
Total sub-item 80 b) Deferred tax liabilities	**67,973**	**132,166**

The tax rates in force were used for the computation of deferred tax liabilities for IRES and IRAP purposes.

14.3 Changes in deferred tax assets (with counter-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**840,600**	**868,413**
2. Increases	**115,385**	**53,464**
2.1 Deferred tax assets recognised in the year	115,251	53,464
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	115,251	53,464
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	134	–
3. Decreases	**79,587**	**81,277**
3.1 Deferred tax assets written off during the year	78,591	81,277
a) reversals	77,960	81,025
b) written down as unrecoverable	–	–
c) due to changes in accounting policies	–	45
d) other	631	207
3.2 Decreases in tax rates	–	–
3.3 Other decreases	996	–
a) Conversion to tax credits pursuant to Law no. 214/2011	–	–
b) Other decreases	996	–
4. Closing balance	**876,398**	**840,600**

The following table sets out changes in the year in deferred tax assets under Law no. 214/2011, providing details of the figures shown in table 14.3.

14.3.1 Changes in deferred tax assets pursuant to Law no. 214/2011 (with counter-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**716,452**	**710,044**
2. Increases	**15,465**	**27,514**
3. Decreases	**36,018**	**21,106**
3.1 Reversals	35,354	21,106
3.2 Conversion to tax credits	–	–
a) arising from the loss for the year	–	–
b) arising from tax losses	–	–
3.3 Other decreases	664	–
4, 4. Closing balance	**695,899**	**716,452**

14.4 Changes in deferred tax liabilities (with counter-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**15,821**	**27,263**
2. Increases	**11,994**	**2,637**
2.1 Deferred tax liabilities recognised in the year	11,994	2,637
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	11,994	2,637
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**9,445**	**14,079**
3.1 Deferred tax liabilities derecognised during the year	9,445	14,079
a) reversals	9,445	14,079
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Decreases in tax rates	–	–
3.3 Other decreases	–	–
4. Closing balance	**18,370**	**15,821**

14.5 Changes in deferred tax assets (with counter-entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**30,989**	**35,586**
2. Increases	**24,837**	**3,590**
2.1 Deferred tax assets recognised in the year	24,837	3,590
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	24,837	3,590
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**3,432**	**8,187**
3.1 Deferred tax assets written off during the year	3,432	8,145
a) reversals	3,432	8,145
b) written down as unrecoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Decreases in tax rates	–	–
3.3 Other decreases	–	42
4. Closing balance	**52,394**	**30,989**

14.6 Changes in deferred tax liabilities (with counter-entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**116,345**	**137,916**
2. Increases	**6,537**	**32,846**
2.1 Deferred tax liabilities recognised in the year	6,537	32,846
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	6,537	32,846
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**73,279**	**54,417**
3.1 Deferred tax liabilities derecognised during the year	73,279	54,417
a) reversals	73,279	54,417
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Decreases in tax rates	–	–
3.3 Other decreases	–	–
4. Closing balance	**49,603**	**116,345**

14.7 Other information

An update on pending tax disputes is provided in the following.

2005 – Former Bipiemme Immobili

Following a tax audit on 2005 at the former Bipiemme Immobili S.p.A., which the Bank absorbed in 2007, assessments were notified on 9 December 2010 claiming higher IRES of 230 thousand euro, IRAP of 29 thousand euro and VAT of 93 thousand euro, plus penalties. On 24 May 2012, the Milan Provincial Tax Commission upheld the appeal relating to VAT and rejected that regarding IRES and IRAP. The Bank appealed against this decision. Given that the tax authorities have not challenged the decision of the Provincial Tax Commission, the part relating to VAT has become final.
The Milan Regional Tax Commission, with judgement no. 2911/28/14 filed on 29/05/2014, upheld to a large extent the appeal relating to IRES and IRAP, confirming the first-level court ruling.
The tax authorities have appealed against this decision to the Supreme Court.

2008 – Registration tax

During 2010 three payment requests were received for registration tax on the purchase of branches disposed of by UniCredit S.p.A. in 2008. The notices of liquidation dispute the application of different rates for calculating registration tax.

These documents claim taxes for a total of 4,061 thousand euro. Appeals have duly been filed to obtain the cancellation of these claims.

By becoming final two of the disputes ended with a favourable outcome for the Bank. The third dispute (for 422 thousand euro) is still pending as the tax authorities have filed an appeal with the Supreme Court. The Bank has made an appearance.

2010 – Registration tax payable on the sale of the custodian bank business

On 25 June 2012 an assessment was received contesting the amount of registration tax payable on the sale of the custodian bank business to BNP Paribas on 29 June 2010. The latter, as a principal, was also notified of the same assessment. The assessment assumes a different value of the business sold and claims that additional registration tax is payable of 381 thousand euro plus interest.
BPM, together with the assignee BNP Paribas (principal), filed an appeal to challenge the tax claims. The appeal was upheld by the Milan Provincial Tax Commission with judgement no. 1255/47/2015, filed on 11 February 2015.
The tax authorities filed an appeal and BPM made an appearance. The Milan Regional Tax Commission issued sentence on 21 October 2016 dismissing the authorities' appeal.

2010 – BPM and former BDL: VAT on servicing commissions

On 3 December 2015 three assessments were notified relating to fiscal 2010, disputing the applicability of the VAT exemption regime for the servicing commissions regarding the "Covered Bond" transaction:

- The first assessment, received by BPM, claims additional taxes of 134 thousand euro and penalties of 167 thousand euro.
- The second assessment, received by former BDL, claims additional taxes of 7 thousand euro and penalties of 9 thousand euro.

Appeals were filed against both claimed assessments on 29 January 2016 affirming the Bank's defensive arguments.

During 2016 the tax authorities asked BPM to provide explanations about the fiscal treatment of the servicing commissions followed by the Bank (as servicer) as part of the Covered Bond programme with respect to services rendered in 2011. A similar requestfor explanations has also been made regarding 2013, in this case for all the servicing commissions.

Former Banca di Legnano – inspection by tax authorities

On 2 February 2015 the tax authorities commenced an inspection of fiscal 2012 for the merged entity Banca di Legnano. This inspectionwas extended to fiscal 2011, with subsequent notification of a report claiming 24 thousand euro for the alleged VAT due on the servicing commissions. The inspection was completed on 19 July 2016 with one single finding relating to VAT of 18 thousand euro on servicing commissions (relating to covered bonds) for 2012.

By way of Resolution 106/E of 17 November 2016 the tax authorities provided a ruling on these disputes and information requests regarding the treatment of VAT on the servicing commissions, stating that the transactions were VAT exempt. On the basis of this clarification the Bank has applied for the cancellation of the proceedings for discontinuance of the proposed issue.

Profamily S.p.A. – 2013

On 5 April 2016 the tax authorities commenced a general inspection of fiscal 2013 for IRES, IRAP and VAT purposes.

This inspection was completed on 10 June 2016 with an assessment report alleging the non-deductibility of costs (of 166 thousand euro for IRES purposes and 224 thousand euro for IRAP purposes). On receipt of the resulting formal assessment the company filed a tax settlement proposal.

Section 15 – Non-current assets and disposal groups held for sale and associated liabilities Line item 150 of assets and line item 90 of liabilities

The Group does not have any non-current assets and disposal groups held for sale and associated liabilities at the balance sheet date.

Section 16 – Other assets Line item 160

This line item consists of assets that are not classified elsewhere in the balance sheet. In particular, accrued income includes items not capitalised as part of the related financial assets and leasehold improvements are those not attributable to property and equipment. Receivables from the provision of non-financial goods and services are also included.

16.1 Other assets: analysis

	31.12.2016	31.12.2015
Accrued income	**4,040**	**4,653**
Leasehold improvements	**29,071**	**27,922**
Other assets	**526,322**	**740,968**
Items being processed	156,568	364,618
Miscellaneous items and duty stamps	3,629	1,544
Cheques drawn on third party current account	30,251	43,562
Advances paid to the tax authorities on behalf of others	48,611	88,381
Other tax-related items	107,680	108,470
Non-interest bearing guarantee deposits on own account	3,266	3,256
Prepayments	31,303	32,877
Consolidation difference	–	2,199
Other	145,014	96,062
Total	**559,433**	**773,543**

"Leasehold improvements" include the expenses incurred on assets not relating to property and equipment; in this case the depreciation charge is recognised in the income statement under other income and expenses.

"Items being processed" mainly consist of cash receipts, ATM withdrawals, bills and payments in process and yet to be charged.

"Other tax-related items" include tax credits for which a refund has been requested, receivables arising from acting as a tax withholding agent and other tax-related items not recognised in the balance sheet as tax assets.

Liabilities and shareholders' equity

Section 1 – Due to banks
Line item 10

This line item consists of amounts due to banks in all their technical forms (deposits, current accounts, loans). These include operating payables connected with the provision of financial services.

1.1 Due to banks: analysis by product

Type of transaction/amount	31.12.2016	31.12.2015
1. Due to central banks	**6,309,488**	**3,619,305**
2. Due to banks	**1,076,179**	**1,220,134**
2.1 Current accounts and unrestricted deposits	204,318	343,052
2.2 Restricted deposits	322,261	473,126
2.3 Loans	515,358	396,574
2.3.1 Repurchase agreements	303,540	206,228
2.3.2 Other	211,818	190,346
2.4 Payments for commitments to repurchase own equity instruments	–	–
2.5 Other payables	34,242	7,382
Total	**7,385,667**	**4,839,439**
Fair value - level 1	**–**	**–**
Fair value - level 2	**–**	**–**
Fair value - level 3	**7,385,667**	**4,848,133**
Total fair value	**7,385,667**	**4,848,133**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine the fair value.The balance on the item "Due to central banks" at the balance sheet date consists primarily of financing transactions with the Bank of Italy within the Eurosystem secured by pledged securities: in particular, the total includes 6,300 million euro relating to the participation of the Group in the TLTRO II *(Targeted Long Term Refinancing Operations)* auctions.Item 2.3.1 "Repurchase agreements" includes financial liabilities deriving from repurchase agreements and security loan arrangements with banks based on own securities and on securities received as part of reverse repurchase agreements and security loan arrangements.

1.2 Details of line item 10 "Due to banks": subordinated loans

There are no subordinated loans due to banks at the balance sheet date, as at the end of the previous year.

1.3 Details of line item 10 "Due to banks": structured debts

There are no structured debts due to banks at the balance sheet date, as at the end of the previous year.

1.4 Due to banks with specific hedges

There are no amounts due to banks with specific hedges at the balance sheet date, as at the end of the previous year.

1.5 Payables for finance leases

There are no amounts due to banks for finance leases at the balance sheet date, as at the end of the previous year.

Section 2 – Due to customers
Line item 20

This line item reports amounts due to customers in all their technical forms (deposits, current accounts, loans), derivative transaction margin changes at clearing houses and operating payables arising from the provision of financial services.

2.1 Due to customers: analysis by product

Type of transaction/amount	31.12.2016	31.12.2015
1. Current accounts and unrestricted deposits	24,523,761	21,989,188
2. Restricted deposits	2,388,254	2,344,215
3. Loans	3,658,160	4,249,793
3.1 Repurchase agreements	3,607,280	4,161,292
3.2 Other	50,880	88,501
4. Payments for commitments to repurchase own equity instruments	–	–
5. Other payables	118,264	39,656
Total	**30,688,439**	**28,622,852**
Fair value - level 1	**–**	**–**
Fair value - level 2	**–**	**–**
Fair value - level 3	**30,688,439**	**28,622,852**
Total fair value	**30,688,439**	**28,622,852**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine fair value.

Sub-item 3.1 "Repurchase agreements" includes financial liabilities deriving from repurchase agreements with customers based on own securities and on securities received as part of reverse repurchase agreements.

Line item 5. "Other payables" also comprises operating payables related to financial services received.

2.2 Details of line item 20 "due to customers": subordinated loans

There are no subordinated loans due to customers at the balance sheet date, as at the end of the previous year.

2.3 Details of line item 20 "due to customers": structured debts

There are no structured debts due to customers at the balance sheet date, as at the end of the previous year.

2.4 Due to customers with specific hedges

There are no amounts due to customers with specific hedges at the balance sheet date, as at the end of the previous year.

2.5 Payables for finance leases

There are no amounts due to customers for finance leases at the balance sheet date, as at the end of the previous year.

Section 3 – Securities issued
Line item 30

This line item includes securities issued (including certificates of deposit and banker's drafts), measured at amortised cost. The amount reported is stated net of repurchased securities and also includes securities which have matured at the balance sheet date but have not yet been repaid.

The book value of these securities comprises their principal, accrued interest at the balance sheet date and, in the case of hedged securities, the effective portion of the associated hedge.

3.1 Securities issued: analysis by product

	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	5,581,112	3,784,161	1,832,755	–	8,711,178	4,958,705	3,835,456	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 other	5,581,112	3,784,161	1,832,755	–	8,711,178	4,958,705	3,835,456	–
2. Other securities	106,646	–	–	106,646	138,112	–	–	138,112
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	106,646	–	–	106,646	138,112	–	–	138,112
Total	**5,687,758**	**3,784,161**	**1,832,755**	**106,646**	**8,849,290**	**4,958,705**	**3,835,456**	**138,112**

The fair value column shows the theoretical market value of financial instruments at the date of preparation of the financial statements. Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and for the classification of financial instruments in the three levels of the fair value hierarchy.

Regarding line item 1.2 "Other bonds", the following table shows the composition of the bonds outstanding at 31 December 2016 of the EMTN and Covered Bonds issue programmes. Concerning the latter reference should be made to Part E, point E.4 on covered bond transactions.

	31.12.2016					31.12.2015				
	Amount issued	Nominal value net of repurchases	Book value	Fair Value		Amount issued	Nominal value net of repurchases	Book value	Fair Value	
				Level 1	Level 2				Level 1	Level 2
Euro Medium Term Notes Issues										
• Fixed rate	975,000	947,457	1,046,390	1,049,802	–	1,975,000	1,945,579	2,094,746	2,106,340	–
Of which subordinated	*475,000*	*448,357*	*529,265*	*508,270*	–	*475,000*	*446,091*	*540,130*	*513,547*	–
• Floating rate	–	–	–	–	–	–	–	–	–	–
Of which subordinated	–	–	–	–	–	–	–	–	–	–
Total EMTN bonds:	**975,000**	**947,457**	**1,046,390**	**1,049,802**	**–**	**1,975,000**	**1,945,579**	**2,094,746**	**2,106,340**	**–**
Of which subordinated	475,000	448,357	529,265	508,270	–	475,000	446,091	540,130	513,547	–
Covered Bond Issues										
1. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 9.10.2009/17.10.2016 3.5%	–	–	–	–	–	1,000,000	877,065	902,472	925,741	–
2. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 18.7.2011/18.1.2014 FR% maturity extended 18.1.19(**)	500,000	–	–	–	–	500,000	130,000	119,686	–	119,686
3. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 28.11.2013/28.5.2016 FR% (***)	375,000	–	–	–	–	650,000	170,000	156,868	–	156,868
4. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 16.3.2015/20 FR% callable from 16.9.16(*)	750,000	2,634	1,754	–	1,754	750,000	194,634	177,107	–	177,107
5. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 14.09.2015/.22 0.875%	1,000,000	1,000,000	1,017,557	1,018,929	–	1,000,000	995,000	996,908	984,085	–
6. Covered bonds of Banca Popolare di Milano S.c.a.r.l.19.11. 2015/22 FR%(*)	900,000	–	–	–	–	900,000	250,000	222,537	–	222,537
7. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 2.12.15/25 1.5% extendable to 2026	750,000	750,000	756,872	763,314	–	750,000	750,000	734,951	725,280	–
8. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 8.6.16/23 0.625%	750,000	750,000	749,107	744,778	–	–	–	–	–	–
Total covered bonds	**5,025,000**	**2,502,634**	**2,525,290**	**2,527,021**	**1,754**	**5,550,000**	**3,366,699**	**3,310,529**	**2,635,106**	**676,198**

(*) The issue was fully repurchased by the Parent Company and the relative securities were used for refinancing operations with the European Central Bank. The amounts stated in the outstanding, book value and fair value columns relate to repo transactions with primary banking and financial counterparties having these securities as the underlying.

(**) A nominal value of 500 million euro was redeemed in 2015

(***) A nominal value of 275 million euro was redeemed in 2016.

EMTN bonds

The EMTN bonds form part of a programme approved on 2 December 2003 for 2 billion euro, gradually increased over time to reach the amount of 10 billion euro with a resolution of the Board of Directors of 22 April 2008. At the balance sheet date there was one bond loan outstanding for a nominal amount of 0.975 billion euro (1.975 billion euro at 31 December 2015).

The nominal value of the EMTN securities is shown net of the repurchased component for an amount of 27.543 million euro (29.421 million euro at 31 December 2015).

The Banca Popolare di Milano 2013/2016 4% 22.1.16 bond, was repaid during 2016 for an original nominal value on issue of 1 billion euro.

Covered bonds

The "BPM 9.10.2009/17.10.2016 3.5%" bond was fully redeemed in 2016.

Composition of line item "2.2 Other securities – other"

This line item consists of certificates of deposit subscribed by customers and outstanding own cheques. More specifically:

Type of security/amount	31.12.2016				31.12.2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Certificates of deposit subscribed by customers	14,297	–	–	14,297	63,352	–	–	63,352
Own cheques	92,349	–	–	92,349	74,760	–	–	74,760
Total	**106,646**	**–**	**–**	**106,646**	**138,112**	**–**	**–**	**138,112**

Since most of these instruments are short-term or on demand, their book value is a reasonable approximation of their fair value. These financial instruments have been conventionally classified in Level 3.

3.2 Analysis of line item 30 "Securities issued": subordinated securities

Unlisted bonds (type B.1.2) comprise the following subordinated securities. The classification is that required by the prudential regulations in force at the date of their issue:

Type of issue	31.12.2016	31.12.2015	Original nominal value issued	Issue price	Interest rate	Date of issue/ maturity	Note
Innovative equity instruments (Tier 1):	**205,677**	**207,023**					
Perpetual subordinated fixed/floating rate notes – 9%	205,677	207,023	300,000	98.955	Floating	25.6.2008 Perpetual	1
Hybrid capital instruments (Upper Tier 2):	**500**	**500**					
Banca Popolare di Milano subordinated bond (Upper Tier 2) floating rate – 18 June 2008/2018	500	500	17,850	100	Floating	18.6.2008/18	2
Subordinated liabilities (Lower Tier 2):	**1,241,275**	**1,255,519**					
Banca Popolare di Milano subordinated bond (Lower Tier 2) fixed rate 4.5% – 18 April 2008/2018	257,834	260,646	252,750	100	4.50%	18.4.2008/18	3
Banca Popolare di Milano subordinated bond (Lower Tier 2) floating rate – 20 October 2008/2018	454,176	454,743	502,050	100	Floating	20.10.2008/18	4
Banca Popolare di Milano subordinated bond (Lower Tier 2) rate 7.125% – 1 March 2011/2021 (issued as part of the EMTN programme)	529,265	540,130	475,000	99.603	7.125%	01.03.2011/21	5
Total	**1,447,452**	**1,463,042**					

1 Perpetual subordinated fixed/floating rate notes – 9%	
Issue price:	The bonds were issued below par, at a price of 98.955% of the nominal value.
Interest rate:	Fixed rate of 9% until 25 June 2018; floating rate (3-month Euribor + spread of 6.18%) from 25 June 2018.
Listing:	Luxembourg Stock Exchange(*).
Early redemption clause:	These securities may be redeemed early on the issuer's initiative from 25 June 2018, subject to authorisation from theBank of Italy.
Early redemption:	The notes have been issued with the clauses required at the time by the Bank of Italy for inclusion in Tier1 capital; this means that ifthe Bank goes into liquidation the holders of these securities have preference over ordinary shareholders but are subordinated to all other creditors.
Other information:	There is also provision for:
	■ optional suspension of interest payments if the Bank does not have distributable earnings and/or has not paid dividends for the last year ended prior to the payment date of the interest;
	■ mandatory suspension of interest payments in the case of a "capital deficiency event", (which occurs when the total capital ratio falls below the minimum level required by the supervisory authority);
	■ a "loss absorption" clause, whereby redemptionof the notes is suspended if a capital deficiency event occurs.
	Undistributed interest may not be accumulated.
	The Public Tender Offer (acceptance period 7 December – 16 December 2009) closed on 16 December 2009 and obtained 34.92% acceptance equivalent to a nominal value of 104,750,000 euro. The repurchase price (ex-coupon) was 98%. At the date of the preparation of the financial statements the nominal value of the securities issued had fallen to Euro 195,250,000.

2 Banca Popolare di Milano subordinated bond (Upper Tier 2) – floating rate – 18 June 2008/2018	
Issue price:	The subordinated bonds were issued at par, at a price of 100% of their nominal value.
Interest rate:	Floating rate (EONIA rate + a spread of 0.75%).
Listing:	Not listed.
Early redemption:	Early redemption of the subordinated bonds is not envisaged.
Subordination clause:	The subordinated bonds consist of "hybrid capital instruments" as per the supervisory regulationsin force at the issue date. The Bond is issued with an Upper Tier II subordination clause, which means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared to the subordinated bonds.
Repurchases:	The Group has repurchased a total nominal amount of 17,350 thousand euro.

3 Banca Popolare di Milano subordinated bond (Lower Tier 2) – fixed rate 4.50% – 18 April 2008/2018	
Issue price:	The subordinated bonds were issued at par, at a price of 100% of their nominal value.
Interest rate:	Gross annual fixed interest rate of 4.50%.
Listing:	Not listed.
Early redemption:	Early redemption of the subordinated bonds is not envisaged.
Subordination clause:	The subordinated bonds consist of BPM "Tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared to the subordinated bonds.
Repurchases:	The Group has repurchased a total nominal amount of 5,762 thousand euro.
4 Banca Popolare di Milano subordinated bond (Lower Tier 2) – floating rate – 20 October 2008/2018	
Issue price:	The subordinated bonds were issued at par, at a price of 100% of their nominal value.
Interest rate:	Floating rate (3-monthEuribor 365 + a spread of 0.60% until 20 October 2013, 3-month Euribor + a spread of 1.50% after that date).

Listing:	Not listed.
Early redemption:	Subject to authorisation from the Bank of Italy, from 20 October 2013, when the securities wentex-coupon, the Issuer can proceed with early redemption of all the subordinated bonds at 100% of nominal value.
Subordination clause:	The subordinated bonds consist of BPM "Tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared with the subordinated bonds.
Repurchases:	The Group has repurchased a total nominal amount of 48,750 thousand euro.

5 Banca Popolare di Milano subordinated bond (Lower Tier 2) – fixed rate 7.125% – 1 March 2011/2021	
Issue price:	The subordinated bonds were issued at 99.603% of their nominal value.
Interest rate:	Gross annual fixed interest rate of 7.125%.
Listing:	Luxembourg Stock Exchange(*).
Early redemption:	Early redemption of the subordinated bonds is not envisaged.
Subordination clause:	The subordinated bonds consist of BPM "Tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared with the subordinated bonds.
Repurchases:	The Group has repurchased a total nominal amount of 26,643 thousand euro.

(*) Subordinated securities listed on the Luxembourg Stock Exchange have been classified as unlisted for IAS/IFRS purposes since their trading volumes are not such as to satisfy the definition of an active market, as discussed in section A.4 of the Accounting Policies on "Fair value disclosures".

3.3 Analysis of line item 30 "Securities issued": securities with specific hedges

	31.12.2016	31.12.2015
1. Securities with specific fair value hedges:	**1,774,429**	**2,634,331**
a) interest rate risk	1,774,429	2,634,331
b) foreign exchange risk	–	–
c) several risks	–	–
2. Securities with specific cash flow hedges:	**–**	**–**
a) interest rate risk	–	–
b) foreign exchange risk	–	–
c) several risks	–	–

The above table sets out the bonds classified as securities issued that at year end were hedged by specific fair value hedges for interest rate risk.

The securities with specific fair value hedges are as follows:

Loans with specific hedges:	**31.12.2016**	**31.12.2015**
Banca Popolare di Milano S.c.a.r.l. covered bonds ("OBG")	1,774,429	2,634,331
Total	**1,774,429**	**2,634,331**

As stated in Section 5.1 of the income statement the net result from hedging activities and the relative securities issued that are hedged generated a loss of 2.6 million euro in 2016 (a loss of 3.6 million euro in 2015), recognised under line 90 "fair value adjustments in hedge accounting".

Section 4 – Financial liabilities held for trading
Line item 40

This line item consists of debt securities and equities which make up "short positions" for trading purposes and derivative financial instruments other than those formally designated as hedging instruments.

4.1 Financial liabilities held for trading: analysis by product

Type of transaction/ amount	31.12.2016						31.12.2015					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
A. Cash liabilities												
1. Due to banks	27,419	54,378	–	–	54,378	–	6,945	15,530	–	–	15,530	–
2. Due to customers	24,041	27,182	–	–	27,182	–	21,952	23,564	–	1	23,565	–
3. Debt securities	1,687	–	–	1,647	1,647	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	x	–	–	–	–	–	x
3.1.2 Other bonds	–	–	–	–	–	x	–	–	–	–	–	x
3.2 Other securities	1,687	–	–	1,647	1,647	–	–	–	–	–	–	–
3.2.1 Structured	1,687	–	–	1,647	1,647	x	–	–	–	–	–	x
3.2.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
Total A	**53,147**	**81,560**	**–**	**1,647**	**83,207**	**–**	**28,897**	**39,094**	**–**	**1**	**39,095**	**–**
B. Derivatives												
1. Financial derivatives	x	41,111	1,089,310	2,086	1,132,507	x	x	81,848	1,049,494	13,120	1,144,462	x
1.1 Trading	x	41,111	1,089,294	2,086	1,132,491	x	x	81,848	1,048,143	12,890	1,142,881	x
1.2 Linked to the fair value option	x	–	16	–	16	x	x	–	1,351	230	1,581	x
1.3 Other	x	–	–	–	–	x	x	–	–	–	–	x
2. Credit derivatives	x	–	50	–	50	x	x	–	–	–	–	x
2.1 Trading	x	–	50	–	50	x	x	–	–	–	–	x
2.2 Linked to the fair value option	x	–	–	–	–	x	x	–	–	–	–	x
2.3 Other	x	–	–	–	–	x	x	–	–	–	–	x
Total B	**x**	**41,111**	**1,089,360**	**2,086**	**1,132,557**	**x**	**x**	**81,848**	**1,049,494**	**13,120**	**1,144,462**	**x**
Total A+B	**x**	**122,671**	**1,089,360**	**3,733**	**1,215,764**	**x**	**x**	**120,942**	**1,049,494**	**13,121**	**1,183,557**	**x**

Key:
NV = Nominal or notional value
FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
L1 = Level 1
L2 = Level 2
L3 = Level 3

Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and the classification of financial instruments in the three levels of the fair value hierarchy.

Line item "A. Cash liabilities" includes short positions of the subsidiary Banca Akros amounting to 81.560 million euro, of which 47.136 million euro relating to debt securities and 34.424 million euro relating to equity securities.

Line item "B.1.2 – Derivatives linked to the fair value option" contains the fair value of derivatives related to the instruments for which the fair value option has been adopted. These derivatives mainly hedge the risks involved mainly in the issue of bonds for which the Group has elected for the fair value option in accordance with paragraph 9 of IAS 39. Such risks arise from possible fluctuations in interest rates and embedded options in the structured securities issued.

Sub-item "3. Other debt securities - structured" consists entirely of equity protection certificates issued by Banca Akros.

4.2 Details of line item 40 "Financial liabilities held for trading": subordinated liabilities

There are no subordinated liabilities recognisable as liabilities held for trading at the balance sheet date (31 December 2015: 520 thousand euro)

4.3 Details of line item 40 "Financial liabilities held for trading": structured debts

There are no structured debts recognisable as liabilities held for trading at the balance sheet date, as at the end of the previous year.

Section 5 – Financial liabilities designated at fair value through profit and loss Line item 50

This line item consists of issued debt securities designated at fair value through profit and loss under the option permitted by IAS 39 (the "fair value option").

5.1 Financial liabilities designated at fair value through profit and loss: analysis by product

Type of transaction/ amount	31.12.2016						31.12.2015					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
1. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Structured	–	–	–	–	–	x	–	–	–	–	–	x
1.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
2. Due to customers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Structured	–	–	–	–	–	x	–	–	–	–	–	x
2.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
3. Debt securities	**94,625**	**–**	**94,899**	**–**	**94,899**	**94,918**	**128,804**	**–**	**129,627**	**–**	**129,627**	**129,873**
3.1 Structured	94,625	–	94,899	–	94,899	x	128,804	–	129,627	–	129,627	x
3.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
Total	**94,625**	**–**	**94,899**	**–**	**94,899**	**94,918**	**128,804**	**–**	**129,627**	**–**	**129,627**	**129,873**

Key:
NV = Nominal or notional value
FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
L1 = Level 1
L2 = Level 2
L3 = Level 3

Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and the classification of financial instruments in the three levels of the fair value hierarchy.

Financial liabilities designated at fair value through profit and loss include financial liabilities represented by structured fixed-rate bonds which are classified at fair value and are hedged by derivatives. This hedging concerns both the risk of changes in interest rates and the risk arising from the presence of embedded options. The fair value option is used to eliminate or significantly reduce accounting mismatches, as an alternative to hedge accounting. If this were not the case the derivatives would still be carried at fair value while the bonds would be recognised at amortised cost.
As regards the use of the credit spread on own issues directed at retail customers, these issues are expected – from both a contractual and a commercial point of view – to be redeemed at their natural maturity date; it follows that when measuring these instruments at fair value, own creditworthiness is assessed in line with this hypothesis, also taking into account the recommendations contained in IFRS 13.

Derivatives used as part of the "fair value option" are classified in the trading book.

In the income statement, interest income and expense include positive or negative differentials or margins settled or accrued to the balance sheet date on the related derivatives, whereas valuation gains and losses are recognised under line item "110. Profits (losses) on financial assets and liabilities designated at fair value", with a presentation consistent with that adopted for the funding instruments for which the fair value option was adopted.

Purposes for using the fair value option and the financial liabilities concerned

Type of transaction/ amount	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed internally on the basis of fair value	31.12.2016	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed internally on the basis of fair value	31.12.2015
1. Due to banks	–	–	–	–	–	–	–	–
1.1 Structured	–	–	–	–	–	–	–	–
1.2 Other	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–		–	–	–	
2.1 Structured	–	–	–	–	–	–	–	–
2.2 Other	–	–	–	–	–	–	–	–
3. Debt securities	–	94,899	–	94,899	–	129,627	–	129,627
3.1 Structured	–	94,899	–	94,899	–	129,627	–	129,627
3.2 Other	–	–	–	–	–	–	–	–
Total	**–**	**94,899**	**–**	**94,899**	**–**	**129,627**	**–**	**129,627**

The table provides details of table 5.1 above and shows the book value (fair value) of the liabilities for which the fair value option was adopted, distinguishing the method of use.

5.2 Details of line item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

There are no subordinated liabilities measured at fair value at the balance sheet date, as at the end of the previous year.

Section 6 – Hedging derivatives
Line item 60

This line item consists of financial derivatives used for hedging purposes which have a negative fair value at the balance sheet date.

6.1 Hedging derivatives: analysis by type of hedge and level

	31.12.2016					31.12.2015				
	Fair Value				NV	Fair Value				NV
	L1	L2	L3	Total		L1	L2	L3	Total	
A. Financial derivatives	**–**	**32,894**	**–**	**32,894**	**1,588,010**	**–**	**48,678**	**–**	**48,678**	**1,916,539**
1) Fair value hedges	–	27,816	–	27,816	1,488,010	–	41,013	–	41,013	1,558,884
2) Cash flow hedges	–	5,078	–	5,078	100,000	–	7,665	–	7,665	357,655
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value hedges	–	–	–	–	–	–	–	–	–	–
2) Cash flow hedges	–	–	–	–	–	–	–	–	–	–
Total	**–**	**32,894**	**–**	**32,894**	**1,588,010**	**–**	**48,678**	**–**	**48,678**	**1,916,539**

Key
NV = Notional value L1 = Level 1 L2 = Level 2 L3 = Level 3

Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and the classification of financial instruments in the three levels of the fair value hierarchy.

The table shows the negative book value (fair value) of derivative hedging contracts for hedging carried out through fair value hedges (hedge accounting). This instrument is used to account for the hedging of financial instruments recognised in balance sheet items that do not envisage measurement at fair value through profit and loss.
The hedging of financial liabilities represented by securities is normally dealt with by using the fair value option. The fair value option is adopted for structured debt and fixed-rate securities issued by Group banks, where the risk of changes in fair value is hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading book.
Reference should be made to the information provided in Part E – Information on risks and related hedging policies – Section 1.2 – Market Risk for the objectives and strategies underlying hedges.

6.2 Hedging derivatives: analysed by hedged portfolio and type of hedge

Transaction/type of hedge	Fair Value						Cash flows		Foreign investments
	Specific					Macro	Specific	Macro	
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Several risks				
1. Financial assets available for sale	19,520	–	–	–	–	x	5,078	x	x
2. Loans and receivables	–	–	–	x	–	x	–	x	x
3. Investments held to maturity	x	–	–	x	–	x	–	x	x
4. Portfolio	x	x	x	x	x	8,296	x	–	x
5. Other transactions	–	–	–	–	–	x	–	x	–
Total assets	**19,520**	**–**	**–**	**–**	**–**	**8,296**	**5,078**	**–**	**–**
1. Financial liabilities	–	–	–	x	–	x	–	x	x
2. Portfolio	x	x	x	x	x	–	x	–	x
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Forecast transactions	x	x	x	x	x	x	–	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	–	x	–	–

This table shows the negative fair values of hedging derivatives analysed by asset and liability hedged and the type of hedge. The item "Cash flows – Specific hedge – 1. Financial assets available for sale" includes the negative fair values of forward hedging derivatives on purchases of government securities.

In particular, as regards assets, specific and macro fair value hedging is used to hedge against the risk of changes in interest rates on mortgage loans and bonds classified as available for sale in order to protect them from possible adverse changes in interest rates or prices.

Specific fair value hedges

The amount indicated at item 1."Financial assets available for sale" relates to the negative fair value of financial derivatives - hedging interest rate risk for a total notional amount of 1,320 million euro (630 million euro at 31 December 2015), taken out to hedge a debt security issued by a bank having a nominal value of 0 million euro (50 million euro at 31 December 2015) and fixed rate government securities of 1,320million euro (580 million euro at 31 December 2015).

Macro fair value hedges

The amount indicated at item 4. "Portfolio" relates to the negative fair value of financial derivatives for a notional amount of 168.010 million euro (97.927 million euroat 31 December 2015), taken out to hedge the interest rate risk arising from a portfolio of mortgage loans.

Specific cash flow hedges

The amount indicated at item 1. "Financial assets available for sale" relates to the negative fair value of financial derivatives for a total notional amount of 100 million euro (100 million euro at 31 December 2015), taken out to hedge the cash flows of a debt security issued by a bank having a nominal value of 100 million euro (100 million euro at 31 December 2015).

In 2016, the prospective and retrospective tests carried out in accordance with the requirements of IAS 39 confirmed the effectiveness of the hedges.

For further information on the financial assets and liabilities hedged, reference should be made to the detailed tables presented in this part (Part B) of the explanatory notes, in the sections relating to balance sheet items in which the items being hedged are recognised.

Section 7 – Fair value change of financial liabilities in hedged portfolios Line item 70

This item consists of the negative balance of fair value changes in the liabilities for which macrohedges have been used against interest rate risk.

7.1 Fair value change of hedged financial liabilities

Fair value change of hedged financial liabilities/ amount	31.12.2016	31.12.2015
1. Positive adjustment to financial liabilities	19,941	18,086
2. Negative adjustment to financial liabilities	–	–
Total	**19,941**	**18,086**

This line item relates to the fair value adjustment made to "core deposits":

- for 6,470 thousand euro relating to liabilities for which a macro fair value hedge was set up in 2010 using derivatives. During 2011, the hedges were closed and the amounts reported at 31 December 2016 and 2015 represent the residual value of the effective portion of the hedge at the date of revocation which is being released to income on a temporal pro-rata basis up to the original maturity date of the hedging transactions (the latest envisaged maturity is March 2020);
- for 13,471 thousand euro relating to new macrohedges taken out at the end of September 2015 for a nominal value of 410 million euro.

Section 8 – Tax liabilities Line item 80

The information relating to this section is provided in Section 14 of balance sheet assets "Part B – Information on the balance sheet" of these notes.

Section 9 – Liabilities associated with assets and disposal groups held for sale Line item 90

There are no assets and disposal groups held for sale and associated liabilities at the balance sheet date, as at the end of the previous year.

Section 10 – Other liabilities
Line item 100

This line item consists of liabilities that cannot be classified elsewhere in the balance sheet.

10.1 Other liabilities: analysis

	31.12.2016	31.12.2015
Liabilities for the deterioration in	**44,322**	**52,533**
Guarantees given	44,322	52,533
Share-based payments	**–**	**–**
Accrued liabilities	**216**	**365**
Other liabilities	**954,614**	**1,244,831**
Guarantee deposits received from third parties	19,404	15,190
Amounts payable to tax authorities on behalf of third parties	76,248	315,419
Amounts payable to tax authorities on own behalf	7,927	8,539
Adjustments for illiquid items concerning the portfolio	–	170,671
Amounts available for recognition to customers	106,979	131,246
Items being processed	528,210	365,359
Due to suppliers	107,025	130,785
Due to social security authorities	16,620	37,608
Personnel expenses	43,539	40,303
Deferred income	1,832	1,806
Consolidation difference	2,673	–
Other	44,157	27,905
Total	**999,152**	**1,297,729**

Section 11 – Employee termination liabilities
Line item 110

11.1 Employee termination indemnities: changes during the year

	31.12.2016	31.12.2015
A. Opening balance	**125,451**	**137,730**
B. Increases	**9,208**	**2,263**
Provision for the year	3,186	2,263
B.2 Other increases	6,022	–
C. Decreases	**2,261**	**14,542**
Indemnities paid	2,245	8,164
C.2 Other decreases	16	6,378
D. Closing balance	**132,398**	**125,451**

Line item B.2 "Other increases" and line item C.2 "Other decreases" include actuarial gains/losses recognised as a result of an expert appraisal carried out by an independent actuary with counter-entry to the equity reserve "actuarial gains (losses) on defined benefit pension plans".

11.2 Other information

As discussed in Part A "Accounting Policies", following the reform of supplementary pensions (Legislative Decree no. 252 of 5 December 2005, introduced by the 2007 Budget Law), termination indemnities only refer to the portion accrued up to 31 December 2006, while amounts accruing from 1 January 2007 have to be either transferred to supplementary pension funds, depending on the explicit or tacit choice of the employee, or maintained in the company and then subsequently transferred to a treasury fund set up by INPS.

The charge for the year therefore does not include the amounts that are paid to supplementary pension schemes or to the treasury fund at INPS as a result of this reform of the pension system. In this case, the amounts of employee termination indemnities accruing from 1 January 2007 are considered to be a "defined contribution plan" and are accounted for under "personnel expenses – termination indemnities" on the basis of the contributions due without applying actuarial methods, with a counter-entry to "Other liabilities" in the balance sheet or an outflow of cash.

The termination indemnities that accrued up to 1 January 2007 (or to the date when the decision was made to assign them to a supplementary pension fund) continue to be shown as a "post-employment benefit" classified as a "defined benefit plan", and consequently the liability for "accrued termination indemnities" is submitted to an actuarial assessment, which compared with the methods applied up until 31 December 2006 no longer takes account of the average annual increase in wages and salaries as the employee benefits are to be considered almost entirely accrued (with the sole exception of the revaluation). The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the obligation at period end, is recognised directly in the valuation reserve "actuarial gains (losses) on defined benefit pension plans".

For Group companies with fewer than 50 employees at the date the reform came into effect the previous legislation remains in force, which considers employees' termination indemnities as a defined benefit plan, and accordingly the liability continues to be measured using the projected unit credit method discussed in Part A "Accounting Policies"

Banca Popolare di Mantova falls into this category for the Bipiemme Group.

The actuarial valuation of termination indemnities performed by an independent actuary is carried out under the "accrued benefit" method by using the projected unit credit criterion as required by IAS 19, and is based on the following main demographic, financial and economic assumptions:

- **Demographic assumptions**: IPS55 tables were used to estimate mortality rates and INPS-2000 tables were used to forecast disability; staff turnover was estimated at 3.5%, in line with the previous year.
- **Financial assumptions**: the valuation was based on a discount rate of 1.31%, corresponding to long-term market returns (2.03% at 31 December 2015).
- **Economic assumptions**: annual inflation was estimated at 1.5% , in line with the previous year.

The following table provides details of the sensitivity to changes in the discount rate of the liability for employee termination indemnities as required by paragraph 145 of IAS 19, (in millions of euro):

Sensitivity analysis:	**31.12.2016**	**31.12.2015**
Termination indemnity with discount rate of –0.5%	*5.9*	*5.8*
Termination indemnity with discount rate of +0.5%	*(5.5)*	*(5.5)*

Section 12 – Allowances for risks and charges
Line item 120

12.1 Allowances for risks and charges: analysis

Item/amount	31.12.2016	31.12.2015
1. Company post-employment benefit obligations	**86,555**	**91,913**
2. Other allowances for risks and charges	**353,702**	**217,191**
2.1 Legal disputes	39,705	43,550
2.2 Personnel expenses	261,016	137,490
2.3 Other	52,981	36,151
Total	**440,257**	**309,104**

Allowances for risks and charges: analysis

Item/amount	31.12.2016	31.12.2015
1. Company post-employment benefit obligations:	**86,555**	**91,913**
– Pension funds:	**12,515**	**12,924**
– former Banca Popolare di Bologna e Ferrara	12,494	12,902
– former Banca Agricola Milanese	21	22
– Supplementary pension funds	**72,421**	**77,618**
– Banca Popolare di Milano	51,764	56,165
– former C.R. Alessandria	20,657	21,453
– Other pension funds	**1,619**	**1,371**
2. Other allowances for risks and charges:	**353,702**	**217,191**
2.1 Legal disputes:	**39,705**	**43,550**
– provisions for estimated losses from legal disputes	39,705	43,550
2.2 Personnel expenses:	**261,015**	**137,489**
– solidarity fund	248,084	126,172
– seniority bonuses	–	–
– executives' indemnities	2,865	2,592
– estimated losses from legal disputes with personnel	2,072	1,654
– other	7,994	7,071
2.3 Other:	**52,982**	**36,152**
– clawback actions	13,839	12,010
– charity and social fund	84	168
– miscellaneous	39,059	23,974
Total	**440,257**	**309,104**

12.2 Allowances for risks and charges: changes during the year

Item/component	Pension funds	Other allowances	Total
A. Opening balance	**91,913**	**217,191**	**309,104**
B. Increases	**6,059**	**218,614**	**224,673**
B.1 Charge for the year	2,637	216,803	219,440
B.2 Unwinding	1,745	117	1,862
B.3 Increases due to variations in the discount rate	–	539	539
B.4 Other increases	1,677	1,155	2,832
C. Decreases	**11,417**	**82,103**	**93,520**
C.1 Utilised during the year	8,202	65,548	73,750
C.2 Decreases due to variations in the discount rate	–	–	–
C.3 Other decreases	3,215	16,555	19,770
D. Closing balance	**86,555**	**353,702**	**440,257**

12.3 Defined benefit pension plans

1. Description of the features of the plans and the various risks

Company post-employment benefit obligations consist of the following pension funds, whose main features are summarised below:

a) Pension fund of former Banca Popolare di Bologna e Ferrara
This is a defined benefit plan based on the commitment by the former Banca Popolare di Bologna e Ferrara, now merged into BPM, to pay all its employees in retirement at 31 December 1995 a defined pension in line with their grade whilst in service.
The sum provided in the financial statements represents the amount of the mathematical reserve calculated on an actuarial basis, being the amount considered necessary to recognise to the pensioners registered with the "Supplementary Pension Fund" the payments envisaged in the Regulations.

b) Pension fund of former Banca Agricola Milanese
This represents the commitment by the former Banca Agricola Milanese, now merged into BPM, to pay a supplementary pension to its retired employees at 31 December 1972; the liability represents an actuarial valuation of the mathematical reserve at the balance sheet date, being the amount considered necessary to recognise a life-long annuity to the pensioners registered with the pension fund.

c) Supplementary pension fund of Banca Popolare di Milano
Under the rules of the supplementary pension plan, the commitment consists of:

- the payment of a supplementary pension to retired former employees whose state pension is less than a pre-defined percentage of the salary for the corresponding grade in service (known as employees with supplementary pensions);
- or, if the state pension paid by INPS is higher than this percentage, the payment to all pensioners of 50% of a monthly amount frozen at 31 December 1991.

Employees entering service after 28 April 1993 and those hired following merger transactions do not qualify for these benefits.
The amount provided in the financial statements represents the mathematical reserve calculated on an actuarial basis, being the amount considered necessary to recognise the benefits envisaged by the Regulations to the current beneficiaries.

d) Pension fund of former Cassa di Risparmio di Alessandria
This is a defined benefit plan without separate legal form or separate equity that supplements (or replaces only in specified circumstances) the state pension. The beneficiaries of this plan consist solely of retired former employees or their survivors. The amount provided in the financial statements represents the mathematical reserve calculated on an actuarial basis.

2. Changes during the yearin net defined liabilities (assets) and reimbursement rights

Changes in the provisions for post-employment benefits are shown in table 12.2.

Line items B.4 "Other increases" and C.3 "Other decreases" are mainly attributable to actuarial gains and losses.

All of the post-employment benefits are fully funded and there are no obligations in currencies other than the euro.

3. Information on the fair value of plan assets

None of the defined benefit plans classified as post-employment benefits has plan assets.

4. Main actuarial assumptions

With reference to defined benefit supplementary pensions, independent actuaries calculate thepresent values required by the application of IAS 19 "Employee Benefits". The actuarial assumptions (demographic, financial and economic) used for each fundare as follows.

a) Pension fund of former Banca Popolare di Bologna e Ferrara

Demographic assumptions:: the IPS55 tables were used for estimating mortality rates.

Financial assumptions: the valuations used an annual compound interest rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years.

Economic assumptions: pensions were assumed to have zero future growth, in line with the previous year.

b) Pension fund of former Banca Agricola Milanese

Demographic assumptions: the IPS55 tables were used for estimating mortality rates.

Financial assumptions: the valuations used an annual compound interest rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years.

Economic assumptions: pensions were assumed to grow at 1% per annum, since the plan rules provide for indexation once every two years for certain pensioners, in line with the previous year.

c) Supplementary pension fund of Banca Popolare di Milano

Demographic assumptions: the IPS55 tables were used for estimating mortality rates in addition to the permanent disability tables prepared by INPS in 2000.

Financial assumptions: the valuations used an annual compound interest rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years.

Economic assumptions: pensions were assumed to grow at 75% of the annual inflation rate. Inflation was assumed to be 2% (unchanged with respect to the previous year), so the assumed growth rate in pensions is 1.5% (also in line with

the previous year). Annual wage inflation was established at 2.5% (unchanged with respect to the previous year). The annual rate of increase in the INPS pension ceiling has been set at 1.5%; the INPS pension ceiling amounts to 46,123 euro (46,123 euro at 31 December 2015).

d) Pension fund of former Cassa di Risparmio di Alessandria

Demographic assumptions: the IPS55 tables were used for estimating mortality rates in addition to the permanent disability tables prepared by INPS in 2000.

Financial assumptions: the valuations used an annual compound interest rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years but in any case higher than the end of last year.

Economic assumptions: inflation was assumed to be 2% (unchanged with respect to the previous year).

5. Informationon the amount, timingand uncertainty of cash flows

As required by paragraph 145 of IAS 19 the following table sets out the sensitivity of the above pension funds to the discount rate (amounts in millions of euro):

Sensitivity analysis:	31.12.2016	31.12.2015
Mathematical reserves with a discount rate of –0,5%	*3.2*	*3.2*
Mathematical reserves with a discount rate of +0,5%	*(3.0)*	*(3.0)*

6. Multi-employer plans

There are no multi-employer plans.

7. Defined benefit plans sharing risks between entities under common control

There are nodefined benefit plans sharing risks between entities under common control.

12.4 Allowances for risks and charges – other allowances

Details of other allowances for risks and charges as stated in table 12.1 are as follows:

2.1. Legal disputes: the provision covers the estimated obligations arising from outstanding legal disputes involving the Group (see the explanation provided in Part E – Information on risks and related hedging policies – Section 1.4 Operational risks). The average timing for the payment of such obligations is around 3 years. The amount of this provision reflects the present value of the outlays needed to meet the estimated obligations, calculated at market interest rates.

2.2. Personnel expenses: this mainly covers expenses relating to:

- an amount of 83 million euro provided at the balance sheet date (126 million euro at 31 December 2015) for employees joining the Solidarity Fund in 2012, in particular the Solidarity Fund accrued in 2012 based on the agreement signed by the Bank and the trade unions on 6 December 2012. The actuarial assumptions used by an independent actuary to determine the liability at the balance sheet date led to the use of a discount rate of 0.05% (0.53% at 31 December 2015) and a mortality rate taken from the IPS55 tables;
- the agreement that the Bank entered with the trade unions for access to the Solidarity Fund for the trade sector. The costs for the plan have been fully recognised in the 2016 financial statements in the amount of 165 million euro;
- the indemnities specifically reserved for executives of 2.865 million euro (2.592 million euro at 31 December 2015);
- the indemnities connected with the non-competition agreement reserved for former employees of Bipiemme Private Banking SIM, which was merged in 2010, for 0.682 million euro (0.618 million euro at 31 December 2015).

The actuarial assumptions used by an independent actuary for determining the liability at the balance sheet date of the latter two obligations were as follows:

Demographic assumptions: the IPS55 tables were used for estimating mortality rates in addition to the permanent disability tables prepared by INPS in 2000.

Financial assumptions: the valuations are based on a discount rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015).

Economic assumptions: an annual rate of the real increase in remuneration of 2.50% (unchanged with respect to the previous year).

2.3.Other: this item consists of:

- an estimate of the obligations arising from clawback actions against the Group. The average timing for the paymentof such obligations is around 3 years. The amount of this provision reflects the present value of the outlays needed to meet the estimated obligations, calculated using market interest rates;
- tax disputes, described in Section 13 "Tax assets and liabilities", which amount to 5.2 million euro (5.2 million euro at 31.12.2015);
- an estimated 13.2 million euro for any costsresulting from initiatives designed to resolve certain limited critical mattersbased on relations with customers;
- an estimated 10 million euro for any costs arising from contractual penalties.

Section 13 – Technical reserves
Line item 130

This item has a nil balance at the balance sheet date as there are no insurance companies in the Group.

Section 14 – Redeemable shares
Line item 150

There are no redeemable shares at the balance sheet date, as at the end of the previous year.

Section 15 – Shareholders' equity
Line items 140, 160, 170, 180, 190, 200 and 220

This section provides a description of the accounts to be found in line items 140, 160, 170, 180, 190, 200 and 220 of the liabilities and shareholders' equity section of the balance sheet.

15.1 "Share capital" and "Treasury shares": analysis

	31.12.2016	31.12.2015
Share capital (in euro)	**3,365,439,319.02**	**3,365,439,319.02**
No. of ordinary shares	**4,391,784,467**	**4,391,784,467**
Of which treasury shares	**1,524,259**	**1,524,259**

Share capital: at the balance sheet date theParent Company's share capital was fully subscribed and paid in and amounted to **3,365,439,319.02** euro, consisting of **4,391,784,467** ordinary shares with implicit par value of 0.766 euro given by the ratio between the total amount of share capital and the number of outstanding shares; the shares have no restrictions or privileges and each share has the same rights in terms of dividends and repayment of capital.

Treasury shares: at the balance sheet date there were 1,524,259 shares in portfolio.

15.2 Share capital – Number of shares: changes during the year

Item/type	Ordinary sharese	Other
A Number of shares at the beginning of the year	**4,391,784,467**	**–**
– wholly unrestricted	4,391,784,467	–
– not wholly unrestricted	–	–
A.1 Treasury shares (–)	(1,524,259)	
A.2 Outstanding shares: opening balance	**4,390,260,208**	**–**
B. Increases	**39,946,536**	**–**
B.1 New issues	–	–
– or payment:	–	–
– business combinations	–	–
– conversion of bonds	–	–
– exercising of warrants	–	–
– other	–	–
– bonus shares:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sale of treasury shares	407,256	–
B.3 Other increases	39,539,280	–
C. Decreases	**39,946,536**	**–**
C.1 Cancellation	–	–
C.2 Purchase of treasury shares	39,946,536	–
C.3 Sales of businesses	–	–
C.4 Other decreases	–	–
D. Outstanding shares: closing balance	**4,390,260,208**	**–**
D.1 Treasury shares (+)	1,524,259	–
D.2 Number of shares at the end of the year	4,391,784,467	–
– wholly unrestricted	4,391,784,467	–
– not wholly unrestricted	–	–

Item A.1 / D.1 Treasury shares. There were 1,524,259 treasury shares at 1 January 2016 and 31 December 2016.

On 5 July 2016, following the issue of the prescribed authorisation by the European Central Bank, the Management Board approved a programme to purchase treasury shares for allocation to employees in accordance with the resolution adopted by the Ordinary Meeting of the Bank's Shareholders on the previous 30 April, having the aim of implementing article 60 of the bylaws which provides for the distribution of 5% of net income for 2015 to all employees in service, other than those in senior positions.

As part of this programme the Bank purchased 39,875,000 treasury shares between 6 July and 26 July 2016 (included in item C.2 Purchase of treasury shares) of which 39,539,280 were allocated to employees on 27 July 2016 (see item B.3 Other increases) in accordance with article 60 of the bylaws as mentioned above.

As a result of these transactions BPMcurrently holds 1,524,259 treasury shares.

Item D.2 Number of shares at the end of the year. This represents the number of shares of Banca Popolare di Milano outstanding at 31 December 2016, beinga total of 4,391,784,467 (including 1,524,259 treasury shares), whose implicit value is 0.766 euro per share taking account the fact that share capital amounts to 3,365,439,319.02 euro.

15.3 Share capital: other information

The Parent Company's share capital is variable and is represented by shares without an explicit nominal value, in accordance with the resolution of the members' general meeting of 25 June 2011.
The Management Board can purchase or reimburse shares of the Parent Company in accordance with current legislation, within the limits of the distributable earnings and unrestricted reserves stated in the latest approved financial statements, allocated for this purpose by members in general meeting.
Following the resolution adopted by members on 11 April 2015 the provision for the purchase of treasury shares amounts to 25,000,000 euro and is available for 24,379,215.98 euro, as it was adjusted for the value of the 1,524,259 treasury shares held in portfolio at the balance sheet date (620,784.02 euro).

As governed by the bylaws the shares constitute a guarantee to the Bank for any obligations of a member towards the Bank.
No member's interest may exceed 0.50% of the share capital. On becoming aware that this limit has been exceeded the Parent Company serves formal notice of the breach on the member concerned. The excess shares must be sold within a year of such notice; after this deadline, the related rights pertaining to these shares are acquired by the Bank until their disposal. This limit does not apply to mutual investment funds; the relevant limits in such cases are those imposed by the rules of the fund concerned.

Shares cannot be split. In the event that they are owned jointly, the rights of the joint owners have to be exercised by a common representative.
Dividends not claimed within five years from the date they become payable fall and are absorbed by the Parent Company.

15.4 Retained earnings: other information

Reference should be made to the Parent Company's financial statements for the disclosures required by article 2427, paragraph *7-bis*, of the Italian Civil Code.

15.5 Reserves: other information

Valuation reserves:

Financial assets available for sale: this item consists of the unrealised post-tax gains and losses arising on financial assetsclassified as "available for sale" as defined by IAS 39. Gains and losses are transferred from the fairvalue reserve to profit and loss when the financial asset is disposed of or becomes impaired.

Actuarial gains (losses)on defined benefit pension plans: his item consists of actuarial gains and losses deriving from thechange in certain actuarial assumptions formulated in prior years.

Portion of valuation reserves connected with investments carried at equity: this consists of the portions of valuation reserves of companies consolidated using the equity method.

Special revaluation laws: this line item consists of the reserve created on first-time adoption of IAS/IFRS as a result of measuring property and equipment at their "deemed cost", as permitted by the "IAS decree".

Cash flow hedges: this item consists of the unrealised post-tax gains and losses arising from cash flow hedges.

15.6 Equity instruments: analysis and changes during the year

The Bipiemme Group has not issued any equity instruments.

Section 16 – Minority interests (line item 210)

16.1 Details of line item 210 "minority interests"

Name of company	31.12.2016	31.12.2015
Investments in consolidated companies with significant minority interests		
1. Banca Akros SpA	–	6,337
2. Banca Popolare di Mantova SpA	–	13,601
Other investments	**1,306**	**36**
Total	**1,306**	**19,974**

"Other investments" at 31 December 2016 includes minority interests in Banca Popolare di Mantova (3.26% diluted among small shareholders) since in 2016 the Parent Company BPM made share purchases increasing its holding from 62.91% to 96.74%.

16.2 Equity instruments: analysis and changes during the year

No equity instruments have been issued by consolidated companies with minority interests.

16.3 Minority interests: analysis

Item/amount	31.12.2016	31.12.2015
1. Share capital	133	2,363
2. Share premium reserve	1,005	11,893
3. Reserves	91	4,706
4. Treasury shares	–	–
5. Valuation reserves	1	10
6. Equity instruments	–	–
7. Net income (loss) for the period attributable to minority interests	76	1,002
Total	**1,306**	**19,974**

16.4 Valuation reserves: analysis

Item/amount	31.12.2016	31.12.2015
1. Financial assets available for sale	2	58
2. Property and equipment	–	–
3. Intangible assets	–	–
4. Hedging of foreign investments	–	–
5. Cash flow hedges	–	–
6. Exchange differences	–	–
7. Non-current assets held for sale	–	–
8. Actuarial gains (losses) on defined benefit pension plans	(1)	(48)
9. Portion of valuation reserves connected with investments carried at equity	–	–
10. Special valuation laws	–	–
Total	**1**	**10**

Other information

1. Guarantees given and commitments

Transactions	31.12.2016	31.12.2015
1) Financial guarantees:	223,005	203,382
a) Banks	–	230
b) Customers	223,005	203,152
2) Commercial guarantees:	2,816,780	2,948,919
a) Banks	80,413	102,461
b) Customers	2,736,367	2,846,458
3) Irrevocable commitments to grant funding:	4,499,357	5,261,422
a) Banks	512,199	752,306
i) certain to be called	12,318	231,381
ii) not certain to be called	499,881	520,925
b) Customers	3,987,158	4,509,116
i) certain to be called	257,267	442,398
ii) not certain to be called	3,729,891	4,066,718
4) Commitments underlying credit derivatives: sales of protection	–	4,653
5) Assets pledged in guarantee for third party obligations	106,734	79,702
6) Other commitments	750,154	140,523
Total	**8,396,030**	**8,638,601**

"Guarantees given" are stated at nominal value net of any drawdowns and any adjustments.

"Irrevocable commitments to grant funding" are stated on the basis of the commitment given less the sums already disbursed and any adjustments. They exclude commitments arising from derivative contracts.

"Irrevocable commitments to grant funding" which are certain to be called include forward and spot purchases of securities awaiting settlement and loans and deposits to be made at a specified future date.

"Commitments underlying credit derivatives: sales of protection" refer to the notional amount of such commitments, less the sums already disbursed and any adjustments.

"Assets pledged in guarantee for third party obligations" include an amount of 106.7 million euro (79.7 million euro at 31 December 2015) relating to contribution quotas to the Default Fund paid into the Cassa di Compensazione e Garanzia for MTS Repo operations.

2. Assets pledged as guarantees for own liabilities and commitments

Portfolio	31.12.2016	31.12.2015
1. Financial assets held for trading	29,381	249,076
2.Financial assets designated at fair value through profit and loss	7,659	27,633
3. Financial assets available for sale	4,207,473	4,989,357
4. Investments held to maturity	–	–
5. Due from banks	888,777	427,132
6. Loans to customers	13,332,936	10,772,139
7. Property and equipment	–	–

Guaranteed funding transactions

In accordance with the requirements of the Bank of Italy communicated on 16 February 2011 and 10 February 2012, assets not recognised in the financial statements in accordance with IAS 39 which the Group has pledged in guarantee for its own liabilities and commitments are shown below.

The following are the issued own bonds repurchased as part of refinancing operations with the European Central Bank and provided as collateral for the advances received from central banks (OMO – Open Market Operations):

- covered bonds "BPM CB 18.7.2011-18.1.2014 floating rate with maturity extended to 18.1.2019" with a nominal value of 0.37 billion euro (0.37 billion euro at 31.12.2015);
- covered bonds "BPM CB 28.5.2013-28.5.2016 floating rate" having a nominal value of 0.50 billion euro (0.48 billion euro at 31.12.2015);
- covered bonds "BPM CB 16.03.2015-16.03.2020 floating rate 1A and 2A "having a nominal value of 0.747 billion euro (0.555 billion euro at 31.12.2015);
- covered bonds "BPM CB 19.11.15-22 floating rate" having a nominal value of 0.65 billion euro (0.65 billion euro at 31.12.2015);
- covered bonds "BPM CB 7.11.16-21 floating rate" having a nominal value of 1 billion euro.

In addition, the following have been provided as collateral:

- "BPM Securitisation 15.01.06/43 floating rate" bonds arising from the securitisation carried out by the Parent Company in 2006 having a residual nominal value of 57million euro (73.98million euro at 31.12.2015);
- "BPM Securitisation 3 20.01.14/57 floating rate A"bonds having a residual nominal value of 493.98 million euro (254 million euro at 31.12.2015);
- securities arising from lending repurchase agreements or securities lending having a nominal value of 74.85 million euro (353.29 million euro at 31.12.2015);
- "Profamily Securitisation 15/39 floating rate A" bonds which the Parent Company has received as an irregular pledge.

3. Information on operating leases

Leased assets basically consist of:

- POS equipment;
- the central computer;
- motor vehicles acquired under long-term rental contracts;
- machines – hardware.

The POS equipment is installed on the premises of authorised businesses and allows the holders of "Pagobancomat" cards and other debit and credit cards to pay for goods and services offered by authorised businesses.The current agreement, stipulated with CartaSì on 1 January 2014, expires on 31 December 2017. The annual fee for 2017 and subsequent years is calculated with reference to the current POS lease agreement. The increases in fees are due to the activation of a higher percentage of Ethernet terminals having a higher unit fee compared to other types of POS. Fees are fixed for the entire term of the lease and are paid monthly.The current agreement provides that, in case of termination, the Bank has the right to purchase the POS equipment installed at such businesses under terms and conditions to be agreed by the parties. The economic value of the POS will be calculated on the basis of the criteria and means of ordinary depreciation defined in current ministerial tables.

The computer lease forms part of an all-inclusive agreement stipulated with IBM in September 2012 and expiring on 31 December 2017 (with a possible extension to 30 June 2018) for the integrated management, inter alia, of:

- the technological evolution/substitution of the storage infrastructure;
- the provision of the services needed to support technological renovation;
- the maintenance of central hardware;
- software licences and new releases for the operating system and certain subsystems.

Motor vehicles under long-term rental contracts are leased for a contractual term of 48 months, with the provision of full service assistance (maintenance, insurance, ownership tax, breakdown service, etc.). There is no option to acquire the vehicles at the end of the lease.

Future operating lease and car rental payments under current contracts fall due as follows.

Leased assets	Up to 1 year	Between 1 and 5 years	Beyond 5 years	31.12.2016	Up to 1 year	Between 1 and 5 years	Beyond 5 years	31.12.2015
POS	3,391	3,457	–	6,848	3,330	3,395	–	6,725
Central computer	6,036	3,018	–	9,054	5,929	15,668	–	21,597
Motor vehicles	1,457	7,286	–	8,743	1,603	8,015	–	9,618
Machines – hardware	–	–	–	–	–	–	–	–
Total	**10,884**	**13,761**	**–**	**24,645**	**10,862**	**27,078**	**–**	**37,940**

4. Analysis of investments relating to unit-linked and index-linked policies

There are no insurance companies in the Bipiemme Group.

5. Administration and brokerage on behalf of third parties

Type of service	31.12.2016	31.12.2015
1. Execution of instructions on behalf of customers	**115,212,385**	**180,512,914**
a) Purchases	57,889,680	89,288,492
1. settled	57,796,105	89,165,775
2. not settled	93,575	122,717
b) Sales	57,322,705	91,224,422
1. settled	57,237,970	91,127,769
2. not settled	84,735	96,653
2. Portfolio management	**641,216**	**824,337**
a) Individual	641,216	824,337
b) Collective	–	–
3. Custody and administration of securities	**–**	**–**
a) Third party securities on deposit (excluding portfolio management): as custodian bank	–	–
1. securities issued by the reporting bank	–	–
2. other securities	–	–
b) Third party securities on deposit (excluding portfolio management): other	22,644,811	25,238,109
1. securities issued by the reporting bank	1,449,723	2,360,802
2. other securities	21,195,088	22,877,307
c) Third party securities deposited with third parties	16,621,496	17,950,768
d) Portfolio securities deposited with third parties	10,004,208	9,837,094
4. Other transactions	**17,757,403**	**17,609,244**
1. Collection of receivables for third parties: debit and credit adjustments	11,861,561	11,695,435
a) debit adjustments	5,958,458	5,762,382
1. Current accounts	13,048	17,850
2. Central portfolio	5,945,410	5,744,532
3. Cash	–	–
4. Other accounts	–	–
b) credit adjustments	5,903,103	5,933,053
1. Current accounts	10,846	13,112
2. Presenters of notes and documents	5,891,187	5,917,323
3. Other accounts	1,070	2,618
Other transactions	5,895,842	5,913,809
a) collection of notes, documents and other instruments on behalf of third parties	5,895,842	5,913,809

Regarding the above amounts:

Service 1. "Execution of instructions on behalf of customers": consists of purchases and sales of forward contracts traded on Italy's future's market (MIF) and derivatives traded on Italy's derivatives market (IDEM) where the Group's banks execute orders received from their customers (trading for and on behalf of third parties). Amounts of derivatives transactions are as follows:

	31.12.2016	31.12.2015
a) Purchases	**11,037,446**	**15,551,091**
1. settled	11,037,446	15,551,091
2. not settled	–	–
a) Sales	**11,000,971**	**14,820,398**
1. settled	11,000,971	14,820,398
2. not settled	–	–

Service 3. "Custody and administration of securities": securities subject to custody and administration agreements, including securities received as collateral, are shown at nominal value. Sub-item b) also shows securities received from third parties as collateral for credit transactions, for whom the Group provides an accessory custody and administration service.

Service 4. "Other transactions – 1 "Collection of receivables for third parties: debit and credit adjustments": the notes and documents received by the Group subject to collection or after collection and for which the Group handles collection on behalf of third parties are only recognised in the balance sheet (as cash, loans to banks and customers, amounts due to banks and customers) when they are settled. To this purpose the notes portfolio has been reclassified in the financial statements by settlement date, making the accounting adjustments specified.

6. Financial assets subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical form	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c = a – b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f = c – d – e)	Net amount 31.12.2015
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	1,131,035	–	1,131,035	840,589	225,363	65,083	26,053
2. Repurchase agreements	327,692	157,267	170,425	170,422	–	3	22
3. Securities lending	56,027	–	56,027	54,318	–	1,709	–
4. Other	–	–	–	–	–	–	–
31.12.2016	**1,514,754**	**157,267**	**1,357,487**	**1,065,329**	**225,363**	**66,795**	**x**
31.12.2015	**1,442,420**	**196,931**	**1,245,489**	**1,005,565**	**214,023**	**x**	**26,075**

7. Financial liabilities subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical form	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a – b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f = c – d – e)	Net amount 31.12.2015
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	1,121,383	–	1,121,383	825,170	252,298	43,915	104,444
2. Repurchase agreements	3,957,617	157,267	3,800,350	3,799,626	–	724	1,259
3. Securities lending	107,655	–	107,655	107,520	–	135	–
4. Other transactions	1,754	–	1,754	1,754	–	–	–
31.12.2016	**5,188,409**	**157,267**	**5,031,142**	**4,734,070**	**252,298**	**44,774**	**x**
31.12.2015	**7,170,867**	**196,931**	**6,973,936**	**6,608,541**	**259,517**	**x**	**105,703**

The Group has entered offsetting contracts on financial instruments and foreign exchange operations. The amount relating to repurchase agreements mainly regards operations carried out with the Cassa di Compensazione e Garanzia.

8.Securities lending transactions

Securities lending activities are not significant at consolidated level and accordingly no disclosures are provided.

9. Disclosures on joint arrangements

The Group is not party to any joint arrangements.

Part C
Information on the consolidated income statement

Section 1 – Interest
Line items 10 and 20

1.1 Interest and similar income: analysis

Item/technical form	Debt securities	Loans	Other transactions	Year 2016	Year 2015
1. Financial assets held for trading	9,985	–	342	10,327	18,765
2. Financial assets designated at fair value through profit and loss	1,371	–	–	1,371	5,231
3. Financial assets available for sale	131,370	–	–	131,370	171,798
4. Investments held to maturity	–	–	–	–	–
5. Due from banks	323	5,944	–	6,267	5,102
6. Loans to customers	1,749	819,758	–	821,507	906,182
7. Hedging derivatives	–	–	22,162	22,162	45,477
8. Other assets	–	–	24,655	24,655	7,839
Total	**144,798**	**825,702**	**47,159**	**1,017,659**	**1,160,394**

Item "1. Financial assets held for trading" includes a net positive balance of 0.342 million euro arising from derivative contracts operationally linked to financial assets and liabilities designated at fair value through profit and loss (under the fair value option) (4.458 million euro in 2015).

Items 5 and 6 "Due from banks" and "Loans to customers" show, in the "Debt securities" column, interest income on owned securities not listed on active markets, classified in these portfolios. The "Loans" column also includes interest income accrued on repurchase agreements used for lending purposes.

Interest, other than that reported in item 130. "Write-backs", accrued during the year on "non-performing" positions totals 26.512 million euro (33.922 million euro in 2015). This interest, calculated on financial assets measured at amortised cost under the effective interest rate method, is reported in the various columns according to the technical form that gave rise to the interest. Any past due interest accruing during the year is only recognised in the income statement when actually collected.

1.2 Interest and similar income: differentials on hedging transactions

Item	Year 2016	Year 2015
A. Positive differentials on hedging transactions	41,080	81,616
B. Negative differentials on hedging transactions	(18,918)	(36,139)
C. Balance (A-B)	**22,162**	**45,477**

This section provides an analysis of the differential balance, positive and negative, accrued on "hedging derivatives", report in sub-item 7 "Hedging derivatives".

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Item	Year 2016	Year 2015
Interest income on financial assets in foreign currency	15,560	15,326

"Interest and similar income" on financial assets in foreign currency relates to that received and accrued on assets in currencies other than the euro.

1.3.2 Interest income from finance leases

Interest income from finance leases amounts to 3.815 million euro (4.934 million euro in 2015).

1.4 Interest and similar expense: analysis

Item/technical form	Payables	Securities	Other transactions	Year 2016	Year 2015
1. Due to central banks	(1,686)	x	–	(1,686)	(2,886)
2. Due to banks	(19,637)	x	–	(19,637)	(19,719)
3. Due to customers	(48,851)	x	–	(48,851)	(65,839)
4. Securities issued	x	(154,725)	–	(154,725)	(258,295)
5. Financial liabilities held for trading	(1,892)	–	(286)	(2,178)	(2,463)
6. Financial liabilities designated at fair value through profit and loss	–	(392)	–	(392)	(4,338)
7. Other liabilities and provisions	x	x	(2,150)	(2,150)	(108)
8. Hedging derivatives	x	x	–	–	–
Total	**(72,066)**	**(155,117)**	**(2,436)**	**(229,619)**	**(353,648)**

Items 2 and 3 "Due to banks" and "Due to customers" include in the "Payables" column the interest related to amounts due for repurchase agreements on owned securities and charges relating to amounts due for repurchase agreements on securities whose availability was obtained through reverse repurchase agreements.

Item 4. "Securities issued" includes the interest expense accrued on bonds and certificates of deposit measured at amortised cost.

Item 5. "Financial liabilities held for trading: other transactions" consists of a net negative balance of 0.286 million euro (0.348 million euro in 2015) which relates to differentials and positive/negative margins on derivatives operationally linked to financial assets and liabilities classified in the trading book and accrued interest. More specifically these are multiflow derivatives (interest rate swaps) connected to fixed rate debt securities classified in the trading portfolio.

Item 6. "Financial liabilities designated at fair value through profit and loss" includes interest expense accrued on structured and fixed-rate bonds issued hedged by derivative contracts.

Item 8. “Hedging derivatives: other transactions" is shown with a nil balance because a net positive balance arises from the positive and negative differentials on derivatives where the hedging relationship qualifies for hedge accounting. As a result this balance is included in table “1.1 Interest and similar income: analysis”.

1.5 Interest and similar expense: differentials on hedging transactions

The balance of interest on differentials in hedging transactions is positive in 2016. Details are provided in table "1.2 Interest and similar income: differentials on hedging transactions".

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Item	Year 2016	Year 2015
Interest expense on foreign currency liabilities	(2,599)	(1,690)

“Interest and similar expense” on foreign currency liabilities relates to that paid and accrued on assets in currencies other than the euro.

1.6.2 Interest expense on finance leases

There is no interest expense on finance leases.

Section 2 – Fees and commissions
Line items 40 and 50

2.1 Fee and commission income: analysis

Type of service/amount	Year 2016	Year 2015
a) guarantees given	**35,426**	**34,937**
b) credit derivatives	**–**	**–**
c) management, dealing and advisory services	**310,532**	**327,885**
1. trading of financial instruments	23,625	26,213
2. currency trading	5,355	5,523
3. portfolio management	5,665	6,991
3.1. individual	5,665	6,991
3.2. collective	–	–
4. custody and administration of securities	8,809	10,270
5. custodian bank	–	–
6. placement of securities	195,194	191,789
7. receipt and transmission of instructions	18,517	24,310
8. advisory services	2,174	2,632
8.1 on investments	31	87
8.2 on financial structure	2,143	2,545
9. distribution of third party services	51,193	60,157
9.1 portfolio management	3,836	4,297
9.1.1. individual	3,802	4,297
9.1.2. collective	34	–
9.2 insurance products	46,102	54,077
9.3 other products	1,255	1,783
d) collection and payment services	97,490	103,473
e) servicing for securitisation transactions	–	–
f) factoring services	–	–
g) tax collection services	–	–
h) management of multilateral trading systems	–	–
i) management of current accounts	54,313	58,473
j) other services	160,566	154,129
Total	**658,327**	**678,897**

The item "j) Other services" includes net fee and commission income on loans granted of 125.481 million euro (119.900 million euro in 2015), on the use of safe deposit boxes of 2.367 million euro (2.306 million euro in 2015) and on securities lending of 0.479 million euro (0.425 million euro in 2015), and income and recharged expenses for other banking services of 32.239 million euro (31.497 million euro in 2015).

2.2 Fee and commission expense: analysis

Type of service/amount	Year 2016	Year 2015
a) guarantees received	**(1,197)**	**(2,138)**
b) credit derivatives	**–**	**–**
c) management and dealing services	**(21,459)**	**(21,164)**
1. trading of financial instruments	(12,782)	(12,881)
2. currency trading	–	–
3. portfolio management	(1,102)	(1,434)
3.1 own	(1,102)	(1,434)
3.2 mandated by third parties	–	–
4. custody and administration of securities	(2,177)	(3,336)
5. placement of financial instruments	(1,651)	(1,554)
6. door-to-door sales of financial instruments, products and services	(3,747)	(1,959)
d) collection and payment services	**(31,474)**	**(31,850)**
e) other services	**(18,943)**	**(17,749)**
Total	**(73,073)**	**(72,901)**

The item "e) Other services" includes amongst other things brokerage commissions and order processing fees.

Section 3 – Dividend and similar income Line item 70

3.1 Dividend and similar income: analysis

	Year 2016			Year 2015		
Item/income	**Dividends**	**Income from mutual funds**	**Total**	**Dividends**	**Income from mutual funds**	**Total**
A. Financial assets held for trading	8,367	–	8,367	4,202	3	4,205
B. Financial assets available for sale	5,878	1,469	7,347	7,457	1,403	8,860
C. Financial assets designated at fair value through profit and loss	–	–	–	–	–	–
D. Investments in associates and companies subject to joint control	–	x	–	–	x	–
Total	**14,245**	**1,469**	**15,714**	**11,659**	**1,406**	**13,065**

Section 4 – Profits (losses) on trading
Line item 80

4.1 Profits (losses) on trading: analysis

Transaction/ income item	Realised profits (A)	Trading profits (B)	Realised losses (C)	Trading losses (D)	Net result [(A+B) – (C+D)] Year 2016
1. Financial assets held for trading	**11,170**	**33,899**	**(14,936)**	**(41,811)**	**(11,678)**
1.1 Debt securities	2,754	18,868	(5,650)	(16,978)	(1,006)
1.2 Equities	2,398	14,304	(3,441)	(24,737)	(11,476)
1.3 Mutual funds	–	35	(5)	(4)	26
1.4 Loans	–	–	–	–	–
1.5 Other	6,018	692	(5,840)	(92)	778
2. Financial liabilities held for trading	**168**	**14,067**	**(3,602)**	**(10,897)**	**(264)**
2.1 Debt securities	–	–	–	–	–
2.2 Payables	127	14,067	(3,602)	(10,897)	(305)
2.3 Other	41	–	–	–	41
3. Other financial assets and liabilities: foreign exchange differences	**x**	**x**	**x**	**x**	**11,435**
4. Derivatives	**332,776**	**913,184**	**(312,512)**	**(890,878)**	**49,889**
4.1 Financial derivatives:	332,776	913,184	(312,462)	(890,817)	50,000
- On debt securities and interest rates	259,307	497,366	(268,443)	(461,309)	26,921
- On equities and stock indices	67,605	409,606	(40,224)	(421,577)	15,410
- On currency and gold	x	x	x	x	7,319
- Other	5,864	6,212	(3,795)	(7,931)	350
4.2 Credit derivatives	–	–	(50)	(61)	(111)
Total	**344,114**	**961,150**	**(331,050)**	**(943,586)**	**49,382**

The table shows the profits or losses attributable to the portfolio of financial assets and liabilities held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted, with the valuation results being shown in Section 7 – "Profits (losses) on financial assets and liabilities designated at fair value – Line item 110".

1. **Financial assets held for trading:** line item "1.5 Other" includes profits and losses from trading in currency, gold and other precious metals.
3. **Other financial assets and liabilities:** foreign exchange differences: this sub-item includes the positive or negative balance of changes in the value of financial assets and liabilities in foreign currency, other than those designated at fair value and those subject to fair value hedging (exchange risk or fair value) or cash flow hedging (exchange risk), and changes in the value of hedging derivatives.
4. **Derivatives:** positive and negative differentials and margins are recognised in the "trading profits" and "trading losses" columns respectively.

Section 5 – Fair value adjustments in hedge accounting
Line item 90

5.1 Fair value adjustments in hedge accounting: analysis

Income item/amount	Year 2016	Year 2015
A. Income relating to:		
A.1 Derivatives hedging fair value	56,559	22,132
A.2 Financial assets with fair value hedges	4,452	1,857
A.3 Financial liabilities with fair value hedges	20,064	57,339
A.4 Derivatives hedging cash flows	–	–
A.5 Foreign currency assets and liabilities	–	–
Total income from hedging activity (A)	**81,075**	**81,328**
B. Expense relating to:		
B.1 Derivatives hedging fair value	(25,669)	(63,830)
B.2 Financial assets with fair value hedges	(12,854)	(16,353)
B.3 Financial liabilities with fair value hedges	(42,599)	(10,768)
B.4 Derivatives hedging cash flows	–	–
B.5 Foreign currency assets and liabilities	–	–
Total expense from hedging activity (B)	**(81,122)**	**(90,951)**
C. Net fair value adjustments in hedge accounting (A–B)	**(47)**	**(9,623)**

The table sets out the net result from hedging activity. It therefore shows realised income recognised in profit and loss and arising from measuring hedged assets and liabilities and the related derivative contracts, including any exchange differences. For information on the hedging derivatives whose income and expense are classified in lines A.1 and B.1 of the above table, reference should be made to Section 8 "Hedging derivatives – Line item 80" in assets and Section 6 "Hedging derivatives – Line item 60" in liabilities in Part B of these explanatory notes.

For further information on hedged financial assets and liabilities reference should be made to the detailed tables set out in Part B of the explanatory notes, in the sections relating to the balance sheet items in which the hedged items are classified.

The following table provides details of net income items.

Fair value adjustments in hedge accounting: details of income items

Item/amount	Income	Expense	Year 2016 Net result	Income	Expense	Year 2015 Net result
1 Derivatives hedging fair value:						
Interest rate risk	52,530	(24,788)	27,742	16,259	(59,801)	(43,542)
Foreign exchange risk	–	–	–	–	–	–
Credit risk	–	–	–	–	–	–
Price risk	4,029	(881)	3,148	5,873	(4,029)	1,844
Several risks	–	–	–	–	–	–
2 Financial assets with fair value hedges:						
Specific hedges	3,567	(12,844)	(9,277)	1,857	(9,338)	(7,481)
Macrohedges	885	(10)	875	–	(7,015)	(7,015)
3 Financial liabilities with fair value hedges:						
Specific hedges	20,064	(36,168)	(16,104)	57,339	(3,729)	53,610
Macrohedges	–	(6,431)	(6,431)	–	(7,039)	(7,039)
4 Derivatives hedging cash flows:						
Forecast transactions	–	–	–	–	–	–
Foreign investments	–	–	–	–	–	–
Foreign exchange risk	–	–	–	–	–	–
5 Foreign currency assets and liabilities:						
Assets in foreign currency	–	–	–	–	–	–
Liabilities in foreign currency	–	–	–	–	–	–
Total	**81,075**	**(81,122)**	**(47)**	**81,328**	**(90,951)**	**(9,623)**

The following table sets out the net result from hedging activity based on the underlying positions.

Description	Year 2016 Net result	Year 2015 Net result
Assets		
– Debt securities available for sale	3,493	(2,506)
– Equities available for sale	–	–
– Due from banks	–	–
– Loans to customers	(777)	(3,486)
Liabilities		
– Due to customers	(118)	(28)
– Outstanding bonds	(2,645)	(3,603)
Net fair value adjustments in hedge accounting	**(47)**	**(9,623)**

Section 6 – Profits (losses) on disposal or repurchase
Line item 100

6.1 Profits (losses) on disposal or repurchase: analysis

Income item/amount	Year 2016			Year 2015		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from banks	–	–	–	–	–	–
2. Loans to customers	1,694	(14,904)	(13,210)	997	(25,904)	(24,907)
3. Financial assets available for sale	191,333	(5,854)	185,479	202,408	(1,428)	200,980
3.1 Debt securities	168,218	(1,079)	167,139	124,979	(1,394)	123,585
3.2 Equities	23,049	(4,569)	18,480	76,434	(32)	76,402
3.3 Mutual funds	66	(206)	(140)	995	(2)	993
3.4 Loans	–	–	–	–	–	–
4. Investments held to maturity	–	–	–	–	–	–
Total assets	**193,027**	**(20,758)**	**172,269**	**203,405**	**(27,332)**	**176,073**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	–	(20)	(20)	26	(13,007)	(12,981)
Total liabilities	**–**	**(20)**	**(20)**	**26**	**(13,007)**	**(12,981)**
Total	**193,027**	**(20,778)**	**172,249**	**203,431**	**(40,339)**	**163,092**

The table sets out the result of selling financial assets other than those held for trading and those designated at fair value through profit and loss, and the result of repurchasing own financial liabilities.

Analysis of "Financial assets: Due from banks and Loans to customers"

Item/amount	Year 2016			Year 2015		
	Profits	Losses	Net result	Profits	Losses	Net result
1. Due from banks:						
Loans	–	–	–	–	–	–
Debt securities	–	–	–	–	–	–
2. Loans to customers:						
Loans	1,694	(14,904)	(13,210)	997	(25,904)	(24,907)
Debt securities	–	–	–	–	–	–
Total	**1,694**	**(14,904)**	**(13,210)**	**997**	**(25,904)**	**(24,907)**

Section 7 – Profits (losses) on financial assets and liabilities designated at fair value Line item 110

7.1 Profits (losses) on financial assets and liabilities designated at fair value: analysis

Transaction/Income item	Unrealised gains (A)	Profits on disposal (B)	Unrealised losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)]	
					Year 2016	Year 2015
1. Financial assets	**148**	**–**	**(8,912)**	**(231)**	**(8,995)**	**(4,198)**
1.1 Debt securities	148	–	(8,912)	(231)	(8,995)	(4,236)
1.2 Equities	–	–	–	–	–	–
1.3 Mutual funds	–	–	–	–	–	38
1.4 Loans	–	–	–	–	–	–
2. Financial liabilities	**371**	**89**	**(92)**	**–**	**368**	**1,417**
2.1 Debt securities	371	89	(92)	–	368	1,417
2.2 Due to banks	–	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–	–
3. Financial assets and liabilities: foreign exchange differences	**x**	**x**	**x**	**x**	**–**	**–**
4. Credit and financial derivatives	**182**	**14**	**(363)**	**(101)**	**(268)**	**(2,355)**
Total	**701**	**103**	**(9,367)**	**(332)**	**(8,895)**	**(5,136)**

This item consists of the capital gains and losses arising from the measurement at fair value of financial assets and liabilities classified in the fair value option portfolio and the relative hedging derivatives.

Debt securities consist of the net result of bonds for which the fair value option was elected, in the same way as the result of the derivatives hedging them. In this case, the use of the fair value option addresses the need to reduce the accounting mismatch that would otherwise result from measuring the financial liabilities issued at amortised cost and the related hedging derivatives at fair value. For further details, reference should be made to Section 5 of liabilities regarding "Financial liabilities designated at fair value through profit and loss".

Section 8 – Net losses/recoveries on impairment
Line item 130

8.1 Net losses/recoveries on impairment of loans: analysis

Transaction/income item	Adjustments			Write-backs				Year 2016	Year 2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
– Loans	–	–	(1,448)	–	–	–	18	(1,430)	105
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers									
Non-performing loans purchased									
– Loans	–	–	x	–	–	x	x	–	–
– Debt securities	–	–	x	–	–	x	x	–	–
Other receivables									
– Loans	(30,305)	(567,315)	(13,310)	53,138	98,328	–	46,570	(412,894)	(330,284)
– Debt securities	–	(305)	–	–	–	–	–	(305)	(2,039)
C. Total	**(30,305)**	**(567,620)**	**(14,758)**	**53,138**	**98,328**	**–**	**46,588**	**(414,629)**	**(332,218)**

Key: A = for interest, B = Other write-backs

This item includes adjustments and write-backs to cover impairment of financial instruments allocated to the "loans to customers" and "due from banks" portfolios. In particular, the "Write-offs" column shows the losses booked on the final cancellation of the loans, while the "Other" column includes specific write-downs on non-performing loans subject to analytical assessment. The portfolio adjustments are quantified on the performing financial instruments.

As part of the specific write-backs, column A consists mainly of the write-backs represented by the release of interest on non-performing loans measured at amortised cost.

8.2 Net losses/recoveries on financial assets available for sale: analysis

Transaction/income item	Adjustments Specific		Write-backs Specific		Year 2016	Year 2015
	Write-offs	Other	A	B		
A. Debt securities	–	(5)	–	–	(5)	(24,960)
B. Equities	–	(21,984)	x	x	(21,984)	(14,236)
C. Mutual funds	–	(48,602)	x	–	(48,602)	(3,322)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**–**	**(70,591)**	**–**	**–**	**(70,591)**	**(42,518)**

Key: A = for interest, B = other write-backs

Specific value adjustments to equities relate to the write-offs and write-downs made to investments held in the following companies and investment funds.

Specific adjustments	Year 2016	Year 2015
Equities	**(21,984)**	**(14,229)**
• Cuki S.p.A. formerly Comital S.p.A.	(714)	(1,224)
• Eurofidi S.p.A.	(632)	(245)
• Expo Piemonte S.p.A.	(579)	(39)
• Gambero Rosso S.p.A.	(74)	–
• Fiera Milano S.p.A.	(953)	(443)
• FITD	(1,921)	–
• Ferroli S.p.A. – participating instruments	(1,117)	–
• Gabetti S.p.A. – ordinary shares	(1,435)	–
• Lucisano Media Group	(346)	–
• Milanosesto S.p.A. – participating instruments	(51)	(18)
• Notorius Pictures S.p.A.	(88)	–
• Premuda	(887)	–
• Prelios S.p.A.	(1,432)	–
• Release S.p.A.	(359)	(5,993)
• Risanamento S.p.A.	(10,050)	–
• Soc. Coop banche popolari	(4)	–
• Sorgenia S.p.A. – ordinary shares	(8)	–
• Sorgenia S.p.A. – participating instruments	–	(6,010)
• Tassara S.p.A. – participating instruments	(1,267)	–
• Telegate AG	–	(32)
• Terme di Acqui S.p.A.	(67)	(76)
• Zucchi S.p.A.	–	(149)
Mutual funds	**(48,602)**	**(3,322)**
• Cambria Co-Invest Fund	(182)	(122)
• China Opportunity	(952)	–
• Amber Energia Fund	(179)	(69)
• Fondo immobiliare italiano Goethe	(2,120)	(679)
• Fondo immobiliare italiano Tikal	(206)	(323)
• Fondo Italiano di Investimento	–	(1,568)
• Fondo immobiliare italiano Sei	(307)	(561)
• Atlante Fund	(40,145)	–
• Fondo Rho immobiliare	(4,511)	–
Total	**(70,586)**	**(17,551)**

8.3 Net losses/recoveries on impairment of investments held to maturity: analysis

There are no investments held to maturity at the balance sheet date.

8.4 Net losses/recoveries on impairment of other financial assets: analysis

Transaction/income item	Adjustments			Write-backs				Year 2016	Year 2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	–	(3,288)	(1,236)	–	18,951	–	1,736	16,163	14,889
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. Total	**–**	**(3,288)**	**(1,236)**	**–**	**18,951**	**–**	**1,736**	**16,163**	**14,889**

Key: A = for interest B = other write-backs

This line item consists of the adjustments/write-backs made on guarantees given with respect to the expected loss in the event of enforcement.

The adjustments, in the "Other" column, relate to provisions made on specific positions of guarantees given, while the portfolio adjustments are calculated using the method adopted for collective write-downs.

Section 9 – Net insurance premiums
Line item 150

This item has a nil balance as there are no insurance companies in the Group.

Section 10 – Other net insurance income (expenses)
Line item 160

This item has a nil balance as there are no insurance companies in the Group.

Section 11 – Administrative expenses
Line item 180

11.1 Personnel expenses: analysis

In addition to employee expenses these costs include:

- the cost of employees seconded to other companies and the related recharges;
- costs for non-standard employment contracts (e.g. temporary and contract workers);
- reimbursement of the cost of employees of other companies seconded to the Group;
- remuneration payable to the members of the Management Board and the Supervisory Board of the Parent Company and to the directors and the statutory auditors of the other Group companies (including the cost of civil liability insurance policies);
- costs associated with share-based payments;
- provisions made, with counter-entry to "other liabilities", for productivity bonuses relating to the year but paid the following year.

Type of expense/amount	Year 2016	Year 2015
1) Employees	**(771,003)**	**(608,130)**
a) wages and salaries	(408,425)	(402,740)
b) social security charges	(123,374)	(117,136)
c) termination indemnities	(22,177)	(22,159)
d) pension costs	–	–
e) charge to employee termination indemnities	(2,830)	(2,447)
f) charge to provision for post-employment benefits:	(4,383)	(10,156)
– defined contribution	–	–
– defined benefit	(4,383)	(10,156)
g) payments to external supplementary pension funds:	(16,154)	(9,425)
– defined contribution	(16,154)	(9,425)
– defined benefit	–	–
h) costs associated with share-based payments	(775)	(16,331)
i) other employee benefits	(192,885)	(27,736)
2) Other personnel	**–**	**–**
3) Directors and statutory auditors	**(4,293)**	**(4,252)**
4) Retired personnel	**–**	**–**
Total	**(775,296)**	**(612,382)**

Further details of the above are as follows:

Sub-item "c) termination indemnities" also comprises, in addition to the cost for employees who left during the year, termination indemnity payments made to INPS and to pension funds.

Sub-item "g) payments to external supplementary defined benefit pension funds" comprises the contribution paid to external retirement benefit plans.

Sub-item "h) costs associated with share-based payments" included in 2015 an accrual of 15.5 million euro representing the portion of profits reserved for employees and payable in shares pursuant to article 60 of the bylaws.

A description of **sub-item "i) other employee benefits"** is provided in paragraph 11.4 of this section.

Line item "3) Directors and statutory auditors" consists of the fees for the year payable to the members of the Management and Supervisory Boards. More specifically:

- 1.206 million euro relating to members of the Management Board of the Parent Company;
- 2.284 million euro relating to members of the Supervisory Board of the Parent Company;
- 0.644 million euro relating to members of the Boards of Directors of subsidiaries;
- 0.159 million euro relating to members of the Boards of Statutory Auditors of subsidiaries.

11.2 Average number of employees by level

Item	Year 2016	Year 2015
Employees	**7,146**	**7,197**
a) managers	146	148
b) officers	2,722	2,700
– of whom: 3rd and 4th level	1,447	1,433
c) other employees	4,278	4,349
Other personnel	**5**	**9**
Other types of contract (consultants and temporary workers)	5	9
Total	**7,151**	**7,206**

The average is calculated as the weighted average number of employees where the weighting is given by the number of months worked during the year. Part-time employees are conventionally considered at 50%.

Actual number of employees by level

Item	31.12.2016	31.12.2015
Employees	**7,673**	**7,736**
a) managers	147	146
b) officers	2,814	2,798
– of whom: 3rd and 4th level	1,467	1,461
c) other employees	4,712	4,792
Other personnel	**–**	**7**
Other types of contract (consultants and temporary workers)	–	**7**
Total	**7,673**	**7,743**

The number of employees includes 1,139 part-time workers (1,114 at 31.12.2015), representing 14.84% of total personnel in service at the balance sheet date.

Changes in the number of employees are shown in "The distribution network and human resources" chapter of the report on operations, to which reference should be made.

11.3 Defined benefit pension plans: total costs

	Year 2016	Year 2015
• **pension cost:**	**(2,379)**	**(7,559)**
– BPM supplementary pension plan	(2,379)	(7,559)
– plan of the former Banca Popolare Bologna e Ferrara	–	–
– plan of the former Banca Popolare Agricola Milanese	–	–
– plan of the former CR Alessandria	–	–
• **interest expense:**	**(1,745)**	**(1,484)**
– BPM supplementary pension plan	(1,140)	(830)
– plan of the former Banca Popolare Bologna e Ferrara	(169)	(288)
– plan of the former Banca Popolare Agricola Milanese	(1)	(1)
– plan of the former CR Alessandria	(435)	(365)
Total	**(4,124)**	**(9,043)**

In addition to the above costs, for 2016 there is also a solidarity contribution of 10%, or 0.26 million euro, pursuant to Law no. 166/91 (1.113 million euro in 2015) recognised in the income statement in the sub-item "charge to provision for post-employment benefits".

Analysis of "actuarial gains (losses) recognised in shareholders' equity"

Item	31.12.2015	Change	31.12.2016
BPM supplementary pension plan	(35,936)	3,205	(32,731)
Plan of the former Banca Popolare Bologna e Ferrara	(10,018)	(844)	(10,862)
Plan of the former Banca Popolare Agricola Milanese	(6)	(1)	(7)
Plan of the former CR Alessandria	(9,672)	(833)	(10,505)
Total actuarial gains (losses)	**(55,632)**	**1,527**	**(54,105)**

11.4 Other employee benefits

"Other employee benefits" include an amount of 165 million euro relating to the Solidarity Fund agreement signed by the Group's banks and the trade unions in 2016.

This item also includes contributions towards the running of staff canteens, the cost of subsidised-rate loans given to employees and the cost of staff severance incentives.

11.5 Other administrative expenses: analysis

Type of service/amount	Year 2016	Year 2015
IT expenses	**(77,912)**	**(72,334)**
Maintenance and rent of hardware and software and data transmission	(61,838)	(57,990)
Services rendered by Group companies	–	–
ATM running costs	(1,562)	(1,371)
Outsourced IT services	(14,512)	(12,973)
Expenses for buildings and furniture	**(44,737)**	**(46,720)**
Property maintenance	**(32,934)**	**(34,204)**
Property leases	(32,176)	(33,448)
Office machine lease charges	(758)	(756)
Other expenses	**(11,803)**	**(12,516)**
Maintenance	(7,469)	(7,811)
Cleaning of premises	(4,334)	(4,705)
Purchase of non-professional items and services	**(54,540)**	**(52,806)**
Telephone and postage	(9,621)	(9,620)
Subcontracted work	(13,819)	(10,476)
Security and cash-counting services	(7,919)	(7,942)
Electricity, heating and water	(10,936)	(12,122)
Transport	(7,945)	(7,318)
Stationary and printing	(3,069)	(3,759)
Removals and porterage	(800)	(1,106)
Subscriptions to newspapers and magazines	(431)	(463)
Purchase of professional services	**(64,018)**	**(52,041)**
Professional fees	(45,111)	(34,508)
Legal expense and company information	(18,690)	(17,295)
Corporate body fees	(217)	(238)
Insurance premiums	**(4,197)**	**(3,780)**
Advertising expenses	**(16,192)**	**(21,953)**
Indirect taxes and duties	**(98,223)**	**(102,168)**
Other	**(70,584)**	**(67,763)**
Charity	(1,147)	(550)
Membership fees and fees mandatory by law	(69,686)	(63,902)
Other	249	(3,311)
Total	**(430,403)**	**(419,565)**

"Indirect taxes and duties" also include indirect taxes (stamp duty and flat-rate tax) recharged to customers of 83.6 million euro (87 million euro in 2015). In the reclassified income statement, as indicated in the notes thereto, this amount has been reversed from both "other administrative expenses" and "other operating charges/income".

The line item "Other – Membership fees and fees mandatory by law" includes:

- the amount paid to the National Resolution Fund as an ordinary contribution of 14.4 million euro (13.2 million in 2015) and as an extraordinary contribution of 29 million euro (40 million in 2015);
- the contribution of 8.6 million euro paid to the voluntary intervention scheme – as provided by the bylaws of the IDPF – in favour of TERCAS;
- the ordinary contribution of 12.3 million euro (5.9 million euro in 2015) paid to the Guarantee Deposit Fund.

Section 12 – Net provisions for risks and charges Line item 190

12.1 Net provisions for risks and charges: analysis

	Year 2016	Year 2015
Provisions	**(45,909)**	**(22,762)**
Legal disputes	**(16,327)**	**(11,867)**
Other risks and charges	**(29,582)**	**(10,895)**
– Provisions for clawback actions	(2,705)	(1,160)
– Provision for tax disputes	–	–
– Provision for other future charges	(26,877)	(9,735)
Reallocations	**15,584**	**33,520**
Legal disputes	**12,724**	**28,547**
Other risks and charges	**2,860**	**4,973**
– Provisions for clawback actions	326	90
– Provision for tax disputes	–	–
– Provision for other future charges	2,534	4,883
Total	**(30,325)**	**10,758**

Net provisions for risks and charges regard the risk related to pending legal disputes, and others, to provide against any loss that might arise from contractual disputes of a commercial nature; they also include changes in provisions during the year as the timing of expected liabilities approaches to reflect the financial component relating to the time value of money.

Section 13 – Net adjustments to/recoveries on property and equipment Line item 200

This item consists of the depreciation charged on properties and other fixed assets.

13.1. Net adjustments to/recoveries on property and equipment: analysis

Asset/income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c)	
				Year 2016	Year 2015
A. Property and equipment					
A.1 Owned	(38,956)	–	–	(38,956)	(41,018)
- for business use	(38,127)	–	–	(38,127)	(40,173)
- for investment	(829)	–	–	(829)	(845)
A.2 Acquired under finance leases	–	–	–	–	–
- for business use	–	–	–	–	–
- for investment	–	–	–	–	–
Total	**(38,956)**	**–**	**–**	**(38,956)**	**(41,018)**

Section 14 – Net adjustments to/recoveries on intangible assets Line item 210

14.1 Net adjustments to/recoveries on intangible assets: analysis

Asset/income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c)	
				Year 2016	Year 2015
A. Intangible assets					
A.1 Owned	(35,932)	(75,625)	–	(111,557)	(29,125)
– Internally generated	(137)	–	–	(137)	(188)
– Other	(35,795)	(75,625)	–	(111,420)	(28,937)
A.2 Acquired under finance leases	–	–	–	–	–
Total	**(35,932)**	**(75,625)**	**–**	**(111,557)**	**(29,125)**

As part of the combination between Banco Popolare and BPM it is planned to integrate the information systems of the two banks; this envisages the migration of the data contained in the information system currently used by BPM to that of Banco Popolare in 2017.

Accounting standards require a critical analysis to be performed at the end of each year of the utilisation of an entity's software: if this shows that the software will no longer be used or that the period of time over which the software is able to provide the expected economic benefits has decreased, an entity must recognise an impairment loss or make changes to the asset's depreciation plan to account for a shorter useful life.

As a consequence for measurement purposes a review had to be performed of the software being used by BPM that will be disposed of or be put to other uses following the above migration.

The software identified in this review as being subject to disposal has been written down by 75.6 million euro, its residual book value at 31 December 2017, as this is the excess over its recoverable amount.

Section 15 – Other operating expenses/income Line item 220

15.1 Other operating expenses: analysis

Income item/amount	Year 2016	Year 2015
Depreciation of leasehold improvements recognised in other assets	(5,134)	(4,630)
Other operating expenses	(11,229)	(16,267)
Total	**(16,363)**	**(20,897)**

15.2 Other operating income: analysis

Income item/amount	Year 2016	Year 2015
Tax recoveries	83,569	86,969
Rental and leasing income	5,425	7,106
Income and IT services rendered to:	28	24
Group companies	–	–
Third parties	28	24
Recharge of costs	33,997	41,617
On deposits and overdrafts	19,649	26,031
Other	14,348	15,586
Other income	9,132	7,694
Total	**132,151**	**143,410**

	Year 2016	Year 2015
Total line item 220 Other operating expenses/income	**115,788**	**122,513**

"Tax recoveries" mainly relate to the stamp duty on current accounts and securities deposits and the flat-rate tax on medium-term loans recharged to customers.

Section 16 – Profits (losses) on investments in associates and companies subject to joint control
Line item 240

16.1 Profits (losses) on investments in associates and companies subject to joint control: analysis

Income item/sector	Year 2016	Year 2015
1) Companies subject to joint control		
A. Income	**–**	**167**
1. Revaluations	–	167
2. Profits on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. Expense	**(508)**	**–**
1. Write-downs	(508)	–
2. Impairment losses	–	–
3. Losses on disposal	–	–
4. Other expense	–	–
Net result	**(508)**	**167**
2) Companies subject to significant influence		
A. Income	**162,531**	**71,259**
1. Revaluations	42,726	71,259
2. Profits on disposal	11,125	–
3. Write-backs	–	–
4. Other income	108,680	–
B. Expense	**–**	**(1,422)**
1. Write-downs	–	–
2. Impairment losses	–	–
3. Losses on disposal	–	(1,422)
4. Other expense	–	–
Net result	**162,531**	**69,837**
Total	**162,023**	**70,004**

The "revaluations" and "write-downs" lines show adjustments made to investments in companies subject to joint control and companies subject to significant influence to align them with the corresponding portion of the investee's net equity at the balance sheet date, inclusive of the result for the year attributable to the Group.

Total net income pertaining to the Group from investments carried at equity value amounts to 162.023 million euro. This is mainly due to the amount attributable to the Group of the results of SelmaBipiemme Leasing, Anima Holding, Bipiemme Vita and Factorit. In particular, the result of SelmaBipiemme Leasing takes into account the positive effect arising from the increase in the investee's equity following the merger of Palladio Leasing into that company.

Sub-item 2.A.4 "Other income" relates entirely to the gain arising on the reclassification of Anima Holding from "Investments in associates and companies subject to joint control" to "Financial assets available for sale"; more specifically, in accordance with IAS 39, the financial asset has been measured on the basis of its fair value (stock market price) at 31 December 2016 with the difference with its previous book value being recognised in profit and loss.

Losses on disposal in 2015 relate wholly to the sale of the investment in Pitagora 1936.

Profits on disposal arise mainly from the sale of the Group's 2.182% interest in Anima Holding and 5% interest in Etica SGR.

Section 17 – Net result of valuation differences on property and equipment and intangible assets measured at fair value
Line item 250

The Group has no property and equipment or intangible assets measured at fair value or revalued.

Section 18 – Goodwill impairment
Line item 260

18.1 Goodwill imparment: analysis

There is no balance for goodwill at 31 December 2016 as this was written-off in the first half of 2012.

Section 19 – Profits (losses) on disposal of investments
Line item 270

19.1 Profits (losses) on disposal of investments: analysis

Income item/amount	Year 2016	Year 2015
A. Buildings	**(85)**	**6**
– Profits on disposal	133	6
– Losses on disposal	(218)	–
B. Other assets	**1,478**	**–**
– Profits on disposal	1,478	1
– Losses on disposal	–	(1)
Net result	**1,393**	**6**

Section 20 – Taxes on income from continuing operations - Line item 290

20.1 Taxes on income from continuing operations: analysis

Income item/sector	Year 2016	Year 2015
1. Current taxes (–)	(4,293)	(70,554)
2. Change in prior period income taxes (+/–)	18,537	23,413
3. Reduction in current taxes (+)	–	–
3. bis Reduction in current taxes due to tax credits pursuant to Law no. 214/2011 (+)	–	–
4. Change in deferred tax assets (+/–)	35,797	(27,813)
5. Change in deferred tax liabilities(+/–)	(2,549)	11,442
6. Income taxes for the period (–) (–1+/–2+3+3bis+/–4+/–5)	**47,492**	**(63,512)**

The balance on line item 290 "Taxes on income from continuing operations" represents income of 47.5 million euro (expense of 63.5 million euro in 2015).

The positive change in deferred tax assets of 35.8 million euro is discussed in asset section 14 – tables 14.3 and 14.5.

The negative change in deferred tax liabilities of 2.5 million euro is discussed in asset section 14 – tables 14.4 and 14.6.

Section 21 – Income (loss) after tax from discontinued operations Line item 310

There was no income (loss) from discontinued operations during the year.

Section 22 – Net income (loss) for the period attributable to minority interests Line item 330

22.1 Details of line item 330 "Net income (loss) for the period attributable to minority interests"

Net income (loss) for the period attributable to minority interests relates to the following consolidated companies:

Company	Year 2016	Year 2015
Consolidated subsidiaries with significant minority interests		
Banca Popolare Mantova	–	487
Banca Akros	–	515
Other investments	**76**	**–**
Total	**76**	**1,002**

The profit for the period attributable to minority interests for 2016 relates entirely to the minority interest of 3.26% in Banca Popolare di Mantova which is classified in "Other investments" as the Parent Company BPM increased its holding from 62.91% to 96.74% of the subsidiary's capital in 2016 through acquisitions.

Section 23 – Other information

Further information on the 2016 results is provided in the section of the report on operations on the various business sectors.

Section 24 – Earnings per share

International accounting standards (IAS 33) emphasise the importance of the "earnings per share" return, generally known as EPS, and require disclosure of the following:

- "Basic EPS", calculated by dividing the net income attributable to the holders of the ordinary shares of the parent company by the weighted average number of ordinary shares outstanding during the period;
- "Diluted EPS", calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period as adjusted for the dilutive effect of all potential shares, i.e. those financial instruments and/or contracts which give their owners the right to obtain ordinary shares.

In addition profit (or loss) from continuing operations and profit (or loss) from discontinued operations must be shown separately.

24.1 Average number of diluted ordinary shares

The average number of ordinary shares used as the denominator in the calculation of basic EPS (4,390,120,325) was determined taking into account the number of ordinary shares outstanding during the period, adjusted by the number of treasury shares held.

At 31 December 2016 there were no outstanding instruments that could have a dilutive effect on earnings per share; consequently the basic and diluted EPS shown below are the same.

Basic and diluted EPS are therefore as follows:

Net income per share attributable to the Group

(in Euro)	31.12.2016	31.12.2015
Basic EPS from continuing operations	0.017	0.066
Basic EPS from discontinued operations	–	–
Basic EPS	0.017	0.066
Diluted EPS from continuing operations	0.017	0.066
Diluted EPS from discontinued operations	–	–
Diluted EPS	0.017	0.066

Part D
Consolidated Statement of comprehensive income

Detailed consolidated statement of comprehensive income

Line items		Gross amount	Income tax	Net amount
10.	**Net income (loss) for the period(*)**	**X**	**X**	**72,800**
	Other comprehensive income without reversal to the income statement			
20.	Property and equipment	0	0	0
30.	Intangible assets	0	0	0
40.	Actuarial gains (losses) on defined benefit plans	(4,853)	1,335	(3,518)
50.	Non-current assets held for sale	0	0	0
60.	Share of valuation reserves connected with investments carried at equity	(177)	0	(177)
	Other comprehensive income with reversal to the income statement			
70.	Hedging of foreign investments:	0	0	0
	a) changes in fair value	0	0	0
	b) reclassification to income statement	0	0	0
	c) other changes	0	0	0
80.	Foreign exchange differences:	0	0	0
	a) cahnge in amount	0	0	0
	b) reclassification to income statement	0	0	0
	c) other changes	0	0	0
90.	Cash flow hedges:	1,891	(627)	1,264
	a) changes in fair value	1,891	(627)	1,264
	b) reclassification to income statement	0	0	0
	c) other changes	0	0	0
100.	Financial assets available for sale:	(285,685)	88,794	(196,891)
	a) changes in fair value	(100,359)	27,715	(72,644)
	b) reclassification to income statement	(185,326)	61,079	(124,247)
	– impairment adjustments	291	(30)	261
	– profits/losses on disposal	(185,617)	61,109	(124,508)
	c) other changes	0	0	0
110.	Non-current assets held for sale:	0	0	0
	a) changes in fair value	0	0	0
	b) reclassification to income statement	0	0	0
	c) other changes	0	0	0
120.	Share of valuation reserves connected with investments carried at equity:	(133)	0	(133)
	a) changes in fair value	(133)	0	(133)
	b) reclassification to income statement	0	0	0
	– impairment adjustments	0	0	0
	– profits/losses on disposal	0	0	0
	c) other changes	0	0	0
130.	**Total other comprehensive income**	**(288,957)**	**89,502**	**(199,455)**
140.	**Total comprehensive income (line items 10+110)**			**(126,655)**
150.	**Total consolidated comprehensive income attributable to minority interests**			**(67)**
160.	**Total consolidated comprehensive income attributable to the Parent Company**			**(126,722)**

(*) Net income (loss) for the period attributable to the Parent Company 72,724
Net income (loss) for the period attributable to minority interests 76
Net income (loss) for the period 72,800

Part E
Information on risks and related hedging policies

Section 1 – Risks of the Banking Group

Unless indicated otherwise, the information contained in Section 1 "Risks of the Banking Group" refers only to the Banking Group, except in the cases specified in Bank of Italy Circular no. 262/2005.
The figures are shown prior to elimination of intercompany transactions with other consolidated companies not included in the Banking Group and conventionally also include assets and liabilities of banking, financial and near-banking joint ventures in proportion to the interest held.

Bipiemme Group includes three companies (BPM Securitisation 2 S.r.l., BPM Securitisation 3 S.r.l. and ProFamily Securitisation S.r.l.) that are consolidated on a line-by-line basis but are not part of the Banking Group, given that they are special purpose vehicles for securitisations and in which no equity interests are held, and one jointly-controlled company (Calliope Finance S.r.l. in liquidation) which, in the consolidated financial statements is accounted for using the equity method.

The figures contained in the other sections of these notes (in parts B and C) include the figures of companies which are not part of the Banking Group and exclude the figures relating to the joint ventures.

Introduction

The risk monitoring and control process

Based on thorough analyses conducted as part of the Risk Identification Process, Bipiemme Group manages the risks to which it is or could be exposed by means of a Risk Appetite Framework (RAF), through which the corporate bodies approve the Group's mission in terms of risk based on an integrated and structured approach which has implications for governance and integrated risk management policies and affects almost all Group functions.
The Risk Appetite approved by the corporate bodies is therefore considered to be the framework through which the Group defines its mission in terms of risk, through an organic and structured approach that has implications for governance and the processes of integrated risk management, as well as widespread impacts on almost all business functions. In this context, the long-term vision of the desired risk profile was made explicit and the area of risk within which the Group intends to operate was defined. The RAF can be set up both in terms of metrics and limits and in terms of quality guidelines.

The definition of risk appetite is a management tool that permits effective application of Supervisory Authority provisions and that:

- strengthens the capacity to govern and manage corporate risks;
- supports the strategic process;
- facilitates the development and dissemination of an integrated risk culture;
- develops a system to rapidly and effectively monitor and communicate the assumed risk profile;
- guides actions of escalation as may be required for definition of the Recovery Plan.

The RAF has to be integrated with key business processes in line with the new prudential supervisory provisions for banks: *"Banks ensure consistency and timely compliance between the business model, strategic plan, risk appetite framework, ICAAP, budget, corporate organisation and the internal control system"*.
The new metrics system for the Risk Appetite Framework was consolidated during the year, with updating of indicator thresholds in conformity to the latest regulations (update of Bank of Italy Circular 285, evolution of SREP rule and of the Recovery Plan), the new risk identification process, and coordination with Supervisory Authorities (Joint Supervisory Team of the European Central Bank)
In accordance with the role assigned to it by the Supervisory Regulations, the Management Board of the Parent Company is responsible for making strategic decisions concerning risk management and control at Group level, with a

view to achieving an integrated and coherent risk management policy that, at the same time, takes into account the type of operations and associated risk profile of each Bipiemme Group company, with the aim of preserving the Group's sound and prudent management.
In November 2014 BPM's Management Board set up a Risk Committee, which was created as a sub-committee of the former, in compliance with Bank of Italy Circular no. 285, with functions of strategic supervision of risk and of the internal control system; the Board Committee works alongside the Group Risks Committee, set up by the Bipiemme Group in 2013 to support the corporate bodies in achieving integrated management of risks. The latter meets at least once a month and has the task of supervising the integrated management of all business risks to which the individual members of the Group and the Group as a whole are exposed to.

The Bank's Internal Control System (ICS) reflects an articulated, systemic vision, which sets out the general principles that are designed to ensure the correct and effective management of the systems to be checked for risks, defining, in particular, how they function and the guidelines for the monitoring and coordination of the Group companies' control activities.
The ICS is a set of rules, functions, structures, resources, processes and procedures designed to ensure the achievement of the following goals in accordance with sound and prudent management:

- checks on the implementation of corporate strategies and policies;
- mitigation of risk within the limits laid down in the RAF;
- protection of the value of assets and protection against losses;
- effectiveness and efficiency of business processes;
- reliability and security of corporate information and IT procedures;
- prevention of the risk that the Group may be involved, even unwittingly, in unlawful activities (with particular reference to those related to money laundering, usury and the financing of terrorism);
- compliance of operations with the law and regulatory provisions, as well as with internal policies, regulations and procedures.

As part of a more general process of value creation for the Group, the correct functioning, formalisation and updating of the Organisational Model for the ICS is also an essential condition for the maintenance of this process, given that the methods for carrying out business processes always have to be suitably aligned with the processes of governance and control.
This Model constitutes a point of reference for a common, standard approach on the part of the entire Group, which presumes widespread knowledge of its contents, complete awareness of the underlying assumptions and common acceptance of the values on which it is based.
The Parent Company also favours the development of a suitable corporate risk culture based on customer assistance, providing customers with adequate information regarding complaints and matters that need reporting. This represents, above all, a means of protection for customers and also supplements the Group's broader ICS.

Based on the relevant generally accepted principles, on the Supervisory Regulations of the Bank of Italy and on the Corporate Governance Code of Borsa Italiana S.p.A., it can be stated that the ICS consists of a set of rules, procedures and organisational structures which, through a suitable process of identification, permits:

- the measurement, management and monitoring of risks to which the Group is or might be exposed;
- the company to be run in a healthy, correct and consistent way in line with objectives set by the governing bodies;
- the safeguarding of the company's assets, the efficiency and effectiveness of its operations, the reliability of the financial reporting process and compliance with all laws and regulations.

The adequacy, efficacy and effective functioning of the Internal Control System are assessed, according to their respective areas of competence, by:

- the Management Board of the Parent Company, which is responsible for risk management and internal controls in accordance with article 39, paragraph 2d of the Articles of Association, without prejudice to the powers and duties of the Supervisory Board;

- the Managing Director of the Parent Company, who is assigned the power to promote integrated risk management (article 45, paragraph 2m of the Articles of Association);
- the Supervisory Board of the Parent Company, which is responsible for assessing the level of efficiency and adequacy of the internal control system, with particular regard to risk control, the Internal Auditing function and the accounting and reporting system; it also checks that the Parent Company properly performs its strategic and management control activities over the other Group companies (article 51e of the Articles of Association);
- the Parent Company's Internal Control Committee, by which the Supervisory Board carries out its control functions and to which the Committee must report with up-to-date and timely information;
- the Parent Company's Internal Auditing Department, which carries out audit work, the Compliance Department, which checks compliance with the Bank's policies, and the Chief Risk Officer, who is responsible at a Group level for monitoring risk and implementing processes to ensure risk management.

As established by the Management Board in the corporate structure, risk monitoring and control is delegated to the Parent Company's Chief Risk Officer (CRO), who, by means of the various organisational units over which he/she presides is in charge of ensuring, at a Group level, coordinated control of the risks for which he/she is responsible and guaranteeing the development and continuous improvement of methods and models for their measurement.
The Risk Management & Capital Adequacy function, which collaborates on the definition and implementation of the RAF, of ICAAP and ILAAP Reports, on the Recovery Plan, and on related risk management policies by means of an adequate risk management process, understood as the identification, measurement or evaluation, monitoring, prevention or mitigation and reporting of the risks to which the Group is or might be exposed, guarantees adequate capital resources of the First and Second Pillar and an efficient liquidity profile.
With reference to market risk, the Parent Company's Risk Management & Capital Adequacy function also avails itself of the operations conducted by the homologous function at Banca Akros. Also formed within the CRO structure is the Regulatory Relationship unit, which supports the Chief Risk Officer in relations with the Supervisory Authority, in monitoring and consulting with regard to regulatory provisions, in proactive management of SREP Mirroring and in the development and dissemination of risk culture.
The Risk Control unit contributes to integrated risk management at a Group level by conducting second-level management checks on the credit and financial risks inherent to the main balance sheet items in line with rules contained in current Supervisory provisions, focusing on the accuracy and representativeness of the information used for such purpose and, in particular, for evaluating the adequacy of the instruments used and of the actions proposed by first-level structures, specifying any steps that may be needed for reorganisation and/or improvement.

For such purpose, the Parent Company:

- ensures that consistent methodologies, measurement criteria and risk control instruments, appropriate to the type and extent of assumed risks, are used throughout the Group;
- involves the Corporate Bodies of subsidiaries in decisions concerning risk management procedures and policies;
- periodically assesses the Group's risk profile (risk actually assumed by the Group, measured in a specific time period) in the Risk Management report and compares it to the threshold values defined in the RAF.

The Validation Unit is involved in activities linked to the validation of systems and processes of risk measurement and management developed by functions in the CRO, and ensures checking of and compliance with regulatory provisions and alignment with market best practices.

As regards the principal risks to which the Group is exposed, for credit and concentration risk, the Parent Company ensures that a Group lending and credit management policy is defined and adopted, that "large exposures" are monitored centrally and that the overall quality of the loan and commitment portfolio is kept under control. The Parent Company is also responsible for setting up and maintaining the internal rating system (IRS), which is currently used in various processes: granting/renewing credit, monitoring/measuring credit risk, calculating portfolio adjustments, measuring risk-adjusted performance and defining risk-adjusted pricing for new lending operations.

In matters of financial risks (market risk, counterparty risk, liquidity risk, interest rate risk on the banking book), the Parent Company's Management Board identifies and authorises the Group companies that can assume and manage its own financial risks in compliance with the limits established by the Parent Company.

With reference to market risk, the limit system for the various types of portfolio is organised as follows:

- company macro-limits, i.e. the maximum exposure that can be assumed by the companies authorised to take on financial risks;
- directional limits, i.e. the allocation of company limits to individual portfolios, to be defined in specific Regulations for Financial Operations for each Group company.

The Group's Finance Committee ensures the coordination of the Group's policies for investing in financial assets, the implementation of the liquidity policy and related annual ILAAP Report and the monitoring and management of exposure to interest rate risk on the banking book.
For such purpose, the Committee performs the following tasks:

- monitoring the Group's operational and structural liquidity – by checking exposure to short-term liquidity gaps, the exposure on the interbank market, cash flow and the pricing of intragroup liquidity – and the definition of guidelines for managing liquidity;
- approving new banking book investments, within the limits established by the Management Board of the Parent Company on the proposal of the Risk Committee;
- monitoring the activity of the Asset & Liability Management (ALM) function and defining corrective policies to balance the exposure of the banking book to interest rate risk for the Group as a whole and for the individual companies.

Regarding operational risk, the Parent Company has responsibility for setting up and operating the system of operational risk management and control, this being understood as a structured series of processes, functions and resources for the identification, measurement, valuation, prevention/mitigation and control of exposure to operational risks.
The Parent Company's Risk Management & Capital Adequacy Function supervises Operational Risk activities and coordinates the Operational Risk Managers of Group banks.

Through the Risk Management & Capital Adequacy Function, the Parent Company ensures the measurement, monitoring, and management of capital requirements for each type of risk, ensuring supervision and quantification of the Group's capital resources to cover exposure to risks in order to comply with the regulatory obligations of the First and Second Pillar of Basel 2.
In particular, centralised control over the Group's capital adequacy, which involves comparing the amount of available capital with the capital requirements deriving from the risks to which the Group is exposed, on an actual and prospective basis, in conditions of normality and of stress, is carried out through the Internal Capital Adequacy Assessment Process, as required by the "Minimum Capital Requirements for Banks" (Circular no. 285/2013).
The Parent Company also ensures continuous measurement, monitoring and management of the consolidated capital ratios, defining their target levels in the medium term in line with the evolution of regulatory requirements.
With reference to Pillar 2 requirements, in April 2016 all of the information on management and quantification of risks and of capital absorption concerning the final situation at 31 December 2015 and the outlook at 31 December 2016 were gathered and summarised by the Risk Integration & Capital Adequacy Function in a document entitled "ICAAP Report." The Report also contains information on non-quantifiable risks (for example, reputational risk, strategic and business risk, etc.) and presents details on the organisational strategies enacted by the Group to monitor and mitigate same. The 2015-2016 ICAAP Report, submitted to assessment by the Parent Company's strategic and control functions, was subsequently approved by the corporate bodies and transmitted to the Supervisory Authority in conformity to law.
Likewise, the adequacy of liquidity is reported in the 2015-2016 ICAAP Report, submitted to assessment by the Parent Company's strategic and control functions and subsequently approved by the corporate bodies and transmitted to the Supervisory Authority in conformity to law. The self-assessment of adequacy of liquidity (ILAAP) was based on the new process for identification of risks and for consolidation of the Liquidity Risk Appetite Framework adopted by the Group.

With regard to compliance with Pillar 3 requirements, the disclosure on risk monitoring and management activities of Bipiemme Group will be published on the new Banco BPM S.p.A. Banking Group website (www.bancobpmspa.it). Bipiemme Group's Pillar 3 disclosure, based on the provisions of Regulation (EU) No. 575/2013 (Capital Requirements Regulation) and the EBA/GL/2014/14 guidelines of 23 December 2014 (Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No.575/2013), was published semi-annually.

1.1- Credit risk

Qualitative information

1. General aspects

The policies for managing and controlling the quality of loans and associated risks are based on rules of sound and prudent management.
They are implemented through the processes of disbursing, managing and monitoring credit for which specific activities are required and special instruments made available for controlling the risk that varies according to the circumstances of the market and business sector and, specifically, the characteristics of each borrower.
The Bipiemme Group grants credit to households and businesses in its territory in order to meet their needs and to help them achieve sustainable growth, with the goal of increasing profitable long-term relationships, encouraging development and the arrival of new customers, in compliance with objectives of proper management of the risk/return profile. The Group, with a business model aimed at operating as a local bank, gives preference to development activities geared to Italian households and companies.
The loan portfolio is closely monitored on a continuous basis in order to rapidly identify any symptoms of imbalance and to take corrective action to prevent any deterioration.

2. Credit risk management policies

2.1 Organisational aspects

Lending activity at each Group company is supervised by a specific function dedicated to credit disbursement and control by means of well identified and suitably empowered structures. All of the structures involved are called upon to grant and manage credit, as well as to control credit risk, making use of appropriate procedures, of which the internal rating system is an integral part, to set up the dossier, determine creditworthiness and, more generally, to follow the relationship over time.
The credit "chain" for the commercial banks offers the possibility that in the presence of low risk and for amounts that form part of the duties foreseen in the current Credit Line Regulations, proposals can be decided locally by the Commercial Network.
This function is performed by specialists, consistently allocated, who conduct the analyses required for the proposed loan and decide accordingly or prepare a report on positions to be presented to their superiors according to the powers established by the Group's regulations. Starting in 2015, parties in charge of credit decisions have been identified by means of a specific method based on both internal ratings and – more generally – on the potential equity absorption of the transaction being analysed, determined via the use of all significant parameters for calculation of RWA (especially PD, LGD and EAD).

Ratings can only be changed by the Rating Desk, which does not have approval power. Any change that upgrades or downgrades the rating developed by the model is limited to within a defined range, must be motivated and is normally traceable to special circumstances that are not adequately acknowledged by statistical models or in the presence of events involving particularly high risk.

2.2 Management, measurement, and control systems

To assess the credit standing of performing counterparties, the Bipiemme Group uses an internal rating system (IRS) which it has developed internally. From a quantitative point of view, the Bank has implemented statistical models for calculating the ratings to be given to counterparties divided into four customer macrosegments based on turnover (or equivalent) and/or size of credit line: Individuals, Small Businesses, SMEs (small and medium-sized enterprises) and Companies.

Internal rating models are managed by the Parent Company's Chief Risk Officer (CRO) who performs the following activities:

- development and maintenance of rating models: estimate of PD (probability of default) models, of LGD (loss given default) and exposure to default by the Credit Risk unit belonging to the Risk Management & Capital Adequacy function;
- internal validation and analyses of performance of rating models and of LGD, which includes backtesting and benchmarking analyses of individual components of the models performed by the Validation unit (a function that is independent from Risk Management & Capital Adequacy).
- generation of reports for Group Departments and functions.

Annual calibration and updating of internal models continuously improve the estimate of risk metrics, as confirmed by the audits conducted by internal control functions (Validation and Internal Audit).
In 2015 the Group concluded a project to strengthen its current Internal Rating System (IRS) and adjust it to the requirements established by Regulation (EU) No. 575/2013 (CRR - Capital Requirements Regulation) and by the Bank of Italy regulation implementing such European Regulation (Circular no. 285/2013). Additional refinements to the models were introduced during 2016, applying the Authority's observations during the ECB inspection of last February-March. Specifically, rating models were recalibrated in order to include the effect of 2015 defaults in estimates, and a vintage effect for non-performing loans was introduced in the LGD defaulted assets model.
These model changes aim to provide commercial banks with the best credit management methodologies and processes.

Rating and PD estimation models
The internal rating models currently in use refer to four customer macro-segments:

- **Individuals** (consumer households);
- **Small Businesses**;
- **SMEs**;
- **Companies**.

All of the models were developed internally based on samples representative of the Bipiemme Group's customer portfolio. The models' performances are assessed quarterly on an independent basis by the Validation Function by applying a series of defined statistical tests. The rating is assigned to the counterparty regardless of the type of credit that has been requested (counterparty rating).

The rating model for **Individuals** is a system in which, when credit is granted for the first time (counterparty acceptance phase), background information about the counterparty and the product converge, as well as information on the counterparty's creditworthiness from an external bureau. In the monitoring and renewal phase of a facility, or if new credit is being granted to a previously approved counterparty, additional analytic-quantitative elements (behavioural information) are provided.

With regard to the **Small Business** segment, the internal rating system consists of the following modules:

- **financial**, based on information acquired from financial statements and differentiated by limited companies and other parties employing simplified accounting methods, as well as based on the industry structure for reclassification of financial statements provided by the Central Financial Statements File;
- **internal performance**, designed to monitor the counterparty's credit behaviour versus the Group by means of aggregate information by risk category;
- **external performance**, designed to observe the counterparty's credit behaviour versus the banking system, developed on the basis of information deriving from the census of exposures maintained at the Central Risk File (CR);
- **qualitative**, designed to supplement (via the compilation of specific questionnaires) the commercial manager's subjective evaluations on the counterparty's position with respect to the reference market;
- **anagraphic**, based on information concerning the type of company and its account with the Bank.

These five modules, differentiated by size, contribute to the formation of an integrated statistical rating. The result may be varied (override) at the request of the commercial manager, who, based on his/her knowledge of the customer and subject to objective elements, submits his/her rating evaluation to the Rating Desk, an independent structure. This structure, which has no decision-making powers, assesses the request and assigns the definitive rating in these cases, respecting certain limits to the variation in case of requests for a higher rating. From the procedural point of view, the manager plays a crucial role in the rating system and, both for the granting of a first credit and for renewal, personally supervises assignment of the rating by means of a specific workflow. This system, designed to increase the network's risk culture, allows the manager to acquire knowledge of the risk profile trend of evaluated parties so that he/she may express an opinion on each of the information areas provided by the system. This opinion becomes an essential element for any override requests, as described above.

For individuals as well as for companies, early warning signals may be triggered for which the system automatically proposes a downgrade of the rating.

LGD model

For the determination of Loss Given Default (LGD), Bipiemme Group uses a "workout" model, based on the observation of events of interest (exposure to default, expenses incurred for the recovery, recoveries, guarantees, etc.) of non-performing positions closed in the past. The LGD estimate comprises:

1) determination of a nominal recovery rate, including direct costs, recognised on prior non-performing counterparties;
2) estimation of a recalibration parameter (danger rate) for calculation of the overall LGD, in order to consider the different states of deterioration included in the default. In this way, the LGD rate for non-defaulting positions is calculated by weighting the LGD on defaults by the danger rate.

Two additional factors are added to the LGD thus calculated:

a) quantification of an increase deriving from indirect costs (for example, fixed overhead) for management of workout positions;
b) estimate of a downturn component by identifying a negative phase in the economic cycle and quantification of the loss differential for the medium-long term.

Lastly, with regard to the defaulted assets portfolio, the estimates consider (for non-performing loans) the so-called vintage effect in order to include the trend of the recovery process.

EAD model

In 2015 the Bipiemme Group implemented a new internal model for the estimation of the Credit Conversion Factor (CCF) with reference to its Retail: Small Business and Individuals portfolio. In the other segments pertaining to the Corporate class, the Bank continues to use the CCFs called for by the CRR regulation, in addition to analysis of the results generated by the internal EAD model prior version). EAD estimates, generated monthly by the model, are used as monitoring drivers to keep Top Management, Bank Departments, and the Risk Management and Capital Adequacy function constantly informed for purposes of risk control, benchmarking and internal analyses.

The IRS, structured on the basis of the above-mentioned PD, LGD, and EAD risk parameters, is currently used in the following processes:

- evaluation of the counterparty's creditworthiness in the granting, monitoring, and renewal of the credit;
- monitoring current risk;
- definition of credit policies;
- management reports;
- collective write-down of credits on financial statements;
- determination of Risk Adjusted Pricing;
- analytic management reports;
- budgeting and performance evaluation.

All of the credit processes use the counterparty rating as a decision-making "driver" and are considered in function of the specific nature of the various customer segments in order to optimise use of the resources involved in managing and monitoring credit, as well as to achieve a reasonable balance between commercial aggressiveness and effective credit management.
During the credit granting stage, whether as a first-time credit facility or for the renewal/review of a revocable line of credit, the rating is one of the key elements in defining which body has decision-making power: with the completion of the proposal according to the outcome of the customer assessment and the amount/category of risk of the loan being proposed, the system automatically assigns the decision-making level required for approval. It also has an influence on how the automatic renewal mechanism is applied to revocable positions.

The credit granting process: Corporate, SME, and Small Business segments
After an initial phase to identify the Rating Manager, the credit granting process calls for the gathering and checking of information needed to assign the correct internal risk segment.
This is followed by the qualitative evaluation of the counterparty (Qualitative Questionnaire), a preparatory phase to final evaluation of the counterparty's credit-worthiness (rating).
This evaluation, an essential element in the rating assignment process, is mandatory and without it the procedure cannot continue to the next steps of the investigative and decision-making process.
In the process of granting credit to counterparties in the Business segments (Corporates, SMEs and Small Businesses), as defined on the basis of size thresholds in the annual segmentation process, a central role was given to the Manager and to his/her contribution to value compared to a purely "statistical" rating. The "manager's decision" is an indispensable component of the new rating system and, in each evaluation phase, allows checking of alignment/misalignment of the expert's evaluation with the result provided by automatic algorithms. In all cases in which such alignment is not ascertained and there are solid grounds of support, a formal override may be requested by means of a structured process, i.e. a request to the competent manager to change the rating as an exception to the model.
The Rating Desk is responsible for evaluating the manager's request for change and, with an empirical evaluation, examines the override proposal and assigns the definitive rating to the counterparty in question.

Another essential element of the system is the availability of the rating and the mechanisms for updating same for purposes of providing users with all relevant information needed for investigation. In addition to the rating class, the manager is informed of:

- the risk category, indicating the classification structured in 5 levels common to all Group perimeter segments;
- the risk profiles by single module and at times by information area (for example, single financial statement area);
- details of reasons for exclusion from or expiration of the rating calculation (financial statements too old, qualitative questionnaire expired, etc.);
- information on downgrading or upgrading the rating due to external or internal components.

In addition to applying common rules over the granting of credit (e.g. external negative deeds control, internal risk situations, etc.) the rating also constitutes an essential element in assessing a customer; the preliminary investigation cannot proceed if any of the elements needed to calculate the rating are missing.

The credit granting process: Individuals segment

The credit granting process for Individuals differs during investigatory phases depending on the product requested by the customer (overdraft, mortgage, personal loan, special purpose loan).

The dossier incorporates an overall rating that considers various components, such as acceptance, internal performance analysis (if any), and information from the financial system assigned by credit reference bureaus.

Specifically, the new rating model provides for progressive integration of the acceptance component with the monitoring component to guarantee appropriate weighting of the most relevant and updated information from time to time.

The credit granting process, expanded with risk evaluation, also calls for differentiated steps based on the specific requirements of each type of credit facility, on common rules applied to the granting of credit (e.g. external negative deeds control, internal risk situations, limits on the ratio between repayments and income, the presence of residual debt on the building, limits on "loan to value", the maximum age of the applicant, etc.).

The process also provides access to "black list" databases according to the requirements of the applicable anti-money laundering regulations.

The process of the renewal/review of the credit line granted to individuals provides for the use of the performance rating system as a support in determining:

- automatic renewal (without any change in existing credit lines);
- risk analysis during the preliminary investigation.

Credit monitoring process and rating desk

Control of credit risk on individual performing exposures is guaranteed by a monitoring process that systematically examines internal and external events and information to identify any signs of deterioration in the account, proposing changes to the non-performing counterparty's rating. Therefore, the credit risk trend on individual performing exposures is measured by the rating of each counterparty.

With the shift to the new internal rating system, the trend check affects both the counterparty's administrative status and his/her rating. These functions are performed by two independent and complementary functions: Credit Monitoring and Rating Desk.

The Credit Monitoring function is responsible for correctly classifying the credit, for supervising activities aimed at intercepting positions showing initial signs of stress/impairment, for possible assignment of the management of such positions to specialists and for monitoring actions taken and the results obtained.

The entire process is characterised by:

- a high level of operating automation;
- centralised management of control policies;
- transparency and traceability of the decisions made by operators assigned to control functions;
- interaction between control functions and the commercial network on internal rating matters to ensure that integrity is maintained.

In the performance of its credit monitoring activities, the function may also point out significant elements in a counterparty's evaluation and, based on such elements, request an override of the rating assigned by the rating manager.

The Rating Desk is responsible for evaluating override requests and, in some cases, for assigning the rating as the manager. As described above, positive or negative override requests may be selected only if the Rating Manager is aware of elements not included in the rating calculation, which must be adopted to support the override request. These requests are submitted to an independent function – the Rating Desk – for validation; the Rating Desk then assigns the definitive rating.

In addition to validating override requests, the Rating Desk also assigns the rating if the unavailability, insignificance or incompleteness of some information or the counterparty's characteristics demand an empirical evaluation by a specialist. This is required by the rules for specifically identified types of counterparties and in particular for newly-formed companies, agricultural companies using simplified accounting methods, companies with size indicators (turnover/total assets used for purposes of segmentation) greater than or equal to 150 million euro and counterparties with insufficient financial statement data or a financial period of other than 12 months for which financial statement data cannot be used for the purposes of calculating the rating.

Closely related to credit risk is concentration risk, which results from particularly high exposures to counterparties or groups of connected counterparties, or those that belong to the same economic sector, engage in the same activity, or that reside or do business in the same geographical area.
The Group therefore uses a system of limits on loan exposures for specific purposes, essentially to avoid excessive concentration of risk with a single customer or group of related customers in relation to free capital. This limit system is defined and updated periodically.

2.3 Credit risk mitigation techniques

The Bipiemme Group requests guarantees against credit risk on a selective basis according to the customer's credit rating. In these cases granting the loan depends on obtaining the guarantee. Guarantees are either secured, particularly by mortgages and securities, or unsecured.

A list of the guarantees accepted for purposes of Credit Risk Mitigation is published in the internal regulations; likewise, a list of accepted residential and non-residential assets has been prepared.

For mortgages, the registration value equals:

- for Individuals, one and a half times the amount of the loan granted for any term (twice if taking on a mortgage on the subdivision of a building loan);
- for Companies, twice the amount of the loan granted for any term.

To ensure effective acquisition and management of guarantees, the Group has defined the general requisites to be subjected to control with regard to property guarantees, financial pledges (cash and cash equivalents) and personal guarantees.

For property mortgages, there is a specific monitoring process characterised by:

- setting up a master file of property acquired as collateral;
- the continuous update of databases, by means of internal control processes or by the automatic acquisition of information from specialised suppliers (e.g. the value indicated by an expert appraisal);
- the automatic revaluation of property value based on price trends shown periodically by the real estate market observatory (Land Registry Office);
- the identification of properties whose value has decreased significantly in relation to general market prices, in order to conduct a new external appraisal of the credit lines for which the Bank has the highest relative exposure;
- the identification of assets relating to large exposures (more than 3 million Euro) for which new external appraisal must be conducted at least ever 3 years, in addition to the automatic reappraisal process mentioned above.

For collateral, the valuation process applies methods and frequencies appropriate to the specific form of collateral received.
Unsecured guarantees are received after assessing the adequacy of the guarantor's assets and his/her personal credit rating, if available.

Special dedicated structures within the Credit, Risk Management & Capital Adequacy, and Operations (Smart Center) Functions supervise the collection, processing, administration and monitoring of guarantees.
The Unified Guarantee Center (U.G.C.), part of the Smart Center has been operative since July 2015. The U.G.C. checks the correct and complete acquisition of documentation for guarantees, finalises guarantees not yet in force, manages finalised guarantees (such as mortgage renewals), monitors the first level of eligibility and of the value of the guarantees utilised for purposes of mitigating risk, and ensures supervision of their value.
The above-mentioned activities are essential not only to ensure the effectiveness of CRM instruments, but also to ensure the prompt update of all regulatory requirements for eligibility according to Basel Standardised and Advanced Approaches. The mitigating component of the guarantees in the valuation of the LGD parameter can be only calculated when such requirements are met.

In the context of Credit Risk, there is monitoring of the various types of real and personal guarantees, their eligibility for purposes of risk mitigation, the value of exposures guaranteed over time, and their impact in terms of RWA and shortfall; the results are published in a periodic report addressed to the Control Functions.

2.4 Impaired financial assets

The organisation of the Bipiemme Group calls for specialist units in the Credit and Loans Function, which manage impaired credit positions, consisting of past due and non-performing loans, and handle the recovery process.
After an "impairment" status has been confirmed, these units act with the commercial network to restore positions to performing status. If this is not possible, a disengagement plan is agreed to; otherwise, a dedicated function takes steps to recover the amount in order to protect the Group.

The Group has not conducted any acquisitions of impaired loans from third parties.

Lastly, due to new reporting requirements for forborne loans, the Group has taken steps to implement appropriate methodologies for their correct identification. These methodologies consider risk factors (rating class) and evidence of continuous monitoring such as for example the number of days past due, and are in line with the indications provided by the EBA. In addition, specialist units in the Credit and Loans Function provide expert opinions on the valuation of the customer's actual financial condition.

The Group currently implements a comprehensive and systematic process for the valuation, identification, and monitoring of forborne loans, starting with the creditworthiness of customers who contact the Group's commercial network to renegotiate contractual terms and conditions.

Quantitative information

A. Asset quality

A.1 Impaired and performing positions: balance, impairment adjustments, change, distribution by business segment and geographical location

Tables A.1.1 and A.1.2 show figures for companies belonging to the Banking Group as well as for other consolidated companies. At 31 December 2016, consolidated companies that do not form part of the Banking Group are BPM Securitisation 2 S.r.l., BPM Securitisation 3 S.r.l. and ProFamily Securitisation S.r.l..

The other tables show only figures for companies belonging to the Banking Group.

A.1.1 Distribution of credit exposures by originating portfolio and credit quality (carrying amount)

Portfolio/quality	Bad loans	Unlikely to pay	Impaired past due positions	Performing past due positions	Performing positions	Total
1. Financial assets available for sale	–	–	–	–	8,903,819	**8,903,819**
2. Investments held to maturity	–	–	–	–	–	**–**
3. Due from banks	–	–	–	–	2,185,297	**2,185,297**
4. Loans to customers	1,583,386	2,022,902	29,704	1,137,994	29,997,022	**34,771,008**
5. Financial assets designated at fair value through profit and loss	–	–	–	–	19,240	**19,240**
6. Financial assets due for disposal	–	–	–	–	–	**–**
Total 31.12.2016	**1,583,386**	**2,022,902**	**29,704**	**1,137,994**	**41,105,378**	**45,879,364**
Total 31.12.2015	**1,490,591**	**2,050,091**	**90,316**	**1,476,785**	**39,378,313**	**44,486,096**

A.1.2 Distribution of credit exposures by originating portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non performing assets			Performing			Total net exposure
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Specific adjustments	Net exposure	
1. Financial assets available for sale	–	–	–	8,903,819	–	8,903,819	**8,903,819**
2. Investments held to maturity	–	–	–	–	–	–	**–**
3. Due from banks	1,389	1,389	–	2,188,648	3,351	2,185,297	**2,185,297**
4. Loans to customers	6,260,448	2,624,456	3,635,992	31,287,097	152,081	31,135,016	**34,771,008**
5. Financial assets designated at fair value through profit and loss	10,145	10,145	–	X	X	19,240	**19,240**
6. Financial assets due for disposal	–	–	–	–	–	–	**–**
Total 31.12.2016	**6,271,982**	**2,635,990**	**3,635,992**	**42,379,564**	**155,432**	**42,243,372**	**45,879,364**
Total 31.12.2015	**6,013,559**	**2,382,561**	**3,630,998**	**40,973,591**	**187,262**	**40,855,098**	**44,486,096**

Portfolio/quality	Assets with low credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	(252)	456	1,489,842
2. Hedging derivatives	–	–	44,835
Total 31.12.2016	**(252)**	**456**	**1,534,677**
Total 31.12.2015	**(923)**	**893**	**1,764,156**

The following table shows the aggregate of "Loans to customers" (item 5 of the previous table, in the "net performing exposures" column), the values of loans subject to renegotiation in collective agreements and other exposures. Past due positions for both groups are analysed by maturity.

Portfolio/ageing of past due	Up to 3 months(*)	3 to 6 months	6 months to 1 year	Past due for more than 1 year	Non past due	Total 31.12.2016
Exposure subject to renegotiation under collective agreements (relating to renegotiations with customers in difficulty)	1,084	–	1,670	–	146,523	**149,277**
Exposure subject to renegotiation under collective agreements (other)	880	252	–	153	130,030	**131,315**
Total exposure subject to renegotiation under collective agreements	**1,964**	**252**	**1,670**	**153**	**276,553**	**280,592**
Other exposures (relating to renegotiations with customers in difficulty)	89,003	15,494	4,972	4,125	555,623	**669,217**
Other exposures (other)	864,483	98,454	56,247	1,177	29,164,846	**30,185,207**
Total other exposures	**953,486**	**113,948**	**61,219**	**5,302**	**29,720,469**	**30,854,424**
Total performing positions	**955,450**	**114,200**	**62,889**	**5,455**	**29,997,022**	**31,135,016**

(*) The balance of «Exposures up to 3 months» does not include loans with one instalment overdue by 1 day for 1,372.9 million euro (1,381.1 million euro at 31 December 2015).

A.1.3 Banking Group – Cash loans and off-balance sheet exposures to banks: gross and net amounts and maturities

Type of exposure/amount	Gross exposure					Specific adjustments	General adjustments	Net exposure
	Non performing assets				Performing loans			
	Up to 3 months	3 to 6 months	6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Bad loans	–	–	–	1,389	X	1,389	X	–
– of which: exposures with forbearance measures	–	–	–	–	X	–	X	–
b) Unlikely to pay	–	–	–	–	X	–	X	–
– of which: exposures with forbearance measures	–	–	–	–	X	–	X	–
c) Past due impaired exposures	–	–	–	–	X	–	X	–
– of which: exposures with forbearance measures	–	–	–	–	X	–	X	–
d) Past due performing exposures	X	X	X	X	–	–	–	–
– of which: exposures with forbearance measures	X	X	X	X	–	–	–	–
e) Other performing exposures	X	X	X	X	2,356,166	–	3,351	2,352,815
– of which: exposures with forbearance measures	X	X	X	X	–	–	–	–
TOTAL A	**–**	**–**	**–**	**1,389**	**2,356,166**	**1,389**	**3,351**	**2,352,815**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	–	–	–	–	X	–	X	–
b) Performing	X	X	X	X	1,352,769	X	85	1,352,684
TOTAL B	**–**	**–**	**–**	**–**	**1,352,769**	**–**	**85**	**1,352,684**
TOTAL (A+B)	**–**	**–**	**–**	**1,389**	**3,708,935**	**1,389**	**3,436**	**3,705,499**

A.1.4 Banking Group – Cash loans to banks: changes in gross impaired exposures with forbearance measures

Description/category	Bad loans	Unlikely to pay	Past due impaired exposures
A. Gross exposure at beginning of year	**1,389**	**–**	**–**
– of which: exposures sold but not eliminated	–	–	–
B. Increases	**–**	**–**	**–**
B.1 transfers from performing positions	–	–	–
B.2 transfers from other categories of impaired exposures	–	–	–
B.3 other increases	–	–	–
C. Decreases	**–**	**–**	**–**
C.1 transfers to performing positions	–	–	–
C.2 write-offs	–	–	–
C.3 collections	–	–	–
C.4 recovery through disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposures	–	–	–
C.7 other decreases	–	–	–
D. Gross exposure at end of year	**1,389**	**–**	**–**
– of which: exposures sold but not eliminated	–	–	–

A.1.4bis – Cash loans to banks: changes in gross exposures with forbearance measures based on credit quality

Description/category	Exposures with forbearance measures: non performing	Exposures with forbearance measures: performing
A. Gross exposure at beginning of year	**–**	**–**
- of which: exposures sold but not eliminated	–	–
B. Increases	**–**	**–**
B.1 transfers from performing positions without forbearance measures	–	–
B.2 transfers from performing positions with forbearance measures	–	X
B.3 transfers from impaired exposures with forbearance measures	X	–
B.4 other increases	–	–
C. Decreases	**–**	**–**
C.1 transfers to performing positions without forbearance measures	X	–
C.2 transfers to performing positions with forbearance measures	–	X
C.3 transfers to impaired exposures with forbearance measures	X	–
C.4 write-offs	–	–
C.5 collections	–	–
C.6 recovery through disposals	–	–
C.7 losses on disposal	–	–
C.8 other decreases	–	–
D. Gross exposure at end of year	**–**	**–**
- of which: exposures sold but not eliminated	–	–

A.1.5 Impaired cash loans to banks: changes in total adjustments

Description/category	Bad loans		Unlikely to pay		Past due impaired exposures	
	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures
A. Total write-downs at beginning of year	**1,389**	**–**	**–**	**–**	**–**	**–**
- of which: exposures sold but not eliminated	–	–	–	–	–	–
B. Increases	**–**	**–**	**–**	**–**	**–**	**–**
B.1 adjustments	–	–	–	–	–	–
B.2 losses on disposal	–	–	–	–	–	–
B.3 transfers from other categories of impaired exposures	–	–	–	–	–	–
B.4 other increases	–	–	–	–	–	–
C. Decreases	**–**	**–**	**–**	**–**	**–**	**–**
C.1 write-backs	–	–	–	–	–	–
C.2 write-backs on collection	–	–	–	–	–	–
C.3 profits on disposal	–	–	–	–	–	–
C.4 write-offs	–	–	–	–	–	–
C.5 transfers to other categories of impaired exposures	–	–	–	–	–	–
C.6 other decreases	–	–	–	–	–	–
D. Total write-downs at end of year	**1,389**	**–**	**–**	**–**	**–**	**–**
- of which: exposures sold but not eliminated	–	–	–	–	–	–

A.1.6 Banking Group – Cash loans and off-balance sheet exposures to customers: gross and net amounts and maturities

Type of exposure/amount	Gross exposure					Gross exposure	Specific adjustments	General adjustments
	Non performing assets				Performing loans			
	Up to 3 months	3 to 6 months	6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Bad loans	169	70	3,487	3,492,907	–	1,913,247	–	1,583,386
– of which: exposures with forbearance measures	–	2	30	182,429	–	103,683	–	78,778
b) Unlikely to pay	1,687,513	96,631	261,665	694,538	–	717,445	–	2,022,902
– of which: exposures with forbearance measures	1,195,955	49,599	99,624	469,316	–	416,677	–	1,397,817
c) Past due impaired exposures	10,249	10,354	9,434	3,576	–	3,909	–	29,704
– of which: exposures with forbearance measures	1,037	1,420	1,026	905	–	347	–	4,041
d) Past due performing exposures	–	–	–	–	1,152,322	–	14,328	1,137,994
– of which: exposures with forbearance measures	–	–	–	–	117,849	–	1,501	116,348
e) Other performing exposures	–	–	–	–	39,133,163	–	137,753	38,995,410
– of which: exposures with forbearance measures	–	–	–	–	712,670	–	10,524	702,146
TOTAL A	**1,697,931**	**107,055**	**274,586**	**4,191,021**	**40,285,485**	**2,634,601**	**152,081**	**43,769,396**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	459,344	–	–	–	–	24,154	–	435,190
b) Performing	X	X	X	X	6,913,499	–	9,938	6,903,561
TOTAL B	**459,344**	**–**	**–**	**–**	**6,913,499**	**24,154**	**9,938**	**7,338,751**
TOTAL (A+B)	**2,157,275**	**107,055**	**274,586**	**4,191,021**	**47,198,984**	**2,658,755**	**162,019**	**51,108,147**

A.1.7 Banking Group – Cash loans to customers: changes in gross impaired exposures

Description/category	Bad loans	Unlikely to pay	Past due impaired exposures
A. Gross exposure at beginning of year	**3,281,460**	**2,645,562**	**99,537**
- of which: exposures sold but not eliminated	139,102	37,989	9,785
B. Increases	**533,044**	**1,066,416**	**344,098**
B.1 transfers from performing positions	13,888	753,201	335,494
B.2 transfers from other categories of impaired exposures	485,931	186,394	3,710
B.3 other increases	33,225	126,821	4,894
C. Decreases	**317,871**	**971,631**	**410,022**
C.1 transfers to performing positions	568	130,360	224,514
C.2 write-offs	160,181	37,222	–
C.3 collections	98,838	291,671	16,913
C.4 recovery through disposals	15,614	2,018	–
C.5 losses on disposal	13,072	1,832	–
C.6 transfers to other categories of impaired exposures	22,700	484,740	168,595
C.7 other decreases	6,898	23,788	–
D. Gross exposure at end of year	**3,496,633**	**2,740,347**	**33,613**
- of which: exposures sold but not eliminated	61,637	42,828	7,564

"Other decreases" (line C.7) refer for 5,934 thousand euro to the recovery of assets under financial leases for which the purchase option was not exercised.

A.1.7bis – Cash loans to customers: gross changes in exposures with forbearance measures based on credit quality

Description/category	Exposures with forbearance measures: non performing	Exposures with forbearance measures: performing
A. Gross exposure at beginning of year	**1,847,992**	**805,230**
- of which: exposures sold but not eliminated	2,909	22,894
B. Increases	**509,032**	**546,938**
B.1 transfers from performing positions without forbearance measures	50,551	451,950
B.2 transfers from performing positions with forbearance measures	206,068	X
B.3 transfers from impaired exposures with forbearance measures	X	63,181
B.4 other increases	252,413	31,807
C. Decreases	**355,681**	**521,649**
C.1 transfers to performing positions without forbearance measures	X	217,933
C.2 transfers to performing positions with forbearance measures	63,181	X
C.3 transfers to impaired exposures with forbearance measures	X	206,068
C.4 write-offs	24,152	–
C.5 collections	238,816	97,648
C.6 recovery through disposals	4,070	–
C.7 losses on disposal	2,817	–
C.8 other decreases	22,645	–
D. Gross exposure at end of year	**2,001,343**	**830,519**
- of which: exposures sold but not eliminated	19,062	115,068

A.1.8 – Impaired cash loans to customers: changes in total adjustments

Description/category	Bad loans		Unlikely to pay		Past due impaired exposures	
	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures
A. Total write-downs at beginning of year	**1,790,869**	**64,536**	**593,922**	**352,274**	**9,221**	**586**
- of which: exposures sold but not eliminated	35,132	34	5,647	386	790	8
B. Increases	**393,232**	**42,670**	**302,338**	**147,567**	**2,385**	**285**
B.1 adjustments	304,936	31,956	290,604	144,101	2,385	285
B.2 losses on disposal	13,072	1,039	1,832	1,778	–	–
B.3 transfers from other categories of impaired exposures	72,673	9,675	900	–	–	–
B.4 other increases	2,551	–	9,002	1,688	–	–
C. Decreases	**270,854**	**3,523**	**178,815**	**83,164**	**7,697**	**524**
C.1 write-backs	78,198	1,771	43,130	28,430	7,691	514
C.2 write-backs on collection	13,018	146	9,429	5,184	–	–
C.3 profits on disposal	6	–	1,688	1,688	–	–
C.4 write-offs	160,181	567	37,222	23,568	–	–
C.5 transfers to other categories of impaired exposures	900	–	72,673	9,675	–	–
C.6 other decreases	18,551	1,039	14,673	14,619	6	10
D. Total write-downs at end of year	**1,913,247**	**103,683**	**717,445**	**416,677**	**3,909**	**347**
- of which: exposures sold but not eliminated	20,867	394	7,229	2,505	1,092	74

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash loans and off-balance sheet exposure by external rating class

Exposures *(milioni di euro)*	External rating class (1)						Without rating	Total 31.12.2016
	1	2	3	4	5	6		
A. Cash exposure	589,560	3,173,124	15,556,047	2,692,095	1,010,807	363,573	25,705,725	**49,090,931**

The exposures considered are the gross amounts stated in the financial statements as shown in tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers) above and mutual funds for 178.7 million euro (mostly without rating). If more than one external rating has been assigned, the criteria used in selecting the rating are those envisaged by the Bank of Italy (in the presence of two ratings use the one that is lower; in the presence of three or more ratings that are different, take the best two and, if they are different, use the one that is lower).

"Without rating" is mainly attributed to loans to customers, to which an internal rating is assigned.
The risk classes for external ratings indicated in the following table refer to levels of creditworthiness assigned to debtors pursuant to current capital adequacy rules. The reconciliation between risk classes and the ratings of rating agencies is shown below:

External rating classes		*Ratings used by rating agencies*			
		Cerved	**Fitch's**	**Moody's**	
1	from	–	AAA	Aaa	good asset quality and liquidity, with a minimum/modest risk level
	to	–	AA–	Aa3	
2	from	Aa,1+	A+	A1	satisfactory asset quality and liquidity, with a medium/low risk level
	to	Baa,7	A–	A3	
3	from	Baa,8+	BBB+	Baa1	acceptable asset quality, liquidity and risk level
	to	Baa,8	BBB–	Baa3	
4	from	Baa,9	BB+	Ba1	acceptable asset quality, limited liquidity and acceptable risk level if care is taken
	to	B,13	BB–	Ba3	
5	from	B,14	B+	B1	assets under observation and constant monitoring of risk level
	to	B,15	B–	B3	
6	below	B,16 a C,19	CCC	B3	assets under close observation, with clear difficulties on the part of the debtor

A.2.2 Distribution of cash loans and off-balance sheet exposure by internal rating class

Exposure	Internal rating class												Total 31.12.2016
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	Class 9	Class 10	Class 11	Class 12	
A. Cash loans													
Companies	254,112	915,920	1,987,830	1,671,897	593,223	818,660	269,805	269,991	49,752	X	X	X	**6,831,190**
SMEs	9,381	85,240	301,618	570,411	725,524	899,237	653,085	538,818	459,198	206,188	86,584	26,619	**4,561,903**
Small Businesses	122,792	318,600	550,109	625,914	568,492	641,842	601,309	467,790	297,744	264,461	140,861	92,074	**4,691,988**
Individuals	1,988,738	2,466,342	1,803,544	1,548,972	426,808	271,693	507,442	255,693	241,053	111,006	62,391	63,957	**9,747,639**
Total													**25,832,720**
C. Guarantees given													
Companies	158,717	616,836	289,314	336,263	75,544	170,830	48,517	44,897	3,080	X	X	X	**1,743,998**
SMEs	35,020	33,127	55,961	112,391	73,059	48,541	42,125	15,087	5,040	8,590	26,776	1,091	**456,808**
Small Businesses	13,818	37,327	40,792	25,049	29,162	33,654	27,361	19,507	16,922	6,902	2,014	1,551	**254,059**
Individuals	998	145	1,944	5,739	994	17,673	2,402	304	255	180	234	13	**30,881**
Total													**2,485,746**

The internal rating table has been prepared using the internal rating systems illustrated in paragraph 2.2 "Management, measurement and control systems" above. These internal models are those used in the credit risk management and control systems.
The first rating classes contain exposures to borrowers with a higher creditworthiness, whereas the last classes show exposures of lower creditworthiness.

Item "A. Cash loans" refers only to "Loans to customers" and excludes "impaired assets," "repurchase agreements" and loans to governments and public entities. The figures refer to the Group's commercial banks. The amounts shown include portfolio adjustments.

Item "C. Guarantees given" excludes "Guarantees given to impaired customers". The figures refer to the Group's commercial banks. The amounts shown include portfolio adjustments.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Banking Group – Guaranteed exposures to banks

	Net exposures	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Guarantees given				
		Property, mortgages	Property, finance leases	Securities	Other secured guarantees	CLN	Other derivatives				Governments and central banks	Other public entities	Banks	Other parties	
							Governments and central banks	Other public entities	Banks	Other parties					
1. Guaranteed cash exposures	**52,847**	**–**	**–**	**50,628**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**50,628**
1.1 Totally guaranteed	52,847	–	–	50,628	–	–	–	–	–	–	–	–	–	–	50,628
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Partly guaranteed	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Guaranteed off-balance sheet exposures	**211,138**	**–**	**–**	**–**	**203,132**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**98**	**–**	**203,230**
2.1 Totally guaranteed	67,560	–	–	–	67,462	–	–	–	–	–	–	–	98	–	67,560
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2.2 Partly guaranteed	143,578	–	–	–	135,670	–	–	–	–	–	–	–	–	–	135,670
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

A.3.2 Banking Group – Guaranteed exposures to customers

	Net exposures	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Guarantees given				
		Property, mortgages	Property, finance leases	Securities	Other secured guarantees	CLN	Other derivatives				Governments and central banks	Other public entities	Banks	Other parties	
							Governments and central banks	Other public entities	Banks	Other parties					
1. Guaranteed cash exposures	**21,881,914**	**16,758,571**	**197,073**	**465,712**	**560,896**	**–**	**–**	**–**	**–**	**–**	**309,293**	**116,683**	**100,709**	**2,824,621**	**21,333,558**
1.1 Totally guaranteed	20,057,257	16,190,125	197,073	406,277	475,185	–	–	–	–	–	135,992	80,865	22,872	2,548,755	**20,057,144**
- of which impaired	2,468,897	2,089,417	13,242	6,112	75,497	–	–	–	–	–	4,651	10,393	695	268,933	**2,468,940**
1.2 Partly guaranteed	1,824,657	568,446	–	59,435	85,711	–	–	–	–	–	173,301	35,818	77,837	275,866	**1,276,414**
- of which impaired	372,532	231,726	–	8,302	6,669	–	–	–	–	–	6,807	6,080	110	65,365	**325,059**
2. Guaranteed off-balance sheet exposures	**1,182,088**	**243,951**	**–**	**38,919**	**106,080**	**–**	**–**	**–**	**–**	**–**	**1,045**	**286**	**4,972**	**673,565**	**1,068,818**
2.1 Totally guaranteed	1,001,003	242,661	–	32,821	82,264	–	–	–	–	–	7	254	4,237	638,759	**1,001,003**
- of which impaired	86,208	69,211	–	172	9,052	–	–	–	–	–	–	–	–	7,774	**86,209**
2.2 Partly guaranteed	181,085	1,290	–	6,098	23,816	–	–	–	–	–	1,038	32	735	34,806	**67,815**
- of which impaired	21,674	–	–	881	2,319	–	–	–	–	–	–	–	–	1,066	**4,266**

B. Distribution and concentration of credit exposures

B.1 Banking Group – Segment distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.1

Exposure/Counterparty	Governments			Other public entities			Finance-sector companies		
	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments
A. Cash exposures									
A.1 Bad loans	–	–	x	425	270	x	4,361	25,517	x
– of which: exposures with forbearance measures	–	–		–	–		143	41	
A.2 Unlikely to pay	–	–	x	12	46	x	113,463	92,299	x
– of which: exposures with forbearance measures	–	–		–	–		78,724	61,476	
A.3 Past due impaired exposures	–	–	x	11	7	x	14	3	x
– of which: exposures with forbearance measures	–	–		–	–		–	–	
A.4 Performing exposures	9,274,200	x	–	151,296	x	463	2,879,302	x	11,232
– of which: exposures with forbearance measures	–		–	262		1	33,891		318
Total A	**9,274,200**	**–**	**–**	**151,744**	**323**	**463**	**2,997,140**	**117,819**	**11,232**
B. Off-balance sheet exposures									
B.1 Bad loans	–	–	x	–	–	x	196	417	x
B.2 Unlikely to pay	–	–	x	96	25	x	50,336	30	x
B.3 Other impaired assets	–	–	x	–	–	x	–	–	–
B.4 Performing exposures	–	x	–	252,453	x	7	672,801	x	337
Total B	**–**	**–**	**–**	**252,549**	**25**	**7**	**723,333**	**447**	**337**
Total (A+B) 31.12.2016	**9,274,200**	**–**	**–**	**404,293**	**348**	**470**	**3,720,473**	**118,266**	**11,569**
Total (A+B) 31.12.2015	**9,293,193**	**–**	**1**	**391,201**	**178**	**161**	**4,437,314**	**109,142**	**15,014**

B.1 Banking Group – Segment distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.2

Exposure/Counterparty	Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments
A. Cash exposures									
A.1 Bad loans	–	–	x	1,238,612	1,616,381	x	339,988	271,079	x
– of which: exposures with forbearance measures	–	–		73,346	100,639		5,289	3,003	
A.2 Unlikely to pay	–	–	x	1,790,414	596,770	x	119,013	28,330	x
– of which: exposures with forbearance measures	–	–		1,254,023	346,474		65,070	8,727	
A.3 Past due impaired exposures	–	–	x	12,222	1,137	x	17,457	2,762	x
– of which: exposures with forbearance measures	–	–		2,751	228		1,290	119	
A.4 Performing exposures	61,713	x	1	15,598,992	x	115,529	12,167,901	x	24,856
– of which: exposures with forbearance measures	–		–	570,792		9,664	213,549		2,042
Total A	**61,713**	**–**	**1**	**18,640,240**	**2,214,288**	**115,529**	**12,644,359**	**302,171**	**24,856**
B. Off-balance sheet exposures									
B.1 Bad loans	–	–	x	10,086	10,672	x	376	539	x
B.2 Unlikely to pay	–	–	x	368,273	12,407	x	1,630	12	x
B.3 Other impaired assets	–	–	x	3,161	14	x	1,036	38	x
B.4 Performing exposures	21,182	x	17	5,652,668	x	8,802	304,457	x	775
Total B	**21,182**	**–**	**17**	**6,034,188**	**23,093**	**8,802**	**307,499**	**589**	**775**
Total (A+B) 31.12.2016	**82,895**	**–**	**18**	**24,674,428**	**2,237,381**	**124,331**	**12,951,858**	**302,760**	**25,631**
Total (A+B) 31.12.2015	**168,890**	**–**	**79**	**24,506,739**	**2,008,836**	**146,484**	**12,706,959**	**307,538**	**26,720**

B.2 Banking Group – Geographical distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.1

Exposure/Geographical area	Italy		Other European countries		America
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure
A. Cash exposures					
A.1 Bad loans	1,582,883	1,902,979	497	4,718	6
A.2 Unlikely to pay	2,018,995	693,764	2,940	21,181	967
A.3 Past due impaired exposures	29,571	3,882	122	23	11
A.4 Performing exposures	39,475,298	147,488	421,449	4,517	213,402
Total A	**43,106,747**	**2,748,113**	**425,008**	**30,439**	**214,386**
B. Off-balance sheet exposures					
B.1 Bad loans	10,658	11,628	–	–	–
B.2 Unlikely to pay	400,104	12,474	19,023	–	1,208
B.3 Other impaired assets	4,197	52	–	–	–
B.4 Performing exposures	6,583,215	8,871	303,219	1,067	17,125
Total B	**6,998,174**	**33,025**	**322,242**	**1,067**	**18,333**
Total A+B 31.12.2016	**50,104,921**	**2,781,138**	**747,250**	**31,506**	**232,719**
Total A+B 31.12.2015	**50,821,793**	**2,582,763**	**605,272**	**25,875**	**54,285**

B.2 Banking Group – Geographical distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.2

Exposure/Geographical area	America	Asia		Rest of the world	
	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures					
A.1 Bad loans	4,844	–	706	–	–
A.2 Unlikely to pay	2,500	–	–	–	–
A.3 Past due impaired exposures	4	–	–	–	–
A.4 Performing exposures	35	2,265	1	20,386	40
Total A	**7,383**	**2,265**	**707**	**20,386**	**40**
B. Off-balance sheet exposures					
B.1 Bad loans	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–
B.4 Performing exposures	–	–	–	2	–
Total B	**–**	**–**	**–**	**2**	**–**
Total A+B 31.12.2016	**7,383**	**2,265**	**707**	**20,388**	**40**
Total A+B 31.12.2015	**6,490**	**2,077**	**3,240**	**20,265**	**38**

B.3 Banking Group – Geographical distribution of cash and off-balance sheet exposures to banks (carrying amount)

Exposure/Geographical area	Italy		Other European countries		America
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure
A. Cash exposures					
A.1 Bad loans	–	–	–	34	–
A.2 Unlikely to pay	–	–	–	–	–
A.3 Past due impaired exposures	–	–	–	–	–
A.4 Performing exposures	1,937,892	2,386	351,972	676	50,052
Total A	**1,937,892**	**2,386**	**351,972**	**710**	**50,052**
B. Off-balance sheet exposures					
B.1 Bad loans	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–
B.4 Performing exposures	407,890	10	904,757	55	19,315
Total B	**407,890**	**10**	**904,757**	**55**	**19,315**
Total A+B 31.12.2016	**2,345,782**	**2,396**	**1,256,729**	**765**	**69,367**
Total A+B 31.12.2015	**1,550,220**	**986**	**1,016,852**	**749**	**71,489**

B.3 Banking Group – Geographical distribution of cash and off-balance sheet exposures to banks (carrying amount)

Exposure/Geographical area	America	Asia		Rest of the world	
	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures					
A.1 Bad loans	1,355	–	–	–	–
A.2 Unlikely to pay	–	–	–	–	–
A.3 Past due impaired exposures	–	–	–	–	–
A.4 Performing exposures	206	11,705	72	1,194	11
Total A	**1,561**	**11,705**	**72**	**1,194**	**11**
B. Off-balance sheet exposures					
B.1 Bad loans	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–
B.4 Performing exposures	2	18,678	16	2,044	2
Total B	**2**	**18,678**	**16**	**2,044**	**2**
Total A+B 31.12.2016	**1,563**	**30,383**	**88**	**3,238**	**13**
Total A+B 31.12.2015	**1,590**	**41,407**	**77**	**4,483**	**11**

4 Large exposures

	31.12.2016	31.12.2015
a) Nominal value	16,454,351	17,725,683
b) Weighted value	1,586,052	1,711,618
c) Number	6	6

Under the new rules on concentration risk, the sum of risk assets for cash and off-balance sheet transactions versus a single customer or group of related customers is considered a "large exposure" if it equals or exceeds 10% of a group's regulatory capital. Therefore, the following large exposures are reported:

- Exposures to the Italian Government for securities in portfolio with a nominal value of 9.6 billion euro and a weighted value of zero euro.
- Exposure to the Government with a nominal value of 0.5 billion and a weighted value of zero.
- Exposure to two leading Italian banking groups with a nominal value of 1.5 billion euro and a weighted value of 1.085 billion euro.
- Exposure to Cassa di Compensazione e Garanzia with a nominal value of 4.3 billion euro relating mainly to repurchase agreements, with a weighted value of 0.1 million.
- Exposure to a leading Italian financial-industrial group with a nominal value of 0.6 billion and a weighted value of 501 million euro.

C. Securitisation transactions

Qualitative information

Securitisation transactions of the Parent Company

In July 2006 the Bank finalised a securitisation transaction which involved transferring without recourse, as permitted by Law no. 130 of 30 April 1999, a portfolio of 2,011.3 million euro in performing loans to BPM Securitisation 2 S.r.l. These loans refer to property and other secured loans granted by the Bank itself and backed by first-degree mortgages. The transaction was rated by the three main agencies: Standard & Poor's, Moody's and Fitch. These agencies will monitor the transaction annually for its entire duration.
In this transaction, BPM Securitisation 2 S.r.l. issued in July 2006 the following series of securities, listed on the Luxembourg Stock Exchange, for a total of 2,015.3 million euro:

Security	Issue date		Balance sheet date		Characteristics
	Rating	Amount (in millions of euro)	*Rating*	Amount (in millions of euro)	
Classe A1	AAA/Aaa/AAA	350	–	–	Notes totally reimbursed
Classe A2(*)	AAA/Aaa/AAA	1,574.6	AA–/Aa2/AA+	191.4	Contractual maturity 15 January 2043. Early redemption provided in prospectus (described below). Coupon equal to 3-month Euribor + 14 bps.
Classe B	AA/Aa2/AA	40.3	A/Aa2/AA	9.5	Contractual maturity 15 January 2043. Early redemption provided in prospectus (described below). Coupon equal to 3-month Euribor + 20 bps.
Classe C	BBB/Baa2/BBB	50.4	A/Baa2/BBB	50.4	Contractual maturity 15 January 2043. Early redemption provided in prospectus (described below). Coupon equal to 3-month Euribor + 70 bps.
Total		**2,015.3**		**251.3**	

(*) In the section "Balance sheet date", the balance is shown inclusive of repurchases. Considering the amount repurchased, the net balance of securities issued would come to 143.6 million euro.

The senior securities feature a sequential type of amortisation profile, with pro-rata amortisation being adopted upon the occurrence of certain events agreed with the rating agencies. There is also a clean-up option according to which the Bank may repurchase the mortgages transferred if the residual nominal value of the securitised portfolio (expected maturity 15 July 2020) becomes equal to or less than 10% of the portfolio's initial nominal value.
As at 31 December 2016, the entire "Class A1", 1,383.2 million euro of "Class A2", and 30.8 million euro of "Class B" were reimbursed. Moreover, the Bank bought back various tranches of "Class A2" securities worth a total of 57 million euro at the balance sheet date.
When the securitisation was finalised, the Parent Company granted the vehicle a subordinated line of credit of 26.6 million euro as a cash reserve to guarantee its commitments. This line of credit is reimbursed periodically, bearing in mind the excess spread generated by the transferred mortgages.
Banca Popolare di Milano, as servicer, continues to manage collections on the transferred portfolio and maintains relationships with customers directly, transferring on a day-to-day basis the collections of principal and interest of the portfolio to the Collection Account at the custodian bank, net of the sums received by way of insurance premiums; these are deducted to pay premiums to the respective insurance companies and mortgage instalment collection fees paid by customers for the service.

Servicing is performed by the Bank's Finance function, which, as provided in the Servicing Agreement and in cooperation with the Operations and IT function:

- monitors collection activities and cash flow checks on a daily basis;
- prepares an end-of-month balance based on daily reports;
- prepares the quarterly report (containing information on the performance of the securitised portfolio) to be sent to the monitoring functions (arranger, special purpose vehicle, cash manager, paying agent, and rating agencies), calculates weighted average rate and notional capital for the swap (split between fixed- and floating-rate mortgages) and handles the collection of fees and commissions, expense reimbursements and interest on the servicing activity and on the credit line granted to the vehicle. Along with the quarterly report, it transmits the Collection Account statement;
- on a quarterly basis, checks, completes, and transmits the loan-by-loan templates requested by the agencies.

The transaction involved the execution of back-to-back swap contracts between BPM and the arranger and between the arranger and the SPV. The notional value of the swaps, one for the fixed-rate mortgages, the other for the floating-rate mortgages, is represented by the amount of the securitised loans at the start of the transaction, which will decrease as the portfolio is repaid.
Based on these contracts, at each quarterly payment date BPM pays the 3-month Euribor rate increased by a spread of 0.0115% to the arranger and receives:

- on the floating-rate mortgages, the difference between the weighted average rate of the loan (including margin) and the weighted average spread on same, calculated at the beginning of each quarter;
- on the fixed-rate mortgages, the lower of 3% and the rate applied to this category of loans.

The contracts between the arranger and the SPV, net of the above-mentioned spread, are mirrored.

The accounting treatment of the securitisation in the separate financial statements of Banca Popolare di Milano is as follows:

1. securitised mortgage loans remain on the books as "loans to customers" at the sub-item "mortgage loans." The amount of the securitised mortgage loans has not been eliminated from the financial statements because the Bank holds contractual rights (credit enhancement) that substantially expose it to variability in the company's results. In particular, given the technical characteristics of the transaction, the lack of derecognition is mainly linked to the granting of the subordinated line of credit, to the excess spread mechanism, and to the stipulation of swap contracts with the arranger;
2. debt for the financing granted to the SPV has been recorded in "due to customers" at the sub-item "other payables"; the amount of payables to the SPV is shown net of the residual value of the subordinated line of credit;
3. interest income on the mortgage loans remains in the same item of the financial statements, i.e. "interest income on loans to customers";
4. interest expense, represented by the payable side of the swap, is entered in "interest expense on amounts due to customers." The characteristics of the transaction and the consequent accounting treatment lead to the non- recognition in the balance sheet of the swaps as derivatives, because the flow of interest income from the securitised mortgage loans is already reflected in the income statement for the period under interest income;
5. expenses for the transaction have been allocated in the income statement on an accrual basis according to their expected maturity.

With the excess spread mechanism, the special purpose vehicle sets up a reserve in favour of BPM which is paid quarterly, this being essentially the positive difference between the interest income on the loans, the interest expense on the notes issued and the swap differential.
Based on the cash flows of such contracts:

- BPM effectively ensures itself the interest income on the mortgage loans, remunerating the financing received at Euribor plus a spread, which is shown under "interest expense on amounts due to customers";
- the special purpose vehicle ensures itself the payable rate to remunerate the subscribers of the notes.

The accounting treatment of the securitisation in the financial statements of the Bipiemme Group is as follows:

1) securitised mortgage loans remain on the books as "loans to customers", at the sub-item "mortgage loans";
2) notes issued by the SPV BPM Securitisation 2, net of securities repurchased by the Parent Company, have been recorded as "Securities issued";
3) cash and cash equivalents of the SPV have been recorded as "Due from banks;"
4) interest income on the mortgage loans remains in the same item of the financial statements, i.e. "interest income on loans to customers";
5) interest payable on the notes has been recorded as "interest expense on securities issued";
6) expenses for the transaction have been allocated in the income statement on an accrual basis according to their expected maturity.

Qualitative information

C.1 Banking Group – Exposures deriving from main "own" securitisation transactions analysed by type of securitised asset and type of exposure

Type of securitised asset/Exposure	Cash exposure					
	Senior		*Mezzanine*		*Junior*	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A. Completely eliminated from financial statements	–	–	–	–	–	–
B. Partially eliminated from financial statements	–	–	–	–	–	–
C. Not eliminated from financial statements	**56,877**	**–**	**50,442**	**–**	**10,117**	
C.1 BPM Securitisation 2 S.r.l.	56,877	–	50,442	–	10,117	
– residential mortgages	56,877	–	50,442	–	10,117	–

The table shows the exposures incurred by the Group for each own securitisation and also indicates the contractual forms applicable to the assets sold. The "Adjustments/write-backs" column shows any adjustments and write-backs for the year, as well as write-downs and revaluations recognised in the income statement or directly to an equity reserve.

The part of the table regarding guarantees given and lines of credit is not provided as they both have zero balances.

C.2 Banking Group – Exposures deriving from main third-party securitisation transactions analysed by type of securitised asset and type of exposure

Tipologia attività sottostanti/Esposizioni	Cash exposure					
	Senior		*Mezzanine*		*Junior*	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A.1 Pharmafin 3 cl. A	12,541	–	–	–	–	–
– Receivables	–	–	–	–	–	–
A.2 Pharmafin 3 cl. B	–	–	41	–305	–	–
– Receivables	–	–	–	–	–	–
A.3 Pharmafin 3 cl. C	–	–	4,299	–	–	–
– Receivables	–	–	–	–	–	–
A.4 Multiseller 16–36 cl. A1 2%	1,000	–	–	–	–	–
– Receivables	–	–	–	–	–	–

The amounts in the "book value" column include accrued interest.

The part of the table regarding guarantees given and lines of credit is not provided as they both have zero balances.

C.3 Banking Group – Interests in special purpose vehicles for securitisation

At the reporting date, Bipiemme Group held no interest in special purpose vehicles created for securitisation.

C.4 Banking Group – Unconsolidated special purpose vehicles for securitisation

At the reporting date, there were no unconsolidated special purpose vehicles in Bipiemme Group.

C.5 Banking Group – Servicer activities – own securitisations: collection of securitised receivables and reimbursement of securities issued by special purpose vehicles

Servicer	Special purpose vehicle	Securitised assets (at end of period)		Receivables collected in year		Percentage of securities reimbursed (at end of period)					
						Senior		*Mezzanine*		*Junior*	
		impaired	Performing	impaired	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Banca Popolare di Milano	BPM Securitisation 2 S.r.l.	31,470	233,516	1,743	58,637		89.77%		0%		0%

C.6 Banking Group – Consolidated special purpose vehicles for securitisation

Name of vehicle **BPM SECURITISATION 2 S.R.L.**
Registered office **Via Eleonora Duse 53 – 00197 Roma**

The Group has no holding in this special purpose vehicle; nevertheless, this vehicle has been consolidated on a "continuing involvement" basis.

The following is a summary of the separate equity of the "BPM Securitisation 2" transaction.

	31 December 2016
A. Securitised assets	**265,006**
A.1 Receivables	265,006
A.2 Securities	0
A.3 Other assets	0
B. Use of cash and equivalents deriving from loan management	**25,165**
B.1 Debt securities	0
B.2 Equities	0
B.3 Cash and cash equivalents	25,091
B.4 Other uses	74
TOTAL ASSETS (A+B)	**290,171**
C. Issued securities	**251,329**
C.1 Class A	191,447
C.2 Class B	9,482
C.3 Class C	50,400
D. Financings received	**0**
E. Other liabilities	**38,842**
E.1 Due to originator	38,610
E.2 Other payables	232
TOTAL LIABILITIES (C+D+E)	**290,171**
F. Interest payable on issued securities	**247**
G. Commissions and fees on transaction	**283**
G.1 Servicing commissions	255
G.2 Other services	28
H. Other expenses	**4,154**
H.1 Administrative	99
H.2 Value adjustments on loans	3,591
H.3 Other	464
TOTAL COSTS (F+G+H)	**4,684**
I. Interest generated by securitised assets	**4,220**
L. Other revenues	**464**
L.1 Write-backs on loans	352
L.2 Other	112
TOTAL REVENUES (I+L)	**4,684**

D. Disclosure on structured entities (other than companies for securitisation)

As at the date of the financial statements, there were no structured entities (other than special purpose vehicles for securitisation) in the Bipiemme Group.

E. Disposal transactions

A. Financial assets sold but not eliminated

Qualitative information

The Group's "financial assets sold but not eliminated" are of two types:

- the securitisation of loans carried out through the SPV "BPM Securitisation 2", as described in detail in paragraph C. Securitisation transactions";
- typical transactions concerning repurchase agreements, with which the Group's banks obtain funding from the sale of securities owned by them.

Quantitative information

E.1 Banking Group – Financial assets sold but not eliminated: book value and full value

Technical form/ Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Investments held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2016	31.12.2015
A. Cash assets	**18,384**	**–**	**–**	**–**	**–**	**–**	**3,559,295**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**264,986**	**–**	**–**	**3,842,665**	**4,511,632**
1. Debt securities	–	–	–	–	–	–	3,559,295	–	–	–	–	–	–	–	–	–	–	–	**3,559,295**	**4,169,777**
2. Equities	18,384	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	**18,384**	**17,885**
3. Mutual funds	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	**–**	**–**
4. Loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	264,986	–	–	**264,986**	**323,970**
B. Derivatives	**–**	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total 31.12.2016	**18,384**	**–**	**–**	**–**	**–**	**–**	**3,559,295**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**264,986**	**–**	**–**	**3,842,665**	**X**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,470**	**–**	**–**	**31,470**	**X**
Total 31.12.2015	**127,278**	**–**	**–**	**–**	**–**	**–**	**4,060,384**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**323,970**	**–**	**–**	**X**	**4,511,632**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**35,527**	**–**	**–**	**X**	**35,527**

Key:
A = Financial assets sold and fully recognised (book value)
B = Financial assets sold and partially recognised (book value);
C = Financial assets sold and partially recognised (full value).

The table shows the book value of financial assets sold but not eliminated and fully recognised as assets in the balance sheet.
Line "1. Debt Securities" in the "Financial assets held for trading" and "Financial assets available for sale" columns only includes securities sold as part of repurchase agreements.
With respect to MTS Repo market, the margin deposited and default fund of 303 million euro to guarantee collateralisation are shown in the financial statements under "Loans to customers".

Line "2. Equities" under "Financial assets held for trading" includes securities used for securities lending transactions.
The amount stated in line "4. Loans" refers to the loans involved in the "BPM Securitisation 2" securitisation without derecognition carried out by the Parent Company in 2006.
Securities with a book value of 196 million euro have been provided as collateral for repo transactions but have not been included in the table since the related amounts receivable and payable have been offset.

E.2 Banking Group – Financial liabilities for financial assets sold but not eliminated: book value

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Loans to customers	Crediti verso clientela	Total
1. Due to customers	**–**	**–**	**3,552,925**	**–**	**–**	**–**	**3,552,925**
a) for assets fully recognised	–	–	3,552,925	–	–	–	**3,552,925**
b) for assets partially recognised	–	–	–	–	–	–	**–**
2. Due to banks	**17,573**	**–**	**–**	**–**	**–**	**–**	**17,573**
a) for assets fully recognised	17,573	–	–	–	–	–	**17,573**
b) for assets partially recognised	–	–	–	–	–	–	**–**
3. Securities issued	**–**	**–**	**–**	**–**	**–**	**143,647**	**143,647**
a) for assets fully recognised	–	–	–	–	–	143,647	**143,647**
b) for assets partially recognised	–	–	–	–	–	–	**–**
Total 31.12.2016	**17,573**	**–**	**3,552,925**	**–**	**–**	**143,647**	**3,714,145**
Total 31.12.2015	**117,949**	**–**	**4,108,725**	**–**	**–**	**186,435**	**4,413,109**

The table shows the book value of financial liabilities recorded as a contra-entry to financial assets sold and not fully derecognised as assets in the balance sheet.
"Securities issued" include liabilities issued by the special purpose vehicle "BPM Securitisation 2" as part of the securitisation transaction.

E.3 Banking Group – Disposals of liabilities with recourse only to transferred assets: fair value

Technical form/ Portfolio	Financial assets held for trading		Assets designated at fair value through profit and loss		Financial assets available for sale		Investments held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31.12.2016	31.12.2015
A. Cash assets	**18,384**	**–**	**–**	**–**	**3,559,295**	**–**	**–**	**–**	**–**	**–**	**282,279**	**–**	**3,859,958**	**4,534,331**
1. Debt securities	–	–	–	–	3,559,295	–	–	–	–	–	–	–	**3,559,295**	**4,169,777**
2. Equities	18,384	–	–	–	–	–	X	X	X	X	X	X	**18,384**	**17,885**
3. Mutual funds	–	–	–	–	–	–	X	X	X	X	X	X	**–**	**–**
4. Loans	–	–	–	–	–	–	–	–	–	–	282,279	–	**282,279**	**346,669**
B. Derivatives	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total assets	**18,384**	**–**	**–**	**–**	**3,559,295**	**–**	**–**	**–**	**–**	**–**	**282,279**	**–**	**3,859,958**	**4,534,331**
C. Associated liabilities	**17,573**	**–**	**–**	**–**	**3,552,925**	**–**	**–**	**–**	**–**	**–**	**142,556**	**–**	**X**	**X**
1. Due to customers	–	–	–	–	3,552,925	–	–	–	–	–	–	–	X	X
2. Due to banks	17,573	–	–	–	–	–	–	–	–	–	–	–	X	X
3. Securities issued	–	–	–	–	–	–	–	–	–	–	142,556	–	X	X
Total liabilities	**17,573**	**–**	**–**	**–**	**3,552,925**	**–**	**–**	**–**	**–**	**–**	**142,556**	**–**	**3,713,054**	**4,408,718**
Net value 31.12.2016	**811**	**–**	**–**	**–**	**6,370**	**–**	**–**	**–**	**–**	**–**	**139,723**	**–**	**146,904**	**X**
Net value 31.12.2015	**9,329**	**–**	**–**	**–**	**–48,341**	**–**	**–**	**–**	**–**	**–**	**164,625**	**–**	**X**	**125,613**

Key:
A = Financial assets sold and fully recognised
B = Financial assets sold and partially recognised

The table shows the fair value of financial assets sold but not eliminated, fully recognised as assets in the balance sheet, as well as the related liabilities.
With regards to assets, line "1. Debt securities" includes the fair value of securities sold under repurchase agreements line "2. Equities" shows the fair value of securities loaned as part of securities lending transactions, while the associated liabilities relate respectively to the fair value of the repurchase agreements and securities lending entered into with the aforementioned owned securities.
The amount shown on line "4. Loans" refers to the fair value of loans involved in the "BPM Securitisation 2 S.r.l." securitisation without derecognition, carried out by the Parent Company in 2006; the associated liabilities show the fair value of the notes issued by the SPV.

B. Financial assets sold and fully eliminated with recognition of continuing involvement

Qualitative information

The Group has no financial assets sold and fully eliminated for which it needs to recognise continuing involvement.

Quantitative information

The Group has no financial assets sold and fully eliminated for which it needs to recognise continuing involvement.

E.4 Banking Group – covered bond transactions

Objectives and regulatory provisions

Covered bond transactions are part of a wider strategy designed:

- to reduce funding costs based on the fact that the covered bonds are instruments issued directly by a bank, with redemption guaranteed by a separate capital fund. If the issuing bank fails, the bearers of covered bonds have recourse to high-quality assets specifically segregated for this purpose; therefore, they are willing to accept a lower yield compared to that of similar but unguaranteed bonds;
- to diversify the Bank's sources of funding, including the institutional market;
- to extend the average maturity of the Bank's debt profile with a limited collection cost.

The rules governing the issuance of covered bonds are contained in the following legislative sources:

a) Law no. 80 of 14 May 2005, which introduced article *7-bis* into Law no. 130 of 30 April 1999, which essentially defines the scope of application of the rules;

b) the Regulations introduced by the Economy and Finance Ministry Decree no. 310 of 14 December 2006, which govern: i) the maximum ratio between the bonds covered by guarantee and the assigned assets; ii) the types of assets that can be assigned, both originally and on subsequent integration; iii) the characteristics of the guarantee that the special purpose vehicle has to give;

c) the Supervisory Authority's Instructions of 17 May 2007, which not only have the general task of activating the rules contained in article *7-bis*, but also regulate: i) the requirements of the banks issuing such bonds; ii) the criteria that the assigning banks have to adopt for the valuation of the assets being assigned; iii) the methods for integrating the assets originally assigned; iv) the checks that banks have to perform, or have the auditors perform, to ensure compliance with the legal obligations.

The rules were changed in March 2010, to reinforce the regulatory framework of Italian covered bonds in order to encourage their use.

The main changes are designed to clarify certain concepts, such as:

- the capital requirements have to be satisfied at the time of the transfer;
- the transfer limits have to be considered also in light of any covered bonds issued by other members of the banking group, which will therefore have assigned part of their assets to guarantee the operation;
- the substitution of suitable assets included in the separate capital fund of the transferee with other assets of the same type originated by the transferor bank is allowed, providing this faculty is expressly foreseen in the programme and in the issue prospectus;
- in order to avoid overlapping checks, the asset monitor can organise its activity as verification of the checks carried out by the issuing bank as part of "agreed-upon procedures."

Further updates to the rules were issued in June 2014 (Circular no. 285 of 17 December 2013) on the following issues:

- requirements for issuing and/or assigning banks;
- limits to assignment;
- integration methods for assets and related prudential treatment;
- responsibility and controls.

Based on the above, the system for issuing covered bonds calls for:

- the existence of a Special Purpose Vehicle (SPV) whose sole purpose is to purchase the assets sold by originator banks and to provide a guarantee to the subscribers of the covered bonds;
- the disbursement of a subordinated loan by the financing banks to the SPV at the same time as the issuer issues the securities so that it can purchase the assets. The vehicle's reimbursement of the loan is subordinate to the obligations that the vehicle assumes with respect to: the bearers of the covered bonds, the counterparties of derivatives covering the risks of the underlying assets and the other costs that the vehicle will incur deriving from its participation in the programme;
- assignment by the originator banks to the SPV of high credit quality receivables that form a separate capital fund pursuant to the applicable provisions of Law no. 130/99 to satisfy the bearers of the covered bonds. The assets that form the separate capital fund are residential mortgage loans to individuals who meet the requirements of the aforementioned Economy and Finance Ministry Decree no. 310 of 14/12/2006;
- the provision of a guarantee by the SPV in favour of the bondholders, up to the limits of the separate capital fund.

With reference to the guarantee, the rules issued by the Economy and Finance Ministry require that the guarantee given by the SPV to the bearers of the covered bonds be irrevocable, "at first request", unconditional and autonomous with respect to the obligations assumed by the issuing bank.
The ongoing integrity and adequacy of the guarantee for the investor take the form of "over-collateralisation", which derives from the obligation taken on by the originator bank to ensure that the value of the assigned assets forming part of the "cover pool" is always (both at the time of issue and during the life of the loan) higher than the covered bonds that were issued; in particular, the minimum percentage variance between the two amounts is defined by the rating agencies based on the issuer's characteristics.
Again with a view to ensuring that the SPV is able to fulfil the obligations deriving g from the guarantee that it has given, the issuing bank, using suitable asset and liability management techniques, has to ensure a reasonable balance between the maturities of the cash flows generated by the assigned assets included in the SPV's separate capital fund and the maturities of the payments due by the issuing bank in connection with the covered bonds issued and the costs of the operation. Unlike a traditional securitisation transaction, the bond payments are independent of the cash flows and of the performance of the portfolio underlying the guarantee, as the programme's final guarantor is the originator bank, which remains fully exposed to the risks and benefits associated with the assigned assets.
An Asset Coverage Test is carried out once a month to check compliance with the guarantee level required by the rating agencies; if the over-collateralisation is lower than the amount indicated by the rating agencies (which means that the Cover Pool is insufficient for the bonds issued), the originator banks have to supplement the portfolio with new assets, entirely originated by such banks and suitable to replace those that are extinct and/or impaired, or with supplementary assets.

The Covered Bond Programme is rated by specialised agencies, which will monitor the Programme constantly for its entire duration in order to ensure that the rating adequately reflects the credit risk of the securities issued and that the quality of the Cover Pools transferred is in line with the rating assigned to the Covered Bonds.

At the date of these financial statements, Bipiemme Group has two covered bond issue programs, described below.

BPM Covered Bond Programme
On 13 November 2007, the Parent Company's Board of Directors authorised a 10-year programme with annual issues of covered bonds for a maximum of 2 billion euro per year and a total maximum of 10 billion euro, based on the sale to a special purpose vehicle of mortgages and other secured loans originated by BPM. Subsequently, the Programme was extended to mortgages originated by the former subsidiaries Banca di Legnano and WeBank incorporated by Parent Company BPM in 2013 and 2014, respectively.

For the purposes of the transaction, the Parent Company acquired 80% of the shares of a vehicle pursuant to Law no. 130, specifically formed in compliance with law, named BPM Covered Bond S.r.l., which thus entered the Group's scope of consolidation. The remaining 20% is held by Stichting Horizonburg, a foundation subject to Dutch law.

At the date of these financial statements, the Bank has approved the issue of eight series of covered bonds for a total of 7.4 billion euro, following the transfer without recourse to the special purpose vehicle "BPM Covered Bond S.r.l." of seven portfolios for a total of 7.5 billion euro of performing loans (the "cover pool"); of these, 0.9 billion euro have been sold by Banca di Legnano and by WeBank.

In 2011, under the programme, the first loan issued in 2008 was repaid for a nominal value of 1 billion euro, followed by repurchases, with the related cancellations, for 0.3 billion euro.
In 2015, Series 4, issued in 2011, was partially reduced by 500 million euro, and Series 3, issued in 2010 for a nominal value of 1.1 billion euro, was repaid. In addition, on 19 November 2015, the seventh series of covered bonds was issued for 900 million euro.
In 2016, Series 5, issued in 2015, was reduced by 275 million euro, and Series 2, issued in 2009 was repaid for a nominal value of 1 billion euro. In addition, on 7 November 2016, the eighth series of covered bonds was issued for 1 billion euro.
At the date of these financial statements there were five series of covered bonds for a total of 3.5 billion euro.
The last five issues (i.e. all of the outstanding issues), at floating rate, have been fully repurchased by the Parent Company and the related securities have been used for refinancing transactions with the European Central Bank and other banking institutions.
To date, it has not been necessary to top up the portfolio of receivables initially transferred.
During 2016, repurchases of the cover pool were made for 206 million euro, in accordance with the contractual clauses originally provided in the "Master Receivables Purchase Agreement". These repurchases should be considered as ordinary administration of the contracts included in the pool of mortgages in order to ensure adequate supervision of the level of "collateralisation" of the covered bonds issued.

The main characteristics of the cover pool transferred and of the covered bonds issued since 2008 are as follows:

Type of securitised assets: residential mortgages
Quality of securitised assets: performing positions
Distribution by economic sector of assigned debtors: 100% individuals

Date of transfer of Cover Pool	**June 2008**	**June 2009**	**October 2010**	**June 2011[b]**	**March/ November 2013[d]**	**December 2014**		
Amount of assets sold (in millions of euro):	1,218	1,305	1,616	639	1,426	1,294		
Number of mortgage loans sold	12,229	11,681	15,504	5,031	11,633	13,503		
Type of securities issued (covered bonds)								
Guaranteed Bank Bonds ("GBB") of Banca Popolare di Milano								
Amount issued (in millions of euro):	**1,000[a]**	**1,000[l]**	**1,100[f]**	**1,000[g]**	**650**	**750[e]**	**900[h]**	**1,000[n]**
Issue price (reoffer price)				100.00	100.00	100.00	100.00	100.00
Issue date **Maturity date**				**18.7.2011** **18.1.2019**[c]	**28.11.2013** **29.5.2021**[c]	**16.3.2015** **16.3.2020**	**19.11.2015** **19.11.2022**	**07.11.2016** **07.11.2021**
Interest				Floating rate Euribor3m +100bps	Floating rate Euribor3m +135bps	Floating rate Euribor3m +30bps	Floating rate Euribor3m +60bps	Floating rate Euribor3m +30bps
Expected issue ratings in issue period				**Moody's:** A1	**Moody's:** Baa2	**Moody's:** Baa1	**Moody's:** A2	**Moody's:** A1
				Fitch: AA+[m]	**Fitch:** BBB+[m]	**Fitch:** BBB+[m]	**Fitch:** BBB+[m]	

Current Expected Issue Ratings: Moody's A1

(a) the issue was reimbursed at the maturity date (15 July 2011)

(b) the June 2011 sale was preparatory to the issue of July 2011

(c) the issue, with original maturity on 18.1.2014, was renewed in December 2013

(d) two sales of receivables were made against the November 2013 issue: WeBank's in March 2013 and BPM's in November 2013

(e) 600 million euro issue on 16.03.15 increased by 150 million euro tap issue on 26.06.15

(f) the issue was reimbursed at the maturity date (16 November 2015)

(g) the issue's nominal value was reduced to 500 million euro on 23 October 2015

(h) the issue of 19 November 2015, completely repurchased by the Bank, was offset against sales made in previous financial years

(i) the issue, with original maturity on 28.05.2016, was renewed in May 2016. Furthermore, the nominal value of the issue was reduced by 275 million euro on 11 May 2016

(l) the issue was reimbursed at the maturity date (17 October 2016)

(m) following the reimbursement of the last public issue, the Bank terminated its agreement with the Fitch Rating Agency on the Covered Bond Programme: on 21 October 2016, Fitch Ratings withdrew the rating on the Covered Bond Programme

(n) the issue of 7 November 2016, completely repurchased by the Bank, was offset against sales made in previous financial years

Overall distribution of securitised assets by geographical area at the date of the financial statements

	Northeast	Nord Est	Centre	South and islands
Banca Popolare di Milano	72.87%	5.35%	16.56%	5.22%

The 2010 and 2013 issues had a covered bond multi-originator issue programme structure, given that the roles of originator bank and financing bank were played by two entities (Banca Popolare di Milano and Banca di Legnano in the first case and WeBank in the second case), whereas BPM was the only issuing bank. The other three issues still open are classed as simple because BPM is the originator, financing bank and issuing bank.

In compliance with Bank of Italy's supervisory provisions, the transfer price was calculated as follows:

- the book value of the loans transferred, as per the latest financial statements approved and audited by the auditing company, were used as the starting point for the first two issues;
- the loans originated up to 30/06/2010 (2010 issue), 31/03/2011 (2011 issue), 30/09/2012 (2013 issue WeBank portfolio), 30/06/2013 (2013 issue) and 30/09/2014 (2015 issue) were used for the 2010, 2011, 2013, and 2014 tranches, respectively; therefore, certification was issued by the auditors, based on provisions of article 5 section II of the rules on covered bonds, certifying that the valuation criteria used by the Bank for determining the transfer price of the loans sold conformed to those used in preparing the financial statements.

The transactions generated no revenues or losses on transfer, and the securitised assets have not been subject to additional value adjustments other than those deriving from the collective evaluation criteria in effect at the time of transfer.

For the originator, the Covered Bond Programme has given rise to the granting of a subordinated line of credit for 4,596.3 million euro against the payment of a subordinated loan to SPV BPM Covered Bond S.r.l. to finance the purchase of the cover pools. This line of credit was calculated by taking the transfer prices of the cover pools, net of the liquidity held by the SPV, as the reference point. The Programme calls for the Bank's commitment to grant additional loans, including for purchases of cover pools underlying future issues, as part of the ongoing Programme.

BPM Covered Bond 2 Programme

On 10 March 2015, after receiving the Supervisory Board's statement of conformity, the Parent Company's Management Board approved a new programme for the issue of covered bonds for a maximum of 10 billion euro, based on the sale to a special purpose vehicle, established pursuant to Law no. 130/99, of residential mortgages originated by BPM. A new special purpose vehicle was then established for this purpose, called BPM Covered Bond 2 S.r.l., 80% of whose capital the Parent Company acquired on 7 August 2015 (the remaining 20% is held by Stichting Bapoburg); therefore, the vehicle falls within the Bipiemme Group's scope of consolidation.
On 21 July 2015, BPM's Management Board approved the issue (concluded on 14 September 2015) of the first series of covered bonds for 1 billion euro following the sale without recourse of a portfolio of 1,364 million euro of performing loans (cover pool) originated by BPM to the SPV "BPM Covered Bond 2 S.r.l." on 26 August 2015.
On 13 October 2015, BPM's Management Board approved the issue (concluded on 2 December 2015) of the second series of covered bonds for 750 million euro following the sale without recourse of a portfolio of 756 million euro of performing loans (cover pool) originated by BPM to the SPV "BPM Covered Bond 2 S.r.l." on 12 November 2015.
On 10 May 2016, BPM's Management Board approved the issue (concluded on 8 June 2016) of the third series of guaranteed bank loans for 750 million euro following the sale without recourse on 26 May 2016, to the vehicle "BPM Covered Bond 2 S.r.l.", of a portfolio of 870 million euro in performing loans originated by BPM.
On 27 September 2016, BPM's Management Board approved the sale without recourse (concluded on 28 September 2016), to the SPV "BPM Covered Bond 2 S.r.l.", of a portfolio of 424 million euro in performing loans originated by BPM.

The loans originated up to 30/06/2015, 30/09/2015 and 31/03/2016, respectively, were used for these sales. In all cases certifications were issued by the auditors, based on provisions of article 5 section II of the rules on covered bonds, certifying that the valuation criteria used by the Bank for determining the transfer price of the loans sold conformed to those used in preparing the financial statements.

The transactions did not generate profits or losses on sale, and the securitised assets were not further adjusted beyond what was required based on the collective assessment criteria in effect at the time of the transfer.

The main characteristics of the cover pool transferred and of the covered bonds issued are as follows:

Type of securitised assets: residential mortgages
Quality of securitised assets: performing positions
Distribution by economic sector of assigned debtors: 100% individuals

Date of transfer of cover pool	August 2015	November 2015	May 2016	September 2016
Amount of assets sold (in millions of euro):	1,364	756	870	424
Number of mortgage loans sold	11,823	6,570	7,427	3,941
Type of securities issued (covered bonds)				
Guaranteed Bank Bonds ("GBB") of Banca Popolare di Milano				
Amount issued (in millions of euro):	**1,000**	**750**	**750**	
Issue price (reoffer price)	99.872	98.946	99.761	
Issue date **Maturity date**	**14.09.2015** **14.09.2022**[a]	**02.12.2015** **02.12.2025**[b]	**08.06.2016** **08.06.2023**[c]	
Interest	Tasso fisso 0.875%	Tasso fisso 1.50%	Tasso fisso 0.625%	
Expected issue ratings in issue period	**Moody's:** A2	**Moody's:** A2	**Moody's:** A2	
Current Expected Issue Ratings: Moody's: A1				

(a) extendable to 14.09.2023
(b) extendable to 02.12.2026
(c) extendable to 08.06.2024

Overall distribution of securitised assets by geographical area at the date of the financial statements

	North west	North east	Centre	South and islands
Banca Popolare di Milano	56.26%	7.66%	29.48%	6.60%

For the first two issues, BPM Covered Bond 2 S.r.l. signed interest rate swap hedge contracts with market counterparties for a total of 1,100 million euro, with which it swaps the Euribor plus a spread against the rate of the annual coupons of the covered bonds issued.

For Banca Popolare di Milano, the Covered Bond Programme has given rise to the granting of a subordinated line of credit for the initial transfer price of the cover pool (3,414 million euro) against the payment of a subordinated loan to SPV BPM Covered Bond 2 S.r.l. to finance the purchase of the cover pool.

The role of the originator
Banca Popolare di Milano, as servicer, continues to manage collections of the assigned receivables and to maintain relationships with customers directly, transferring each day to the Collection Account the mortgage loan instalments (principal and interest) that it collects, net of collection fees and insurance premiums (to be transferred to the respective insurance companies).

In addition, the Parent Company looks after the SPV's cash management, transferring on a daily basis the inflows to the Collection Account to the Transaction Account, from which they either flow to the Reserve Account (for the portion that remains at the disposal of the SPV by way of liquidity) or to the Investment Account (for the surplus liquidity to be invested).

Internal risk measurement and control systems

The rules governing covered bonds mean that the cover pool is extremely dynamic in nature. Therefore, the issuing and assigning bank is required to be continuously involved, which leads to the need to create a strict monitoring system. A control model has been approved and provides the following three levels of monitoring:

- **First level internal control,** performed by the special unit that manages the covered bonds and securitisations, which, as the main organisational structure involved handles servicing and related checks at a Group level (see paragraph C. "Securitisation transactions") and performs procedures to ensure that issue operations are conducted correctly;
- **Asset Monitor,** an independent third party that checks the regularity of operations by monitoring regulatory and contractual compliance as well as the integrity of the guarantee provided to investors, issuing a report every six months. Specifically, it checks:
  - the quality and integrity of the assets transferred in guarantee. Periodically, the Asset Monitor is required to check compliance with limits/parameters for the transfer of assets and, in case of subsequent supplements, ensure that they satisfy the criteria of eligibility specified by the Bank of Italy;
  - compliance with ratios between covered bonds issued and assets transferred in guarantee, as established by regulations;
  - conformity with the limits to transfer set by regulations based on capital adequacy ratios and on the Tier 1 Ratio;
  - the effectiveness and adequacy of the risk hedges provided by derivatives stipulated for the transaction.

It has been agreed that the checks carried out by the Asset Monitor and the assessments regarding the results of the operations will be the subject of an interim report addressed to the Parent Company's Internal Control and Audit Committee.

- **The Internal Auditing Department,** as part of the audit plan, checks at least once a year the functionality, adequacy, consistency and effectiveness of the controls implemented by the special unit. The results of these checks, together with those carried out by the Asset Monitor, are brought to the attention of senior management.

Accounting treatment of transactions

With regard to the accounting treatment of this transaction in the Parent Company's separate financial statements:

- SPVs BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. are held 80% by BPM, as shown at item 100 "Investments in subsidiaries, associates and companies subject to joint control," and are therefore consolidated in the Group's financial statements on a line-by-line basis;
- the subordinated loans made to the SPV are not shown separately in the financial statements because, even though they are booked to "Other assets" at the time they are disbursed, for presentation purposes in the financial statements they are offset, up to the same amount, against the amounts due to the SPV ("Due to customers") which show the assignments at their initial transfer prices; these loans are not subject to remeasurement as the credit risk is entirely reflected in the valuation of the loans being covered;
- the mortgage loans assigned continue to be shown on the assets side of the originator bank's balance sheet in line item 70 "Loans to customers" under sub-item "Mortgage loans", given that the bank holds contractual rights (i.e. credit enhancement) which substantially expose it to variability in the results of the company. Mortgage loans also change on the basis of the events affecting them (in terms of volumes and valuations). The collection of principal and interest on the loans is paid each day into the collection account, at the same time recognising a reduction in the debt owed to the SPV. The interest income is recognised in line item 10 "Interest income: loans to customers";

- the payable to the SPVs, which initially records the collection of the assignment price of the mortgage loans that are not eliminated from the balance sheet, is recognised in line item 20 of liabilities "Due to customers" under "Other payables". Subsequently this incurs movements relating to payment of instalments in the collection account. The debt is then offset, up to the same amount, by the subordinated loan granted to the SPVs;
- the covered bonds issued by BPM are recognised in liabilities at line item 30 "Securities issued" and the related interest expense is recognised as "interest expense: securities issued."

With regard to the accounting treatment of this transaction in the consolidated financial statements:

- the mortgage loans sold to the SPVs remain in the sub-item "Mortgage loans" because they have been sold to companies included in the scope of consolidation and, therefore, the Group remains the holder of contractual rights (i.e. credit enhancement) which substantially expose it to variability in the results of the companies;
- the covered bonds are recorded in securities issued, and the book value of fixed rate securities includes the effects of hedge accounting (fair value hedges) under the hedge derivative contracts between the SPVs and the external counterparties, by which the SPVs swap a floating rate (Euribor plus spread) for the annual coupons of the covered bonds issued; these coupons are paid to BPM with the excess spread as remuneration for the subordinated loans;
- the covered bond swap contracts between the SPVs and the market counterparties outside the Group are recognised in line item 80 "Hedging derivatives" in assets and/or in line item 60 "Hedging derivatives" in liabilities.

The consolidated income statement consists of the following components:

- "interest income" shows interest on mortgage loans sold (cover pool);
- "interest expense" shows interest on covered bonds issued at a fixed or variable rate;
- "interest" includes differentials on hedging derivatives (which convert the Covered Bond rate from fixed to floating);
- line item 90 "fair value adjustments in hedge accounting" shows the fair value change in hedging contracts and in hedged items.

Quantitative information

Servicing activities – collection of securitised receivables and reimbursement of securities issued by the SPV

Servicer	Special purpose vehicle	Securitised assets (at end of period)		Collections of receivables in year		Percentage of securities reimbursed (at end of year)	
						Senior	
		Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets
Banca Popolare di Milano	BPM Covered Bond S.r.l.	33,389	3,749,899	1,568	568,298	–	0%
Banca Popolare di Milano	BPM Covered Bond 2 S.r.l.	3,806	2,940,324	5	416,037	–	0%

F. Banking Group – Credit risk measurement models

The Group uses internal models conforming to the requirements of the Basel Agreement to measure credit risk.

The internal rating models (LGD and EAD) are checked at regular intervals by the internal Validation and Audit Functions which, after conducting qualitative analyses and performance checks of the models, prepare their annual conformity reports in compliance with Supervisory Authority regulations.

Quantification of first pillar RWA on credit risk complies with the rules specified in applicable regulations. According to the Standardised Approach used for risk assessment the Group applies regulatory conversion/ weighting coefficients to mitigate asset absorption in the presence of eligible guarantees. Moreover, in conformity with regulations, where available the Group applies ratings provided by external rating agencies (normally for counterparties in the Sovereign, Institutions and Large Corporate segments) by using the weightings associated with the related risk classes.

1.2 – Banking Group – Market risk

Common general aspects relating to the process for managing the market risks adopted by the Bipiemme Group

Organisational aspects

For the Bipiemme Group, the role of strategic supervision is attributed to the Parent Company's Management Board. It establishes the guidelines for risk management and control for each of the companies in the Group, so as to create an integrated management policy, while at the same time taking account of the specific risk profiles and their interconnections. In the field of financial risk, BPM's Management Board establishes the Group's propensity for risk and the related macro-limits (corporate limits), giving the individual Group companies the power to define their own policies and limits (management limits) in compliance with the general guidelines.
The Parent Company's Management & Capital Adequacy Function manages market and counterparty risks, ensuring uniform Group direction and governance.
The Risk Management Function of Banca Akros, which reports for functional purposes to the same function in the Parent Company, is responsible for managing the company's financial risks.
In the Bipiemme Group, financial assets are split between the trading book and the banking book, these two portfolios being broken down as follows:

1. the **trading book** includes financial instruments held with a view to benefiting in the short term from positive changes between buy and sell prices through directional (based on market expectations) and absolute yield strategies (aimed at generating performance not correlated to the market) and managing positions as market maker;
2. the **banking book** consists of:
   - positions traded for cash management purposes, by investing in government securities and/or securities of primary banking issuers, in order to have "easily negotiable assets" or those that are considered "eligible assets" for refinancing transactions with the Central Bank;
   - traded securities to be used for guarantee and/or repo transactions with customers;
   - positions that are invested long-term with a view to obtaining stable returns over time with a low level of volatility;
   - derivatives traded on behalf of customers (i.e. "balanced trades") without keeping position books open;
   - treasury and forex portfolio and financial instruments traded with a view to covering the interest rate mismatch caused by the commercial banks' funding and lending activities (Asset & Liability Management – ALM).

Banca Akros, the Group's investment bank, is the only entity authorised to invest in instruments classified in the trading book.

The banking book, on the other hand, has been mainly assigned to the Parent Company and Banca Akros, with the rest to Banca Popolare di Mantova.

Different types of operating limits are envisaged in line with the type of portfolio assigned. The Parent Company has the following limits:

- Basis Point Value: change in portfolio fair value as a result of an increase of 1 basis point in the relative return;
- stop loss, warning loss limits;
- quantitative limits for total portfolio exposures and concentration limits for individual issuers;
- qualitative limits on the composition of the portfolio, with issuer risk limits by type of counterparty, type of rating and country risk.

Banca Akros has applied management limits to the Trading Room and the individual desks that comprise it in accordance with the overall limits established by the Parent Company.

Risk measurement methods

Commercial banks

The portfolio managed by the commercial banks is subject to monitoring and reporting by the Parent Company's Risk Management & Capital Adequacy Function through a set of indicators that set out the Risk Appetite Framework for the Group and the individual Companies.
During the first half of 2016, the Strategic Supervisory Board approved Group Regulations that set out a system of operating limits consistent with the propensity for risk within the Risk Appetite Framework (RAF).

In the Bipiemme Group, the Asset and Liability Management (ALM) method makes it possible to measure, at the consolidated level and for the individual legal entity, the banking book's exposure to adverse changes in interest rates in terms of both profitability and capital. The Parent Company has not developed any models for analysing sensitivity to price risk; monitoring the portfolio subject to price risk takes place through the controls of stop loss and warning loss limits.

Banca Akros

Over the years the Bank has developed its own quantitative and organisational model (i.e. an internal model) for measuring market risk, which the Supervisory Authority has recognised for regulatory purposes. The main indicator used to quantify market risk is Value at Risk (VaR), calculated according to the Monte Carlo method. This method involves estimating the distribution of potential profits and losses by recalculating the value of the portfolio according to the various simulated risk factor scenarios generated according to the volatility and correlation dynamics implicit in the historical performance of these factors. The potential loss is estimated based on a suitable percentile of the distribution. The contribution made by historical correlations gives rise to the so-called "diversification effect", according to which the economic effects on the portfolio of changes in individual market variables can, to a certain extent, offset each other, compared to a situation where these variables are considered separately.
The main types of risks that this method identifies are:

- delta risk (price sensitivity of a financial instrument to risk factors), that is:
  - price risk, in the case of the equities market;
  - interest rate risk, in the case of fixed or floating rate positions;
  - exchange risk, in the case of the forex market;
- gamma risk (sensitivity of the delta factor of a financial instrument to the underlying risk factors);
- vega risk (price sensitivity of a financial instrument to the volatility of risk factors);
- rho risk (price sensitivity of a financial instrument to interest rate risk);
- theta risk (price sensitivity of a financial instrument to the passage of time).

It is not permitted to take on market risk in relation to significant risk factors for which the Bank does not have systems or models that have been checked and validated by the Pricing and Market Risk Control Model Validation Office.

The individual financial contracts are represented in the VaR model using the "full evaluation" method, i.e. using a series of theoretical evaluation models implemented in the risk calculation model. The non-linear "partial revaluation" method is used in a limited number of cases[1]. The pricing models are subjected to checks to ensure that their theoretical formulation is correct, that correct input data is used, and that the numerical results obtained are reasonable. The checks carried out are documented in specific manuals.

The parameters of the VaR model are:

- historical period used for estimating volatility and empirical correlations: 12 months (252 observations);
- confidence interval: 99%, unilateral;
- holding period: 1 day;
- weighting factor: 0.992.

The historical series of risk factors are updated on a daily basis. The 10-day VaR calculation is estimated by applying the scaling of the square root law, but is also done for the purpose of verifying the prudence of this approach on the capital requirement, a direct calculation of the extent of risk-taking by adopting the log yields obtained over a 10-day time frame.

Scope of application of the internal model

Starting with the supervisory reports of June 2007, following recognition by the Bank of Italy, Banca Akros now uses its own internal model based on VaR metrics, also to determine the capital requirement for the following market risks that derive from trading:

- generic and specific risk on equities;
- generic risk on debt securities;
- position risk on investments in mutual fund units (excluding investments in hedge funds);
- exchange risk on all assets/liabilities in the financial statements.

Calculation of the capital requirements for market risk, and for the risk factors mentioned above, is therefore based on the internal model for the fixed income, equity, and FX portfolios and for the above risk factors recognized for regulatory purposes ("regulatory VaR").

The prudential capital requirements for the specific risk component for debt securities, which was not mentioned in the risks discussed previously, is calculated using the Standardised Approach. For the same reason, the credit derivative portfolio is not included in the internal model used for calculating minimum capital requirements.

In addition to regulatory VaR calculated under current conditions, Banca Akros has implemented a model for calculating regulatory VaR under conditions of stress (so-called stressed VaR), which was developed in 2010 and adopts, as a scenario of greatest severity, the time period comprised between 10 March 2008 – 10 March 2009 (Lehman scenario). This model was subjected to testing by the Supervisory Body, with a positive outcome, and as required by rules on capital adequacy, it has been used to compute the capital requirement for market risk as from the last quarter of 2011, as well as for management purposes.

Credit spread VaR

In 2010, for management purposes, the Pricing Models Validation and Market Risk Control Office developed an extension of the regulatory model to include the specific risk component of debt securities when measuring market risk (so-called "credit spread VaR"). This extended version of the VaR model makes it possible to quantify the contribution

1 These include a small number of options, for which the non-linear partial revaluation model makes it possible to represent the payoffs of the options in a way that is reasonably complete (up to the second order, including cross gamma risks). Certain plain vanilla options with baskets of equities as their underlying are also handled using the same method of partial revaluation.

of issuer risk to the expected daily stop-loss limit. The specific risk is mapped against the series of bond credit spread curves of debt issuers within the portfolio, taken from the prices of the more liquid bonds listed on active markets. A series of generic credit spread curves was also defined, broken down by rating and business sector, which are used as proxies for those issuers to whom a specific credit spread cannot be attributed. The historical series of issuer curves are updated on a daily basis. Credit spread VaR is quantified using the same approach as for other risk factors (Montecarlo simulation of the expected scenarios), including the effects of diversification of portfolio risks implicit in the historical performance of credit spreads.
In order to keep the risk perimeters of the two risk measures separate (regulatory VaR, calculated on the recognised risk factors, and credit spread VaR, calculated on the extended perimeter which includes credit spreads), an organisational and IT procedure was created which is similar and supplementary to that used for regulatory VaR. This procedure also involves mapping the positions of the risk factors represented by the risk curves of the individual issuers and preparing reports on the portfolio VaR including the credit spread factor. The reporting generated by the model on this specific development reflects the similar reports made for regulatory VaR and is archived in the market risk repository.
Also with respect to measuring issuer risk for management purposes, the MRC Office has implemented calculation of the Incremental default Risk Charge (IRC), which identifies the impact on the trading portfolio of default risks (or potential losses due to the insolvency of an issuer) and of migration of rating class (that is, potential direct or indirect losses incurred by changes in the credit rating of one or more issuers). The estimation model underlying the IRC adopted (the Merton equity factor model in CreditManager™ methodology) is based on the use of historical rating transition matrices with reference to the rating of each issuer (obligor), while correlations between issuers are estimated by means of an ample set of indices used to map each obligor. Currently, the model is used for bonds included in the trading portfolio and it provides a daily estimate of the IRC over a one year liquidity horizon with a confidence interval of 99.9%.

Model for the calculation of the Credit and Debt Valuation Adjustment

In compliance with the criteria codified in the Group's Policy on the subject (Guidelines on Credit Value Adjustments and Debit Value Adjustments), the Group's banks calculate the CVA/DVA parameter for all positions in OTC derivatives, apart from those of an intragroup nature, using the Expected Future Exposure approach, based on an estimate of the expected evolution of contract mark-to-market by means of Monte Carlo simulations. These are in turn based on risk factor models (e.g. interest rates, exchange rates, prices, volatility) calibrated at current market values, consistent with input to the corresponding pricing models. In particular, the "risk free" fair value of financial instruments is adjusted using the Bilateral Credit Valuation Adjustment additive factor, calculated as the difference between the CVA and DVA terms. The first term represents the economic value of the counterparty risk determined by the counterparty's probability of default and the second encompasses the reporting Bank's probability of default.

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

A. General aspects

A.1 Sources of interest rate risk

The Group's main activities giving rise to interest rate risk are:

- management of the bond and government securities portfolio;
- transactions in interest rate derivatives, both on regulated markets (e.g. Euribor, Bund , BTp futures) and over the counter, mainly interest rate swaps, overnight interest swaps and forward rate agreements, cap/floor.

A.2 Sources of price risk

A.2.1 Commercial banks

No trading transactions have been performed that have generated positions exposed to price risk.

A.2.2 Banca Akros

Price risk is generated by the equities trading portfolio. The main types of financial instruments traded are: equities, options on individual shares or equity indices, both regulated and OTC, futures with underlying securities or equity indices, and, on a residual basis, OTC financial instruments on mutual funds.

This activity, which mainly relates to the domestic equity market, can essentially be broken down into three parts:

- market making on regulated and OTC equity derivatives (single stock and index), through which the pertinent desk offers its quotations in electronic form on regulated markets (Italian Stock Exchange and Eurex) or off-market. The execution of instructions from customers and counterparties, through which it is possible take advantage of market opportunities of relative value and event as part of the dynamic management of the risks typical of the portfolio (delta risk, covered principally by buying and selling underlying equities, vega risk, gamma risk, rho and theta risk). The price risk assumed lies within the established operating limits for this activity;
- arbitrage or "spread" strategies between regulated and OTC derivatives on equity indices or between equity indices and stocks. This activity is carried on through directional and optional trading strategies on the underlying financial instruments, within established operating limits.
- management of OTC derivatives index-linked to baskets of equities, listed international stock market indices (individual or in baskets) and mutual funds, with a view to hedging any Group issues.

A.3 Objectives and strategies underlying trading activity

A.3.1 Banca Akros

Trading in bonds issued by banks or companies traded on the secondary market (Eurobonds) is generated by the need to meet the demands of primarily institutional customers. On the secondary market, the Bank operates as a market maker on bonds from corporate, bank, and international issuers, principally denominated in euro, by trading on multilateral trading platforms or OTC. In terms of market making on bonds, during 2016 the activity of the Systematic Internaliser (SI), supporting the liquidity of Bipiemme Group and third party retail bond issues, again proved especially important. This activity consists of systematically drafting buy/sell proposals and, as a direct counterparty, executing orders to purchase and sell that SI customers issue to meet the need to sell and/or invest their portfolios; this is carried out in accordance with the rules and procedures the Bank has adopted to regulate trading within this system. Specific position limits on portfolio holdings, and on VaR, regulate the level of risk associated with this activity.

B. Management processes and methods of measuring interest rate risk and price risk

See section "Common general aspects relating to the process for managing the market risks adopted by the Bipiemme Group."

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Summary table

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**172,168**	**63,873**	**14,126**	**11,679**	**53,421**	**117,023**	**2,527**	**–**
1.1 Debt securities	–	63,873	14,126	11,679	53,421	117,023	2,527	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	63,873	14,126	11,679	53,421	117,023	2,527	–
1.2 Other assets	172,168	–	–	–	–	–	–	–
2. Cash liabilities	**98,833**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	52,181	–	–	–	–	–	–	–
2.2 Other liabilities	46,652	–	–	–	–	–	–	–
3. Financial derivatives	**5,954,750**	**41,127,635**	**11,496,251**	**6,760,976**	**16,680,449**	**5,249,485**	**2,055,493**	**–**
3.1 With underlying security	–	858,049	34,222	26,173	60,977	86,584	517	–
– Options	–	229,425	9,271	26,080	16,368	–	–	–
+ Long positions	–	107,889	6,538	19,100	16,359	–	–	–
+ Short positions	–	121,536	2,733	6,980	9	–	–	–
– Other derivatives	–	628,624	24,951	93	44,609	86,584	517	–
+ Long positions	–	144,766	14,850	42	2,439	7,340	296	–
+ Short positions	–	483,858	10,101	51	42,170	79,244	221	–
3.2 Without underlying security	5,954,750	40,269,586	11,462,029	6,734,803	16,619,472	5,162,901	2,054,976	–
– Options	1,742,643	355,794	213,380	489,079	907,045	349,957	713,643	–
+ Long positions	1,591,060	138,075	94,892	103,446	269,123	155,951	34,921	–
+ Short positions	151,583	217,719	118,488	385,633	637,922	194,006	678,722	–
– Other derivatives	4,212,107	39,913,792	11,248,649	6,245,724	15,712,427	4,812,944	1,341,333	–
+ Long positions	2,393,425	19,833,369	5,979,076	2,854,674	7,826,303	2,398,348	682,005	–
+ Short positions	1,818,682	20,080,423	5,269,573	3,391,050	7,886,124	2,414,596	659,328	–

1. Regulatory trading book: distribution by residual duration (repricing date) of financial assets and liabilities in cash and financial derivatives

Currency: Euro

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**172,168**	**63,873**	**14,126**	**11,679**	**53,419**	**117,020**	**2,527**	**–**
1.1 Debt securities	–	63,873	14,126	11,679	53,419	117,020	2,527	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	63,873	14,126	11,679	53,419	117,020	2,527	–
1.2 Other assets	172,168	–	–	–	–	–	–	–
2. Cash liabilities	**98,833**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	52,181	–	–	–	–	–	–	–
2.2 Other liabilities	46,652	–	–	–	–	–	–	–
3. Financial derivatives	**5,922,770**	**30,739,878**	**10,599,124**	**5,996,374**	**16,427,753**	**5,188,634**	**2,005,870**	**–**
3.1 With underlying security	–	400,949	34,222	26,131	58,819	86,497	225	–
– Options	–	219,505	9,271	26,080	14,218	–	–	–
+ Long positions	–	97,969	6,538	19,100	14,209	–	–	–
+ Short positions	–	121,536	2,733	6,980	9	–	–	–
– Other derivatives	–	181,444	24,951	51	44,601	86,497	225	–
+ Long positions	–	144,483	14,850	–	2,431	7,253	30	–
+ Short positions	–	36,961	10,101	51	42,170	79,244	195	–
3.2 Without underlying security	5,922,770	30,338,929	10,564,902	5,970,243	16,368,934	5,102,137	2,005,645	–
– Options	1,742,643	270,711	170,827	389,611	903,932	332,010	713,643	–
+ Long positions	1,591,060	73,205	64,298	45,981	266,675	155,951	34,921	–
+ Short positions	151,583	197,506	106,529	343,630	637,257	176,059	678,722	–
– Other derivatives	4,180,127	30,068,218	10,394,075	5,580,632	15,465,002	4,770,127	1,292,002	–
+ Long positions	2,372,924	15,052,245	5,556,940	2,499,327	7,709,252	2,376,940	656,865	–
+ Short positions	1,807,203	15,015,973	4,837,135	3,081,305	7,755,750	2,393,187	635,137	–

1. Regulatory trading book: distribution by residual duration (repricing date) of financial assets and liabilities in cash and financial derivatives

Currency: Other currencies

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
On demand	**–**	**–**	**–**	**–**	**2**	**3**	**–**	**–**
Up to three months	–	–	–	–	2	3	–	–
From 3 to 6 months	–	–	–	–	–	–	–	–
From 6 months to 1 year	–	–	–	–	2	3	–	–
From 1 year to 5 years	–	–	–	–	–	–	–	–
From 5 years to 10 years	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Over 10 years	–	–	–	–	–	–	–	–
Unspecified duration	–	–	–	–	–	–	–	–
3. Financial derivatives	**31,980**	**10,387,757**	**897,127**	**764,602**	**252,696**	**60,851**	**49,623**	**–**
3.1 With underlying security	–	457,100	–	42	2,158	87	292	–
– Options	–	9,920	–	–	2,150	–	–	–
+ Long positions	–	9,920	–	–	2,150	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	447,180	–	42	8	87	292	–
+ Long positions	–	283	–	42	8	87	266	–
+ Short positions	–	446,897	–	–	–	–	26	–
3.2 Without underlying security	31,980	9,930,657	897,127	764,560	250,538	60,764	49,331	–
– Options	–	85,083	42,553	99,468	3,113	17,947	–	–
+ Long positions	–	64,870	30,594	57,465	2,448	–	–	–
+ Short positions	–	20,213	11,959	42,003	665	17,947	–	–
– Other derivatives	31,980	9,845,574	854,574	665,092	247,425	42,817	49,331	–
+ Long positions	20,501	4,781,124	422,136	355,347	117,051	21,408	25,140	–
+ Short positions	11,479	5,064,450	432,438	309,745	130,374	21,409	24,191	–

2. Regulatory trading book: distribution of exposures in equities and equity indices for the main countries of the listing market

Type of operation/Quotation index	Listed						Unlisted
	ITALY	UK	U.S.A.	GERMANY	FRANCE	Other countries	
A. Equities							
– long positions	44,786	16,767	9,177	735	281	20	8
– short positions	34,424	–	–	–	–	–	–
B. Purchases/sales of equities not yet settled							
– long positions	700	–	–	–	–	–	13
– short positions	1,143	–	–	–	–	–	–
C. Other derivatives on equities							
– long positions	27,500	–	–	2,925	–	–	126,157
– short positions	61,712	–	–	4,133	–	–	675,311
D. Derivatives on equity indices							
– long positions	52,618	211,202	–	–	–	–	483,909
– short positions	901	194,901	–	–	–	–	243,276

3. Regulatory trading book: internal models and other methodologies used for sensitivity analysis

3.1. Banca Akros

3.1.1 Trend in market risks

During 2016, the average daily Value at Risk of the trading book for the regulatory risk included in the perimeter, that is solely for market risks recognised for Regulatory purposes to calculate the capital requirement, measured by a holding period of 1 day and a confidence interval of 99 percent, was equal to about 518 thousand euro, stable compared with the 2015 figure, when daily average regulatory VaR was 518 thousand euro. The average daily regulatory VaR in 2016 ranged between 265 thousand euro and 878 thousand euro (between 208 thousand euro and 923 thousand euro in the previous year). The maximum risk capacity that the Group's RAF provides for Banca Akros, formulated in terms of regulatory VaR, is 1,450 thousand euro, while the threshold of tolerance is 1,150 thousand euro. Therefore, in 2016 the Bank utilized an average of just over one third of risk capacity (maximum utilization: 61%), or about 45% of the risk tolerance (maximum utilization: 76%).

In the first few days of 2016, the trend in VaR was subject to high levels of financial market tension, manifested as wide daily and intraday fluctuations in the main risk factors to which the portfolio was exposed. These shocks, which caused increased volatility and correlations among risk factors, translated into increased implicit portfolio risk and caused the risk to exceed 700 thousand euro around mid-January. Subsequently, regulatory VaR contracted just as rapidly, reaching levels of around 300 thousand euro in early February, including after the Bank's actions to minimize risk. After a period of relative stability around 450-500 thousand euro, from late April on, risk once again began to rise due to increased risk appetite in equities guided by market making activities, reaching just under 900 thousand euro in mid-May, and then settled to around 500-600 thousand euro. Around the end of June, financial markets were once again subjected to pressure due to the Brexit referendum. The market shocks that followed the outcome of the referendum, which were intense and in some cases extreme, as in the case of bank equities, were not reflected in a concomitant increase in potential portfolio risk, due to actions specifically taken to mitigate risks in expectation of this event. The end-of-period regulatory VaR was a little less than 600 thousand euro. In the second half of the year, the VaR of the portfolio showed a basically stable trend, with values ranging between 550 and 600 thousand euro at the end of August, when the portfolio risk fell to about 500 thousand euro; subsequently, following a slight by steady downward

trend, at the end of the year it reached the actual value of 355 thousand euro.
The key levels of regulatory VaR (average, maximum, minimum and period-end) for 2016, both for the entire trading portfolio and for the areas of risk into which it is split, are shown in the following table. The diversification effect is quantified for the average and end-of-period VaR, as these figures are comparable. The same table shows the number of exceptions found in relation to regulatory VaR (i.e. the number of events in which the loss actually recorded exceeded the estimated loss calculated in advance the previous day), both for tests which considered the hypothetical change in portfolio value (where only the change in value due to a change in prices is considered, without including daily operations - "hyp."), and which considered the actual change (where the actual change in value is used, obtained by excluding only commissions and coupon accruals from operating results for the day - "act.").

99% – 1 Day 2016	Fixed Income area	Equity area	FX area	Undiversified trading book	Diversification effect	Trading Book
Ave VaR Eur (000)	321	392	70	782	(263)	**518**
Max VaR Eur (000)	576	668	242	–	–	**878**
Min VaR Eur (000)	90	64	7	–	–	**265**
Last VaR Eur (000)	176	374	14	564	(172)	**391**
No. of hyp/act exceptions	21/21	0/3	3/5	–	–	**6/5**

(*) The undiversified VaR and the diversification effect are quantified only for the average and last VaR measures and not for maximum and minimum VaR measures, as the latter figures refer to different days.

Analogous regulatory VaR data for 2015 have been reported for comparison purposes, in the following table:

99% – 1 Day 2015	Fixed Income area	Equity area	FX area	Undiversified trading book	Diversification effect	Trading Book
Ave VaR Eur (000)	443	235	123	801	(283)	**518**
Max VaR Eur (000)	818	458	357	–	–	**923**
Min VaR Eur (000)	145	115	7	–	–	**208**
Last VaR Eur (000)	444	136	11	591	(141)	**450**
No. of hyp/act exceptions	13/12	2/1	8/5	–	–	**5/4**

(*) The undiversified VaR and the diversification effect are quantified only for the average and last VaR measures and not for maximum and minimum VaR measures, as the latter figures refer to different days.

Looking at the table above it can be seen that, for 2016, the largest contributor to VaR of the entire trading book, divided into three macro-portfolios (Fixed Income area, Equity area, and FX and FX Derivatives area) was the Equity area (average daily VaR of 392 thousand euro), and, to a slightly lower degree the Fixed Income area (average daily VaR of 321 thousand euro), while the foreign exchange portfolio (FX and FX Derivatives) shows a lower average potential risk than the others (70 thousand euro). Thus, compared to the previous year, risks due to equities have increased in importance in terms of the overall risk profile of the trading book (from 235 thousand euro in 2015 to 392 thousand euro in 2016), with a concurrent reduction in risks related to interest rates (from 443 thousand euro in 2015 to 321 thousand euro in 2016). This scenario is the result of two concomitant effects: the reduction in exposure to interest rates, achieved by decreasing investments in bonds while recovering interest from customers for the equities sector, in particular exposures through option instruments. Exposures to risks generated by the foreign exchange area dropped significantly (from 123 thousand euro in 2015 to 70 thousand euro in 2016), due to both a decrease in flows from customers, and to less proprietary trading.
The average incidence of the diversification effect, measured as the difference between overall regulatory VaR and non-diversified VaR for the three risk areas, was on average –34% in 2016, practically unchanged from the 2015 figure (-35%).

Stressed VaR
The average value of regulatory stressed VaR for 2016 was 1,296 thousand euro, a decrease of about 35% from the corresponding figure of 2,004 thousand euro in 2015; the range of variation fell between 747 thousand euro and 2,009 thousand euro (between 1,011 thousand euro and 3,107 thousand euro in 2015). Accordingly, during this

year, daily average VaR under conditions of stress was around 2.5 times that calculated under ordinary conditions (3.9 in 2015), which confirms the degree of severity of the chosen stress scenario (Lehman scenario). The trend in the ratio between the stressed measure and that under current conditions showed that, in 2016, stressed VaR was always higher than that under current conditions, which is consistent with the assumption that, for all the risk factors being considered, the historical period used to calculate stressed VaR represents the most severe scenario even when compared to current market conditions. The comparison between VaR and stressed VaR is the basis for a number of control mechanisms for the persistence of the stress scenario severity characteristics adopted with reference to the risk factors considered. The chart below shows the trend in the VaR/VaR ratio and the outcome of the two control processes based on the number of times the alarm thresholds for this indicator were exceeded. The early warning thresholds, which indicate that the choice of stress scenario may need to be reviewed, were never reached, thereby confirming, also for 2016, the choice of the stress scenario adopted up to now.

Credit spread VaR

The average daily credit spread VaR in 2016 amounted to 867 thousand euro, fluctuating during the period between a low of 542 thousand euro and a high of 1,839 thousand euro. The risk capacity set out by the RAF for this indicator, equal to 1,750 thousand euro, is thus utilized at 50% on average, while risk tolerance (1,450 thousand euro) was utilized at 60%.

Compared to the previous year, when the average credit spread VaR was 1,069 thousand euro, there was, on average, a reduction in the overall portfolio risk between the two years due to the reasons stated concerning the regulatory measure as well as a reduction, during the year, in exposure to credit spread risk.

At the start of the year, like regulatory VaR, credit spread VaR also showed rapid growth, due in part to the increase in implicit volatility of the market due to the severe shocks that hit markets in the month of January, with the credit spreads of Italian bank and corporate issuers especially hard hit. The level of credit spread VaR at the start of the year, equal to about 1,250 thousand euro, rapidly increased to a maximum value of 1,839 on 21 January; this figure exceeded the capacity provided for this indicator (risk capacity nevertheless refers to the average monthly figure). Following prompt risk reduction measures by the trading room, the portfolio credit spread VaR fell back below that level the very next day, while the month of January 2016 continued to show a slight overrun in the area of risk tolerance. The risk measure subsequently showed a constant reduction, a trend that continued until early March, when it reached values of about 800 thousand euro, where it stabilized until the end of the 6-month period. In the second half of the year, the portfolio credit spread VaR remained stable between 700 and 850 thousand euro, to then follow a slight but steady downward trend from October, reaching an amount of 600 thousand euro at the end of the year.

Comparing the trends in metrics of regulatory VaR and credit spread VaR in 2016, it can be seen that the contribution of issuer risk, net of the diversification benefit between risk factors, is some 349 thousand euro. This figure, compared with the average value of 518 thousand euro for regulatory VaR, indicates that the issuer risk for the current year is comparable to all remaining market risks for the trading book, even considering the offsetting effects between these risks.

The credit spread VaR, along with Default Risk Charge (which measures the risk of losses due to default of an issuer), is utilized for internal measurement of risk as part of the internal capital adequacy assessment process (ICAAP) of the Bipiemme Group, according to the methods provided. In order to calculate the pillar 1 prudential requirement (regulatory VaR), the capital obtained from issuer risk alone is calculated on the basis of the standardised approach (so-called mixed model).

The maximum potential loss under conditions of stress calculated on the basis of operating measurement ("stressed credit spread VaR"), with reference to the same scenario selected for regulatory VaR, is an average of 1,406 thousand euro, about 1.6 times the average credit spread VaR calculated under current conditions.

Backtesting of the trading book

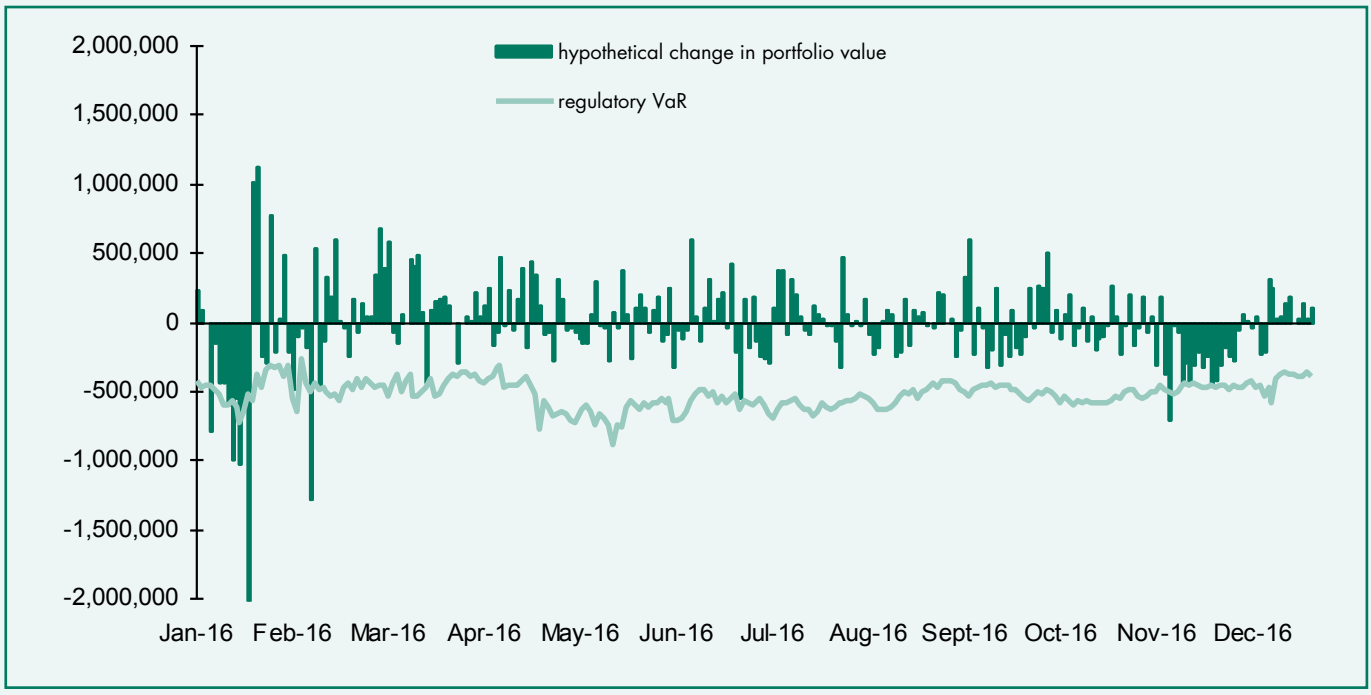
As noted earlier, the year 2016 began with strong turbulence in financial markets. As a result of these shocks, in the first part of the year, especially in January 2016, the trading book suffered reductions in value, in particular values in the bonds sector, exposures caused by investments in issues from primary Italian credit and corporate institutions. The significant widening of credit spreads was the cause of the six cases of regulatory VaR overshooting that occurred during 2016. Regulatory VaR backtesting for the entire trading portfolio in fact revealed four VaR breaches during January, one in February and one in November (the latter only based on tests performed in hypothetical mode). The analyses performed to ascertain the causes of this overshooting showed that, as in the past, all of these events are attributable to the perimeter difference between the daily economic measure (which includes the issuer risk) and the

expected maximum loss (which estimates potential losses for only the components of generic portfolio risk). This lack of uniformity caused non-coverage of the regulatory VaR measure of portfolio credit components, which, if credit spreads come under strong pressure, could create negative economic results greater than the estimated maximum loss. As evidence of this, the backtesting on credit spread VaR, which completely covers the portfolio perimeter of risks, showed one single exception in the above cases, thus confirming that the cited perimeter difference was the principle cause for the overshooting.

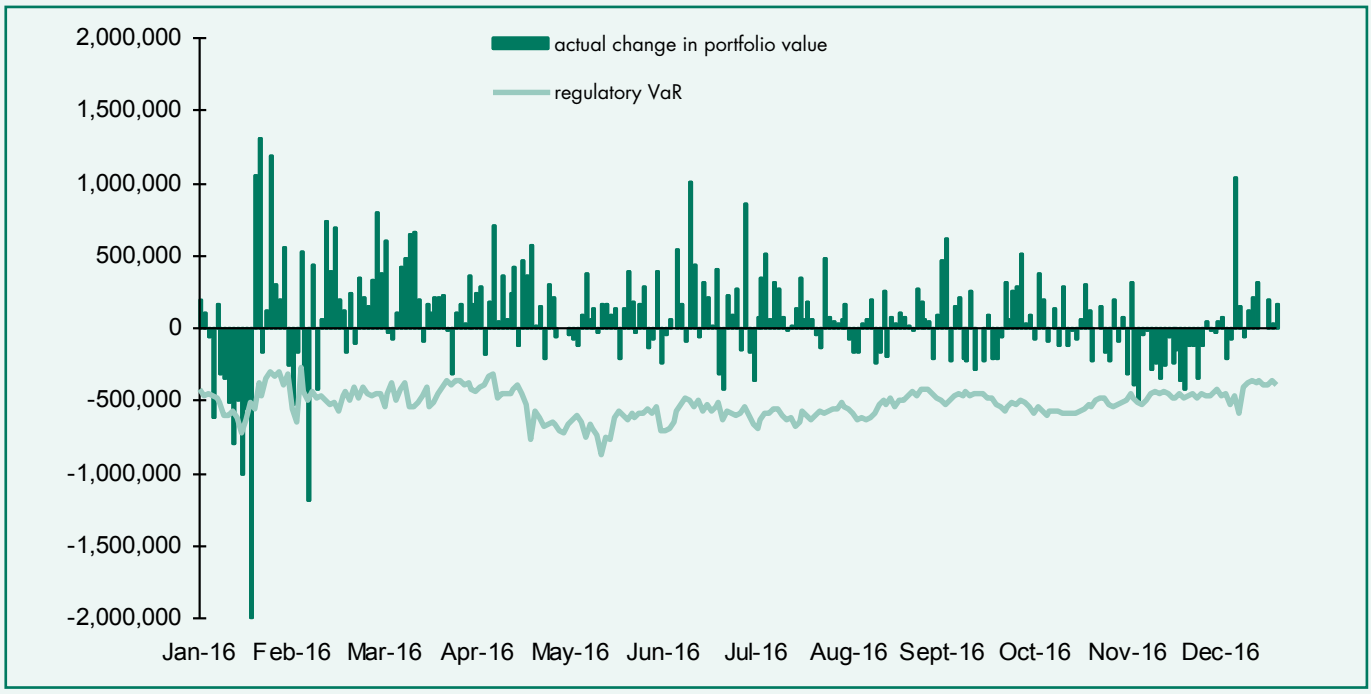
In the only event when the credit spread VaR was also exceeded, which occurred on 20 January 2016, the reason for the overshooting was identified as the extreme severity of the shocks to the credit spreads of Italian bank and corporate issuers, in particular after the great anxiety following the announcement that the European Central Bank would review the non-performing loans of Italian banks. The shocks to credit spreads on that day were so severe that for certain issuers the statistical probability that such events could occur was practically zero, while for other issuers it was well beyond the 99% confidence interval for the model's estimated maximum expected loss.

The regulatory VaR overshooting and the relative risk mitigation measures taken were closely monitored and discussed within the Group's Risk Committee. These events were also formally reported to the Supervisory Authority following the procedures provided by the European Central Bank for internal models on market risks.

The following graph provides a comparison between regulatory VaR at the end of the day and the daily changes in portfolio value of the next business day using hypothetical and actual backtesting methods.

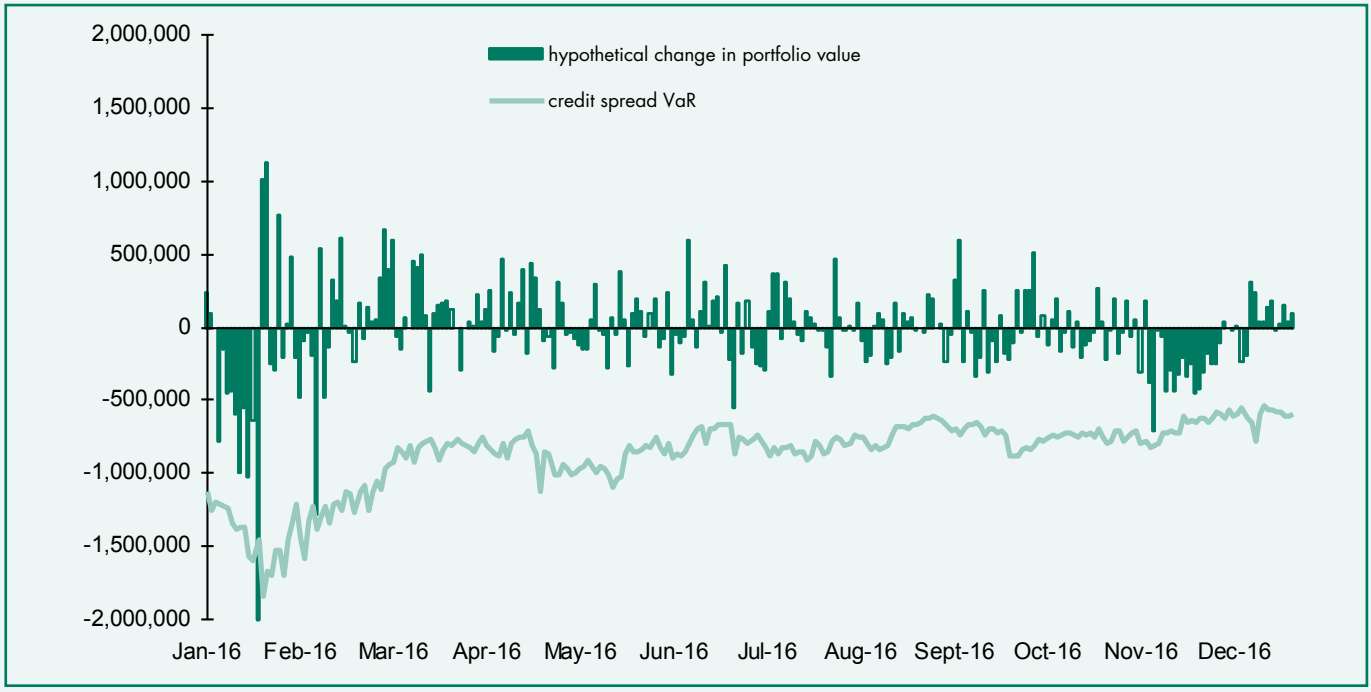


hypothetical backtesting of the trading book with respect to regulatory VaR – 2016

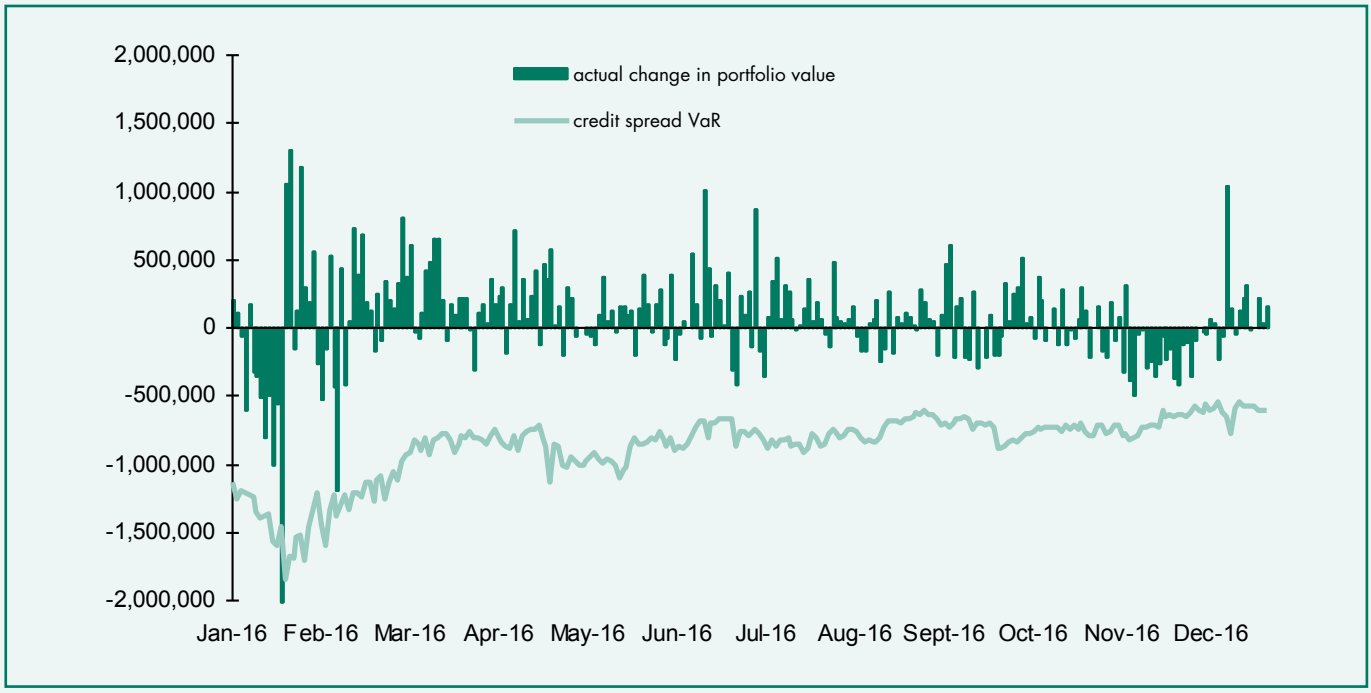


hypothetical backtesting of the trading book with respect to regulatory VaR – 2016

Moving on to backtesting against the extended measure of credit spread VaR (i.e. including issuer risk), in this case, there was only one event where the risk measure, already mentioned above was exceeded, which involved both the hypothetical mode and the actual mode. The higher capacity of the internal risk measure, for which a uniform risk perimeter is applied to the change in value of the portfolio being compared with it, brings the number of overshooting events back within the expected number due to the assumptions underlying the model.



hypothetical backtesting of the trading book with respect to internal VAR (credit spread VaR) – 2016



hypothetical backtesting of the trading book with respect to internal credit spread VaR (credit spread VaR) – 2016

Stress tests

Banca Akros regularly carries out stress testing on its trading portfolio in order to determine any weaknesses in the portfolio that fall outside the possibilities of regulatory risk measurement and to ascertain the ability of the Bank's regulatory capital to absorb any potential losses. The types of stress scenarios (hypothetical and specific) involve the major risk factors of the portfolio and get disrupted both jointly (historical and hypothetical scenarios) and individually (specific scenarios). In particular, sensitivity tests to credit spread VaR are performed for each issuer curve and for rating/segment curves, aggregating them by rating class, sector of activity, or portfolio. The scenarios adopted foresee deterioration in creditworthiness as a result of a widening in credit spreads of +25 and +50 basis points. To take account of possible negative impacts resulting from indebtedness, symmetrical scenarios of improved credit spread (–25 and –50 basis points) have also been implemented. In addition to these tests, the impacts for non-parallel changes in credit curves are also estimated (deepening and flattening of the yield curve).

Consistently with the development of trading book risks in 2016, the most unfavourable stress scenarios were those which assumed significant widening of credit spreads. In addition to these scenarios, to assess their potential impact, other scenarios were adopted that envisaged specific, large movements in the interest rate curve (parallel movements of the euro curve, tilting around a pivotal point), as well as some scenarios that envisaged substantial idiosyncratic shocks on specific equities. Generally speaking, the results of historical and hypothetical scenarios are less drastic. The potential impacts on the income statement of certain interest rate and credit spread shock scenarios for the entire trading portfolio at 30.12.2016 are summarised in the following table. In particular, due to the effect of an assumed parallel widening of the credit spread curve of +25 and +50 basis points, the negative change in the portfolio would be –1,414 thousand euro and –2,808 thousand euro, respectively. Of the interest rate scenarios, a parallel upward movement of the entire euro risk-free interest rate curve of +50 basis points would lead to a drop in the value of the entire trading book of some –1,307 thousand euro.

(thousands of euro)

Interest Rates				*Credit Spread*			
–50 bps	**+50 bps**	***Tilting Down–Up***	***Tilting Up–Down***	**–50 bps**	**–25 bps**	**+25 bps**	**+50 bps**
+337	(1,307)	(697)	541	2,889	1,433	(1,414)	(2,808)

In addition to being performed on a continuing basis with reference to standardised scenarios, stress tests on the trading book are also performed for specific events and circumstances, in view of which it is appropriate to perform an assessment of the portfolio variables and positions that are most vulnerable. Particular attention was focused on the estimated effects of potential shocks due to extreme widening of spreads in subordinated bank bonds and the impact that scenarios based on the outcomes of certain events that took place during the year and the potential impact on the risk positions, including, but not limited to the Brexit referendum, the US presidential election and the constitutional referendum in Italy, might have generated on the Bank's portfolio. These ad-hoc stress testing exercises, carried out before the date of the events, provided indications on possible risk containment measures, which guided operating decisions on positioning the portfolio in view of these events.

1.2.2. Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk and price risk

Interest rate risk consists of the potential impact of unexpected changes in market interest rates on current earnings (cash flow risk) and on the Group's shareholders' equity (fair value risk). This risk typically occurs for positions in the banking book, namely:

- customers' loans and deposits;
- own bonds;
- own issues for institutional investors;
- secured and unsecured interbank operations;
- operations with the Central European Bank (OMO);
- hedging derivatives.

Interest rate risk is therefore measured from the standpoint of both earnings and capital.

In terms of profitability, interest rate risk arises from the possibility that an unexpected change in interest rates generates a reduction in net interest income, and hence in Group profits. This risk therefore depends on:

- a shift in the time structure of loans and deposits in the case of fixed-rate items;
- a misalignment of the review periods of rate conditions in the case of floating-rate items.

From the standpoint of capital, interest rate risk arises from the possibility that an unexpected change in interest rates generates a decrease in the values of all balance sheet items, thus impacting the Group's capital.

The main sources of interest rate risk can be schematised as follows:

- repricing risk: risk arising from timing mismatches in maturities (and consequent refinancing/reinvestment) and repricing of assets and liabilities; the main features of this type of risk are:
  - yield curve risk: risk resulting from exposure of balance sheet items to changes in slope and shape of the yield curve;
  - basis risk: risk from imperfect correlation in the variations of rates earned and paid on different instruments, even with similar repricing structures;
- optionality risk: risk resulting from embedded options in the banking book items.

The Bipiemme Group monitors – both at consolidated level and at the level of individual legal entity – the banking book's exposure to adverse changes in interest rates, in terms of both profitability and capital.
The interest rate risk on the banking book is measured using integrated methods of Asset and Liability Management (ALM). In particular, the risk measurements used are:

- the change in interest margin expected as a result of a parallel shock on the spot rate curve of +/–100 basis points (profitability perspective);
- the change in economic value as a result of a parallel shock on the spot rate curve of +/–200 basis points (capital perspective), as defined in the Second Pillar of Basel II.

In addition to the impact of parallel shocks of the rate curve, internal stress analyses are also performed based on non-parallel shocks on the rate curve based on their past performance. Using a VaR (Value at Risk) approach, for each node of the rate curve, shocks that result in extreme lows and highs in rates are in fact calculated, considering the following distribution percentiles (99%, 99.5%, 99.9% upward and respectively 1%, 0.5%, 0.1% downward). Then a valuation is performed of the impact on expected interest margin and economic value by applying these shocks to the spot rate curve.

With regard to internal Asset and Liability Management (ALM) methods, we note as follows:

- faced with a market scenario characterised by the persistence of rates close to zero and negative for short-term maturities, the internal interest rate risk measurement model was further enhanced by removing the negative interest rate restriction (floor equal to 0%);
- during 2016, work started on extending the internal model on Asset and Liability Management (ALM) of the banking portfolio to the operations of Banca Akros, while taking into account that their operations are of limited materiality. The exposure of Banca Akro's banking book to interest rate risk, calculated by means of the internal model, is currently under analysis and testing; therefore, the contribution of Banca Akros is not included in the consolidated results reported in section 2 "Banking book: internal models and other methodologies for the sensitivity analysis".

The impact on the interest margin is due to the reinvestment/refinancing at new market conditions of the principal amount due (reinvestment/refinancing risk) and to the change in the coupon element (repricing risk, only for floating rate operations). The impact on the interest margin is obtained by mapping the items at the actual risk dates, or the date of payment of principal amounts for fixed rate transactions and the repricing date following the cut-off for floating rate transactions.

This approach, known as the repricing gap, assumes the adoption of a time horizon (known as the "gapping period"), of one year according to market best practice.
The impact on the economic value is measured according to a full evaluation approach, or as the change in fair value of the items mapped in each time band following a parallel shock in the spot rate curve.
The methodologies used for analysing sensitivity to interest rate risk also include behavioural modelling of demand deposits and prepayments of the mortgage portfolio.

As for the modelling of demand deposits, the Bipiemme Group adopts statistical models capable of detecting both the persistence of volumes over time and the responsiveness of rates to market conditions; in particular:

- the volume analysis model makes it possible to represent the element of aggregate demand items considered stable as a portfolio of amortizing to maturity items;
- the rate analysis model makes it possible to identify the proportion of demand items that react to movements in a market parameter considered significant and to measure the time needed to make the adjustment (viscosity effect).

Lastly, the risk of prepayment on the mortgage portfolio is measured through a CPR (Constant Prepayment Rate) model, which estimates a prepayment rate for each technical form.
Limited to the Parent Company's portfolio of financial products, the position keeping system performs daily monitoring of sensitivity and the limits described in the paragraph "Common general aspects relating to the process for managing the market risks adopted by the Bipiemme Group". The result of the sensitivity analyses produced by the position keeping system is also utilized for monthly reporting to the Risk Committee.

B. Fair value hedging

A Hedge Accounting Policy drawn up by the Parent Company has been in force since 2009. It defines the methodology and the organizational process for managing hedges of financial risks in the banking book, with particular reference to the players involved, the definition of roles and responsibilities, the description of planned activities, and mapping of processes.
This policy also gives the Bank the responsibility for managing the financial risks of the Bipiemme Group's banking book, both as regards monitoring exposure and compliance with operational limits, and for the relative management and hedging activities.
The responsibility for managing hedging activities is centralized in the Parent Company's Finance Committee, for all legal entities included within the scope of the policy.
The Finance Committee establishes guidelines for management of the assets and liabilities side of the financial statements and sets up all portfolio hedging transactions of the Bipiemme Group. Such hedging transactions are carried out by the Finance Function of Banca Popolare di Milano. This function has also been delegated the power to implement operating hedging strategies, taking positions on the interest rate curve with a view to reducing the exposure to the interest rate risk generated by the Bank's commercial activities in deposits and loans.

Hedging has the objective of protecting the banking book from changes in the fair value of deposits and loans due to movements in financial variables or to reduce the volatility of cash flows related to a particular asset or liability.

The main types of hedge derivatives used are represented by Interest Rate Swaps (IRS), Overnight Indexed Swaps (OIS), options on interest rates (caps) and Forwards on government securities.

The hedging activity carried on by the Bipiemme Group is reflected in the books (hedge accounting) in two ways:

- micro fair value hedge: specific hedging of the fair value of assets or liabilities specifically identified and represented mainly by bonds issued (subordinated or covered bonds) or purchased;
- macro fair value hedge: generic hedging of homogeneous pools of assets or liabilities not individually identifiable and represented by loans to ordinary customers and by demand items.

C. Cash flow hedging

As at 31 December 2016, the Parent Company had one outstanding cash flow hedge, whose goal is to stabilize, through a swap contract, the coupon yield of a security reported under financial assets available for sale.

Quantitative information

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Summary table

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**8,801,128**	**16,552,504**	**5,623,395**	**1,596,333**	**5,023,360**	**6,580,258**	**1,506,076**	**–**
1.1 Debt securities	227	954,223	1,543,056	607,381	2,337,180	3,552,659	1,000	–
– with early redemption option	–	13,022	7,659	–	–	–	1,000	–
– other	227	941,201	1,535,397	607,381	2,337,180	3,552,659	–	–
1.2 Loans to banks	768,668	775,636	131,526	7,295	278,370	–	–	–
1.3 Loans to customers	8,032,233	14,822,645	3,948,813	981,657	2,407,810	3,027,599	1,505,076	–
– current accounts	2,944,993	–	294	–	78	435,207	123	–
– other loans	5,087,240	14,822,645	3,948,519	981,657	2,407,732	2,592,392	1,504,953	–
– with early redemption option	1,873,635	11,272,678	1,439,063	490,353	1,600,242	1,230,095	1,459,553	–
– other	3,213,605	3,549,967	2,509,456	491,304	807,490	1,362,297	45,400	–
2. Cash liabilities	**25,911,845**	**5,018,470**	**1,007,880**	**886,639**	**8,337,807**	**2,491,649**	**6**	**–**
2.1 Due to customers	25,354,683	3,815,845	503,674	815,493	266,095	3	6	–
– current accounts	24,693,616	535,626	423,765	609,952	265,479	3	6	–
– other payables	661,067	3,280,219	79,909	205,541	616	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	661,067	3,280,219	79,909	205,541	616	–	–	–
2.2 Due to banks	554,061	473,364	58,241	–	6,300,000	–	–	–
– current accounts	139,131	–	–	–	–	–	–	–
– other payables	414,930	473,364	58,241	–	6,300,000	–	–	–
2.3 Debt securities	3,101	729,261	445,965	71,146	1,771,712	2,491,646	–	–
– with early redemption option	–	454,176	205,938	–	–	–	–	–
– other	3,101	275,085	240,027	71,146	1,771,712	2,491,646	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**2,438,736**	**347,323**	**1,097,125**	**1,946,000**	**1,086,318**	**10,846**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,438,736	347,323	1,097,125	1,946,000	1,086,318	10,846	–
– Options	–	7,290	–	–	–	68	7,222	–
+ Long positions	–	7,290	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	68	7,222	–
– Other derivatives	–	2,431,446	347,323	1,097,125	1,946,000	1,086,250	3,624	–
+ Long positions	–	781,623	347,261	717,000	925,000	685,000	–	–
+ Short positions	–	1,649,823	62	380,125	1,021,000	401,250	3,624	–
4. Other off-balance sheet transactions	**1,024,297**	**24,027**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	518,145	5,968	–	–	–	–	–	–
+ Short positions	506,152	18,059	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Euro

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**8,745,545**	**16,236,481**	**5,613,131**	**1,596,284**	**4,826,724**	**6,580,258**	**1,506,076**	**–**
1.1 Debt securities	227	954,223	1,543,056	607,381	2,141,082	3,552,659	1,000	–
– with early redemption option	–	13,022	7,659	–	–	–	1,000	–
– other	227	941,201	1,535,397	607,381	2,141,082	3,552,659	–	–
1.2 Loans to banks	749,087	727,262	130,193	7,295	278,370	–	–	–
1.3 Loans to customers	7,996,231	14,554,996	3,939,882	981,608	2,407,272	3,027,599	1,505,076	–
– current accounts	2,918,286	–	294	–	78	435,207	123	–
– other loans	5,077,945	14,554,996	3,939,588	981,608	2,407,194	2,592,392	1,504,953	–
– with early redemption option	1,873,635	11,272,678	1,439,063	490,353	1,600,242	1,230,095	1,459,553	–
– other	3,204,310	3,282,318	2,500,525	491,255	806,952	1,362,297	45,400	–
2. Cash liabilities	**25,723,634**	**4,645,521**	**1,007,880**	**886,639**	**8,337,807**	**2,491,649**	**6**	**–**
2.1 Due to customers	25,182,027	3,815,845	503,674	815,493	266,095	3	6	–
– current accounts	24,522,160	535,626	423,765	609,952	265,479	3	6	–
– other payables	659,867	3,280,219	79,909	205,541	616	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	659,867	3,280,219	79,909	205,541	616	–	–	–
2.2 Due to banks	538,506	100,415	58,241	–	6,300,000	–	–	–
– current accounts	128,232	–	–	–	–	–	–	–
– other payables	410,274	100,415	58,241	–	6,300,000	–	–	–
2.3 Securities issued	3,101	729,261	445,965	71,146	1,771,712	2,491,646	–	–
– with early redemption option	–	454,176	205,938	–	–	–	–	–
– other	3,101	275,085	240,027	71,146	1,771,712	2,491,646	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**2,438,736**	**347,323**	**1,097,125**	**1,946,000**	**1,086,318**	**10,846**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,438,736	347,323	1,097,125	1,946,000	1,086,318	10,846	–
– Options	–	7,290	–	–	–	68	7,222	–
+ Long positions	–	7,290	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	68	7,222	–
– Other derivatives	–	2,431,446	347,323	1,097,125	1,946,000	1,086,250	3,624	–
+ Long positions	–	781,623	347,261	717,000	925,000	685,000	–	–
+ Short positions	–	1,649,823	62	380,125	1,021,000	401,250	3,624	–
4. Other off-balance sheet transactions	**1,023,316**	**23,046**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	517,164	5,968	–	–	–	–	–	–
+ Short positions	506,152	17,078	–	–	–	–	–	–

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Other currencies

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**55,583**	**316,023**	**10,264**	**49**	**196,636**	**–**	**–**	**–**
1.1 Securities issued	–	–	–	–	196,098	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	196,098	–	–	–
1.2 Loans to banks	19,581	48,374	1,333	–	–	–	–	–
1.3 Loans to customers	36,002	267,649	8,931	49	538	–	–	–
– current accounts	26,707	–	–	–	–	–	–	–
– other loans	9,295	267,649	8,931	49	538	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	9,295	267,649	8,931	49	538	–	–	–
2. Cash liabilities	**188,211**	**372,949**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	172,656	–	–	–	–	–	–	–
– current accounts	171,456	–	–	–	–	–	–	–
– other payables	1,200	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	1,200	–	–	–	–	–	–	–
2.2 Due to banks	15,555	372,949	–	–	–	–	–	–
– current accounts	10,899	–	–	–	–	–	–	–
– other payables	4,656	372,949	–	–	–	–	–	–
2.3 Securities issued	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**981**	**981**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	981	–	–	–	–	–	–	–
+ Short positions	–	981	–	–	–	–	–	–

2. Banking book: internal models and other methodologies used for sensitivity analysis

Quantitative information

Within the Bipiemme Group, the Asset and Liability Management (ALM) method permits the monthly measurement of exposure to interest rate risk in terms of both change in expected interest margin (profitability approach) and in terms of change in economic value (capital approach) upon a change in the interest rate curve.

As specified in section "A. General aspects, management processes and methods of measuring interest rate risk and price risk," note that the results of the sensitivity analyses reported in this section, do not include Banca Akros operations since we are still in the process of extending the internal model to include Banca Akros operations.

The exposure to interest rate risk in terms of profitability is measured by the change in the interest margin expected over a period of one year following a parallel shock to the spot rate curve of +/– 100 basis points.
The following table shows the results (end of period and average) of the estimate of this change as at 31 December 2016.

(in millions of euro)

Metric	31 December 2016	Average for 2016	Average for second half of 2016	Average for first half of 2016
Sensitivity of interest margin +100bps	71.3	62.5	72.3	52.7
Sensitivity of interest margin –100bps	(78.7)	(35.7)	(75.3)	3.76

The exposure to interest rate risk from a capital standpoint is measured by the change in economic value (fair value) following a parallel shock to the spot rate curve of +/– 200 basis points.
The following table shows the results (end of period and average) of the estimate of this change as at 31 December 2016.

(in millions of euro)

Metric	31 December 2016	Average for 2016	Average for second half of 2016	Average for first half of 2016
Sensitivity of economic value +200bps	(120)	(5.3)	3.5	(14.1)
Sensitivity of economic value –200bps*	26.5	(113)	(136.3)	(89.4)

The following table shows the capital absorption for a shock of +/– 200 bps, or the maximum loss in fair value compared to own funds.

(in millions of euro)

Metric	31 December 2016	Average for 2016	Average for second half of 2016	Average for first half of 2016
Capital absorption +/– 200bps (% of own funds)	2.47%	3.33%	4.65%	2.00%

During 2016, the negative interest rate restriction (floor of 0%) was removed from both the sensitivity of interest margin and the sensitivity of economic vale analyses; accordingly, it's worth noting that the average data for 2016 reflect this change in methodology from the second half of the year.

Limiting the analysis to the financial components of the Parent Company's banking portfolio, the change in value of the portfolio (including the related hedging swaps) when faced with a parallel and uniform shift of the interest rate curve of one percentage point (so-called "sensitivity") was, in December 2016, equal to –354.2 million euro in case of an increase in interest rates, an increase from the figure reported at the end of 2015, which was –253.2 million euro.

The following table shows the changes in sensitivity during 2016.

BPM – Sensitivity of the fair value of the securities portfolio and relative hedging swaps to changes in interest rates

(in millions of euro)

Total securities + hedging swaps					
Change in rates	**31 December 2016**	**Average**	**Min**	**Max**	**31 December 2015**
+100 bps	(354.2)	(350.5)	(400.3)	(296.7)	(253.2)
–100 bps	370.3	366.5	310.3	418.5	262.0

Limited to the interest rate derivative portfolio used to hedge changes in the interest margin of the banking book, sensibility was +27.1 million euro in December 2016 in the case of a parallel increase of 100 basis points of the interest rate curve and –27.2 million euro in the case of a decrease of 100 basis points of the interest rate curve.

BPM – Sensitivity of the fair value of the derivatives portfolio to changes in interest rates

(in millions of euro)

other derivatives					
Change in rates	**31 December 2016**	**Average**	**Min**	**Max**	**31 December 2015**
+100 bps	27.1	71.3	16.4	109.2	15.7
–100 bps	(27.2)	(74.2)	(109.8)	(10.5)	(9.9)

Finally, the following table shows the changes in 2016 in overall sensitivity of the securities portfolio and relative hedging swaps and other derivatives.

BPM – Overall sensitivity of the fair value of the securities and derivatives portfolio to changes in interest rates

(in millions of euro)

Change in rates	**31 December 2016**	**Average**	**Min**	**Max**	**31 December 2015**
+100 bps	(327.0)	(279.1)	(248.2)	(216.8)	(237.5)
–100 bps	343.1	292.2	220.7	367.9	252.1

The change in the securities and derivatives portfolio upon a change of + 1 bp of the relative yield (basis point value) at the end of December 2016 was –3.01 million, an increase compared to the –2.2 million at 31 December 2015.

BPM – Basis Point Value of Securities and Derivatives portfolio

(in millions of euro)

Change in Yield	**31 December 2016**	**30 June 2016**	**31 December 2015**
+1 bps	(3.01)	(0.77)	(2.20)

1.2.3 – Exchange rate risk

Qualitative information

A. General aspects, management processes and methods of measuring exchange rate risk

Banca Popolare di Milano

The Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
In particular, foreign exchange activities are limited to transactions involving currency gains (net interest or net commissions and fees collected in foreign currency) and foreign banknotes for the purchase and sale of currency by the branch network.
There is also a forex brokerage service for customers, but without keeping significant position books open.

Banca Akros

Exchange risk is managed internally by a specific desk, where forex and forex derivative transactions are also focused with a view to hedging the currency exposure of any of the Bank's assets.

A.1 Sources of exchange risk

The principal sources of exchange risk are:

- loans and deposits in foreign currency with corporate and/or retail customers;
- purchases of securities and/or equity investments and other financial instruments in foreign currency;
- trading in foreign banknotes;
- receipt and/or payment of interest, commissions and fees, dividends, administrative expenses, etc.;
- at Banca Akros, the FX desk and the currency operations of the other desks.

A.2 Internal processes for managing and controlling exchange rate risk

Banca Popolare di Milano

The system of operating limits allows the Head of the Finance Function to hold an overnight currency position of up to 48.8 million euro. Moreover, the sum of the absolute values of the open positions in all foreign currencies must not exceed the limits set, and periodically reviewed, by the Regulation for Financial Operations. There is also a stop loss of 9 million euro.
This position is monitored through the front-office application (Kondor+).

Banca Akros

For Banca Akros, the exchange risk assumed is within the established operating limits.
The principal indicator of exposure to exchange risk is the VaR of the FX area, which includes, using the methods explained above (see "General common aspects related to the management processes and methods adopted by the Bank"), an analysis of sensitivity to exchange rate and interest rate risk, the risk of volatility, and the effect of non-linear trends due to the options component (gamma and vega).

B. Hedging exchange rate risk

The exchange rate risk generated by loans and deposits on the banking books of the commercial banks and by investing in securities and/or equity investments is systematically hedged through funding (or lending) transactions in the same currency. The forex position created by income flows in foreign currency (interest income/expense, fees and commissions) and foreign banknote transactions with customers tend to be hedged through forex transactions in the reverse direction.

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Line items	USD	GBP	CHF	JPY	CAD	OTHER CURRENCIES
A. Financial assets	**513,270**	**28,349**	**57,157**	**2,598**	**1,268**	**3,792**
A.1 Debt securities	196,104	–	–	–	–	–
A.2 Equities	11,093	16,592	21	–	–	–
A.3 Loans to banks	15,932	7,219	40,535	1,670	308	3,792
A.4 Loans to customers	290,141	4,538	16,601	928	960	–
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**8,039**	**4,923**	**3,804**	**1,861**	**679**	**1,379**
C. Financial liabilities	**513,277**	**9,974**	**24,377**	**3,586**	**6,675**	**3,287**
C.1 Due to banks	357,231	6	20,488	2,431	6,363	1,984
C.2 Due to customers	156,046	9,968	3,889	1,155	312	1,303
C.3 Debt securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities	**212**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**6,627,077**	**416,617**	**219,007**	**559,871**	**39,724**	**166,255**
– Options	234,078	9,168	–	–	–	1,004
+ Long positions	148,133	4,806	–	–	–	502
+ Short positions	85,945	4,362	–	–	–	502
– Other	6,392,999	407,449	219,007	559,871	39,724	165,251
+ Long positions	3,176,061	201,250	108,478	271,571	22,233	81,531
+ Short positions	3,216,938	206,199	110,529	288,300	17,491	83,720
Total assets	**3,845,503**	**239,328**	**169,439**	**276,030**	**24,180**	**87,204**
Total liabilities	**3,816,372**	**220,535**	**134,906**	**291,886**	**24,166**	**87,509**
Difference (+/–)	**29,131**	**18,793**	**34,533**	**–15,856**	**14**	**–305**

2. Internal models and other methodologies for the sensitivity analysis

2.1. Banca Popolare di Milano

BPM did not use internal sensitivity analysis models for exchange risk.
As noted under general aspects, the Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
Moreover, in the supervisory reports of 2016, the capital requirements for exchange risk were always essentially equal to zero or were insignificant, as the net forex position was always below 2% of own funds.

2.2. Banca Akros

Banca Akros uses its own internal model based on VaR metrics to calculate exchange risk.

The following table shows the VaR for 2016, together with the corresponding amounts for the previous year.

99% – 1 Day	**Exchange rate risk 2016**	**Exchange rate risk 015**
Ave VaR Eur (000)	70	123
Max VaR Eur (000)	242	357
Min VaR Eur (000)	7	7
Last VaR Eur (000)	14	11
No. of exceptions	3/5	8/5

1.2.4 Derivatives

A. Financial derivatives

A.1 Regulatory trading book: notional values at the end of the year

Underlying asset/type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**36,424,602**	**–**	**45,808,075**	**199,080**
a) Options	4,920,829	–	3,510,353	39,480
b) Swaps	31,391,373	–	42,297,643	–
c) Forwards	–	–	79	–
d) Futures	112,400	–	–	159,600
e) Other	–	–	–	–
2. Equities and stock indices	**2,521,253**	**200,361**	**1,992,458**	**1,555,672**
a) Options	2,492,646	147,252	1,992,458	1,476,740
b) Swaps	–	–	–	–
c) Forwards	71	–	–	–
d) Futures	28,536	53,109	–	78,932
e) Other	–	–	–	–
3. Currency and gold	**7,305,088**	**–**	**6,267,370**	**–**
a) Options	410,324	–	976,405	–
b) Swaps	5,692,462	–	4,314,358	–
c) Forwards	1,202,302	–	976,607	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**64,003**	**–**	**30,884**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**46,314,946**	**200,361**	**54,098,787**	**1,754,752**

A.2 Banking book: notional values at the end of the year

A.2.1 Hedging

Underlying asset/type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**3,523,010**	**–**	**4,145,736**	**–**
a) Options	186,887	–	191,554	–
b) Swaps	3,336,123	–	3,144,438	–
c) Forwards	–	–	809,744	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**3,523,010**	**–**	**4,145,736**	**–**

A.2.2 Other derivatives

Underlying asset/type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**119,761**	**–**	**193,594**	**–**
a) Options	–	–	–	–
b) Swaps	119,761	–	193,594	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**119,761**	**–**	**193,594**	**–**

The figures in the table relate to financial derivatives linked to the fair value option.

A.3 Financial derivatives: positive gross fair value – analysis by product

Portfolio/type of derivative	Positive fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**1,219,731**	**3,194**	**1,128,892**	**94,229**
a) Options	221,327	3,194	163,143	94,229
b) Interest rate swaps	877,663	–	910,594	–
c) Cross currency swaps	100,280	–	44,821	–
d) Equity swaps	–	–	–	–
e) Forwards	17,107	–	9,460	–
f) Futures	–	–	–	–
g) Other	3,354	–	874	–
B. Banking book – hedging	**44,835**	**–**	**40,638**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	44,835	–	39,003	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	1,635	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**343**	**–**	**960**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	343	–	960	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**1,264,909**	**3,194**	**1,170,490**	**94,229**

A.4 Financial derivatives: negative gross fair value – analysis by product

Portfolio/type of derivative	Negative fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**1,124,378**	**8,114**	**1,063,913**	**78,967**
a) Options	177,376	8,114	129,059	78,967
b) Interest rate swaps	831,943	–	885,711	–
c) Cross currency swaps	96,734	–	38,753	–
d) Equity swaps	–	–	–	–
e) Forwards	15,962	–	9,374	–
f) Futures	–	–	–	–
g) Other	2,363	–	1,016	–
B. Banking book – hedging	**32,894**	**–**	**48,678**	**–**
a) Options	5,589	–	5,098	–
b) Interest rate swaps	27,305	–	38,849	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	4,731	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**16**	**–**	**1,581**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	16	–	1,581	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**1,157,288**	**8,114**	**1,114,172**	**78,967**

A.5 OTC financial derivatives – regulatory trading book: notional values, positive and negative gross fair values by counterparty – contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	238,394	4,585,452	271,633	–	2,230,765	83,567
– positive fair value	–	765	16,942	12,593	–	57,512	4,982
– negative fair value	–	(15,858)	(12,435)	(45)	–	(2,681)	(4,539)
– future exposure	–	1,695	21,579	1,104	–	9,218	327
2. Equities and stock indices							
– notional value	–	–	71	15,206	–	17,155	98,804
– positive fair value	–	–	42	76	–	306	8,663
– negative fair value	–	–	–	(60)	–	–	(7,975)
– future exposure	–	–	600	575	–	1,359	2,478
3. Currency and gold							
– notional value	274,307	–	2,176,496	1,879	5,017	433,493	54,752
– positive fair value	2,226	–	37,143	66	204	7,718	1,070
– negative fair value	(1,174)	–	(34,131)	(10)	(2)	(8,369)	(593)
– future exposure	2,743	–	21,765	19	50	3,947	548
4. Other instruments							
– notional value	–	–	–	–	–	1,874	–
– positive fair value	–	–	–	–	–	84	–
– negative fair value	–	–	–	–	–	(42)	–
– future exposure	–	–	–	–	–	191	–

A.6 OTC financial derivatives – regulatory trading book: notional values, positive and negative gross fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	–	20,408,947	8,544,665	–	61,180	–
– positive fair value (before offsetting)	–	–	532,663	278,748	–	1,474	–
– negative fair value (before offsetting)	–	–	(565,004)	(258,830)	–	(2,068)	–
2. Equities and stock indices							
– notional value	–	–	711,158	1,621,381	–	–	57,478
– positive fair value (before offsetting)	–	–	62,359	103,736	–	–	10,926
– negative fair value (before offsetting)	–	–	–	(114,934)	–	–	(18,511)
3. Currency and gold							
– notional value	–	–	1,912,942	1,722,820	–	723,380	–
– positive fair value (before offsetting)	–	–	35,863	30,451	–	11,415	–
– negative fair value (before offsetting)	–	–	(34,547)	(27,944)	–	(12,935)	–
4. Other instruments							
– notional value	–	–	30,081	931	–	31,118	–
– positive fair value (before offsetting)	–	–	146	–	–	1,561	–
– negative fair value (before offsetting)	–	–	(1,597)	(4)	–	(92)	–

A.7 OTC financial derivatives – banking book: notional values, positive and negative gross fair values by counterparty – contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	–	3,222,771	420,000	–	–	–
– positive fair value	–	–	43,895	1,283	–	–	–
– negative fair value	–	–	(32,443)	(467)	–	–	–
– future exposure	–	–	13,779	3,600	–	–	–
2. Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
3. Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
4. Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–

A.8 OTC financial derivatives – banking book: notional values, positive and negative gross fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2. Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
3. Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
4. Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

A.9 Residual life of OTC financial derivatives: notional values

Underlying/residual life	Up to 1 year	Between 1 and 5 years	Beyond 5 years	Total
A. Regulatory trading book	**20,547,719**	**18,297,048**	**7,470,178**	**46,314,945**
A.1 Financial derivatives on debt securities and interest rates	11,459,274	17,495,151	7,470,178	36,424,603
A.2 Financial derivatives on equities and stock indices	1,767,381	753,871	–	2,521,252
A.3 Financial derivatives on currency and gold	7,268,878	36,209	–	7,305,087
A.4 Financial derivatives on other instruments	52,186	11,817	–	64,003
B. Banking book	**420,011**	**1,446,227**	**1,776,533**	**3,642,771**
B.1 Financial derivatives on debt securities and interest rates	420,011	1,446,227	1,776,533	3,642,771
B.2 Financial derivatives on equities and stock indices	–	–	–	–
B.3 Financial derivatives on currency and gold	–	–	–	–
B.4 Financial derivatives on other instruments	–	–	–	–
Total 31.12.2016	**20,967,730**	**19,743,275**	**9,246,711**	**49,957,716**
Total 31.12.2015	**25,360,161**	**21,429,659**	**11,648,297**	**58,438,117**

A.10 OTC financial derivatives: Counterparty risk/financial risk – Internal models

The Group's commercial banks do not use EPE-type internal models.
As explained in Section 1.2.1. Banca Akros has been authorised by the Bank of Italy to use an internal model for market risks for supervisory purposes. Information on the internal model is provided in sections 1.2.1 "Interest rate risk and price risk – regulatory trading book" and 1.2.3 "Exchange rate risk".

B. Credit derivatives

B.1. Credit derivatives: notional values at the end of the year

Type of transaction	Regulatory trading book		Banking book	
	on a single subject	on several subjects (basket)	on a single subject	on several subjects (basket)
1. Purchase of protection				
a) Credit default products	–	15,000	–	–
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Other	–	–	–	–
Total 31.12.2016	**–**	**15,000**	**–**	**–**
Total 31.12.2015	**–**	**–**	**–**	**–**
2. Sale of protection				
a) Credit default products	–	–	–	–
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Other	–	–	–	–
Total 31.12.2016	**–**	**–**	**–**	**–**
Total 31.12.2015	**–**	**–**	**–**	**4,653**

B.2. OTC credit derivatives: positive gross fair value – analysis by product

Portfolio/type of derivative	Positive fair value	
	31.12.2016	31.12.2015
A. Regulatory trading book	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
B. Banking book	**–**	**4,487**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	4,487
Total	**–**	**4,487**

B.3. OTC credit derivatives: negative gross fair value – analysis by product

Portfolio/type of derivative	Negative fair value	
	31.12.2016	31.12.2015
A. Regulatory trading book	**50**	**–**
a) Credit default products	50	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
B. Banking book	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
Total	**50**	**–**

B.4. OTC credit derivatives: positive and negative gross fair values by counterparty – contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading book							
1. Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
Banking book							
1. Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

B.5. OTC credit derivatives: positive and negative gross fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading book							
1. Purchase of protection							
– notional value	–	–	10,000	5,000	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	(33)	(17)	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
Banking book							
1. Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

B.6. Residual life of credit derivatives: notional values

Underlying/residual life	Up to 1 year	Between 1 and 5 years	Beyond 5 years	Total
A. Regulatory trading book	**–**	**15,000**	**–**	**15,000**
A.1 Credit derivatives with qualified reference obligation	–	15,000	–	15,000
A.2 Credit derivatives with unqualified reference obligation	–	–	–	–
B. Banking book	**–**	**–**	**–**	**–**
B.1 Credit derivatives with qualified reference obligation	–	–	–	–
B.2 Credit derivatives with unqualified reference obligation	–	–	–	–
Total 31.12.2016	**–**	**15,000**	**–**	**15,000**
Total 31.12.2015	**4,653**	**–**	**–**	**4,653**

B.7. Credit derivatives: counterparty and financial risk – internal models

The Group does not use internal models to analyse the risk underlying credit derivatives.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative agreements	**–**	**–**	**677,559**	**277,026**	**–**	**46,662**	**25,995**
– positive fair value	–	–	276,203	62,109	–	11,062	5,062
– negative fair value	–	–	(193,663)	(48,490)	–	(11,707)	(12,647)
– future exposure	–	–	99,809	68,500	–	6,416	1,612
– net counterparty risk	–	–	107,884	97,927	–	17,477	6,674
2) Bilateral credit derivative agreements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
– net counterparty risk	–	–	–	–	–	–	–
3) Cross products agreements	**–**	**–**	**4,713**	**9,063**	**–**	**–**	**–**
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	(1,589)	(2,413)	–	–	–
– future exposure	–	–	1,562	3,325	–	–	–
– net counterparty risk	–	–	1,562	3,325	–	–	–

The sub-item "net counterparty risk" shows the balance between the positive fair value, increased by the future credit exposure and decreased by the current value of any cash collaterals received.

1.3 – Banking group – Liquidity risk

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

A.1 Sources of liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its definite and foreseeable payment commitments with reasonable certainty. Normally, two types of liquidity risk are identified: Funding Liquidity Risk, i.e. the risk that the Group may not be able to meet its payment commitments and obligations efficiently because of an inability to raise funds without jeopardising its normal business activity and/or its financial situation; and Market Liquidity Risk, i.e. the risk that the Group may not be able to liquidate an asset without incurring a capital loss because of the limited depth of the market and/or as a result of the timing with which it is necessary to carry out the transaction. In this second definition, liquidity risk comes very close to traditional market risk. The main difference between the two types of risk lies in the fact that while market risk measures the sensitivity of a position's value to possible future scenarios, liquidity risk concentrates on the ability to finance present and future payment commitments in normal and in stress situations.

A.2 Internal procedures for managing and controlling liquidity risk

At Bipiemme Group, liquidity risk governance and management principles are regulated by the Group's "Policy guidelines on liquidity risk management", which sets out:

- the liquidity risk governance model;
- responsibilities of the corporate bodies and business functions;
- the liquidity risk appetite in accordance with the Risk Appetite Framework;
- the tools for managing and monitoring liquidity risk;
- the tools for mitigating liquidity risk;
- the guidelines for carrying out stress tests;
- the Contingency Funding Plan.

Liquidity risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP). The Group uses this process to identify, measure, monitor, mitigate and report the Group's liquidity risk profile.

The process is divided into the following steps and is regulated by special internal rules:

- identification of liquidity risks;
- measurement and assessment of the risk profile both in the short term (operative) and long term (structural), inclusive of stress scenarios. The measurement of risk includes a forward looking assessment of the risk profile;
- monitoring, reporting and adequacy assessment: monitoring and reporting activities carried out by the Risk Management & Capital Adequacy which enables the company bodies and functions to be informed on the adequacy of the liquidity risk profile and to adopt the necessary corrective measures to attenuate and mitigate the risk where deemed necessary and in accordance with their respective responsibilities.

Within the ILAAP process, the Group then carries out an annual self-assessment on the adequacy of the overall liquidity risk measurement and management framework which includes governance, methodologies, information systems, measurement and reporting tools. If areas that can be further improved are identified during the above self-assessment, specific action plans are scheduled so as to develop the ILAAP process accordingly. The results of the risk profile adequacy assessment and the entire internal assessment are reported in the ILAAP Book and communicated to the Supervisory Authority.

Liquidity risk governance model
Liquidity governance is centralised at the Parent Company. Operative management of liquidity is coordinated by the Parent Company on a centralised basis, subject to appropriate exemptions, with part of liquidity management being carried out on a decentralised basis at the individual Group companies but in any case within the threshold of tolerance set by the Group.

Responsibilities of corporate bodies and business functions
The Group's corporate bodies involved in the liquidity governance and management process are:

- the Management Board of the Parent Company which defines, as part of the RAF, the (Liquidity Risk Appetite) and is responsible for maintaining a coherent level of liquidity. It is responsible for setting governance policies and management processes relating to liquidity risk; more in general, it also approves the methods of managing and monitoring liquidity risk;
- the Group Finance Committee which defines the strategic management policies for operational and structural liquidity and the related risk in normal situations and, together with the Risk Committee, in difficult situations, assessing what steps need to be taken;
- the Supervisory Board of the Parent Company which is responsible for ensuring the adequacy and compliance of the liquidity risk management, monitoring and control process with respect to the legislative requirements and in accordance with the tasks assigned to it by the Company's Articles of Association.

The Group has also defined the roles and responsibilities of the corporate functions involved in the process of managing and monitoring liquidity risk, such as the operational functions (finance, treasury, commercial network), the control functions (Chief Risk Officer, Internal Audit) and the function in charge of processing the pricing system for the internal transfer of funds.

Liquidity risk appetite
The Liquidity Risk Appetite is defined within the Risk Appetite framework at both Group and individual legal entity level. Short- and long-term risk objectives and limits are defined for liquidity indicators.
As part of risk limits the tolerance threshold to liquidity risk is understood as the maximum risk exposure considered to be sustainable in the context of the "normal course of business" (i.e. going concern), integrated with stress scenarios. It is established to be fully in compliance with the Risk Appetite Framework (RAF) and is defined as the threshold beyond which the Group must implement recovery actions to return the risk profile to a normal situation. The liquidity limits are determined by the RAF and based on the principle of sound and prudent management.

Tools for managing and monitoring liquidity risk
The liquidity risk is monitored through the following instruments:

- Operative Maturity Ladder: this report provides the liquidity requirement for a time horizon of up to twelve months, aggregating imbalances between cash inflows and outflows that occur in different time zones and adding to this the balance of available liquidity reserves;
- Structural Maturity Ladder: the purpose of this report is to monitor the maintenance of an adequate ratio between medium/long-term assets and liabilities, i.e. to limit the exposure to refinancing for maturities over twelve months. The relationship between sources and uses of liquidity and the degree of maturity transformation is also monitored;
- Early Warning Indicators (EWI) for possible liquidity stress. A set of indicators for early detection of potential tensions in the Group's liquidity position has been identified. These provide market indicators and internal indicators, i.e. based on specific indicators of the Group's liquidity situation;
- stress tests of the Group's ability to withstand adverse scenarios. Among the risk factors considered in the conduct of stress tests are potential cash outflows such as the impact of a downgrade of the bank in question, the granting of further collateral for derivative transactions and the unexpected use by customers of committed lines of credit that have been granted. The results of the stress tests are evaluated also taking into consideration the impact of the countermeasures (i.e. the action plan, which is an integral part of the contingency funding plan) that can be used should there be a stress scenario.

The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are among the tools used for monitoring and managing liquidity risk, both of which are to be found in the Risk Appetite framework:

- the LCR is calculated in accordance with the rules laid down in a specific European Commission regulation (Delegated Regulation (EU) no. 61/2015), which requires a minimum of 60% from 1 October 2015, 70% for 2016 with a gradual increase up to 100% by 1 January 2018. This is a short-term liquidity measure that is calculated as the ratio between high quality liquid assets (HQLA) and net cash outflows assumed in a systemic and idiosyncratic stress scenario lasting 30 days;
- unlike the LCR, the NSFR does not entail either minimum legislator requirements or specific calculation rules at a European level. For this reason, and while waiting for further legislative indications, it is calculated in accordance with the rules proposed by the Basel Committee for Banking Supervision. The NSFR is a measure of long-term liquidity designed to ensure a profile of stable funding in relation to the composition of assets and off-balance sheet transactions. It is calculated as the ratio between the available amount of stable funding and the required amount of stable funding.

Both indicators are monitored by corporate bodies and are also communicated regularly to the Bank of Italy by means of pertinent supervisory reports.

During the first half of 2016, Implementing regulation (EU) 2016/313 came into effect. This regulation provides for additional monitoring metrics for liquidity reporting. For this reason the Group, in addition to the LCR and NSFR, started providing monthly reports to the Supervisory Authority with further information on:

- concentration of funding by supplier of funds and product type;
- cost of funding by type of product and by maturity;
- monthly performance of funding in terms of maturity, roll-over and the raising of new funds;
- concentration of available liquidity reserves by issuer.

Tools for mitigating liquidity risk

As tools for mitigating liquidity risk, the liquidity policies requires the Group to keep an adequate amount of cash reserves to maintain a liquidity profile that is consistent with the threshold of tolerance to this kind of risk, compliance with specific limits placed on certain variables, both operational and structural, and an appropriate diversification of funding sources.

Contingency Funding Plan

The Contingency Funding Plan is an integral part of the policies and sets out to protect the Group and the individual Group companies from crisis situations of different magnitudes. The Contingency Funding Plan describes a series of non-binding actions that can be taken to overcome a crisis. In particular, it describes:

- the activation mechanism;
- identification of the functions involved;
- possible action plans with an indication of the estimated cash recoverable by each of them and the time to cash;

The Contingency plan is developed in line with the Bank's overall Recovery Plan determined on the basis of relevant legislation (the Bank Recovery and Resolution Directive).

Quantitative information

The following is an analysis of the main financial obligations falling due over the next twelve months.

(in millions of euro)

	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17	09/17	10/17	11/17	12/17	Total
Wholesale bonds (senior, subordinate, covered)	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail bonds	158	4	26	0	41	28	36	64	25	17	0	1	400
Retail certificates of deposit	1	0	1	0	1	0	2	1	2	1	1	0	10
Total	**159**	**4**	**27**	**0**	**42**	**28**	**38**	**65**	**27**	**18**	**1**	**1**	**410**

Conventionally callable instruments are considered to fall due at the first call date provided in the issue regulations based on IFRS 7.

Considering the maturities of financial liabilities for the next 12 months (i.e. at the same level of customer loans and deposits), the funding requirement of 0.4 billion euro is amply covered, on the one hand by the available liquidity reserves, and on the other by the expected renewal on maturity of the liabilities represented by the retail issues placed by the commercial network or their replacement with other forms of deposits.

1. Distribution of financial assets and liabilities by residual contractual duration

Summary table

P.1

Item/Time band	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to one month	From 1 to 3 months
Cash assets	**6,571,993**	**301,836**	**242,844**	**985,553**	**1,990,786**
A.1 Government securities	468	–	50,005	250,073	200,127
A.2 Other debt securities	2,875	–	10,000	1,227	3,163
A.3 Mutual funds	178,686	–	–	–	–
A.4 Loans	6,389,964	301,836	182,839	734,253	1,787,496
– Banks	769,967	6,452	27,265	26,225	38,213
– Customers	5,619,997	295,384	155,574	708,028	1,749,283
Cash liabilities	**25,611,247**	**250,906**	**1,176,749**	**1,946,933**	**1,558,843**
B.1 Current accounts and deposits	24,680,978	131,012	96,702	257,097	660,801
– Banks	171,097	78,897	38,060	36,517	57,500
– Customers	24,509,881	52,115	58,642	220,580	603,301
B.2 Debt securities	95,450	–	262	183,012	67,305
B.3 Other liabilities	834,819	119,894	1,079,785	1,506,824	830,737
Off-balance sheet transactions	**2,715,867**	**2,891,665**	**1,947,009**	**3,910,247**	**4,696,158**
C.1 Financial derivatives with exchange of capital	9	2,867,637	1,947,009	3,910,153	4,695,503
– Long positions	–	1,434,321	974,218	1,973,197	2,380,519
– Short positions	9	1,433,316	972,791	1,936,956	2,314,984
C.2 Financial derivatives without exchange of capital	2,174,595	–	–	71	579
– Long positions	1,165,822	–	–	6	161
– Short positions	1,008,773	–	–	65	418
C.3 Deposits and loans to be received	16,160	3,660	–	–	–
– Long positions	16,160	–	–	–	–
– Short positions	–	3,660	–	–	–
C.4 Irrevocable commitments to grant finance	519,818	20,367	–	23	13
– Long positions	13,666	5,968	–	23	13
– Short positions	506,152	14,399	–	–	–
C.5 Financial guarantees given	5,285	1	–	–	63
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1. Distribution of financial assets and liabilities by residual contractual duration

Summary table

P.2

Item/Time band	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,982,552**	**3,889,554**	**14,148,495**	**16,157,626**	**392,023**
A.1 Government securities	179,711	793,068	2,961,569	4,112,484	–
A.2 Other debt securities	5,399	44,514	363,858	107,227	1,582
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	1,797,442	3,051,972	10,823,068	11,937,915	390,441
– Banks	146,559	175,856	389,379	–	390,441
– Customers	1,650,883	2,876,116	10,433,689	11,937,915	–
Cash liabilities	**817,958**	**1,013,423**	**8,846,040**	**2,696,920**	**–**
B.1 Current accounts and deposits	620,349	630,027	266,095	9	–
– Banks	58,995	–	–	–	–
– Customers	561,354	630,027	266,095	9	–
B.2 Debt securities	119,922	178,022	2,279,945	2,696,911	–
B.3 Other liabilities	77,687	205,374	6,300,000	–	–
Off-balance sheet transactions	**719,744**	**605,531**	**180,776**	**566,734**	**–**
C.1 Financial derivatives with exchange of capital	714,735	601,549	98,284	99,899	–
– Long positions	285,339	292,581	37,113	12,920	–
– Short positions	429,396	308,968	61,171	86,979	–
C.2 Financial derivatives without exchange of capital	4,305	3,338	–	12,750	–
– Long positions	835	405	–	12,750	–
– Short positions	3,470	2,933	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	676	595	46,613	452,998	–
– Long positions	676	595	46,613	452,998	–
– Short positions	–	–	–	–	–
C.5 Financial guarantees given	28	49	5,879	1,087	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	30,000	–	–
– Long positions	–	–	15,000	–	–
– Short positions	–	–	15,000	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Euro

P.1

Item/Time band	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to one month	From 1 to 3 months
Cash assets	**6,514,328**	**291,048**	**206,209**	**935,178**	**1,836,304**
A.1 Government securities	468	–	50,005	250,073	200,127
A.2 Other debt securities	2,875	–	10,000	1,227	3,163
A.3 Mutual funds	178,686	–	–	–	–
A.4 Loans	6,332,299	291,048	146,204	683,878	1,633,014
– Banks	749,636	562	3,823	10,148	35,135
– Customers	5,582,663	290,486	142,381	673,730	1,597,879
Cash liabilities	**25,423,019**	**172,009**	**1,138,689**	**1,882,555**	**1,366,959**
B.1 Current accounts and deposits	24,498,623	52,115	58,642	220,580	637,054
– Banks	160,198	–	–	–	33,753
– Customers	24,338,425	52,115	58,642	220,580	603,301
B.2 Debt securities	95,450	–	262	183,012	67,305
B.3 Other liabilities	828,946	119,894	1,079,785	1,478,963	662,600
Off-balance sheet transactions	**2,686,343**	**4,345,400**	**968,367**	**1,930,916**	**2,463,747**
C.1 Financial derivatives with exchange of capital	9	4,322,353	968,367	1,930,822	2,463,092
– Long positions	–	554,458	501,456	1,014,882	1,225,775
– Short positions	9	3,767,895	466,911	915,940	1,237,317
C.2 Financial derivatives without exchange of capital	2,146,092	–	–	71	579
– Long positions	1,151,972	–	–	6	161
– Short positions	994,120	–	–	65	418
C.3 Deposits and loans to be received	16,009	3,549	–	–	–
– Long positions	16,009	–	–	–	–
– Short positions	–	3,549	–	–	–
C.4 Irrevocable commitments to grant finance	518,948	19,497	–	23	13
– Long positions	12,796	5,968	–	23	13
– Short positions	506,152	13,529	–	–	–
C.5 Financial guarantees given	5,285	1	–	–	63
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Euro

P.2

Item/Time band	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,982,552**	**3,889,554**	**14,148,495**	**16,157,626**	**392,023**
A.1 Government securities	179,711	793,068	2,961,569	4,112,484	–
A.2 Other debt securities	5,399	44,514	363,858	107,227	1,582
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	1,797,442	3,051,972	10,823,068	11,937,915	390,441
– Banks	146,559	175,856	389,379	–	390,441
– Customers	1,650,883	2,876,116	10,433,689	11,937,915	–
Cash liabilities	**817,958**	**1,013,423**	**8,846,040**	**2,696,920**	**–**
B.1 Current accounts and deposits	620,349	630,027	266,095	9	–
– Banks	58,995	–	–	–	–
– Customers	561,354	630,027	266,095	9	–
B.2 Debt securities	119,922	178,022	2,279,945	2,696,911	–
B.3 Other liabilities	77,687	205,374	6,300,000	–	–
Off-balance sheet transactions	**719,744**	**605,531**	**180,776**	**566,734**	**–**
C.1 Financial derivatives with exchange of capital	714,735	601,549	98,284	99,899	–
– Long positions	285,339	292,581	37,113	12,920	–
– Short positions	429,396	308,968	61,171	86,979	–
C.2 Financial derivatives without exchange of capital	4,305	3,338	–	12,750	–
– Long positions	835	405	–	12,750	–
– Short positions	3,470	2,933	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	676	595	46,613	452,998	–
– Long positions	676	595	46,613	452,998	–
– Short positions	–	–	–	–	–
C.5 Financial guarantees given	28	49	5,879	1,087	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	30,000	–	–
– Long positions	–	–	15,000	–	–
– Short positions	–	–	15,000	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Other currencies

P.1

Item/Time band	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to one month	From 1 to 3 months
Cash assets	**57,665**	**10,788**	**36,635**	**50,375**	**154,482**
A.1 Government securities	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	57,665	10,788	36,635	50,375	154,482
– Banks	20,331	5,890	23,442	16,077	3,078
– Customers	37,334	4,898	13,193	34,298	151,404
Cash liabilities	**188,228**	**78,897**	**38,060**	**64,378**	**191,884**
B.1 Current accounts and deposits	182,355	78,897	38,060	36,517	23,747
– Banks	10,899	78,897	38,060	36,517	23,747
– Customers	171,456	–	–	–	–
B.2 Debt securities	–	–	–	–	–
B.3 Other liabilities	5,873	–	–	27,861	168,137
Off-balance sheet transactions	**29,524**	**1,837,165**	**978,642**	**1,979,331**	**2,232,411**
C.1 Financial derivatives with exchange of capital	–	1,836,184	978,642	1,979,331	2,232,411
– Long positions	–	879,863	472,762	958,315	1,154,744
– Short positions	–	956,321	505,880	1,021,016	1,077,667
C.2 Financial derivatives without exchange of capital	28,503	–	–	–	–
– Long positions	13,850	–	–	–	–
–Short positions	14,653	–	–	–	–
C.3 Deposits and loans to be received	151	111	–	–	–
– Long positions	151	–	–	–	–
– Short positions	–	111	–	–	–
C.4 Irrevocable commitments to grant finance	870	870	–	–	–
– Long positions	870	–	–	–	–
– Short positions	–	870	–	–	–
C.5 Financial guarantees given	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1. Distribution of financial assets and liabilities by residual contractual duration

Currency: Other currencies

P.2

Item/Time band	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**6,602**	**1,729**	**256,560**	**13,990**	**–**
A.1 Government securities	–	–	199,222	3	–
A.2 Other debt securities	–	–	3	–	–
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	6,602	1,729	57,335	13,987	–
– Banks	1,333	–	–	–	–
– Customers	5,269	1,729	57,335	13,987	–
Cash liabilities	**–**	**–**	**–**	**–**	**–**
B.1 Current accounts and deposits	–	–	–	–	–
– Banks	–	–	–	–	–
– Customers	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–
Off-balance sheet transactions	**678,989**	**583,252**	**40,091**	**703**	**–**
C.1 Financial derivatives with exchange of capital	678,989	583,252	40,091	703	–
– Long positions	414,121	305,544	20,368	397	–
– Short positions	264,868	277,708	19,723	306	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	–	–	–	–	–
– Long positions	–	–	–	–	–
Short positions	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

Self-securitisations

Securitisations in which the Group has subscribed all of the securities issued by the special purpose vehicle (self-securitisations) are not shown in the tables in Part E, Section C of the Notes "Securitisation transactions", in accordance with Bank of Italy Circular no. 262.

In accordance with IFRS 10 the special purpose vehicles formed for these transactions are consolidated on a line-by-line basis in the Bipiemme Group's consolidated financial statements as the transferors hold contractual rights (credit enhancement) that give them substantial exposure to the variability of the results of those companies.

The self-securitisations of performing loans have been structured in such a way as to improve liquidity risk management, focusing on efficient management of the loan portfolio and diversification of funding sources, reducing their cost and covering the natural maturities of assets with those of liabilities.

Having retained substantially all of the risks and benefits of the assets that were sold, through these transactions the Group keeps the entire amount of these receivables in its balance sheet (applying the accounting treatment envisaged in IAS 39 for the category of financial instruments to which these belong), whereas the notes issued by the vehicle and subscribed by the Bank are not shown.

At least until part of the securities are placed on the market, these purchase and sale transactions, which are to be considered jointly according to the principle of substance over form, are in effect a straightforward transformation of receivables into financial instruments (securities), without any real economic effect occurr

BPM Securitisation 3 S.r.l.

The BPM Securitisation 3 self-securitisation was completed by the Parent Company in September 2014, following approval by the Management Board on 25 February 2014. In detail, this is a securitisation of mortgage loans with a view to issuing Asset Backed Securities (ABS), i.e. financial instruments issued under Law no. 130 of 30 April 1999 (and subsequent amendments and updates). Loans (and other assets) intended exclusively for this purpose will be used to guarantee the rights enclosed in these securities and to cover the cost of the securitisation.

This operation was carried out through a sale without recourse to the vehicle company BPM Securitisation 3 S.r.l. (a company created ad hoc) of a portfolio of performing loans totalling some 864 million euro, deriving from commercial loans secured by first rank mortgages and unsecured loans granted by the Bank.

The Management Board of BPM, at their meeting on 5 April 2016, approved the restructuring of the transaction by granting a new credit portfolio to small and medium-sized enterprises, with the same characteristics as the original portfolio, in the amount of 638 million euro. The aim of the transaction, completed on 29 June 2016, was to increase the nominal value of the outstanding notes on 20 July 2016. The securitisation structure will remain the same as the current one and the junior and senior notes will keep the same ISIN code.

The cash flows from the sold portfolio service the payment of the coupons and repayment of the principal of a class of ABS senior securities (Class A) with an "A2"/"AA" rating on issue assigned by Moody's and DBRS respectively, and an unrated class of ABS junior securities (Class Z).

The rating of the senior note was upgraded in 2015 to "Aa2" by Moody's and to "AAA" by DBRS.

Securities	Original amount in euro	Amount in euro as at 31 December 2016 (*)	Features
Class A	**573,000,000**	**493,983,484**	Legal maturity: 20 January 2057; coupon: 3-month Euribor + 60 bps, to be paid quarterly from 20 January 2015; listing: Luxembourg Stock Exchange ("**Senior notes**")
Class Z – junior notes	**304,000,000**	**418,700,000**	Legal maturity: 20 January 2057; coupon: not envisaged; unrated; listing: unlisted ("**Junior notes**")
	877,000,000	**912,683,484**	

(*) Starting on 20 July 2016 (completion date of the above-mentioned restructuring) the notes were issued and the new breakdown as at 20 July 2016 was is as follows: **Class A 654,785,478.32 euro Class Z 418,700,000.00 euro for a total of 1,073,485,478.32**.

The transaction structure provides for a call option under which Banca Popolare di Milano will have the right to repurchase all of the loans sold to the SPV, the issuer of the ABS, and not yet collected at each payment date.

BPM Securitisation 3 S.r.l. and Banca Popolare di Milano have entered a Servicing agreement under which the SPV has delegated to the Bank the task of managing and administrating the receivables, including their collection and recovery.

The ABS issued by BPM Securitisation 3 S.r.l. has been fully subscribed by the Bank, which will use the senior securities to carry out refinancing transactions with the European Central Bank. While not enabling it to obtain direct liquidity from the market, the fact that the Parent Company directly and fully subscribed to the notes issued by the vehicle BPM Securitisation 3 S.r.l. allowed it to have securities available for refinancing operations with the European Central Bank.

ProFamily Securitisation S.r.l.
The ProFamily Securitisation self-securitisation was approved by the Board of Directors of the subsidiary ProFamily on 7 July 2015 and by the Parent Company's Finance Committee on 22 June 2015. The operation is a securitisation of consumer loans for the purpose of the issue of Asset Backed Securities (ABS), i.e. financial instruments issued pursuant to Law no. 130 of 30 April 1999 (as amended).
The operation took place through the non-recourse sale to the special purpose vehicle ProFamily Securitisation S.r.l. of a portfolio of performing loans for a total of some 712.6 thousand euro, deriving from special purpose loans and personal loans (with the exclusion of 'one-fifth of salary' loans) made by ProFamily on 3 November 2015.
The operation consists of a revolving structure for the first 18 months by the means provided in the Framework Sales Agreement. During 2016, the additions to the portfolio of performing loans were duly made to leave the initial overall amount unchanged.
The cash flows from the sold portfolio service the payment of coupons and the repayment of principal of the notes issued by the vehicle on 27 November 2015: one ABS senior class (Class A), with a Rating of "Aa2"/"AA" assigned by Moody's and DBRS respectively, and one unrated ABS junior r class (Class J).

Securities	Amount in Euro	Features
Class A	**584,300,000**	Legal maturity: 21 December 2039; coupon: 1-month Euribor + 100 bps, to be paid monthly from 20 December 2015; listing: Luxembourg Stock Exchange ("**Senior notes**")
Class J - junior notes	**140,040,000**	Legal maturity: 21 December 2039; coupon: 1-month Euribor + 200 bps, to be paid monthly from 20 December 2015; unrated; listing: unlisted ("**Junior notes**")
	724,340,000	

The notes issued by the vehicle have been fully subscribed by ProFamily S.p.A., which by means of a Pledge Agreement over Securities has sold them to the Parent Company. On the one hand the pledge will enable the subsidiary to benefit from a reduction in funding costs and on the other will allow the Parent Company to have securities available for refinancing operations with the European Central Bank.

1.4 – Banking group – Operational risk

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

Main sources of operational risk
In line with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This type includes losses due to frauds, human resources, breakdowns of operations, non-availability of systems, breach of contract, natural disasters and legal risks, whereas strategic risk and reputational risk are excluded.
The supervisory regulations also say that banks have to equip themselves with operational risk management systems that are suitable for their size and risk profile and able to guarantee the identification, measurement, monitoring and control of such risk over time.
Unlike credit and market risk, operational risk is not assumed by the Group on the basis of strategic decisions, as it is inherent in its ordinary operations.

Organisational aspects
The Group has adopted The Standardised Approach (TSA) to calculate the amount of capital absorbed by operational risk.

This method is adequate for the size and risk profile of the Group and helps to improve the efficiency and effectiveness of processes as well as to reduce the impact and probability of onerous losses arising; furthermore, this is a preparatory step in a gradual evolution towards more advanced models of risk evaluation.

From this point of view, at Group level Banca Popolare di Milano has taken steps:

- to define and formalise a model for governing operational risk and guidelines for the entire system of operational risk management;
- to regulate in accordance with company rules the duties and responsibilities assigned to the various functions involved, giving a detailed description of their activities;
- to prepare suitable periodic reports for senior management of the individual banks and for the Parent Company's corporate bodies on operational risk and operating losses;
- to evaluate the adequacy and effectiveness of the system implemented by defining operating criteria and methods.

The Governance Model
For the management of the Group's operational risk, it was decided to adopt a centralised governance model at the Parent Company which provides for the definition of principles and methodologies that are common to all of the banks. The model assigns to Banca Popolare di Milano, as the Parent Company, the task of coordinating and supervising all of the operating activities carried on by the individual banks in the Group through:

- a strategic level involving the Management Board, the Supervisory Board, the Risk Committee, the Internal Control Committee with the support of the Chief Risk Officer and the Risk Management & Capital Adequacy Function;
- an operational level involving the Operational Risk of the Parent Company and the Operational Risk Owners identified within each of the banks.

The operational risk management system

Banca Popolare di Milano has implemented a operational risk management system at Group level by means of:

- an organisational process of collecting data on operating losses and insurance recoveries that involves and responsibilities the various bank functions, guaranteeing the completeness, reliability and updating of the data;

- activating a Risk Self Assessment tool, an annual process of identifying, assessing and measuring (where possible) the Group's exposure to operational risk in its main business processes and support carried out by means of questionnaires sent to the Process Owner by Operational Risk Management;
- defining criteria and methods for linking the Group's activities to the regulatory lines of business for the calculation of the individual and consolidated capital ratio;
- implementing a system of periodic reporting to senior management and the operating functions on the main loss events and operational risks identified;
- preparing training tools for senior management and the operating functions to encourage their involvement and to provide guidelines to the staff concerned for identifying and reporting such risk;
- an annual review of the entire system of operational risk management by means of a process of internal self-assessment, which allows the Group to evaluate the effectiveness of its strategies and the adequacy of the system implemented according to the Group's risk profile.

Loss data collection

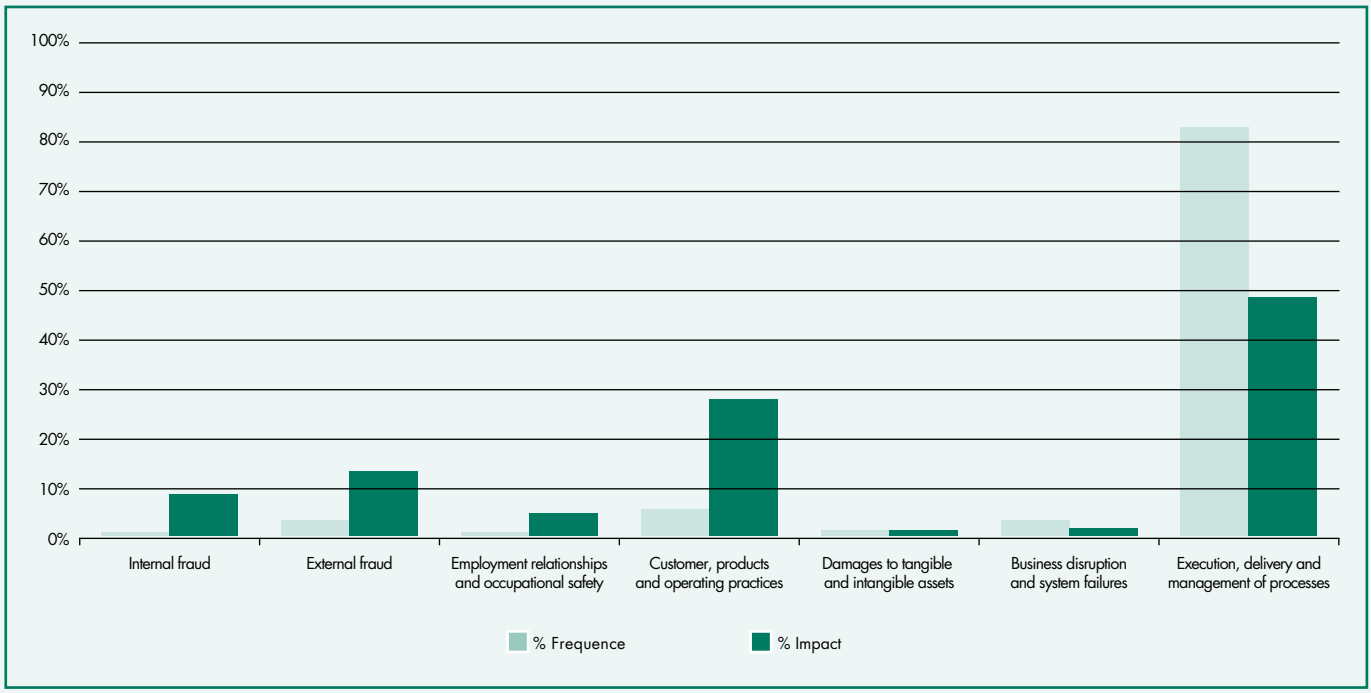
One of the key aspects of the operational risk management system is Loss Data Collection (LDC). Its purpose is to provide a picture over time of the trend in the more significant loan losses; it also represents a statistical basis necessary for a better risk analysis and for the adoption of advanced VaR models and for calculating the amount of capital absorbed by operational risk.

Detailed internal rules guarantee consistency in the classification of events within each Group bank, while at an operational level Group banks have been equipped with suitable procedures for collecting loss data and efficient management of all steps of the process.

By means of the reporting system, on a quarterly basis, operational loss data is brought to the attention of the corporate bodies of the Parent Company and of the other banks using the TSA model.

In 2016, the main source of operating losses, in terms of impact and frequency, was the category "Execution, delivery and management of processes". This was followed, again in terms of impact and frequency, by the category "Customers, products and professional practices"

Percentage distribution of losses of the Bipiemme Group in 2016



Identifying operational risk
During 2016, we started and concluded the customary Risk Self Assessment (RSA) process to identify and analyse operational risks. Assessments of operational risk are taken from the results of the assessment cycle performed in accordance with a methodological configuration and a common process agreed at Group level that enables the identification and measurement of the main operational risks to which the Group is exposed, as well as the adoption of suitable mitigating measures, where needed or appropriate.
On the basis of the methodological approach to the Risk Self Assessment model, the processing tool for the questionnaires was reviewed and implemented, in electronic format with prompts for the compilation of the various fields.
As was the case for previous assessments, particular attention was paid to the assessment of the design of the internal control system.

This assessment cycle confirmed the methodology adopted, with a view to further improving the survey, refining the potential risk assessments and to further investigate the aspects related to transferring operating risk through insurance markets. The results of the assessment were shared with the appropriate corporate functions and bodies and constitute the basis for the definition and updating of any measures to mitigate and prevent risk, as part of a broader process of mitigating operational risks. The results were summarised and reported to the corporate bodies and senior management.

Business continuity plan
The Business Continuity Plan allows the Parent Company to verify its ability to restore vital and critical processes in the event of a disaster.
Through a structure set up specifically to manage the Plan:

- the effective maintenance procedure is formalised;
- the crisis simulation plan is tested;
- the continuity of vital and critical processes is guaranteed;
- mitigation steps are evaluated, widening the scope of the business continuity plan to new scenarios and new processes.

Quantitative information

Lawsuits pending
Legal risk can derive from a failure to comply with laws, regulations or directives from the Supervisory Authorities or from unfavourable changes in the legislative framework. The impact of this risk may take the form of fines or other sanctions or it may involve the Group in legal proceedings. In principle this concerns all the corporate functions that are affected by legislative, regulatory and other legal provisions

Banca Popolare di Milano
The lawsuits pending at 31 December 2016 mostly fall into the following categories:

- **erroneous application of interest rates:** there are 445 lawsuits pending against which specific provisions of 16.1 million euro have been made over the years for possible losses;
- **operational errors in the provision of services to customers:** there are 357 lawsuits pending against which specific provisions of 15.5 million euro have been made over the years for possible losses;
- **financial lawsuits:** these are disputes associated with financial advisory activities (documentary errors, incorrect information on financial risks, etc.); there are 134 lawsuits pending against which specific provisions of 4.9 million euro have been made over the years.

Banca Akros
Appropriate provision has been made for liabilities that could arise from lawsuits, claims, action taken in court and out of court and the costs of external advisers. Specific provisions made over the years for potential losses that could arise from disputes and lawsuits, including claims for damages, action taken in and out of court, customer claims and related legal expenses, amounted to 3.35 million euro at 31 December 2016.

Banca Popolare di Mantova
The lawsuits pending at 31 December 2016 mostly fall into the following categories:

- **erroneous application of interest rates:** there is 1 lawsuit pending against which no specific provisions have been made over the years for possible losses;
- **operational errors in the provision of services to customers:** there are 5 lawsuits pending against which specific provisions of 20 thousand euro have been made over the years for possible losses;
- **financial lawsuits:** there is 1 lawsuit pending against which no specific provisions have been made over the years for possible losses;

ProFamily
There was no litigation pending at 31 December 2016.

Part F
Information on consolidated capital

Section 1 – Consolidated capital

A. Qualitative information

Capital management involves a range of policies and decisions needed to define its size, as well as the best combination of the various alternative capitalisation instruments to ensure that the capital and consolidated ratios of the Bipiemme Group are consistent with the risk profile assumed in full compliance with the requirements of the Supervisory Authority.

Regarding the policies adopted regarding compliance with the capital adequacy requirements, as well as the policies and processes adopted in the field of capital management, reference should be made to Section 2 "Own funds and capital adequacy ratios".

B. Quantitative information

B.1 Consolidated capital: analysis by type of company

Equity line items	Banking group	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total	of which Group	of which minority interests
Share capital	3,365,540	–	32	–	**3,365,572**	3,365,439	133
Share premium reserve	1,005	–	–	–	**1,005**	–	1,005
Reserves	906,190	–	–	–	**906,190**	906,099	91
Capital instruments	–	–	–	–	**–**	–	–
(Treasury shares)	–621	–	–	–	**–621**	–621	–
Valuation reserves:	20,810	–	–	–	**20,810**	20,809	1
– Financial assets available for sale	75,518	–	–	–	**75,518**	75,516	2
– Property and equipment	–	–	–	–	**–**	–	–
– Intangible assets	–	–	–	–	**–**	–	–
– Hedging of foreign investments	–	–	–	–	**–**	–	–
– Cash flow hedges	–3,165	–	–	–	**–3,165**	–3,165	–
– Foreign exchange differences	–	–	–	–	**–**	–	–
– Non-current assets held for sale	–	–	–	–	**–**	–	–
– Actuarial gains (losses) on defined benefit pension plans	–62,648	–	–	–	**–68,648**	–62,647	–1
– Share of valuation reserves of investments carried at equity	–2,337	–	–	–	**–2,337**	–2,337	–
– Special revaluation laws	13,442	–	–	–	**13,442**	13,442	–
Net income (loss) (+/-) for the year of the Group and minority interests	72,800	–	–	–	**72,800**	72,724	76
Shareholders' equity	**4,365,724**	**–**	**32**	**–**	**4,365,756**	**4,364,450**	**1,306**

B.2 Valuation reserves of financial assets available for sale: analysis

	Banking group		Insurance companies		Other companies		Eliminations and consolidation adjustments		Total	
Asset/amount	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**
1. Debt securities	76,504	(44,430)	–	–	–	–	–	–	76,504	(44,430)
2. Equities	63,964	(31,318)	–	–	–	–	–	–	63,964	(31,318)
3. Mutual funds	12,946	(2,148)	–	–	–	–	–	–	12,946	(2,148)
4. Loans	–	–	–	–	–	–	–	–	–	–
Total 31.12.2016	**153,414**	**(77,896)**	**–**	**–**	**–**	**–**	**–**	**–**	**153,414**	**(77,896)**
Total 31.12.2015	**284,713**	**(12,304)**	**–**	**–**	**–**	**–**	**–**	**–**	**284,713**	**(12,304)**

Valuation reserves of financial assets available for sale: analysis gross and net of the tax effect

The analysis of the reserve by class of financial instrument is required for the quantification of the filters on own funds. The amounts are stated net of the related tax effect, if any.

	Gross reserve	Tax effect	Net reserve
Debt securities:	**47,920**	**(15,847)**	**32,073**
– Italian government securities	47,736	(15,784)	31,952
– Government securities of other countries	(613)	202	(411)
– Other debt securities	797	(265)	532
Equities	**35,546**	**(2,900)**	**32,646**
Equities	**16,086**	**(5,287)**	**10,799**
Total	**99,552**	**(24,034)**	**75,518**

B.3 Valuation reserves of financial assets available for sale: changes during the year

	Debt securities	Equities	Mutual funds	Loans
1. Opening balance:	**208,917**	**52,073**	**11,419**	**–**
2. Positive changes	**109,237**	**22,538**	**8,645**	**–**
2.1 Increases in fair value	16,128	20,593	6,345	–
2.2 Transfer of negative reserves to income statement	977	315	86	–
– for impairment	–	291	–	–
– on disposal	977	24	86	–
2.3 Other changes	92,132	1,630	2,214	–
3. Negative changes	**(286,080)**	**(41,965)**	**(9,266)**	**–**
3.1 Decreases in fair value	(95,667)	(40,369)	(7,389)	–
3.2 Impairment adjustments	–	–	–	–
3.3 Transfer of positive reserves to income statement: on disposal	(185,659)	(1,045)	–	–
3.4 Other changes	(4,754)	(551)	(1,877)	–
4. Closing balance	**32,074**	**32,646**	**10,798**	**–**

The "Other changes" in items 2.3 and 3.4 relate primarily to the tax effects attributable to the changes indicated in the other sub-items.

B.4 Valuation reserves relating to defined benefit plans: changes during the year

	Pension funds	Termination indemnities	TOTAL
Net revaluation reserve at 31.12.2015	**(40,333)**	**(18,797)**	**(59,130)**
Increases	**1,527**	**1,755**	**3,282**
Actuarial gains	1,527	–	1,527
Other positive changes	–	1,755	1,755
– other positive changes - tax effect	–	1,755	1,755
Decreases	**(420)**	**(6,380)**	**(6,800)**
Actuarial losses	–	(6,380)	(6,380)
Other negative changes	(420)	–	(420)
– other negative changes - tax effect	(420)	–	(420)
Net revaluation reserve at 31.12.2016	**(39,226)**	**(23,422)**	**(62,648)**

Section 2 – Own funds and capital adequacy ratios

2.1 Scope of application of the regulation

Changes in prudential bank regulations

The new harmonized framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26 June 2013 is applicable from 1 January 2014; these transpose the standards defined by the Basel Committee on Banking Supervision (the "Basel 3 Framework") into European Union legislation.

The Regulation (CRR) is directly applicable in the national legal systems, without the need for transposition, and constitutes the "Single Rulebook"; the rules contained in the Directive (CRD IV), on the other hand, have to be transposed into the sources of national law.

In order to implement and facilitate the implementation of the new EU requirements, as well as to achieve an overall revision and simplification of the rules for banks, on 17 December 2013 the Bank of Italy issued Circular no. 285 "Supervisory Provisions for Banks" which:

i. incorporates the provisions of CRD IV, implementation of which is the responsibility of the Bank of Italy under the Consolidated Banking Act;
ii. indicates the manner in which the discretional decisions granted by the EU framework to the national authorities were exercised;
iii. outlines a comprehensive regulatory framework that is organic, rational and integrated with the directly applicable EU provisions, in order to facilitate its use by operators.

Regulation (EU) no. 575/2013 ("CRR") requires that banks, as a general rule, include and deduct from own funds unrealised gains and losses their assets reported on the balance sheet, and measured at fair value, classified in the AFS portfolio. For a transitional period the CRR provides that these profits and losses be only partially included or deducted from Common Equity Tier 1 ("CET1"), with the phasing-in occurring gradually, to achieve full inclusion/deduction from 1 January 2018.

However, following the issuance of Regulation (EU) no. 2016/445 of the European Central Bank on the exercise of options and discretions available in Union Law (the "ECB Regulation") and Commission Regulation (EU) no. 2016/2067 adopting International Financing Reporting Standard 9 ("IFRS 9"), the Bank of Italy, in their communication notice dated 23 January, provided, within its competence, guidance on the prudential treatment of net cumulative balances for gains and losses on exposures to central governments classified in the "Financial assets held for sale" portfolio recognised, in accordance with IAS 39, in the Available for Sale - AFS reserve (hereinafter "unrealised gains and losses on exposures to central governments").

In particular, "significant" banks which includes the Bipiemme Group, must include or deduct from CET 1 unrealised gains and losses on exposure to central governments in the AFS portfolio in the following percentages: 60% for 2016 and 80% for 2017. The remaining percentages (i.e. 40% for 2016; 20% for 2017) must not be considered when calculating own funds, as they continue to be subject to sterilization.

2.2 Bank's own funds

A. Qualitative information

Own funds (which under the previous rules constituted regulatory capital) are the first line of defence against the risks involved in the banking business as a whole and are the first parameter of reference for any assessment of a bank's solidity.

Own funds are the sum of:

- "Common Equity Tier 1" or "CET1"
- "Additional Tier 1" or "AT1"
- "Tier 2" or "T2"

B. Quantitative information

The quantification of consolidated own funds as at 31 December 2016 is as follows:

	31.12.2016	31.12.2015
A. Common Equity Tier 1 – CET1 before the application of prudential filters	**4,302,007**	**4,472,836**
of which CET1 instruments subject to transitional instructions	–	–
B. Prudential instruments of CET1 capital (+/-)	**(12,841)**	**(4,405)**
C. CET1 before items to be deducted and the effects of transitional instructions (A +/- B)	4,289,166	4,468,431
D. Items to be deducted from CET1	(252,733)	(190,364)
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional instructions	21,573	(240,679)
F. Total Common Equity Tier 1 - CET1 (C – D +/- E)	**4,058,006**	**4,037,388**
G. Additional Tier 1 – AT1 before items to be deducted and the effects of transitional instructions	**158,404**	**187,326**
of which AT1 instruments subject to transitional instructions	158,205	184,572
H. Items to be deducted from AT1	–	–
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 as per transitional instructions	(27,801)	–
L. Total Additional Tier 1 - AT1 (G – H +/- I)	**130,603**	**187,326**
M. Tier 2 – T2 before items to be deducted and the effects of transitional instructions	**587,470**	**815,326**
of which T2 instruments subject to transitional instructions	163,276	253,988
N. Items to be deducted from T2	**30,887**	**38,492**
O. Transitional regime - Impact on T2 (+/-),including instruments issued by subsidiaries and included in T2 as per transitional instructions	**(15,248)**	**18,973**
P. Total Tier 2 - T2 (M – N +/- O)	**541,335**	**795,807**
Q. Total own funds (F + L + P)	**4,729,944**	**5,020,521**

Composition of own funds as at 31 December 2016:

Capital components	31.12.2016
CET1 instruments	
Paid-in capital	3,365,439
Share premium reserve	–
Treasury shares	(8,000)
Reserves	
Retained earnings	904,192
Net income for the period attributed to own funds	–
Other comprehensive income (OCI)	26,007
Other reserves	13,442
Minority interests	927
Tier 1 capital prudential filters	**(12,841)**
Deductions:	
Intangible assets - Goodwill	(22,298)
Intangible assets – Other intangible assets	(81,614)
Deferred tax assets based on the future profitability and not arising from temporary differences	(9,815)
Deductions with a threshold of 10%: Significant investments in CET1 investments of other entities in the financial sector	(139,006)
Adjustments arising from transitional provisions	21,573
Common Equity Tier 1 – CET1	**4,058,006**
Additional Tier 1 capital equity instruments subject to transitional provisions (grandfathering)	158,205
Minority interests	199
Deductions:	
Adjustments arising from transitional provisions	(27,801)
Additional Tier 1 – AT 1	**130,603**
Tier 1 capital	**4,188,609**
Instruments and subordinated debt included in the calculation of Tier 2 capital	424,129
Tier 2 capital equity instruments subject to transitional provisions (grandfathering)	163,276
Minority interests	65
Deductions pertaining to Tier 2 capital equity instruments in which the entity holds a significant investment	(30,887)
Adjustments arising from transitional provisions	(15,248)
Tier 2 capital	**541,335**
Total own funds	**4,729,944**

The table below shows the reconciliation between Common Equity Tier 1 and the book value of the Group's shareholders' equity

Line items	31.12.2016
Group shareholders' equity	4,364,450
Minority interests	1,306
Total shareholders' equity	**4,365,756**
Income not considered	(72,724)
Shareholders' equity net of result	**4,293,032**
Adjustments for instruments included in AT1 or T2	
Minority instruments included in calculation of AT1	(199)
Minority instruments included in calculation of T2	(65)
Minority instruments not eligible for inclusion	(115)
Other components not eligible for inclusion relating to valuation reserves for available-for-sale securities	18,640
Other components: allocation of profits to employees	(1,907)
Treasury shares: Difference between accounting balance and regulatory adjustments	(7,379)
Common Equity Tier 1 before regulatory adjustments	**4,302,007**
Regulatory adjustments: prudential filters and deductions	(244,001)
Common Equity Tier 1 after regulatory adjustments	**4,058,006**

Instruments included in the calculation of Additional Tier 1 capital and of Tier 2 capital at 31 December 2015 are listed below; for the characteristics of individual bonds reference should be made to Section 3 – "Securities issued" of these notes.

Bond	31.12.2016		Original nominal amount issued		Issue price	Interest rate	Issue/maturity date	Early redemption from
	Book value	Contribution to own funds						
Additional Tier 1 – AT1	**205,677**	**158,205**						
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	205,677	158,205	300,000	Euro	98.955	Floating	25.06.2008 Perpetual	25.6.2018
Tier 2 capital	**1,241,775**	**587,405**						
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating Rate 4.5% 18 April 2008/2018	257,834	52,308	252,750	Euro	100	4.50	18.04.2008/18	n.p.
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating Rate 20 October 2008/2018 (*)	454,176	163,276	502,050	Euro	100	Floating	20.10.2008/18	20.10.2013
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Fixed Rate 7.125% (issued as part of the EMTN Programme)	529,265	371,821	475,000	Euro	99.603	7.125	01.03.2011/21	n.p.
Banca Popolare di Milano subordinated bond loan – Floating Rate – 18.06.08/18	500	–	17,850	Euro	100	Floating	18.06.2008/18	n.p.

(*) T2 instruments subject to transitional provisions (grandfathering) which will gradually become ineligible for inclusion in own funds up to 2021, after which they will no longer be fully eligible for inclusion.

2.3 Capital adequacy

A. Qualitative information

Minimum capital ratios at 31 December 2016 have been calculated in accordance with the methodology set out in the Basel 3 Capital Accord; the new Basel 3 regulations have been applied as from the report relating to March 2014.

Total capital requirements are calculated as the sum of:

Credit and counterparty risk

Market risk

The Standardised Approach is used by the Bipiemme Group, except for Banca Akros which since 2007 has been authorised by the Bank of Italy to use internal models.

Operational risk

The capital requirement for operational risk is calculated by using a combination of the Standardised Approach and, to a lesser extent, the Basic Approach. In particular the Standardised Approach, on the basis of which the capital requirement is determined by applying distinct regulatory coefficients to the three-year average of the relevant indicator for each line of business foreseen in the regulations, is applied to the relevant consolidated indicator for the Group's banks and to Profamily. The Basic Approach, which provides for a capital requirement of 15% of the three-year average of the relevant indicator, is applied to the relevant consolidated indicator for the minor companies forming part of the prudential consolidation scope.

The following coefficients take on particular importance for the assessment of capital solidity:

- Common Equity Tier 1 ratio, represented by the ratio between Common Equity Tier 1 and risk-weighted assets;
- Tier 1 capital ratio, represented by the ratio between Tier 1 capital and risk-weighted assets;
- Total Capital ratio, represented by the ratio between Total Capital and risk-weighted assets.

B. Quantitative information

The following table shows the capital requirements as at 31 December 2016.

Category/amount	Unweighted amounts		Weighted/required amounts	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	**53,692,818**	**53,006,223**	**32,105,262**	**31,473,737**
1. Standardised approach	53,674,936	52,983,904	32,074,348	31,247,294
2. Method based on internal *ratings*	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	17,882	22,319	30,914	226,443
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**2,568,421**	**2,517,899**
B.2 Risk of downgrading the credit rating			**9,175**	**8,469**
B.3 Regulation risk			**89**	**97**
B.4 Market risk			**38,032**	**63,313**
1. Standardised approach			8,553	29,852
2. Internal models			29,479	33,461
3. Concentration risk			–	–
B.5 Operational risk			**213,330**	**212,602**
1. Basic approach			1,657	1,794
2. Standardised approach			211,673	210,808
3. Advanced approach			–	–
B.6 Other calculation elements			**–**	**–**
B.7 Total minimum requirements			**2,829,047**	**2,802,380**
C. RISK ASSETS AND CAPITAL ADEQUACY REQUIREMENTS				
C.1 Risk-weighted assets (**)			35,363,091	35,029,754
C.2 Tier 1 capital/ Risk-weighted assets *(CET1 capital ratio)*			11.48%	11.53%
C.2 Tier 1 capital/ Risk-weighted assets *(CET1 capital ratio)*			11.84%	12.06%
C.4 Total own funds/ Risk-weighted assets *(Total capital ratio)*			13.38%	14.33%

(*) Risk-weighted assets (line item C.1) are the product of total minimum capital requirements and the reciprocal of the obligatory minimum ratio for credit risk, namely 8%.

Financial Leverage

The following table shows the reference data for the calculation of the financial leverage coefficient as at 31 December 2016:

FINANCIAL LEVERAGE INDICATORS	31.12.2016
Tier 1 capital - fully operational	4,040,035
Total exposure	55,641,153
Financial leverage indicator - fully operational	**7.26%**
Tier 1 capital - transitional	4,188,609
Total exposure	55,637,750
Financial leverage indicator - transitional	**7.53%**

Part G
Business combinations

Section 1 – Transactions carried out during the year

1.1 Business combinations

No business combinations within the scope of IFRS 3 were carried out during the year.

Section 2 – Transactions carried out after the balance sheet date

2.1 Business combinations

As explained in the section of the report on operations concerning significant events, the merger between Banco Popolare Soc. Coop. and the Banca Popolare di Milano S.c.a r.l. was finalised on 1 January 2017, and resulted in the incorporation of a new bank in the form of a joint-stock company, called Banco BPM S.p.A.

On the basis of the information contained in Part A - Accounting Policies of these explanatory notes, IFRS 3 requires that all business combinations be accounted for using the acquisition method, which involves:

- identification of the acquirer;
- determination of the cost of the combination;
- purchase price allocation.

This method applies to the merger between Banco Popolare and BPM, even if it may be considered an actual merger, from which a new company is formed involving the shareholders of the merged companies.

Identification of the acquirer
In accordance with IFRS 3, the acquirer is the entity that obtains control, understood as having the power to govern the financial and operating policies of the acquired company so as to obtain benefits from its activities. In the specific case of a merger, the main indicators of this power are represented by (i) the number of new ordinary shares with voting rights versus the total number of ordinary shares with voting rights of the acquiring company after the merger, (ii) the fair value of the entities involved in the merger, (iii) the composition of the new corporate bodies of the acquiring company, (iv) the entity issuing new shares.
As regards the business combination under review, the acquirer from an accounting point of view has been identified as Banco Popolare on the basis of quantitative factors relating to the number of new shares issued (54.626% for the shareholders of the former Banco Popolare and 45.374% for the shareholders of the former BPM) and the balance sheet aggregates of the two groups involved in the merger.

Determination of the cost of the combination
IFRS 3 requires the cost of a business combination be measured as the sum of fair value on the date of the exchange: (i) of assets given, (ii) liabilities incurred and (iii) equity instruments issued by the acquirer, in exchange for the control of the acquiree.
As regards the merger between Banco Popolare and BPM, the cost of the combination is 1,548.2 million euro, determined through the valorisation of the shares issued by the merged entity (Banco BPM S.P.A.) in exchange for the BPM shares, on the basis of the respective fair value on the date of the exchange (2.252 euro per share, equal to the opening price on 2 January 2017, which was the first day of trading since the legal effects of the transaction came into force).

Purchase price allocation
As required by the above accounting standard, the cost of the business combination must be allocated by recognising the identifiable assets and liabilities, including contingent liabilities, which must be measured at fair value on the date of combination; the value of the minority interests of the acquiree must also be recognised. The difference between the cost of the business combination and the net fair value of the assets, liabilities and contingent liabilities must be recognised:

- as goodwill, if positive;
- as negative goodwill (i.e. badwill), if negative, as a gain from a bargain purchase.

The merger between Banco Popolare and BPM shows a negative difference between the cost of the business combination, as illustrated above, and Bipiemme Group's book value of shareholders' equity as of 31 December 2016, of 2.8 billion euro. For the quantification of "badwill" we will need to determine the high/lower fair values of Bipiemme Group's assets and liabilities compared to the respective book values, as well as measure the additional identifiable assets, contingent liabilities not currently recognised by the acquiree, whose recognition is however required as part of the purchase price allocation process.
The main equity balances of Bipiemme Group for which the relative fair value needs to be measured in order to compare it with the book values are the items "Due from Banks", "Loans to customers", "Investments in associates and companies subject to joint control", "Property and equipment" (especially buildings), and "Securities issued". We will also recognise the value of any intangibles not currently recognised, such as the BPM trademark, any "client relationships" and contingent liabilities.

Pursuant to IFRS 3, the recognition of identified assets and liabilities must be made within twelve months from the acquisition date and take effect from the acquisition date; in this regard, on the date when this financial report was prepared, we are currently working on collecting all the necessary information and, therefore, the allocation of the cost of the business combination cannot be considered complete.

Some information is provided below regarding BPM, namely the entity considered as acquired for accounting purposes, in relation to the cost of the combination, the interest held, the financial results in terms of revenues and net income of the Bipiemme Group as at 31 December 2016.

Name	Date of transaction	(1)	(2)	(3)	(4)
Banca Popolare di Milano	01.01.2017	1,548,210	100%	1,601,697	72,724

(1)= Cost of the transaction.
(2)= Percentage of interest acquired with voting rights at the ordinary meeting of members
(3)= Total Bipiemme Group revenues as at 31 December 2016 (net interest and other banking income)
(4)= Bipiemme Group net profit as at 31 December 2016

Section 3 – Retrospective adjustments

No retrospective adjustments were made in 2016.

Part H
Related party transactions

1. Information relating to the remuneration of key management personnel

As a result of the Extraordinary General Meeting of Members on 22 October 2011, the Parent Company changed its system of corporate governance, adopting the "two-tier" model which envisages:

- a Supervisory Board elected by the General Meeting of Members and vested with the control functions foreseen by law and the Articles of Association;
- a Management Board elected by the Supervisory Board which is responsible for running the business.

Other Group companies have maintained the "traditional" governance system, typically with a Board of Directors and, where applicable, a Board of Statutory Auditors.

The fees accruing to the administrative and control bodies in 2016 – recognised in the income statement under line item 180 a) "Personnel expenses"- came to a total of 4.293 million euro as follows:

- Management Board of the Parent Company: 1.206 million euro;
- Supervisory Board of the Parent Company: 2.284 million euro;
- Board of Directors of subsidiaries: 0.644 million euro;
- Boards of Statutory Auditors of subsidiaries: 0.159 million euro.

Information relating to the remuneration of key management personnel

The information required by paragraph 16 of IAS 24 is provided below in relation to managers belonging to the senior management teams of Group companies and of the Parent Company.

	31.12.2016	31.12.2015
Salaries and other short-term benefits	4,010	4,072
Bonuses and other incentives in cash	689	505
Bonuses in shares (1)	555	395
Post-employment benefits (2)	418	420
Termination benefits(3)	–	462

(1) Represents the bonus granted in shares of the Parent Company.
(2) Represents the annual provision for the employees' termination indemnity and pension fund.
(3) Also includes the portion granted in shares.

2. Information on related party transactions

Please see the specific section in the report on operations for further details on related party transactions.

A. Companies subject to joint control and significant influence

Line items	31.12.2016			31.12.2015		
	Companies subject to joint control	Companies subject to significant influence	Total	Companies subject to joint control	Companies subject to significant influence	Total
Balance sheet: assets	**1,385**	**347,811**	**349,196**	**2,459**	**719,367**	**721,826**
Financial assets held for trading	–	7,586	**7,586**	–	8,561	**8,561**
Due from banks	–	–	**–**	–	–	**–**
Loans to customers	1,385	340,225	**341,610**	2,459	710,806	**713,265**
Balance sheet: liabilities	**1,750**	**129,315**	**131,065**	**2,306**	**271,542**	**273,848**
Due to customers	1,750	97,562	**99,312**	2,306	238,573	**240,879**
Securities issued	–	31,719	**31,719**	–	31,701	**31,701**
Financial liabilities held for trading	–	34	**34**	–	1,268	**1,268**
Financial liabilities designated at fair value through profit and loss	–	–	**–**	–	–	**–**
Balance sheet: guarantees and commitments	**–**	**2,564**	**2,564**	**–**	**42,615**	**42,615**
Guarantees given	–	2,564	**2,564**	–	2,615	**2,615**
Commitments	–	–	**–**	–	40,000	**40,000**
Income statement	**155**	**214,203**	**214,358**	**280**	**229,942**	**230,222**
Interest income	150	7,827	**7,977**	284	7,637	**7,921**
Interest expense	(3)	(2,719)	**(2,722)**	(4)	(2,932)	**(2,936)**
Fee and commission income	8	207,721	**207,729**	–	223,714	**223,714**
Fee and commission expense	–	–	**–**	–	–	**–**
Recharge of personnel expenses for staff seconded to third parties	–	520	**520**	–	668	**668**
Other operating expenses/income	–	854	**854**	–	855	**855**

The column "Companies subject to significant influence" conventionally includes the figures relating to the subsidiaries of associates, Fondazione Cassa di Risparmio di Alessandria and its subsidiaries and the Bipiemme Pension Fund.

B. Other related parties

The following table shows the transactions and balances between Group companies and members of the Management Boards and of the Supervisory Board and of the Boards of Directors and of Statutory Auditors, as well as key management personnel of Group companies and other parties related to them.

Management Board of the Parent Company		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	667	1,854	3	–
	Drawdowns	–	985	–	–
Deposits		692	604	409	–
Indirect deposits (at market value)		42	307	2	–
Assets under management (at market value)		2,385	–	129	–
Guarantees given		–	–	–	–
Interest income		9	7	–	–
Interest expense		(2)	–	(4)	–
Commission and other income		7	5	1	–
Amounts recognised for professional and consultancy services		–	–	–	–

Boards of Directors of other Group companies		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	2,268	5,423	392	10
	Drawdowns	1,992	3,347	382	–
Deposits		1,744	973	900	1
Indirect deposits (at market value)		10,566	–	99	–
Assets under management (at market value)		3,172	–	239	–
Guarantees given		–	88	–	–
Interest income		34	84	6	348
Interest expense		(3)	–	(60)	(35)
Commission and other income		65	16	8	–
Amounts recognised for professional and consultancy services		–	–	–	–

Supervisory Board of the Parent Company:		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	248	158	30	1,047
	Drawdowns	60	95	–	981
Deposits		2,237	123	2,914	4
Indirect deposits (at market value)		4,403	–	307	–
Assets under management (at market value)		501	–	35,404	–
Guarantees given		–		–	–
Interest income		2	1	–	4
Interest expense		(5)	–	–	–
Commission and other income		30	3	129	1
Amounts recognised for professional and consultancy services		–	–	–	–

Boards of Statutory Auditors of other Group companies		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board of Statutory Auditors	Companies controlled by relatives of members of the Board
Loans	Granted	13	495	1	–
	Drawdowns	–	219	–	–
Deposits		16	40	4	–
Indirect deposits (at market value)		–	–	–	–
Assets under management (at market value)		29	–	–	–
Guarantees given		–	170	–	–
Interest income		–	11	–	–
Interest expense		–	–	–	–
Commission and other income		3	8	–	–
Amounts recognised for professional and consultancy services		–	–	–	–

General Management		Members of of General Management	Companies controlled by members of General Management	Relatives of General Management	Companies controlled by relatives of members of General Management
Loans	Granted	1,995	–	85	288
	Drawdowns	1,212	–	73	197
Deposits		2,656	–	1,129	83
Indirect deposits (at market value)		1,611	–	503	–
Assets under management (at market value)		727	–	918	27
Guarantees given		–	–	–	20
Interest income		9	–	2	4
Interest expense		(6)	–	(6)	–
Commission and other income		11	–	14	2
Amounts recognised for professional and consultancy services		–	–	–	–

Proportion of related party transactions

On the basis of Consob Communication DEM/6064293 of 28 July 2006, as well as the requirements of the international accounting standard on Related Party Disclosures (IAS 24), the following information is provided for related party transactions and balances as classified by IAS 24, and their impact on the Group's balance sheet and income statement.

Impact of related party transactions or balances on:	31.12.2016			31.12.2015		
	Book value	Related parties		Valore di bilancio	Related parties	
		Absolute amount	%		Absolute amount	%
Asset line items						
20. Financial assets held for trading	1,562,491	7,586	0.5%	1,797,874	8,561	0.5%
70. Loans to customers	34,771,008	351,153	1.0%	34,186,837	744,063	2.2%
Liability line items						
20. Due to customers	30,688,439	113,841	0.4%	28,622,852	296,081	1.0%
30. Securities issued	5,687,758	31,719	0.6%	8,849,290	31,701	0.4%
40. Financial liabilities held for trading	1,215,764	34	n.s.	1,183,557	1,268	0.1%
50. Financial liabilities designated at fair value through profit and loss	94,899	–	n.s.	129,627	–	n.s.
Income statement line items:						
10. Interest and similar income	1,017,659	8,498	0.8%	1,160,394	8,810	0.8%
20. Interest and similar charges	(229,619)	(2,843)	1.2%	(353,648)	(3,278)	0.9%
40. Fee and commission income	658,327	208,032	31.6%	678,897	223,970	33.0%
50. Fee and commission expense	(73,073)	–	n.s.	(72,901)	–	n.s.
180. Administrative expenses	(1,205,424)	520	n.s.	(1,031,947)	411	n.s.
220. Other operating charges/income	115,789	854	0.7%	122,513	855	0.7%

Part I
Share-based payments

A. Qualitative information

1. Remuneration linked to incentive schemes: share-based compensation plans

As Parent Company Banca Popolare di Milano prepares an annual update of the **Remuneration Report** in accordance with current provisions on remuneration policies and practices of the Bank of Italy (Circular no. 285/2013, 7th update of 18 November 2014, First Part, Title IV, Chapter 2), article 123-ter of Legislative Decree no. 58/1998 (Consolidated Finance Act or CFA) and article 84-quater of the Issuers' Regulations (Consob Resolution no. 11971/1999 as amended).

This document is available on the website www.gruppobpm.it (Governance > Remuneration Policy).

The remuneration policies (the "Policy") define – in the interests of all stakeholders – the guidelines of the remuneration and incentive system for personnel of the Group. The aim on the one hand is to encourage the pursuit of strategies, objectives and results over the long term in line with the levels of liquidity and capitalisation and in accordance with sound and prudent risk management; and on the other hand to attract and retain within the Group people with the right professional skills and abilities for the needs of the business, to the benefit of competitiveness and good governance.

The remuneration system includes a variable component of remuneration linked to performance targets ("bonus"). Recognition of the "**bonus**":

- depends on the implementation of an incentive system by the Group company for which the person works, which provides for the assignment of quantitative and qualitative objectives;
- is subject to full compliance with the predetermined access conditions (the «access gate); and
- is paid in line with the guidelines issued by the Supervisory Authorities from time to time.

The "bonus" for so-called "**key personnel**" (i.e. those whose professional duties have or may have a significant impact on the risk profile of the Group, identified in accordance with Delegated Regulation (EU) no. 604/2014), is divided into:

- an up-front portion of 60% of the "bonus", payable by the end of July of the year after which the bonus relates to;
- three annual instalments, amounting in total to 40% of the "bonus", each of an equal amount, deferred over the three-year period subsequent to the year in which the up-front portion is paid, with each instalment payable by the end of July of each year.

Both the 50% up-front portion and the 50% deferred portion of the "bonus" are settled in Banca Popolare di Milano shares.

Where the "bonus" target represents 100% of gross annual remuneration1 and at the same time is equal to or greater than 150,000 euro, the deferred portion is 60% of the "bonus" and is paid in five rather than three annual instalments.

A two-year **retention** period (a restriction on sale) is envisaged for the up-front portion and one year retention period is envisaged for the deferred portion of the allocated shares; for the latter, the **retention** period starts on the date on which the deferred remuneration is granted.
Both the up-front portion and the deferred portions are subject to "malus" and "claw-back" mechanisms as explained in the Policy.

In line with national banking system practices and in keeping with current regulations, the rules, as previously stated in this paragraph, concerning bonus payments are applied based on a scale of materiality thresholds, as specified below:

- for target bonuses less than or equal to a threshold of 35,000 euro the payment is made in cash and up-front;
- for target bonuses less than or equal to a threshold of 50,000 euro the payment is made in cash without prejudice to the deferral mechanism.

The scale is not applied to bonus payments to members of corporate bodies1 and persons serving in General Management Departments of Group companies and in Parent Company frontline management.
The Ordinary General Meeting of the Members of Banca Popolare di Milano held on 30 April 2016 approved, in accordance with article 114-bis of Legislative Decree 58/1998 (the "CFA") and article 84-bis of Consob Regulation no. 11971/1999 and subsequent amendments (the "Issuers' Regulation"), the BPM share-based compensation plan (the "Plan"), for "key personnel" of the Group, as set out in the Information Document prepared for this purpose by the Management Board on 10 March 2016, on the basis of the 2016 Remuneration Policy and under the 2016 Incentive scheme.
The Ordinary General Meeting of the Members approved the plan with a theoretical maximum requirement of some 1.6 million euro.

Conditional upon exceeding the "access gates" established by the Policy for the 2016 Incentive scheme, the "Plan" will be implemented by determining the total number of shares that may be assigned to each beneficiary, based on the achievement of the qualitative/quantitative targets assigned on an individual basis. The up-front portion of shares will be granted by the end of July 2017.

Conditional upon exceeding the "access gates" relating to the 2016 Incentive scheme, the deferred portion of shares relating to the 2014 (2nd deferred portion) and 2015 (1st deferred portion) Incentive schemes may also be payable, as defined in the annual remuneration policies, approved by the General Meeting of the Members of the Banca Popolare di Milano on 12 April 2014 and 11 April 2015, respectively.

As required by IFRS 2, the transaction described in this paragraph is considered an expense for the year and is recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the service received, with the contra entry recognised in shareholders' equity.

2. Termination compensation

For certain members of "key personnel", in specific cases of employment termination, the payment of a golden parachute may be agreed - in accordance with the procedures provided for in the Policy, up to a maximum of two years of gross fixed annual remuneration and within a maximum limit of 1.6 million euro (gross amount paid employees).

Without prejudice to the exceptions provided for by the Supervisory Provisions of the Bank of Italy, payment is made in accordance with the procedures established for providing bonuses to key personnel: 50% in cash and 50% in shares, divided into an up-front portion (60% or 40%, as appropriate) and three or five deferred annual instalments (as appropriate).

A two-year retention period (a restriction on sale) is envisaged for the up-front portion of the shares and one-year retention period is envisaged for the deferred portion; for the latter, the retention period starts on the date on which the deferred remuneration is granted.

Both the up-front portion and the deferred portions are subject to "malus" and "claw-back" mechanisms as explained in current remuneration policies.

3. Allocation of net income pursuant to art. 60 of the BPM Articles of Association

Art. 60 of the Banca Popolare di Milano Articles of Association provided that 5% of the profit before income taxes be allocated to all current employees in the form of Bank shares; the merger of Banca Popolare di Milano S.c.a.r.l. and Banca Popolare Soc. Coop. came into effect on 1 January 2017, resulting in the establishment of a new bank called Banco BPM S.p.A. Therefore, the new Articles of Association of Banco BPM S.p.A. have entered into force, making the previous Articles of Association null and void.

B. Quantitative information

1. Other information

As regards the incentive scheme for key personnel, the passing of the "access gate" in relation to 2016 performance resulted in the allocation of the following amounts related to the equity component of remuneration:

- **2016 Incentive scheme** – up-front portion – 444,400 euro (gross amount paid to employees)[1];
- **2015 Incentive scheme** – 1st deferred portion – 92,169 euro (gross amount paid to employees); for this portion a *malus* in the amount of 5,261 euro (gross amount payable to employees) was applied to one individual no longer in office;
- **2014 Incentive scheme** – 2nd deferred portion – 71,995 euro (gross amount paid to employees); for this portion a *malus* in the amount of 9,795 euro (gross amount paid to employees) was applied to two individuals no longer in office;

With regard to a golden parachute granted in 2015 to an individual identified as "key personnel", the 2nd portion of deferred shares, in the amount of 33,000 euro (gross amount paid to employee) is expected to be allocated in 2017.

As regards the allocation of profits to employees as per article 60 of the Articles of Association, as at 31 December 2016, no amount was recognised (vs. an amount of 15.5 million euro recognised in the income statement as at 31 December 2015).

(1) Estimated maximum amount payable.

Part L
Segment reporting

Consolidated results by business segment

This section presents the consolidated results analysed by business segment on the basis of IFRS 8 "Operating Segments".

Primary reporting by business segment

The definition of the activities carried out by each Bipiemme Group company represents the basis for their allocation to the relevant business segment. Broad customer groupings have been identified with regard to the numerous types of customers served by the Group, particularly by its commercial banks which use a model that separates customers into different groups. These groupings have similar characteristics in terms of:

- type of products provided;
- distribution channels;
- risk-return profiles.

The criterion used to segment customers is based on qualitative and quantitative thresholds; in particular, as regards corporate customers, the reference parameter is represented by the following turnover thresholds:

- retail customers, up to 15 million euro;
- middle corporate, over 15 million euro and up to 50 million euro;
- upper corporate, over 50 million euro and up to 250 million euro;
- large corporate, over 250 million euro.

The customer segmentation model is also consistent with the principle used to allocate them to portfolios, which is utilized to set commercial policies and which constitutes the basis for management reporting.
The following segments have therefore been identified and reported:

- **"Retail banking":** this contains the results of individual customers and retail companies of the Group's commercial banks along with the results for Banca Akros. In addition, this segment contains the results of the private banking business, the amounts related to WeBank customers (post-merger) and the results and financial position of ProFamily;
- **"Corporate banking":** this contains amounts relating to middle, upper, and large corporate customers, mainly of the Parent Company;
- **"Treasury & Investment banking":** this contains the results of managing the Bank's own securities portfolio, trading on its own account in securities and foreign exchange and treasury activities. This segment not only reports the financial activities typifying the Group's commercial banks but also the results of Banca Akros, the Group's investment bank; Starting this year, institutional funding (which until the previous year had been assigned to the Corporate Centre) was allocated to the Treasury & Investment Banking business line, with a consequent adjustment in the balance sheet/income statement amounts for the previous year;
- **"Corporate center":** this covers services relating to the Bipiemme Group's operations, in its role as the receptacle for the investments portfolio and all the other assets and liabilities not allocated to the previous business segments and as the counterparty to all the figurative/standard effects. The following companies are classified in this segment: the five special purpose vehicles BPM Securitisation 2, BPM Securitisation 3, BPM Covered Bond, BPM Covered Bond 2 and ProFamily Securitisation (set up respectively for the securitisation of mortgages and for the Covered Bond issue programme) and the results of Ge.Se.So. (canteen services company).

For the purpose of reconciling the segment results and the consolidated results it should be noted that:

- the methods used for measuring the quantitative information shown below are the same as those used for management reporting purposes, which are also in line with the accounting policies applied in drawing up the consolidated financial statements;
- the format of the schedule provides for the disclosure of the figures related to eliminations among business segments, as well as the consolidation adjustments, in a column entitled "Corporate Centre", which also includes the results of the companies accounted for using the equity method;
- it was not necessary to prepare the reconciliation schedule as there were no other reconciling items between the sum of the pre-tax results of the segments and the consolidated book result.

Definition of content

With reference to the information reported in the tables below, note that:

- **"interest margin"** is determined according to the model of internal transfer rates used to measure the performance of all the centres of responsibility of the Group's individual legal entities;
- **"personnel expenses"** which, in accordance with the new cost allocation model adopted starting this year, refer only to the amount of personnel costs directly attributable to the business units;
- **"indirect costs/other direct costs"** are the sum of the portion of administrative expenses directly attributable to the business units ("direct costs") and the indirect costs charged to the business units through allocation criteria adopted by the new cost allocation model;
- the item **"income (loss) before tax from continuing operations"** is obtained by deducting segment costs from segment revenues, including the effect of figurative income and expenses. The algebraic sum of all of the segment results is the same as the corresponding line item in the reclassified consolidated income statement;
- assets are those reported internally at the end of the period; **liabilities** are shown net of capital, reserves and the result for the period.

A. Segment quantitative information

In order to make a like-for-like comparison, the figures for 2015 have been restated, where necessary, to take account of the updated customer portfolio allocation, which in some cases led to a different allocation of customers among the various segments.

Moreover, the review of the "internal transfer rates" system led to a different allocation of total interest margin to the various business units.

A.1 Segment results

The results by individual business segments are reported below:

- **Retail banking** reported a pre-tax loss of -204.3 million euro.

  In detail:

  - **operating income** of 869.6 million euro, a decrease of 76.3 million euro from December 2015. This result is mainly attributable to the decrease in interest margin (-62.9 million euro compared with December 2015), which showed the effects of the contraction in profitability in both lending and deposits. This decrease added to the negative performance of the services margin (-13.4 million euro compared with the same period in 2015) resulting from fewer commissions and fees from management, dealing and advisory services for assets management and securities administration;
  - **operating expenses** came to 883.1 million euro, a decrease of 10.3 million euro from the previous year;
  - **net impairment adjustments** to loans, financial assets and other items amounted to 190.8 million euro, an increase of some 39.5 million euro over the previous year.

- **Corporate banking:** contributed with earnings before tax of 132.4 million euro, a decrease of 34.3 million euro from the previous year. Operating income came to 422.7 million euro, an increase over December 2015 (+10.8 million euro) as a result of higher commissions and fees. Operating expenses came to 61.4 million euro, an increase of 3.2 million euro compared with the previous year. Net impairment adjustments to loans, financial assets and other items amounted to 228.8 million euro, an increase of some 42.0 million euro compared to the same period.
- **Treasury & Investment banking:** contributed with a gross profit of 215.2 million euro, a decrease of 24.0 million euro from the previous year. The essentially unchanged result of banking activities amounted to 253.2 million euro (+1.4 million euro more than the previous year), mainly reflecting the higher profits from sales of securities recognised under the item "Financial assets available for sale", does not offset the lower interest margin (-16.5 million euro compared to the previous year) generated by the lower yield of the government securities portfolio.
- **Corporate center:** reported a negative result of 118.1 million euro, compared with the profit of 46.3 million euro in 2015.

Segment Income Statement

(euro/000)

	Retail Banking	*Corporate Banking*	*Treasury & Investment Banking*	*Corporate Center*	**Total**
A. Year 2016					
Interest margin	325,570	291,638	32,666	138,166	788,040
Service income	544,027	131,051	253,224	(112,215)	816,087
Operating income	**869,597**	**422,689**	**285,890**	**25,951**	**1,604,127**
Personnel expenses	(316,516)	(17,994)	(27,499)	276	(361,733)
Indirect costs/ other indirect costs	(566,588)	(43,430)	(45,744)	(251,707)	(907,469)
Operating expenses	**(883,104)**	**(61,424)**	**(73,243)**	**(251,431)**	**(1,269,202)**
Operating profit	**(13,507)**	**361,265**	**212,647**	**(225,480)**	**334,925**
Net adjustments for impairment of loans, financial and other assets	(190,777)	(228,837)	2,570	(33,532)	(450,576)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	0	0	0	140,959	140,959
Income (loss) before tax from continuing operations	**(204,284)**	**132,428**	**215,217**	**(118,053)**	**25,308**
B. Year 2015					
Operating income	**945,856**	**411,878**	**300,951**	**8,532**	**1,667,217**
Operating expenses	**(893,421)**	**(58,251)**	**(61,197)**	**(6,882)**	**(1,019,751)**
Operating profit	**52,435**	**353,627**	**239,754**	**1,650**	**647,466**
Net adjustments for impairment of loans, financial and other assets	(151,286)	(186,874)	(549)	7,231	(331,478)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	0	0	0	37,433	37,433
Income (loss) before tax from continuing operations	**(98,851)**	**166,753**	**239,205**	**46,314**	**353,421**
Change A–B					
Operating income	**(76,259)**	**10,811**	**(15,061)**	**17,419**	**(63,090)**
Operating expenses	**10,317**	**(3,173)**	**(12,046)**	**(244,549)**	**(249,451)**
Net adjustments for impairment of loans, financial and other assets	(39,491)	(41,963)	3,119	(40,763)	(119,098)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	0	0	0	103,526	103,526
Income (loss) before tax from continuing operations	**(105,433)**	**(34,325)**	**(23,988)**	**(164,367)**	**(328,113)**

Segment Balance Sheet

(euro/000)

	Retail Banking	Corporate Banking	Treasury & Investment Banking	Corporate Center	Total companies
A. 31 December 2016					
Total assets	**19,540,201**	**15,230,807**	**12,800,493**	**3,559,538**	**51,131,039**
of which investments carried at equity	–	–	–	231,677	231,677
Total liabilities (*)	**(25,241,026)**	**(4,731,439)**	**(15,747,266)**	**(1,045,552)**	**(46,765,283)**
B. 31 December 2015					
Total assets	**19,049,771**	**15,137,066**	**12,896,254**	**3,120,209**	**50,203,300**
of which investments carried at equity	–	–	–	342,145	342,145
Total liabilities(*)	**(24,140,754)**	**(3,611,779)**	**(15,856,689)**	**(1,966,757)**	**(45,575,979)**
Change A-B					
Total assets	**490,430**	**93,741**	**(95,761)**	**439,329**	**927,739**
of which investments carried at equity	–	–	–	(110,468)	(110,468)
Total liabilities (*)	**(1,100,272)**	**(1,119,660)**	**109,423**	**921,205**	**(1,189,304)**

(*) not including shareholders' equity

Certification of the consolidated financial statements pursuant to article 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

On 15 October 2016, the Extraordinary General Meetings of Banco Popolare Soc. Coop and Banca Popolare di Milano S.c.a r.l. approved their merger into Banco BPM S.p.A., which became effective on 1 January 2017. As a result of this extraordinary operation, the Board of Directors of Banco BPM S.p.A., at their meeting on 10 February 2017, must approve the draft financial statements as at 31 December 2016 of Banco Popolare Soc. Coop and Banca Popolare di Milano S.c.a r.l.
In consideration of the above, the certification pursuant to article 154-bis of Legislative Decree no. 58 of 24 February 1998 is provided below based on the model established under art. 81-ter of Consob regulation no. 1197/99, for the consolidated financial statements of Banca Popolare di Milano S.c.a r.l., issued by the Chief Executive Officer and by the Financial Reporting Manager of Banco BPM S.p.A.

Certification of the consolidated financial statements pursuant to article 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

1. 1. Giuseppe Castagna as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val as the Financial Reporting Manager of Banco BPM S.p.A. certify, taking into account article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the preparation of the consolidated financial statements of Banca Popolare di Milano S.c. a r.l. during the course of 2016.
2. 2. The assessment of adequacy and verification of the effective application of the administrative and accounting procedures as a basis for the formation of the consolidated financial statements of Banca Popolare di Milano S.c. a r.l as at 31 December 2016 is based on an internal model developed by Banca Popolare di Milano S.c. a r.l using as a reference the *"Internal Control – Integrated Framework (COSO)"* and, for the IT component, the *"Control Objectives for Information and Related Technologies (COBIT)"*, which are generally accepted international standards for internal control systems.
3. In addition, we certify that:

3.1 3.1 the consolidated financial statements of Banca Popolare di Milano S.c. a r.l as at 31 December 2016:

a) have been prepared in accordance with international accounting standards applicable and recognised by the European Community as per Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the underlying accounting entries and records;

c) provide a true and fair view of the financial position and performance of the issuer and of the companies included in the consolidation.

3.2 The report on operations includes a reliable analysis of the development and performance of the issuer Banca Popolare di Milano S.c. a r.l and of the other companies included in the consolidation business and position together with a description of the principal risks and uncertainties that they face.

Milan, 10 February 2017

Chief Executive Officer	Financial Reporting Manager
Giuseppe Castagna	Gianpietro Val

Attachments to the consolidated financial statements

Reconciliation between the consolidated balance sheet and the consolidated reclassified balance sheet

(euro/000)

Consolidated reclassified balance sheet items		Consolidated balance sheet line items	31.12.2016	31.12.2015
Cash and cash equivalents			**249,449**	**300,714**
Line item	10	Cash and cash equivalents	249,449	300,714
Financial assets carried at fair value and hedging derivatives:			**11,270,196**	**11,416,540**
Line item	20	Financial assets held for trading	1,562,491	1,797,874
Line item	30	Financial assets designated at fair value through profit and loss	19,240	75,543
Line item	40	Financial assets available for sale	9,633,116	9,491,248
Line item	50	Investments held to maturity	0	0
Line item	80	Hedging derivatives	44,835	40,638
Line item	90	Fair value change of financial assets in hedged portfolios (+ / -)	10,514	11,237
Due from banks			**2,185,297**	**1,224,717**
Line item	60	Due from banks	2,185,297	1,224,717
Loans to customers			**34,771,008**	**34,186,837**
Line item	70	Loans to customers	34,771,008	34,186,837
Fixed assets			**1,031,306**	**1,199,459**
Line item	100	Investments in associates and companies subject to joint control	231,677	342,145
Line item	120	Property and equipment	718,015	720,383
Line item	130	Intangible assets	81,614	136,931
Technical insurance reserves reassured with third parties			**0**	**0**
Line item	110	Technical insurance reserves reassured with third parties	0	0
Non-current assets and disposal groups held for sale			**0**	**0**
Line item	150	Non-current assets and disposal groups held for sale	0	0
Other assets			**1,623,783**	**1,875,033**
Line item	140	Tax assets	1,064,350	1,101,490
Line item	160	Other assets	559,433	773,543
Total assets			**51,131,039**	**50,203,300**

(euro/000)

Consolidated reclassified balance sheet items		Consolidated balance sheet line items	31.12.2016	31.12.2015
Due to banks			**7,385,667**	**4,839,439**
Line item	10	Due to banks	7,385,667	4,839,439
Due to customers			**30,688,439**	**28,622,852**
Line item	20	Due to customers	30,688,439	28,622,852
Securities issued			**5,687,758**	**8,849,290**
Line item	30	Securities issued	5,687,758	8,849,290
Financial liabilities and hedging derivatives:			**1,363,498**	**1,379,948**
Line item	40	Financial liabilities held for trading	1,215,764	1,183,557
Line item	50	Financial liabilities designated at fair value through profit and loss	94,899	129,627
Line item	60	Hedging derivatives	32,894	48,678
Line item	70	Fair value change of financial liabilities in hedged portfolios (+ / -)	19,941	18,086
Liabilities associated with non-current assets and disposal group held for sale			**0**	**0**
Line item	90	Liabilities associated with non-current assets and disposal group held for sale	0	0
Other liabilities			**1,067,266**	**1,429,895**
Line item	80	Tax liabilities	68,114	132,166
Line item	100	Other liabilities	999,152	1,297,729
Provisions for specific use			**572,655**	**434,555**
Line item	110	Employee termination indemnities	132,398	125,451
Line item	120	Provisions for risks and charges	440,257	309,104
Technical reserves			**0**	**0**
Line item	130	Technical reserves	0	0
Capital and reserves			**4,291,726**	**4,338,440**
Line item	140	Valuation reserves	20,809	220,255
Line item	150	Redeemable shares	0	0
Line item	160	Equity instruments	0	0
Line item	170	Reserves	906,099	753,717
Line item	180	Share premium reserve	0	445
Line item	190	Share capital	3,365,439	3,365,439
Line item	200	Treasury shares (–)	-621	-1,416
Minority interests (+/–)			**1,306**	**19,974**
Line item	210	Minority interests (+/–)	1,306	19,974
Net income (loss) for the period (+/–)			**72,724**	**288,907**
Line item	220	Net income (loss) for the period (+/–)	72,724	288,907
Total liabilities and shareholders' equity			**51,131,039**	**50,203,300**

Reconciliation between the consolidated income statement and the consolidated reclassified income statement

(euro/000)

Consolidated reclassified income statement line items		Consolidated income statement line items	Year 2016	Year 2015
Interest margin			**788,040**	**806,746**
Line item	10	Interest and similar income	1,017,659	1,160,394
		Interest and similar income	**1,017,659**	**1,160,394**
Line item	20	Interest and similar expense	(229,619)	(353,648)
		Interest and similar expense	**(229,619)**	**(353,648)**
Non-interest margin			**816,087**	**860,471**
Net fee and commission income			**585,254**	**605,996**
Line item	40	Fee and commission income	658,327	678,897
		Fee and commission income	**658,327**	**678,897**
Line item	50	Fee and commission expense	(73,073)	(72,901)
		Fee and commission expense	**(73,073)**	**(72,901)**
Other income			**230,833**	**254,475**
Profit (loss) on investments carried at equity			**22,457**	**32,577**
(+) Line item	240	(partial) - Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	22,457	32,577
Net income from banking activities			**171,022**	**181,724**
Line item	70	Dividend and similar income	15,714	13,065
		Dividend and similar income	**15,714**	**13,065**
Line item	80	Profits (losses) on trading	49,382	37,937
		Profits (losses) on trading	**49,382**	**37,937**
Line item	90	Fair value adjustments in hedge accounting	(47)	(9,623)
		Fair value adjustments in hedge accounting	**(47)**	**(9,623)**
Line item	100	Profits (losses) on disposal or repurchase of:	172,249	163,092
		a) loans	*(13,210)*	*(24,907)*
		b) financial assets available for sale	*185,479*	*200,980*
		c) investments held to maturity	*0*	*0*
		d) financial liabilities	*(20)*	*(12,981)*
(–) Line item	100	a) Profits (losses) on disposal or repurchase of loans	13,210	24,907
		Profits/losses on disposal or repurchase of financial assets/liabilities	**185,459**	**187,999**
Line item	110	Profits (losses) on financial assets and liabilities designated at fair value	(8,895)	(5,136)
		Profits (losses) on financial assets/liabilities designated at fair value	**(8,895)**	**(5,136)**
(+) Line item	130	b) Net losses/recoveries on impairment: financial assets available for sale	(70,591)	(42,518)
		Net losses/recoveries on impairment: financial assets available for sale	**(70,591)**	**(42,518)**
Other operating expenses/income			**37,354**	**40,174**
Line item	220	Other operating expenses/income	115,789	122,513
(–) Line item	220	(partial) - Recoverable portion of indirect taxes	(83,569)	(86,969)
(+) Line item	220	(partial) - Portion of depreciation of leasehold improvements	5,134	4,630

(euro/000)

Operating income			**1,604,127**	**1,667,217**
Administrative expenses:			**(1,113,555)**	**(944,978)**
a) personnel expenses			*(775,296)*	*(612,382)*
Line item	180	a). Personnel expenses	*(775,296)*	*(612,382)*
b) other administrative expenses			*(338,259)*	*(332,596)*
Line item	180	b). Other administrative expenses	*(430,403)*	*(419,565)*
(+) Line item	*220*	*(partial) - Other operating expenses/income (recoverable portion of indirect taxes)*	*83,569*	*86,969*
(+) Line item	*130*	*d) (partial)- Net losses/recoveries on impairment of: other activities*	*8,575*	
Net adjustments to property and equipment and intangible assets			**(155,647)**	**(74,773)**
Line item	200	Net adjustments to/recoveries on property and equipment	(38,956)	(41,018)
Line item	210	Net adjustments to/recoveries on intangible assets	(111,557)	(29,125)
(+) Line item	*220*	*(partial) - Other operating expenses/income (depreciation of leasehold improvements)*	*(5,134)*	*(4,630)*
Operating expenses			**(1,269,202)**	**(1,019,751)**
Operating profit			**334,925**	**647,466**
Net adjustments for impairment of loans and other activities			**(420,251)**	**(342,236)**
Line item	130	Net losses/recoveries on impairment of:	(469,057)	(359,847)
		a) loans	(414,629)	(332,218)
		b) financial assets available for sale	(70,591)	(42,518)
		c) c) investments held to maturity	0	0
		d) other financial activities	16,163	14,889
(+) Line item	*100*	*a) Profits (losses) on disposal or repurchase of loans*	*(13,210)*	*(24,907)*
(–) Line item	*130*	*b) Net losses/recoveries on impairment of: financial assets available for sale*	*70,591*	*42,518*
(–) Line item	*130*	*d) (partial)- Net losses/recoveries on impairment of: other activities*	*(8,575)*	
Net provisions for risks and charges			**(30,325)**	**10,758**
Line item	190	Net provisions for risks and charges	(30,325)	10,758
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets			**140,959**	**37,433**
Line item	240	Profits (losses) on investments in associates and companies subject to joint control	162,023	70,004
Line item	250	Net result of valuation differences on property, equipment and intangible assets designated at fair value	0	0
Line item	260	Goodwill impairment	0	0
Line item	270	Profits (losses) on disposal of investments	1,393	6
(–) Line item	*240*	*(partial) - Profits (losses) on investments in associates and companies subject to joint control (carried at equity)*	*(22,457)*	*(32,577)*
Income (loss) before tax from continuing operations			**25,308**	**353,421**
Taxes on income from continuing operations			**47,492**	**(63,512)**
Line item	290	Taxes on income from continuing operations	47,492	(63,512)
Net income (loss) for the period			**72,800**	**289,909**
Income (loss) attributable to minority interests			**(76)**	**(1,002)**
Line item	330	Income (loss) attributable to minority interests	(76)	(1,002)
Net income (loss) for the period			**72,724**	**288,907**

Bipiemme Group -Consolidated reclassified income statement net of non-recurring items

Line items	Year 2016		
	4th Quarter		
	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
Interest margin	**192,665**		**192,665**
Non-interest margin:	**206,825**	**(42,093)**	**248,918**
– Net fee and commission income	143,583		143,583
– Other income:	63,242	(42,093)	105,335
– Profit (loss) on investments carried at equity	*4,466*		*4,466*
– Net income from banking activities	*49,016*	*(42,093)*	*91,109*
– Other operating expenses/income	*9,760*		*9,760*
Operating income	**399,490**	**(42,093)**	**441,583**
Administrative expenses:	(271,078)	(49,351)	(221,727)
a) personnel expenses	*(154,270)*	*(2,386)*	*(151,884)*
b) other administrative expenses	*(116,808)*	*(46,965)*	*(69,843)*
Net adjustments to property and equipment and intangible assets	(97,234)	(75,625)	(21,609)
Operating expenses	**(368,312)**	**(124,976)**	**(243,336)**
Operating profit	**31,178**	**(167,069)**	**198,247**
Net adjustments for impairment of loans and other activities	(190,125)	0	(190,125)
Net provisions for risks and charges	(24,236)	(10,000)	(14,236)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	108,973	108,680	293
Income (loss) before tax from continuing operations	**(74,210)**	**(68,389)**	**(5,821)**
Taxes on income from continuing operations	58,665	42,150	16,515
Income (loss) after tax from continuing operations	**(15,545)**	**(26,239)**	**10,694**
Income (loss) after tax from discontinued operations	0	0	0
Income (loss) for the period	**(15,545)**	**(26,239)**	**10,694**
Income (loss) attributable to minority interests	176	0	176
Net income (loss) for the period	**(15,369)**	**(26,239)**	**10,870**

quarter by quarter

(euro/000)

Year 2016								
3rd Quarter			2nd Quarter			1st Quarter		
Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
192,298		**192,298**	**196,575**		**196,575**	**206,502**		**206,502**
173,211	**7,400**	**165,811**	**253,454**	**0**	**253,454**	**182,597**	**0**	**182,597**
138,327		138,327	152,049		152,049	151,295		151,295
34,884	7,400	27,484	101,405	0	101,405	31,302	0	31,302
4,121		*4,121*	*5,238*		*5,238*	*8,632*		*8,632*
22,439	*7,400*	*15,039*	*86,112*	*0*	*86,112*	*13,455*	*0*	*13,455*
8,324		*8,324*	*10,055*		*10,055*	*9,215*		*9,215*
365,509	**7,400**	**358,109**	**450,029**	**0**	**450,029**	**389,099**	**0**	**389,099**
(382,638)	(170,938)	(211,700)	(225,954)	(354)	(225,600)	(233,885)	(164)	(233,721)
(306,174)	*(165,150)*	*(141,024)*	*(159,827)*	*(354)*	*(159,473)*	*(155,025)*	*(164)*	*(154,861)*
(76,464)	*(5,788)*	*(70,676)*	*(66,127)*		*(66,127)*	*(78,860)*		*(78,860)*
(20,641)		(20,641)	(19,305)		(19,305)	(18,467)		(18,467)
(403,279)	**(170,938)**	**(232,341)**	**(245,259)**	**(354)**	**(244,905)**	**(252,352)**	**(164)**	**(252,188)**
(37,770)	**(163,538)**	**125,768**	**204,770**	**(354)**	**205,124**	**136,747**	**(164)**	**136,911**
(74,284)	0	(74,284)	(89,737)	0	(89,737)	(66,105)	0	(66,105)
(10,876)	0	(10,876)	4,498	0	4,498	289	0	289
(185)	0	(185)	30,298	10,730	19,568	1,873	1,478	395
(123,115)	**(163,538)**	**40,423**	**149,829**	**10,376**	**139,453**	**72,804**	**1,314**	**71,490**
52,827	56,013	(3,186)	(39,778)	(70)	(39,708)	(24,222)	(361)	(23,861)
(70,288)	**(107,525)**	**37,237**	**110,051**	**10,306**	**99,745**	**48,582**	**953**	**47,629**
0		0	0		0	0		0
(70,288)	**(107,525)**	**37,237**	**110,051**	**10,306**	**99,745**	**48,582**	**953**	**47,629**
246	0	246	(226)	3	(229)	(272)	0	(272)
(70,042)	**(107,525)**	**37,483**	**109,825**	**10,309**	**99,516**	**48,310**	**953**	**47,357**

Bipiemme Group -Consolidated reclassified income statement net of non-recurring items

Line items	Year 2015		
	4th Quarter		
	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
Interest margin	**199,930**		**199,930**
Non-interest margin:	**268,321**	**63,186**	**205,135**
– Net fee and commission income	154,357		154,357
– Other income:	113,964	63,186	50,778
– Profit (loss) on investments carried at equity	*8,225*		*8,225*
– Net income from banking activities	*100,077*	*63,186*	*36,891*
– Other operating expenses/income	*5,662*		*5,662*
Operating income	**468,251**	**63,186**	**405,065**
Administrative expenses:	(287,722)	(42,844)	(244,878)
a) personnel expenses	*(160,339)*	*(3,111)*	*(157,228)*
b) other administrative expenses	*(127,383)*	*(39,733)*	*(87,650)*
Net adjustments to property and equipment and intangible assets	(24,067)		(24,067)
Operating expenses	**(311,789)**	**(42,844)**	**(268,945)**
Operating profit	**156,462**	**20,342**	**136,120**
Net adjustments for impairment of loans and other activities	(95,925)	0	(95,925)
Net provisions for risks and charges	14,638	21,915	(7,277)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	(19)	(24)	5
Income (loss) before tax from continuing operations	**75,156**	**42,233**	**32,923**
Taxes on income from continuing operations	11,938	7,475	4,463
Income (loss) after tax from continuing operations	**87,094**	**49,708**	**37,386**
Income (loss) after tax from discontinued operations	0	0	0
Income (loss) for the period	**87,094**	**49,708**	**37,386**
Income (loss) attributable to minority interests	(239)	87	(326)
Net income (loss) for the period	**86,855**	**49,795**	**37,060**

quarter by quarter

(euro/000)

Year 2015								
3rd Quarter			2nd Quarter			1st Quarter		
Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
203,936		**203,936**	**206,759**		**206,759**	**196,121**		**196,121**
171,497	**(6,140)**	**177,637**	**191,007**	**(6,253)**	**197,260**	**229,646**	**(11,504)**	**241,150**
144,886		144,886	158,461		158,461	148,292		148,292
26,611	(6,140)	32,751	32,546	(6,253)	38,799	81,354	(11,504)	92,858
5,269		*5,269*	*7,574*		*7,574*	*11,509*		*11,509*
10,820	*(6,140)*	*16,960*	*12,434*	*(6,253)*	*18,687*	*58,393*	*(11,504)*	*69,897*
10,522		*10,522*	*12,538*		*12,538*	*11,452*		*11,452*
375,433	**(6,140)**	**381,573**	**397,766**	**(6,253)**	**404,019**	**425,767**	**(11,504)**	**437,271**
(209,007)	(1,617)	(207,390)	(220,251)	(1,258)	(218,993)	(227,998)	(922)	(227,076)
(148,678)	*(1,617)*	*(147,061)*	*(148,632)*	*(1,258)*	*(147,374)*	*(154,733)*	*(922)*	*(153,811)*
(60,329)		*(60,329)*	*(71,619)*		*(71,619)*	*(73,265)*		*(73,265)*
(17,582)		(17,582)	(16,629)		(16,629)	(16,495)		(16,495)
(226,589)	**(1,617)**	**(224,972)**	**(236,880)**	**(1,258)**	**(235,622)**	**(244,493)**	**(922)**	**(243,571)**
148,844	**(7,757)**	**156,601**	**160,886**	**(7,511)**	**168,397**	**181,274**	**(12,426)**	**193,700**
(77,972)	0	(77,972)	(94,029)	0	(94,029)	(74,310)	0	(74,310)
(4,972)	0	(4,972)	2,364	0	2,364	(1,272)	0	(1,272)
(1)	0	(1)	37,453	(1,398)	38,851	0		0
65,899	**(7,757)**	**73,656**	**106,674**	**(8,909)**	**115,583**	**105,692**	**(12,426)**	**118,118**
(17,306)	2,133	(19,439)	(20,339)	2,066	(22,405)	(37,805)	4,058	(41,863)
48,593	**(5,625)**	**54,218**	**86,335**	**(6,843)**	**93,178**	**67,887**	**(8,368)**	**76,255**
0		0	0		0	0		0
48,593	**(5,625)**	**54,218**	**86,335**	**(6,843)**	**93,178**	**67,887**	**(8,368)**	**76,255**
(594)	6	(600)	115	8	107	(284)	0	(284)
47,999	**(5,619)**	**53,618**	**86,450**	**(6,835)**	**93,285**	**67,603**	**(8,368)**	**75,971**

Disclosure of amounts paid for auditing and other services in accordance with art. 149-duodieces of Consob's Issuers' Regulations

The following table shows the information required by art. 149- duodieces of Consob's Issuers' Regulations on audit and other fees paid to PricewaterhouseCoopers S.p.A. and companies belonging to the same network for the following services:

1, Audit services which include:
   - audit of the annual accounts with a view to expressing an opinion on them;
   - audit of the interim accounts.
2. 2. Certification services, which include engagements with which the auditor evaluates a specific element; the valuation is carried out by another person who is responsible for it, whereas the auditor applies suitable criteria in order to come to a conclusion that provides the recipient with a degree of reliability with regard to the specific element in question.
3. Other services, which include engagements of a residual nature, for which an adequate level of detail has to be provided. This category of services includes, but is not limited to: due diligence reviews of accounting, tax and administrative matters agreed upon procedures on lending operations and on the internal control system, provision of assistance (risk assessment, gap analysis, project management and risk management) and methodological support.

The fees shown in the table for 2016 are those established by contract, including forfeit expenses, index-linking and the supervisory contribution, if due.

In accordance with the instructions, they do not include any fees paid to secondary auditors or to members of their respective networks.

Type of service	Service provided by	Remuneration (euro/000)
Audit	PricewaterhouseCoopers S.p.A.	1,107
Certification services (*)	PricewaterhouseCoopers S.p.A.	279
Other services (**)	PricewaterhouseCoopers S.p.A. PricewaterhouseCoopers Advisory SpA TLS Associazione Professionale di Avvocati e Commercialisti	1,233
Total		**2,619**

(*) The certification services consisted of the comfort letter and the work performed with respect to the EMTN programme and the Covered Bond Issuance Programme, as well as the review of the pro-forma figures and data as at 30 June 2016.

(**) The amount includes fees for the activities carried out as part of the merger with the bank and for methodological support for the adjustments required by regulatory updates.

Public disclosures (Country by country reporting)

Bank of Italy Circular no. 285 of 17 December 2013 ("Supervisory Provisions for Banks"), in the 4th update of 17 June 2014, provides for the obligation to publish the information required in subparagraphs a), b) and c) in Appendix A of Part One, Title III, Chapter 2 of this Circular.

The table below provides the information required – on a consolidated basis – with reference to the situation as at 31 December 2016:

Country where business is established	Nature of business(*)	Turnover(**) (euro/000)	Number of employees on full-time equivalent basis(***)	Income or loss before taxes	Tax on income or loss	Government grants received
Italy	Banking	1,594,236	7,008	22,238	51,868	-
	Finance	36,034	102	18,010	(5,738)	-
	Non-financial	2	41	-140	35	-
Total companies of the Bipiemme Group		**1,630,272**	**7,151**	**40,108**	**46,165**	-
Consolidation adjustments		*(28,575)*	–	*(14,800)*	*1,327*	-
Total Bipiemme Group (Consolidated)		**1,601,697**	**7,151**	**25,308**	**47,492**	-

For comparative purposes, the table below shows the consolidated figures with reference to 31 December 2015:

Country where business is established	Nature of business(*)	Turnover(**) (euro/000)	Number of employees on full-time equivalent basis(***)	Income or loss before taxes	Tax on income or loss	Government grants received
Italy	Banking	1,610,745	7,047	322,353	(63,353)	–
	Finance	49,515	92	8,166	(2,498)	–
	Non-financial	3	40	125	(36)	–
Luxembourg	Finance	(54)	–	(123)	(379)	–
United States	Finance	(222)	–	(288)	–	–
Total companies of the Bipiemme Group		**1,659,987**	**7,179**	**330,233**	**(66,266)**	–
Consolidation adjustments		*(47,910)*	–	*23,188*	*2,754*	–
Total Bipiemme Group (Consolidated)		**1,612,077**	**7,179**	**353,421**	**(63,512)**	–

(*) The list of activities carried on, directly by the Parent Company or through subsidiaries, is based on the lines of business listed in Table 2 of art. 317, para. 4 of the CRR. More specifically:

- BANKING: Financial services for companies, trading and sales, retail brokerage services, commercial banking, retail banking, payments and settlements, fiduciary management and portfolio management, as defined by the CRR
- FINANCIAL: Financial services for companies, trading and sales, retail brokerage services, commercial banking, retail banking, payments and settlements, fiduciary management and portfolio management, as defined by the CRR, but with the exclusion of the acceptance of deposits from the public and/or the granting of loans to customers.
- NON-FINANCIAL: if none of the services listed in Table 2 of 317, para. 4 of the CRR are provided.

(**) The figure corresponds to item 120 in the Consolidated Income Statement «Net interest and other banking income».

(***) The figure refers to employees of the Group Companies. Part-time employees (1,139 people) are conventionally considered at 50%

Country where business is established	Company name	Nature of business (*)
Italy	BANCA POPOLARE DI MILANO S.C. a R. L.	Banking
	BANCA AKROS S.p.A.	Banking
	BANCA POPOLARE DI MANTOVA S.p.A.	Banking
	PROFAMILY S.p.A.	Finance
	BPM COVERED BOND S.R.L.	Finance
	BPM COVERED BOND 2 S.R.L.	Finance
	BPM SECURITISATION 2 S.R.L.	Finance
	BPM SECURITISATION 3 S.R.L.	Finance
	PROFAMILY SECURITISATION S.R.L	Finance
	GE.SE.SO, S.R.L.	Non-financial
Luxembourg	BPM LUXEMBOURG S.A.(WOUND UP IN 2015)	Finance
United States	BPM CAPITAL I LLC.(WOUND UP IN 2015)	Finance

Report of the Independent Auditors on the Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the shareholders of
Banco BPM SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Banca Popolare di Milan Scarl and its subsidiaries ("Bipiemme Group"), which comprise the balance sheet as of December 31, 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

The directors of Banco BPM SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/15.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers SpA

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bipiemme Group as at December 31, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/15.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that as described in the consolidated financial statements and the report on operations, on January 1, 2017 the merger between Banca Popolare di Milano Scarl and Banco Popolare Società Cooperativa became effective, leading to the establishment of Banco BPM SpA.

Other aspects

The consolidated financial statements of Bipiemme Group for the year ended December 31, 2015, were audited by another auditor whose report dated March 29, 2016 expressed an unmodified opinion on the consolidated financial statements.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure of Banca Popolare di Milano Scarl referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Banco Bpm SpA, with the consolidated financial statements of the Bipiemme Group as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Bipiemme Group as of 31 December 2016.

Milan, March 15, 2017

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

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

Report and Financial Statements of Banca Popolare di Milano Soc. Coop. a r.l.

Year 2016

Key figures and ratios of Banca Popolare di Milano

Reclassified financial statements: general aspects

To provide readers with a more immediate understanding of the Bank's net assets and results for the year, a summarised reclassified balance sheet and income statement have been prepared in which line items have been aggregated and reclassified in keeping with market practice in such a way as to provide a clearer picture of performance. To enable the items in the reclassified statements to be easily reconciled with those in the official statements based on the Bank of Italy's Circular no. 262/05, schedules are included in the attachments that provide details of the various reclassifications and aggregations.
The following aggregations have been made in the reclassified balance sheet:

1. "Financial assets carried at fair value and hedging derivatives" include the following line items: 20. "Financial assets held for trading", 30. "Financial assets designated at fair value through profit and loss", 40. "Financial assets available for sale", 50. "Investments held to maturity", 80. "Hedging derivatives" and 90. "Fair value change of financial assets in hedged portfolios";
2. "Fixed assets" include the following line items: 100. "Investments in subsidiaries, associates and companies subject to joint control", 110. "Property and equipment" and 120. "Intangible assets";
3. "Other assets" include line items: 130. "Tax assets" and 150. "Other assets";
4. "Financial liabilities and hedging derivatives" include line items: 40. "Financial liabilities held for trading", 50 "Financial liabilities designated at fair value through profit and loss", 60. "Hedging derivatives" and 70. "Fair value change of financial liabilities in hedged portfolios";
5. "Other liabilities" include line items: 80. "Tax liabilities" and 100. "Other liabilities";
6. "Provisions for specific use" include line items: 110. "Employee termination indemnities" and 120. "Allowances for risks and charges";
7. "Capital and reserves" include line items: 130. "Valuation reserves", 140. "Redeemable shares", 150. "Equity instruments", 160. "Reserves", 170. "Share premium reserve", 180. "Share capital" and 190. "Treasury shares".

Income statement line items have been reclassified as follows:

1. "Dividends from equity investments" have been removed from "Dividend and similar income" and included in "Operating income" in the reclassified income statement;
2. "Net income from banking activities" includes line item 70. "Dividend and similar income", 80. "Profits (losses) on trading", 90. "Fair value adjustments in hedge accounting",100. "Profits (losses) on disposal/repurchase", 110. "Profits (losses) on financial assets and liabilities designated at fair value" and 130 b) "Net losses/ recoveries on impairment of financial assets available for sale". Line item 100. a) "Profits (losses) on disposal/ repurchase of loans" has been removed from this aggregate;
3. "Other operating expenses/income" (line item 190) recognised as "Operating expenses" in the statement have been reduced by the recovered portion of "indirect taxes and duties" and increased by the "depreciation of leasehold improvements". This item, reclassified in this way, has been included in "Operating income" in the reclassified income statement;
4. "Other administrative expenses" (line item 150. b) in the reclassified income statement have been reduced by the recovered portion of "indirect taxes and duties" discussed in point 3 above. In addition, in 2016 the income arising from the refund of the contributions made in favour of TERCAS by the Interbank Deposit Protection Fund in prior years has been reclassified from the aggregated item "net adjustments for impairment of loans and other operations" to a reduction of "other administrative expenses"; in this way, for the purposes of presenting the reclassified figures this income is offset by the expense – recognised in "other administrative expenses" (line item 150b) – incurred for the contribution made by the voluntary intervention scheme – provided by the IDPF's bylaws – again in favour of TERCAS;
5. "Net adjustments to property and equipment and intangible assets" (line items 170 and 180) in the reclassified income statement have been increased by the "depreciation of leasehold improvements" discussed in point 3 above;

6. "Net adjustments for impairment of loans and other activities" reported after "Operating profit" in the reclassified income statement include line item 130 net of the sub-item 130.b) "Net losses/recoveries on impairment of financial assets available for sale" (reclassified under "Net income from banking activities") and line item 100.a) "Profits (losses) on disposal/repurchase of loans" (removed from "Net income from banking activities"); in 2016 the income arising from the refund of the contributions made by the Interbank Deposit Protection Fund in prior years has been classified as a reduction of "other administrative expenses" as described at point 4.

Banca Popolare di Milano – Reclassified balance sheet

(euro/000)

Assets	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	Amount	%	Amount	%
Cash and cash equivalents	247,431	201,055	294,513	46,376	23.1	–47,082	–16.0
Financial assets carried at fair value and hedging derivatives:	9,663,287	9,077,545	9,345,672	585,742	6.5	317,615	3.4
– Financial assets held for trading	*154,960*	*309,306*	*281,311*	*–154,346*	*–49.9*	*–126,351*	*–44.9*
– Financial assets designated at fair value through profit and loss	*19,240*	*23,974*	*75,543*	*–4,734*	*–19.7*	*–56,303*	*–74.5*
– Financial assets available for sale	*9,462,503*	*8,711,244*	*8,967,523*	*751,259*	*8.6*	*494,980*	*5.5*
– Hedging derivatives	*16,070*	*20,961*	*10,058*	*–4,891*	*–23.3*	*6,012*	*59.8*
– Fair value change of financial assets in hedged portfolios (+/–)	*10,514*	*12,060*	*11,237*	*–1,546*	*–12.8*	*–723*	*–6.4*
Due from banks	1,480,702	1,602,678	1,266,267	–121,976	–7.6	214,435	16.9
Loans to customers	34,230,459	33,837,340	33,474,317	393,119	1.2	756,142	2.3
Fixed assets	1,105,079	1,271,519	1,251,017	–166,440	–13.1	–145,938	–11.7
Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–
Other assets	1,559,634	1,499,768	1,811,478	59,866	4.0	–251,844	–13.9
Total assets	**48,286,592**	**47,489,905**	**47,443,264**	**796,687**	**1.7**	**843,328**	**1.8**

Liabilities and shareholders' equity	31.12.2016	30.09.2016	31.12.2015	Change A–B		Change A–C	
	A	B	C	Amount	%	Amount	%
Due to banks	7,226,844	5,713,653	4,829,578	1,513,191	26.5	2,397,266	49.6
Due to customers	29,387,380	28,325,695	27,807,746	1,061,685	3.7	1,579,634	5.7
Securities issued	5,614,860	6,868,715	8,233,838	–1,253,855	–18.3	–2,618,978	–31.8
Financial liabilities and hedging derivatives:	327,578	424,789	349,877	–97,211	–22.9	–22,299	–6.4
– Financial liabilities held for trading	*154,611*	*223,078*	*150,579*	*–68,467*	*–30.7*	*4,032*	*2.7*
– Financial liabilities designated at fair value through profit and loss	*120,132*	*120,119*	*142,201*	*13*	*0.0*	*–22,069*	*–15.5*
– Hedging derivatives	*32,894*	*54,995*	*39,011*	*–22,101*	*–40.2*	*–6,117*	*–15.7*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*19,941*	*26,597*	*18,086*	*–6,656*	*–25.0*	*1,855*	*10.3*
Other liabilities	991,010	1,319,140	1,355,220	–328,130	–24.9	–364,210	–26.9
Provisions for specific use	552,185	547,564	412,299	4,621	0.8	139,886	33.9
Capital and reserves	4,121,013	4,216,653	4,213,589	–95,640	–2.3	–92,576	–2.2
Net income (loss) for the period (+/–)	65,722	73,696	241,117	–7,974	–10.8	–175,395	–72.7
Total liabilities and shareholders' equity	**48,286,592**	**47,489,905**	**47,443,264**	**796,687**	**1.7**	**843,328**	**1.8**

Banca Popolare di Milano – Reclassified balance sheet quarter by quarter

(euro/000)

Assets	Year 2016				Year 2015			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
Cash and cash equivalents	247,431	201,055	201,186	245,221	294,513	222,118	219,072	204,610
Financial assets carried at fair value and hedging derivatives:	9,663,287	9,077,545	8,413,587	10,488,397	9,345,672	9,823,613	9,377,739	10,216,041
– Financial assets held for trading	*154,960*	*309,306*	*329,313*	*331,924*	*281,311*	*294,198*	*215,458*	*301,095*
– Financial assets designated at fair value through profit and loss	*19,240*	*23,974*	*33,367*	*32,803*	*75,543*	*80,854*	*81,410*	*105,443*
– Financial assets available for sale	*9,462,503*	*8,711,244*	*8,017,369*	*10,087,396*	*8,967,523*	*9,427,920*	*8,982,713*	*9,701,505*
– Hedging derivatives	*16,070*	*20,961*	*21,269*	*23,574*	*10,058*	*6,992*	*83,614*	*86,126*
– Fair value change of financial assets in hedged portfolios (+/–)	*10,514*	*12,060*	*12,269*	*12,700*	*11,237*	*13,649*	*14,544*	*21,872*
Due from banks	1,480,702	1,602,678	1,542,822	1,565,847	1,266,267	1,142,749	1,259,238	744,331
Loans to customers	34,230,459	33,837,340	33,958,905	33,560,353	33,474,317	32,810,811	32,741,540	32,031,457
Fixed assets	1,105,079	1,271,519	1,254,401	1,264,816	1,251,017	1,225,856	1,216,216	1,233,836
Non-current assets and disposal groups held for sale	–	–	–	–	–	4,019	4,019	–
Other assets	1,559,634	1,499,768	1,453,470	1,519,443	1,811,478	1,401,501	1,495,407	1,476,613
Total assets	**48,286,592**	**47,489,905**	**46,824,371**	**48,644,077**	**47,443,264**	**46,630,667**	**46,313,231**	**45,906,888**

Liabilities and shareholders' equity	Year 2016				Year 2015			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
Due to banks	7,226,844	5,713,653	4,487,533	5,745,112	4,829,578	3,818,202	3,685,481	3,231,548
Due to customers	29,387,380	28,325,695	28,636,060	29,996,987	27,807,746	27,756,150	27,910,397	26,970,912
Securities issued	5,614,860	6,868,715	6,920,530	6,090,289	8,233,838	8,320,529	7,939,424	8,594,982
Financial liabilities and hedging derivatives:	327,578	424,789	456,145	473,616	349,877	373,022	432,384	494,073
– Financial liabilities held for trading	*154,611*	*223,078*	*237,619*	*221,154*	*150,579*	*169,328*	*206,437*	*253,612*
– Financial liabilities designated at fair value through profit and loss	*120,132*	*120,119*	*120,143*	*142,041*	*142,201*	*141,743*	*167,045*	*167,842*
– Hedging derivatives	*32,894*	*54,995*	*71,194*	*85,526*	*39,011*	*43,438*	*44,092*	*58,053*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*19,941*	*26,597*	*27,189*	*24,895*	*18,086*	*18,513*	*14,809*	*14,567*
Other liabilities	991,010	1,319,140	1,546,609	1,442,961	1,355,220	1,483,851	1,565,216	1,594,319
Provisions for specific use	552,185	547,564	387,441	391,384	412,299	437,663	443,329	475,473
Capital and reserves	4,121,013	4,216,653	4,241,119	4,453,846	4,213,589	4,278,615	4,213,076	4,484,478
Net income (loss) for the period (+/–)	65,722	73,696	148,934	49,882	241,117	162,635	123,924	61,103
Total liabilities and shareholders' equity	**48,286,592**	**47,489,905**	**46,824,371**	**48,644,077**	**47,443,264**	**46,630,667**	**46,313,231**	**45,906,888**

Banca Popolare di Milano – Reclassified income statement

(euro/000)

Line item	Year 2016	Year 2015	Change	
			Amount	%
Interest margin	**722,668**	**741,197**	**(18,529)**	**–2.5**
Non-interest margin:	**769,974**	**793,765**	**(23,791)**	**–3.0**
– Net fee and commission income	565,158	579,728	(14,570)	–2.5
– Other income:	204,816	214,037	(9,221)	–4.3
– Dividends from equity investments	24,974	24,298	676	2.8
– Net income from banking activities	146,653	151,439	(4,786)	–3.2
– Other operating charges/income	33,189	38,300	(5,111)	–13.3
Operating income	**1,492,642**	**1,534,962**	**(42,320)**	**–2.8**
Administrative expenses:	(1,037,242)	(871,017)	(166,225)	–19.1
a) personnel expenses	*(733,467)*	*(573,540)*	*(159,927)*	*–27.9*
b) other administrative expenses	*(303,775)*	*(297,477)*	*(6,298)*	*–2.1*
Net adjustments to property and equipment and intangible assets	(148,086)	(66,648)	(81,438)	–122.2
Operating expenses	**(1,185,328)**	**(937,665)**	**(247,663)**	**–26.4**
Operating profit	**307,314**	**597,297**	**(289,983)**	**–48.5**
Net adjustments for impairment of loans and other activities	(411,691)	(325,525)	(86,166)	–26.5
Net provisions for risks and charges	(31,545)	8,813	(40,358)	n.a
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	146,944	14,532	132,412	n.a
Income (loss) before tax from continuing operations	**11,022**	**295,117**	**(284,095)**	**–96.3**
Taxes on income from continuing operations	54,700	(54,000)	108,700	n.a
Net income (loss) for the period	**65,722**	**241,117**	**(175,395)**	**–72.7**

Basic EPS – euro	**0.015**	**0.055**
Diluted EPS – euro	**0.015**	**0.055**

Banca Popolare di Milano – Reclassified income statement quarter by quarter

(euro/000)

Line item	Year 2016				Year 2015			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Interest margin	**176,057**	**175,382**	**181,215**	**190,014**	**182,337**	**185,502**	**190,267**	**183,091**
Non-interest margin:	**190,664**	**160,711**	**246,300**	**172,299**	**239,011**	**157,248**	**191,800**	**205,706**
– Net fee and commission income	136,419	135,033	147,475	146,231	147,282	139,556	150,847	142,043
– Other income:	54,245	25,678	98,825	26,068	91,729	17,692	40,953	63,663
– Dividends from equity investments	–	–	*14,502*	*10,472*	–	*5*	*15,505*	*8,788*
– Net income from banking activities	*45,665*	*18,631*	*75,206*	*7,151*	*86,486*	*7,716*	*13,284*	*43,953*
– Other operating charges/ income	*8,580*	*7,047*	*9,117*	*8,445*	*5,243*	*9,971*	*12,164*	*10,922*
Operating income	**366,721**	**336,093**	**427,515**	**362,313**	**421,348**	**342,750**	**382,067**	**388,797**
Administrative expenses:	(248,862)	(367,027)	(206,933)	(214,420)	(263,252)	(194,427)	(204,229)	(209,109)
a) personnel expenses	*(142,523)*	*(297,724)*	*(148,447)*	*(144,773)*	*(147,601)*	*(141,125)*	*(141,220)*	*(143,594)*
b) other administrative expenses	*(106,339)*	*(69,303)*	*(58,486)*	*(69,647)*	*(115,651)*	*(53,302)*	*(63,009)*	*(65,515)*
Net adjustments to property and equipment and intangible assets	(95,392)	(18,685)	(17,398)	(16,611)	(22,121)	(15,660)	(14,513)	(14,354)
Operating expenses	**(344,254)**	**(385,712)**	**(224,331)**	**(231,031)**	**(285,373)**	**(210,087)**	**(218,742)**	**(223,463)**
Operating profit	**22,467**	**(49,619)**	**203,184**	**131,282**	**135,975**	**132,663**	**163,325**	**165,334**
Net adjustments for impairment of loans and other activities	(187,263)	(72,134)	(87,477)	(64,817)	(91,935)	(75,291)	(89,258)	(69,041)
Net provisions for risks and charges	(25,524)	(10,634)	4,189	424	15,627	(7,079)	1,455	(1,190)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	123,146	2,649	16,156	4,993	4,815	2,418	7,299	–
Income (loss) before tax from continuing operations	**(67,174)**	**(129,738)**	**136,052**	**71,882**	**64,482**	**52,711**	**82,821**	**95,103**
Taxes on income from continuing operations	59,200	54,500	(37,000)	(22,000)	14,000	(14,000)	(20,000)	(34,000)
Net income (loss) for the period	**(7,974)**	**(75,238)**	**99,052**	**49,882**	**78,482**	**38,711**	**62,821**	**61,103**

Banca Popolare di Milano – Key figures

(euro/000)

Key balance sheet figures	31.12.2016 A	30.09.2016 B	31.12.2015 C	Change A–B		Change A–C	
				Amount	%	Amount	%
Loans to customers	34,230,459	33,837,340	33,474,317	393,119	1.2	756,142	2.3
of which: net bad loans	*1,559,721*	*1,554,469*	*1,467,070*	*5,252*	*0.3*	*92,651*	*6.3*
Fixed assets	1,105,079	1,271,519	1,251,017	–166,440	–13.1	–145,938	–11.7
Direct deposits(*)	35,122,372	35,314,529	36,183,785	–192,157	–0.5	–1,061,413	–2.9
Indirect customer deposits	30,902,811	30,612,434	31,837,844	290,377	1.0	–935,033	–2.9
of which: assets under management	*21,279,567*	*20,787,840*	*19,917,104*	*491,727*	*2.4*	*1,362,463*	*6.8*
of which: assets under administration	*9,623,244*	*9,824,594*	*11,920,740*	*–201,350*	*–2.0*	*–2,297,496*	*–19.3*
Total assets	48,286,593	47,489,905	47,443,264	796,688	1.7	843,329	1.8
Shareholders' equity (excluding net income (loss) for the period)	4,121,013	4,216,653	4,213,589	–95,640	–2.3	–92,576	–2.2
Own Funds	4,605,614	4,666,354	4,811,400	–60,740	–1.3	–205,786	–4.3
of which: Common Equity Tier 1	*3,946,003*	*3,924,858*	*3,880,755*	*21,145*	*0.5*	*65,248*	*1.7*

Key income statement figures	31.12.2016 A	30.09.2016 B	31.12.2015 C	Change A–C	
				Amount	%
Interest margin	722,668	546,611	741,197	(18,529)	–2.5
Operating income	1,492,642	1,125,921	1,534,962	(42,320)	–2.8
Operating expenses(**)	(917,818)	(669,654)	(937,665)	19,847	–2.1
of which: personnel expenses(**)	*(565,486)*	*(425,312)*	*(573,540)*	*8,054*	*–1.4*
Operating profit	307,314	450,479	597,297	(289,983)	–48.5
Net adjustments for impairment of loans and other activities	(411,691)	(224,428)	(325,525)	(86,166)	26.5
Income (loss) before tax from continuing operations	11,022	78,196	295,117	(284,095)	–96.3
Net income (loss) for the period	65,722	73,696	241,117	(175,395)	–72.7

Operating structure	31.12.2016 A	30.09.2016 B	31.12.2015 C	Change A–B		Change A–C	
				Amount	%	Amount	%
Headcount (employees and other personnel)	7,195	7,212	7,257	–17	–0.2	–62	–0.9
Number of branches	635	635	637	0	0.0	–2	–0.3

(*) This item consists of: due to customers, securities issued and financial liabilities designated at fair value through profit and loss.

(**) The figure at 31 December 2016 excludes "Solidarity Fund" costs and extraordinary expenses for the merger.

Banca Popolare di Milano – Key ratios

Structure ratios (%)	31.12.2016	30.09.2016	31.12.2015
Loans to customers/Total assets	70.9	71.3	70.6
Fixed assets/Total assets	2.3	2.7	2.6
Direct deposits/Total assets	72.7	74.4	76.3
Funds under management/Indirect deposits	68.9	67.9	62.6
Loans to customers/Direct deposits	97.5	95.8	92.5
Profitability ratios (%) (annualised)			
Net income (loss)/Shareholders' equity (excluding net income (loss) for the period) (ROE)[a]	1.6	2.3	5.7
Net income (loss)/Total assets (ROA)	0.1	0.2	0.5
Cost/income ratio[*]	61.5	59.5	61.1
Risk ratios (%)			
Net bad loans/Loans to customers	4.6	4.6	4.4
Coverage of gross bad loans to customers	54.4	53.8	54.2
Coverage of gross performing loans to customers	0.42	0.47	0.54
Productivity indicators[b]			
Direct deposits per employee	4,881	4,897	4,986
Loans to customers per employee	4,758	4,692	4,613
Assets under management per employee	2,958	2,882	2,745
Assets under administration per employee	1,337	1,362	1,643
Capital adequacy ratios (%)[c]			
Common Equity Tier 1 ratio	11.89	11.98	11.91
Tier 1 ratio	12.20	12.34	12.32
Total Capital ratio	13.88	14.25	14.76
Information on BPM stock[d]			
Number of shares:	4,391,784,467	4,391,784,467	4,391,784,467
outstanding	4,390,260,208	4,389,924,488	4,390,260,208
treasury shares	1,524,259	1,859,979	1,524,259
Official stock price at the end of the year – ordinary shares (euro)	0.362	0.341	0.925

a) Shareholders' equity at the end of the period.

b) Number of employees at the end of the period including personnel with other types of contract.

c) The ratios at 31 December 2016 do not include the result for the period.

d) The figures refer to BPM shares. The new Banco BPM S.p.A. shares were first listed on 2 January 2017. As a result on the basis of the number of outstanding BPM shares and the exchange ratio (6.386 shares of the old entity for each BPM share) 687,482,024 new Banco BPM shares were issued for the old BPM shares.

(*) Excluding non-recurring expense relating to the "Solidarity Fund" and extraordinary expenses for the merger.

Banca Popolare di Milano – Reclassified income statement excluding non-recurring items

As required by Consob communication DEM/6064293 of 28 July 2006 the table below sets out the effect of non-recurring items on the net income (loss) for the period.

(euro/000)

Line item	Year 2016			Year 2015			Change		Change	
	A = B + C	B	C	D = E + F	E	F	A – D		C – F	
	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Amount	%	Amount	%
Interest margin	**722,668**	**–**	**722,668**	**741,197**	**–**	**741,197**	**(18,529)**	**–2.5**	**(18,529)**	**–2.5**
Non-interest margin:	**769,974**	**(34,669)**	**804,643**	**793,765**	**39,289**	**754,476**	**(23,791)**	**–3.0**	**50,167**	**6.6**
– Net fee and commission income	565,158	–	565,158	579,728	–	579,728	(14,570)	–2.5	(14,570)	–2.5
– Other income:	204,816	(34,669)	239,485	214,037	39,289	174,748	(9,221)	–4.3	64,737	37.0
– Dividends from equity investments	*24,974*	*–*	*24,974*	*24,298*	*–*	*24,298*	*676*	*2.8*	*676*	*2.8*
– Net income from banking activities	*146,653*	*(34,669)*	*181,322*	*151,439*	*39,289*	*112,150*	*(4,786)*	*–3.2*	*69,172*	*61.7*
– Other operating charges/income	*33,189*	*–*	*33,189*	*38,300*	*–*	*38,300*	*(5,111)*	*–13.3*	*(5,111)*	*–13.3*
Operating income	**1,492,642**	**(34,669)**	**1,527,311**	**1,534,962**	**39,289**	**1,495,673**	**(42,320)**	**–2.8**	**31,638**	**2.1**
Administrative expenses:	(1,037,242)	(218,211)	(819,031)	(871,017)	(43,377)	(827,640)	(166,225)	–19.1	8,609	1.0
a) personnel expenses	*(733,467)*	*(167,981)*	*(565,486)*	*(573,540)*	*(6,824)*	*(566,716)*	*(159,927)*	*–27.9*	*1,230*	*0.2*
b) other administrative expenses	*(303,775)*	*(50,230)*	*(253,545)*	*(297,477)*	*(36,553)*	*(260,924)*	*(6,298)*	*–2.1*	*7,379*	*2.8*
Net adjustments to property and equipment and intangible assets	(148,086)	(75,625)	(72,461)	(66,648)	–	(66,648)	(81,438)	–122.2	(5,813)	–8.7
Operating expenses	**(1,185,328)**	**(293,836)**	**(891,492)**	**(937,665)**	**(43,377)**	**(894,288)**	**(247,663)**	**–26.4**	**2,796**	**0.3**
Operating profit	**307,314**	**(328,505)**	**635,819**	**597,297**	**(4,088)**	**601,385**	**(289,983)**	**–48.5**	**34,434**	**5.7**
Net adjustments for impairment of loans and other activities	(411,691)	–	(411,691)	(325,525)	–	(325,525)	(86,166)	–26.5	(86,166)	–26.5
Net provisions for risks and charges	(31,545)	(10,000)	(21,545)	8,813	21,849	(13,036)	(40,358)	n.a.	(8,509)	–65.3
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	146,944	147,030	(86)	14,532	14,526	6	132,412	n.s.	(92)	n.a.
Income (loss) before tax from continuing operations	**11,022**	**(191,475)**	**202,497**	**295,117**	**32,287**	**262,830**	**(284,095)**	**–96.3**	**(60,333)**	**–23.0**
Taxes on income from continuing operations	54,700	96,879	(42,179)	(54,000)	14,526	(68,526)	108,700	n.a.	26,347	38.4
Net income (loss) for the period	**65,722**	**(94,596)**	**160,318**	**241,117**	**46,813**	**194,304**	**(175,395)**	**–72.7**	**(33,986)**	**–17.5**

Banca Popolare di Milano – Reclassified income statement excluding non-recurring items – Details

	Year 2016	Year 2015
Analysis of non-recurring items:	**(94,596)**	**46,813**
Other income:	**(34,669)**	**39,289**
Adjustment to interest in Atlante Fund	*(40,145)*	*–*
Write off subordinated security BPEL	*–*	*(24,960)*
Profit on the sale of ICBPI	*7,373*	*75,415*
Value adjustments for the IDPF Voluntary Scheme intervention	*(1,897)*	*–*
Repurchase of bonds	*–*	*(11,504)*
Profit on the sale of Edipower	*–*	*338*
Income taxes (a)	***11,145***	***6,940***
Operating income, net of income taxes	***(23,524)***	***46,229***
Administrative expenses:	**(218,211)**	**(43,377)**
a) Personnel expenses:		
Solidarity Fund charge 2012	*(2,981)*	*(6,824)*
Solidarity Fund charge 2016	*(165,000)*	*–*
b) Other administrative expenses:		
Transformation and merger expenses	*(23,904)*	*–*
Extraordinary expenses: resolution fund	*(26,326)*	*(36,553)*
Imposte sul reddito (a)	***62,526***	***13,761***
Operating expenses, net of income taxes	***(155,685)***	***(29,616)***
Net adjustments to property and equipment and intangible assets	**(75,625)**	**–**
Write-down of software	(75,625)	–
Income taxes (b)	22,692	–
Net adjustments to property and equipment and intangible assets, net of income taxes	**(52,933)**	**–**
Net provisions for risks and charges:	**(10,000)**	**21,849**
Adjustment to provision for convertible loan	*–*	*17,377*
Provisions for integration expenses	*(10,000)*	*–*
Provisions for contractual commitments relating to the sale of the custodian bank	*–*	*4,472*
Income taxes (c)	***2,750***	***(6,008)***
Net provisions for risks and charges, net of income taxes	***(7,250)***	***15,841***
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets:	**147,030**	**14,526**
Price adjustment custodian bank	*1,478*	*–*
Write down of investment in BPM Luxembourg	*–*	*(689)*
Write down of investment in Wise SGR	*–*	*(695)*
Profit on disposal of investment in Anima Holding	*10,964*	*–*
Gain on disposal of investment in Pitagora	*–*	*2,075*
Profit on disposal of investment in Aedes Bipiemme Real Estate SGR	*395*	*542*
Profit on disposal of investment in Etica SGR	*1,170*	*–*
Profit on liquidation of investment in BPM Luxembourg	*340*	
Write-up of investment in ProFamily	*12,271*	*4,821*
Write-up of investment in Selma Bipiemme	*–*	*6,944*
Write-up of investment in BP Mantova	*–*	*1,528*
Remeasurement to fair value of investment in Anima Holding	*120,412*	*–*
Income taxes (e)	***(2,234)***	***(167)***
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets, net of income taxes	***144,796***	***14,359***
Taxes on income from continuing operations:	**96,879**	**14,526**
Income taxes (a + b + c)	*96,879*	*14,526*

Report on Operations of Bipiemme

The macroeconomic scenario and the banking system

The macroeconomic scenario and the developments in the banking system are reported in the "The macroeconomic scenario and the banking system" section of the consolidated report on operations.

Significant events for Banca Popolare di Milano

Significant events relating to Banca Popolare di Milano for 2016 are reported in the "Significant events for Banca Popolare di Milano and the Bipiemme Group" section of the consolidated report on operations.

The distribution network and human resources

The distribution network

As of 31 December 2016, the Banca Popolare di Milano's distribution network totalled 656 points of sale, a decrease of 2 units compared with 2015, and comprised:

- 635 branches, including 105 head branches (i.e. hubs);
- 9 Corporate Centres;
- 12 Private Banking Centres.

A total of 2 branch locations closed in 2016: one at the company Bayer and one at Rho Fiera.

The distribution network of Banca Popolare di Milano as of 31 December 2016

Distribution network	31.12.2016		31.12.2015	Change
	A	%	B	A/A
Lombardia	**390**	**61%**	**392**	**–2**
– Province of Milan	220	35%	222	–2
– Other provinces in Lombardia	170	27%	170	0
Other regions	**245**	**39%**	**245**	**0**
– Emilia Romagna	28	4%	28	0
– Lazio	65	10%	65	0
– Puglia	36	6%	36	0
– Piemonte	87	14%	87	0
– Other regions[1]	29	5%	29	0
Total branches in Italy	**635**	**100%**	**637**	**–2**
Corporate Banking Centres	9		9	0
Private Banking Centres[2]	12		12	0
Total distribution network	**656**		**658**	**–2**

(1) Other regions comprise the following branches: 11 (Liguria), 7 (Veneto), 5 (Toscana), 2 (Campania), 1 (Marche), 1 (Molise), 1 (Abruzzo) and 1 (F.V.Giulia).
(2) The Private Banking Centres belonging to Banca Popolare di Milano provide customised advisory services on financial matters.

Other distribution channels

The branch network, with its strong local roots, is being increasingly enhanced with services offered by remote channels such as internet banking, the call centre and a network of financial advisors.

As regards the network of financial advisors, which is complementary to the traditional network, its main task being to place asset management and asset administration products, there were 44 sole agents as at 31 December 2016 (vs. 37 in 2015).

The significant results in **internet banking**, in terms of distribution and utilisation of services by customers, have continued. As at 31 December 2016, BPM had a total of 776,978 customers using internet banking services, of which about 667,873 were individual customers and 109,105 companies. The number of customers that use the online channel rose by 5.1% on the end of December 2015, reflecting an increase of about 35,627 individual customers and 1,733 companies.

Lastly, the multilingual **call centre** service offered by BPM had over 633 thousand customers as at 31 December 2016 (vs. 596 thousand in 2015).

Personnel

Banca Popolare di Milano **personnel**, including employees, project workers and staff on other types of contracts, amounted to 7,195 units as at 31 December 2016, a decrease of 62 units compared with the end of 2015.

Within this aggregate, people employed in commercial network functions represent 69.6% of the total. Of the total number of employees, 15% has a part-time contract and 49% are female.

Personnel (number at year end)	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
a) managers	116	114	2	1.8	116	0	0.0
b) total officials	2,622	2,592	30	1.2	2,606	16	0.6
– of which: 3rd and 4th level	*1,305*	*1,298*	*7*	*0.5*	*1,300*	*5*	*0.4*
c) other employees	4,475	4,524	–49	–1.1	4,542	–67	–1.5
d) employees seconded to other companies	(28)	(28)	–		(18)	(10)	–55.6
Total employees	**7,185**	**7,202**	**–17**	**–0.2**	**7,246**	**–61**	**–0.8**
Employees seconded from other Group companies	10	10	0	0.0	11	–1	–9,1
Staff with project-related and other types of contract	–	–	–	n.a.	–	0	n.a.
Total personnel	**7,195**	**7,212**	**–17**	**–0.2**	**7,257**	**–62**	**–0.9**

Principal balance sheet aggregates

Banking intermediation for customers

Direct and indirect deposits from customers of BPM came to 66,025 million euro at 31 December 2016, down from the end of December 2015 (–2.9%), but stable compared with 30 September 2016 (+98 million euro; +0.1%).

Total customer deposits

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
Direct deposits	35,122,372	35,314,529	–192,157	–0.5	36,183,785	–1,061,413	–2.9
Indirect deposits	30,902,811	30,612,434	290,377	0.9	31,837,844	–935,033	–2.9
of which:							
Assets under management	*21,279,567*	*20,787,840*	*491,727*	*2.4*	*19,917,104*	*1,362,463*	*6.8*
Assets under administration	*9,623,244*	*9,824,594*	*–201,350*	*–2.0*	*11,920,740*	*–2,297,496*	*–19.3*
Total direct and indirect deposits	**66,025,183**	**65,926,963**	**98,220**	**0.1**	**68,021,629**	**–1,996,446**	**–2.9**

Direct deposits

Total "**direct deposits**" – consisting of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss – came to 35,122 million euro at 31 December 2016, down on both the end of 2015 (–1,061 million euro; –2.9%) and the end of September 2016 (–192 million euro; –0.5%).

Breakdown of direct deposits

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
Current and savings accounts	25,653,927	25,316,921	337,006	1.3	23,461,082	2,192,845	9.3
Repurchase agreements	3,554,819	2,805,620	749,199	26.7	4,109,999	–555,180	–13.5
Other types of loans	178,635	203,154	–24,519	–12.1	236,665	–58,030	–24.5
Total due to customers	**29,387,380**	**28,325,695**	**1,061,685**	**3.7**	**27,807,746**	**1,579,634**	**5.7**
Bonds and structured securities	4,056,150	5,010,772	–954,622	–19.1	5,951,334	–1,895,185	–31.8
Subordinated liabilities	1,452,514	1,441,283	11,231	0.8	1,469,126	–16,611	–1.1
Repos on own securities repurchased	1,754	301,754	–300,000	–99.4	676,199	–674,445	–99.7
Other types of loans	104,442	114,906	–10,464	–9.1	137,179	–32,737	–23.9
Total securities issued	**5,614,860**	**6,868,715**	**–1,253,855**	**–18.3**	**8,233,838**	**–2,618,978**	**–31.8**
financial liabilities designated at fair value through profit and loss	**120,132**	**120,119**	**13**	**0.0**	**142,201**	**–22,069**	**–15.5**
Total direct deposits	**35,122,372**	**35,314,529**	**–192,157**	**–0.5**	**36,183,785**	**–1,061,413**	**–2.9**

Comparing the aggregate figures with the end of 2015 figures, the following changes have taken place:

- **amounts due to customers** reached 29,387 million euro for an increase of 1,580 million euro (+5.7%) mainly due to the following factors:
  - growth in current and savings accounts (+2,193 million euro; +9.3%), including on-demand current accounts which have risen by 2,485 million euro (+11.7%) from the end of 2015. This growth is entirely due to customers in the corporate and retail segments. Restricted accounts were down 292 million euro (–13.6%);
  - a decline in repurchase agreements (-555 million euro; –13.5%) due to fewer transactions on the "MTS Repo" market through Cassa di Compensazione e Garanzia in its role as central counterparty;

- **securities issued**, in the amount of 5,615 million euro, recorded a decrease of 2,619 million euro compared with the end of 2015 (–31.8%). This change was mainly due to the contraction of the aggregate "Bonds and structured securities" (–1,895 million euro; –31.8%) as a result of the following transactions:
  - the redemption of an EMTN in the amount of roughly 1 billion at the end of January 2016;
  - the redemption of a Covered Bond in the amount of some 1 billion euro in October 2016;
  - various decisions by holders of retail bonds (approx. –730 million euro) who preferred to shift their investments towards asset management products in particular;
  - the issue of a covered bond in the amount of 750 million euro during June 2016.
- **financial liabilities designated at fair value through profit and loss**, represented by structured bonds placed with retail customers, amounted to 120 million euro and were down compared with the end of 2015 (–22 million euro; –15.5%).

Compared with 30 September 2016, it's worth noting:

- amounts due to customers increased (+1,062 million euro; +3.7%) mainly due to the performance of repurchase agreements (+749 million euro; +26.7%) and current and savings accounts (+337 million euro; +1.3%);
- securities issued decreased 18.3% (–1,254 million euro) mainly due to the decrease in the aggregate bonds and structured securities because of the aforementioned 1 billion covered bond issued in October 2016;
- financial liabilities designated at fair value through profit and loss were stable.

The domestic market share of funding held by Banca Popolare di Milano (excluding repurchase agreements with central counterparties) was 1.65% (November 2016 figure), slightly lower than the December 2015 figure (1.66%).

Indirect deposits and assets under management

The volume of **indirect deposits from ordinary customers**, at market value, was 30,903 million euro as at 31 December 2016, down 2.9% compared with the end of December 2015, and slightly up compared with the end of September 2016 (+0.9%).

Composition of indirect customer deposits at market value

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
Funds	13,654,946	13,214,168	440,778	3.3	12,553,364	1,101,582	8.8
Individual portfolio management [1]	1,292,419	1,318,280	–25,861	–2.0	1,387,463	–95,044	–6.9
Insurance-sector reserves	6,332,202	6,255,392	76,810	1.2	5,976,276	355,926	6.0
Total assets under management	**21,279,567**	**20,787,840**	**491,727**	**2.4**	**19,917,103**	**1,362,464**	**6.8**
Assets under administration	9,623,244	9,824,594	–201,350	–2.0	11,920,740	–2,297,496	–19.3
Total indirect deposits from ordinary customers	**30,902,811**	**30,612,434**	**290,377**	**0.9**	**31,837,843**	**–935,032**	**–2.9**

(1) Includes: securities-based portfolio management schemes, fund-based portfolio management schemes and cash accounts

In detail, within this aggregate, **assets under management**, in the amount of 21,280 million euro, increased compared with the end of 2015 (+6.8%) and the end of September 2016 (+2.4%). This performance benefitted from positive net funding in the amount of 1,054 million euro for the year, of which 757 million euro in mutual funds/individual portfolio management and 297 million euro in insurance products.

In detail: the funds segment – in the amount of 13,655 million euro – increased 1,102 million euro (+8.8%) compared with the end of 2015 and 441 million euro (+3.3%) compared with the end of September 2015.

Improvements were also seen in insurance reserves, which came to 6,332 million euro, an increase compared with both December 2015 (+6%) and 30 September 2016 (+1.2%). Individual portfolio management was down compared with the end of 2015 (–95 million euro; –6.9%) and the end of September 2016 (–26 million euro; –2%).

Assets under administration came to 9,623 million euro as of 31 December 2016, down on both December 2015 (–19.3%) and September 2016 (–2%), reflecting the ongoing tendency to switch into asset management.

Loans to customers

Loans to customers amounted to 34,230 million euro as at 31 December 2016, an improvement compared with the figure at the end of December 2015 (+2.3%) and the figure at the end of September 2016 (+1.2%). Compared with the aggregate at the end of 2015, it's worth noting the increase in mortgage loans, up 423 million euro (+2.6%) and in particular other loans, which increased by 751 million euro (+7.6%). The comparison with the segment as at September 2016 shows the same trend, where the main contributors to growth were mortgage loans (+45 million euro; +0.3%) and other loans (+485 million euro; +4.8%).

In this regard, it should be noted that there was a slight increase in the number of new mortgages and loans granted during 2016 compared with 2015. Specifically, mortgage loan granted increased with respect to last year by 6.8%, reflecting a positive trend especially for the corporate segment (+7%). Mortgage loans decreased by 5.4%.

Breakdown of loans to customers

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
Mortgage loans	**16,602,225**	**16,556,924**	**45,301**	**0.3**	**16,179,055**	**423,170**	**2.6**
Other types of loans	**17,604,733**	**17,257,139**	**347,594**	**2.0**	**17,274,236**	**330,497**	**1.9**
Current Accounts	2,673,381	2,838,962	–165,581	–5.8	2,995,097	–321,716	–10.7
Repurchase agreements	4,747	6,533	–1,786	–27.3	7,049	–2,302	–32.7
Credit cards, personal loans and salary assignments	479,855	475,401	4,454	0.9	563,205	–83,350	–14.8
Finance leases	174,980	166,971	8,009	4.8	196,463	–21,483	–10.9
Other loans	10,687,396	10,202,495	484,901	4.8	9,936,802	750,594	7.6
Non-performing exposures	3,584,374	3,566,777	17,597	0.5	3,575,620	8,754	0.2
Total loans to customers	**34,206,958**	**33,814,063**	**392,895**	**1.2**	**33,453,291**	**753,667**	**2.3**
Debt securities	23,501	23,277	224	1.0	21,026	2,475	11.8
Total loans to customers	**34,230,459**	**33,837,340**	**393,119**	**1.2**	**33,474,317**	**756,142**	**2.3**

Asset quality

According to ABI figures, updated in November 2016, gross bad loans in the system declined 0.97% compared with December 2015, settling at 199 billion euro. The ratio of gross bad loans to total lending came to 10.5%, confirming the figure of the previous quarter, the highest over the past twenty years (it was 9.9% in December 1996). The ratio of net bad loans to total loans was 4.8%, a decline compared with December 2015 (4.91%).

With regard to BPM, gross non-performing exposure came to 6,151 million euro at 31 December 2016, an increase compared with December 2015 (+258 million euro; +4.4%) and show an increase in the ratio of total lending which grew from 16.4% in December 2015 to 16.7% in December 2016. The ratio of gross bad loans was slightly lower than that of the industry (9.3% versus 10.5% for the industry). The trend in non-performing exposures still largely reflects the real estate market, although there are signs of improvement. The flow of new non-performing exposures does show a slowing trend compared with the 2015 figure.

In detail, the following trends have emerged:

- **bad loans** increased in the year by 6.9%, reaching 3,424 million euro. The flow of new bad loans is mainly attributable to the impairment of loans by companies operating in the real estate sector. The ratio of gross non-performing loans to total loans came to 9.3%, compared with 8.9% at the end of 2015 and 9.2% in September 2016;
- **unlikely to pay loans** increased 4.1% year-on-year and reached 2,698 million euro. The ratio of unlikely to pay loans to total loans was 7.3%, essentially in line with the figure at the end of 2015 (7.2%);
- **past due positions**, in the amount of 28 million euro, experienced a sharp decline of 70.4% compared with the end of 2015 figure (–68 million euro), concentrated mainly in the fourth quarter of 2016 (–68.4%). Past due positions represent 0.1% of the Group's total loans, a decrease compared with the end of 2015 figure (0.3%).

Coverage of non-performing exposures came to 41.7% compared with 39.3% at December 2015, mainly attributable to a general increase in coverage of loans in the different statuses. In detail:

- the level of coverage of bad loans came to 54.4%, an increase with respect to the December 2015 figure (54.2%). The new flow of bad loans is still mainly due to the real estate segment and therefore largely characterised by loans backed by real guarantees. The level of coverage increases to 60% if no account is taken of write-offs of individual positions made in the past;
- coverage of "unlikely to pay " loans came to 25.9%, up on the December 2015 figure (22%);
- coverage of past-due positions came to 8.6%, an increase compared to the 8.3% recorded for December 2015.

Performing loans increased by 2.4% compared with the December 2015 figure, thereby confirming the positive trend already seen in the previous quarter. The manufacturing and services sectors were the main drivers of growth in loans. The coverage ratio for performing loans came to 0.42%, compared to 0.54% in December 2015. This change is attributable to the loan portfolio remix at the end of the year: the reclassification of high-risk positions to deteriorated status was completely offset by the development of loans to customers with a low risk profile.

Asset quality

(euro/000)

Gross exposure	31.12.2016		30.09.2016		31.12.2015		Changes	(A – B)	Changes	(A – C)
	A	%	B	%	C	%	Amount	%	Amount	%
of which: Non-performing exposures	6,150,691	16.7	5,984,989	16.4	5,892,484	16.4	165,702	2.8	258,207	4.4
a) Bad loans	3,424,091	9.3	3,362,586	9.2	3,204,517	8.9	61,505	1.8	219,574	6.9
b) Unlikely to pay	2,698,166	7.3	2,532,390	7.0	2,592,019	7.2	165,776	6.5	106,147	4.1
c) Past due	28,434	0.1	90,013	0.25	95,948	0.3	–61,579	–68.4	–67,514	–70.4
of which: Performing loans	30,776,714	83.3	30,414,257	83.6	30,061,648	83.6	362,457	1.2	715,066	2.4
Total gross loans to customers	**36,927,405**	**100.0**	**36,399,246**	**100.0**	**35,954,132**	**100.0**	**528,159**	**1.5**	**973,273**	**2.7**

Total adjustments	31.12.2016		30.09.2016		31.12.2015		Changes	(A – B)	Changes	(A – C)
	A	Coverage %	B	Coverage %	C	Coverage %	Amount	% Difference in coverage	Amount	% Difference in coverage
of which: Non-performing exposures	2,566,317	41.7	2,418,212	40.4	2,316,865	39.3	148,105	1.3	249,452	2.4
a) Bad loans	1,864,370	54.4	1,808,117	53.8	1,737,447	54.2	56,253	0.7	126,923	0.2
b) Unlikely to pay	699,507	25.9	602,521	23.8	571,437	22.0	96,986	2.1	128,070	3.9
c) Past due	2,440	8.6	7,574	8.4	7,981	8.3	–5,134	0.2	–5,541	0.3
of which: Performing loans	130,629	0.42	143,694	0.5	162,950	0.54	–13,065	0.0	–32,321	–0.1
Total adjustments	**2,696,946**	**7.3**	**2,561,906**	**7.0**	**2,479,815**	**6.9**	**135,040**	**0.3**	**217,131**	**0.4**

Net loans to customers	31.12.2016		30.09.2016		31.12.2015		Changes	(A – B)	Changes	(A – C)
	A	%	B	%	C	%	Amount	%	Amount	%
of which: Non-performing exposures	3,584,374	10.5	3,566,777	10.5	3,575,619	10.7	17,597	0.5	8,755	0.2
a) Bad loans	1,559,721	4.6	1,554,469	4.6	1,467,070	4.4	5,252	0.3	92,651	6.3
b) Unlikely to pay	1,998,659	5.8	1,929,869	5.7	2,020,582	6.0	68,790	3.6	–21,923	–1.1
c) Past due	25,994	0.1	82,439	0.2	87,967	0.3	–56,445	–68.5	–61,973	–70.5
of which: Performing loans	30,646,085	89.53	30,270,563	89.5	29,898,698	89.3	375,522	1.2	747,387	2.5
Total net loans to customers	**34,230,459**	**100.0**	**33,837,340**	**100.0**	**33,474,317**	**100.0**	**393,119**	**1.2**	**756,142**	**2.3**

Net interbank position

The net interbank position at 31 December 2016 reflects net borrowing of 5,746 million euro, a decrease compared to both the negative balance of 3,563 million euro at December 2015 (–61.3%) and the negative balance of 4,111 million euro in September 2016 (–39.8%).

The increase in amounts due to banks with respect to the end of 2015 (2,397 million euro) and September 2016 (1,513 million euro) is mainly due to the increase in the net position with ECB represented by TLROs (targeted longer term refinancing operations). Please note that in June, BPM repaid TLTROs borrowed through auctions in 2014 and 2015 for a total of 3,350 million euro and obtained 3 billion euro through the TLTRO II at the end of June, while at the subsequent auctions it took up 0.5 billion euro in September and 2.8 billion euro at the end of December.

Net interbank position

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
Due from banks	1,480,702	1,602,678	–121,976	–7.6	1,266,267	214,435	16.9
Due to banks	7,226,844	5,713,653	1,513,191	26.5	4,829,578	2,397,266	49.6
Net interbank position	**–5,746,142**	**–4,110,975**	**–1,635,167**	**–39.8**	**–3,563,311**	**–2,182,831**	**–61.3**

Financial assets

The financial assets of BPM, net of financial liabilities, totalled 9,456 million euro, up on both the December 2015 figure (+318 million euro; +3.5%) and the September 2016 figure (+683 million euro; +7.8%).

This change is mainly due to the increase in "Financial assets available for sale" of 495 million euro for the purchase of securities.

Financial assets/liabilities: breakdown

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
Financial assets held for trading	154,960	309,306	–154,346	–49.9	281,311	–126,351	–44.9
Financial assets designated at fair value through profit and loss	19,240	23,974	–4,734	–19.7	75,543	–56,303	–74.5
Financial assets available for sale	9,462,503	8,711,244	751,259	8.6	8,967,523	494,980	5.5
Hedging derivatives receivable	16,070	20,961	–4,891	–23.3	10,058	6,012	59.8
Fair value change of financial assets in hedged portfolios (+/–)	10,514	12,060	–1,546	–12.8	11,237	–723	–6.4
Total financial assets	**9,663,287**	**9,077,545**	**585,742**	**6.5**	**9,345,672**	**317,615**	**3.4**
Financial liabilities held for trading	154,611	223,078	–68,467	–30.7	150,579	4,032	2.7
Hedging derivatives payable	32,894	54,995	–22,101	–40.2	39,011	–6,117	–15.7
Fair value change of financial assets in hedged portfolios (+/–)	19,941	26,597	–6,656	–25.0	18,086	1,855	10.3

Total net financial assets	**9,455,841**	**8,772,875**	**682,966**	**7.8**	**9,137,996**	**317,845**	**3.5**

Fixed assets

Total **fixed assets**, including **investments in subsidiaries, associates and companies subject to joint control and property and equipment and intangible assets**, came to 1,105 million euro, a decrease compared with the end of 2015 (–146 million euro; –11.7%) and 30 September 2015 (–166 million euro; –13.1%).

Specifically, **investments in subsidiaries, associates and companies subject to joint control** amounted to 352 million euro, a decrease compared with the end of 2015 (–88 million euro; –20.1%) resulting from the sale of a portion of the equity interest in Anima Holding (reducing the stake from 16.85% to 14.67%), a 5% interest in Etica SGR (from 24.44% to 19.44%) and the reclassification of the equity interest in Anima Holding in the AFS portfolio following the withdrawal from the shareholders' agreement with Poste Italiane in October 2016.

Property and equipment, in the amount of 681 million euro, was essentially in line with the December 2015 and September 2016 figures.

Intangible assets (consisting mainly of software) totalled 71 million euro, a decrease compared with December 2015 (–56 million euro; –44%) and the end of September 2016 (–71 million euro; –49.8%) as a consequence of the write-down of software, generating an impact on the income statement of some 76 million euro.

Fixed assets: breakdown

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
Investments in subsidiaries, associates and companies subject to joint control	352,360	449,251	–96,891	–21.6	440,808	–88,448	–20.1
Property and equipment	681,404	680,277	1,127	0.2	682,866	–1,462	–0.2
Intangible assets	71,315	141,991	–70,676	–49.8	127,343	–56,028	–44.0
Total fixed assets	**1,105,079**	**1,271,519**	**–166,440**	**–13.1**	**1,251,017**	**–145,939**	**–11.7**

Provisions for specific use

At 31 December 2016, provisions for specific use came to 552 million euro and consisted of the provision for risks and charges in the amount of 427 million euro and employee termination indemnities in the amount of 125 million euro.

Shareholders' equity and capital adequacy

BPM's **shareholders' equity**, including earnings for the period of 66 million euro, amounted to 4,187 million euro at 31 December 2016, a decrease compared with the end of 2015 (–268 million euro; –6%). This aggregate includes the contraction of the valuation reserves with respect to the end of 2015 (–201 million euro; –96%) and with respect to the end of September 2016 (–96 million euro; -91.9%) which is mainly due to the reduction of the valuation reserves on assets available for sale. This shift compared to 2015 was mainly caused by the contraction in the reserves for Italian debt securities.

Shareholders' equity: breakdown

(euro/000)

	31.12.2016	30.09.2016	Change A – B		31.12.2015	Change A – C	
	A	B	amount	%	C	amount	%
1. Share capital	3,365,439	3,365,439	0	0.0	3,365,439	0	0.0
2. Share premium reserve	0	0	0	n.a.	445	–445	n.s.
3. Reserves	747,736	747,088	648	0.1	640,052	107,684	16.8
4. (Treasury shares)	–621	–758	137	18.1	–1,416	795	56.1
5. Valuation reserves	8,459	104,884	–96,425	–91.9	209,069	–200,610	–96.0
6. Equity instruments	0	0	0	n.a.	0	0	n.a.
7. Net income (loss) for the year	65,722	73,696	–7,974	–10.8	241,117	–175,395	–72.7
Total	**4,186,735**	**4,290,349**	**–103,614**	**–2.4**	**4,454,707**	**–267,972**	**–6.0**

Own funds and capital ratios

As at 31 December 2016, the Common Equity Tier 1 Ratio was 11.89%; the Tier 1 Capital Ratio was 12.20% and the Total Capital Ratio 13.88%. The CET 1 ratio at the end of December 2016 was slightly down from September 2016 (11.98%) and December 2015 (11.91%).

Furthermore, the capital ratios do not currently benefit from any effects resulting from the adoption of the AIRB internal models, which are in the process of being validated.

Income statement

2016 closed with a **net income** of 65.7 million euro, against the 241.1 million euro recorded at the end of 2015.

Excluding the non-recurring items in the amount of 94.6 million euro in 2016 (which included an amount of 165 million euro for the Solidarity Fund), the "normalized" profit, net of tax, was 160.3 million euro.

Operating income – when compared to the previous year – was lower (–42.3 million euro; –2.8%), mainly due to the reduction in interest margin (–18.5 million euro; –2.5%) and the net fee and commission income (–14.6 million euro; –2.5%). Other income decreased by 9.2 million euro (–4.3%).

Operating expenses increased by 247.7 million euro (+26.4%) and include the non-recurring item for the Solidarity Fund. Excluding the non-recurring items (Solidarity Fund, extraordinary contributions to the SRF and merger costs) were basically the same as 2015.

Operating income

Operating income, in the amount of 1,492.6 million euro for 2016, decreased by 42.3 million euro (–2.8%) compared with the same period in 2015. This aggregate included the following changes with respect to 2015:

- a decrease in **interest margin** (–18.5 million euro; –2.5%);
- a decrease of 14.6 million euro (–2.5%) in **net fee and commission income**;
- a decrease of 4.8 million euro (–3.2%) in **net income from banking activities**.

Interest margin

The **interest margin** came to 722.7 million euro, a decrease of 18.5 million euro (–2.5%) compared with 2015. This figure mainly reflects the lower profitability of the securities portfolio (down 40.3 million euro), not offset by the lower interest expense on institutional funding (10.7 million euro).

Interest margin

(euro/000)

	Year 2016	Year 2015	Change	
			amount	%
Interest and similar income	942,926	1,076,716	(133,790)	–12.4
Interest and similar charges	(220,258)	(335,519)	(115,261)	–34.4
Total interest margin	**722,668**	**741,197**	**(18,529)**	**–2.5**

Non-interest margin

The **non-interest margin**, in the amount of 770 million euro at the end of 2015 was down 23.8 million euro (-3%) compared to the previous year. This was due to the reduction in net fee and commission income (–14.6 million euro; –2.5%) and in other income (–9.2 million euro; –4.3%). The income on banking activities decreased by 4.8 million euro; please note that this aggregate without the one-off components increased 69.2 million euro (+61.7%) compared to 2015.

Non-interest margin

(euro/000)

	Year 2016	Year 2015	Change	
			amount	%
Net fee and commission	**565,158**	**579,728**	**(14,570)**	**–2.5**
Other income:	**204,816**	**214,037**	**(9,221)**	**–4.3**
Dividends from equity investments	24,974	24,298	676	2.8
Net income from banking activities	146,653	151,439	(4,786)	–3.2
Other operating expenses/income	33,189	38,300	(5,111)	–13.3
Non-interest margin	**769,974**	**793,765**	**(23,791)**	**–3.0**

Net fee and commission

Net fee and commission

(euro/000)

	Year 2016	Year 2015	Change	
			amount	%
Fee and commission income	**620,588**	**635,083**	**(14,495)**	**–2.3**
Fee and commission expense	**(55,430)**	**(55,355)**	**(75)**	**–0.1**
Total net fee and commission income	**565,158**	**579,728**	**(14,570)**	**–2.5**
Breakdown:				
guarantees given and received	34,022	32,539	1,483	4.6
credit derivatives	–	–	–	0.0
management, dealing and advisory services	273,606	284,697	(11,091)	–3.9
collection and payment services	65,624	71,398	(5,774)	–8.1
servicing for securitisation transactions	2,790	2,208	582	26.4
management of current accounts	53,691	57,808	(4,117)	–7.1
other services	135,425	131,078	4,347	3.3
Total net fee and commission income	**565,158**	**579,728**	**–14,570**	**–2.5**

Net fee and commission income amounted to 565.2 million euro at December 2016, down 14.6 million euro (–2.5%) compared with the previous year. In particular, this aggregate was affected by the decrease in the following items:

- commission income from management, dealing and advisory services (–11.1 million euro; –3.9%) followed by lower BPM fee and commission income for both assets under administration and assets under management;
- commission income from collection and payment services (–5.8 million euro; –8.1%);
- commission income for keeping accounts (–4.1 million euro; –7.1%);
- commission fees for other services increased (+4.3 million euro; +3.3%).

Dividends from equity investments

Dividends from equity investments came to 25 million euro at 31 December 2016, virtually unchanged from 31 December 2015 (+676 thousand euro).

Net income from banking activities

Net income from banking activities came to 146.7 million euro at the end of December 2016, down 4.8 million euro (–3.2%) compared with 2015, mainly due to higher "net losses/recoveries on impairment: financial assets available for sale" (–27.5 million euro) offset only in part by the increase in the item "profits (losses) on trading" (+13.7 million euro) and the item "fair value adjustments in hedge accounting" (+8.9 million euro). Note that on a normalised basis net income from banking activities increased 69.2 million euro (+61.7%); the extraordinary items in 2016 included a 40.1 million euro write-down on the stake held in the Atlante fund.

Net income from banking activities

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Dividends	7,204	8,762	(1,558)	–17.8
Profits (losses) on trading	38,399	24,738	13,661	55.2
Fair value adjustments in hedge accounting	2,598	(6,328)	8,926	n.a.
Profits/losses on disposal or repurchase of financial assets/ liabilities	177,663	173,125	4,538	2.6
Profits (losses) on financial assets/liabilities designated at fair value	(9,152)	(6,340)	(2,812)	–44.4
Net losses/recoveries on impairment: financial assets available for sale	(70,059)	(42,518)	(27,541)	–64.8
Total net income from banking activities	**146,653**	**151,439**	**(4,786)**	**–3.2**

In detail:

- **dividends** from companies classified as financial assets available for sale and trading amounted to 7.2 million euro, a decrease of 1.6 million euro compared with December 2015;
- **profits (losses) on trading** increased by 13.7 million euro and came to 38.4 million euro thanks to the capital gains accrued on the transactions in derivatives on debt securities, interest rates and currency;
- **fair value adjustments in hedge accounting** showed a positive balance of 2.6 million euro at December 2016, compared to the negative balance of 6.3 million euro posted the previous year. This amount includes the income booked to the income statement on the measurement of hedged assets and liabilities and the related derivative contracts;
- **profit on the disposal or repurchase of financial assets/liabilities** came to 177.7 million euro, an increase of 4.5 million euro compared with December 2015 as a result of higher income on government securities and for gains arising from the sale of equities and the effect of the "price adjustment" (7.4 million euro) for the disposal of the 4% stake held in ICBPI;
- **profits (losses) on financial assets and liabilities designated at fair value** show a negative balance of 9.2 million euro, down on the negative balance of 6.3 million euro at December 2015, as a result of the losses on debt securities;
- **net losses/recoveries on impairment relating to financial assets available for sale** show a loss in the amount of 70.1 million euro (–42,5 million euro in 2015) and include the write-down of 40,1 million euro on the stake held in the Atlante fund.

Other operating charges/income

Other operating charges and income came to 33.2 million euro at 31 December 2016, a decrease (–13.3%) from the previous year when it was 38.3 million euro due, in part, to a reduction in the recovery of costs on current and deposit accounts.

Operating expenses

As at 31 December 2016, the aggregate of **operating expenses** – comprising administrative expenses and net adjustments to property and equipment and intangible assets – amounted to 1.185 million euro, an increase compared with the previous year (+247.7 million euro; +26.4%), resulting from the increase in "personnel costs" which grew to 159.9 million euro during the year (+27.9%) mainly due to the costs related to the solidarity fund (165 million euro).

Operating expenses: breakdown

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
Administrative expenses:	(1,037,242)	(871,017)	(166,225)	–19.1
a) personnel expenses	(733,467)	(573,540)	(159,927)	–27.9
b) other administrative expenses	(303,775)	(297,477)	(6,298)	–2.1
Net adjustments to property and equipment and intangible assets	(148,086)	(66,648)	(81,438)	–122.2
Total	**(1,185,328)**	**(937,665)**	**(247,663)**	**–26.4**

In detail, **personnel expenses**, in the amount of 733.5 million euro, increased compared with December 2015 figure (+159.9 million euro; +27.9%), as it includes – under the extraordinary items – the costs for the Solidarity Fund (165 million euro) signed between the parties on 23 September 2016 which will provide access to the Solidarity Fund on a voluntary basis for a maximum of 585 Bipiemme Group employees who are due to accumulate pension rights by 31 December 2022.

Furthermore – based on the union agreement approved on 20 September 2016 – the expenses (7.2 million euro) were recognised for the new provision intended for the Bipiemme Pension Fund, which replaces the allocation to current employees of a variable amount calculated out of the gross profit, as per the Articles of Association.

Excluding the expenses for the 2016 solidarity fund and the adjustments relating to the previous solidarity fund, personnel costs decreased by about 1.2 million euro (–0.2%) compared to 2015.

Other administrative expenses: breakdown

(euro/000)

	Year 2016	Year 2015	Changes	
			amount	%
IT expenses	(64,708)	(59,477)	(5,231)	–8.8
Expenses for buildings and furniture	(42,378)	(44,250)	1,872	4.2
Property leases	(31,035)	(32,607)	1,572	4.8
Other expenses	(11,343)	(11,643)	300	2.6
Purchase of non-professional assets and services	(52,667)	(50,894)	(1,773)	–3.5
Purchases of professional services	(56,242)	(44,118)	(12,124)	–27.5
Insurance premiums	(3,745)	(3,279)	(466)	–14.2
Advertising expenses	(14,557)	(20,462)	5,905	28.9
Indirect taxes and duties	(96,287)	(100,382)	4,095	4.1
Other	(64,438)	(60,837)	(3,601)	–5.9
Total	**(395,022)**	**(383,699)**	**(11,323)**	**–3.0**
Reclassification of "tax recoveries"	82,753	86,222	(3,469)	–4.0
Reclassification of voluntary FITD contribution	8,494	–	8,494	n.a.
Total	**(303,775)**	**(297,477)**	**(6,298)**	**–2.1**

Other administrative expenses totalled 303.8 million euro (+6.3 million euro; +2.1% compared with December 2015) excluding indirect tax recoveries. Moreover, in 2016, the gain resulting from the repayment of contributions related to the initiative in favour of TERCAS from the interbank deposits guarantee fund in previous periods was moved from adjustments to deteriorated loans and other transactions and recognized as a reduction to other administrative expenses. In this way, this gain offsets, for the purposes of presenting reclassified figures, the other administrative expense incurred for the contribution made by the Volunteer Mechanism – as envisaged in the statutes of the FITD – in favour of TERCAS.

The increases in this aggregate are as follows:

- "Professional fees" and "Expenses for non-professional services" (+13.9 million euro), which include non-recurring expenses relating to the merger with Banco Popolare and the transformation into a S.p.A. (joint stock company);
- "IT expenses" (+5.2 million euro) mainly due to renewal fees and the purchase of licenses for some SW that were previously rented.

Conversely, the following components declined:

- "Advertising expenses" (–5.9 million euro) due to lower costs compared to 2015 for product campaigns and promotional activities;
- "Expenses for buildings and furniture" (–1.9 million euro) due to the renegotiation of property rents and the closing/relocation of branches.

The item "Other" includes the additional contribution to the Single Resolution Fund (SRF) which had an impact of 26.3 million euro compared to the extraordinary charge in 2015 in the amount of 36.5 million euro, plus the ordinary contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) amounting to 13.2 million euro (12.2 million euro in 2015) and 12.2 million (5.8 million euro in 2015) respectively.

Net adjustments to property and equipment and intangible assets totalled 148.1 million euro (+81.4 million euro; +122.2%) as it includes the 75.6 million euro impairment on software. Net of this amount, amortization and depreciation increased by about 6 million euro compared to 2015.

Net adjustments, provisions and other items

Net adjustments for impairment of loans and other activities increased by 26.5% compared with 2015, from 325.5 million euro in December 2015 to the current 411.7 million euro. This aggregate includes total loan adjustments in the amount of 596.5 million euro and write backs on loans in the amount of 191.2 million euro.

The cost of giving credit, which is the ratio of annualized net loan adjustments to total loans outstanding, increased from 97 bps at December 2015 to 120 bps at 31 December 2016 (+23 bps). For further analysis, reference should be made to the section in this report regarding Asset Quality.

Net adjustments for impairment of loans and other activities: breakdown

(euro/000)

Transactions/income elements	Adjustments			Write-backs			Year 2016	Year 2015	Changes	
	Specific	Portfolio	Total	Specifiche	Portfolio	Total			amount	%
Loans:	(583,332)	(13,208)	(596,540)	147,159	44,082	191,241	(405,299)	(315,514)	(89,785)	–28.5
Due from banks	–	(1,448)	(1,448)	–	–	–	(1,448)	(21)	(1,427)	n.s.
Loans to customers	(583,332)	(11,760)	(595,092)	147,159	44,082	191,241	(403,851)	(315,493)	(88,358)	–28.0
Profits/losses on disposal/repurchase of loans	**(14,850)**	**–**	**(14,850)**	**1,694**	**–**	**1,694**	**(13,156)**	**(24,907)**	**11,751**	**47.2**
Other financial activities	**(3,287)**	**(1,236)**	**(4,523)**	**10,377**	**911**	**11,288**	**6,765**	**14,896**	**(8,131)**	**–54.6**
Total	**(601,469)**	**(14,444)**	**(615,913)**	**159,230**	**44,993**	**204,223**	**(411,690)**	**(325,525)**	**(86,165)**	**–26.5**

Provisions for risks and charges show a negative net balance of 31.5 million euro against a positive result of 8.8 million euro at the end of December 2015; it includes a provision of about 10 million euro for merger costs and a provision of about 13 million euro for reimbursements to customers.

Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets

Profits (losses) from equity and other investments came to 147 million euro at 31 December 2016, compared to 14.5 million euro at the end of 2015; this amount included the write-backs on SelmaBipiemme Leasing (7 million euro) and on Profamily (5.7 million euro).

The figure for December 2016 included:

- income on the sale of a 2.18% interest in Anima Holding (11 million euro);
- income on the sale of 5% stake held in Etica SGR (1.2 million euro);
- the write-back on the investment in Profamily (12.3 million euro);
- the revaluation at fair value of the investment of Anima Holding in the amount of 120.4 million euro following it's reclassification from "Investments in subsidiaries, associates and companies subject to joint control" to the "Financial assets available for sale" portfolio.

Net income

Net income came to 65.7 million euro at 31 December 2016, down by about 175.4 million euro compared with the net income of 241.1 million euro recorded at the end of 2015. Please note that, net of the non-recurring items which had an impact on both years, the decrease in profit for 2016 compared with 2015 was about 34 million euro.

Statement of cash flows

The following statement of cash flows of BPM for 2016 shows cash absorption of 47 million euro, compared with cash absorption of 22 million euro in the previous year.

During 2016, **operating activities** generated total cash of 150 million euro and in particular:

- **operations** generated cash of 725 million euro, slightly down from 2015;
- **financial assets**, net of **financial liabilities**, absorbed cash of 575 million euro, as compared to absorbed cash of 616 million euro in 2015.

Investing activities absorbed cash of 79 million euro on the whole, compared to 64 million euro in 2015.

Financing activities absorbed cash of 118 million euro on the whole, compared to 97 million euro in 2015.

Banca Popolare di Milano – Statement of cash flows (indirect method)

(euro/000)

A. OPERATING ACTIVITIES	Year 2016	Year 2015
1. Cash flow from operations	725,041	755,591
2. Cash flow from/used in financial assets	(1,194,109)	(2,787,098)
3. Cash flow from/used in financial liabilities	619,489	2,171,472
Net cash flow from/used in operating activities	**150,421**	**139,964**
B. INVESTING ACTIVITIES		
1. Cash flow from	29,748	33,452
2. Cash flow used in	(109,509)	(97,940)
Net cash flow from/used in investing activities	**(79,761)**	**(64,488)**
C. FINANCING ACTIVITIES		
Net cash flow from/used in financing activities	**(117,742)**	**(97,151)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(47,082)**	**(21,674)**
RECONCILIATION		
Line items	**31.12.2016**	**31.12.2015**
Cash and cash equivalents at the beginning of the period	294,513	316,187
Net increase (decrease) in cash and cash equivalents	(47,082)	(21,674)
Cash and cash equivalents: foreign exchange effects	–	–
Cash and cash equivalents at the end of the period	**247,431**	**294,513**

Key: (+) from (-) used in

Banca Popolare di Milano shareholders, stock price and ratings

Shareholders

The share capital of BPM Scarl amounted to 3,365,439,319.02 euro at 31 December 2015, divided into 4,391,784,467 ordinary shares listed on Borsa Italiana's Screen-based Equities Market (MTA). The Bank held 1,524,259 treasury shares at 31 December 2016. These were cancelled, effective 1 January 2017, as a result of the finalisation of the merger between BPM Scarl and Banco Popolare – Società Cooperativa.

As at 31 December 2016, there were 47,199 registered members and a further 60,000 shareholders recorded in the Shareholders' Register (the latter figure is based on information available to the Bank). Therefore there were about 108,000 recorded shareholders as at 31 December 2016.

In accordance with article 120 of Legislative Decree no. 58/1998 (the Consolidated Finance Act, or "CFA"), as amended on 18 April 2016, those holding an interest that exceeds 3% of the share capital of a listed company – other than a SME – must notify the investee company and CONSOB.

In this regard, it should be noted that in accordance with the above regulation, based on the disclosures received, as at 31 December 2016, there are no shareholders holding more than 3% of the share capital with voting right.

Criteria used for admitting new Members (information pursuant to last paragraph of article 2528 of the Italian Civil Code)

The last paragraph of article 2528 of the Italian Civil Code requires "directors to illustrate the criteria for admitting new members in their report on operations".

Recalling that on 1 January 2017, the Bank and Banco Popolare Soc. Coop. merged to become Banco BPM Group, the information required for cooperative banks by the above regulation is provided below.

To that end, the Articles of Association of Banca Popolare di Milano, in force until 31 December 2016 – by virtue of the entry into force on 1 January of the Articles of Association of Banco BPM S.p.A. – contained the following provisions:

- Article 11: "The status of member is acquired through subscription to newly-issued shares, or through the purchase or inheritance of existing shares. Prospective members must in any case apply to the Management Board in writing, according to the methods and terms laid down by the Board. Resolutions to approve or reject applications for membership are taken by the Management Board following the guidelines laid down by the Supervisory Board. They have to be taken within sixty days of the application being submitted; they have to be motivated, bearing in mind the Bank's interests, the rules embodied in these articles and the spirit of the co-operative principle; they also have to be notified to the person concerned within ten days. If no decision is taken to approve or reject an application within sixty days of it being submitted, it is considered accepted". With respect to the reconsideration process, article 11 states that "The Management Board must reconsider an application for membership when requested to do so by the Arbitration Committee established under these articles, supplemented by a representative of the prospective member. A request for reconsideration must be submitted within thirty days of communication of the resolution for rejection. The Arbitration Committee must announce its findings within twenty days of receiving the request for reconsideration. Those whose applications for membership have been denied continue to exercise the rights relative to the shares held, subject to the provisions of article 21" (limits on share ownership);
- Article 16: "The Management Board may cancel membership in cases where the Member:
  - becomes disqualified, incapacitated or incurs a judgement that involves permanent or temporary disqualification from holding public office;
  - is made bankrupt or subject to some other process designed to protect the interests of creditors;

– is in serious default in relation to obligations under the law or these Articles of Association;

– is in breach of contractual obligations to the Bank.

Without prejudice to the provisions of article 2533 of the Italian Civil Code, the order cancelling membership may be submitted to the reconsideration of the Arbitration Committee within twenty days of receiving notification of the cancellation; the committee will receive representations from the member concerned, in person or by proxy, and from the Management Board, and will announce its findings within twenty days of receiving the complaint. Membership status is lost when the entire shareholding is disposed of, however this is found out by the Bank, which then has to communicate this circumstance to the person concerned".

The document entitled "Framework Resolution on rules for the admission of members and management of relationships with Members" – the latest version of which was approved by the Supervisory Board and the Management on 24 January 2012 – governed relations with Members and the means by which the qualification of Member could be acquired (the Framework Resolution, the Articles of Association, the Regulations for General Meetings, the instructions and the membership application form are available and may be consulted in the "Governance/Corporate Documents" section on the website www.gruppobpm.it).

In particular, the framework resolution:

- confirmed the setting up of a "Members' Relations Commission" which reviews applications for admission to membership, cases of exclusion from the Register of Members and waivers on the part of the Bank of its preference guarantee on BPM shares. The Commission was composed of the Chairman of the Supervisory Board and two members of the Management Board. The Members' Relations Commission held 11 meetings in 2016 and, in addition to exercising its powers regarding the review of applications for admission to membership, the exclusion of Members and waivers of the preference guarantee restriction on the Bank's shares (arts. 11, 16 and 20 of the Articles of Association), it also discussed issues affecting the Members as well as institutional initiatives for members (and shareholders);
- defined the requirements and procedures for the admission of new members, which depended on the prospective member's effective espousal of the Bank's aims, its objective interests and its co-operative spirit. This requirement was deemed to be satisfied if the application was submitted by a Shareholder with a minimum holding of two thousand (2000) shares and accompanied by a written undertaking to maintain this number of shares over time;
- included situations that do not permit admission to Membership, in particular, not only the same conditions as those indicated in the Articles of Association for the declaration of exclusion, but also where natural or legal persons, acting as "third parties", holding assets in the interest of other parties refuse or unable to disclose the name of the real shareholder or, lastly, the case of various types of entities where the relevant regulation is unable to ensure compliance with rules on transparency equivalent to those imposed by Italian law;
- defined the attachments and the declarations needed for the Members' Commissions and the Management Board to assess applications;
- established the conditions for cancelling a member (and the related procedures), providing for – in addition to the cases envisaged under the Articles of Association- revocation in case a member failed to retain the number of shares required at the time of submitting the application (100 shares for admission from 12 February 2002 to 24 February 2012 and 2,000 shares from 24 February 2012) or, in any case, the observation on the part of the Bank that the person no longer owns any shares;
- outlined the criteria for maintaining the company's register and the methods for consultation and the release of extracts in paper or digital format of the shareholders' register;
- provided consultation and, where necessary, the release of extracts of the "Member Address File", after obtaining the express consent of each shareholder addressed to the other members wanting access, in this way fostering better relations and interrelations among the shareholders;
- provided for, since January 2011, measures to facilitate and simplify the methods by which the request for admission to Member could be delivered through a delegated person.

During 2016, the Management Board, following a review by the aforementioned commission for relationships with members, approved the admission, in accordance with the rules set out in the above Framework Resolution, of 520 new members.

Performance of Banca Popolare di Milano stock

The global stock markets in 2016 were characterized by high volatility linked to a number of factors both of a geopolitical nature, including the election of the new President of the United States and the EU Referendum result in favour of UK leaving the European Union, and of a macroeconomic nature, including the trend in oil prices, which during early this year hit the lowest levels since 2003 and then recovered in late 2016, and worries of a sharp economic slowdown in China, which in recent months has subsided somewhat.

The European banking industry has suffered mainly due to persistently weak economic growth, low interest rates and high levels of non-performing exposures, reflecting the legacy of the crisis that has swept across Europe and Italy in recent years. These factors had an negative impact especially on Italian bank securities.

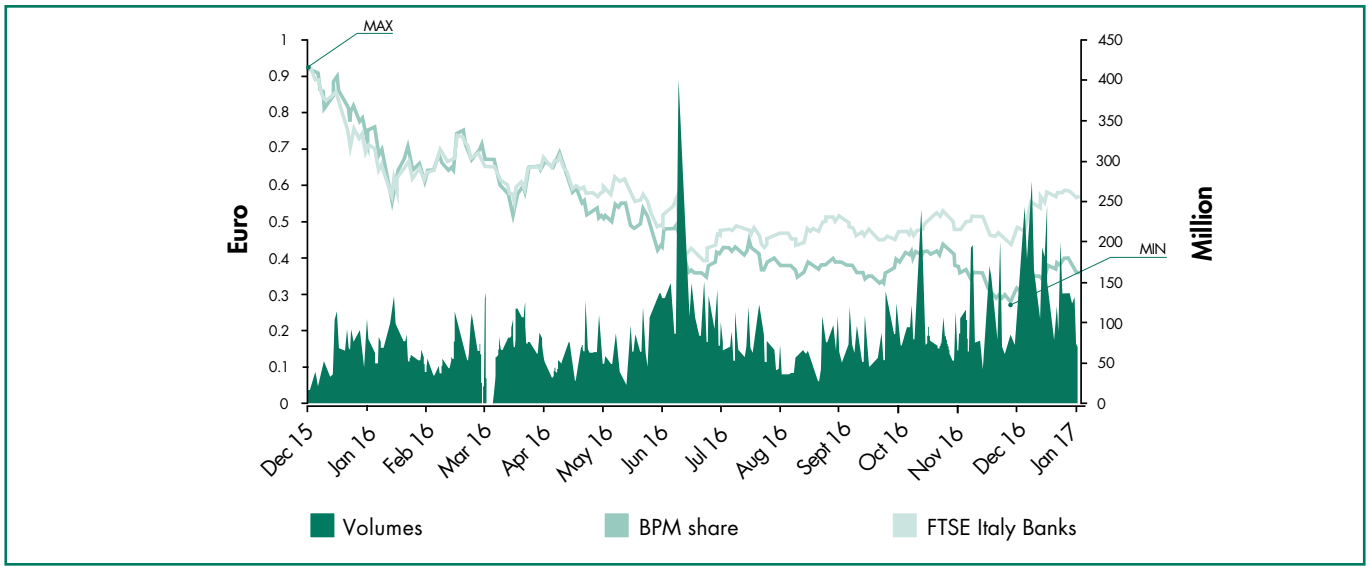
In the United States, the Federal Reserve increased interest rates by 0.25% in December, in light of the positive signs in the US economy. ECB's accommodative monetary policy stance has continued. At their meeting held in December, it decided to keep interest rates unchanged to support growth and achieve its objective of bringing inflation to 2%. Furthermore, the ECB announced its decision to extend the QE programme until December 2017, while cutting monthly bond purchases from 80 to 60 billion euro.

The main international markets signed off 2016 on a positive note. The British stock exchange (FTSE 100) posted a gain of 14.43%, followed by Germany's DAX 30 index increasing by 6.9% and the French CAC 40, which gained 4.9%. The worst performance was recorded by the Italian stock exchange, where the FTSE MIB index shed 10.2%. In US, the S&P 500 index closed with a gain of 9.54%.

The banking sector's annual performance was negative, with the Euro Stoxx Banks index falling 7.98%. The FTSE Italia All Share Banks index recorded a loss of 38.2%. BPM stock fell by 61.1%.

Since the start of the year, BPM's stock has fluctuated between a low of 0.2807 euro on 26 November 2016 and a high of 0.9065 euro recorded on 5 January 2016. The average daily trading volume in 2016 was about 89 million shares.

Performance of the share price of Banca Popolare di Milano in 2016



N.b. The FTSE Italia All Share Banks index has adjusted its parameters for BPM's stock

Ratings

The following table shows the ratings given by the international rating agencies Fitch Ratings and Moody's.

Banca Popolare di Milano rating at 31 December 2016

Ratings agency	Latest update	Long-term debt	Short-term debt	Outlook
FitchRatings	23 December 2016	BB–	B	Stable
Moody's	20 October 2016	Ba1	N–P	Stable

The most recent revisions of Banca Popolare di Milano's rating by the main international rating agencies are as follows:

- **Fitch Ratings:** On **23 December 2016**, the international ratings agency Fitch Ratings revised the long term rating (LT IDR) to "BB–" from "BB+" and the Viability Rating (CR) from "bb–" to "bb+" of Banca Popolare di Milano, thereby removing the Rating Watch Negative placed on 21 April. The agency also confirmed the short term rating "B". The Outlook is "Stable".
- **Moody's**: On **20 October 2016**, the international rating agency Moody's Investors Service ("Moody's"), following the approval of the merger plan between BPM and Banco Popolare by the meetings of the members, upgraded BPM's Long term deposit ratings to "Ba1" (from "Ba2") and the Baseline Credit Assessment to "b1" (from "b2"). The outlook is Stable. Moody's also confirmed BPM's short-term ratings at "Not Prime".

Report on the criteria followed for running the business for the achievement of its mutual objectives pursuant to art. 2545 of the Civil Code

1. Introduction

The following is an explanation, pursuant to art. 2545 of the Civil Code, of the criteria followed for running the business for the achievement of its mutual objectives, both "internally" and "externally": internal or direct mutuality is in favour of the members, whereas external or indirect mutuality, which is becoming increasingly important in the light of corporate social responsibility, is in favour of the socio–economic environment in which the Bank operates.
In the following sections we provide a more detailed description of the relationship between the Bank and its shareholder base and the main projects of social interest carried out during 2016 in favour of the region and the local community.

2. Mutuality as management of services for members ("internal mutuality")

The legislator characterises the "internal" mutuality of co-operative banks in a specific fashion compared with other co-operative enterprises. On the one hand, the law allows them the option of including "returns" for Members in their articles of association (article 150-*bis*, paragraph 6, CBA), thereby excluding that economic benefit of this kind can represent the typical reason for membership of the co-operative. On the other hand, given the declared non-applicability of articles 2512 and 2513 of the Civil Code, it confirms that statutory duties concerning the exercise of banking activities predominantly for their members do not apply to co-operative banks.
Within this legal framework, the Bank has continued to conduct a number of surveys which have provided interesting insights into the identity and image of BPM and Members' expectations.
During 2016, the Members Club continued its activities for members by offering banking products and services under favourable conditions along with non-banking offerings; it has strengthened and expanded its relationship with members by sending emails on a regular basis, maintaining contact through the dedicated email address/ toll-free number and special events organised at the Bank's headquarters; it has continued to offer its members special deals that provide unique opportunities to attend shows and cultural events at a reduced price. Please visit www.clubsocibpm.it for more details.
Moreover, with a view to facilitating awareness and use of information relevant to Members, the Bank updated its corporate website www.gruppobpm.it on a regular basis throughout 2016, also with special sections regarding different aspects of the bank:

- the "Governance" section, containing corporate documents on issues affecting members (Articles of Association, Framework resolution for rules concerning the admission and handling of members, and Regulations for General Meetings) and useful information on taking part in general meetings;
- the "BPM Members" section, containing (while the Bank was a co-operative) instructions and the forms needed to submit membership applications, periodic communications and information on how to quickly and effectively contact the offices in charge of handling institutional relations with Bank members and shareholders. Naturally, members and shareholders can also contact the bank directly via the toll-free number (800.013.090) or by visiting the historical headquarters in Milano (piazza Meda), so that they have the opportunity to obtain an immediate response to their requests.

Again in 2016, the Bank has continued to communicate with its members on a regular basis, as this is considered a prerequisite for them to participate effectively and on an informed basis in the life of the co-operative. Communication includes the publication of the Bipiemme Group Sustainability Report, prepared annually on the basis of the international standard Global Reporting Initiative, which allows the Group to communicate to all of its stakeholders the commitments it has undertaken, the actions it has taken and the results achieved in terms of socio-environmental sustainability. The document is presented at the annual General Meeting of Members and published on the website in the "Social Responsibility" section.

3. Mutuality as effective participation in the co-operative's model and company life

The organisational model of co-operative banks applies the one-man one-vote system, which does not allow the formation of controlling majorities and represents the fundamental and typical device through which such banks achieve their original model of "corporate democracy".
In 2011 (and until 31 December 2016), Banca Popolare di Milano Scarl adopted a two–tier system of corporate governance with a Supervisory Board – a body elected by the General Meeting of Members responsible for the approval of financial statements – and a Management Board appointed by the Supervisory Board and in charge of the management of the business. The General Meeting of Members, which retains the power to decide on the allocation of the profits for the year, is the key moment when each member has a chance to meet, participate in discussions and exchange views with other members.
The enhanced presence and contribution of the Members in their various groupings, and their active and widespread participation in corporate life was facilitated by the Articles of Association, concerning (i) the method of appointing the Bank's Supervisory Board, which allows for representation of the different components of the shareholder base (in particular with a strong minority element, as well as the presence of the Group's strategic partners and institutional investors); (ii) rules that encourage participation by Members at General Meetings of the Bank, by means of proxies and the possibility of using remote communication systems during meetings.
The pivotal role that the General Meeting has as part of the corporate life is confirmed by the traditionally high level of participation at the Bank's General Meetings; specifically, the General Meeting held on 30 April 2016 (annual meeting) and 15 October 2016 (which approved the merger of the Bank with the Banco Popolare, was attended, in person and by proxy by 5,000 and 10,000 members respectively.
For further information on the membership base and on relations with Members, particularly on procedures for admission to the Members' Register, please refer to specific sections in this report "Shareholders" and "Criteria used for admission of new Members".

4. Mutuality as service to the region and local community

Article 45 of the Constitution recognises the social function of mutual co-operation. Co-operative banks, even though not falling into the category of "predominantly mutualistic" co-operatives, perform an important, recognised role in the region in support of the community and the local economy (particularly by providing households and SMEs with access to credit).
As is generally known, the essential elements that set the specific co-operative banking model apart are the "proximity" and the stability of relationships with customers, their "social responsibility" and democratic governance. The interaction between these elements makes co-operative banks important players in local economic development, with their contributing increasing in proportion to the strength of their market position.
On this basis, Banca Popolare di Milano S.c. ar.l. has always sought to be a point of reference for households and small and medium enterprises in the regions where it operates. Reference should be made to the details in this respect contained in the other sections of the financial statements, and also in the Sustainability Report. However, it should be noted that as at 31 December 2016, about 89% of the Bank's current customers are represented by households and 85% of the remainder consists of small businesses (the non-profit item, in the amount of 8%, was recognised separately in 2015). Proximity to the territory is confirmed by the localisation of BPM's customers (65% of individual customers and 67% of corporate customers are located in Lombardia).
The strong regional ties – forged in 150 years of business – place Bipiemme at the centre of local social and solidarity initiatives and those for enhancing artistic, cultural and environmental assets.
In this regard, the last paragraph of article 60 of the Articles of Association (applicable until 31 December 2016) requires, among other things, the Bank's Management Board to allocate each year to a provision set up for charitable works and initiatives of social benefit – and to be expensed in the year – an amount of not more than 2% of net income as approved by the previous year's General Meeting of Members, to be used for initiatives approved by the Supervisory Board, with particular regard to the territories served by the Group.

Among the initiatives sponsored by Banca Popolare di Milano Scarl in 2016 (see the Sustainability Report for more details) we would like to highlight:

- in the area of culture, the renewed support of Teatro Spazio No'hma, the only open and free theatre, and the contribution to the University of Pavia for the three day event "L'Arca delle virtù: da Agostino al XXI secolo" scheduled for February 2017;
- in the health and research area, the contributions to the Associazione Italiana Sclerosi Multipla (the Italian Multiple Sclerosis Society); the Associazione Serenità for the refurbishment of hospital beds at the Istituto Don Gnocchi in Milan; the Milan branch of LILT (Italian League for the Fight against Cancer) for a cancer prevention campaign for women; the non-profit CBDIN offering psychological support to parents of children who are patients the paediatric neurosciences department of Carlo Besta institute in Milan, and the Associazione per l'assistenza agli spastici Città di Monza (City of Monza Association for assistance to people with neurological disorders), to support pet-therapy services. We also contributed to three important research projects: a project to build a clinical database that will make it possible to improve knowledge on the epidemiology of Chiari I malformations, and all the results of healthcare provided to patients (the "Chiariamo" project); a project for the development of non-invasive neurophysiological monitoring in the paediatric ICU at Regina Margherita Children's Hospital in Turin (the "Onda su Onda" project) and the "Post-transplant lymphoproliferative disorders project" at Niguarda Hospital in Milan;
- in the charitable area, initiatives in favour of ASBIN (Associazione Spina Bifida Idrocefalo Niguarda) for the construction of an accessible playground at Niguarda Hospital in Milan; the Food Bank Association of Lombardy, "Danilo Fossati"; the Arché non-profit foundation; the Caritas of Foggia for the renovation of a children's home; the CAM non-profit foundation for a protected Bed & Breakfast for youths from 17 to 21 years old; the Andrea Tudisco Association of Rome for the construction of the roof for the Quarta Casa di Andrea (facilities that welcome families with children with serious illnesses needing to travel to Rome for treatment); the CADMI home for battered women, to support the project to create shelters for young female victims of abuse and to Cooperativa Sei Petali, an association that helps these women return to work after their stay at the shelter; the AGRES association for a project on children with autism; the CasAmica association to complete a home for the sick and their families; the Centro alla Vita Vittore Buzzi association and the Attive association which provides psychological support to people with cancer.

Related party transactions

As regards the relationships between Bipiemme and its subsidiaries and associates, as well as with other related parties, it's worth noting that any such transactions have been carried out as part of the Bank's normal day-to-day activities. They are regulated at market conditions for transactions of that type and, where these do not exist, based on an adequate remuneration of the costs incurred to produce the services rendered.
In particular, except as specified in the pertinent chapter in the consolidated report on operations, there were no atypical or unusual transactions during 2016 with related parties or any such that would significantly affect the balance sheet, income statement or financial position and hence requiring disclosure to the market in accordance with the Consob's Issuers Regulation currently in force.
For further details on related party transactions, reference should be made to the pertinent section of the consolidated report on operations, as well as to the Part H of the consolidated explanatory notes.

Outlook

The outlook has been reported in the section "Outlook" contained in the consolidated report of operations.

Risks and uncertainties

The risks to which the Bank's operations are exposed are reported in the section "Risks and Uncertainties" contained in the consolidated report on operations.

Opting out of the obligation to publish a prospectus in the event of significant transactions

As allowed by art. 3 of CONSOB Resolution no. 18079 of 20 January 2012, the Management Board of Banca Popolare di Milano has decided to take advantage of the opt-out provided for in art. nos. 70, paragraph 8, and 71, paragraph 1-*bis*, of CONSOB Reg. no. 11971/99 (as amended).

Changes in the non-distributable reserve pursuant to article 6 of Legislative Decree no. 38 of 28 February 2005

Information is provided below on the development of the non-distributable reserve to be created in accordance with article 6 of Legislative Decree no. 38 of 28 February 2005.

In this respect, we would like to point out that, as per the provisions set out in article 6, paragraph 1, letter a) and paragraph 2 of the above decree, the portion earnings for the year relating to unrealized gains, net of the related tax charges, recognized in the income statement due to measurement at fair value, cannot be distributed and must be entered in a non-distributable (restricted) reserve.

As a result of the resolution passed by the General Meeting of Members on 30 April 2016, the non-distributable reserve created in accordance with the decree outlined above amounted to 8,818,425.95 euro on the same date.

During 2016, the portion of capital gains from fair value measurements recognized in previous periods generally increased. Therefore, pursuant to aforementioned article 6, paragraph 3 of Legislative Decree no. 38 of 28 February 2005, the restriction established in previous periods for 111,647,618.21 euro needs to be increased to bring the non-distributable reserve to 120,466,044.16 euro.

Following the merger with Banco Popolare, effective on 1 January 2017, which resulted in the creation of Banco BPM SPA, all elements of equity of the two banks involved in the merger have gone to the equity of the new entity. Moreover, as required by IFRS3, all assets and liabilities of Banca Popolare di Milano which, for accounting purposes only, is considered the combined entity, must be recognized in the financial statements of the new entity Banco BPM S.p.A. at their fair value. Since this does in fact represent the value at initial recognition, the provisions laid down in Legislative Decree 38/2005 no longer apply to the assets and liabilities of the former Banca Popolare di Milano. Therefore, the new Banco BPM SpA, shall be required to maintain the restriction only for the items pertaining to the financial statements of the former Banco Popolare.

Proposal concerning the treatment of earnings for the year given the merger with Banco Popolare completed on 1 January 2017

Dear Shareholders,
Financial year 2016 closed with net income of 65,722,447 euro.

Following the merger of Banco Popolare and Banca Popolare di Milano, which, with an effective date of 1 January 2017, resulted in the creation of Banco BPM S.p.A., all elements of equity of the two banks involved have gone to the equity of the new entity.

Banco Popolare closed 2016 with a net loss of 1,308,697,770 euro. As a result, the sum of the bottom lines of the two banks for 2016 came to a net loss of 1,242,975,323 euro. Following the merger, this net loss was implicitly covered, at the time of recognition as of the effective date of the merger, in the initial equity of Banco BPM S.p.A., which also includes the recognition of a "merger surplus reserve".

It should also be noted that, in accordance with IFRS 3 and in the specific case herein, the merger resulted in negative goodwill equal to the difference between the fair value of the Banco BPM shares issued in exchange for BPM shares (corresponding to the market price posted on the effective date of the merger) and the fair value of the assets (including the intangible assets not recognized on the BPM financial statements, such as trademarks) net of the liabilities (including contingent liabilities) of BPM. As of 1 January 2017, this negative goodwill is a component of earnings that will contribute to the formation of net result at the end of the current year.

Should the Board of Directors decide, without prejudice to any decisions concerning the limitation/exclusion of the redemption of shares for which withdrawal rights were exercised in accordance with applicable laws, to reimburse all or a portion of the shares for which withdrawal was executed in a timely manner, the merger surplus reserve resulting from the recognition of negative goodwill and as remains at the end of the current year may be used so long as the related authorizations required by law are issued, all within the limits allowed by law (i.e. subject to full allocation of the legal reserve).

In consideration of the above, the Bank's Board of Directors hereby submits the following proposed resolution to the shareholders:

"The Ordinary General Shareholders' Meeting of Banco BPM, having acknowledged the formation of the "merger surplus reserve" and the earnings for the current year resulting from the recognition of negative goodwill, hereby resolves to carry forward the net loss (resulting from the sum of the net results of Banco Popolare and Banca Popolare di Milano) of 1,242,975,323 euro."

Milan, 10 February 2017

Financial statements

Banca Popolare di Milano – Balance sheet

(Amounts in euro)

Line items		31.12.2016	31.12.2015
10.	Cash and cash equivalents	247,431,345	294,513,253
20.	Financial assets held for trading	154,960,272	281,311,156
30.	Financial assets designated at fair value through profit and loss	19,240,341	75,543,300
40.	Financial assets available for sale	9,462,503,232	8,967,522,523
50.	Investments held to maturity	–	–
60.	Due from banks	1,480,702,019	1,266,267,399
70.	Loans to customers	34,230,458,627	33,474,316,502
80.	Hedging derivatives	16,070,408	10,057,995
90.	Fair value change of financial assets in hedged portfolios (+/–)	10,513,700	11,236,803
100.	Investments in subsidiaries, associates and companies subject to joint control	352,359,634	440,807,857
110.	Property and equipment	681,404,450	682,866,482
120.	Intangible assets	71,315,435	127,343,157
	of which:		
	– goodwill	–	–
130.	Tax assets	1,030,833,655	1,066,095,331
	a) current	*133,882,923*	*227,639,144*
	b) deferred	*896,950,732*	*838,456,187*
	of which Law no. 214/11	*682,707,703*	*702,548,142*
140.	Non-current assets and disposal groups held for sale	–	–
150.	Other assets	528,799,224	745,382,584
Total assets		**48,286,592,342**	**47,443,264,342**

Banca Popolare di Milano – Balance sheet

(Amounts in euro)

Line items Liabilities and shareholders' equity		31.12.2016	31.12.2015
10.	Due to banks	7,226,843,716	4,829,578,163
20.	Due to customers	29,387,380,255	27,807,745,859
30.	Securities issued	5,614,860,087	8,233,837,736
40.	Financial liabilities held for trading	154,610,710	150,578,641
50.	Financial liabilities designated at fair value through profit and loss	120,131,631	142,200,984
60.	Hedging derivatives	32,894,241	39,011,198
70.	Fair value change of financial liabilities in hedged portfolios (+/–)	19,940,574	18,086,180
80.	Tax liabilities	58,633,405	121,650,405
	a) current	–	–
	b) deferred	*58,633,405*	*121,650,405*
90.	Liabilities associated with assets and disposal groups held for sale	–	–
100.	Other liabilities	932,376,594	1,233,569,416
110.	Employee termination indemnities	124,642,703	117,761,642
120.	Allowances for risks and charges:	427,542,305	294,537,137
	a) post employment benefits	*84,935,629*	*90,541,516*
	b) other allowances	*342,606,676*	*203,995,621*
130.	Valuation reserves	8,459,364	209,069,218
140	Redeemable shares	–	–
150.	Equity instruments	–	–
160.	Reserves	747,735,775	640,052,498
165.	Interim dividends (–)	–	–
170.	Share premium reserve	–	444,795
180.	Share capital	3,365,439,319	3,365,439,319
190.	Treasury shares (–)	(620,784)	(1,416,102)
200.	Net income (loss) for the period (+/–)	65,722,447	241,117,253
Total liabilities and shareholders' equity		**48,286,592,342**	**47,443,264,342**

Banca Popolare di Milano – Income statement

(Amounts in euro)

Line items Income statement		Year 2016	Year 2015
10.	Interest and similar income	942,925,610	1,076,715,951
20.	Interest and similar expense	(220,258,222)	(335,519,145)
30.	**Interest margin**	**722,667,388**	**741,196,806**
40.	Fee and commission income	620,587,767	635,082,918
50.	Fee and commission expense	(55,429,849)	(55,355,252)
60.	**Net fee and commission income**	**565,157,918**	**579,727,666**
70.	Dividend and similar income	32,177,654	33,059,739
80.	Profits (losses) on trading	38,399,037	24,737,909
90.	Fair value adjustments in hedge accounting	2,597,642	(6,328,156)
100.	Profits (losses) on disposal or repurchase of:	164,506,996	148,218,013
	a) loans	*(13,156,182)*	*(24,906,939)*
	b) financial assets available for sale	*177,683,336*	*186,106,265*
	c) investments held to maturity	–	–
	d) financial liabilities	*(20,158)*	*(12,981,313)*
110.	Profits (losses) on financial assets and liabilities designated at fair value	(9,151,798)	(6,339,948)
120.	**Net interest and other banking income**	**1,516,354,837**	**1,514,272,029**
130.	Net losses/recoveries on impairment of:	(460,099,286)	(343,135,465)
	a) loans	*(405,298,799)*	*(315,513,537)*
	b) financial assets available for sale	*(70,058,944)*	*(42,518,177)*
	c) investments held to maturity	–	–
	d) other financial activities	*15,258,457*	*14,896,249*
140.	**Net income from banking activities**	**1,056,255,551**	**1,171,136,564**
150.	Administrative expenses:	(1,128,489,627)	(957,239,656)
	a) personnel expenses	*(733,467,227)*	*(573,540,415)*
	b) other administrative expenses	*(395,022,400)*	*(383,699,241)*
160.	Net provisions for risks and charges	(31,545,307)	8,812,549
170.	Net adjustments to/recoveries on property and equipment	(36,844,444)	(38,978,243)
180.	Net adjustments to/recoveries on intangible assets	(106,676,784)	(23,588,395)
190.	Other operating expenses/income	111,378,690	120,441,658
200.	**Operating expenses**	**(1,192,177,472)**	**(890,552,087)**
210.	Profits (losses) on investments in subsidiaries, associates and companies subject to joint control	145,551,590	14,526,383
220.	Net result of valuation differences on property, equipment and intangible assets measured at fair value	–	–
230.	Goodwill impairment	–	–
240.	Profits (losses) on disposal of investments	1,392,778	6,393
250.	**Income (loss) before tax from continuing operations**	**11,022,447**	**295,117,253**
260.	Taxes on income from continuing operations	54,700,000	(54,000,000)
270.	**Income (loss) after tax from continuing operations**	**65,722,447**	**241,117,253**
280.	Income (loss) after tax from discontinued operations	–	–
290.	**Net income (loss) for the period**	**65,722,447**	**241,117,253**
	Basic EPS – euro	**0.015**	**0.055**
	Diluted EPS – euro	**0.015**	**0.055**

Banca Popolare di Milano – Statement of comprehensive income

(Amounts in euro)

Line items		Year 2016	Year 2015
10.	**Net income (loss) for the period**	**65,722,447**	**241,117,253**
	Other comprehensive income, net of tax, without reversal to the income statement	**(3,247,773)**	**2,594,281**
20.	Property and equipment	–	–
30.	Intangible assets	–	–
40.	Actuarial gains (losses) on defined benefit plans	(3,247,773)	2,594,281
50.	Non-current assets held for sale	–	–
60.	Share of valuation reserves connected with investments carried at equity	–	–
	Other comprehensive income, net of tax, with reversal to the income statement	**(197,362,081)**	**(102,541,352)**
70.	Hedging of foreign investments	–	–
80.	Foreign exchange differences	–	–
90.	Cash flow hedges	1,264,059	72,672
100.	Financial assets available for sale	(198,626,140)	(102,614,024)
110.	Non-current assets held for sale	–	–
120.	Share of valuation reserves connected with investments carried at equity	–	–
130.	**Total other comprehensive income, net of tax**	**(200,609,854)**	**(99,947,071)**
140.	**Total comprehensive income (line items 10+130)**	**(134,887,407)**	**141,170,182**

The result for the period presented in the statement of comprehensive income includes the changes in value of the assets recognised as a counter-entry in the valuation reserves (net of tax) in the period.

Banca Popolare di Milano – Statement of changes in shareholders' equity

	Balance at 31.12.2015	Change in opening balances	Balance at 1.1.2016	Allocation of net income of the previous year	
				Reserves	Dividends and other allocations
Share capital:	**3,365,439,319**	**–**	**3,365,439,319**	**–**	**–**
a) ordinary shares	3,365,439,319	–	3,365,439,319	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**444,795**	**–**	**444,795**	**–**	**–**
Reserves	**640,052,498**	**–**	**640,052,498**	**122,580,228**	**–**
a) retained earnings	618,905,619	–	618,905,619	122,580,228	–
b) others	21,146,879	–	21,146,879	–	–
Valuation reserves	**209,069,218**	**–**	**209,069,218**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(1,416,102)**	**–**	**(1,416,102)**	**–**	**–**
Net income (loss) for the period	**241,117,253**	**–**	**241,117,253**	**(122,580,228)**	**(118,537,025)**
Shareholders' equity	**4,454,706,981**	**–**	**4,454,706,981**	**–**	**(118,537,025)**

(*) The amount shown in this column represents charges against income arising from the allocation of shares as part of agreements based on the Bank's equity instruments.

(**) The amounts shown in this column represent:

- the allocation of 39,539,280 shares to employees relating to profit sharing for 2015 pursuant to article 60 of the bylaws. Such allocation led to a decrease of 444,795 euro in the share premium reserve and 134,392 euro in reserves;
- changes in treasury shares which led to a decrease of 18,520 euro in reserves.

at 31 December 2016

(Amounts in euro)

Changes for the year							Comprehensive income 2016	Shareholders' equity at 31.12.2016
Changes in reserves(*)	Operations on shareholders' equity							
	Issue of new shares(**)	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options		
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,365,439,319**
–	–	–	–	–	–	–	–	3,365,439,319
–	–	–	–	–	–	–	–	–
–	**(444,795)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
788,448	**(15,685,399)**	**–**	**–**	**–**	**–**	**–**	**–**	**747,735,775**
–	–	–	–	–	–	–	–	741,485,847
788,448	(15,685,399)	–	–	–	–	–	–	6,249,928
–	**–**	**–**	**–**	**–**	**–**	**–**	**(200,609,854)**	**8,459,364**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**16,259,418**	**(15,464,100)**	**–**	**–**	**–**	**–**	**–**	**(620,784)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**65,722,447**	**65,722,447**
788,448	**129,224**	**(15,464,100)**	**–**	**–**	**–**	**–**	**(134,887,407)**	**4,186,736,121**

Banca Popolare di Milano – Statement of changes in shareholders' equity

	Balance at 31.12.2014	Change in opening balances	Balance at 1.1.2015	Allocation of net income of the previous year	
				Reserves	Dividends and other allocations
Share capital:	**3,365,439,319**	**–**	**3,365,439,319**	**–**	**–**
a) ordinary shares	3,365,439,319	–	3,365,439,319	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**–**	**–**	**–**	**–**	**–**
Reserves	**511,972,597**	**–**	**511,972,597**	**127,955,132**	**–**
a) retained earnings	490,950,487	–	490,950,487	127,955,132	–
b) others	21,022,110	–	21,022,110	–	–
Valuation reserves	**309,016,289**	**–**	**309,016,289**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(853,966)**	**–**	**(853,966)**	**–**	**–**
Net income (loss) for the period	**224,543,688**	**–**	**224,543,688**	**(127,955,132)**	**(96,588,556)**
Shareholders' equity	**4,410,117,927**	**–**	**4,410,117,927**	**–**	**(96,588,556)**

(*) The amounts shown in this column mainly represent the charge against income relating to profit sharing arising from the allocation of shares to employees pursuant to article 60 of the bylaws.

(**) The amounts shown in this column represent:

- the allocation of 16,688,831 shares to employees relating to profit sharing for 2014 pursuant to article 60 of the 2014 bylaws. Such allocation led to an increase in the share premium reserve of 442,153 euro;
- changes in treasury shares which led to an increase of 2,642 euro in the share premium reserve.

at 31 December 2015

(Amounts in euro)

Changes for the year							Comprehensive income 2015	Shareholders' equity at 31.12.2015
Changes in reserves[*]	Operations on shareholders' equity							
	Issue of new shares[**]	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options		
–	–	–	–	–	–	–	–	**3,365,439,319**
–	–	–	–	–	–	–	–	3,365,439,319
–	–	–	–	–	–	–	–	–
–	**444,795**	–	–	–	–	–	–	**444,795**
16,093,644	**(15,968,875)**	–	–	–	–	–	–	**640,052,498**
–	–	–	–	–	–	–	–	618,905,619
16,093,644	(15,968,875)	–	–	–	–	–	–	21,146,879
–	–	–	–	–	–	–	**(99,947,071)**	**209,069,218**
–	–	–	–	–	–	–	–	–
–	**16,036,998**	**(16,599,134)**	–	–	–	–	–	**(1,416,102)**
–	–	–	–	–	–	–	**241,117,253**	**241,117,253**
16,093,644	**512,918**	**(16,599,134)**	–	–	–	–	**141,170,182**	**4,454,706,981**

Banca Popolare di Milano – Statement of cash flows – indirect method

(Amounts in euro)

A. OPERATING ACTIVITIES	Year 2016	Year 2015
1. Cash from operations	**725,041,011**	**755,590,603**
– net income (loss) for the period (+/–)	65,722,447	241,117,253
– gains (losses) on financial assets held for trading and on financial assets/liabilities designated at fair value through profit and loss (+/–)	14,991,826	198,181
– gains (losses) on hedging activities (–/+)	(2,597,642)	6,328,156
– net adjustments to/recoveries on impairment (+/–)	480,211,659	373,086,500
– net adjustments to/recoveries on property and equipment and intangible assets (+/–)	143,521,228	62,566,638
– net provisions for risks and charges and other income/expense (+/–)	206,284,237	10,417,869
– taxes and duties to be settled (+)	(37,541,154)	76,402,389
– net adjustments to/recoveries on discontinued operations net of tax effect (+/–)	–	–
– other adjustments (+/–)	(145,551,590)	(14,526,383)
2. Cash from/used in financial assets	**(1,194,108,889)**	**(2,787,098,479)**
– financial assets held for trading	120,101,242	(41,190,901)
– financial assets designated at fair value through profit and loss	47,281,723	17,236,590
– financial assets available for sale	(214,828,781)	84,987,661
– due from banks: repayable on demand	16,930,475	31,247,847
– due from banks: other	(232,813,402)	(678,305,599)
– loans to customers	(1,180,104,990)	(2,264,956,400)
– other assets	249,324,844	63,882,323
3. Cash from/used in financial liabilities	**619,488,565**	**2,171,472,333**
– due to banks: repayable on demand	(52,420,824)	(84,641,939)
– due to banks: other	2,449,686,377	2,359,388,338
– due to customers	1,579,634,396	741,122,385
– securities issued	(2,618,977,649)	(615,542,806)
– financial liabilities held for trading	4,032,069	(39,020,278)
– financial liabilities designated at fair value through profit and loss	(21,790,301)	(23,944,471)
– other liabilities	(720,675,503)	(165,888,896)
Net cash from (used in) operating activities	**150,420,687**	**139,964,457**
B. INVESTING ACTIVITIES	**–**	**–**
1. Cash from	**29,748,328**	**33,452,018**
– sales of investments in subsidiaries, associates and companies subject to joint control	28,905,110	33,442,067
– dividends collected from subsidiaries, associates and companies subject to joint control	–	–
– sales of investments held to maturity	–	–
– sales of property and equipment	843,218	9,951
– sales of intangible assets	–	–
– sales of businesses	–	–
2. Cash used in	**(109,509,216)**	**(97,939,773)**
– purchases of investments in subsidiaries, associates and companies subject to joint control	(21,570,647)	(112,081)
– purchases of investments held to maturity	–	–
– purchases of property and equipment	(36,304,497)	(44,787,613)
– purchases of intangible assets	(51,634,072)	(53,040,079)
– purchases of businesses	–	–
Net cash from (used in) investing activities	**(79,760,888)**	**(64,487,755)**
C. FINANCING ACTIVITIES		
– issue/purchase of treasury shares	795,318	(562,136)
– issue/purchase of equity instruments	–	–
– dividends distributed and other	(118,537,025)	(96,588,556)
Net cash from (used in) financing activities	**(117,741,707)**	**(97,150,692)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(47,081,908)**	**(21,673,990)**

RECONCILIATION		
Line items	**31.12.2016**	**31.12.2015**
Cash and cash equivalents at the beginning of the period	294,513,253	316,187,243
Net increase (decrease) in cash and cash equivalents	(47,081,908)	(21,673,990)
Cash and cash equivalents: foreign exchange effects	–	–
Cash and cash equivalents at the end of the period	**247,431,345**	**294,513,253**

Key: (+) cash from activities (–) cash used in activities

Explanatory Notes

- Part A – Accounting policies
- Part B – Information on the balance sheet
- Part C – Information on the consolidated income statement
- Part D – Statement of comprehensive income
- Part E – Information on risks and related hedging policies
- Part F – Information on capital
- Part G – Business combinations
- Part H – Related party transactions
- Part I – Shared-based payments
- Part L – Segment reporting

Part A
Accounting Policies

A.1 – General Part

Section 1
Declaration of conformity with IFRS

In application of Legislative Decree no. 38 of 28 February 2005, the financial statements at 31 December 2016 have been prepared in accordance with the International Accounting Standards/International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the relative interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) as adopted by the European Commission, pursuant to Regulation (EC) no. 1606 of 19 July 2002.

The IAS/IFRS applicable at 31 December 2016 and adopted by the European Commission have been used to prepare the financial statements, including IFRIC/SIC interpretations. A list of the standards and interpretations applied is included as an attachment to these financial statements.

Reference should be made to "Section 2 – General basis of preparation" below for details of the standards adopted by the European Commission in 2016 and in previous years whose application is planned for 2016 (or future years). Section 2 also discusses the main effects of these for the Bank.

Section 2
General basis of preparation

The financial statements have also been prepared in accordance with the instructions issued by the Bank of Italy – in compliance with the powers established by article 9, paragraph 1 of Legislative Decree no. 38/2005 – under the Bank of Italy's Circular no. 262/05 of 22 December 2005 "Bank financial statements: formats and rules for their preparation" and subsequent updates. These instructions establish the format of the financial statements and the related method of compilation, as well as the contents of the explanatory notes, and are binding.

In preparing the financial statements the IAS/IFRS effective at 31 December 2016 have been applied (including all SIC and IFRIC interpretations) as listed in the attachments to these financial statements. To help interpret and support this application other documents prepared by the IASB or IFRIC to supplement the accounting standards have also taken into account, even if they have not yet been endorsed, including: The Conceptual Framework for Financial Reporting, Implementation Guidance, Basis for Conclusions, IASB Updates and IFRIC Updates.

In addition, the interpretations for applying IAS/IFRS in Italy prepared by the Italian Accounting Board (OIC) and the Italian Banking Association (ABI) have been used, as well as the documents issued by ESMA (European Securities and Markets Authority) and Consob which make reference to specific IAS/IFRS standards or guidelines.

In accordance with article 5, paragraph 2 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared with the euro as the reporting currency. In particular, in line with the instructions issued by the Bank of Italy, the amounts reported in the financial statements are expressed in euro, while unless otherwise specified those in the report on operations and in the explanatory notes are expressed in thousands of euro. Roundings have been made on the basis of the Bank of Italy's recommendations.

The financial statements have been prepared taking into account the following general principles laid down in IAS 1 "Presentation of Financial Statements" and the specific accounting principles endorsed by the European Commission and explained in Part A.2 "Part relating to the main line items in the financial statements" and in compliance with the general assumptions from The Conceptual Framework for Financial Reporting issued by the IASB with particular regard to the fundamental principle regarding the prevalence of substance over form, and the concept of relevance and materiality.

No exceptions have been made to the application of IAS/IFRS.

The explanatory notes and the report on operations provide the information required by international accounting standards, by laws, by the Bank of Italy and by Consob (Commmissione Nazionale per le Società e la Borsa – the public authority responsible for regulating the Italian financial markets), as well as other information even if not required but nonetheless deemed necessary to give a true and fair view of the Bank's situation.

Evolution of international accounting standards

Changes in the accounting standards adopted by the European Commission

The following table sets out the changes to the standards and interpretations adopted by the European Commission in 2016 or in previous years, application of which became mandatory from 2016, in relation to which no significant effects on the preparation of these financial statements were identified.

International accounting standards applicable from 2016

Approved regulation	Published in the Official Journal of the European Union	Titles and comments	Effective for annual periods beginning on or after
28/2015 of 17.12.2014	L 5 of 9.1.2015	**IFRS Annual Improvements Cycle 2010-2012** **Amendment to IFRS 2** "Share-based Payment" Amends the definition of "market condition" and "vesting condition" and adds definitions for "performance condition" and "service condition" which were previously part of the definition of "vesting condition". **Amendment to IFRS 3** "Business Combinations" Provides clarifications on the classification of contingent consideration and the treatment of changes in its fair value. More specifically it specifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date following initial recognition and that changes in fair value may be recognised in either profit and loss or comprehensive income. **Amendment to IFRS 8** "Operating Segments" Clarifies that an entity must disclose the factors used to identify operating segments, the aggregation criteria and the products and services generating revenues for each reportable segment. In addition a reconciliation must be provided of the total of the reportable segment's assets to the entity's assets. **Amendment to IAS 16** "Property, Plant and Equipment" Clarifies that when an item of property, plant and equipment is revalued (and accordingly measured at fair value and not at cost) the revaluation of the gross amount must be consistent with the revaluation of the net amount (meaning that accumulated depreciation must be the difference between gross and net excluding any recognised value adjustments). **Amendment to IAS 24** "Related Party Disclosures" Clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. **Amendment to IAS 38** "Intangible Assets" Clarifies that when an intangible asset is revalued (and accordingly measured at fair value and not at cost) the revaluation of the gross amount must be consistent with the revaluation of the net amount (meaning that accumulated amortisation must be the difference between gross and net excluding any recognised value adjustments).	1 February 2015
29/2015 of 17.12.2014	L 5 of 9.1.2015	**Amendment to IAS 19** "Employee Benefits" – **Defined Benefit Plans: Employee Contributions** The amendments clarifies that contributions to defined benefit plans from employees or third parties reduce the service cost, if stated in the plan's formal terms and conditions, while they only affect revaluations if not linked to service or are discretional.	1 February 2015

International accounting standards applicable from 2016			
Approved regulation	**Published in the Official Journal of the European Union**	**Titles and comments**	**Effective for annual periods beginning on or after**
2113/2015 of 23.11.2015	L. 306 of 24.11.2015	**Amendments to IAS 16** "Property, Plant and Equipment" **and IAS 41** "Agriculture" – **Agriculture: Bearer Plants** The amendments require bearer plants used to grow produce over several years to be accounted for in the same way as property, plant and equipment in IAS 16 because their operation is similar to manufacturing.	1 January 2016
2173/2015 of 24.11.2015	L. 307 of 25.11.2015	A**mendment to IFRS 11** "Joint Arrangements" – **Accounting for Acquisitions of Interests in Joint Operations** The amendment provides new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS 3. In this case all the principles for accounting for business combinations in IFRS 3 are applicable as well as those of all the other IFRS standards that are not in contrast with IFRS 11. In addition, the disclosures required for business combinations by those standards must be provided.	1 January 2016
2231/2015 of 2.12.2015	L. 317 of 3.12.2015	**Amendments to IAS 16** "Property, Plant and Equipment" **and IAS 38** "Intangible Assets" – **Acceptable Methods of Depreciation and Amortisation** Given the existence of different practices the aim of the amendment is to clarify that the revenue-based method is not considered appropriate for depreciating or amortising an asset because the revenue generated by an activity that envisages the use of an asset in general reflects factors not directly connected with the consumption of the economic benefits generated by the asset.	1 January 2016
2343/2015 of 15.12.2015	L. 330 of 16.12.2015	**IFRS Annual Improvements Cycle 2012-2014** **Amendment to IFRS 5** "Non-current Assets Held for Sale and Discontinued Operations" The amendment adds specific guidance for cases in which an entity reclassifies an asset from "held for sale" to "held for distribution" (or vice versa) and cases in which held-for-distribution accounting is discontinued. Reclassifications should not be considered to be changes to a sales or distribution and so the criteria for classification and measurement remain valid. If the criteria for classifying assets as "held for distribution" no longer hold, they must be treated as those no longer classified as "held for sale". **Amendment to IFRS 7** "Financial Instruments: Disclosures" The amendment provides additional guidance to clarify whether a service contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Amendment to IAS 19** "Employee Benefits" The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. **Amendment to IAS 34** "Interim Financial Reporting" The amendment introduces changes designed to clarify that certain of the information requested must be included in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included (for example in the management commentary). The other information in the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.	1 January 2016

International accounting standards applicable from 2016

Approved regulation	Published in the Official Journal of the European Union	Titles and comments	Effective for annual periods beginning on or after
2406/2015 of 18.12.2015	L. 333 of 19.12.2015	**Amendment to IAS 1** "Presentation of Financial Statements" – **Disclosure Initiative** The aim of the amendment is to encourage entities to use professional judgement in deciding what information to disclose in the financial statements in order to make disclosures more effective and understandable. In particular a disclosure should not be penalised by an excessive aggregation of individually significant information nor by the separate presentation of individually irrelevant information. Certain specific items can be disaggregated in the primary financial statements or aggregated when such presentation is relevant. The order of the notes may be changed if this facilitates understanding and comparability.	1 January 2016
2441/2015 of 18.12.2015	L. 336 of 23.12.2015	**Amendment to IAS 27** "Separate Financial Statements" – **Equity Method in Separate Financial Statements** The amendment permits an entity to recognise investments in subsidiaries, associates and joint ventures in its separate financial statements using the equity method. Accordingly an entity can recognise investments in its separate financial statements either at cost, in accordance with IAS 39 (becoming IFRS 9), or by using the equity method.	1 January 2016
1703/2016 of 22.09.2016	L. 257 of 23.09.2016	**Amendments to IFRS 10** "Consolidated Financial Statements", **IFRS 12** "Disclosure of Interests in Other Entities" **and IAS 28** "Investments in Associates and Joint Ventures" – **Investment Entities: Applying the Consolidation Exception** The aim of these amendments is to clarify the requirements for accounting for investment entities and provide for exemptions in specific situations. Although the standard states that an investment entity is not required to prepare consolidated financial statements because it has to measure all its subsidiaries at fair value, in the case that a subsidiary is not in turn an investment entity and has as its main purpose and activity the provision of services supporting the investing activities of the parent investment entity the latter must consolidate it in accordance with IFRS 10, applying the requirements of IFRS 3 to the acquisition of the subsidiary.	1 January 2016

IAS/IFRS accounting standards and the relative SIC/IFRIC interpretations adopted by the European Commission whose mandatory effective date falls after 31 December 2016

Pursuant to paragraphs 30 and 31 of IAS 8 the following Regulations adopted by the European Commission amend accounting standards already effective, with mandatory application – in the case of financial statements that coincide with the calendar year – from 1 January 2017 or a later date. The Bank has not elected early application.

Approved regulation	Published in the Official Journal of the European Union	Titles and comments	Effective for annual periods beginning on or after
1905/2016 of 22.09.2016	L. 295 of 29.10.2016	**IFRS 15** "Revenue from Contracts with Customers"	1 January 2018
2067/2016 of 22.11.2016	L.323 of 29.11.2016	**IFRS 9** "Financial Instruments"	1 January 2018

IAS/IFRS accounting standards, amendments and interpretations issued by the IASB and yet to be adopted by the European Commission

For information purposes, set out below are the accounting standards, amendments and interpretations issued by the IASB, the application of which is subject to adoption by the European Commission and which are consequently not yet applicable to these financial statements.

Standard/Interpretation/Amendment	Date of IASB approval	Indicative effective date
IFRS 14 "Regulatory Deferral Accounts"	30/01/2014	Annual periods beginning on or after 1 January 2016 (1)
Amendment to IFRS 10 "Consolidated Financial Statements" **and IAS 28** "Investments in Associates and Joint Ventures" **– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	11/09/2014	To be established (2)
IFRS 16 "Leases"	13/01/2016	Annual periods beginning on or after 1 January 2019
Amendment to IAS 12 "Income Taxes" – **Recognition of Deferred Tax Assets for Unrealised Losses**	19/01/2016	Annual periods beginning on or after 1 January 2017
Amendment to IAS 7 "Statement of Cash Flows" – **Disclosure Initiative**	29/01/2016	Annual periods beginning on or after 1 January 2017
Amendment to IFRS 15 "Revenue from Contracts with Customers" **– Clarification to IFRS 15**	12/04/2016	Annual periods beginning on or after 1 January 2018
Amendment to IFRS 2 "Share-based payment"– **Classification and Measurement of Share-based Payment Transactions**	20/06/2016	Annual periods beginning on or after 1 January 2018
Amendment to IFRS 4 "Insurance contracts" – **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**	12/09/2016	Annual periods beginning on or after 1 January 2018
Amendment to IFRS 12 "Disclosure of Interests in Other Entities". **IFRS 1** "First-time Adoption of International Financial Reporting Standards" **and IAS 28** "Investments in Associates and Joint Ventures"– **Annual Improvements to IFRS Standards 2014-2016 Cycle**	08/12/2016	The amendment to IFRS 12 for annual periods beginning on or after 1 January 2017; the amendments to IFRS 1 and IAS 28 for annual periods beginning on or after 1 January 2018
IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"	08/12/2016	Annual periods beginning on or after 1 January 2018
Amendment to **IAS 40** "Investment Property" – **Transfers of Investment Property**	08/12/2016	Annual periods beginning on or after 1 January 2018

(1) The European Commission has decided not to endorse the standard in its current version but rather to wait until after the final revisions are completed.

(2) The IASB published the amendment to the standard on 17 December 2015, deferring the effective date of the amendments to IFRS 10 and IAS 28 indefinitely.

IFRS 9 "Financial Instruments"

IFRS 9 was adopted through the publication of Commission Regulation (EU) 2016/2067 in the Official Journal of the European Union L. 323 on 29 November 2016; the standard is applicable from the commencement date of an entity's first financial year starting on or after 1 January 2018.
IFRS 9 will replace IAS 39 for determining the treatment to be adopted in accounting for financial instruments. In summary the new standard requires the following:

- Classification and measurement:
  - Financial assets: IFRS 9 requires financial assets to be classified in three distinct categories: amortised cost, fair value through other comprehensive income (an equity reserve) and fair value through profit and loss on the basis of the business model applied and the contractual nature of the cash flows of the financial instrument. Recognition and derecognition criteria remain essentially unchanged with respect to IAS 39.
  - Financial liabilities: IFRS 9 makes no changes to the present standard apart from those relating to financial liabilities designated at fair value through profit and loss for which any change in fair value due to an entity's own credit risk must be recognised in comprehensive income (an equity reserve) and no longer in profit and loss (the standard permits this provision to be early adopted from the endorsement date).

- Impairment: an impairment model is introduced based on expected losses, replacing the present model in IAS 39 based on incurred losses. The standard classifies loan impairment in three stages depending on the credit quality of the counterparty, where 12-month expected credit losses are recognised in profit and loss for the stage that includes counterparties with the best credit standing, while full lifetime credit losses are recognised for the other two stages.
- Hedge accounting: simplified hedging models are envisaged compared to the current standard by introducing a closer alignment with the way in which the risk is managed.

The Parent Company initiated a project at Group level in the fourth quarter of 2015 to manage the transition to IFRS 9. The aim of this project is to determine the effects of the adoption of the standard on the Group's equity and results using a prudent approach, as well as to identify suitable methods for implementing the standard from an organisational and information systems standpoint, together with appropriate controls to ensure it is effectively applied.

The project is being developed following the means by which the standard is structured and namely: Classification and Measurement (C&M), Impairment and Hedge Accounting. More specifically, responsibility has been assigned jointly to the Accounting and Reporting function and the Risk Management function, as part of which thematic workgroups have been set up on the basis of the above structure. Representatives of the Loans, Commercial, Organisation and IT functions are also actively involved in the workgroups, in turn needed for the analysis and development of applicative solutions. The results that have emerged and the strategic decisions to be taken have been brought to the attention of the Steering Committee, consisting of the heads of all the functions directly or indirectly involved in implementing the standard. At the end of the first phase the results of the impact assessment were reported to the Steering Committee and the Management Board.

Regarding **Classification and Measurement**, in order to comply with IFRS 9, which introduces a model under which the classification of financial assets is directed on the one hand by the contractual cash flow characteristics of an instrument and on the other by management's intentions for holding this instrument, activities were directed towards identifying the business model currently in use, and subsequently to be used, and establishing the means by which SPPI contractual cash flow characteristics testing should be performed.
Guidelines based on decision trees have been established for carrying out SPPI testing on financial assets and target operating models have been built for the two macro-areas finance and loans, taking advantage of the experience gained when carrying out the analyses, currently being finalised, of the composition of the currently existing securities and loans portfolios, in order to identify the proper classification for these on first-time adoption of the new standard.
For debt securities a detailed examination has been performed of the cash flow characteristics of instruments classified in the "financial assets available for sale" and "loans to customers" categories in accordance with IAS 39, in order to identify the existence of any financial assets with contractual characteristics that might not pass the SPPI test and therefore have to be measured at fair value through profit and loss under IAS 39. The above guidelines were used to this end, with an analysis being performed of all assets having a balance exceeding 500,000 euro and maturity not before 1 January 2018. The analyses began with reference to 31 December 2015. The results of these analyses showed that only a limited percentage of debt securities would not pass the SPPI test, mainly certain structured securities.
As far as loans are concerned, the approach to the analysis depended on whether the portfolios related to standard products codified on the basis of catalogues or product sheets typical of the retail, small business or mid-corporate sector or to loans with specific contractual characteristics typical of the large corporate and structured finance sector. The analysis for the first type of portfolio concentrated on all the currently distributed product sheets to check the contractual characteristics for the purpose of passing the SPPI test, focusing mainly on the principal technical forms such as mortgage loans, current accounts, international and syndicated. The Commercial function was involved to help accurately identify all the catalogued products, both current and previous. In the case of all the large corporate and structured finance loans, the detailed work consisted of performing a spot test on all the individual loans, with an approach aimed at covering the existing exposure. At the present stage of the analyses, one sole type of standard product has emerged (that involves a completely marginal number of disbursements compared to the Group's overall exposure), and certain large corporate and structured finance contracts which by virtue of specific clauses would lead to the failure to pass the SPPI test. As a result, no significant effects are expected from the credit area either.

The possibility of passing the SPPI test for all financial assets, both loans and debt securities, for which there is a mismatch between the frequency of the instalments and the interest rate tenor will also be checked by carrying out a benchmark cash flow test, for which the methodology is currently being developed in conjunction with Risk Management.

For the financial assets classification driver that the business model represents, the analyses performed have led to the conclusion that the model is tending towards an essential equivalence between the existing trading portfolios and the "sell" business model. This ought to hold for the whole of the trading portfolio managed by Finance in the Parent Company, but also in the subsidiary Banca Akros. The significant portfolio of available for sale (AFS) financial assets can effectively be likened to a "hold to collect and sell" business model, also in the future, and any financial assets that fail to pass the SPPI test (currently very marginal) will out of necessity return to the trading portfolio. As far as the loans and receivables area is concerned, the analyses indicate that on the basis of the past history of sales a "hold to collect" business model is applicable. The steps needed to prepare and formalise the operational rules for performing a business model assessment and carrying out an on-going monitoring of the portfolios affected by IFRS 9 requirements, in particular identifying the thresholds for considering the inclusion of sales that are frequent but not significant (individually and in aggregate) or sales that are infrequent even if of significant amount (typically for amortised cost portfolios), have been included in the work programme for the first half of 2017. Although in general terms the present way in which loans to both retail and corporate counterparties is a "hold to collect" business model, the identification of the classification category will nevertheless be confirmed in light of the way in which financial instruments are being managed at the date of first application of IFRS 9.
At the present stage of the detailed work, for the equity instruments included in the financial assets available for sale portfolio it has been decided to exercise the option available to classify equity investments at fair value through other comprehensive income (FVTOCI without recycling through profit and loss), although this decision is not necessarily final. On the other hand in relation to the possibility provided by the standard to classify financial liabilities at fair value through profit and loss, the Banco BPM Group emerging from the merger between BPM and Banco Popolare will assess the possibility of bringing forward to 1 January 2017 the recognition of changes in fair value attributable to variations in the credit standing of its own financial liabilities in equity and no longer in profit and loss.
In conclusion, no significant effects are expected to arise on first-time application of the standard as far as C&M is concerned, although a possible increase in the instruments to be measured at fair value through profit and loss can be expected with an overall rise in the volatility of results in the following years. In this respect it is noted that analyses of the accounting treatment of investment funds (open-ended and closed-end funds) are currently in progress, with a possible future increase in income statement volatility in case of the confirmation of the classification at fair value through profit and loss of the instruments currently classified as financial assets available for sale.
No effects are expected to arise, of either a classification or measurement nature, from trading and hedging derivatives.

As concerns **Impairment**, guidelines and operating procedures are currently being drawn up for the following aspects:

- the way of tracking the credit quality of the portfolios of financial assets measured at amortised cost and at fair value through comprehensive income;
- the parameters to be used to determine a significant deterioration in credit risk for a correct allocation of performing exposures in stage 1 or stage 2; as far as "impaired" exposures are concerned, the Group presents an essential alignment of the definitions of accounting and regulatory default and this allows it to consider the current logic of the classification of the exposures as "deteriorated/impaired" as being identical to the future logic of a classification of the exposures within stage 3;
- the models, inclusive of forward-looking information, for staging (relating to the use of the PD as a relative indicator of default) and for the calculation of the expected credit loss (ECL) at one year (for stage 1 exposures) and lifetime staging (for stage 2 and stage 3 exposures). In this respect the Group is currently tending towards the use of future macroeconomic mono-scenarios.

With reference to the tracking of credit quality, a significant deterioration of credit standing must be determined at single relationship level by comparing the quality of the financial instrument on measurement with that on initial disbursement or purchase. Only on first-time application for certain exposure categories (typically purchased debt securities) will it be possible to take advantage of the low credit risk exemption envisaged by the standard, which would lead to

considering exposures that at the date of transition to the new standard are investment grade (or equivalent category) in stage 1 and the remaining performing exposures in stage 2.

The following drivers have been established at the present stage of the development of the project; these constitute the principal determinants to be taken into account in assessing "transfers" between different stages:

- the change in the probability of lifetime default compared to initial recognition of the financial instrument in the financial statements; the specific criterion has not yet been established in detail as the assessment is carried out using a "relative" criterion;
- the possible presence of a past due that has been such for at least 30 days; in this case the credit risk of the exposure is considered to be "significantly increased" and therefore the transfer to stage 2 is triggered;
- the possible presence of forbearance measures that are putatively considered to qualify the exposure as one for which the credit risk has "significantly increased" compared to initial recognition.

In the event of exposures represented by debt securities, purchase and sale transactions subsequent to the initial purchase, carried out with reference to the same ISIN, may habitually form part of the ordinary activity of managing the positions. In this situation a methodology must be established to identify the sales and redemptions in order to compare the residual quantities of the individual transactions to be associated with a credit/rating quality on origination with that at the reporting date. To this end it is considered that the "first-in first-out" or "FIFO" method, used for sales and redemptions, enables the portfolio to be managed in a transparent manner and the assessment of credit standing to be constantly updated.
In conclusion, regarding the inclusion of forward-looking factors, and in particular the use of macroeconomic scenarios, assessments are being made as to whether to adopt a "most likely scenario plus add on" approach, which for the expected loss (ECL) calculation and stage assignment envisages considering the credit loss determined for the base scenario, which is believed more likely, to which must be added or subtracted an adjustment (add-on), whose method of determination must be established, designed to reflect the effects of the non-linearity of the variables used for influencing the macroeconomic parameters.
The estimation exercises performed to respond to the impact assessment imply that for the Group the impact of the first-time application of the standard in terms of major adjustments, which must be recognised in equity, is sizable but not such as to have adverse impacts on the level of its capital solidity. In this regard, the means by which the major adjustments will be managed for prudential purposes are still being established, since a counter-proposal on the subject against the Basel Committee's proposal has been drawn up by the EBF which is partially reflected in the draft document for proposals to revise article 473 of the CRR. As already noted in response to the EBA's impact assessment and the ECB's thematic review carried out on the Group, it is estimated that when fully operational there will be greater volatility in the income statement due to the transfer of financial instruments from stage 1 to stage 2 and vice versa, caused by the different means of calculating the adjustments and value write-backs compared to present methodologies, and that the measurement of impairment for the calculation of lifetime expected loss on the performing loans classified in stage 2 will be a linear function rising over the duration of the individual relationships.

As far as concerns the final element envisaged for the adoption of the standard, **Hedge Accounting**, the changes regard exclusively general hedges and are strictly connected with the Group's decision to elect the opt-in/opt-out option (the possibility to implement the new IFRS 9 or remain with the old IAS 39). The Bipiemme Group has not yet formalised its decision, which will be made on the basis of the work programme taking place during the first half of 2017, but it is expected that the opt-out option will be chosen on first-time application, meaning that hedging transactions will continue to be dealt with in accordance with IAS 39, the current standard. A decision will then be taken as to whether to keep to that decision in the reporting periods subsequent to 2018.
Following the merger of the Bipiemme Group with the Banco Popolare Group with legal and accounting effect from 1 January 2017, the IFRS 9 project will continue under the centralised management of the new parent Banco BPM S.p.A.. More specifically, a plan for the implementation of the new standard was drawn up in January 2017 extending the range of action and taking into account the results obtained through 31 December 2016 by the two separate projects carried forward independently by the two groups existing before the merger took place. In detail, the Bipiemme Group had actually halted the realisation phase in the second half of 2016, above all from an IT and organisational process standpoint, given that it had been established that after the extraordinary operation these processes would start out from the information system of the former Banco Popolare Group, chosen as the target

system of the new group emerging from the merger. In this respect it is noted that the risk parameters will be those already developed by the Credit Risk Management function of the former Banco Popolare Group, which will be suitably adapted and extended to the portfolio of the former Bipiemme Group. Also the targeted architecture for the development of the impairment engine will, when fully operational, be that already designated in the second half of 2016 by the company SGS of the former Banco Popolare Group. The new integrated project with the detailed activities plan kicked off on 6 February 2017.
It is the intention of the new Banco BPM Group, which from an IT standpoint will be based on the old development plan of the former Banco Popolare Group, to run the new system in parallel with the old system starting in the third quarter of 2017 on the basis of the information available at that date and taking into account any possible disclosure requirements; nonetheless, as things currently stand the Group does not expect to restate comparative figures on the first-time application of IFRS 9 on 1 January 2018 and will instead provided detailed information on the transition to the new standard in accordance with IFRS 7.

IFRS 15 "Revenue from Contracts with Customers"

The IASB issued IFRS 15 "Revenue from Contracts with Customers" in May 2014. Following a resolution adopted by the IASB in 2015 this standard will be effective for years in progress on 1 January 2018.

IFRS 15 specifies the principles for recognising revenue, introducing an approach that establishing that revenue shall only be recognised when all contractual obligations have been satisfied.

The Group is assessing the impact of IFRS 15, although as a preliminary conclusion believes that the effects of its application will not be significant.

IFRS 16 – Leases

The IASB issued IFRS 16 "Leases" in January 2016 which is effective from 1 January 2019, subject to endorsement by the European Commission. This standard will replace the current IAS 17 and interpretations IFRIC 4, SIC 15 and SIC 27.
The new standard defines a lease from an accounting standpoint as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
The standard requires the lessor and lessee to adopt different accounting treatment for lease contracts. More specifically, the lessee will no longer have to distinguish between finance and operating leases with the resulting recognition in the balance sheet of the assets and liabilities underlying the contract.
Instead, the lessee recognises the "right-of-use" of the leased asset as an asset in the balance sheet, which is then depreciated over the lease term or the asset's useful life. The present value of future lease payments is recognised as a liability which is gradually reduced on settlement of the lease payments and interest accrues on the liability that is recognised in profit and loss.
A lessee can elect not to apply the lessee accounting model for short-term leases (those with a lease term of 12 months or less) or leases of low-value items.
Lessor accounting remains unchanged.
The Group has not yet begun an impact assessment in respect of the new standard.

General principles

The financial statements have been prepared in accordance with the following general principles laid down in IAS 1 "Presentation of Financial Statements".

Going concern. The accounting principles have been adopted with a view to the Bank continuing in business as a going concern; they also respond to the accrual principle, the concepts of relevance and materiality of accounting information and the prevalence of substance over legal form. The assumptions underlying the preparation of the financial statements on a going concern basis are explained in the section of the report on operations entitled "Outlook". It is believed that, at present, there is no uncertainty about the Bank's ability to continue in business as a going concern, in accordance with the provisions of IAS 1.

Accrual principle. Except for the statement of cash flows, the financial statements have been prepared in accordance with the accrual principle of accounting, whereby revenues and expenses are recognised according to their economic maturity, regardless of when they are paid, and according to the matching principle.

Consistency of presentation. The methods of presentation and classification of the items in the financial statements remain unchanged from one financial period to the next, except in the case where a change is required by an international accounting standard or by an interpretation or if there is the need to improve the meaningfulness of the accounting presentation. In the event of a change and to the extent possible, the new approach is adopted retroactively and the nature, reason and amount of the items affected by the change are disclosed. The presentation and classification of line items complies with international accounting standards and with the Bank of Italy's instructions for bank financial statements.

Relevance and aggregation. The balance sheet and income statement are made up of line items (indicated by numbers), sub-items (indicated by letters) and other details. Line items, sub-items and other details constitute the account headings of the financial statements. The formats comply with those laid down by the Bank of Italy in Circular no. 262/2005. New line items can be added provided their content is not the same as others already envisaged in the format and only if the amounts concerned are significant. Other information is provided in the explanatory notes. The sub-items of the tables are grouped together if one the following two conditions occur:

a) the amount of the sub-items is immaterial;

b) combining them makes for greater clarity in the financial statements; in this case the explanatory notes show the sub-items separately.

The tables in the notes are only provided if they contain figures for one of the two years.

No offsetting of balances. Assets and liabilities and costs and revenues are not offset against each other except as required or permitted by IAS/IFRS or by an interpretation of these, or by instructions issued by the Bank of Italy for bank financial statements. Measuring assets net of value adjustments such as the provision for non-performing loans is not considered offsetting.

Comparative information. Comparative figures from previous periods are provided for all information in the financial statements – including that of a qualitative nature if this helps explain the Bank's situation – unless IAS/IFRS, or their interpretation, or instructions from the Bank of Italy on the financial statements of banks require or allow otherwise. If the accounts are not comparable, those of the previous period are adjusted to make them so; any lack of comparability and the adjustments made (or the fact that it was not possible to adjust the figures) is disclosed and explained in the notes.

Content of the financial statements

The financial statements consist of the primary statements (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows prepared using the indirect method) and the explanatory notes, accompanied by the report of the directors on operations and the Bank's situation. The financial statements have been prepared with clarity and give a true and fair view of the financial position at the balance sheet date and the results of operations, cash flows and changes in shareholders' equity for the year then ended.

Balance sheet and income statement: the balance sheet and income statement are made up of line items, sub-items and other details. For the sake of completeness, in the schedules laid down by the Bank of Italy all of the recommended items are included even if they had a nil balance in both years. In the income statement (tables and explanatory notes), revenues are shown without a sign, whereas costs are shown in brackets.

Statement of comprehensive income: The statement of comprehensive income presents the net income (loss) for the period (income statement line item 290) together with other items of income and expense, net of taxation, that are

recognised in shareholders' equity as a counter-entry to valuation reserves; on the basis of the amendment to IAS 1, these items are grouped into two categories depending on whether or not they will be subsequently reclassified to profit and loss if certain conditions take place. As for the balance sheet and income statement, in the schedules laid down by the Bank of Italy all of the recommended items are included even if they had a nil balance in both years.

Negative figures in the statement of comprehensive income are shown in brackets.

Statement of changes in shareholders' equity: this statement shows the composition of and changes in shareholders' equity during the year, analysed between share capital, capital reserves, retained earnings, valuation reserves and the result of comprehensive income. Treasury shares are deducted from shareholders' equity.

Statement of cash flows: the statement of cash flows during the year and the previous year has been prepared using the indirect method, whereby cash flows from operations are represented by the result for the year adjusted for costs and revenues of a non-monetary nature. Cash flows are analysed between cash flows generated by operating, investing and financing activities. In the statement, cash flows generated are shown without a sign, whereas cash flows absorbed have a minus sign. As for the balance sheet and income statement, in the schedules laid down by the Bank of Italy all of the recommended items are included even if they had a nil balance in both years.

The statement of cash flows, which has been prepared using the indirect method, follows the requirements of IAS 7.

Content of the explanatory notes: the explanatory notes include the information required by IAS/IFRS and by Circular no. 262/2005 of the Bank of Italy and subsequent updates.

The explanatory notes are subdivided into parts: A – Accounting policies, B – Information on the balance sheet, C – Information on the income statement, D – Comprehensive income, E – Information on risks and related hedging policies, F – Information on capital, G – Business combinations, H – Related party transactions, I – Share-based payments, L – Segment reporting.

Each part of the note is divided into sections, each of which in turn illustrates one aspect of operations.

Uncertainties in the use of estimates in the preparation of the financial statements

The preparation of financial statements also requires the use of estimates that may determine significant changes in the amounts reported in the balance sheet and income statement, and in the information relating to contingent assets and liabilities included therein. The determination of these estimates involves using the available information and making subjective judgements, also on the basis of historical trends, used for deriving reasonable assumptions for reporting the results of operations.
These estimates and assumptions have been made on a going concern basis and are strongly influenced by growing uncertainty in the current economic and market climate, characterised by extremely volatile financial indicators and the very high levels of deterioration in credit quality.

The parameters and information used to determine estimates and assumptions are heavily influenced by these factors, which by their nature may undergo developments that are hard to predict. As a consequence, the estimates used may vary from period to period, meaning that in future years the amounts reported in these financial statements may differ materially as a result of changes in the nature of the assumptions made and the amounts of the parameters used.
The estimates are subject to review to take into account any changes that have taken place during the period.

The main areas in which management is required to make subjective judgements are as follows:

- the quantification of losses inherent in risk exposures, typically represented by "non-performing" loans and "performing" loans as well as by other financial assets;

- the use of valuation models for measuring the fair value of financial instruments that are not listed on active markets;
- the determination of the fair value of financial instruments to be used for reporting purposes;
- the quantification of employee-related provisions and allowances for risks and charges;
- the estimates and assumptions relating to the recoverability of deferred tax assets.

The use of estimates in the above cases is closely linked to the evolution of the national and international economic environment and the performance of the financial markets, which cause a significant impact on interest rate trends, price fluctuations, actuarial bases and the creditworthiness of counterparties.

For the assets or liabilities associated with the above cases the most significant estimates made by the Bank are for the purpose of the preparation of interim financial reports and may thus be used in the determination of the book value of these assets and liabilities. The most significant assumptions and estimates adopted accordingly consist of the following:

- for the determination of the fair value of financial instruments not listed in active markets, securities and derivatives, where there is a need to use parameters not derived from the market, the main estimates relate to the development of future cash flows (coupons, dividends, etc.) which are subject to correction factors deriving from probable future events (e.g. default events) as well as the from need to use specific input parameters not directly derived from active markets;
- as far as the estimation of future cash flow from impaired loans is concerned, the elements taken into consideration essentially relate to: cash flows arising from ordinary operations and/or from extraordinary events that are a feature of the debtor's business, the estimated realisable value of any guarantees, as well as the costs expected to be incurred for the recovery of the loan exposure and the expected timing. To determine the estimated future cash flows arising from loans for which no objective evidence of impairment has been identified, meaning collective evaluation, account is taken of information derived from historical series and other observable elements at the measurement date, which permits estimates to be made of the latent loss ("incurred but not reported") in each homogeneous category into which the Bank's portfolio has been stratified for the purpose of monitoring the management of credit risk;
- for the quantification of allowances for post-employment benefits, an estimate is made of the present value of commitments, taking into account discounted probable outflows inclusive of financial aspects (interest rates), the expected trend in remuneration and employee turnover rates, as well as demographic aspects (mortality);
- for the quantification of allowances for risks and charges, an estimate is made, where possible, of the amount of outflows needed to meet commitments, taking into account the actual probability of costs being incurred;
- for the determination of the components of deferred taxation, an estimate is made of the probability of taxation arising in the future (taxable temporary differences) and of the reasonable degree of certainty, if this exists, of future taxable amounts as and when the tax deductibility will arise (deductible temporary differences).

Section 3
Subsequent events

In relation to the requirements of IAS 10, please note that between 31 December 2016 – the balance sheet date of the financial statements and 10 February 2017, when the draft financial statements were approved by the Board of Directors of Banco BPM S.p.A. – no events occurred that generate significant impacts on the aggregate figures recognised in the financial statements.

New corporate and organisational structure of the Banco BPM Group

On 15 October 2016 the respective Extraordinary General Meetings approved the project for the merger between Banca Popolare di Milano S.c. a r. l. and Banco Popolare S. C. and the simultaneous transformation of the resulting entity into an S.p.A. (joint stock company). The merger that led to the formation of Banco BPM S.p.A. is effective from 1 January 2017.

With the formation of the Banco BPM Group steps have begun to determine a corporate and organisational structure; among these is the contribution effective 1 January 2017 of the business represented by the complete network of its branches by the former Banca Popolare di Milano S.c. a r.l. to the former Banco Popolare di Mantova S.p.A., which with the same effective date changed its name to Banca Popolare di Milano S.p.A..
As the result of this contribution the share capital of Banca Popolare di Milano S.p.A. amounts to 326.8 million euro and is held as to 99.97% by the new Parent Company Banco BPM S.p.A..
In preparing the separate financial statements at 31 December 2016 it was considered that the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" do not apply to the contribution as it lies outside the standard's scope of application: the purpose of the contribution is not to recover book value through the sale of a business; instead, the operation represents a business reorganisation carried out within the context of a combination.

Section 4
Other aspects

Other significant aspects relating to the Group's accounting policies

Contribution to deposit guarantee schemes and resolution mechanisms
By introducing Directives 2014/49/EU of 16 April 2014 (the Deposit Guarantee Schemes Directive – "DGSD") and 2014/59/EU of 15 May 2014 (the Bank Recovery and Resolution Directive – "BRRD") and establishing the Single Resolution Mechanism (Regulation EU no. 806/2014 of 15 July 2014), the European legislator has made significant changes to regulating banking crises, with the strategic objective of strengthening the single market and systemic stability.

Following the transposition of these directives from 2015 banks are required to make ordinary, and possibly also extraordinary, contributions to the Interbank Deposit Protection Fund (Fondo Interbancario di Tutela dei Depositi – FITD) and the National Resolution Fund (Fondo di Risoluzione Nazionale – FRU) which were combined into the Single Resolution Fund (Fondo di Risoluzione Unico – FRU) in 2016.

As specified in the Bank of Italy's Communication of 19 January 2016 (Contributions to resolution funds: accounting treatment and reports to supervisory authorities) the ordinary contribution has been recognised in the financial statements at 31 December 2016 under line item "150. Administrative expenses: b) other administrative expenses" as from an accounting standpoint it is similar to a levy and falls under the scope of IFRIC 21 "Levies". This interpretation identifies the "obligating event" for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation; in particular, the ordinary contributions for the year may be analysed as follows:

- contributions to the FRU: 13.2 million euro (12.2 million euro in 2015);
- contributions to the FITD: 12.2 million euro (5.8 million euro in 2015).

In addition to the above, on 28 December 2016 the Bank of Italy sent out a communication requiring the payment of additional contributions equivalent to the amount due for two years in accordance with article 1, paragraph 848 of Law no. 208 of 28 December 2015 if the ordinary and extraordinary contributions already paid should turn out to be insufficient for the resolutions under way.

The call for the two additional contributions is related to the overall resolution operation for the four banks (Banca Popolare di Etruria, Banca Marche, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Cheiti) initiated in 2015.

The portion of the additional contribution relating to BPM, which amounted to 26.3 million euro, was accordingly charged to income statement line item "150. Administrative expenses: b) other administrative expenses" as a counter-entry to liabilities line item "100. Other liabilities".

The extraordinary contribution to the FRU in 2015 for the resolution of the above four banks was fully charged during the year and amounted to 36.6 million euro.

Interbank Deposit Protection Fund
The banks in the Bipiemme Group are members of the Voluntary Scheme managed by the Interbank Deposit Protection Fund (hereinafter also the FTID's "Voluntary Scheme") that was set up in November 2015 with the aim of intervening in support of member banks in extraordinary administration or those have failed or are at risk of failing.
In September 2016 BPM received notification from the FITD that its quota of the contribution amounted to 7.8 million euro, required for intervention in favour of Cassa di Risparmio di Cesena by way of a reserved capital increase totalling 280 million euro, as authorised by the ECB on 15 September 2016, plus 1 million euro to cover the costs of the intervention and the operations of the Voluntary Scheme.

The contribution paid in this way by BPM represents a participating equity interest relating to the Voluntary Scheme which is classified in the accounting portfolio of "Financial assets available for sale" in the amount of 7.8 million euro. At 31 December 2016 the subsequent measurement of the investment at fair value, quantified in 5.9 million euro in the light of the specific situation of the underlying asset, led to the need to recognise an impairment loss of 1.9 million euro, which is included in income statement line item "130. Net losses/recoveries on impairment of: b) financial assets available for sale".

At the balance sheet date BPM's residual commitment to pay contributions to the Voluntary Scheme, recognised for accounting purposes as "off balance sheet exposures to borrowers", amounts to 11.7 million euro.
In this respect as discussed above the treatment of the contribution and the relative commitments are in line with the Bank of Italy's technical note sent out by the FITD to its consortium members on 31 October 2016, which contains a number of answers to the questions raised on the prudential accounting and reporting treatment required to be adopted for the contributions vis-à-vis the Voluntary Scheme.

Italian group tax election

Banca Popolare di Milano and the Italian companies of the Group have elected to file for tax on a group basis since 2004, in accordance with articles 117-129 of the Income Tax Consolidation Act (ITCA) introduced by Decree no. 344/2003. This optional tax regime makes it possible for each of the subsidiaries to calculate its tax charge for the year and then transfer the equivalent taxable income (or tax loss) to the parent company, adjusting for intercompany interest according to the rules on the deductibility of interest expense. It then calculates a single taxable income or tax loss for the entire group, adding together the profits and subtracting the losses of the individual companies, filing a single tax return and declaring a single amount payable to or receivable from the tax authorities.

The Parent Company and the subsidiaries taking part in the Italian group tax regime have signed agreements that regulate the compensatory flows relating to the transfers of taxable income and tax losses. These flows are determined by applying the IRES rate currently in force to the taxable income of the companies concerned. For companies with tax losses, the compensatory flow, calculated as above, is recognised by the consolidating company to the consolidated company for the losses incurred after joining the Italian group tax regime, to the extent that such losses are covered by the taxable income of the Group. The losses incurred prior to joining the Italian group tax regime have to be offset by the consolidated company against its own taxable income in accordance with current tax rules.
The compensatory flows determined in this way are recognised as receivables and payables versus the companies taking part in the Italian group tax regime and classified in "Other assets" and "Other liabilities", with a counter-entry to "Taxes on income from continuing operations".

Deadlines for approval and publication of report

1. Annual report
Art. 154-*ter*, paragraph 1 of Legislative Decree no. 59/98 (CFA) lays down that the financial statements have to be approved and that the annual report, consisting of the separate and consolidated financial statements, report on operations and the representation referred to in article 154-bis, paragraph 5, has to be published within one hundred and twenty days of the year end.

On 15 October 2016 the respective Extraordinary Members' Meetings approved the merger of Banca Popolare di Milano S.c.a r.l. with Banco Popolare Soc. Coop., which led to the creation of Banco BPM S.p.A. with effect from 1 January 2017.

As the result of the merger of Banca Popolare di Milano S.c.a r.l. with Banco Popolare Soc. Coop. the body responsible for approving the draft financial statements of the two banks at 31 December 2016 is the Board of Directors of Banco BPM S.p.A., while the representation required by article 154-*bis*. paragraph 5 of the TUF containing the annual financial report has been provided by the Managing Director and Manager in charge of the corporate accounting documents of Banco BPM S.p.A..
In particular, BPM's draft separate and consolidated financial statements were approved by the Board of Directors of Banco BPM S.p.A. on 10 February 2017 and will be submitted for approval to the General Meeting of the Members of Banco BPM S.p.A. on 8 April 2017.

The consolidated financial statements (consisting of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and explanatory notes) are audited by PricewaterhouseCoopers S.p.A. in accordance with Legislative Decree no. 39/2010, in execution of the resolution of the General Meeting of Members of 11 April 2015 which appointed this firm for the period from 2016 to 2024 inclusive.

2. Half – yearly report
The Bank prepared and approved on 4 August 2016 the half-yearly report of the Bipiemme Group as at 30 June 2016, in accordance with article 154-*ter* of Legislative Decree no. 58/98 introduced by Legislative Decree no. 195/2007 which adopted the European regulations on the transparency of listed companies (EC/2004/109). The condensed interim financial statements were reviewed by PricewaterhouseCoopers S.p.A. in compliance with Consob Communication no. 97001574 of 20 February 1997 and Consob Resolution no. 10867 of 31 July 1997 and in accordance with the decision of the General Meeting of Members of 11 April 2015.

3. Interim report on operation
The Bank prepared the interim report on operations of the Bipiemme Group as at 31 March 2016 in accordance with article 154-*ter*, paragraph 5 of Legislative Decree no. 58/98, introduced by Legislative Decree no. 195/2007, and published this on 10 May 2016. The interim report on operations as at 31 March 2016 was not audited.
BPM did not publish an interim report on operations as at 30 September 2016, availing itself of the option provided by the changes to the Consolidated Finance Law (TUF) introduced by Legislative Decree no. 25 of 15 February 2016 which transposes Transparency Directive II into Italian legislation.

A.2 – Part relating to the main line items in the financial statements

The accounting policies adopted by the companies of the Bipiemme Group to prepare their financial statements at 31.12.2016 with respect to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the recognition of revenues and costs, are described in the following.

1 – Financial assets held for trading

Classification
This category contains debt securities and equities, shares in investment funds and derivatives (except those designated as effective hedging instruments, recognised in assets under "Hedging derivatives") with a positive fair value. They must be held primarily for the purpose of profiting from short-term fluctuations in price or from the operator's profit margin. A financial asset is classified as held for trading if, regardless of why it was acquired, it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking.

Reclassifications to other categories of financial assets are not allowed, except when it is possible to reclassify assets other than derivatives, no longer held for trading purposes, in other categories foreseen by IAS 39 "Financial Instruments: Recognition and Measurement" (investments held to maturity or financial assets available for sale when there are unusual events that are unlikely to recur in the short term, or loans and receivables when there is the intention and ability to hold

them for the foreseeable future or until maturity), always assuming that the conditions for recognition are satisfied. The transfer value is represented by the fair value at the time of reclassification. In the event of reclassification, a check is carried out to see if there are any embedded derivatives that have to be separated. The Bank has never exercised this option, either for the current year or for previous years.

The derivative is a financial instrument or other contract with all three of the following characteristics:

a) its value changes in response to changes in a specific interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variables;

b) it requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions;

c) it is settled at a future date.

This category consists of financial and credit derivatives.

Financial derivatives have the function of transferring market risks (interest rate risk, foreign exchange risk, price risk) and consist of instruments underlying items such as debt and equity securities, interest rates, stock indices, currencies and commodities. They can assume the most varied and complicated contractual forms which can however be traced to three essential basic models: "futures" or "forwards" (fixed contracts, including the forward purchase and sale of securities and currencies), "options" (option contracts) and "swaps" (swap contracts). These include contracts for the forward purchase and sale of securities and currencies, derivative contracts having or not having underlyings linked to interest rates, indices or other items and currency derivative contracts.

Credit derivatives are contracts enabling the underlying credit risk to a specific item by the party purchasing protection to the party selling protection. In these operations the object of the transaction is the credit risk of the final borrower. This category includes the following main types of contract: "credit default swaps" (other than those regarding signatory loans), "credit default options", "total rate of return swaps", "credit spread options", "credit spread swaps" and "credit linked notes" (limited to the embedded derivative component).

Derivatives include those embedded in other hybrid financial instruments which have been recognised separately from the host instrument to the extent that:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- the embedded instrument, even if separated, meets the definition of a derivative;
- the hybrid instrument is not measured at fair value through profit and loss.

Recognition

Initial recognition of financial assets held for trading takes place, for securities, on the settlement date of the underlying purchase transactions – if settled on schedule according to current market practice (known as "regular way") – and, for derivatives, the trade date. In the case of recognition of financial assets at the settlement date, any changes in fair value recognised between the trade date and the settlement date are recognised in the income statement.

Financial assets held for trading are initially recognised at fair value, which generally corresponds to the price paid, without considering any transaction costs or income which are charged directly to income.

Any derivatives embedded in these complex financial instruments and separated from them from an accounting point of view (see the previous section on "Classification") are recognised at their fair value at recognition date.

Measurement and recognition of items affecting the income statement

Following initial recognition, financial assets held for trading are measured at their current fair value, with any changes being recognised in the income statement. If the fair value of a financial asset becomes negative, it is accounted for as a financial liability.

The fair value of investments listed on active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of investments for which no price is listed on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets. For further details, reference should be made to section A.4 "Fair value disclosures".

Equities for which it is not possible to determine the fair value reliably in accordance with the above guidelines, and the derivatives related to them which have to be settled through physical delivery of the equity instruments, are maintained at cost and written down in the event of impairment losses.

Profits and losses from trading activities and the unrealised gains and losses arising from changes in fair value with respect to the purchase cost, determined on the basis of the weighted average cost on a daily basis, are expensed in the period in which they arise under the item "Profits (losses) on trading", except for financial derivatives linked to the fair value option, whose result is recognised in "Profits (losses) on financial assets and liabilities designated at fair value".

Interest income on debt securities is calculated on the basis of the nominal interest rate. Dividends from equities are recognised when the right to receive them arises. Differentials and margins on derivatives are recognised upon the right to collect them or the obligation to settle them. Interest income and dividends are classified in the income statement under "Interest and similar income" and "Dividends and similar income" respectively. Differentials and margins on derivatives are allocated in the income statement to "Profits (losses) on trading", except for those that are operationally linked to financial assets or liabilities designated at fair value (subject to the fair value option) or linked to financial assets or liabilities classified as held for trading and with settlement of differentials or margins with various maturities ("multiflow" contracts), which are classified in the income statement as "Interest and similar income".

Derecognition
Financial assets are derecognised when the contractual right to receive cash flows from the financial asset is terminated, or if substantially all of the risks and rewards associated with holding that particular asset are transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred, but the bank retains a substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet. In such cases, the transferor recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

2 – Financial assets available for sale

Classification
Investments "available for sale" are financial assets that will be maintained for an indefinite period and that can also be sold for reasons of liquidity, changes in interest rates, exchange rates and market prices. This category excludes derivatives but includes financial assets not otherwise classified as receivables, financial assets held for trading, investments held to maturity and financial assets designated at fair value through profit and loss. In particular, this item includes equity investments not held for trading and which do not qualify as investments in subsidiaries, associates and joint ventures, including direct and indirect private equity investments.

Where allowed by IAS 39, reclassifications to the category "Investments held to maturity" are permitted. It is also possible to reclassify the debt securities not only in "Investments held to maturity" but also in "Receivables" when the company has the intention and ability to hold them for the foreseeable future or until maturity and assuming that the conditions for them to be recognised are satisfied. The transfer value is represented by the fair value at the time of reclassification. The Bank has never taken advantage of this possibility, either for the current year or for previous years.

Recognition
Initial recognition of financial assets available for sale takes place on the settlement date of the underlying purchase transactions in the "regular way". Any changes in fair value recognised between the trade date and the settlement date are recognised in shareholders' equity.

Financial assets available for sale are initially recognised at fair value, which generally corresponds to the price paid including any transaction costs or income directly attributable to the instrument concerned.

If, as permitted by IAS 39, the entry is made as a result of reclassification of investments held to maturity or, in the presence of unusual events, of financial assets held for trading, the book value is represented by the fair value at the time of transfer.

Measurement and recognition of items affecting the income statement
After initial recognition, financial assets available for sale are measured at their current fair value, booking:

- to the income statement, the interest calculated under the effective interest rate method (which takes account of the amortisation of both the transaction costs and the difference between cost and the redemption amount);
- to equity (in the revaluation reserve), increasing or decreasing a specific reserve (net of tax), the unrealised gains and losses resulting from the measurement at fair value until such time as the financial asset is derecognised or an impairment loss is recognised. On derecognition of the financial asset from the balance sheet (e.g. in the case of the asset being sold) or on recognition of an impairment loss, the valuation reserve in question is reclassified, in whole or in part, to the income statement. Exchange gains and losses on monetary instruments (e.g. debt securities) are recognised directly in income. Changes in fair value indicated by the line item "Valuation reserves" are also reported in the statement of comprehensive income.

The fair value is determined based on the guidelines already discussed for financial assets held for trading. Equities for which it is not possible to determine the fair value reliably are maintained at cost and written down in the event of impairment losses.

Financial assets available for sale are tested for impairment at the end of each financial year or interim period to identify whether there is objective evidence of a deterioration in quality that might compromise the recoverability of the investment. Objective evidence of impairment, as defined by IAS 39, is identified on the basis of two circumstances:

- if one or more negative events take place after initial recognition of the financial asset;
- if this event has a negative impact on future expected cash flows.

In particular, the factors taken into account as indicators of critical circumstances are: the announcement or launch of financial restructuring plans or, in any case, significant financial difficulties, a significant downgrade in the issuer's rating, a material adverse change in book net equity since the last published financial statements, or a market capitalisation significantly lower than the book net equity.

The indicators relating to market values and parameters are verified with reference to specific information available on the company's situation to determine whether the indications given by the market do in fact reflect difficulties on the part of the company.

Regarding equities, a significant or prolonged decrease in fair value below the original purchase price is objective evidence of impairment (IAS 39, paragraph 61). In this regard, the following quantitative limits have been set for identification of the impairment:

- a decrease in fair value at the balance sheet date exceeding 50% of the original book value;
- a decrease in the fair value below the original book value for a continuous period of:
  - 18 months for equity securities or similar (for example participating instruments).
  - 48 months for units of mutual funds.

In either case exceeding one of these two thresholds means that an impairment loss has to be recognised on the security. However, even if these automatic thresholds are not exceeded, a check should be made for the existence of other symptoms of impairment that require further analysis of a particular financial instrument and may lead to the need for an adjustment.

If there is evidence of an impairment loss, the amount of the write-down, measured as the difference between the asset's original purchase cost and its current fair value, is recognised as an expense in the income statement for the year in "Net losses/recoveries on impairment of financial assets available for sale" including any equity reserve accumulated up to the balance sheet date. If the reasons for impairment no longer exist because of an event that took place after recognising the loss:

- in the case of debt securities or loans and receivables a reversal of the loss is recognised in the income statement up to the book value, while any excess is recognised in a valuation reserve in equity;
- in the case of equities and units of mutual funds a reversal of the loss is recognised in an equity reserve.

Derecognition
A financial asset is derecognised when the right to receive cash flows from the asset has expired, or when all the risks and rewards associated with holding this asset are effectively transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred, but the Bank retains a substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet. In such cases, the entity making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

3 – Investments held to maturity

Investments held to maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the intention and ability to hold to maturity.

The Bank has not classified any financial assets in this category.

4 – Loans and receivables

Classification
Loans and receivables form part of the wider category of non-derivative financial assets that call for fixed or determinable payments and which are not listed on an active market. They originate when the entity provides money, goods or services directly to a debtor without the intention of selling the related receivable. This category therefore does not include loans and receivables originated with the intention of being sold immediately or in the short term.

Receivables include loans to customers and banks, whether provided directly or acquired from third parties, securities acquired by subscription or private placement with identified or identifiable payments and not listed on active markets, debt securities not listed on active markets deriving from debt restructurings and receivables arising from finance leases.

They also include the swaps and repurchase agreements with a forward obligation to resell, other than those for trading purposes, and securities lending transactions in which the collateral is represented by cash that remains entirely at the lender's disposal. Such operations are accounted for as lending transactions and do not lead to any changes in the proprietary securities portfolio. In particular, repurchase agreements are recognised as loans for the amount paid spot. This category also includes operating receivables associated with the provision of financial services as defined in the Consolidated Banking Act (CBA) and the Consolidated Finance Act (CFA).
Reclassifications are not allowed in the other categories of financial assets under IAS 39.

Recognition
Loans are recognised in the financial statements only when the entity is a party to the loan agreement. This means that the loan must be unconditional and the creditor acquires a right to payment of the contractually agreed sums. Initial recognition of the loans takes place on the date of payment or, in the case of a debt security, on the settlement date of the underlying purchase transactions according to the timing provided by market practice ("regular way"), on the basis of the related fair value, which normally corresponds to the amount granted or the price paid, inclusive of the costs/revenues directly attributable to the individual instrument and determinable from the outset of the operation, even if settled at a later date. Costs are excluded even if they have the above characteristics if they are subject to repayment by the debtor or can be considered normal internal administrative costs. In cases where the date of signing the contract does not coincide with the delivery date a commitment to grant finance is recognised; this commitment ends on the date that the funds are disbursed.

For loans concluded on terms other than market conditions, where the fair value is lower than the amount disbursed or settled as a result of applying a lower interest rate than the market rate or the one normally charged for loans with similar characteristics, initial recognition is made for an amount equal to the future cash flows discounted at a market rate. The difference compared with the amount paid/settled is recognised in the income statement on initial booking, except for loans to employees for which this difference is amortised over the shorter of the expected period of employment and the duration of the loan.

Receivables arising from the sale of goods or services are recognised at the time the sale or service is completed, meaning the time at which it is possible to recognise the income and hence the right to its receipt.
If recognition in the category of loans and receivables takes place when the company has the intention and ability to hold them for the foreseeable future or up to maturity, assuming it meets the conditions for booking, for reclassification from financial assets available for sale or from financial assets held for trading, the fair value of the asset at the date of reclassification is taken as the new amortised cost of the asset.

Measurement and recognition of items affecting the income statement
Following initial recognition, receivables are measured at amortised cost, equal to the initial value less any repayments of principal, reduced by value adjustments, increased by any write-backs of impairment losses and adjusted for the accumulated amortisation – calculated under the effective interest rate method – of the difference between the amount paid and that repayable on maturity, which is typically attributable to ancillary costs/revenues booked directly to the individual loan.

The effective interest rate is the rate that equates the present value of future cash flows of loans, principal and interest, estimated during the expected life of the loan, to its initial value, for fixed-rate instruments, or its book value at each repricing date for floating-rate instruments. The estimate of cash flows takes into account all contractual terms which may affect the amounts and maturities, without considering the expected losses on the loan. The calculation includes all the payments between the parties which form an integral part of the interest, even if otherwise specified (fees, expenses, etc.), transaction costs and all other premiums or discounts. From a financial standpoint this accounting method makes it possible to spread the economic effect of the costs/revenue over the residual life of the loan.

The amortised cost method is not used for short-term receivables for which the effect of discounting is immaterial. These receivables are measured at historical cost. The same method is applied to loans without a defined maturity or which can be revoked at any time.

Each time financial statements are prepared, a review of financial assets classified as loans is carried out to identify those which show objective signs of impairment as a result of events occurring after recognition. These signs become visible as a consequence of the following events in particular:

- significant financial difficulties on the part of the issuer or the debtor to settle the payments due;
- situations of default on the part of the issuer or the debtor or non-payment of interest or principal;
- concession to the debtor or issuer, for economic or legal reasons linked to the financial difficulties of the issuer, of facilities that the entity would not otherwise have taken into account;
- probable bankruptcy of the debtor or issuer or their involvement in other insolvency proceedings;

- lack of access to an active market for that particular financial asset because of the financial difficulties of the debtor or issuer;
- deterioration in the quality of a homogeneous group of loans due for example:
  - payment difficulties on the part of debtors within the group;
  - national or local economic conditions that adversely affect the group.

The impairment test for the loans is divided into two phases:

- the phase of individual or specific assessments, in which individual impaired loans are selected and the related losses estimated;
- the phase of collective or portfolio assessments, in which latent potential losses on performing loans are estimated.

First of all a valuation is made of the assets representing impaired exposures (non-performing loans) classified in the various risk categories on the basis of the Bank of Italy's regulations, consistent with IAS/IFRS standards, together with internal provisions establishing the criteria and rules for the transfer of loans within the various risk categories. In this respect it should be noted that the Bank of Italy has revised the definitions of non-performing loan categories as from 1 January 2015.
This revision became necessary in order to adapt previous risk classes to the definition of "Non-Performing Exposure" (NPE) introduced by the European Banking Authority ("EBA") through the issue of Implementing Technical Standards ("ITS"), EBA/ITS /2013/03/rev1 on 24 July 2014.

The "Asset quality" section of Circular no. 272 of 30 July 2008 was accordingly updated (6th update of 7 January 2015), identifying the following categories of non-performing loans:

- **Bad loans:** cash and "off-balance sheet" exposures to borrowers in a state of insolvency (even if not yet established by a court) or substantially similar situations, independent of any loss forecasts made by the bank. Bad loans also include exposures to local authorities (municipalities and provinces) in a state of financial distress for the amount subject to the relevant liquidation;
- **Unlikely to pay:** classification in this category is above all the result of the bank's opinion on the likelihood that the obligor will be able to pay its credit obligations (principal and/or interest) in full without recourse to measures such as enforcing guarantees. This assessment has to be carried out whether or not there are any amounts or instalments past due and unpaid. This means that it is not necessary to wait for explicit signs of an anomaly, such as failure to repay, if there are elements that imply a situation of risk of default on the part of the borrower (for example, a crisis in the industry in which the debtor operates). "Unlikely to pay" status applies to all of the cash and off-balance exposures to the same debtor that finds itself in such as situation;
- **Past due and/or overdrawn:** cash exposures, other than those classified as bad loans or unlikely to pay, that have a past due and/or overdrawn position for more than 90 days at the reporting date. As regards the Bank, non-performing past due and/or overdrawn exposures are determined with reference to the position of the individual debtor.

In its ITS the EBA introduces an additional disclosure requirement on forbearance. The term "forbearance" is used by the EBA to indicate debtors that find or could find themselves in difficulty with respect to their loan repayment terms and for which concessions have been made concerning the renegotiation of the original contractual conditions. Accordingly, a necessary condition for the identification of an exposure as forborne is the existence at the time of the request for renegotiation of a situation whereby a debtor is experiencing financial difficulty.

In January 2015 the Bank of Italy issued an update to Circular no. 272 which provides definitions for "non-performing exposures" and "forborne exposures" (i.e. exposures for which concessions have been made), based on the EBA's technical standards. The latter definition does not represent a new category of non-performing loan but is an additional information tool, since the "forborne" loan category applies to all existing risk classes and both performing and non-performing loans may be included in the scope of renegotiation.

The allocation of forborne status may be reversed subsequent to a review of the results and financial position of the debtor. This review process takes place after a period of 2 or 3 years, based on whether the loan is performing or non-performing.

If there is objective evidence of impairment, the amount of the write-downs is equal to the difference between the book value of the asset at the time of the evaluation (amortised cost) and the present value of the expected future cash flows of principal and interest, calculated by applying the effective interest rate on impairment.

The expected cash flows take into account the foreseeable recovery time, the realisable value of any guarantees on the positions, any prepayments received (excluding future loan losses that have not yet arisen), and the costs that will be incurred to recover the loan. The present value of future cash flows of a collateralised financial asset reflects the cash flows that might result from the collateral, net of realisation costs, regardless of the actual probability of realisation. Cash flows related to loans that are expected to be recovered in the short term are not discounted. The original effective interest rate for each loan remains unchanged over time even in the case of a restructuring that has led to a change in the contractual rate and also when the relationship becomes, in practice, non-interest bearing from a contractual point of view. If a loan has a variable interest rate, the discount rate for measuring the loss is the current effective interest rate determined under the contract.

In the event of an adjustment, the book value of the asset is reduced by setting up an allowance for bad and doubtful accounts that offsets the value of the asset and the amount of the adjustment is recognised in the income statement under "Net losses/recoveries on impairment of loans". If the loan is regarded as uncollectable, it is written off against the allowance. If in a subsequent period the amount of the adjustment decreases and the decrease is objectively attributable to an event that occurred after determination of the write-down, as an improvement in the creditworthiness of the borrower, the adjustment recognised previously is eliminated or reduced by booking a write-back to the income statement, although the write-back cannot in any case exceed the amortised cost that the loan would have had if no adjustments had been made previously.

Reversals of impairment losses, like reversals associated with the passage of time, for interest earned in the period on the basis of the original effective interest rate (previously used for calculating the impairment loss), are recognised at each balance sheet date under "Net losses/recoveries on impairment of loans" in the income statement.

The restructuring of loans from debt to equity instruments (shares, participating instruments, units of mutual funds) via debt/equity swap transactions is equivalent to, from an accounting point of view, a substantial amendment to the original contractual terms leading to the termination of the pre-existing relationship and the resulting fair value measurement of the new relationship, with the recognition in the income statement of a profit and loss equating to the difference between the book value of the terminated loan and the fair value of the financial instruments received.

Loans for which no objective evidence of impairment has been identified ("performing loans") are submitted to collective or portfolio evaluation.

The evaluation of performing loans (loans to borrowers who, at the balance sheet date, have not shown any specific risk of default) takes place for homogeneous categories of loans in terms of credit risk and loss rates are estimated taking into account past statistics and other elements that are observable at the valuation date, which makes it possible to estimate the latent loss in value of each loan category.

For this purpose a model is used that is developed on the basis of risk management methodologies seeking all possible synergies (as permitted by the various regulations) with the advanced approach for evaluating the creditworthiness of a counterparty, as envisaged under current supervisory legislation. From an operational standpoint the best possible proxy for determining the creditworthiness of a counterparty is the rating calculated by the models that have been developed and validated internally. All of the positions identified using the methods explained above are evaluated on a collective basis by determining the amount of adjustments to be recognised in the income statement as the product of the exposure at the balance sheet date, the probability of default (PD) and the loss in case of default (LGD).

The estimation process for the above factors, PD and LGD, takes account of assumptions that permit the closest possible approximation of the notion of "incurred loss", that is, the loss arising from actual events but which has not yet been reflected in the revision of the level of risk of the counterparty ("incurred but not reported"), as envisaged by IAS 39. In particular, a time horizon of one year is used for the identification of a deterioration in creditworthiness that is then

corrected by means of a mitigating factor ("Loss Confirmation Period") that represents the time period between the detection of the initial signs of anomalies and the point in time when the default event is recognised by the Bank.

The adjustments are determined collectively and recognised in the income statement. At each balance sheet and interim report date, the assessment is updated with reference to the entire portfolio of performing loans as of that date and any additional adjustments or write-backs are recalculated differentially with reference to the entire portfolio.
Interest on the loans is classified in the income statement under "Interest and similar income" and is recognised on an accrual basis. Any gains and losses on disposal are reported in the income statement under "Profits (losses) on disposal or repurchase of: loans".

A similar method is used for determining specific and general write-downs against guarantees given which do not represent derivative contracts. The liabilities resulting from this valuation process are recognised in "Other liabilities" in accordance with the Bank of Italy's instructions. Impairment losses on the guarantees issued and any subsequent write-backs are recognised in the income statement under "Net losses/recoveries on impairment of: other financial activities".

Derecognition
Loans and receivables are derecognised when the right to receive cash flows from the financial asset has expired, or when all the risks and rewards associated with holding the asset in question are effectively transferred or when the asset is regarded as definitively irrecoverable upon completion of all the necessary recovery procedures.

Conversely, if the legal ownership of loans has been effectively transferred and the entity retains substantially all their rewards and benefits, the loans continue to be reported as assets in the Bank's balance sheet, with the consideration received from the purchaser recognised as a liability.

In such cases, the entity making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

5 – Financial assets designated at fair value through profit and loss

Classification
In general terms the application of the fair value option is extended to all financial assets and liabilities which, if classified otherwise, would give rise to a distortion in the accounting treatment of income and shareholders' equity, as well as to all instruments that are managed and measured at fair value.

The following are therefore included in this category:

- purchased structured instruments (hybrid debt instruments whose return is linked to equity instruments, foreign exchange, credit instruments or indices), other than those allocated to trading instruments;
- debt securities not included in financial assets held for trading and subject to financial hedging for which the fair value is applied in order to reduce and/or eliminate valuation and accounting asymmetries;
- open-ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short-term trading, form part of a suitably documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument, with regular detailed reports on performance provided to management.

Reclassifications to other categories of financial assets are not permitted.

Recognition
Financial assets designated at fair value through profit and loss are initially recognised on the settlement date of the underlying purchase transactions according to the timing provided by market practices ("regular way"). Changes in fair value between the trade date and the settlement date are recognised in the income statement.

Such assets are initially recognised at fair value, which generally corresponds to their purchase price. Transaction costs or proceeds are recognised directly in the income statement.

Measurement and recognition of items affecting the income statement
After initial recognition financial assets are valued at their current fair value.

The fair value of investments listed on active markets is determined with reference to the market bid price reported at the balance sheet date. The fair value of investments for which no price is listed on an active market is determined using estimates and valuation models that take account of all the risk factors related to the instruments along with published price quotations, if available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets. For further details reference should be made to section A.4 "Fair value disclosures".

Gains and losses realised on sale or redemption and the unrealised gains and losses arising from changes in fair value with respect to purchase cost, determined on the basis of the weighted average cost on a daily basis, are expensed in the period in which they arise under the item "Profits (losses) on financial assets and liabilities designated at fair value", to which the capital gains and losses on derivatives linked to the fair value option are also booked.

Under the terms of article 6 of Legislative Decree no. 38 of 28 February 2005, the share of operating profit, corresponding to gains recognised in the income statement, net of the related tax charge, which stems from the application of fair value to instruments other than those for trading and to foreign exchange operations and hedging instruments, is recognised in a restricted reserve that is reduced by the amount of any capital gains that are realised. The amount reported in the restricted reserve refers to the net gains on financial assets and liabilities, not hedged by derivatives, and those on hedged financial instruments.

Interest income on debt securities is calculated on the basis of the nominal interest rate. Dividends from equities are recognised when the right to receive them arises. Interest income and dividends are presented in the income statement under "Interest and similar income" and "Dividends and similar income" respectively.

Derecognition
Financial assets designated at fair value through profit and loss are derecognised when the right to receive the cash flows from the financial asset has expired, or if substantially all the risks and rewards associated with holding that particular asset are transferred.

Conversely, if legal ownership of a financial asset has effectively been transferred, but the bank retains a substantial part of the rewards and benefits of the asset sold, it continues to be reported as an asset in the balance sheet. In such cases, the entity making the transfer recognises a liability to the buyers equal to the price received; the respective costs and revenues are recognised on the assets sold and any related liabilities.

6 – Hedging transactions

Classification
Transactions hedging risks are designed to neutralise potential losses on a particular item or group of items attributable to a given risk, should a specific risk actually occur. The instruments that may be used for hedging are derivatives (including purchased options) and non-derivative financial instruments, but only to hedge exchange risk. Hedging instruments are classified in the balance sheet under asset line item "80. Hedging derivatives" if positive at the balance sheet date, or under liability line item "60. Hedging derivatives", if negative.

Of those permitted by the standard, the Bank uses the following types of hedging:

- **Fair value hedges** divided into:
  - **microhedging:** this has the aim of hedging the risk of changes in the fair value of individual assets or liabilities in the financial statements, or portions thereof, attributable to a particular risk, such as interest rate risk or price risk;
  - **macrohedging:** this has the aim of reducing fluctuations attributable to interest rate risk in the fair value of an indistinct portion (a monetary amount) of a portfolio of financial assets and/or liabilities. Net amounts corresponding to mismatches of assets and liabilities cannot be macrohedged.
- **Cash flow hedges:** the objective of these is to hedge the exposure to changes in future cash flows attributable to particular risks associated with financial statement components. This type of hedging is used to stabilise cash flows generated by interest on floating rate loans or to hedge the risk of a price change on future purchases of financial assets.

Recognition
Hedging derivatives are initially recognised at the trade date (the date the contract is signed).
Like all derivatives, financial derivative instruments used for hedging are initially recognised at fair value.

Measurement and recognition of items affecting the income statement

Fair value hedge
Financial derivative instruments used for hedging are measured at their current fair value. The fair value of derivatives is based on prices published by regulated markets or provided by financial markets, option pricing models or discounted future cash flow models. For further details reference should be made to section A.4 "Fair value disclosures".

Hedged positions are also carried at fair value, but only for changes in value produced by the risk being hedged (e.g. interest rate risk), "sterilising" the other risk components that are not subject to such transactions and, for hedged positions subject to the amortised cost method and involved in microhedging, with the counter-entry adjusting their amortised cost. In macrohedging operations changes in fair value of hedged positions do not involve adjusting their amortised cost but are recognised in the balance sheet under the asset item "90. Fair value change of financial assets in hedged portfolios" or under the liability item "70. Fair value change of financial liabilities in hedged portfolios".

The accounting treatment of unrealised gains and losses corresponding to changes in fair value depends on the type of hedging. In particular:

- **specific fair value hedge:** the change in the fair value of the hedged item is connected with the change in the fair value of the hedging instrument. Such compensation is recognised through recognition in income statement item "90. Fair value adjustments in hedge accounting" of the changes in value related to the hedged item (as regards the changes produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, therefore constitutes the net economic effect. Recognition in the income statement of changes in the fair value of the hedged item, attributable to the risk being hedged, also applies if the hedged item is a financial asset available for sale; if there is no hedge, this change is recognised in equity. In microhedging transactions the difference between the book value of the hedged position (carried at amortised cost) at the time the hedge comes to an end and what would have been its book value if the hedge had never been activated is amortised to income over the residual life of the hedged item based on the effective rate of return. If the hedged item is sold or redeemed, the unamortised portion of fair value is recognised immediately in profit and loss;
- **generic fair value hedge:** changes in the fair value of assets or liabilities being hedged are recognised in income statement item "90. Fair value adjustments in hedge accounting" and in the balance sheet under asset item "90. Fair value change of financial assets in hedged portfolios" or liability item "70. Fair value change of financial liabilities in hedged portfolios". If the hedging relationship no longer fulfils the conditions for hedge accounting or the hedge relationship is divested, the amount included in asset item 90 or liability item 70 is amortised to the income statement over the estimated life of the hedged items at the time of defining the generic (or "macro") hedge. If the hedge no longer applies as the elements being hedged have been cancelled or reimbursed, the portion of fair value not yet amortised is recognised immediately in profit and loss.

Cash flow hedges
Cash flow hedging derivatives are measured at fair value. The change in the fair value of hedging derivatives:

- is recognised in line item 140. "Valuation reserves" of shareholders' equity if effective;
- is recognised in the income statement line item 90. "Fair value adjustments in hedge accounting" when, in relation to the hedged item, there is a change in the hedged cash flow or the ineffective portion of the hedge.

If the cash flow hedge is no longer considered effective or the hedging relationship has been terminated, the entire amount of the profits or losses arising from the hedging instrument, already recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction takes place or when it is deemed that there is no longer any possibility that the transaction will take place; in the latter circumstances the profits or losses are reclassified from shareholders' equity to the income statement line item 90. "Fair value adjustments in hedge accounting". Changes in fair value indicated by the line item 140. "Valuation reserves" are also reported in the statement of comprehensive income.

Differentials accrued on derivatives to hedge interest rate risk are recognised in the income statement under "Interest and similar income" or "Interest and similar expense" (the same as the accrued interest on the hedged positions).

A transaction qualifies for hedge accounting if there is formal documentation of the relationship between the hedging instrument and risks hedged, of the enterprise's risk management and strategy for undertaking the hedge and of how the hedging instrument's effectiveness will be assessed. Furthermore, the effectiveness of the hedging relation must be tested when initiated and, in the future, over its entire life.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged instruments or of the expected cash flows are offset by those of the hedging instrument. As a result, effectiveness is measured by comparing the above changes, taking into account the intent pursued by the company when the hedge was put in place.

A hedge is effective (within a range of 80%–125%) when the actual and expected changes in the fair value or cash flows of the hedging instrument almost completely neutralise the changes in the hedged item, for the type of risk being hedged.

Effectiveness is assessed at each annual or interim balance sheet date.

Hedge accounting is discontinued in the following circumstances:

a) the hedging derivative ceases to exist or is no longer highly effective;
b) the hedged item is sold or repaid;
c) the hedge is terminated prematurely;
d) the derivative expires or is sold, terminated or exercised.

In cases a), b) and c) the derivative contract is reclassified to trading instruments (under "20. Financial assets held for trading" or "40. Financial liabilities held for trading"). In cases a), c) and d) the hedged instrument is recognised in its category with a value equal to its fair value at the time when it ceases to be effective and returns to being measured according to the class to which it originally belonged.

Derecognition
Financial assets and liabilities used for hedging are derecognised when there is no longer the contractual right to receive the cash flows relating to financial instruments, assets/liabilities hedged and/or derivative object of the hedging transaction (e.g. expiry of the contract, early termination exercised in accordance with the terms of the contract – so-called "unwinding") or when the financial asset/liability is sold, transferring substantially all of the risks/benefits associated with it.

7 – Investments in subsidiaries, associates and companies subject to joint control

Classification
This item consists of investments in companies in the capital of other companies, generally represented by shares or quotas and classified as subsidiaries with exclusive control (IFRS 10) (subsidiaries), companies subject to joint control (IFRS 11) (joint ventures) and companies subject to significant influence (IAS 28) (associates).

As far as the criteria used to identify control, joint control or significant influence, reference should be made to Section 3 "Scope of consolidation and consolidation procedures" included as part of the accounting policies section of the consolidated financial statements.

Recognition
This item consists of interests in subsidiaries, joint ventures and associates, which are initially recognised at acquisition cost.

Measurement and recognition of items affecting the income statement
Investments in subsidiaries, joint venture and associates are accounted for at cost. Assessments are performed at each annual or interim balance sheet date to determine whether the investment is impaired.

If there are signs that the value of an investment may be impaired, an estimate of the recoverable amount of the investment is made, this being represented by the higher of the fair value net of costs to sell and its value in use. The value in use is the present value of the cash flows that the investment is expected to generate, including its ultimate disposal value, while fair value is determined in accordance with Section A.4 – Fair value disclosures. If the recoverable amount is less than the book value, the difference is recognised in the income statement under item 210 "Profits (losses) on investments in subsidiaries, associates and companies subject to joint control".

If the reasons for making a write-down cease to exist due to an event occurring after recognition of an impairment, write-backs are made in the income statement to the same line item 210 "Profits (losses) on investments in subsidiaries, associates and companies subject to joint control" up to the previous book value of the investment.

Income arising from these investments is recognised in the Bank's financial statements in the period in which such is resolved in the income statement line item 70 "Dividend and similar income".

Derecognition
Investments in subsidiaries, associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold and substantially all of the risks and rewards associated with it are transferred. On the other hand the investment is reclassified as a financial instrument in the case of partial disposal that involves the loss of significant influence, joint control or exclusive control (unless investments pass from the joint venture category to the associate category).

8 – Property and equipment

Classification
This item mainly includes land and buildings for business purposes and those held for investment purposes, together with equipment, vehicles, furniture, furnishings and equipment of any kind.

Assets used for business purposes are those held for use in the supply of goods and services or for administrative purposes, which are deemed to be used for more than one period, while investment assets include property held to earn rentals, for capital appreciation or both. The land and buildings held are mostly used as branches and offices of the Bank.

Property and equipment also include leasehold improvements in the case of additional expenses relating to identifiable and separable assets; in this case, the classification relates to the specific category, taking into account the nature of the asset in question. Leasehold improvements are classified under "Other assets" if they relate to property and equipment that is identifiable but not separable.

As regards property, the components relating to land and buildings are treated separately for accounting purposes as they have different useful lives. The subdivision between the value of land and the value of buildings is made on the basis of valuations performed by independent experts. Land is attributed an unlimited useful life and is therefore not depreciated, whereas buildings are depreciated as they have a limited useful life. An increase in the value of the land on which a building stands does not affect the determination of the building's useful life.

If a property includes a portion that is used in the business and a portion that is held for investment purposes, it is classified on the basis of whether these parts can be sold separately or otherwise. If they can be sold separately, they are recognised separately as business property and investment property accordingly. If the portions cannot be sold separately, the entire property is classified as a business property, unless only an insignificant portion of the property is used for business purposes.

Recognition
Property and equipment are initially recognised at purchase price or production cost, including all directly attributable costs of purchase or of bringing the asset to its working condition.

Non-routine maintenance expenditure is included in the book value of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the enterprise and the cost can be measured reliably. Expenditure on repairs, maintenance or other work to ensure the functioning of assets is recognised as an expense in the period incurred.

Measurement and recognition of items affecting the income statement
Subsequent to initial recognition, items of property and equipment, including investment property, are carried at cost less any accumulated depreciation and any accumulated impairment losses. Property and equipment are depreciated over their estimated useful lives by adopting the straight-line method and the amount is recognised as "Net adjustments to/recoveries on property and equipment". Land is not depreciated, regardless of whether it was separately acquired or forms part of the value of buildings, since it has an unlimited useful life. Works of art are not depreciated since their useful life cannot be estimated and their value usually increases over time.

Depreciation starts when the asset is available and ready for use, or when it is in the required place and condition to be able to operate. In the first year of depreciation the charge is recognised in proportion to the period during which the asset is effectively used.

Depreciation ceases when the asset is classified as "held for sale" or, if earlier, from the date when the asset is derecognised. Depreciable assets are adjusted for any impairment losses whenever events or changes in circumstance indicate that their book value might not be recoverable. An impairment loss is recognised for the amount by which the book value of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value, net of any costs to sell, and the related value in use of the asset, understood as the present value of expected future cash flows generated by the asset.

Any adjustments are recognised in the income statement as "Net adjustments to/recoveries on property and equipment".

If the reasons underlying the recognition of an impairment loss no longer exist, the loss may be reversed but by no more than the book value that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.

Apart from specific determination of the useful life of individual assets, the Bank depreciates property and equipment over the following useful lives:

- property: from 15 to 30 years;
- furniture, machines, vehicles: from 3 to 10 years;
- plant and leasehold improvements: from 3 to 12 years.

Derecognition
Property and equipment are removed from the balance sheet on disposal or when permanently withdrawn from use and therefore no future benefits are expected from their sale or use. Gains or losses arising from the retirement or disposal of items of property and equipment are determined as the difference between the net disposal proceeds and the book value of the assets and are recognised in the income statement on the date on which the assets are derecognised.

9 – Intangible assets

Classification
Intangible assets are non monetary assets from which the Bank will derive future economic benefits, are identifiable even if they lack physical substance, are long-term and originate from legal or contractual rights.

This item consists exclusively of software licences that cannot be associated with a tangible asset. The cost incurred to purchase and implement the specific software is recognised in the balance sheet as "Own software", providing all the rights relating to the software have been acquired; if only the user licence has been purchased this is classified as a "User licence" under Software.

Recognition
Intangible assets are recognised as assets at cost, adjusted for any ancillary charges, if it is probable that future economic benefits attributable to the asset are realised and if the cost of the asset can be reliably determined and provided it consists of identifiable elements, i.e. is protected by legal recognition or negotiable separately from other assets. In the absence of these conditions the cost of the intangible asset is expensed to income in the period incurred.

Internally produced software in the development phase is capitalised when the related costs can be reliably determined; these costs usually consist of the cost of internal staff working on the development project and any other directly related charges. If the technical feasibility of completing the related projects and their ability to generate future economic benefits cannot be demonstrated or if the cost of production cannot be determined reliably the costs are expensed to income.

Measurement and recognition of items affecting the income statement
After initial recognition, intangible assets with a "finite" life are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged on a straight-line basis (or, for intangible assets relating to the enhancement of customer relationships with defined maturity, on a declining basis), which reflects the long-term use of the assets based on their estimated useful life, and amortisation is recognised under "Net adjustments to/recoveries on intangible assets" in the income statement.

Amortisation starts when the asset is available for use, or when it is in the place and condition allowing it to operate in the established manner. In the first year of amortisation the charge is recognised in proportion to the period the asset is effectively used. Amortisation is no longer charged from the earlier of the date when the intangible asset is classified as "held for sale" and the date on which the asset is derecognised. If there is evidence of impairment, the asset's recoverable amount is estimated at each balance sheet date. The amount of the impairment loss, expensed to income under "Net adjustments to/recoveries on intangible assets", is the difference between the book value of an asset and its recoverable value.

Apart from the specific determination of the useful life of individual assets, the Bank amortises intangible assets over the following useful lives:

- licenses: over the term of the license;
- software developed internally: 6 years.

The Bank has no intangible assets with an "indefinite" life.

Derecognition
An intangible asset is eliminated from the balance sheet on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the book value of the asset.

10 – Non-current assets held for sale

Classification
Non-current assets and disposal groups held for sale are classified as such if their book value will be recovered principally through a sale rather than through continued use. This condition is considered met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale and completion of the sale should be expected within one year of the classification.

In accordance with IFRS 5, discontinued operations are also accounted for separately; these are components that have either been disposed of or classified as held for sale and:

- represent either a separate major line of business or a geographical area of operations;
- form part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- are a subsidiary acquired exclusively with a view to resale.

At 31 December 2016 there were no assets or groups of assets classified as such under IFRS 5.

Recognition
Non-current assets and disposal groups classified as held for sale are measured at the lower of their book value and fair value, less costs to sell.

Measurement and recognition of items affecting the income statement
As a result of being classified in this category these assets are measured at the lower of their book value and the related fair value less costs to sell. In cases where the assets being sold are not fully depreciated, the depreciation process is interrupted from the time they are classified as non-current assets held for sale. Non-current assets and disposal groups held for sale as well as "discontinued operations" and the related liabilities are shown in specific items under assets ("Non-current assets and disposal groups held for sale") and liabilities ("Liabilities associated with non-current assets and disposal groups held for sale").

The results of valuations, income, expense and profits (losses) on disposal (net of tax), of "discontinued operations" are recognised in the income statement as "Income (loss) after tax from discontinued operations".

Derecognition
Non-current assets and disposal groups held for sale are derecognised on disposal.

11 – Current and deferred taxation

"Current and deferred tax assets and liabilities" respectively include current and deferred tax assets and current and deferred tax liabilities relating to income taxes. These are calculated in accordance with national tax laws and are recognised in the income statement on an accrual basis, in line with the recognition of the costs and revenues that generated them. An exception to this is the tax on items debited or credited directly to shareholders' equity, for which the recognition of the related tax takes place in shareholders' equity for the sake of consistency.

Current taxation: "Current tax assets and liabilities" show the taxes payable or recoverable on the taxable result for the year. These basically relate to the taxes that will be declared in the tax return. Current taxes show the balance between current tax liabilities for the year, calculated on a conservative basis in accordance with current tax legislation, and current tax assets represented by advance payments, tax credits for withholding taxes incurred and other tax credits from previous years for which the Bank has requested an offset against future taxation. Current tax assets also include tax credits for which a refund has been requested from the competent tax authority.

Deferred taxation: application of the tax rules to the separate financial statements leads to differences between taxable income and statutory income which may be permanent or temporary in nature. Permanent differences are definitive and consist of costs or revenues which under current tax laws may be non-deductible (totally or partially) or exempt.

Temporary differences are formed when the book value of an asset or liability differs from its tax base, thus giving rise to deferred tax, which is determined on the basis of the "balance sheet liability method". Deferred taxation determined on the basis of this method takes account of the tax effect of the differences, which will lead to taxable or deductible amounts in future periods; it follows that the temporary differences can be divided into "taxable temporary differences" and "deductible temporary differences".

"Taxable temporary differences" arise when the book value of an asset is higher than its value for tax purposes, or when the book value of a liability is lower than its value for tax purposes. These differences indicate a future increase in taxable income and consequently generate "deferred tax", as these differences result in taxable amounts in periods later than those in which they are recognised in the Bank's income statement, resulting in a deferral of taxation with respect to the period when it accrues from a statutory point of view.

"Deferred tax liabilities" are recognised for all taxable temporary differences except for equity reserves in suspense for tax purposes or those for which there are no planned distribution to the shareholders.

Differences between lower taxable profit compared with accounting profit are principally the result of:

- positive components of income taxable in periods subsequent to those in which they were recognised for accounting purposes;
- negative components of income that are deductible for tax in periods prior to those in which they are recognised for accounting purposes.

"Deductible temporary differences" arise when the book value of an asset is less than its value for tax purposes, or when the book value of a liability is greater than its value for tax purposes. These differences indicate a future reduction in taxable income, which therefore generates "deferred tax assets" (effectively prepaid taxes), as these differences result in taxable amounts in the year they are recognised, leading to an anticipation of the tax with respect to the period when it accrues from a statutory point of view.

"Deferred tax assets" are recognised in the financial statements for all deductible temporary differences to the extent that they will probably be recovered. This probability is assessed on the ability of the company concerned, or of all the companies taking part in the Group tax regime, to generate positive taxable income against which deductible temporary differences can be offset.

Differences between higher taxable profit compared with accounting profit are principally the result of:

- positive components of income taxed in years prior to those in which they are recognised for accounting purposes;
- negative components of income that are deductible for tax in periods subsequent to those in which they were recognised for accounting purposes.

Deferred tax assets may also be recognised for the carry forward of unused tax losses and unused tax credits.

Deferred taxation is calculated by applying the tax rates that, according to the laws in force at the time of preparing the financial statements, will be applied in the period in which the asset will be realised or the liability settled.

Deferred tax assets and liabilities are offset if they relate to taxes levied by the same tax authority and when there is a legally enforceable right of set-off.

Assets and liabilities recognised as deferred tax assets and liabilities are systematically assessed to take into account any changes in the rules or tax rates, or any other circumstances relating to the individual Group companies.

The amount of the provision for taxation is also adjusted to meet any charges that could arise from tax assessments already notified or in any case from disputes with the tax authorities.

If deferred tax assets and liabilities relate to items affecting the income statement, the counter-entry is recognised in "Taxes on income from continuing operations"; if the amount of deferred tax assets exceeds the aggregate cost for current taxes and deferred tax liabilities, a positive amount of "tax revenue" is shown in the above-mentioned item of the income statement. In cases where deferred tax assets and liabilities relate to transactions that directly involved shareholders' equity (the "valuation reserves") without passing through the income statement (for example, recognition of actuarial gains or losses, valuations of financial instruments available for sale and cash flow hedges), these are recognised with a counter-entry to the specific valuation reserves in shareholders' equity and in the statement of comprehensive income.

The deferred taxation of companies taking part in the Group tax regime is recognised on an accrual basis by the individual companies in their financial statements, as the Group tax regime can only be used to settle current tax positions.

12 – Allowances for risks and charges

Allowances for risks and charges include provisions for risks and charges covered by IAS 37 as well as allowances for employee benefits covered by IAS 19, both post-employment and long-term benefits.

Allowances for risks and charges are liabilities whose amount and timing are uncertain and are recognised in the financial statements when all the following conditions are met:

a) a present obligation exists at the balance sheet date as a result of a past event. The obligation must be of a legal nature (i.e. based on a contract, regulation or other provision of law) or implicit (i.e. arising any time the company generates an expectation in third parties that it will honour its commitments, even if not covered by legal obligations);

b) it is probable that an outflow of financial resources will be required;

c) a reliable estimate can be made of the amount of the obligation.

The following paragraphs provide a description of the contents of the allowances for risks and charges and the way in which they are recognised and measured, analysed between "Allowances for post-employment benefits" and "other allowances" as required by the Bank of Italy.

Allowances for post-employment benefits

"Allowances for post-employment benefits" consist of provisions for employee benefits to be paid after termination of the employment relationship; depending on the legal and economic substance of the obligation, they can be defined contribution or defined benefit plans.

Under defined contribution plans the employer pays contractually established contributions into a separate fund and accordingly has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay all employee benefits. The contribution is accounted for on an accrual basis under "Administrative expenses: a) personnel expenses" as the cost of the benefit to the employee.

Defined benefit plans are structured quite differently. In this case, the Bank guarantees benefit payments to those entitled by assuming the actuarial risk itself but not that of the investment, insofar as the amounts set aside to satisfy retired employees' entitlements are not invested in specific assets that are separate from those of the Bank in general. These plans are financed by a specific provision recognised in "Allowances for risks and charges: a) post-employment benefits". In this case the future benefits payable are valued by an independent actuary using the "projected unit credit method".

More specifically, this method, also known as the "accrued benefit cost method" pro-rated over the years of service or as the "benefit/years of service method" sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The projection of future payments (including future salary increases for whatever reason: contract renewals, inflation, career promotion, etc.) is carried out on the basis of historical statistics and analyses of the demographic curve; these flows are discounted at a market interest rate. The contributions paid in each period are treated as separate units, recognised and measured individually for the purpose of determining the final obligation.

The amount recognised as a liability is therefore the present value of the liability at the balance sheet date plus the annual interest accruing on the present value of the Bank's obligations at the start of the year, calculated using the discount rate for estimating the liability for future outflows adopted at the end of the prior year and adjusted for the portion of actuarial gains/losses.

The rate used to discount the obligations linked to post-employment benefits is determined on the basis of market yields at the reporting date on high quality corporate bonds with an average residual duration equal to that of the liabilities being measured.

The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of obligations at period end, is recognised directly to shareholders' equity under line item "Valuation reserves".

Obligations to employees are evaluated by an independent actuary every six months.

Other allowances

"Other allowances" consist of provisions recognised for the estimated payments to be made for obligations arising from past events. These payments may be of a contractual nature, such as for example those relating to bonuses payable to managers in cash and on a deferred basis, those for amounts to be paid for staff leaving incentives or indemnities and those provided in contractual clauses which trigger on the occurrence of certain specific events, or of a compensatory and/or restitutory nature, such those relating to losses expected to be incurred in legal cases including clawback actions or to customer litigation regarding security brokerage activities.

The amount recognised as an allowance is the best estimate of the outflow of resources embodying economic benefits needed to settle the obligation that exists at the reporting date of the financial statements and reflects risks and uncertainties that are inherent in the facts and circumstances under review.

If deferral of the obligation is significant, with the result that the effect of the time value of money is material, then provisions are discounted to the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. It is usually considered significant if 12 months pass between the date of preparation of the financial statements and the disbursement. The provision made to the allowance is recognised in the income statement, where the interest accruing on allowances that are subject to discounting is also recognised.

Provisions are adjusted, if necessary, at each balance sheet date to reflect the current best estimate; if the reasons for past provisions no longer apply, the amount involved is released to income.

If liabilities are only potential and not likely, no provision is made, but information is given in the notes, except in cases where the probability of incurring a cost is remote or the situation is immaterial.

13 – Payables and securities issued

Classification
Payables and securities issued fall within the broader category of financial instruments and consist of those relationships for which the Bank is obliged to pay certain amounts to third parties at certain deadlines.

The items "due to banks", "due to customers" and "securities issued" include the various technical forms of interbank funding and customer deposits, repurchase agreements (forward agreements with an obligation to repurchase) and the funds raised by issuing certificates of deposit, bankers' drafts and bonds in circulation, therefore net of any amount repurchased. "Securities issued" also include securities that are past due but not yet reimbursed at the balance sheet date and exclude portions of debt securities issued but not yet placed with third parties. Payables also include those associated with the provision of financial services as defined in the Consolidated Banking Act and in the Consolidated Finance Act.

Subordinated loans are classified as financial liabilities as their regulations require periodic coupon payments and/or mandatory redemption of capital for a fixed or determinable amount at a specified future date or give the holder the right to request a refund on or after a set date for a fixed or determinable amount.

Recognition
Initial recognition of these financial liabilities is on receipt of the money raised or the issuance of debt securities and is carried out based on the fair value of the liabilities, normally the amount received or the issue price, adjusted for any costs/income directly attributable to each funding transaction or issue and not reimbursed by the creditor. This does not include internal administrative expenses.

The portion of convertible bonds with the characteristics of a liability are recognised as payables less their issue costs. The fair value of the portion of the debt representing a financial liability is determined upon issue using the market price of an equivalent non-convertible bond; this amount, classified as a long-term payable, is adjusted using the amortised cost method until it is extinguished through conversion or redemption. The rest of the amount received is attributed to the conversion option and recognised in shareholders' equity under "Reserves".

Repurchase agreements are recognised as funding transactions for the amount paid spot.

Measurement and recognition of items affecting the income statement
After initial recognition financial liabilities are carried at amortised cost using the effective interest rate method. Exceptions to this are short-term liabilities where the time factor is negligible, which are recognised at the amount received and any costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Funding instruments subject to an effective hedging relationship are evaluated according to the rules for hedging transactions.

Interest expense on debt instruments is classified as "interest and similar expense".

Derecognition
Financial liabilities are derecognised when they have expired or have been extinguished. The repurchase of securities issued previously is regarded as an extinguishment of the liability or part of it. The difference between the book value of the liability extinguished and the amount paid for its repurchase is recognised in the income statement under "Profits (losses) on disposal or repurchase of: d) financial liabilities".

Any repurchase of securities issued previously is recognised as a decrease in the liability item to which the issue had been booked, while the difference between the book value of the liability and the amount paid to purchase the securities is recognised in the income statement under "Profits (losses) on repurchase of financial liabilities". The re-placement of these securities on the market after their repurchase is considered, for reporting purposes, as a new issue that is recognised at the new placement price, with no effect on the income statement.

14 – Financial liabilities held for trading

Classification
The following items are classified in this category:

- derivative contracts held for trading (except for those designated as effective hedging instruments, recognised in liabilities under "Hedging derivatives") with a negative fair value;
- derivatives linked to assets/liabilities designated at fair value through profit and loss.
- the sub-items "due to banks" and "due to customers" include liabilities arising from short selling as part of securities trading.

Recognition
Initial recognition of financial liabilities held for trading takes place, for the liability in cash, on the settlement date of the underlying operations, if settled on schedule according to market practice ("regular way"); for derivatives, on the trade date. In the case of recognition of financial liabilities on the settlement date, any changes in fair value between the trade date and the settlement date are recognised in income.

Financial liabilities held for trading are recognised on the subscription date at fair value, which generally corresponds to the amount received, without considering transaction costs or income directly attributable to the instrument concerned which are charged directly to income.

Measurement and recognition of items affecting the income statement
Financial liabilities held for trading are measured at current fair value, with the result of the valuation being charged against income. If the fair value of a financial liability turns positive, the item is recognised as a financial asset.

Profits and losses from trading activities and gains and losses on the valuation of the trading book are recognised in the income statement under "Profits (losses) on trading", except for financial derivatives relating to the fair value option whose result is recognised under "Profits (losses) on financial assets and liabilities designated at fair value".

Differentials and margins on derivatives are allocated in the income statement to "Profits (losses) on trading", except for those that are operationally linked to financial assets or liabilities designated at fair value (subject to the fair value option) or linked to financial assets or liabilities classified as held for trading and with settlement of differentials or margins with various maturities ("multiflow" contracts), which are classified in the income statement as "Interest and similar income".

Derecognition
Financial liabilities held for trading are derecognised when the contractual rights to the cash flows cease or when the liability is sold and substantially all of the risks and rewards associated with it are transferred.

15 – Financial liabilities designated at fair value through profit and loss

Classification
Financial liabilities designated at fair value through profit and loss form part of this item, based on the fair value option granted to companies by IAS 39 and the case studies provided in the standard.

This category includes:

- structured instruments issued (hybrid debt instruments whose return is linked to equity instruments, foreign currencies, credit instruments or indices);
- debt securities issued by the Bank not included in financial assets held for trading and subject to financial hedging for which the fair value is applied in order to reduce and/or eliminate valuation and accounting asymmetries.

Recognition
These financial liabilities are recognised at the issue date for an amount equal to their fair value, including the value of any embedded derivative, which generally corresponds to the amount received. Any transaction costs (including placement fees paid to third parties) are charged immediately against income.

Measurement and recognition of items affecting the income statement
After initial recognition financial liabilities are measured at current fair value.

The fair value of securities issued listed in active markets is determined with reference to the market bid price reported at the balance sheet date. For unlisted securities issued on an active market, fair value is determined using valuation models and estimation methods that take into account the risk factors relating to the instruments and that are based on observable market data where available. These techniques may take account of prices reported for recent similar market transactions, discounted cash flows, option pricing models and other well-established methods used in financial markets. Regarding the credit spread on own issues directed at ordinary customers, in order to determine the difference between the original and the current spread as at the reporting date use is made of the implicit spreads in new retail issues made by the Bank.

Gains and losses realised on redemption and the unrealised gains and losses arising from changes in fair value with respect to the issue cost are recognised in the income statement in the period in which they arise under the item "Profits (losses) on financial assets and liabilities designated at fair value", in which the capital gains and losses on derivatives linked to the fair value option are also recognised.

Interest expense on debt instruments is classified as "interest and similar expense".

Derecognition
Financial liabilities designated at fair value through profit and loss are eliminated from the financial statements once they have expired or been extinguished. The repurchase of securities issued previously is regarded as an extinguishment of the liability or part of it. The difference between the book value of the liability extinguished and the amount paid for the repurchase is recognised in the income statement under "Profits (losses) on financial assets and liabilities designated at fair value".

Any repurchase of securities issued previously is recognised as a decrease in the liability item to which the issue had been booked. Re-placement of these securities on the market after their repurchase is considered, for reporting purposes, as a new issue that is booked at the new placement price, with no effect on the income statement.

16 – Foreign currency transactions

Classification
Foreign currency assets and liabilities include not only those explicitly denominated in a currency other than the euro, but also those with financial indexation clauses linked to the euro exchange rate against a specific currency or against a specific basket of currencies.

For the purposes of the conversion method to be used foreign currency assets and liabilities are separated into monetary and non-monetary items.

Monetary items consist of sums of money and assets and liabilities that express the right to receive or an obligation to pay fixed or determinable amounts of money (receivables, debt securities, financial liabilities). Non-monetary items (such as equities) are assets or liabilities that do not include the right to receive or an obligation to pay fixed or determinable amounts of money.

Recognition
On initial recognition foreign currency assets and liabilities are translated to the reporting currency by applying the spot exchange rate at the date of the transactions underlying the foreign currency amounts.

Measurement and recognition of items affecting the income statement
At each balance sheet or interim period foreign currency balances are measured as follows:

- monetary items are translated at the spot exchange rate at the closing date;
- non-monetary items carried at historical cost are translated at the spot exchange rate on the date of initial recognition in the financial statements (historical exchange rate);
- non-monetary items carried at fair value are translated using the spot exchange rate at the closing date.

Exchange differences that arise as a result of this process of translation into euro of assets and liabilities denominated in foreign currency relating to monetary and non-monetary items carried at fair value are recognised in the income statement item "Profits (losses) on trading", except for differences attributable to the "valuation reserves" (e.g. those of securities available for sale), which are recognised directly in these reserves.

17 – Other information

a) Recognition, measurement and derecognition of other significant items in the financial statements

Cash and cash equivalents
This item consists of currencies that are legal tender, including foreign banknotes and coins and demand deposits at the central bank of the country in which the Bank operates.

This item is recognised at face value. The face value of foreign currencies is converted into euro at the spot exchange rate at the balance sheet date.

Other assets
This item consists of assets that are not classifiable elsewhere as assets in the balance sheet. It includes the following:

- gold, silver and precious metals;
- leasehold improvements other than those related to "property and equipment", i.e. those not related to separately

identifiable fixed assets. The restructuring costs of commercial property not owned by the Bank are recognised as "Other assets" as required by the Bank of Italy's instructions, considering the fact that for the duration of the lease the Bank has control over the assets and can obtain future economic benefits from them. These costs are depreciated over a period not exceeding the duration of the lease and are recognised in the income statement under "Other operating expenses";

- tax receivables other than those included in "Tax assets" (e.g. those involved in acting as a tax withholding agent).

Prepayments and accrued income relating to financial assets and liabilities are recognised as an adjustment to the assets or liabilities to which they relate. In the absence of an asset or liability of this nature, for example in the case of a prepayment not attributable to property and equipment or commission income from guarantees pledged, deferrals and accruals are recognised as other assets or other liabilities.

Employee termination indemnities

Employee termination indemnities are designated as "post-employment benefits".

Following the pension reform under Legislative Decree no. 252 of 5 December 2005, introduced by the 2007 Budget Law, the portions of staff termination indemnities that accrued up to 31 December 2006 remain in the company, whereas the amounts accruing from 1 January 2007 onwards can be transferred, at the employee's discretion, to supplementary pension schemes or to a treasury fund managed by INPS.

The consequence of this is that:

- the termination indemnities that accrued before 1 January 2007 (or at the date when the decision was made to assign these to a supplementary pension fund) continue to be shown as a "post-employment benefit" classified as a "defined benefit plan" and, as a consequence, the liability for "accrued termination indemnities" is subject to an actuarial valuation; compared with the methods applied up until 31 December 2006 this valuation no longer takes account of the average annual increase in wages and salaries as the employee benefits are to be considered almost entirely accrued (with the sole exception of the revaluation equal to a fixed amount of 1.5% plus 75% of the increase in the ISTAT consumer price index). The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the obligation at period end, is recognised directly in shareholders' equity in "Valuation reserves";
- the amounts accruing from 1 January 2007 are considered a "defined contribution plan" as a company's obligation ceases when it pays the accrued indemnities to the fund chosen by the employee, so the amounts involved, which are accounted for on an accrual basis in personnel costs, are determined on the basis of the contributions payable without applying actuarial methods. For the accruing termination indemnities kept in a company and then transferred to INPS the amounts paid year after year to the treasury fund managed by INPS do not include the revaluation applied by law; consequently the cost of revaluing the amounts paid by a company falls on INPS.

This legislation does not apply to companies that had fewer than 50 employees at the date the reform came into effect. For these companies the previous law remains in force, which considers employees' termination indemnities as a defined benefit plan, the accrued amount of which has to be projected into the future to estimate the amount that will have to be paid at the time the employee leaves the company; this is then discounted using the projected unit credit method to take account of the time that will pass prior to the actual payment. The calculation only concerns the termination indemnities accrued for periods of service already rendered and takes account of future wage rises.

Further details on the projected unit credit method can be found in Section 12 "Allowances for Risks and Charges".

Other liabilities

This item consists of liabilities that are not classifiable elsewhere as liabilities in the balance sheet. It includes inter alia:

- the commissions received on initial recognition of guarantees given and subsequent write-downs due to a deterioration in the risks guaranteed;
- payables associated with the purchase of supplies of goods and services;
- tax payables other than those included in "Tax liabilities" (e.g. those involved in acting as a tax withholding agent).

Share capital and treasury shares
Share capital consists of the amount of shares issued net of any capital subscribed but not yet paid at the balance sheet date. The item is shown gross of any treasury shares held by the Bank. Treasury shares are shown with a minus sign in a specific equity item.

If these shares are subsequently resold, any proceeds are classified in treasury shares up to the amount of the book value of the shares themselves. The difference, positive or negative, between the selling price of the treasury shares and the corresponding book value is recognised as an increase or decrease in shareholders' equity under "Share premium reserve".

Transaction costs relating to an operation on capital, such as an increase in share capital, are accounted for as a reduction in shareholders' equity, net of any related tax benefit.

Dividends on ordinary shares are recognised as a reduction in shareholders' equity in the year in which the shareholders approve their distribution. Any interim dividends paid to shareholders are recognised in the balance sheet liability item "Interim dividends" with a minus sign.

b) Other significant accounting treatments

Finance and operating leases

a) Bank as lessee: the lease agreements entered by the Bank are all operating leases. Total payments due on agreements are accounted for in the income statement under "Administrative expenses: b) other administrative expenses" over the term of the agreements. If an operating lease is extinguished before its maturity, all the payments required by the lessor by way of penalty are recognised as an expense in the period in which the lease is extinguished.

b) Bank as lessor: the lease agreements made by the Bank are operating and finance leases. In the case of finance leases the present value of the payments due by the lessee is recognised as a receivable. The difference between the gross value of the receivable (value of the leased asset net of the advance paid by the customer) and its present value (sum of instalments, principal amount, plus interest, discounted at the contractual rate including any transaction costs and income) is recognised as "Interest and similar income" in accordance with the terms of the agreement, using the effective interest rate method.

Repurchase agreements, securities lending and carry-overs
Repurchase agreements or carry-over transactions by which the Bank sells securities to third parties with the obligation to repurchase them in the future at a predetermined price are recognised in liabilities to other banks or customers, depending on the counterparty. Similarly, repurchase agreements or carry-over transactions by which the Bank buys securities from third parties with the obligation to repurchase them in the future at a predetermined price are recognised in loans or advances to other banks or customers, depending on the counterparty. The difference between the spot price and forward price of these transactions is recognised as interest (income or expense depending on the circumstances) and recognised on an accrual basis over the life of the operation. Securities lending transactions where the collateral is represented by cash that remains entirely at the lender's disposal are recognised in the financial statements in the same way as repurchase agreements (see above).

In the case of securities lending with collateral consisting of other securities, or without collateral, the lender and the borrower continue to recognise in their balance sheet, respectively, the security involved in the loan and that given as a guarantee (if any). If the security being lent is sold by the borrower, the latter has to book a payable to the lender on the liabilities side of its balance sheet. If, on the other hand, it is used in repurchase agreements, the amount due to the repo counterparty is booked as a liability. The revenue from such transactions is recognised by the lender as "Fee and commission income", whereas the cost incurred by the borrower is recognised as "Fee and commission expense".

Offsetting of financial instruments
Financial assets and liabilities can be offset, showing the net balance in the financial statements, when there is a legal right to do so and when there is the intention to settle the transactions for the net amount or to realise the asset and settle the liability simultaneously.

Share-based payments
Personnel remuneration plans based on shares are recognised in the income statement, with a corresponding increase being made to an equity reserve, at the fair value of the instruments allocated at the grant date, with the cost charged over any allocation period envisaged by the plan.

The fair value of the allocated instruments takes into account the current price of such at the grant date.
Any reduction in the number of instruments granted is accounted for as the derecognition of a part of such.

Securitisations
For operations completed after 1 January 2004, the receivables are derecognised where there is a substantial retention of risks and rewards, even though formally being sold without recourse to a special purpose vehicle (SPV). This occurs, for example, if the Bank subscribes to the junior tranche of securities or similar exposures, and therefore bears the risk of first loss and, in the same way, benefits from the performance of the operation. In particular, the Bank retains all of the risks and rewards of securitised loans, not proceeding to their derecognition when, according to the specifications of the contracts in place, there is no change in the Bank's risk and exposure to them.

The receivables are therefore maintained as assets in the financial statements by recognising a payable versus the SPV for the loan received, net of the securities issued by the company and underwritten by the transferor.
In covered bond transactions, against the maintenance of the receivables on the assets side of the balance sheet, the value of the covered bonds issued directly by the transferor is recognised among liabilities in the transferor's financial statements (separate and consolidated).

A similar approach is taken in the previous cases in the recognition of income and expense, giving preference to substance over form.

Cost and revenue recognition
Revenues are recognised when they are earned or, in the case of the sale of goods or products, when it is probable that the future benefits will be received and these benefits can be reliably quantified, or, in the case of the provision of services, at the time when they have been rendered. In particular:

- interest is recognised on a pro-rata temporal basis at the contractual interest rate or at the effective rate if amortised cost is applied. Interest income (or interest expense) also includes differentials or margins, positive (or negative), accrued up to the balance sheet date on financial derivatives:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but linked to financial assets/liabilities designated at fair value through profit and loss (under the fair value option);
  c) linked for operational purposes to assets and liabilities classified as held for trading and which provide for the settlement of differentials or margins with several maturities;
- any past due interest provided for in the contract is only recognised in the income statement when actually collected;
- dividends are recognised in the income statement in the period when their distribution is decided and shareholders obtain the right to receive payment;
- net fee and commission income is recognised in the period when the services are rendered, based on contractual agreements. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are recognised as interest. In particular:
  – fees and commissions relating to syndicated loans are recognised as revenue when the organisation of the syndicated loan is completed, provided the Bank has not financed part of the loan itself or has financed part of the loan at the same effective interest rate as the other syndicate members;

- fees and commissions on the negotiation or participation in negotiation of a transaction for another party, such as fees for preparing the purchase of shares or the purchase/sale of a business, are recognised upon completion of the underlying transaction;
- management fees and other fees relating to advisory services are recognised in accordance with the terms of the related contracts and nonetheless using an appropriate time horizon. Management fees relating to investment funds are accounted for proportionately over the period the service is provided. The same principle applies to fees on wealth management and custody services;

- in addition to the recognition of capital gains/losses and trading profits/losses, net income from trading includes the result of valuing contracts for the purchase and sale of securities not yet settled at the balance sheet date;

Expenses are recognised in the income statement in the periods when the related revenues are recognised; costs that are not directly associated with revenues are charged immediately against income.

A.3 – Disclosures relating to transfers between portfolios of financial assets

The Bank has not carried out any portfolio reclassifications of financial assets from categories measured at fair value to categories carried at amortised cost in the current period or in prior periods.

A.4 – Fair value disclosures

Qualitative information

Introduction

Fair value measurements and disclosures are governed by IFRS 13 "Fair Value Measurement", which in paragraph 9 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

As regards the type of financial instruments to be measured at fair value, the requirements of paragraph 9 of IAS 39 remain valid, that is, fair value measurement applies to all financial instruments with the exception of: financial assets classified as "investments held to maturity" and "loans and receivables"; investments in equity instruments for which it is not possible to establish a reliable fair value; and non-trading financial liabilities to which the fair value option has not been applied. Moreover, it is worth reiterating that accounting standards and the Bank of Italy require, in any event, to disclose the fair value of assets and liabilities measured at amortised cost (receivables and payables, securities issued).

IFRS 13 is based on the definition of market based fair value, in that the fair value of assets or liabilities should be measured based on the characteristics thereof that a market participant would take into account.

Fair value measurement assumes a transaction involving the sale of an asset or the transfer of a liability taking place in the principal market for the asset or liability, or in the absence of a principal market the most advantageous market for the asset or liability; if this is not available reference should be made to the most advantageous market, meaning the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs.

Compared with the previous definition provided by IAS 39, there is no emphasis on an "arm's-length transaction between knowledgeable, willing parties", that is, on the neutrality of the transaction, but on a concept of fair value based on an exit price. In fact, the price should reflect the view of the participant that sells the asset or that pays to transfer the liability at the measurement date. There is thus no longer an issue of inconsistency of financial statement presentation between those measuring fair value as a seller and those as a buyer.

Under these circumstances, there is a need for the fair value of financial instruments to reflect the risk an entity will not fulfil an obligation by means of appropriate adjustments to take account of the credit standing of the counterparty.

Fair value levels
The Bank identifies a hierarchy of three levels depending on the extent to which the inputs used in the measurements may be observed, as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (**Level 1**). It is accordingly implicit in the concept of fair value hierarchy that the decision on measurement must give priority to the official prices available on active markets;
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as in the case of prices) or indirectly (as derived from prices) (**Level 2**). In the absence of this information, the decision is based on recent transactions (non-active markets for the instrument being measured) or data regarding similar assets and liabilities (the comparable approach) or else valuation techniques based on observable inputs;
- inputs for assets and liabilities that are not based on observable market data (unobservable inputs) (**Level 3**). A lower priority is given to valuation techniques based on unobservable inputs, for example those based on internal models and therefore of a more discretional nature.

Observable inputs are parameters that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability; on the other hand unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the financial instrument.

A financial instrument must be classified in its entirety at a single level; when for the purpose of measuring an instrument inputs belonging to different levels of the hierarchy are used, the instrument being measured is assigned the level in the fair value hierarchy to which the significant input of the lowest level belongs. As a consequence, when observable (level 2) and unobservable (level 3) market inputs are used to measure a financial instrument, if the latter is significant, as defined further in the following, the instrument is classified at level 3 of the fair value hierarchy.

The way in which financial instruments are classified at the three levels is as follows.

Level 1 – Quoted prices (unadjusted) in active markets
This level consists of financial instruments measured by using quoted prices in active markets for identical assets and liabilities without adjustment.

An **active market** is a trading platform where transactions and volumes are such as to guarantee that the observed inputs effectively represent the price at which counterparties are prepared to exchange a specific financial instrument.

A market is active when:

- quoted prices represent **effective and regular market transactions** occurring over a reasonable reference period between independent parties;
- prices are **promptly and regularly available** through stock exchanges, brokers, intermediaries, companies in the sector, quotation services or authorised bodies and are effectively executable.

In this respect and considering the instruments held in portfolio the following are considered active markets:

- the markets of Borsa Italiana (MTS, MOT, MTA, …);
- ECB exchange rates;
- other regulated markets that meet the minimum volume requirements for being called an active market (MTF – Multilateral Trading Facilities);
- unregulated exchange systems (e.g. Bloomberg Trading System) which provide a quotation considered to be active market in accordance with the same requirements.

The above-mentioned markets are considered active markets by virtue of the fact that the Bank, directly or indirectly, has access to those markets. If a principal market is not identifiable for a certain specific financial instrument, the most advantageous market is taken.

The price quoted on an active market provides the most reliable evidence of fair value and when available is used without adjustment. Any adjustments lead to the classification of the financial instrument at a lower level (for example the fact that information is not immediately available or that the price is not available at the measurement date).

A market is considered active for a specific financial instrument at a specific date if over the previous 20 working days price variations occur for at least 50% of the working days considered.

The markets where the inputs are observable for certain financial instruments are as follows: securities markets, dealer markets (for example over-the-counter markets whose prices are published), brokered markets (for example electronic trading platforms) and principal-to-principal markets.

The above considerations also apply to short positions in securities (for example technical short positions).

Bid prices are used for financial assets listed on active markets and ask price for financial liabilities, both at the end of the reference period.

Livello 2 – Measurement methods based on observable market inputs
For level 2 instruments an input is directly or indirectly "observable" when it is continuously available to all market participants with a regular distribution of information through appropriate channels (stock exchanges, data providers, brokers, market makers, websites, etc.).

The measurement of a financial instrument is based on prices which can be derived from market quotations of similar assets (comparable approach) or by valuation techniques for which all relevant factors – including credit spreads and liquidity – are derived from observable market parameters (mark-to-model approach).

The comparable approach requires the search for transactions on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument being valued. The valuation techniques used in the mark-to-model approach are those commonly used and accepted as market "best practice".

The Bank considers level 2 inputs to be quotations other than inputs classifiable as level 1 that are directly observable for the financial instrument (as in the case of prices) or indirectly observable (in the case of quotations that can be derived from prices).

Level 2 inputs are defined as:

- prices quoted for similar assets and liabilities on active markets (comparable approach);
- prices quoted for the instrument being analysed or for similar instruments on inactive markets;
- observable market inputs other than quoted prices (e.g. interest rates or yield curves, implicit volatility, credit risk data, exchange rates);
- market-corroborated inputs, that is, derived from observable market inputs or corroborated by correlation analysis.

The above-mentioned market inputs (directly or indirectly observable) form part of commonly accepted valuation techniques that are used as best practice. In identifying inputs, therefore, a critical approach is taken where elements of discretion may be found by those carrying out the valuation.

As a result market data that are observable for markets that do not qualify as an active market are classified at level 2 (for example an average of Bloomberg contributors that do not qualify as an active market) as are prices resulting from the application of valuation techniques based on level 2 inputs.

Livello 3 – Measurement methods based on unobservable market inputs
Level 3 includes all financial instruments that are not quoted on an active market for which the determination of fair value has to be carried out through valuation models that require the use of parameters that are not directly observable in the market.

Unobservable inputs have to be used to the extent that relevant observable inputs are not available and, therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Measurement has to be performed using the best information available in the circumstances, internal data included.

The measurement of assets and liabilities belonging to level 3 is generally carried out using the same valuation methodologies as those used for level 2 instruments; the difference lies in the fact that input parameters used in the pricing model are unobservable. The valuation techniques for the latter, as detailed below, make use of various approaches, depending on the parameter. Unobservable inputs may be: derived using mathematical techniques based on the option quotations of brokers or market-makers (for example, correlations or implicit volatility), arrived at by extrapolation from observable data (for example, credit spread curves), obtained from historical figures (for example, volatility of investment funds) or based on a comparable approach.

In addition positions where the adjustment portion of the fair value that takes into consideration the risk of default is significant compared to the total value of the financial instrument are included in level 3 financial assets and liabilities, as stated in the internal policy.

The above inputs reflect commonly accepted valuation techniques used as best practice. In identifying inputs a critical approach is taken where elements of discretion exist in those carrying out the valuation.

Financial assets whose fair value corresponds to recognition cost are included in level 3.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The following section provides information on the techniques used to measure the financial instruments classified in levels 2 and 3, analysed by type of instrument.

The valuation techniques are used continuously and consistently over time unless alternative valuation techniques exist that provide a more representative measurement of fair value (for example, in the case of the development of new markets, information that is no longer available or new information or different market conditions).

The fair value used for measuring financial instruments is determined on the basis of the criteria set out below, which assume, as indicated above, the use of observable or unobservable inputs.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

Bonds without an official price expressed on an active market
As regards plain vanilla bonds, that is, those without any option or derivative component, a discounted cash flow (DCF) model is used, based on discounted expected future cash flows, which, in the case of floating-rate coupons, is estimated based on forward rates implicit in the curves for the indexing.

In the case of bonds with an option component (for example, structured bonds), the component is estimated based on the same methodologies adopted for stand-alone options and, as described below, consistent with the complexity of the product and widely used by market operators. For these types of securities the level of the fair value hierarchy assigned to the derivative component contributes, on the basis of an analysis of the significance of the amount of the option in comparison to the overall value of the bond, to the definition of the fair value hierarchy level of the bond, as required by specific internal policy.

For bonds measured on the basis of a model, the issuer's creditworthiness is incorporated in the measurement process and is obtained from the credit spread curves of that issuer, if available. In the event that credit spread information is not directly observable, measurement techniques that entail classification in level 3 are generally adopted. These include, for example credit spreads based on internal estimates of default rates.

OTC (over the counter) financial derivatives
This section regards interest rate, currency, share and commodity derivatives, known as over-the-counter (OTC) instruments because they are traded bilaterally by counterparties. These instruments are measured by using suitable pricing models based on input parameters such as interest rate curves, volatility matrices and exchange rates that are normally observable on the reference markets.

The following methods are used to measure such contracts:

- for non-option instruments (interest rate swaps, forward rate agreements, overnight interest swaps, domestic currency swaps, etc.) the valuation techniques adopted belong to the discount cash flow model category in which certain or trend-based cash flows are discounted;
- for financial options:
  - in the case of plain vanilla options, the methods used most often form part of the "forward risk-neutral" framework and are based on analytical Black-like formulae, in which volatility depends on the maturity date and the strike (volatility skew);
  - for the more complex pay-off types (typically share options on baskets of indices or path dependent share options) a numerical method is used based on Monte Carlo simulations, remaining in a risk-neutral environment, under which the option pay-off is measured through simulations using a sufficiently high number of repetitions relating to the evolution over time of the risk factors underlying the option. The price of the derivative is then calculated by taking the discounted arithmetic average obtained for each scenario.

In the case of instruments containing derivative components of a different nature, options and non-options, the measurement is carried out by applying the appropriate valuation method to each component of the instrument.

In addition, the risk of default is also considered to arrive at the determination of fair value. As required by the accounting standard concerned, fair value must take account of the counterparty risk (Credit Valuation Adjustment – CVA) and the risk arising from changes in own creditworthiness (Debt Valuation Adjustment – DVA). To this end the Bank has adopted algorithms for determining fair value and the Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA), which are estimated on the basis of market parameters and internal risk (PD, LGD, interest rate curves).

At the stage of determining the CVA and the DVA the calculation algorithms take into consideration:

- the probability of default (PD) of the specific counterparty. This is determined on the basis of the official external rating of the counterparty and the relative default statistics to be found on the market, where available; conversely, this is determined on the basis of an internally assigned rating. A multi-period PD is then determined from these data, based on the residual contract term of the instrument being measured;
- the loss given default (LGD). A uniform value is used depending on the nature of the counterparties that is determined on the basis of market practice.

Unlisted equities
These are essentially minority interests in unlisted financial and non-financial companies. These instruments are initially measured with reference to significant transactions in the same stock or similar securities observed over a reasonable period of time compared with the valuation date, to the method of market multiples of comparable companies and, to a lesser extent, to alternative valuation methods based on financial parameters, earnings and net assets.

In particular, for certain minority interests, in line with generally accepted valuation techniques use is made of the excess capital variant of the dividend discount model (DDM) income approach, generally accepted by the market. This method assumes that a company's economic value is the sum of : 1) the present value of estimated distributable dividends in the

"explicit period" (period covered by the business plan); 2) the excess/lack of Common Equity Tier I at the end of the explicit period; 3) the terminal value comprising the perpetual return of normalised dividends.

If suitable information is not available, such as updated business plans, for carrying out a valuation using earnings models, the estimate of the fair value of the equity interest is carried out by starting with the information provided in the most recent set of financial statements, determining a net asset value of the investee.

Securities for which it is impossible to estimate the fair value on a reasonable basis are maintained at their original purchase cost in accordance with IAS 39, paragraph AG 81.

Mutual funds
Fair value is determined by applying the NAV reported by the management company, as this is considered the most reliable estimate of the fair value of the instrument, being an exit value on disposal of the investment, taking account of any adjustments due to dividends and distributions.

Financial liabilities designated at fair value through profit and loss
Bonds issued by the Bank and recognised using the fair value option permitted by IAS 39 are measured using a model that in addition to the inputs used for bonds recognised as assets includes an appreciation of the issuer's creditworthiness. The credit spread used is obtained implicitly from the retail issues made by the Bank in the last quarter of reference. The decision to use a level 2 or a level 3 classification essentially depends on the percentage of observable and unobservable inputs used for determining the total fair value of the instrument.

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

For financial instruments recognised as assets at amortised cost and for the most part classified as receivables from banks or customers or as securities issued, fair value is only determined for disclosure purposes.

Amounts due from and to customers and banks
For current receivables and payables or those that can be settled on demand, meaning those due within 12 months, fair value is conventially considered to be book value given the proximity of the settlement date. Certificates of deposit that have a maximum maturity of 18 months are also conventially measured at cost.

For receivables and payables due after 12 months fair value is determined using a valuation method based on a mark-to-model approach whose essential features are as follows:

- identification of future cash flows, corresponding to contractual cash flows. As regards loans to customers, cash flows are weighted based on PD (Probability of Default) and LGD (Loss Given Default). For retail and corporate customers, PD is assigned based on a matrix of reliability ratings used to categorise customers on the basis of internal procedures for assessing creditworthiness. As regards balances included in the line item due from banks, use is made of parameters provided by external rating agencies; the cash flows on non-performing loans are quantified on the basis of the repayment plan. As regards the application of LGD, solely to customers, this is differentiated based on the customer segment and the technical form of the facility;
- discounting of cash flows quantified as explained above, using the rates requested by the market for investments in similar assets. For amounts due from customers and banks not classified as non-performing the risk free rate is adopted since the credit risk is quantified based on PD and LGD parameters.

For debt securities held in the "Due from banks" and "Loans to customers" portfolios, fair value is determined through the use of valuation models, as described above for financial assets and liabilities carried in the balance sheet at fair value. For this reason the fair value stated in the financial statements purely for disclosure purposes could significantly differ from prices determined for other objectives.

Given the high proportion of unobservable components, amounts due from and to customers and banks, other than securities, are normally categorised in level 3 of the fair value hierarchy.

Securities issued
For bonds carried in the balance sheet at amortised cost the valuation falls into level 1 if there is a quoted price in an "active market"; otherwise, the valuation is carried out by discounting the cash flows on the basis of the relevant interest rate curve. As regards valuation techniques, bonds are valued on the basis of quoted prices, where available, which already include an assessment of credit risk. In the absence of market prices subordinated bonds are measured using internal models, applying a credit spread derived from quotations of subordinated Credit Default Swaps (CDS).

Property and equipment – held for investment purposes
The fair value of properties carried as assets and held for investment purposes is determined on the basis of an estimate carried out on a regular basis by independent external experts who perform their valuation using information concerning the location of a property and the use to which it is put.

The current composition of the property portfolio envisages a level 3 classification.

VALUATION TECHNIQUES

Discounted Cash Flow
Discounted cash flow valuation techniques consist of determining an estimate of the expected cash flows over the life of the instrument. The time horizon is generally obtained from the contractual documentation. The model requires assumptions to be made for determining the cash flows to be discounted and market parameters to be used for determining the discount rate.

The discount rate includes a margin, the spread that reflects the requested conditions for instruments with similar credit risk profiles and liquidity. The fair value of the contract consists of the sum of the discounted expected cash flows.

Credit/Debit Valuation Adjustments
The effect of non-performance risk is also taken into consideration in determining credit risk.

In particular, for derivatives the Bilateral Credit Value Adjustment (bCVA) model also takes fully into consideration the value of variations in own creditworthiness as well as those of the counterparty.

The bCVA depends on the exposure, the probability of default and the loss given default of the counterparties.

Dividend Discount Model
This model is used to determine the market value of a share not listed on an active market and is based on estimated future dividend flows.

An estimate of the dividend expected to be paid is made for each year of the period covered by a company's profit forecasts; an annual dividend growth assumption is made, at a constant rate (g), and the fair value of the equity security is then determined as the sum of the present value of all future dividends, discounted at a rate that takes into account the risk free rate plus a risk premium for an equity investment. This risk premium is determined by referring to a historical series of data.

Option pricing models
These are valuation techniques generally used for financial instruments in which the Bank has a right or an obligations based on the occurrence of a future event, such as for example if a financial asset exceeds a certain price or if a reference market parameter (interest rate or foreign exchange rate) exceeds a predetermined strike level. These models estimate the probability that a specific event will occur by incorporating assumptions such as the volatility of estimates or the price of the underlying instrument.
Models commonly recognised as market practice are by way of example Black & Scholes, Black-like and Hull & White.

Net asset value
This valuation technique is used for equity instruments, units of mutual funds or equity securities where the fair value of the instrument is based on the value of the issuer's assets and liabilities. Valuing the instrument by using this technique may take into consideration any contractual features such as for examples restrictions or privileges on the distribution of profits or in the event of liquidation.

Market valuation approach
This valuation technique uses prices generated by market transactions that involve identical or comparable assets, liabilities or groups of assets and liabilities.

INPUTS USED TO MEASURE THE FAIR VALUE OF LEVEL 2 AND 3 INSTRUMENTS

Yield curves
The interest rates to be used in valuation techniques are determined on the basis of a selection of the most suitable financial instruments for each currency (EUR, USD, CHF, GBP, JPY).

For EUR, the curves depend on the reference rate (Euribor 1M, Euribor 3M, Euribor 6M, EONIA).

Credit spread
The credit spreads implicit in the Credit Default Swap curves of the individual issuer are used if available. As an alternative these are deduced from the generic credit curves for sector and rating.

Volatility
Volatility measures the speed and size of the variations in the market price of an instrument, parameter or market index given the actual change in value over time of that specific instrument, expressed as a percentage of the change relating to the price. The greater the volatility of the underlying, the greater the risk connected with the instrument.

Two types of volatility are used:

- implicit: this is the implicit volatility included in the market price of options, meaning the volatility which used in a specific pricing model returns their market value;
- historical: this measures the fluctuations that a price has undergone over a specific past period and is measured as the standard deviation of the historical price over the period.

Correlations
These measure the relationship between the movements of two underlyings over time.

Correlations are inputs in valuing a derivative product where the payoff is determined from a whole series of underlying risks. The level of the correlation used in the valuation of derivatives with several underlying risks depends on a variety of factors, including the nature of those risks.

Loss given default (LGD)/Recovery rate
Loss given default is the percentage of contractual cash flows that is not recovered in the event of default by the counterparty. With all other parameters unchanged, an increase in the LGD implies a fall in the measurement of fair value.

The recovery rate is the complement of the LGD with respect to 100%, meaning the percentage of contractual cash flows that are expected to be recovered in the event of default by the counterparty.

Given that losses depend on the specific features of the financial instrument or the transaction, such as the existence of collateral or the subordination ranking, the LGD should be dealt with case by case.

Probability of default (PD)
The probability of default (PD) is an estimate of the probability of not receiving contractual cash flows over a certain

temporal horizon. The PD of a debtor depends on the creditworthiness of the particular debtor and current and future market conditions.

Cost of equity (KE)
KE (cost of equity) is the minimum return rate that an issuer of equity securities expects to have to offer its shareholders to remunerate their investment.

Growth rate – g
This is the constant growth rate used to estimate future dividends.

A.4.2 Valuation processes and sensitivity

The Bank's valuation processes are subject to verification that extends to the valuation techniques for all financial instrument positions.

The valuation, also for accounting purposes, of all financial instruments classified in the HFT, AFS and FVO portfolios is carried out by the internal function in charge of the valuation.

The Bank has procedures in place and manuals that describe the valuation techniques and inputs used.

For certain valuations relating to a limited group of financial instruments the Bank is assisted by external companies that, as the case may be, supply the prices of the assets and liabilities or the pricing models used.

For financial instruments, the fair value of which is based on a valuation model, analysis of the sensitivity of such instruments to market data is carried out by means of standard stress techniques, which, acting on input parameters to the pricing model, determine corresponding changes in the fair value of the instrument. Sensitivity is determined individually for each curve or risk factor by applying to the latter an increase or decrease (shift) of a pre-defined size, obtaining as an output the corresponding change in fair value. In the case of non scalar risk factors, such as those pertaining to an interest rate curve or volatility surface, a uniform shift is generally applied to the entire structure, thus obtaining an estimate of the sensitivity to parallel movements of the corresponding curve.

A.4.3 Fair value hierarchy

Under IFRS 13 the fair value hierarchy must be applied to all financial instruments recognised at fair value in the balance sheet. In this regard, for these instruments top priority is given to the official prices available in active markets and a lower priority to the use of unobservable inputs, as these are more discretionary. Fair value is therefore determined through the use of prices obtained from financial markets in the case of instruments listed on active markets or, for other financial instruments, by using valuation techniques with the aim of estimating fair value (exit price).

Criteria for transfers between levels
The transfer of a financial instrument from level 1 to level 2 of the fair value hierarchy and vice versa is based mainly on the degree of liquidity of the instrument at the time of recognition of its listed price, which determines the use of a listed price in an active market rather than a price obtained from a pricing model. In practice, if, for a financial asset or liability, there are objective indications of a significant loss or the lack of availability of a price in an active market (absence of multiple prices from market makers, prices that have not changed much or which are inconsistent), the instrument is categorised in level 2 of the fair value hierarchy and, in certain cases, recourse is made to a model-based valuation. This valuation technique may no longer be necessary, if, for the same financial instrument, a price in an active market once again becomes available, with a corresponding transfer to level 1.

Such an event mainly arises with debt securities, whereas derivatives listed on regulated markets normally pertain to level 1 given that, for these a price is normally provided by the relevant stock market. Conversely, OTC derivatives are

normally valued based on pricing models and thus are categorised in level 2 or 3 of the fair value hierarchy, based on the significance of the input data.

A transfer from level 2 to level 3 and vice versa is determined by the weighting or the significance at various times during the life of the financial instrument of the unobservable input variables compared to the overall valuation of the instrument. In order to define whether an input is significant or not for the purpose of the categorisation of the fair value of an instrument three significance thresholds have been adopted. Of these, the first two relate to the significance of unobservable market parameters while the third specifically relates to adjustments to the fair value of OTC derivatives to reflect the risk that the obligation will not be fulfilled in the mark-to-market.

The two thresholds relating to input data are applied on the basis of whether it is possible (first threshold) or not possible (second threshold) to accurately isolate the components of the financial instrument that, for the valuation thereof, require unobservable inputs. In other words, the first threshold applies if a financial instrument can be exactly unbundled into more simple financial instruments, some of which require unobservable inputs, while the second applies in cases where it is not possible to isolate or unbundle from the instrument the component influenced by the unobservable factor.

In detail:

1. the first threshold (fair value ratio threshold) is defined based on the ratio of the fair value of the contractual component valued with unobservable inputs (for example, an embedded option) to the fair value of the entire contract: if this ratio equals or is less than 5%, the impact of the unobservable input is not considered significant for the purpose of the determination of the fair value and the latter is categorised as level 2; otherwise the contract is classified as level 3;
2. the second threshold (sensitivity ratio threshold) is defined based on the sensitivity of the price of the financial instrument to the unobservable parameter: an input is considered not to be significant for the purpose of the determination of fair value if changes in the unobservable input of plus or minus 5% produce a change in the absolute amount of the fair value of the instrument equal to or less than 5% of the fair value, with a consequent classification as level 2; otherwise, the contract is classified as level 3. The shock is applied to the unobservable parameter in a symmetric manner, thus recognising in the classification any asymmetry of the nonlinearity of the pricing function.

To establish the degree of significance of adjustments made to the fair value of OTC derivatives a materiality threshold is defined for counterparty risk (CVA ratio threshold). This is identified based on the ratio of the amount of the reduction in fair value, which represents the estimate of counterparty risk, to the overall fair value of the contract, that is with the inclusion of counterparty risk. If this ratio is equal to or less than 20%, the impact of the adjustment for counterparty risk is not considered significant for the purpose of the determination of fair value and the latter is assigned to the level in which it would have been classified in the absence of the CVA. Otherwise, the entire fair value is classified as level 3.

A.4.4 Other information

The Bank has not applied the option provided by IFRS 13, paragraph 48 to assess a group of financial assets and liabilities on the basis of its net exposure to market risk or credit risk.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: analysis by fair value level

Assets and liabilities measured at fair value	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	37	154,285	638	20	280,535	756
2. Financial assets designated at fair value through profit and loss	7,658	10,000	1,582	7,731	19,902	47,910
3. Financial assets available for sale	8,760,503	177,445	524,555	8,348,409	99,619	519,495
4. Hedging derivatives	–	16,070	–	–	10,058	–
5. Property and equipment	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**8,768,198**	**357,800**	**526,775**	**8,356,160**	**410,114**	**568,161**
1. Financial liabilities held for trading	–	154,611	–	–	149,122	1,457
2. Financial liabilities designated at fair value through profit and loss	–	120,132	–	–	142,201	–
3. Hedging derivatives	–	32,894	–	–	39,011	–
Total	**–**	**307,637**	**–**	**–**	**330,334**	**1,457**

Level 3 financial assets as a whole amount to 526.78 million euro and represent 5.47% of the total of financial assets carried at fair value (6.09% at 31 December 2015); there are no level 3 financial liabilities (which represented 0.44% of financial liabilities carried at fair value at 31 December 2015).

Among financial assets available for sale are mutual funds including the investment in the Atlante Fund, which has a book value of 41 million euro at 31 December 2016. As discussed in the report on operations the Atlante Fund is a closed-end alternative investment fund regulated by Italian law that is managed by Quaestio Capital Management SGR S.p.A. and was set up on 29 April 2016 with the aim of sustaining the unexercised portion of future share capital increases promoted by Italian banks and contributing to the disposal of distressed loans held in the portfolios of Italian intermediaries.
Atlante has an equity of 4,294 million euro (4,294 units each of nominal value 1,000,000 euro); at 31 December 2016 the counter-value of called amounts was 3,445.7 million euro (81.09% of subscriptions). In this context in April 2016 BPM undertook to acquire 100 of the Fund's units for a total investment of 100 million euro; at 31 December 2016 BPM's payments into the Fund amount to 81.1 million euro (with a residual commitment of 18.9 million euro still to be invested).
The amounts called by the Fund have been used to subscribe the capital increases made by Banca Popolare di Vicenza for 1,810 million euro (of which 146.3 million euro paid in January 2017) and by Veneto Banca for 1,616.6 million euro (of which 296.4 million euro paid in January 2017).
On 31 January 2017 the SGR announced that the Fund's net asset value at 31 December 2016 was 3,480.5 million euros (with each unit having a value of 819,135.413 euro), obtained by valuing the investments held in Banca Popolare di Vicenza and Veneto Banca at cost.
On this basis the valuation of the Fund's equity, obtained by valuing the investees on the basis of independent appraisals performed by experts engaged by the SGR, is 24% lower than the initial value of the investment. These appraisals are based on market multiples (the ratio between price and tangible net assets) applied to the tangible net assets of the two banks at 30 June 2016, to which are added the payments made up to 31 December 2016. As the appraiser has stated, this valuation is subject to considerable uncertainty, the result of the limited availability of objective data and a calculation methodology that is based solely on equity market multiples, despite the existence of unlisted companies and at the beginning a detailed restructuring and merger process. Given the uncertainty as to the future prospects of

the assets underlying the Atlante Fund, in determining the investment's book value a reference point was taken as the minimum value of the range of values resulting from the above-mentioned appraisals, moreover not taking into account the capital paid into the investees made by way of the latest call in December 2016. The result of this is an impairment loss of 40.1 million euro compared to a book value of 81.1 million euro, ands this is recognised in line item "130. Net losses/recoveries on impairment of financial assets available for sale".

The following table provides an analysis of financial assets carried at fair value in level 3:

Financial assets measured at fair value Analysis by product	Debt securities	Equities	Mutual funds	Derivatives	31.12.2016	Debt securities	Equities	Mutual funds	Derivatives	31.12.2015
Financial assets held for trading	2	–	–	636	**638**	18	4	–	734	**756**
Financial assets designated at fair value through profit and loss	1,582	–	–	–	**1,582**	47,910	–	–	–	**47,910**
Financial assets available for sale	114,934	232,289	177,332	–	**524,555**	115,891	273,831	129,773	–	**519,495**
Hedging derivatives	–	–	–	–	**–**	–	–	–	–	**–**
Total	**116,518**	**232,289**	**177,332**	**636**	**526,775**	**163,819**	**273,835**	**129,773**	**734**	**568,161**

As can be seen from this classification, financial assets measured at fair value consist of:

a) **Debt securities:** 116.5 million euro. These are structured or subordinated debt securities issued directly by leading Italian or international banks.

b) **Equities**: 232.3 million euro. These are essentially minority interests in unlisted finance and non-financial companies. For certain of these financial instruments, amounting to 1.5 million euro, it has not been possible to make reasonable estimates of fair value. In accordance with IAS 39, paragraph AG 81 these instruments have therefore been maintained at their original purchase cost, which in any case is close to the book net equity value of the companies concerned.

c) **Mutual funds:** 177.3 million euro. These are:

   i. Real estate funds: 63.5 million euro;

   ii. Mutual investment and similar types of funds: 113.8 million euro.

   These financial instruments are valued on the basis of the NAV communicated by the management company, as this is considered the most reliable estimate of the instrument's fair value, given that NAV is the "exit value". This decision is due to the fact that, in accordance with the Group's investment strategies, these instruments are intended for a medium/long term investment and their unwinding only occurs on repayment of all or part of the shares decided by the management company after selling off the fund's investments.

d) **Financial derivatives:** 0.6 million euro entirely recognised as financial assets held for trading. These are financial derivatives valued at fair value stipulated with institutional counterparties and customers. As regards derivatives with customers, financial assets designated at fair value through profit and loss level 3 include, among others, those positions for which the portion of the fair value adjustment that takes account of credit risk (i.e. the "Credit Valuation Adjustment") is significant compared with the overall value of the financial instrument.

Sensitivity analysis based on unobservable inputs (level 3)

The following table sets out an analysis of the sensitivity of the fair value of level 3 instruments to a change in unobservable inputs:

(euro/000)

Valuation techniques and inputs for estimating level 3 fair value – assets and liabilities				
Type of instrument	**Valuation technique**	**Input**	**Fair value at 31.12.2016**	
Financial assets/liabilities held for trading			**Assets**	**Liabilities**
Debt securities	Cost	Purchase cost	2	0
Total debt securities			**2**	**0**
Equities	Cost	Purchase cost	0	0
Total equities			**0**	**0**
Derivatives	Credit/Debit Valuation Adjustments	PD and LGD	636	0
Total derivatives			**636**	**0**
Total financial assets/liabilities held for trading			**638**	**0**

Financial assets designated at fair value through profit and loss			**Assets**	**Liabilities**
Bonds	Option pricing models and Credit/Debit Valuation Adjustments	Volatility – equities and PD and LGD	1,582	0
Total debt securities			**1,582**	**0**
Total financial assets designated at fair value through profit and loss			**1,582**	**0**

Financial assets available for sale			**Assets**	**Liabilities**
Debt securities	Option pricing models	Correlation and volatility – inflation	114,934	0
	Cost	Purchase cost	0	0
Total debt securities			**114,934**	**0**
Equities	Net asset value	Earnings, net assets or financial data	146,724	0
	Market valuation approach	Market quotations or values of recent transactions	84,026	0
	Cost	Purchase cost	1,539	0
Total equities			**232,289**	**0**
Mutual funds	Net asset value	Earnings, net assets or financial data	177,152	0
	Cost	Purchase cost	180	0
Total mutual funds			**177,332**	**0**
Total financial assets available for sale			**524,555**	**0**
Total			**526,775**	**0**

The following table provides a sensitivity analysis of debt securities, equities and derivatives whose fair value is classified in level 3 of the hierarchy as a result of the use of unobservable parameters.

The sensitivity analysis was carried out by developing a scenario that takes account of a 5% upwards or downwards change in the unobservable inputs used in the valuation techniques described in section A.4.

(euro/000)

Net sensitivity of fair value to changes in unobservable inputs of +/– 5%:				Changes	
Portfolio classification/type of instrument	**Valuation technique**	**Input**	**Fair value at 31.12.2016**	**Favourable**	**Unfavourable**
Financial assets held for trading					
Derivatives on interest rates	Credit/Debit Valuation Adjustments	PD and LGD	636	30	–30
Financial assets available for sale					
Debt securities	Option pricing models	Volatility – inflation	113,460	74	–866
		Correlation – inflation		32	–31

A sensitivity analysis was carried out for financial instruments for which the valuation techniques adopted made it possible to do so. The reasons why, for certain instruments, it was not possible to perform a reliable sensitivity analysis are essentially linked to the fact that for the measurement of these instruments valuation techniques were used that were either based on information derived from observed prices of similar market securities or on valuations and/or information provided by third parties.

Disclosures relating to transfers between level 1 and level 2 in 2016 (IFRS 13, par. 93 (c))

There were no transfers between level 1 and level 2 in 2016.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

		Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1.	**Opening balance**	**756**	**47,910**	**519,495**	**–**	**–**	**–**
2.	**Increases**	**1,027**	**1,381**	**168,451**	**–**	**–**	**–**
2.1.	Purchases	–	387	141,627	–	–	–
2.2.	Profits recognised in:						
2.2.1.	Income	178	–	8,627	–	–	–
	– of which unrealised gains	96	–	–	–	–	–
2.2.2.	Shareholders' equity	X	X	8,939	–	–	–
2.3.	Transfer from other levels	381	–	–	–	–	–
2.4.	Other increases	468	994	9,258	–	–	–
3.	**Decreases**	**1,145**	**47,709**	**163,391**	**–**	**–**	**–**
3.1.	Sales	11	–	–	–	–	–
3.2.	Redemptions	1	38,738	10,511	–	–	–
3.3.	Losses recognised in:						
3.3.1.	Income	247	8,971	55,308	–	–	–
	– of which unrealised losses	210	8,766	55,301	–	–	–
3.3.2.	Shareholders' equity	X	X	44,147	–	–	–
3.4.	Transfer to other levels	405	–	13,761	–	–	–
3.5.	Other decreases	481	–	39,664	–	–	–
4.	**Closing balance**	**638**	**1,582**	**524,555**	**–**	**–**	**–**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

		Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss	Hedging derivatives
1.	**Opening balance**	**1,457**	**–**	**–**
2.	**Increases**	**–**	**–**	**–**
2.1.	Issues	–	–	–
2.2.	Losses recognised in:			
2.2.1.	Income	–	–	–
	– of which capital losses	–	–	–
2.2.2.	Shareholders' equity	X	X	–
2.3.	Transfers from other levels	–	–	–
2.4.	Other increases	–	–	–
3.	**Decreases**	**1,457**	**–**	**–**
3.1.	Redemptions	–	–	–
3.2.	Repurchases	–	–	–
3.3.	Profits recognised in:			
3.3.1.	Income	1,216	–	–
	– of which capital gains	–	–	–
3.3.2.	Shareholders' equity	X	X	–
3.4.	Transfers to other levels	230	–	–
3.5.	Other decreases	11	–	–
4.	**Closing balance**	**–**	**–**	**–**

A.4.5.4 Assets and liabilities not measured at fair value or valued at fair value on a non-recurring basis: analysis by fair value level

Financial assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Investments held to maturity	–	–	–	–	–	–	–	–
2. Due from banks	1,480,702	–	–	1,486,412	1,266,267	–	–	1,270,321
3. Loans to customers	34,230,459	–	40,325	35,847,608	33,474,317	–	–	36,087,376
4. Investment properties	23,800	–	–	36,522	25,656	–	–	36,926
5. Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**35,734,961**	**–**	**40,325**	**37,370,542**	**34,766,240**	**–**	**–**	**37,394,623**
1. Due to banks	7,226,844	–	–	7,226,844	4,829,578	–	–	4,838,040
2. Due to customers	29,387,380	–	–	29,387,380	27,807,746	–	–	27,807,746
3. Securities issued	5,614,860	3,785,463	1,801,428	104,442	8,233,838	4,953,624	3,243,237	137,179
4. Liabilities associated with non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**42,229,084**	**3,785,463**	**1,801,428**	**36,718,666**	**40,871,162**	**4,953,624**	**3,243,237**	**32,782,965**

Disclosures relating to sovereign debt exposure

With reference to the request made by ESMA (European Securities Markets Authority) by way of Communication ESMA/2011/226 of 28 July 2011 and by Consob by way of Communication DEM/11070007 of 5 August 2011, in respect to the figures shown at 31 December 2016 in A.4.5.1 "Accounting portfolios: analysis by fair value level", the following is the Bank's exposure to sovereign debt, the majority of which consisting of Italian government securities. The table sets out the following information for the accounting portfolios, analysed by country:

- fair value hierarchy level;
- nominal value;
- book value at 31 December 2016;
- effect of the valuation recognised in the income statement for the year for securities classified as "Financial assets held for trading" and "Financial assets designated at fair value through profit and loss";
- effect of the gross overall valuation recognised at the date of the balance sheet in shareholders' equity under "Valuation reserves", in relation to securities classified as "Financial assets available for sale".

Financial assets measured at fair value: debt securities (euro/000)

Accounting portfolios/ issuers	L1				L2				L3		
	Nominal value	Book value 31.12.2016	Measurement difference recognised in income	Measurement difference recognised in equity	Nominal value	Book value 31.12.2016	Measurement difference recognised in income	Measurement difference recognised in equity	Nominal value	Book value 31.12.2016	Valuation recognised in income
1. Financial assets held for trading	**–**	**–**	**–**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
Italy	–	–	–	X	–	–	–	X	–	–	–
Argentina	–	–	–	X	–	–	–	X	–	–	–
2. Financial assets designated at fair value through profit and loss	**–**	**–**	**–**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
3. Financial assets available for sale	**8,468,722**	**8,508,595**	**–9,683**	**47,290**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Italy	8,244,500	8,286,356	–9,573	47,903	–	–	–	–	–	–	–
Spain	25,000	26,141	–110	923	–	–	–	–	–	–	–
United States	199,222	196,098	–	–1,536	–	–	–	–	–	–	–
Total	**8,468,722**	**8,508,595**	**–9,683**	**47,290**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

The item "Valuation recognised in income" for financial assets available for sale relates to the effective portion of the fair value hedge for the component of the security hedged.

For comparative purposes the following was the situation at 31 December 2015.

Financial assets measured at fair value: debt securities (euro/000)

Accounting portfolios/ issuers	L1				L2				L3		
	Nominal value	Book value 31.12.2015	Measurement difference recognised in income	Measurement difference recognised in equity	Nominal value	Book value 31.12.2015	Measurement difference recognised in income	Measurement difference recognised in equity	Nominal value	Book value 31.12.2015	Measurement difference recognised in income
1. Financial assets held for trading	**21**	**14**	**2**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
Italy	–	–	–	X	–	–	–	X	–	–	–
Argentina	21	14	2	X	–	–	–	X	–	–	–
2. Financial assets designated at fair value through profit and loss	**–**	**–**	**–**	**X**	**–**	**–**	**–**	**X**	**–**	**–**	**–**
3. Financial assets available for sale	**7,906,165**	**8,287,636**	**–1,918**	**302,195**	**–**	**–**	**–**	**–**	**5**	**5**	**–**
Italy	7,877,794	8,259,282	–1,918	302,249	–	–	–	–	5	5	–
Spain	10,000	10,062	–	–82	–	–	–	–	–	–	–
United States	18,371	18,292	–	28	–	–	–	–	–	–	–
Total	**7,906,186**	**8,287,650**	**–1,916**	**302,195**	**–**	**–**	**–**	**–**	**5**	**5**	**–**

The item "Valuation recognised in income" for financial assets available for sale relates to the effective portion of the fair value hedge for the component of the security hedged

Financial assets measured at fair value: debt securities

The following table provides the above information by issuing country:

(euro/000)

Analysis by issuer	Nominal value	Book value 31.12.2016	Measurement difference recognised in income	Measurement difference recognised in equity
Italy	**8,244,500**	**8,286,356**	**–9,573**	**47,903**
Financial assets available for sale	8,244,500	8,286,356	–9,573	47,903
– of which maturing in 2017	*1,471,500*	*1,489,738*	*–1,577*	*17,127*
– of which maturing from 2018 to 2019	*1,792,000*	*1,853,940*	*–6,359*	*60,858*
– of which maturing from 2020 to 2023	*2,935,000*	*2,931,673*	*–1,202*	*36*
– of which maturing after 2023	*2,046,000*	*2,011,005*	*–435*	*–30,118*
Financial assets held for trading	–	–	–	X
Spain	**25,000**	**26,141**	**–110**	**923**
Financial assets available for sale	25,000	26,141	–110	923
– of which maturing in 2025	*25,000*	*26,141*	*–110*	*923*
United States	**199,222**	**196,098**	**–**	**–1,536**
Financial assets available for sale	199,222	196,098	–	–1,536
– of which maturing in 2021	*199,222*	*196,098*	–	*–1,536*
Total	**8,468,722**	**8,508,595**	**–9,683**	**47,290**

In addition to these exposures, asset item 70 "Loans to customers" includes net exposures of 627.34 million euro to the Italian government and to Italian local public bodies.

Further, call/put option contracts with underlying government securities and exercisable in the first quarter of 2017 had been entered into with primary banks at the end of 2016.

For comparative purposes the following was the situation at 31 December 2015.

(euro/000)

Analysis by issuer	Nominal value	Book value 31.12.2015	Measurement difference recognised in income	Measurement difference recognised in equity
Italy	**7,877,799**	**8,259,287**	**–1,918**	**302,249**
Financial assets available for sale	*7,877,799*	8,259,287	–1,918	302,249
– of which maturing in 2016	*1,184,299*	*1,194,135*	*–*	*8,661*
– of which maturing from 2017 to 2018	*2,453,500*	*2,578,340*	*–95*	*121,597*
– of which maturing from 2019 to 2022	*3,490,000*	*3,708,192*	*–670*	*151,126*
– of which maturing after 2022	*750,000*	*778,620*	*–1,153*	*20,865*
Financial assets held for trading	–	–	–	X
Spain	**10,000**	**10,062**	**–**	**–82**
Financial assets available for sale	10,000	10,062	–	–82
– of which maturing in 2025	*10,000*	*10,062*	*–*	*–82*
United States	**18,371**	**18,292**	**–**	**28**
Financial assets available for sale	18,371	18,292	–	28
– of which maturing in 2020	*18,371*	*18,292*	*–*	*28*
Argentina	**21**	**14**	**2**	**X**
Financial assets held for trading	21	14	2	X
Total	**7,906,191**	**8,287,655**	**–1,916**	**302,139**

In addition to these exposures, asset item 70 "Loans to customers" included net exposures of 503.04 million euro to the Italian government and to Italian local public bodies.

Further, the following call/put option contracts with underlying government securities and exercisable in 2016 had been entered into with primary banks at the end of 2015:

- notional 50 million euro of call options sold by the Bank;
- notional 50 million euro of call options purchased by the Bank;

and the following forward contracts:

- notional 373,887 million euro in purchases;
- notional 435,857 million euro in sales.

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

IAS 39 requires a financial instrument to be initially recognised at its fair value, which is normally the amount paid or collected for the transaction; in other words at the cost or amount paid for financial assets or the amount received for financial liabilities. On initial recognition the fair value of a financial instrument does not always coincide with the price paid or received; this difference is defined as "day one profit/loss".

If there is a difference between these values the instrument must be recognised at fair value rather than at transaction price, but only if the fair value is calculated from other observable market transactions on the same instrument or if it is determined by the use of valuation techniques, whose inputs originate from information derived from observable markets. In such cases the difference between the transaction price and the fair value on initial recognition is immediately charged against income. This criterion applies to the instruments that fall into one of the classes that require the instrument to be recognised at fair value through profit and loss: fair value option and trading book.

The following is specified with regard to these categories:

1. Instruments listed on an active market. The concept of "day one profit" is not usually applied in this case since on initial recognition in the financial statements the fair value of a financial instrument which falls under level 1 of the fair value hierarchy coincides with the transaction price.

2. Instruments not listed on an active market. In this case, classification of the financial instrument in levels 2 or 3 of the fair value hierarchy leads to a different accounting treatment of the difference between fair value and the transaction price.

In the case of level 2 in many cases initial recognition sees fair value substantially coinciding with transaction price. Any differences between transaction price and fair value are recognised in the income statement on the first remeasurement of the financial instrument.

In the case of level 3, the presence of model risk and/or input not directly observable in the market significantly influences the result of the valuation for comparison with transaction price. If the difference is positive it is amortised over the residual life of the financial instrument ("day one profit") or over the holding period if this is expected to be shorter; if the difference is negative it is charged directly against income for purposes of prudence ("day one loss").

Subsequent to initial recognition of the fair value, mark-to-model valuations are performed with the same methodology and the same input sources used when the fair value was calculated on day one.

Subsequent changes in fair value after day one will therefore be based on variations in the related risk factors to which the instrument is exposed (interest rates, equity prices, exchange rates, etc.) and must be recognised directly in the income statement.

At the date of these financial statements there were no significant amounts for which recognition in the income statement had been suspended.

Part B
Information on the balance sheet

Assets

Section 1 – Cash and cash equivalents
Line item 10

This item consists of currencies having legal tender, including foreign bank notes and coins, and unrestricted deposits with the central bank.

1.1 Cash and cash equivalents: analysis

	31.12.2016	31.12.2015
a) Cash	247,431	294,513
b) Unrestricted deposits with central banks	–	–
Total	**247,431**	**294,513**

Section 2 – Financial assets held for trading
Line item 20

This line item consists of financial assets (debt securities, equities, mutual funds, derivatives) classified in the trading portfolio, including expired and impaired derivatives.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 for derecognition from the financial statements ("sold but not eliminated") and impaired assets.

2.1 Financial assets held for trading: analysis by product

Line item/amount	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
A. Cash assets								
1. Debt securities	**–**	**5**	**2**	**7**	**18**	**61,142**	**18**	**61,178**
1.1 Structured securities	–	–	–	–	2	50,663	–	50,665
1.2 Other debt securities	–	5	2	7	16	10,479	18	10,513
2. Equities	**–**	**–**	**–**	**–**	**2**	**–**	**4**	**6**
3. Mutual funds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total A	**–**	**5**	**2**	**7**	**20**	**61,142**	**22**	**61,184**
B. Derivatives								
1. Financial derivatives	**37**	**154,280**	**636**	**154,953**	**–**	**219,393**	**734**	**220,127**
1.1 trading	37	153,937	636	154,610	–	218,455	712	219,167
1.2 linked to the fair value option	–	343	–	343	–	938	22	960
1.3 other	–	–	–	–	–	–	–	–
2. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 trading	–	–	–	–	–	–	–	–
2.2 linked to the fair value option	–	–	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–	–	–
Total B	**37**	**154,280**	**636**	**154,953**	**–**	**219,393**	**734**	**220,127**
Total (A+B)	**37**	**154,285**	**638**	**154,960**	**20**	**280,535**	**756**	**281,311**

Reference should be made to Part A "Accounting Policies" for the criteria used to determine the fair value of financial instruments and their classification into the three levels of the fair value hierarchy.

Line item "B.1.2 – Financial derivatives linked to the fair value option" includes the fair value of derivatives relating to instruments for which the fair value option has been adopted. These derivatives are mainly to hedge the risks implicit in the issue of bonds for which the Bank has elected the fair value option available under IAS 39, paragraph 9.

Such risks arise from possible fluctuations in interest rates and the presence of options that are embedded in the structured securities issued.

Analysis of sub-item A.1.1 "Structured debt securities"

Type of security	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
Reverse floaters	–	–	–	–	2	50,663	–	50,665
Credit linked notes	–	–	–	–	–	–	–	–
Index linked	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**2**	**50,663**	**–**	**50,665**

Subordinated financial assets

There are no financial assets held for trading with a subordination clause at the balance sheet date, as at the end of the previous year.

2.2 Financial assets held for trading: analysis by debtor/issuer

Line item/amount	31.12.2016	31.12.2015
A. Cash assets		
1. Debt securities	**7**	**61,178**
a) Governments and central banks	–	14
b) Other public entities	–	–
c) Banks	–	50,668
d) Other issuers	7	10,496
2. Equities	**–**	**6**
a) Banks	–	–
b) Other issuers:	–	6
– insurance companies	–	–
– financial institutions	–	–
– non-financial companies	–	6
– others	–	–
3. Mutual funds	**–**	**–**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**7**	**61,184**
B. Derivatives		
a) Banks	79,087	151,796
b) Customers	75,866	68,331
Total B	**154,953**	**220,127**
Total (A + B)	**154,960**	**281,311**

The analysis of financial assets by the business sector to which debtors and securities issuers belong has been made in accordance with the classification recommended by the Bank of Italy.

Section 3 – Financial assets designated at fair value through profit and loss Line item 30

This line item consists of all the cash financial assets (debt securities, equities, mutual funds) designated at fair value through profit and loss on the basis of the "fair value option" permitted by IAS 39, IAS 28 and IFRS 11.

The following instruments are classified in this category:

- debt securities with embedded derivatives;
- debt securities not classified as financial assets held for trading, whose cash flows have been hedged;
- open-ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short-term trading, from an operational and financial standpoint form part of a duly documented investment strategy designed to achieve an overall return based on the change in the fair value of the instrument itself, with regular detailed reports on their performance being provided to the Bank's management.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be derecognised from the financial statements ("sold but not eliminated") and non-performing assets.

3.1 Financial assets designated at fair value through profit and loss: analysis by product

Line item/amount	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
1. Debt securities	**7,658**	**10,000**	**1,582**	**19,240**	**7,731**	**19,902**	**47,910**	**75,543**
1.1 Structured securities	–	10,000	1,582	11,582	–	19,902	14,249	34,151
1.2 Other debt securities	7,658	–	–	7,658	7,731	–	33,661	41,392
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**7,658**	**10,000**	**1,582**	**19,240**	**7,731**	**19,902**	**47,910**	**75,543**
Cost	**4,811**	**8,858**	**12,560**	**26,229**	**4,815**	**47,973**	**19,068**	**71,856**

The criteria used to determine the fair value and the classification of financial instruments in the three levels of the fair value hierarchy are defined in Part A "Accounting Policies".
The amounts at cost correspond to the purchase cost of financial assets held at the balance sheet date.
In accordance with the provisions of IAS 39 on the derecognition of financial assets, line item "1. Debt securities" also includes securities pertaining to repurchase agreements and securities lending pertaining to own securities of 7.658 million euro (27.633 million euro at 31 December 2015).

Purpose of using the fair value option and the financial assets concerned

Type of transaction/ amount	Natural hedges	Structured financial instruments	Portfolios of financial assets managed internally on a fair value basis	31.12.2016	Natural hedges	Structured financial instruments	Portfolios of financial assets managed internally on a fair value basis	31.12.2015
1. Debt securities	**7,658**	**11,582**	**–**	**19,240**	**41,392**	**34,151**	**–**	**75,543**
1.1 Structured securities	–	11,582	–	11,582	–	34,151	–	34,151
1.2 Other debt securities	7,658	–	–	7,658	41,392	–	–	41,392
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**7,658**	**11,582**	**–**	**19,240**	**41,392**	**34,151**	**–**	**75,543**

This table provides details of table 3.1 above and shows the book value (fair value) of assets for which the fair value option has been adopted, distinguishing the type of use.

Subordinated financial assets

The following table sets out financial assets with a subordination clause:

Subordinated financial assets	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
1.2 Other debt securities, of which issued by insurance companies:								
• UNIPOL subordinated bonds 01/21 BR 15/6	7,658	–	–	7,658	7,731	–	–	7,731
Total	**7,658**	**–**	**–**	**7,658**	**7,731**	**–**	**–**	**7,731**

3.2 Financial assets designated at fair value through profit and loss: analysis by debtor/issuer

Line item/amount	31.12.2016	31.12.2015
1. Debt securities	**19,240**	**75,543**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	10,000	58,051
d) Other issuers	9,240	17,492
2. Equities	**–**	**–**
a) Banks	–	–
b) Other issuers:	–	–
– insurance companies	–	–
– financial institutions	–	–
– non-financial companies	–	–
– others	–	–
3. Mutual funds	**–**	**–**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**19,240**	**75,543**

Section 4 – Financial assets available for sale Line item 40

This line item consists of all the financial assets (debt securities, equities, etc.) classified in the "available for sale" portfolio. Equities essentially include interests in companies which, in accordance with international accounting standards, are no longer defined as equity investments.

The underlying technical forms also include sold assets that do not satisfy the requirements of IAS 39 to be derecognised from the financial statements ("sold but not eliminated") and non-performing assets.

4.1 Financial assets available for sale: analysis by product

Line item/amount	Level 1	Level 2	Level 3	31.12.2016	Level 1	Level 2	Level 3	31.12.2015
1. Debt securities	**8,521,616**	**99,646**	**114,934**	**8,736,196**	**8,307,641**	**56,294**	**115,891**	**8,479,826**
1.1 Structured securities	–	–	114,934	114,934	–	56,294	115,886	172,180
1.2 Other debt securities	8,521,616	99,646	–	8,621,262	8,307,641	–	5	8,307,646
2. Equities	**238,887**	**77,799**	**232,289**	**548,975**	**40,768**	**43,325**	**273,831**	**357,924**
2.1 At fair value	238,887	77,799	230,750	547,436	40,768	43,325	272,063	356,156
2.2 At cost	–	–	1,539	1,539	–	–	1,768	1,768
3. Mutual funds	**–**	**–**	**177,332**	**177,332**	**–**	**–**	**129,773**	**129,773**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**8,760,503**	**177,445**	**524,555**	**9,462,503**	**8,348,409**	**99,619**	**519,495**	**8,967,523**

The criteria used to determine the fair value and the classification of financial instruments in the three levels of the fair value hierarchy are defined in Part A "Accounting Policies".
The line item "1.1 Structured Securities" includes a debt security for which, given its features and in accordance with IAS 39, the embedded derivative has not been accounted for separately from its host contract.
The line item "1.2 Other debt securities" includes Italian government bonds with a nominal value of 8.24 billion euro, of which 6.536 billion euro at fixed rate (7.88 billion euro at 31 December 2015, of which 6.01 billion at fixed rate).
In accordance with the provisions of IAS 39 on the derecognition of financial assets, line item "1. Debt securities" also includes securities pertaining to repurchase agreements and securities lending pertaining to own securities of 3,969.973 million euro (4,157.562 million euro at 31 December 2015).

Further information on the values of these assets is provided in Part E of these explanatory notes in Section "E. Disposal transactions".
Line item "2. Equities" includes equity interests that do not qualify as subsidiaries, associates or joint ventures.
The following table shows the composition of securities carried at fair value, as well as those valued at cost, which have been maintained at their initial book value as it is not possible to determine a reliable fair value, as required by IFRS 7, paragraph 30.

Composition of line item 2.1. Equities at fair value	**Level 1**	**Level 2**	**Level 3**	**31.12.2016**	**Level 1**	**Level 2**	**Level 3**	**31.12.2015**
Banks:	–	43,440	139,461	182,901	–	43,325	162,919	206,244
Financial institutions and other companies:	238,887	34,359	91,289	364,535	40,768	–	109,144	149,912
Total	**238,887**	**77,799**	**230,750**	**547,436**	**40,768**	**43,325**	**272,063**	**356,156**

Composition of line item 2.1. Equities at cost	**% holding**	**Level 3**	**31.12.2016**	**% holding**	**Level 3**	**31.12.2015**
Visconti S.r.l.	10.34	1,137	1,137	10.34	1,137	1,137
Other equities	–	402	402	–	631	631
Total		**1,539**	**1,539**		**1,768**	**1,768**

The following table sets out financial assets with a subordination clause:

Subordinated financial assets	**Level 1**	**Level 2**	**Level 3**	**31.12.2016**	**Level 1**	**Level 2**	**Level 3**	**31.12.2015**
1.2 Other debt securities, of which issued by banks:								
• Banca Popolare di Vicenza subordinated bonds 20.12.2007/2017	13,022	–	–	13,022	20,005	–	–	20,005
Total	**13,022**	**–**	**–**	**13,022**	**20,005**	**–**	**–**	**20,005**

4.2 Financial assets available for sale: analysis by debtor/issuer

Line item/amount	31.12.2016	31.12.2015
1. Debt securities	**8,736,196**	**8,479,826**
a) Governments and central banks	8,508,595	8,287,642
b) Other public entities	–	–
c) Banks	227,601	192,184
d) Other issuers	–	–
2. Equities	**548,975**	**357,924**
a) Banks	182,943	206,286
b) Other issuers:	366,032	151,638
– insurance companies	–	4,582
– financial institutions	289,773	52,292
– non-financial companies	76,259	94,764
– other	–	–
3. Mutual funds	**177,332**	**129,773**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**9,462,503**	**8,967,523**

The analysis of financial assets by the business sector to which debtors and securities issuers belong has been made in accordance with the classification recommended by the Bank of Italy.

Mutual funds: analysis by category of closed funds

The following table provides details of the main types of investments in mutual funds, the balance of which, at the respective dates, is reported in table 4.2 under line item 3 "Mutual funds".

Line item/amount	31.12.2016	31.12.2015
Equity	63,867	15,035
Real estate	63,498	65,178
Bonds/money market	12,134	10,022
Other	37,833	39,538
Total	**177,332**	**129,773**

"Other" also includes investments in Sicar (Société d'Investissement en Capital à Risque) and in private equity firms.

4.3 Financial assets available for sale with specific hedges

Line item/amount	31.12.2016	31.12.2015
1. Financial assets with specific fair value hedges	**1,667,793**	**1,182,643**
a) interest rate risk	1,667,793	735,802
b) exchange rate risk	–	–
c) credit risk	–	–
d) price risk	–	446,841
e) several risks	–	–
2. Financial assets with specific cash flow hedges	**114,934**	**115,886**
a) interest rate risk	114,934	115,886
b) exchange rate risk	–	–
c) other	–	–
Total	**1,782,727**	**1,298,529**

Section 5 – Investments held to maturity
Line item 50

The Bank had no investments held to maturity at the balance sheet date.

Section 6 – Due from banks
Line item 60

This line item consists of financial assets not quoted on an active market (level 2 and level 3) that are due from banks (current accounts, security deposits, debt securities, etc.) and are classified in the loans and receivables portfolio. They include operating receivables connected with the provision of financial services.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and non-performing assets.

6.1 Due from banks: analysis by product

Type of transaction/amount	31.12.2016				31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**273,197**	**–**	**–**	**273,197**	**98,284**	**–**	**–**	**98,284**
1. Restricted deposits	–	X	X	X	–	X	X	X
2. Compulsory reserve	273,179	X	X	X	98,267	X	X	X
3. Repurchase agreements	–	X	X	X	–	X	X	X
4. Other	18	X	X	X	17	X	X	X
B. Due from banks	**1,207,505**	**–**	**–**	**1,213,215**	**1,167,983**	**–**	**–**	**1,172,037**
1. Loans	1,207,505	–	–	1,213,215	1,167,983	–	–	1,172,037
1.1 Current accounts and unrestricted deposits	209,798	X	X	X	226,728	X	X	X
1.2 Restricted deposits	308,304	X	X	X	370,562	X	X	X
1.3 Other loans:	689,403	–	–	–	570,693	–	–	–
– Repurchase agreements	–	X	X	X	304,946	X	X	X
– Finance leases	–	X	X	X	–	X	X	X
– Other	689,403	X	X	X	265,747	X	X	X
2. Debt securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	X	X	X	–	X	X	X
2.2 Other debt securities	–	X	X	X	–	X	X	X
Total	**1,480,702**	**–**	**–**	**1,486,412**	**1,266,267**	**–**	**–**	**1,270,321**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine fair value.

Subordinated financial assets

The Bank had no subordinated financial assets at the balance sheet date.

Non-performing assets

The Bank had no non-performing assets at the balance sheet date.

6.2 Due from banks with specific hedges

There were no amounts due from banks with specific hedges at the balance sheet date, as at the end of the previous year.

6.3 Finance leases

No financing had been granted for finance lease contracts at the balance sheet date, as at the end of the previous year.

Section 7 – Loans to customers
Line item 70

This line item consists of financial assets not quoted on an active market (level 2 and level 3) that are represented by loans to customers (mortgage loans, finance leases, factoring, debt securities, etc.) and are classified in the loans and receivables portfolio.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and non-performing assets.

7.1 Loans to customers: analysis by product

Type of transaction/amount	31.12.2016						31.12.2015					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**30,622,584**	**–**	**3,564,232**	**–**	**–**	**35,847,608**	**29,877,671**	**–**	**3,550,040**	**–**	**–**	**36,043,788**
1. Current accounts	2,673,381	–	711,220	X	X	X	2,995,097	–	704,786	X	X	X
2. Repurchase agreements	4,747	–	–	X	X	X	7,049	–	–	X	X	X
3. Mortgage loans	16,602,225	–	1,824,113	X	X	X	16,179,055	–	1,785,875	X	X	X
4. Credit cards, personal loans and salary agreements	479,855	–	105,211	X	X	X	563,205	–	95,363	X	X	X
5. Finance leases	174,980	–	70,126	X	X	X	196,463	–	62,538	X	X	X
6. Factoring	–	–	–	X	X	X	–	–	–	X	X	X
7. Other loans	10,687,396	–	853,562	X	X	X	9,936,802	–	901,478	X	X	X
Debt securities	**23,501**	**–**	**20,142**	**–**	**40,325**	**–**	**21,026**	**–**	**25,580**	**–**	**–**	**43,588**
8. Structured securities	14,331	–	–	X	X	X	13,880	–	–	X	X	X
9. Other debt securities	9,170	–	20,142	X	X	X	7,146	–	25,580	X	X	X
Total	**30,646,085**	**–**	**3,584,374**	**–**	**40,325**	**35,847,608**	**29,898,697**	**–**	**3,575,620**	**–**	**–**	**36,087,376**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine fair value.

Current account balances due from customers include transactions "in transit" or "in suspense" relating to such accounts at year end; these balances are not affected by non-cash debits and credits relating to bill and document collection services.
"Other loans" mostly relate to advances on bills, documents and similar instruments subject to collection, other amounts not settled via current accounts, receivables from post offices and PDC, derivative transaction margin changes at clearing houses, documents discounted without recourse and operating loans associated with the provision of financial services (those associated with the payment of supplies of goods and non-financial services are shown under "Other assets").
Discounted bills are recognised at their face value, less any deferred income; they also include those sent for collection by the Bank's own branches or others.

The non-performing column includes bad loans, unlikely to pay and past due, net of value adjustments, as defined by the Bank of Italy. Details of these exposures are given in Part E of the notes – Asset quality, in accordance with the provisions of IAS 39 on the derecognition of financial assets.

"Other loans" considered performing include advances on bills, documents and similar instruments subject to collection for 2,398 million euro (2,785 million euro at 31 December 2015) and other amounts not settled via current accounts for 7,330 million euro (6,300 million euro at 31 December 2015).

Subordinated financial assets

Type of transaction/amount	31.12.2016	31.12.2015
7. Other loans:	**30,886**	**38,492**
Subordinated loans granted to insurance companies	30,886	38,492
9. Other debt securities:	**4,340**	**4,609**
PHARMA Finance 3 SRL 08/28 FR% 26.09 Class B	41	336
PHARMA Finance 3 SRL 08/28 FR% 26.09 Class C	4,299	4,273
Total	**35,226**	**43,101**

Subordinated financial assets due from insurance companies at 31.12.2016 refer to loans granted by the Parent Company to Bipiemme Vita S.p.A. which have the following features:

a) 8 million euro granted on 27/6/2003 with unspecified maturity – interest rate 12-month Euribor + 250 b.p;

b) 26.05 million granted on 21/3/2012 with 10 year fixed maturity – interest rate 12-month Euribor.

The PHARMA Finance securities originate from third party securitisations and are subordinated by their terms to superior classes. The Bank has also subscribed the senior tranche of this securitisation. The total fair value of the three tranches issued is in line with their book value; in addition, the transaction is currently being repaid according to plan for all tranches issued.

Line item 3. "Mortgage loans" consists of the balances at the respective dates of the following portfolios of securitised loans:

	Performing	Non-performing	31.12.2016	Performing	Non-performing	31.12.2015
• BPM Securitisation 2 S.r.l.:						
– transaction carried out in 2006 for 2,011.3 million euro	233,517	31,469	**264,986**	288,443	35,527	**323,970**
• BPM Securitisation 3 S.r.l.:						
– self-securitisation of commercial mortgage backed securities (CMBS) carried out in the third quarter of 2014 for 864 million euro(*) and in 2016 for 638 million euro	803,533	13,231	**816,764**	517,925	5,221	**523,146**
• BPM Covered Bond S.r.l.:						
– transactions carried out in 2008 for 1,218 million euro, in 2009 for 1,305 million euro, in 2010 for 1,616 million euro, in 2011 for 639 million euro, in 2013 for 993 million euro and in 2014 for 1,294 million euro	3,749,899	33,389	**3,783,288**	4,354,910	102,868	**4,457,778**
• BPM Covered Bond 2 S.r.l.:						
– transaction carried out in 2015 for 2,120 million and in 2016 for 1,294 million	2,940,324	3,806	**2,944,130**	2,011,102	1,407	**2,012,509**
Total	**7,727,273**	**81,895**	**7,809,168**	**7,172,380**	**145,023**	**7,317,403**

(*) The Bank has fully subscribed the securities issued by the special purpose vehicle.

For details of the above transactions reference should be made to the following sections of Part E of these explanatory notes "Information on risks and related hedging policies":

1 – Credit risk

- "C. Securitisation transactions"
- "E.4 Covered bond transactions"

3 – Liquidity risk

- Self-securitisations

7.2 Loans to customers: analysis by debtor/issuer

Type of transaction/amount	31.12.2016			31.12.2015		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	**23,501**	**–**	**20,142**	**21,026**	**–**	**25,580**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	23,501	–	20,142	21,026	–	25,580
– non-financial companies	20,952	–	3,260	19,483	–	3,260
– financial companies	2,549	–	16,882	1,543	–	22,320
– insurance companies	–	–	–	–	–	–
– other	–	–	–	–	–	–
2. Loans to:	**30,622,584**	**–**	**3,564,232**	**29,877,671**	**–**	**3,550,040**
a) Governments	475,990	–	–	353,828	–	–
b) Other public entities	150,907	–	445	148,538	–	678
c) Other parties	29,995,687	–	3,563,787	29,375,305	–	3,549,362
– non-financial companies	15,217,223	–	2,999,352	14,705,170	–	2,937,113
– financial companies	3,916,808	–	100,932	3,996,608	–	121,605
– insurance companies	42,712	–	–	52,792	–	–
– other	10,818,944	–	463,503	10,620,735	–	490,644
Total	**30,646,085**	**–**	**3,584,374**	**29,898,697**	**–**	**3,575,620**

The analysis of financial assets by the business sector to which debtors and securities issuers belong has been made in accordance with the classification recommended by the Bank of Italy.

7.3 Loans to customers: assets with specific hedges

There are no loans to customers with specific hedges at the balance sheet date.

7.4 Finance leases

The disclosures required by IAS 17, paragraph 47 are set out below.

Reconciliation between the gross investment in leases and the present value of the minimum payments due at the balance sheet date

	31.12.2016	31.12.2015
Gross investment in leases	**351,318**	**357,650**
Deferred financial income	69,023	72,924
Net investment	**282,295**	**284,726**
Unguaranteed residual value	–	–
Present value of minimum payments due	**282,295**	**284,726**
Adjustments	–37,189	–25,725
Book value: line item 5. "Finance leases" in table 7.1	**245,106**	**259,001**
Performing	174,980	196,463
Non-performing	70,126	62,538

Time bands	**31.12.2016**	**31.12.2015**
Within 1 year		
Gross investment	**9,873**	**12,412**
Present value of minimum payments due	9,744	12,219
Adjustments	–4,230	–4,754
Net exposure	**5,514**	**7,465**
– of which non-performing	*2,463*	*2,586*
Between 1 and 5 years		
Gross investment	**15,848**	**15,684**
Present value of minimum payments due	14,251	14,704
Adjustments	–1,584	–1,393
Net exposure	**12,667**	**13,311**
– of which non-performing	*3,103*	*2,866*
Beyond 5 years		
Gross investment	**325,597**	**329,554**
Present value of minimum payments due	258,300	257,803
Adjustments	–31,375	–19,578
Net exposure	**226,925**	**238,225**
– of which non-performing	*64,560*	*57,086*

The finance lease portfolio at 31 December 2016 consists of 765 contracts; the investments related to properties for 98%, functional assets for 1.5% and motor vehicles for the remainder.

Section 8 – Hedging derivatives
Line item 80

This line item consists of financial derivatives used for hedging purposes which have a positive fair value at the balance sheet date.

8.1 Hedging derivatives: analysis by type of hedge and level

	31.12.2016					31.12.2015				
	Fair Value				NV	Fair Value				NV
	Level 1	Level 2	Level 3	Total FV		Level 1	Level 2	Level 3	Total FV	
A) Financial derivatives	**–**	**16,070**	**–**	**16,070**	**735,000**	**–**	**10,058**	**–**	**10,058**	**651,132**
1) Fair value	–	16,070	–	16,070	735,000	–	9,304	–	9,304	534,900
2) Cash flows	–	–	–	–	–	–	754	–	754	116,232
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B) Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**16,070**	**–**	**16,070**	**735,000**	**–**	**10,058**	**–**	**10,058**	**651,132**

Key: FV = Fair value NV = Notional value

The criteria used to determine the fair value and the classification of financial instruments in the three levels of the fair value hierarchy are defined in Part A "Accounting Policies".

The table presents the positive book value (fair value) of hedging derivative contracts, including the amount accruing at the balance sheet date, for fair value hedges accounted for by hedge accounting. This instrument is used to account for hedges of financial instruments recognised in balance sheet items that do not envisage their measurement at fair value through profit and loss.

The hedging of financial liabilities represented by securities is normally accounted for by using the fair value option. The fair value option is adopted for structured debt securities and fixed-rate securities issued by Group banks, whose risk of changes in fair value has been hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading portfolio.

In particular, the hedging of financial assets and liabilities other than those represented by securities is dealt with through hedge accounting.

Reference should be made to the information provided in Part E – Information on risks and related hedging policies – Section 2 – Market risks for the objectives and strategies underlying hedging transactions.

8.2 Hedging derivatives: analysis by hedged portfolio and type of hedge

Type of transaction/amount	Fair value						Cash flow		Foreign investments
	Specific hedging					Macro hedging	Specific hedging	Macro hedging	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Several risks				
1. Financial assets available for sale	1,359	–	–	–	–	x	–	x	x
2. Loans and receivables	–	–	–	x	–	x	–	x	x
3. Investments held to maturity	x	–	–	x	–	x	–	x	x
4. Portfolio	x	x	x	x	x	–	x	–	x
5. Other transactions	–	–	–	–	–	x	–	x	–
Total assets	**1,359**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	x	–	x	–	x	x
2. Portfolio	x	x	x	x	x	14,711	x	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**14,711**	**–**	**–**	**–**
1. Forecast transactions	x	x	x	x	x	x	–	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	–	x	–	–

This table analyses the positive fair value of hedging derivatives by the asset or liability hedged and the type of hedge contract.

As far as the detail of hedged portfolios is concerned:

Specific fair value hedge
Line item 1. "Financial assets available for sale" relates to the positive fair value of financial derivatives to hedge interest rate risk for a total notional amount of 300 million of fixed-income government bonds.

Macro fair value hedges
Line item 2. "Portfolio" relates to the positive fair value of financial derivatives for a notional amount of 410 million euro acquired to hedge the interest rate risk of a portfolio of core deposits and 25 million euro acquired to hedge mortgage loans.

Section 9 – Fair value change of financial assets in hedged portfolios Line item 90

This item consists of the positive balance of fair value changes in the assets covered by macrohedges against interest rate risk.

9.1 Fair value adjustment of hedged assets: analysis by hedged portfolio

Fair value adjustment of hedged assets: analysis by hedged portfolio	31.12.2016	31.12.2015
1. Positive adjustment	**10,514**	**11,237**
1.1 of specific portfolios:	10,514	11,237
a) loans and receivables	10,514	11,237
b) financial assets available for sale	–	–
1.2 overall	–	–
2. Negative adjustment	**–**	**–**
2.1 of specific portfolios:	–	–
a) loans and receivables	–	–
b) financial assets available for sale	–	–
2.2 overall	–	–
Total	**10,514**	**11,237**

The adjustment for financial assets hedged by fair value macrohedges relates to a mortgage loan portfolio of 10.5 million euro of which:

- 6.22 million euro relating to existing loans for which the hedge is still effective;
- 4.28 million euro for the residue of ineffective transactions to be released to income on a temporal basis.

Income and expenses arising from the valuation of hedging derivatives and the hedged portfolio are recognised in the income statement under line item 90. "Fair value adjustments in hedge accounting".

9.2 Assets covered by macrohedges against interest rate risk

Hedged assets	31.12.2016	31.12.2015
1. Loans and receivables	189,286	97,928
2. Financial assets available for sale	–	–
3. Portfolio	–	–
Total	**189,286**	**97,928**

The table sets out the nominal value of assets covered by macrohedges against interest rate risk as per table 9.1.

Section 10 – Investments in subsidiaries, associates and companies subject to joint control Line item 100

This item consists of investments in subsidiaries (IFRS 10), companies subject to joint control (IFRS 11) and companies subject to significant influence (IAS 28).

10.1 Investments in subsidiaries, associates and companies subject to joint control: disclosures

Company name	Registered office	Operational headquarters	Percentage held %	Voting rights %(1)
A. Subsidiaries				
Unlisted banks				
1. Banca Popolare di Mantova S.p.A.	Mantova	Mantova	96.74	
2. Banca Akros S.p.A.	Milan	Milan	100.00	
Unlisted financial companies				
3. ProFamily S.p.A.	Milan	Milan	100.00	
4. BPM Covered Bond S.r.l.	Rome	Rome	80.00	
5. BPM Covered Bond 2 S.r.l.	Rome	Rome	80.00	
Other unlisted companies				
6. Ge.Se.So. S.r.l.	Milan	Milan	100.00	
B. Companies subject to joint control				
Unlisted financial companies				
1. Calliope Finance S.r.l.	Conegliano (TV)	Conegliano (TV)	50.00	
C. Companies subject to significant influence				
Unlisted financial companies				
1. SelmaBipiemme Leasing S.p.A.	Milan	Milan	40.00	
2. Factorit S.p.A.	Milan	Milan	30.00	
3. Etica SGR S.p.A.	Milan	Milan	19.44	
Unlisted insurance companies				
4. Bipiemme Vita S.p.A.	Milan	Milan	19.00	

(1) Voting rights at ordinary shareholders' meetings. Voting rights are only shown if they differ from the percentage holding.

10.2 Significant investments in subsidiaries, associates and companies subject to joint control: book value, fair value and dividends received

This information can be found in the corresponding section of the consolidated financial statements.

10.3 Significant investments in subsidiaries, associates and companies subject to joint control: accounting information

Accounting information can be found in the corresponding section of the consolidated financial statements.

10.4 Non-significant investments in subsidiaries, associates and companies subject to joint control: accounting information

All investments held are significant.

10.5 Investments in subsidiaries, associates and companies subject to joint control: changes during the year

	31.12.2016	31.12.2015
A. Opening balance	**440,808**	**459,611**
B. Increases	**167,122**	**16,813**
B.1 Purchases	21,570	904
B.2 Write-backs	12,272	13,292
B.3 Revaluations	120,412	–
B.4 Other increases	12,868	2,617
C. Decreases	**255,570**	**35,616**
C.1 Sales	28,171	34,233
C.2 Adjustments	–	1,383
C.3 Other decreases	227,399	–
D. Closing balance	**352,360**	**440,808**
E. Total revaluations	**–**	**–**
F. Total adjustments	**33,220**	**45,494**

Details of changes during the year

B. Increases	**167,122**
B.1 Purchases	**21,570**
■ Banca Popolare di Mantova S.p.A., purchase of 389,236 shares	15,859
■ Banca Akros S.p.A. purchase of 1,226,391 shares	5,711
B.2 Write-backs	**12,272**
■ ProFamily S.p.A.	12,272
B.3 Revaluations	**120,412**
■ Anima Holding S.p.A – write-up to fair value following reclassification to the item available for sale	120,412
B.4 Other increases	**12,868**
■ Proceeds from the sale of Anima Holding S.p.A.	10,964
■ Proceeds from the partial sale of Etica SGR S.p.A.	1,170
■ Proceeds from the liquidation of BPM Luxembourg SA	339
■ Proceeds from the sale of Aedes Bipiemme Real Estate SGR S.p.A. – settlement balance from the 2015 sale,	395
C. Decreases	**255,570**
C.1 Sales	**28,171**
■ Partial sale of Anima Holding S.p.A., 6,543,608 shares	26,776
■ Partial sale of Etica SGR S.p.A., 22,500 shares	1,395
C.2 Adjustments	**–**
C.3 Other decreases	**227,399**
■ Anima Holding S.p.A., reclassification to "Financial assets available for sale"	226,665
■ Liquidation of BPM Luxembourg SA	339
■ Aedes Bipiemme Real Estate SGR S.p.A. – settlement balance from the 2015 sale	395

Detail of line item F. Total adjustments

(euro/000)

		Gross book value	Line item F. Total adjustments	Net book value
A.	**Subsidiaries**			
	Unlisted banks			
	Banca Popolare di Mantova S.p.A.	**62,522**	**23,626**	**38,896**
	Adjustments:			
	2011 € 22,115,048 following an impairment test at 31.12.2011			
	2012 € 1,648,042 following an impairment test at 31.12.2012 (640,000 at 30.06.2012))			
	2013 € 831,780 following an impairment test at 31.12.2013			
	Write-backs:			
	2014 € 288,445 Partial write-back of cost on recognition at 31.12.2014			
	2015 € 679,986 Partial write-back of cost on recognition at 31.12.2015			
	Unlisted financial companies			
	Profamily S.p.A.	**82,088**	**9,287**	**72,801**
	Adjustments:			
	2012 € 28,883,728 following an impairment test at 31.12.2012 (24,569,666 al 30.06.2012)			
	2013 € 1,112,500 following an impairment test at 31.12.2013			
	Write-backs:			
	2014 € 2,769,535 Partial write-back of cost on recognition at 31.12.2014			
	2015 € 5,668,458 Partial write-back of cost on recognition at 31.12.2015			
	2016 € 12,271,547 Partial write-back of cost on recognition at 31.12.2016			
B.	**Companies subject to joint control**			
	Unlisted financial companies			
	Calliope S.r.l.	**300**	**300**	**0**
	Adjustments:			
	2008 € 300,000			
C.	**Companies subject to significant interest**			
	Unlisted financial companies			
	SelmaBipiemme Leasing S.p.A.	**36,296**	**–**	**36,296**
	Adjustments:			
	1995 € 820,960 1996 € 435,910 2013 € 3,117,230			
	2014 € 2,569,656			
	Write-backs:			
	2014 € 6,943,756 Write-back of cost on recognition at 31.12.2015			
	Etica S.G.R. S.p.A.	**882**	**7**	**875**
	Adjustments:			
	2002 € 9,378			
	Proceeds from sale:			
	2016 € 1,918			
Total adjustments over time on positions outstanding at the end of the year			**33,220**	

10.6 Commitments regarding investments subject to joint control

Commitments regarding these investments can be found in the corresponding section of the consolidated financial statements.

10.7 Commitments regarding associates

Anima Holding S.p.A.
In June 2015 Poste Italiane S.p.A. ("Poste") acquired the 10.3% interest held by BMPS in Anima Holding S.p.A. ("Anima"), at the same time taking over from BMPS all its rights and obligations pursuant to the shareholders' agreement based on the Anima shares originally entered into by MPS and BPM on 5 March 2014.

As a result of this transaction BPM is required to sell to third parties that are not related parties to BPM and/or Poste its entire interest exceeding the threshold causing the requirement for a public tender offer ("OPA") to trigger, pursuant to article 106 of Legislative Decree no. 58 of 24 February 1998 ("CFA"), by and no later than twelve months from the date of completion of the sale of the Anima shares held by MPS to Poste, and in the meantime not to exercise its voting rights relating to the interest exceeding such threshold. On 16 June 2016, Consob issued an opinion stating that the threshold applicable in the case of Anima is the 25% of share capital for an OPA pursuant to article 106, paragraph 1-*bis* of the CFA. On 27 June 2016 BPM announced that it had complied with the commitment for the sale of the interest in Anima exceeding the OPA threshold (taking account of the shares held by Poste), and its interest has in fact fallen to 14.67%.

On 14 October 2016 Poste notified BPM of its wish to terminate the shareholders' agreement, which from 16 April 2017 will no longer be effective between the parties. Finally, on 5 December 2016 Poste confirmed its plan to strengthen its partnership with Anima Holding by contributing BancoPosta Fondi SGR to Anima by the end of the first half of 2017, with a resulting increase of its interest up to a maximum of 24.9%.
Up until 30 September 2016 BPM had classified its interest in the share capital of Anima as an investment in an associate in accordance with IAS 28, as two of the requirements stated in that standard were satisfied at the beginning of the operation:

- it held more than 20% of the investee's share capital; and
- there were agreements between shareholders dealing with the investee's corporate governance, such as the appointment of directors, the need for votes exceeding ordinary majorities for the approval of board and shareholder decisions on certain corporate matters and the impossibility to sell an interest below certain set percentage thresholds, which led to the presumption that it had significant influence over operations.

In 2014, despite the fact that its interest fell below the 20% threshold identified in the standard as a presumption of significant influence, BPM decided that the requirement to classify the investment as an associate continued to exist by virtue of the significance of the contents of the shareholders' agreement.

As a result of the failure to renew the shareholders' contract in October 2016, BPM now believes that the presumptions of IAS 28 for classifying the interest as an associate no longer exist. As a result, the investment in Anima has been reclassified in the separate and consolidated financial statements of BPM at 31 December 2016 from the items "Investments in subsidiaries, associates and companies subject to joint control" and "Investments in associates and companies subject to joint control", respectively, to "Financial assets available for sale". More specifically, in accordance with IAS 39 the financial asset is recognised on the basis of its fair value, with the difference with its previous book value being recognised in profit and loss.

A gain has been recognised in the income statement in the line items "Profits (losses) on investments in subsidiaries, associates and companies under joint control" and "Profits (losses) on investments in associates and companies under joint control" for the difference between fair value at 31 December 2016, based on stock market price, and the previous book value of the investment in the separate and consolidated financial statements respectively.

Other commitments regarding investments can be found in the corresponding section of the consolidated financial statements.

10.8 Significant restrictions

Disclosures can be found in the corresponding section of the consolidated financial statements.

10.9 Other information

Other information on investments can be found in the corresponding section of the consolidated financial statements.

Section 11 – Property and equipment
Line item 110

11.1 Functional property and equipment: analysis of assets measured at cost

Asset/amount	31.12.2016	31.12.2015
1.1 Owned assets	**657,604**	**657,210**
a) land	279,701	279,651
b) buildings	270,705	282,125
c) furniture	25,625	24,748
d) electronic equipment	16,175	14,127
e) other assets	65,398	56,559
1.2 Assets acquired under finance leases	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other assets	–	–
Total	**657,604**	**657,210**

This line item consists of property and equipment (buildings, plant, machinery and other tangible assets, including work of art) used in the business, which are governed by IAS 16, and investment properties (land and buildings), which are governed by IAS 40.

11.2 Investment properties: analysis of assets measured at cost

Asset/amount	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**23,800**	**–**	**–**	**36,522**	**25,656**	**–**	**–**	**36,926**
a) land	6,207	–	–	6,752	6,228	–	–	6,774
b) buildings	17,593	–	–	29,770	19,428	–	–	30,152
2. Assets acquired under finance leases	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–	–	–
Total	**23,800**	**–**	**–**	**36,522**	**25,656**	**–**	**–**	**36,926**

11.3 Functional property and equipment: analysis of revalued assets

There are no items of functional property and equipment measured at fair value at the balance sheet date, as at the end of the previous year.

11.4 Investment properties: analysis of assets measured at fair value

There are no investment properties measured at fair value at the balance sheet date, as at the end of the previous year.

11.5 Functional property and equipment: changes during the year

Asset/amount	Land	Buildings	Furniture	Electronic systems	Other assets	Total
A. Opening balance, gross	**279,651**	**847,363**	**126,706**	**193,495**	**229,234**	**1,676,449**
A.1 Total net reductions in value	–	565,238	101,958	179,368	172,675	1,019,239
A.2 Opening balance, net	279,651	282,125	24,748	14,127	56,559	657,210
B. Increases	**62**	**28**	**4,604**	**9,453**	**22,248**	**36,395**
B.1 Purchases	–	–	4,604	9,453	22,248	36,305
– of which business combinations	–	–	–	–	–	–
B.2 Capitalised improvement expenditure	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases recognised in:	–	–	–	–	–	–
– a) shareholders' equity	–	–	–	–	–	–
– b) income	–	–	–	–	–	–
B.5 Foreign exchange gains	–	–	–	–	–	–
B.6 Transfers from investment properties	–	–	–	–	–	–
B.7 Other increases	62	28	–	–	–	90
C. Decreases	**12**	**11,448**	**3,727**	**7,405**	**13,409**	**36,001**
C.1 Sales	–	31	–	–	–	31
– of which business combinations	–	–	–	–	–	–
C.2 Depreciation	–	11,417	3,726	7,395	13,362	35,900
C.3 Impairment adjustments recognised in:	–	–	–	–	–	–
– a) shareholders' equity	–	–	–	–	–	–
– b) income	–	–	–	–	–	–
C.4 Fair value decreases recognised in:	–	–	–	–	–	–
– a) shareholders' equity	–	–	–	–	–	–
– b) income	–	–	–	–	–	–
C.5 Foreign exchange losses	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
– a) investment properties	–	–	–	–	–	–
– b) non-current assets held for sale	–	–	–	–	–	–
C.7 Other decreases	12	–	1	10	47	70
D. Closing balance, net	**279,701**	**270,705**	**25,625**	**16,175**	**65,398**	**657,604**
D.1 Total net reductions in value	–	575,981	105,685	186,762	186,036	1,054,464
D.2 Closing balance, gross	279,701	846,686	131,310	202,937	251,434	1,712,068
E. Measurement at cost	**–**	**–**	**–**	**–**	**–**	**–**

Furniture

Works of art amounting to 7.145 million euro are included in the total balance of 25.6 million euro.

11.6 Investment properties: changes during the year

	Land	Buildings	Total
A. Opening balance	**6,228**	**19,428**	**25,656**
B. Increases	**–**	**106**	**106**
B.1 Purchases	–	–	–
– of which business combinations	–	–	–
B.2 Capitalised improvement expenditure	–	–	–
B.3 Fair value increases	–	–	–
B.4 Write-backs	–	–	–
B.5 Foreign exchange gains	–	–	–
B.6 Transfers from functional use	–	–	–
B.7 Other increases	–	106	106
C. Decreases	**21**	**1,941**	**1,962**
C.1 Sales	–	812	812
– of which business combinations	–	–	–
C.2 Depreciation	–	944	944
C.3 Fair value decreases	–	–	–
C.4 Impairment adjustments	–	–	–
C.5 Foreign exchange losses	–	–	–
C.6 Transfers to other asset portfolios	–	–	–
a) buildings for functional use	–	–	–
b) non-current assets held for sale	–	–	–
C.7 Other decreases	21	185	206
D. Closing balance	**6,207**	**17,593**	**23,800**
E. Measurement at fair value	**–**	**–**	**–**

Investment properties are measured at cost.

11.7 Commitments to purchase property and equipment

Contractual commitments to purchase property and equipment (unexecuted orders) amount to 2.921 million euro at the balance sheet date (1.489 million euro at 31 December 2015).

Section 12 – Intangible assets
Line item 120

This item consists of the following intangible assets as per IAS 38, which are all measured at cost.

12.1 Intangible assets: analysis by asset type

Asset/amount	Finite life	Indefinite life	31.12.2016	Finite life	Indefinite life	31.12.2015
A.1 Goodwill	**x**	**–**	**–**	**x**	**–**	**–**
A.2 Other intangible assets	**71,315**	**–**	**71,315**	**127,343**	**–**	**127,343**
A.2.1 Assets at cost:	71,315	–	71,315	127,343	–	127,343
a) Internally generated intangible assets	188	–	188	325	–	325
b) Other assets	71,127	–	71,127	127,018	–	127,018
A.2.2 Assets at fair value:	–	–	–	–	–	–
a) Internally generated intangible assets	–	–	–	–	–	–
b) Other assets	–	–	–	–	–	–
Total	**71,315**	**–**	**71,315**	**127,343**	**–**	**127,343**

As part of the combination between Banco Popolare and BPM it is planned to integrate the information systems of the two banks; this envisages the migration of the data contained in the information system currently used by BPM to that of Banco Popolare in 2017.

Accounting standards require a critical analysis to be performed at the end of each year of the utilisation of an entity's software: if this shows that the software will no longer be used or that the period of time over which the software is able to provide the expected economic benefits has decreased, an entity must recognise an impairment loss or make changes to the asset's depreciation plan to account for a shorter useful life.

As a consequence, for measurement purposes a review had to be performed of the software being used by BPM that will be disposed of or be put to other uses following the above migration.

For the software identified as being subject to disposal, following the above-mentioned decision to use the system adopted by Banca Popolare as a target, a write-down of 75.6 million euro was recognised in profit and loss to take account of the resulting revision of its useful life. This write-down has been recognised in the income statement in line item "180. Net adjustments to/recoveries on intangible assets" as part of "write-downs".

A.2 Other intangible assets

As required by paragraph 118a) of IAS 38, it is noted that software is fully classified as an intangible asset with a finite useful life; amortisation is being charged over periods between 3 and 7 years.

12.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: internally generated		Other intangible assets:		Total
		Finite life	Indefinite life	Finite life	Indefinite life	
A. Opening balance, gross	**–**	**3,083**	**–**	**502,946**	**–**	**506,029**
A.1 Total net reductions in value	–	2,758	–	375,928	–	378,686
A.2 Opening balance, net	–	325	–	127,018	–	127,343
B. Increases	**–**	**–**	**–**	**51,634**	**–**	**51,634**
B.1 Purchases	–	–	–	51,634	–	51,634
– of which business combinations	–	–	–	–	–	–
B.2 Increase in internal intangible assets	x	–	–	–	–	–
B.3 Write-backs	x	–	–	–	–	–
B.4 Fair value increases recognised in	–	–	–	–	–	–
– shareholders' equity	x	–	–	–	–	–
– income	x	–	–	–	–	–
B.5 Foreign exchange gains	–	–	–	–	–	–
B.6 Other increases	–	–	–	–	–	–
C. Decreases	**–**	**137**	**–**	**107,525**	**–**	**107,662**
C.1 Sales	–	–	–	–	–	–
– of which business combinations	–	–	–	–	–	–
C.2 Adjustments	–	137	–	106,540	–	106,677
– amortisation	x	137	–	30,915	–	31,052
– write-downs	–	–	–	75,625	–	75,625
• shareholders' equity	x	–	–	–	–	–
• income	–	–	–	75,625	–	75,625
C.3 Fair value decreases recognised in	–	–	–	–	–	–
– shareholders' equity	x	–	–	–	–	–
– income	x	–	–	–	–	–
C.4 Transfers to non-current assets held for sale	–	–	–	–	–	–
C.5 Foreign exchange losses	–	–	–	–	–	–
C.6 Other decreases	–	–	–	985	–	985
D. Closing balance, net	**–**	**188**	**–**	**71,127**	**–**	**71,315**
D.1 Total net reductions in value	–	2,895	–	482,478	–	485,373
E. Closing balance, gross	**–**	**3,083**	**–**	**553,605**	**–**	**556,688**
F. Measurement at cost	**–**	**–**	**–**	**–**	**–**	**–**

Key: DEF: finite life INDEF: indefinite life

12.3 Other information

The following disclosures are made as required by paragraphs 122 and 124 of IAS 38:

- there are no intangible assets that have been revalued; as a result, there are no restrictions on the distribution to shareholders of the revaluation surpluses that relate to intangible assets (paragraph 124b) of IAS 38);
- there are no intangible assets that have been acquired under a government grant (paragraph 122c) of IAS 38);
- there are no intangible assets that have been pledged as security for liabilities (paragraph 122d) of IAS 38);

- contractual commitments for the purchase of intangible assets (unexecuted orders) amount to 0.1 million euro at 31 December 2016 (0.808 million euro at 31 December 2015) (paragraph 122e) of IAS 38);
- there are no leased intangible assets.

Section 13 – Tax assets and liabilities
Asset line item 130 and liability line item 80

These line items consist of current and deferred tax assets (asset line item 130) and current and deferred tax liabilities (liability line item 80) in accordance with IAS 12.

The following types of temporary difference gave rise to the recognition of deferred tax assets:

13.1 Deferred tax assets: analysis

Description	31.12.2016	31.12.2015
Deferred tax assets with counter-entry to the income statement:	**844,948**	**808,132**
a) DTA under Law no. 214/2011	**682,708**	**702,548**
+ Write-downs of loans to customers	555,322	574,069
+ Goodwill and other intangible assets	112,264	128,479
+ Tax losses under Law no. 214/2011	15,122	–
b) Other	**162,240**	**105,584**
+ Write-downs of amounts due from banks	613	174
+ Tax losses	9,815	–
+ Adjustments to financial assets held for trading and financial liabilities designated at fair value through profit and loss	–	–
+ Adjustments to securities issued	–	–
+ Adjustments to financial liabilities held for trading and financial liabilities designated at fair value through profit and loss	–	–
+ Impairment adjustment to guarantees pledged recognised as other liabilities	11,182	13,424
+ Allowances for risks and charges	100,539	63,065
+ Costs mainly of an administrative nature	6,628	3,195
+ Write-downs of hedging derivatives	–	–
+ Difference between tax basis and book value of property and equipment and intangible assets	33,463	25,726
+ Other items	–	–
Deferred tax assets with counter-entry to shareholders' equity:	**52,003**	**30,324**
– Valuation reserves:	**26,344**	**4,657**
+ Losses on financial assets available for sale	26,344	4,657
– Other:	**25,659**	**25,667**
+ Actuarial gains/losses on employee allowances and other items	23,181	21,949
+ Cost of share capital increases	2,478	3,718
Total sub-item 140 b) Deferred tax assets	**896,951**	**838,456**

Tax credit arising from the conversion of deferred tax assets recognised in the financial statements (Law no. 214/2011)

Article 2 of Legislative Decree no. 225 of 29 December 2010 (the "mille proroghe", an annual decree extending the life of various government measures), converted, with amendments, to Law no. 10 of 26 February 2011 and subsequently amended by article 9 of Legislative Decree no. 201 of 6 December 2011 (the "Monti" decree), converted, with amendments, to Law no. 214/2011, provides for the introduction of rules for the conversion to tax credits of a portion of certain deferred tax assets recognised in the financial statements if a company's separate financial statements show a loss for the financial year.

Pursuant to the aforementioned rules, items which can be transformed into tax credits, within certain limits, are deferred tax assets relating to loan write-downs not yet deducted from taxable income under paragraph 3 of article 106 of the ITCA, as well as those relating to goodwill and other intangible assets that are deductible over more than one fiscal period for income tax purposes.

With respect to the quantification of the amount that can be converted, the law states that the amount of the deferred tax asset that can be converted is that which results from multiplying the loss for the financial year by the ratio of the relevant deferred tax asset to the sum of share capital and reserves. The law also provides for another possibility for conversion, concerning a deferred tax asset arising from tax losses, governed by paragraph 56-*bis* of the aforementioned article 2. The tax credit resulting from the conversion of a deferred tax asset is non-interest bearing, it may be used for offsetting in accordance with article 17 of Legislative Decree no. 241/1997, it may be sold at nominal value in accordance with the procedure set out by article 43-*ter* of Presidential Decree no. 602/1973 and, lastly, a refund may be requested for any balance remaining after offsetting.

In the above table the deferred tax asset under Law no. 214/2011 is presented separately from other traditional deferred tax asset components in order to take account of their different nature.

More specifically, the amounts shown in the table represent the portion of deferred tax assets that is potentially capable of being converted to tax credits at the balance sheet date.
The rules relating to the conversion to a tax credit of a deferred tax asset introduce a means of recovery of the asset that are supplementary to the ordinary rules to be applied when there is a loss for the financial year or a tax loss.

This method provides certainty of recovery, whatever the circumstances, of a deferred tax asset under Law no. 214/2011, automatically meeting the requirements of probable recovery of the deferred tax asset as required by IAS 12.

Other deferred tax assets

The above table also provides details of other deferred tax asset components that differ from those under Law no. 214/2011. Deferred tax assets are recognised to the extent that recovery is probable on the basis of the company's ability to generate positive taxable income on an ongoing basis.

The tax rates in force were used for the computation of deferred tax assets for IRES and IRAP purposes.

13.2 Deferred tax liabilities: analysis

Description	31.12.2016	31.12.2015
Deferred tax liabilities with counter-entry to the income statement:	**9,292**	**5,824**
+ Revaluation of financial assets held for trading and financial assets designated at fair value through profit and loss	3,547	–
+ Revaluations of hedging derivatives	–	–
+ Portion of implicit fees in bonds measured at fair value recognised as other liabilities	–	–
+ Portion of the provision for employee termination indemnities already recognised for tax purposes	5,745	5,824
+ Adjustments to financial liabilities measured at fair value and securities issued	–	–
+ Depreciation of property and equipment and amortisation of intangible assets already recognised for fiscal purposes	–	–
+ Other items	–	–
Deferred tax liabilities with counter-entry to shareholders' equity:	**49,341**	**115,826**
– Valuation reserves	**49,341**	**115,826**
+ Gains on financial assets available for sale	49,341	115,826
+ Actuarial gains/losses on employee allowances	–	–
Total sub-item 80 b) Deferred tax liabilities	**58,633**	**121,650**

Unrecognised deferred tax liabilities

Deferred tax liabilities have not been recognised for reserves which are taxable in the event of distribution but were converted into share capital in connection with bonus share issues for a total of 721.9 million euro; distribution is not foreseen, so it is highly unlikely that tax will have to be paid.

The amount of 721.9 million euro has built up over time as follows:

- 354.5 million euro of this amount relates to an increase in capital in 1996 to adjust the par value of the shares from Lire 1,000 to Lire 5,000;
- 34.7 million euro relates to an increase in capital in 2001 to raise the par value of the shares to 3 euro;
- 1.1 million euro relates to Banca 2000, since absorbed;
- 26.6 million euro relates to Bipiemme Immobili, since absorbed;
- 33.9 million euro relates to the former Cassa di Risparmio di Alessandria, which was merged into Banca di Legnano.
- The amount of 251.5 million euro was allocated to share capital in March 2007 to increase the par value of the shares from 3 to 4 euro. As regards this reserve, taking advantage of Law no. 266 of 23 December 2005 which permitted fiscal recognition of the higher values recognised in the financial statements following the revaluation of certain fixed assets, the Bank decided to free up the balance of the revaluation of properties on the adoption of IAS by paying the flat-rate tax required by that law (12% for depreciable assets and 6% for non-depreciable assets). The relative "Valuation reserve" of 264.6 million euro has all been transferred to share capital and is in suspense for tax purposes for an amount of 251.5 million euro.
- The same applies to the amount of 19.6 million euro pertaining to the merged entity Banca di Legnano.

It should also be noted that there is a reserve of 18.2 million that would be taxable in the event of distribution and which has not been converted to share capital (Reserve article 14 Law no. 342, 21 November 2000), for which no deferred tax liability has been recognised.

In accordance with article 14 of Law no. 342 of 21 November 2000, which allowed companies to recognise the revaluation of assets reported in the financial statements for fiscal purposes, in 2000 the Bank decided to align

the statutory and fiscal values of the buildings revalued on allocation of part of the merger deficit that arose on the absorption of Banca Agricola Milanese and Banca Briantea, by paying the flat-rate tax of 19% established by that law. An amount of 18.2 million euro, equal to the realignment made (22.4 million euro) less the flat-rate tax (4.3 million euro), was therefore transferred from the "unrestricted reserve" to the "Reserve article 14 Law no. 342, 21 November 2000". Since, at the time, it was not expected to distribute this reserve, the deferred tax liability of approximately 2 million euro was not recognised.

13.3 Changes in deferred tax assets (with counter-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**808,132**	**827,206**
2. Increases	**102,770**	**45,316**
2.1 Deferred tax assets recognised in the year	102,770	45,316
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	102,770	45,316
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
– of which business combinations	–	–
3. Decreases	**65,954**	**64,390**
3.1 Deferred tax assets written off during the year	65,954	64,390
a) reversals	65,954	64,390
b) written down as unrecoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Decreases in tax rates	–	–
3.3 Other decreases	–	–
a) Conversion to tax credits pursuant to Law no. 214/2011	–	–
b) Other decreases	–	–
– of which business combinations	–	–
4. Closing balance	**844,948**	**808,132**

The increase of 37 million euro in deferred tax assets (a decrease of 19 million euro in 2015) has been recognised in the line item "taxes on income from continuing operations".

The following table sets out changes in the year in deferred tax assets under Law no. 214/2011, providing details of the figures shown in table 13.3.

13.3.1 Changes in deferred tax assets pursuant to Law no. 214/2011 (with counter-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**702,548**	**697,520**
2. Increases	**15,465**	**26,113**
– of which business combinations	–	–
3. Decreases	**35,305**	**21,085**
3.1 Reversals	35,305	21,085
3.2 Conversion to tax credits	–	–
a) arising from the loss for the year	–	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
– of which business combinations	–	–
4. Closing balance	**682,708**	**702,548**

13.4 Changes in deferred tax liabilities (with counter-entry to the income statement)

	31.12.2016	31.12.2015
1. Opening balance	**5,824**	**6,184**
2. Increases	**3,716**	**–**
2.1 Deferred tax liabilities recognised in the year	3,716	–
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	3,716	–
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
– of which business combinations	–	–
3. Decreases	**248**	**360**
3.1 Deferred tax liabilities derecognised during the year	248	360
a) reversals	248	360
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Decreases in tax rates	–	–
3.3 Other decreases	–	–
– of which business combinations	–	–
4. Closing balance	**9,292**	**5,824**

The increase of 3.5 million euro in deferred tax liabilities has been recognised as an expense in the line item "taxes on income from continuing operations" (income of 0.36 million euro in 2015).

13.5 Changes in deferred tax assets (with counter-entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**30,324**	**35,219**
2. Increases	**24,740**	**3,246**
2.1 Deferred tax assets recognised in the year	24,740	3,246
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	24,740	3,246
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
– of which business combinations	–	–
3. Decreases	**3,061**	**8,141**
3.1 Deferred tax assets written off during the year	3,061	8,141
a) reversals	3,061	8,141
b) written down as unrecoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Decreases in tax rates	–	–
3.3 Other decreases	–	–
– of which business combinations	–	–
4. Closing balance	**52,003**	**30,324**

13.6 Changes in deferred tax liabilities (with counter-entry to shareholders' equity)

	31.12.2016	31.12.2015
1. Opening balance	**115,826**	**136,377**
2. Increases	**6,381**	**32,518**
2.1 Deferred tax liabilities recognised in the year	6,381	32,518
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	6,381	32,518
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
– of which business combinations	–	–
3. Decreases	**72,866**	**53,069**
3.1 Deferred tax liabilities derecognised during the year	72,866	53,069
a) reversals	72,866	53,069
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Decreases in tax rates	–	–
3.3 Other decreases	–	–
– of which business combinations	–	–
4. Closing balance	**49,341**	**115,826**

13.7 Other information

Analysis of current taxes

	IRES	IRAP	Flat-rate tax	31.12.2016	31.12.2015
Current tax liabilities	6,761	–1,328	–	5,433	–54,779
Tax credits brought forward	17,397	25,277	–	42,674	–
Other tax credits	–	–	–	–	–
Withholding taxes	650	–	–	650	1,067
Advance payments	46,464	8,518	–	54,982	142,846
Total current taxation of the Parent Company	**71,272**	**32,467**	**–**	**103,739**	**89,134**
Tax consolidation:			**–**	**0**	**–**
– current tax liabilities of Group companies	–6,761	–	–	–6,761	–10,125
– tax credits, advance payments and other withheld taxes	150	–	–	150	139
Receivable: line item 130 a) – assets	**64,661**	**32,467**	**–**	**97,128**	**79,148**
Payable: line item 80 a) – liabilities	**–**	**–**	**–**	**–**	**–**

In addition to the receivable balance detailed in the above table, item 130 a) "Current tax assets" also includes tax credits that cannot be offset and which have therefore been requested as rebates, summarised below:

	31.12.2016	31.12.2015
IRES, IRPEG, IRAP and ILOR tax credits	36,755	148,491
of which: capital	*34,608*	*125,862*
of which: interest	*2,147*	*22,629*
Receivable balance as above	97,128	79,148
Total line item 130 a) "Current tax assets"	**133,883**	**227,639**

Other information
An update on pending tax disputes is provided in the following.

2005 – Former Bipiemme Immobili
Following a tax audit on 2005 at the former Bipiemme Immobili S.p.A., which the Bank absorbed in 2007, assessments were notified on 9 December 2010 claiming higher IRES of 230 thousand euro, IRAP of 29 thousand euro and VAT of 93 thousand euro, plus penalties. On 24 May 2012, the Milan Provincial Tax Commission upheld the appeal relating to VAT and rejected that regarding IRES and IRAP. The Bank appealed against this decision. Given that the tax authorities have not challenged the decision of the Provincial Tax Commission, the part relating to VAT has become final. The Milan Regional Tax Commission, with judgement no. 2911/28/14 filed on 29/05/2014, upheld to a large extent the appeal relating to IRES and IRAP, confirming the first-level court ruling.
The tax authorities have appealed against this decision to the Supreme Court.

2008 – Registration tax
During 2010 three payment requests were received for registration tax on the purchase of branches disposed of by UniCredit S.p.A. in 2008. The notices of liquidation dispute the application of different rates for calculating registration tax.
These documents claim taxes for a total of 4,061 thousand euro. Appeals have duly been filed to obtain the cancellation of these claims.

By becoming final two of the disputes ended with a favourable outcome for the Bank. The third dispute (for 422 thousand euro) is still pending as the tax authorities have filed an appeal with the Supreme Court. The Bank has made an appearance.

2010 – Registration tax payable on the sale of the custodian bank business
On 25 June 2012 an assessment was received contesting the amount of registration tax payable on the sale of the custodian bank business to BNP Paribas on 29 June 2010. The latter, as a principal, was also notified of the same assessment. The assessment assumes a different value of the business sold and claims that additional registration tax is payable of 381 thousand euro plus interest.
BPM, together with the assignee BNP Paribas (principal), filed an appeal to challenge the tax claims. The appeal was upheld by the Milan Provincial Tax Commission with judgement no. 1255/47/2015, filed on 11 February 2015.
The tax authorities filed an appeal and BPM made an appearance. The Milan Regional Tax Commission issued sentence on 21 October 2016 dismissing the authorities' appeal.

2010 – BPM and former BDL: VAT on servicing commissions
On 3 December 2015 three assessments were notified relating to fiscal 2010, disputing the applicability of the VAT exemption regime for the servicing commissions regarding the "Covered Bond" transaction:

- The first assessment, received by BPM, claims additional taxes of 134 thousand euro and penalties of 167 thousand euro;
- The second assessment, received by former BDL, claims additional taxes of 7 thousand euro and penalties of 9 thousand euro;

Appeals were filed against both claimed assessments on 29 January 2016 affirming the Bank's defensive arguments.

During 2016 the tax authorities asked BPM to provide explanations about the fiscal treatment of the servicing commissions followed by the Bank (as servicer) as part of the Covered Bond programme with respect to services rendered in 2011. A similar request for explanations has also been made regarding 2013, in this case for all the servicing commissions.

Former Banca di Legnano – inspection by tax authorities

On 2 February 2015 the tax authorities commenced an inspection of fiscal 2012 for the merged entity Banca di Legnano. This inspection was extended to fiscal 2011, with subsequent notification of a report claiming 24 thousand euro for the alleged VAT due on the servicing commissions. The inspection was completed on 19 July 2016 with one single finding relating to VAT of 18 thousand euro on servicing commissions (relating to covered bonds) for 2012.

By way of Resolution 106/E of 17 November 2016 the tax authorities provided a ruling on these disputes and information requests regarding the treatment of VAT on the servicing commissions, stating that the transactions were VAT exempt. On the basis of this clarification the Bank has applied for the cancellation of the proceedings for discontinuance of the proposed in issue.

Section 14 – Non-current assets and disposal groups held for sale and associated liabilities Line item 140 of assets and line item 90 of liabilities

The Bank does not have any non-current assets and disposal groups held for sale and associated liabilities at the balance sheet date.

Section 15 – Other assets
Line item 150

This line item consists of assets that are not classified elsewhere in the balance sheet. In particular, accrued income includes items not capitalised as part of the related financial assets and leasehold improvements are those not attributable to property and equipment. Receivables from the provision of non-financial goods and services are also included.

15.1 Other assets: analysis

	31.12.2016	31.12.2015
Accrued income	**4,029**	**4,640**
Leasehold improvements	**25,654**	**24,726**
Other assets	**499,117**	**716,017**
Items being processed	152,002	363,095
Miscellaneous items and duty stamps	2,416	1,503
Cheques drawn on third party current accounts	29,563	42,747
Receivables from Group companies regarding the tax consolidation	1,815	996
Advances paid to the tax authorities on behalf of others	47,867	86,987
Other tax-related items	96,071	95,736
Non-interest bearing guarantee deposits on own account	3,221	3,218
Prepayments	29,185	30,821
Other	136,977	90,914
Total	**528,800**	**745,383**

Liabilities and shareholders' equity

Section 1 – Due to banks
Line item 10

This line item consists of amounts due to banks in all their technical forms (deposits, current accounts, loans). These include operating payables connected with the provision of financial services.

1.1 Due to banks: analysis by product

Type of transaction/amount	31.12.2016	31.12.2015
1. Due to central banks	**6,309,488**	**3,519,305**
2. Due to banks	**917,356**	**1,310,273**
2.1 Current accounts and unrestricted deposits	130,464	182,885
2.2 Restricted deposits	272,261	202,996
2.3 Loans	513,709	921,831
2.3.1 Repurchase agreements	513,709	918,631
2.3.2 Other	–	3,200
2.4 Payments for commitments to repurchase own equity instruments	–	–
2.5 Other payables	922	2,561
Total	**7,226,844**	**4,829,578**
Fair value – level 1	**–**	**–**
Fair value – level 2	**–**	**–**
Fair value – level 3	**7,226,844**	**4,838,040**
Total fair value	**7,226,844**	**4,838,040**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine the fair value.

The balance on the item "Due to central banks" at the balance sheet date consists primarily of financing transactions with the Bank of Italy within the Eurosystem secured by pledged securities: in particular, the total includes 6,300 million euro relating to the participation of the Bank in the TLTRO II (Targeted Long Term Refinancing Operations) auctions.

Item 2.3.1 "Repurchase agreements" includes financial liabilities deriving from repurchase agreements and security loan arrangements with banks based on own securities and on securities received as part of reverse repurchase agreements and security loan arrangements.

1.2 Details of line item 10 "Due to banks": subordinated loans

There are no subordinated loans due to banks at the balance sheet date, as at the end of the previous year.

1.3 Details of line item 10 "Due to banks": structured debts

There are no structured debts due to banks at the balance sheet date, as at the end of the previous year.

1.4 Due to banks with specific hedges

There are no amounts due to banks with specific hedges at the balance sheet date, as at the end of the previous year.

1.5 Payables for finance leases

There are no amounts due to banks for finance leases at the balance sheet date, as at the end of the previous year.

Section 2 – Due to customers
Line item 20

This line item reports amounts due to customers in all their technical forms (deposits, current accounts, loans), derivative transaction margin changes at clearing houses and operating payables arising from the provision of financial services.

2.1 Due to customers: analysis by product

Type of transaction/amount	31.12.2016	31.12.2015
1. Current accounts and unrestricted deposits	23,795,967	21,310,982
2. Restricted deposits	1,857,959	2,150,100
3. Loans	3,592,660	4,164,641
3.1 Repurchase agreements	3,554,819	4,109,999
3.2 Other	37,841	54,642
4. Payments for commitments to repurchase own equity instruments	–	–
5. Other payables	140,794	182,023
Total	**29,387,380**	**27,807,746**
Fair value – level 1	**–**	**–**
Fair value – level 2	**–**	**–**
Fair value – level 3	**29,387,380**	**27,807,746**
Total fair value	**29,387,380**	**27,807,746**

Reference should be made to Part A "Accounting Policies" for an explanation of the criteria used to determine fair value.

Sub-item 3.1 "Repurchase agreements" includes financial liabilities deriving from repurchase agreements with customers based on own securities and on securities received as part of reverse repurchase agreements.

Line item 5. "Other payables" consists of the liabilities arising from assignments of financial assets that do not meet the conditions laid down by IAS 39 for derecognition from the financial statements ("liabilities for assets sold but not eliminated"). In particular, it includes a payable of 119.5 million euro (159.5 million euro at 31 December 2015) to the vehicle "BPM Securitisation 2 S.r.l." for the securitisation discussed in Part E – Section C of these explanatory notes

2.2 Details of line item 20 "due to customers": subordinated loans

There are no subordinated loans due to customers at the balance sheet date, as at the end of the previous year.

2.3 Details of line item 20 “due to customers”: structured debts

There are no structured debts due to customers at the balance sheet date, as at the end of the previous year.

2.4 Due to customers with specific hedges

There are no amounts due to customers with specific hedges at the balance sheet date, as at the end of the previous year.

2.5 Payables for finance leases

There are no amounts due to customers for finance leases at the balance sheet date, as at the end of the previous year.

Section 3 – Securities issued
Line item 30

This line item includes securities issued (including certificates of deposit and banker's drafts), measured at amortised cost. The amount reported is stated net of repurchased securities and also includes securities which have matured at the balance sheet date but have not yet been repaid.

The book value of these securities comprises their principal, accrued interest at the balance sheet date and, in the case of hedged securities, the effective portion of the associated hedge.

3.1 Securities issued: analysis by product

	31.12.2016				31.12.2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	5,510,418	3,785,463	1,801,428	–	8,096,659	4,953,624	3,243,237	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 other	5,510,418	3,785,463	1,801,428	–	8,096,659	4,953,624	3,243,237	–
2. Other securities	104,442	–	–	104,442	137,179	–	–	137,179
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	104,442	–	–	104,442	137,179	–	–	137,179
Total	**5,614,860**	**3,785,463**	**1,801,428**	**104,442**	**8,233,838**	**4,953,624**	**3,243,237**	**137,179**

The fair value column shows the theoretical market value of financial instruments at the date of preparation of the financial statements. Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and for the classification of financial instruments in the three levels of the fair value hierarchy.

Regarding line item 1.2 "Other bonds", the following table shows the composition of the bonds outstanding at 31 December 2016 of the EMTN and Covered Bonds issue programmes. Concerning the latter reference should be made to Part E, section E.4 on covered bond transactions.

	31.12.2016					31.12.2015				
	Nominal		Book Value	Fair Value		Nominal		Book Value	Fair Value	
	Issued	Outstanding		Level 1	Level 2	Issued	Outstanding		Level 1	Level 2
Euro Medium Term Notes Issues										
– Fixed rate	975,000	948,410	1,047,378	1,050,838	–	1,975,000	1,948,410	2,097,310	2,109,549	–
of which subordinated	*475,000*	*448,410*	*529,321*	*508,330*	–	*475,000*	*448,410*	*542,359*	*516,216*	–
– Floating rate	–	–		–	–	–	–		–	–
of which subordinated	–	–		–	–	–	–		–	–
Euro Medium Term Notes Issues	**975,000**	**948,410**	**1,047,378**	**1,050,838**	**–**	**1,975,000**	**1,948,410**	**2,097,310**	**2,109,549**	**–**
of which subordinated	*475,000*	*448,410*	*529,321*	*508,330*	–	*475,000*	*448,410*	*542,359*	*516,216*	–

EMTN bonds

The nominal value of the ETMN securities is shown net of the repurchased component for an amount of 26.590 million euro (26.590 million euro at 31 December 2015).

	31.12.2016					31.12.2015				
	Nominal		value	Fair Value		Nominal		value	Fair Value	
	Issued	Outstanding		Level 1	Level 2	Issued	Outstanding		Level 1	Level 2
Covered Bond Issues										
1. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 9.10.2009/17.10.2016 3.5%	–	–	–	–	–	1,000,000	877,065	882,408	905,677	–
2. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 18.7.2011/18.1.2014 FR% maturity extended 18.1.19- partially repaid (**)(*)	500,000	–	–	–	–	500,000	130,000	119,686	–	119,686
3. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 28.11.2013/28.5.2016 FR% extended to 28.5.2021 (***)(*)	375,000	–	–	—	–	650,000	170,000	156,868	–	156,868
4. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 16.3.2015/20 TV% callable from 16.9.16 (*)	750,000	2,634	1,754	–	1,754	750,000	194,634	177,107	–	177,107
5. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 14.09.2015/.22 0.875%	1,000,000	1,000,000	998,967	1,018,929	–	1,000,000	1,000,000	998,317	985,782	–
6. Covered bonds of Banca Popolare di Milano S.c.a.r.l.19.11. 2015/22 FR% (*)	900,000	–	–	–	–	900,000	250,000	222,537	–	222,537
7. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 2.12.15/25 1.5% extendable to 2026	750,000	750,000	741,632	763,314	–	750,000	750,000	740,637	731,346	–
8. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 8.6.16/23 0.625%	750,000	750,000	749,107	744,778	–	–	–	–	–	–
9. Covered bonds of Banca Popolare di Milano S.c.a.r.l. 7.11.16/21 FR% (*)	1,000,000									
Total covered bonds	**6,025,000**	**2,502,634**	**2,491,460**	**2,527,021**	**1,754**	**5,550,000**	**3,371,699**	**3,297,560**	**2,622,805**	**676,198**

FR = Floating rate

(*) The issue was fully repurchased by the Bank and the relative securities were used for refinancing operations with the European Central Bank. The amounts stated in the outstanding, book value and fair value columns relate to repo transactions with primary banking and financial counterparties having these securities as the underlying for a book value of approximately 1,754 thousand euro.

(**) nominal value of 500 million euro was redeemed in 2015

(***) A nominal value of 275 million euro was redeemed in 2016.

Covered bonds

The "BPM 9.10.2009/17.10.2016 3.5%" bond shown at point 1 above was redeemed in 2016.

Composition of line item "2.2 Other securities – other"

This line item consists of certificates of deposit subscribed by customers and outstanding own cheques. More specifically:

Type of security/amount	31.12.2016				31.12.2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Certificates of deposit subscribed by customers	**14,297**	**–**	**–**	**14,297**	**63,352**	**–**	**–**	**63,352**
of which:								
– short term	7,328	–	–	7,328	2,466	–	–	2,466
– medium/long term	3,867	–	–	3,867	56,203	–	–	56,203
– atured and not collected	3,102	–	–	3,102	4,683	–	–	4,683
Own cheques outstanding	**90,145**	**–**	**–**	**90,145**	**73,827**	**–**	**–**	**73,827**
of which:								
– banker's drafts	88,616	–	–	88,616	71,793	–	–	71,793
– other bank cheques	1,529	–	–	1,529	2,034	–	–	2,034
Total	**104,442**	**–**	**–**	**104,442**	**137,179**	**–**	**–**	**137,179**

Since most of these instruments are short-term or on demand, their book value is a reasonable approximation of their fair value. These financial instruments have been conventionally classified in Level 3.

3.2 Analysis of line item 30 "Securities issued": subordinated securities

Bonds (type A.1.1.2) include the following subordinated securities:

	Book value		Nominal value		Issue price	Interest rate	Date of issue/ maturity	Note
Type of issue	**31.12.2016**	**31.12.2015**	**Issued**	**Outstanding**				
Perpetual subordinated fixed/ floating rate notes – 9%	205,938	207,121	300,000	195,250	98.955	Floating	25.6.2008 Perpetual	1
Banca Popolare di Milano subordinated bond (Upper Tier 2) floating rate – 18.6.08/18	500	500	17,850	500	100	Floating	18.6.2008/18	2
Banca Popolare di Milano subordinated bond (Lower Tier 2) fixed rate 4.5% – 18.4.08/18	262,579	264,915	252,750	251,588	100	4.50%	18.4.2008/18	3
Banca Popolare di Milano subordinated bond (Lower Tier 2) floating rate – 20.10.08/18	454,176	454,230	502,050	453,300	100	Floating	20.10.2008/18	4
Banca Popolare di Milano subordinated bond (Lower Tier 2) rate 7.125% – 1.03.11/21 (issued as part of the EMTN programme)	529,321	542,359	475,000	448,410	99.603	7.125%	01.03.2011/21	5
Total	**1,452,514**	**1,469,125**						

1	Perpetual subordinated fixed/floating rate notes – 9%	
	Issue price:	The bonds were issued below par, at a price of 98.955% of the nominal value.
	Interest rate:	Fixed rate of 9% until 25 June 2018; floating rate (3-month Euribor + spread of 6.18%) from 25 June 2018.
	Listing:	Luxembourg Stock Exchange (*).
	Early redemption clause:	These securities may be redeemed early on the issuer's initiative from 25 June 2018, subject to authorisation from the Bank of Italy.
	Early redemption:	The notes have been issued with the clauses required at the time by the Bank of Italy for inclusion in Tier 1 capital; this means that if the Bank goes into liquidation the holders of these securities have preference over ordinary shareholders but are subordinated to all other creditors.
	Other information:	There is also provision for: ■ optional suspension of interest payments if the Bank does not have distributable earnings and/or has not paid dividends for the last year ended prior to the payment date of the interest; ■ mandatory suspension of interest payments in the case of a "capital deficiency event", (which occurs when the total capital ratio falls below the minimum level required by the supervisory authority); ■ a "loss absorption" clause, whereby redemption of the notes is suspended if a capital deficiency event occurs. Undistributed interest may not be accumulated. The Public Tender Offer (acceptance period 7 December – 16 December 2009) closed on 16 December 2009 and obtained 34.92% acceptance equivalent to a nominal value of 104,750,000 euro. The repurchase price (ex-coupon) was 98%. At the date of the preparation of the financial statements the nominal value of the securities issued had fallen to Euro 195,250,000.

2	Banca Popolare di Milano subordinated bond (Upper Tier 2) – floating rate – 18 June 2008/2018	
	Issue price:	The subordinated bonds were issued at par, at a price of 100% of their nominal value.
	Interest rate:	Floating rate (EONIA rate + a spread of 0.75%).
	Listing:	Not listed.
	Early redemption:	Early redemption of the subordinated bonds is not envisaged.
	Subordination clause:	The subordinated bonds consist of "hybrid capital instruments" as per the supervisory regulations in force at the issue date. The Bond is issued with an Upper Tier II subordination clause, which means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared to the subordinated bonds.
	Repurchases:	The Bank has repurchased a total nominal amount of 17,350 thousand euro.

3	Banca Popolare di Milano subordinated bond (Lower Tier 2) – fixed rate 4.50% - 18 April 2008/2018	
	Issue price:	The subordinated bonds were issued at par, at a price of 100% of their nominal value.
	Interest rate:	Gross annual fixed interest rate of 4.50%.
	Listing:	Not listed.
	Early redemption:	Early redemption of the subordinated bonds is not envisaged.
	Subordination clause:	The subordinated bonds consist of BPM "Tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared to the subordinated bonds.
	Repurchases:	The Bank has repurchased a total nominal amount of 1,162 thousand euro.

4	Banca Popolare di Milano subordinated bond (Lower Tier 2) – floating rate – 20 October 2008/2018	
	Issue price:	The subordinated bonds were issued at par, at a price of 100% of their nominal value.
	Interest rate:	Floating rate (3-month Euribor 365 + a spread of 0.60% until 20 October 2013, 3-month Euribor + a spread of 1.50% after that date).
	Listing:	Not listed.
	Early redemption:	Subject to authorisation from the Bank of Italy, from 20 October 2013, when the securities went ex-coupon, the Issuer can proceed with early redemption of all the subordinated bonds at 100% of nominal value.
	Subordination clause:	The subordinated bonds consist of BPM "Tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared with the subordinated bonds.
	Repurchases:	The Bank has repurchased a total nominal amount of 48,750 thousand euro.

5	Banca Popolare di Milano subordinated bond (Lower Tier 2) – fixed rate 7.125% – 1 March 2011/2021	
	Issue price:	The subordinated bonds were issued at 99.603% of their nominal value.
	Interest rate:	Gross annual fixed interest rate of 7.125%.
	Listing:	Luxembourg Stock Exchange (*).
	Early redemption:	Early redemption of the subordinated bonds is not envisaged.
	Subordination clause:	The subordinated bonds consist of BPM "Tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated bondholders will only be reimbursed after all non-equally subordinated creditors have been satisfied, except for those with an equal or greater level of subordination compared with the subordinated bonds.
	Riacquisti:	The Bank has repurchased a total nominal amount of 26,590 thousand euro.

(*) Subordinated securities listed on the Luxembourg Stock Exchange have been classified as unlisted for IAS/IFRS purposes since their trading volumes are not such as to satisfy the definition of an active market, as discussed in section A.4 of the Accounting Policies on "Fair value disclosures".

3.3 Analysis of line item 30 "securities issued": securities with specific hedges

	31.12.2016	31.12.2015
1. Securities with specific fair value hedges:	**–**	**–**
a) interest rate risk	–	–
b) foreign exchange risk	–	–
c) several risks	–	–
2. Securities with specific cash flow hedges:	**–**	**–**
a) interest rate risk	–	–
b) foreign exchange risk	–	–
c) several risks	–	–

There are no issued securities with specific hedges outstanding at the balance sheet date.

Section 4 – Financial liabilities held for trading
Line item 40

This line item consists of derivative financial instruments other than those formally designated as hedging instruments.

4.1 Financial liabilities held for trading: analysis by product

Type of transaction/ amount	31.12.2016						31.12.2015					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
A. Cash liabilities												
1. Due to banks	–	–	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–	–	–
3. Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	x	–	–	–	–	–	x
3.1.2 Other bonds	–	–	–	–	–	x	–	–	–	–	–	x
3.2 Other securities	–	–	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	x	–	–	–	–	–	x
3.2.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Derivatives												
1. Financial derivatives	x	–	154,611	–	154,611	x	x	–	149,122	1,457	150,579	x
1.1 Trading	x	–	154,595	–	154,595	x	x	–	147,771	1,227	148,998	x
1.2 Linked to the fair value option	x	–	16	–	16	x	x	–	1,351	230	1,581	x
1.3 Other	x	–	–	–	–	x	x	–	–	–	–	x
2. Credit derivatives	x	–	–	–	–	x	x	–	–	–	–	x
2.1 Trading	x	–	–	–	–	x	x	–	–	–	–	x
2.2 Linked to the fair value option	x	–	–	–	–	x	x	–	–	–	–	x
2.3 Other	x	–	–	–	–	x	x	–	–	–	–	x
Total B	**x**	**–**	**154,611**	**–**	**154,611**	**x**	**x**	**–**	**149,122**	**1,457**	**150,579**	**x**
Total A+B	**x**	**–**	**154,611**	**–**	**154,611**	**x**	**x**	**–**	**149,122**	**1,457**	**150,579**	**x**

Key:
NV = Nominal or notional value
FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
L1 = Level 1
L2 = Level 2
L3 = Level 3

Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and the classification of financial instruments in the three levels of the fair value hierarchy.

Line item "B.1.2 - Derivatives linked to the fair value option" contains the fair value of derivatives related to the instruments for which the fair value option has been adopted. These derivatives hedge the risks involved mainly in the issue of bonds for which the Bank has elected for the fair value option in accordance with paragraph 9 of IAS 39. Such risks arise from possible fluctuations in interest rates and embedded options in the structured securities issued.

4.2 Details of line item 40 "Financial liabilities held for trading": subordinated liabilities

There are no subordinated liabilities recognisable as liabilities held for trading at the balance sheet date, as at the end of the previous year.

4.3 Details of line item 40 "Financial liabilities held for trading": structured debts

There are no structured debts recognisable as liabilities held for trading at the balance sheet date, as at the end of the previous year.

Section 5 – Financial liabilities designated at fair value through profit and loss Line item 50

This line item consists of issued debt securities designated at fair value through profit and loss under the option permitted by IAS 39 (the "fair value option").

5.1 Financial liabilities designated at fair value through profit and loss: analysis by product

Type of transaction/amount	31.12.2016						31.12.2015					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
1. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Structured	–	–	–	–	–	x	–	–	–	–	–	x
1.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
2. Due to customers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Structured	–	–	–	–	–	x	–	–	–	–	–	x
2.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
3. Debt securities	**119,761**	**–**	**120,132**	**–**	**120,132**	**120,158**	**141,280**	**–**	**142,201**	**–**	**142,201**	**142,471**
3.1 Structured	119,761	–	120,132	–	120,132	x	141,280	–	142,201	–	142,201	x
3.2 Other	–	–	–	–	–	x	–	–	–	–	–	x
Total	**119,761**	**–**	**120,132**	**–**	**120,132**	**120,158**	**141,280**	**–**	**142,201**	**–**	**142,201**	**142,471**

Key:
NV = Nominal or notional value
FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
L1 = Level 1
L2 = Level 2
L3 = Level 3

Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and the classification of financial instruments in the three levels of the fair value hierarchy.

Financial liabilities designated at fair value through profit and loss include financial liabilities represented by structured fixed-rate bonds which are classified at fair value and are hedged by derivatives. This hedging concerns both the risk of changes in interest rates and the risk arising from the presence of embedded options. The fair value option is used to eliminate or significantly reduce accounting mismatches, as an alternative to hedge accounting. If this were not the case the derivatives would still be carried at fair value while the bonds would be recognised at amortised cost.

As regards the use of the credit spread on own issues directed at retail customers, these issues are expected – from both a contractual and a commercial point of view – to be redeemed at their natural maturity date; it follows that when measuring these instruments at fair value, own creditworthiness is assessed in line with this hypothesis, also taking into account the recommendations contained in IFRS 13.

Derivatives used as part of the "fair value option" are classified in the trading book.

In the income statement, interest income and expense include positive or negative differentials or margins settled or accrued to the balance sheet date on the related derivatives, whereas valuation gains and losses are recognised under line item "110. Profits (losses) on financial assets and liabilities designated at fair value", with a presentation consistent with that adopted for the funding instruments for which the fair value option was adopted.

Financial liabilities designated as part of the fair value option include issued structured debt securities subject to operating hedging.

Purpose of using the fair value option and the financial liabilities concerned

Type of transaction/amount	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed internally on the basis of fair value	31.12.2016	Natural hedges	Natural hedges	Portfolios of financial liabilities managed internally on the basis of fair value	31.12.2015
1. Due to banks	–	–	–	–	–	–	–	–
1.1 Structured	–	–	–	–	–	–	–	–
1.2 Other	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–
2.1 Structured	–	–	–	–	–	–	–	–
2.2 Other	–	–	–	–	–	–	–	–
3. Debt securities	–	120,132	–	120,132	–	142,201	–	142,201
3.1 Structured	–	120,132	–	120,132	–	142,201	–	142,201
3.2 Other	–	–	–	–	–	–	–	–
Total	**–**	**120,132**	**–**	**120,132**	**–**	**142,201**	**–**	**142,201**

The table provides details of table 5.1 above and shows the book value (fair value) of the liabilities for which the fair value option was adopted, distinguishing the method of use.

5.2 Details of line item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

There are no subordinated liabilities measured at fair value at the balance sheet date, as at the end of the previous year.

Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and the classification of financial instruments in the three levels of the fair value hierarchy.

Section 6 – Hedging derivatives
Line item 60

This line item consists of financial derivatives used for hedging purposes which have a negative fair value at the balance sheet date.

6.1 Hedging derivatives: analysis by type of hedge and level

	31.12.2016					31.12.2015				
	Fair Value				NV	Fair Value				NV
	L1	L2	L3	Total		L1	L2	L3	Total	
A. Financial derivatives	**–**	**32,894**	**–**	**32,894**	**1,588,010**	**–**	**39,011**	**–**	**39,011**	**1,416,539**
1) Fair value hedges	–	27,816	–	27,816	1,488,010	–	31,346	–	31,346	1,058,884
2) Cash flow hedges	–	5,078	–	5,078	100,000	–	7,665	–	7,665	357,655
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value hedges	–	–	–	–	–	–	–	–	–	–
2) Cash flow hedges	–	–	–	–	–	–	–	–	–	–
Total	**–**	**32,894**	**–**	**32,894**	**1,588,010**	**–**	**39,011**	**–**	**39,011**	**1,416,539**

Key NV = Notional value L1 = Level 1 L2 = Level 2 L3 = Level 3

Reference should be made to Part A "Accounting Policies" for the criteria used to determine fair value and the classification of financial instruments in the three levels of the fair value hierarchy.

The table shows the negative book value (fair value) of derivative hedging contracts for hedging carried out through fair value hedges (hedge accounting). This instrument is used to account for the hedging of financial instruments recognised in balance sheet items that do not envisage measurement at fair value through profit and loss.

The hedging of financial liabilities represented by securities is normally dealt with by using the fair value option. The fair value option is adopted for structured debt and fixed-rate securities issued by Group banks, where the risk of changes in fair value is hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading book.

Reference should be made to the information provided in Part E – Information on risks and related hedging policies – Section 2 – Market Risk for the objectives and strategies underlying hedges.

6.2 Hedging derivatives: analysed by hedged portfolio and type of hedge

Transaction/type of hedge	Fair Value						Cash flows		Foreign investments
	Specific					Macro	Specific	Macro	
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Several risks				
1. Financial assets available for sale	19,520	–	–	–	–	x	5,078	x	x
2. Loans and receivables	–	–	–	x	–	x	–	x	x
3. Investments held to maturity	x	–	–	x	–	x	–	x	x
4. Portfolio	x	x	x	x	x	8,296	x	–	x
5. Other transactions	–	–	–	–	–	x	–	x	–
Total assets	**19,520**	**–**	**–**	**–**	**–**	**8,296**	**5,078**	**–**	**–**
1. Financial liabilities	–	–	–	x	–	x	–	x	x
2. Portfolio	x	x	x	x	x	–	x	–	x
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Forecast transactions	x	x	x	x	x	x	–	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	–	x	–	–

This table shows the negative fair values of hedging derivatives analysed by asset and liability hedged and the type of hedge. The item "Cash flows – Specific hedge – 1. Financial assets available for sale" includes the negative fair values of forward hedging derivatives on purchases of government securities.

In particular, as regards assets, specific and macro fair value hedging is used to hedge against the risk of changes in interest rates on mortgage loans and bonds classified as available for sale in order to protect them from possible adverse changes in interest rates or prices.

Specific fair value hedges
The amount indicated at item 1."Financial assets available for sale" relates to the negative fair value of financial derivatives hedging interest rate risk for a total notional of 1,320 million euro (630 million euro at 31 December 2015), taken out to hedge a debt security issued by a bank having a nominal value of 0 million euro (50 million euro at 31 December 2015) and fixed rate government securities of 1,320 million euro (580 million euro at 31 December 2015).

Macro fair value hedges
The amount indicated at item 4. "Portfolio" relates to the negative fair value of financial derivatives for a notional of 168.010 million euro (97.927 million euro at 31 December 2015), taken out to hedge the interest rate risk arising from a portfolio of mortgage loans.

Specific cash flow hedges
The amount indicated at item 1. "Financial assets available for sale" relates to the negative fair value of financial derivatives for a total notional amount of 100 million euro (100 million euro at 31 December 2015), taken out to hedge the cash flows of a debt security issued by a bank having a nominal value of 100 million euro (100 million euro at 31 December 2015).

In 2016, the prospective and retrospective tests carried out in accordance with the requirements of IAS 39 confirmed the effectiveness of the hedges.

For further information on the financial assets and liabilities hedged, reference should be made to the detailed tables presented in this part (Part B) of the explanatory notes, in the sections relating to balance sheet items in which the items being hedged are recognised.

Section 7 – Fair value change of financial liabilities in hedged portfolios Line item 70

This item consists of the negative balance of fair value changes in the liabilities for which macrohedges have been used against interest rate risk.

7.1 Fair value change of hedged financial liabilities

Fair value change of hedged financial liabilities/ amount	31.12.2016	31.12.2015
1. Positive adjustment to financial liabilities	19,941	18,086
2. Negative adjustment to financial liabilities	–	–
Total	**19,941**	**18,086**

This line item relates to the fair value adjustment made to "core deposits":

- for 6,470 thousand euro relating to liabilities for which a macro fair value hedge was set up in 2010 using derivatives. During 2011, the hedges were closed and the amounts reported at 31 December 2016 and 2015 represent the residual value of the effective portion of the hedge at the date of revocation which is being released to income on a temporal pro-rata basis up to the original maturity date of the hedging transactions (the latest envisaged maturity is March 2020);
- for 13,471 thousand euro relating to new macrohedges taken out at the end of September 2015 for a nominal value of 410 million euro.

Section 8 – Tax liabilities Line item 80

The information relating to this section is provided in Section 13 of balance sheet assets “Part B – Information on the balance sheet” of these notes.

Section 9 – Liabilities associated with assets and disposal groups held for sale Line item 90

There are no assets and disposal groups held for sale and associated liabilities at the balance sheet date, as at the end of the previous year.

Section 10 – Other liabilities
Line item 100

This line item consists of liabilities that cannot be classified elsewhere in the balance sheet.

10.1 Other liabilities: analysis

	31.12.2016	31.12.2015
Liabilities for the deterioration in	**44,195**	**51,584**
Guarantees given	44,195	51,584
Accrued liabilities	**14**	**62**
Other liabilities	**888,167**	**1,181,923**
Guarantee deposits received from third parties	268	108
Amounts payable to Group companies deriving from the tax consolidation	5,616	3,396
Amounts payable to tax authorities on behalf of third parties	71,102	308,003
Amounts payable to tax authorities on own behalf	7,453	7,976
Adjustments for illiquid items concerning the portfolio	–	165,076
Amounts available for recognition to customers	105,371	129,160
Items being processed	521,271	360,964
Due to suppliers	91,303	119,324
Due to social security authorities	8,703	30,056
Personnel expenses	33,697	30,482
Deferred income	1,270	1,264
Other	42,113	26,114
Total	**932,376**	**1,233,569**

Section 11 – Employee termination liabilities
Line item 110

11.1 Employee termination indemnities: changes during the year

Line item B.1 "Provision for the year" mainly refers to interest cost on the obligation of 2.4 million euro (2.2 million euro in 2015) accruing during the year.

Line item B.2 "Other increases" includes actuarial losses for the year of 6 million euro.

Line item C.2 "Other decreases" for 2015 refers to:

- 5.66 million euro of actuarial gains recognised as a result of the expert appraisal carried out by an independent actuary with counter-entry to an equity reserve;
- 0.265 million euro paid for the 11% substitutive tax calculated on the financial return of the obligation.

11.1 Employee termination liabilities: changes during the year	31.12.2016	31.12.2015
A. Opening balance	**117,762**	**129,132**
B. Increases	**8,382**	**2,245**
Provision for the year	2,375	2,245
B.2 Other increases	6,007	–
– of which business combinations	–	–
C. Decrease	**1,501**	**13,615**
Indemnities paid	1,501	7,689
C.2 Other decreases	–	5,926
– of which business combinations	–	–
D. Closing balance	**124,643**	**117,762**

11.2 Other information

As discussed in Part A "Accounting Policies," following the reform of supplementary pensions (Legislative Decree no. 252 of 5 December 2005, introduced by the 2007 Budget Law), termination indemnities only refer to the portion accrued up to 31 December 2006, while amounts accruing from 1 January 2007 have to be either transferred to supplementary pension funds, depending on the explicit or tacit choice of the employee, or maintained in the company and then subsequently transferred to a treasury fund set up by INPS.

The charge for the year therefore does not include the amounts that are paid to supplementary pension schemes or to the treasury fund at INPS as a result of this reform of the pension system. In this case, the amounts of employee termination indemnities accruing from 1 January 2007 are considered to be a "defined contribution plan" and are accounted for under "personnel expenses – termination indemnities" on the basis of the contributions due without applying actuarial methods, with a counter-entry to "Other liabilities" in the balance sheet or an outflow of cash.

The termination indemnities that accrued up to 1 January 2007 (or to the date when the decision was made to assign them to a supplementary pension fund) continue to be shown as a "post-employment benefit" classified as a "defined benefit plan", and consequently the liability for "accrued termination indemnities" is submitted to an actuarial assessment, which compared with the methods applied up until 31 December 2006 no longer takes account of the average annual increase in wages and salaries as the employee benefits are to be considered almost entirely accrued (with the sole exception of the revaluation). The full amount of actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the obligation at period end, is recognised directly in

the valuation reserve "actuarial gains (losses) on defined benefit pension plans".

The closing balance, calculated in accordance with article 2120 of the Italian Civil Code, amounts to 117 million euro (116.8 million euro at 31 December 2015).

During the year a total of 4.7 million euro in pension funds was paid over to the treasury fund at INPS (4.9 million euro in 2015) and 15.2 million euro was paid over to the Bipiemme Pension Fund (15 million euro in 2015).

The actuarial valuation of termination indemnities performed by an independent actuary is carried out under the "accrued benefit" method by using the projected unit credit criterion as required by IAS 19, and is based on the following main demographic, financial and economic assumptions:

- **Demographic assumptions**: IPS55 tables were used to estimate mortality rates and INPS-2000 tables were used to forecast disability; staff turnover was estimated at 3.5%, in line with the previous year.
- **Financial assumptions**: the valuation was based on a discount rate of 1.31%, corresponding to long-term market returns (2.03% at 31 December 2015).
- **Economic assumptions**: annual inflation was estimated at 1.5% , in line with the previous year.

The following table provides details of the sensitivity to changes in the discount rate of the liability for employee termination indemnities as required by paragraph 145 of IAS 19, (in millions of euro):

Sensitivity analysis:	**31.12.2016**	**31.12.2015**
Termination indemnity with discount rate of –0.5%	*5.5*	*5.5*
Termination indemnity with discount rate of +0.5%	(5.1)	(5.1)

Section 12 – Allowances for risks and charges
Line item 120

12.1 Allowances for risks and charges: analysis

Item/amount	31.12.2016	31.12.2015
1. Company post-employment benefit obligations	**84,936**	**90,542**
2. Other allowances for risks and charges	**342,607**	**203,996**
2.1 Legal disputes	36,636	41,208
2.2 Personnel expenses	258,780	134,572
2.3 Other	47,191	28,216
Total	**427,543**	**294,538**

12.1 Allowances for risks and charges: analysis

Item/amount	31.12.2016	31.12.2016
1. Company post-employment benefit obligations:	**84,936**	**90,542**
– Pension funds:	**12,515**	**12,924**
– former Banca Popolare di Bologna e Ferrara	12,494	12,902
– former Banca Agricola Milanese	21	22
– Supplementary pension funds	**72,421**	**77,618**
– Banca Popolare di Milano	51,764	56,165
– former C.R. Alessandria	20,657	21,453
– Other pension funds	–	–
2. Other allowances for risks and charges:	**342,607**	**203,996**
2.1 Legal disputes:	**36,636**	**41,208**
– provisions for estimated losses from legal disputes	36,636	41,208
2.2 Personnel expenses:	**258,779**	**134,571**
– solidarity fund	247,311	124,908
– seniority bonuses	–	–
– executives' indemnities	2,865	2,592
– estimated losses from legal disputes with personnel	2,072	1,654
– other	6,531	5,417
2.3 Other:	**47,192**	**28,217**
– clawback actions	13,832	11,960
– charity and social fund	84	168
– miscellaneous	33,276	16,089
Total	**427,543**	**294,538**

12.2 Allowances for risks and charges: changes during the year

Item/component	Pension funds	Other allowances	Total
A. Opening balance	**90,542**	**203,996**	**294,538**
B. Increases	**5,801**	**217,736**	**223,537**
B.1 Charge for the year	2,379	215,955	218,334
B.2 Unwinding	1,745	88	1,833
B.3 Increases due to variations in the discount rate	–	539	539
– of which business combinations	–	–	–
B.4 Other increases	1,677	1,154	2,831
C. Decreases	**11,407**	**79,125**	**90,532**
C.1 Utilised during the year	8,202	64,104	72,306
C.2 Decreases due to variations in the discount rate	–	–	–
C.3 Other decreases	3,205	15,021	18,226
– of which business combinations	–	–	–
D. Closing balance	**84,936**	**342,607**	**427,543**

12.3 Defined benefit pension plans

1. Description of the features of the plans and the various risks

Company post-employment benefit obligations consist of the following pension funds, whose main features are summarised below:

a) Pension fund of former Banca Popolare di Bologna e Ferrara
This is a defined benefit plan based on the commitment by the former Banca Popolare di Bologna e Ferrara, now merged into BPM, to pay all its employees in retirement at 31 December 1995 a defined pension in line with their grade whilst in service.
The sum provided in the financial statements represents the amount of the mathematical reserve calculated on an actuarial basis, being the amount considered necessary to recognise to the pensioners registered with the "Supplementary Pension Fund" the payments envisaged in the Regulations.

b) Pension fund of former Banca Agricola Milanese
This represents the commitment by the former Banca Agricola Milanese, now merged into BPM, to pay a supplementary pension to its retired employees at 31 December 1972; the liability represents an actuarial valuation of the mathematical reserve at the balance sheet date, being the amount considered necessary to recognise a life-long annuity to the pensioners registered with the pension fund.

c) Supplementary pension fund of Banca Popolare di Milano
Under the rules of the supplementary pension plan, the commitment consists of:

- the payment of a supplementary pension to retired former employees whose state pension is less than a pre-defined percentage of the salary for the corresponding grade in service (known as employees with supplementary pensions);
- or, if the state pension paid by INPS is higher than this percentage, the payment to all pensioners of 50% of a monthly amount frozen at 31 December 1991.

Employees entering service after 28 April 1993 and those hired following merger transactions do not qualify for these benefits.

The amount provided in the financial statements represents the mathematical reserve calculated on an actuarial basis, being the amount considered necessary to recognise the benefits envisaged by the Regulations to the current beneficiaries.

d) Pension fund of former Cassa di Risparmio di Alessandria
This is a defined benefit plan without separate legal form or separate equity that supplements (or replaces only in specified circumstances) the state pension. The beneficiaries of this plan consist solely of retired former employees or their survivors. The amount provided in the financial statements represents the mathematical reserve calculated on an actuarial basis.

2. Changes during the year in net defined liabilities (assets) and reimbursement rights

Changes in the provisions for post-employment benefits are shown in table 12.2.

Line items B.4 "Other increases" and C.3 "Other decreases" are mainly attributable to actuarial gains and losses.

All of the post-employment benefits are fully funded and there are no obligations in currencies other than the euro.

3. Information on the fair value of plan assets

None of the defined benefit plans classified as post-employment benefits has plan assets.

4. Main actuarial assumptions

With reference to defined benefit supplementary pensions, independent actuaries calculate the present values required by the application of IAS 19 "Employee Benefits". The actuarial assumptions (demographic, financial and economic) used for each fund are as follows.

a) Pension fund of former Banca Popolare di Bologna e Ferrara

- **Demographic assumptions**: the IPS55 tables were used for estimating mortality rates.
- **Financial assumptions**: lthe valuations used an annual compound interest rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years but in any case higher than the end of last year.
- **Economic assumptions**: pensions were assumed to have zero future growth, in line with the previous year.

b) Pension fund of former Banca Agricola Milanese

- **Demographic assumptions**: the IPS55 tables were used for estimating mortality rates.
- **Financial assumptions**: the valuations used an annual compound interest rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years but in any case higher than the end of last year.
- **Economic assumptions**: pensions were assumed to grow at 1% per annum, since the plan rules provide for indexation once every two years for certain pensioners, in line with the previous year.

c) Supplementary pension fund of Banca Popolare di Milano

- **Basi tecniche demografiche**: the IPS55 tables were used for estimating mortality rates in addition to the permanent disability tables prepared by INPS in 2000.
- **Financial assumptions**: the valuations used an annual compound interest rate of 1.31%, corresponding to the

estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years but in any case higher than the end of last year.

- **Economic assumption**: pensions were assumed to grow at 75% of the annual inflation rate. Inflation was assumed to be 2% (unchanged with respect to the previous year), so the assumed growth rate in pensions is 1.5% (also in line with the previous year). Annual wage inflation was established at 2.5% (unchanged with respect to the previous year). The annual rate of increase in the INPS pension ceiling has been set at 1.5%; the INPS pension ceiling amounts to 46,123 euro (46,123 euro at 31 December 2015).

d) Pension fund of former Cassa di Risparmio di Alessandria

- **Demographic assumptions**: the IPS55 tables were used for estimating mortality rates in addition to the permanent disability tables prepared by INPS in 2000.
- **Financial assumptions**: the valuations used an annual compound interest rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015). The recent decrease in market interest rates led to a valuation based on future returns that are lower than the estimate used for prior years but in any case higher than the end of last year.
- **Economic assumptions**: inflation was assumed to be 2% (unchanged with respect to the previous year).

5. Information on the amount, timing and uncertainty of cash flows

As required by paragraph 145 of IAS 19 the following table sets out the sensitivity of the above pension funds to the discount rate (amounts in millions of euro):

Sensitivity analysis:	31.12.2016	31.12.2015
Mathematical reserves with a discount rate of –0,5%	3.0	3.2
Mathematical reserves with a discount rate of +0,5%	(2.9)	(3.0)

6. Multi-employer plans

There are no multi-employer plans.

7. Defined benefit plans sharing risks between entities under common control

There are no defined benefit plans sharing risks between entities under common control.

12.4 Allowances for risks and charges – other allowances

Details of other allowances for risks and charges as stated in table 12.1 are as follows:

2.1. Legal disputes: the provision covers the estimated obligations arising from outstanding legal disputes involving the Bank (see the explanation provided in Part E – Information on risks and related hedging policies – Section 4 Operational risks). The average timing for the payment of such obligations is around 3 years. The amount of this provision reflects the present value of the outlays needed to meet the estimated obligations, calculated at market interest rates.

2.2. Personnel expenses: this mainly covers expenses relating to:

- an amount of 82 million euro provided at the balance sheet date (124 million euro at 31 December 2015) for employees joining the Solidarity Fund in 2012, in particular the Solidarity Fund accrued in 2012 based on the

agreement signed by the Bank and the trade unions on 6 December 2012. The actuarial assumptions used by an independent actuary to determine the liability at the balance sheet date led to the use of a discount rate of 0.05% (0.53% at 31 December 2015) and a mortality rate taken from the IPS55 tables;

- the agreement that the Bank entered with the trade unions for access to the Solidarity Fund for the trade sector. The costs for the plan have been fully recognised in the 2016 financial statements in the amount of 165 million euro;
- the indemnities specifically reserved for executives of 2.865 million euro (2.592 million euro at 31 December 2015);
- the indemnities connected with the non-competition agreement reserved for former employees of Bipiemme Private Banking SIM, which was merged in 2010, for 0.682 million euro (0.618 million euro at 31 December 2015).

The actuarial assumptions used by an independent actuary for determining the liability at the balance sheet date of the latter two obligations were as follows:

- **Demographic assumptions**: the IPS55 tables were used for estimating mortality rates in addition to the permanent disability tables prepared by INPS in 2000.
- **Financial assumptions**: the valuations are based on a discount rate of 1.31%, corresponding to the estimated long-term return (2.03% at 31 December 2015)
- **Economic assumptions**: an annual rate of the real increase in remuneration of 2.50% (unchanged with respect to the previous year).

2.3.Other: this item consists of:

- an estimate of the obligations arising from clawback actions against the Bank. The average timing for the payment of such obligations is around 3 years. The amount of this provision reflects the present value of the outlays needed to meet the estimated obligations, calculated using market interest rates;
- tax disputes, described in Section 13 "Tax assets and liabilities", which amount to 5.2 million euro (5.2 million euro at 31.12.2015);
- an estimated 13.2 million euro for any costs resulting from initiatives designed to resolve certain limited critical matters based on relations with customers;
- an estimated 10 million euro for any costs arising from contractual penalties.

Section 13 – Redeemable shares
Line item 140

The Bank has issued no redeemable shares at the balance sheet date, as at the end of the previous year.

Section 14 – Shareholders' equity
Line items 130, 150, 160, 170, 180, 190 and 200

This section provides a description of the accounts to be found in line items 130, 150, 160, 170, 180, 190 and 200 of the liabilities and shareholders' equity section of the balance sheet.

14.1 "Share capital" and "Treasury shares": analysis

	31.12.2016	31.12.2015
Share capital (in euro)	**3,365,439,319.02**	**3,365,439,319.02**
No. of ordinary shares	**4,391,784,467**	**4,391,784,467**
Of which treasury shares	**1,524,259**	**1,524,259**

Share capital: at the balance sheet date the Bank's share capital was fully subscribed and paid in and amounted to **3,365,439,319.02** euro, consisting of **4,391,784,467** ordinary shares with implicit par value of 0.766 euro given by the ratio between the total amount of share capital and the number of outstanding shares; the shares have no restrictions or privileges and each share has the same rights in terms of dividends and repayment of capital.

Treasury shares: at the balance sheet date there were 1,524,259 shares in portfolio.

14.2 Share capital – Number of shares: changes during the year

Item/type	Ordinary shares
A Number of shares at the beginning of the year	**4,391,784,467**
– wholly unrestricted	4,391,784,467
– not wholly unrestricted	–
A.1 Treasury shares (–)	–1,524,259
B2. Outstanding shares: opening balance	**4,390,260,208**
B. Increases	**39,896,500**
B1. New issues	–
– for payment:	–
– business combinations	–
– conversion of bonds	–
– exercising of warrants	–
– other: share capital increases for payment	–
– bonus shares:	–
– to employees	–
– to directors	–
– other	–
B2.Sale of treasury shares (other increases)	21,500
B2. Sale of treasury shares	335,720
B3. Other increases	39,539,280
C. Decreases	**39,896,500**
C.1 Cancellation	–
C.2 Purchase of treasury shares (other decreases)	21,500
C.2 Purchase of treasury shares	39,875,000
C.3 Sales of businesses	–
C.4 Other decreases	–
D. Outstanding shares: closing balance	**4,390,260,208**
D.1 Treasury shares (+)	1,524,259
D.2 Number of shares at the end of the year	4,391,784,467
– wholly unrestricted	4,391,784,467
– not wholly unrestricted	–

Item A.1 / D.1 Treasury shares. The Bank held 1,524,259 treasury shares.

On 5 July 2016, following the issue of the prescribed authorisation by the European Central Bank, the Management Board approved a programme to purchase treasury shares for allocation to employees in accordance with the resolution adopted by the Ordinary Meeting of the Bank's Shareholders on the previous 30 April, having the aim of implementing article 60 of the bylaws which provides for the distribution of 5% of net income for 2015 to all employees in service, other than those in senior positions.

As part of this programme the Bank purchased 39,875,000 treasury shares in 2016 (included in item C.2 Purchase of treasury shares) of which 39,539,280 were allocated to employees (see item B.3 Other increases) in accordance with article 60 of the bylaws as mentioned above.

As a result of these transactions BPM currently holds 1,524,259 treasury shares.

Item D.2 Number of shares at the end of the year. This represents the number of shares of Banca Popolare di Milano outstanding at 31 December 2016, being a total of 4,391,784,467 (including 1,524,259 treasury shares), whose implicit value is 0.766 euro per share taking account the fact that share capital amounts to 3,365,439,319.02 euro.

14.3 Share capital: other information

The Parent Company's share capital is variable and is represented by shares without an explicit nominal value, in accordance with the resolution of the members' general meeting of 25 June 2011.
The Management Board can purchase or reimburse shares of the Parent Company in accordance with current legislation, within the limits of the distributable earnings and unrestricted reserves stated in the latest approved financial statements, allocated for this purpose by members in general meeting.
Following the resolution adopted by members on 11 April 2015 the provision for the purchase of treasury shares amounts to 25,000,000 euro and is available for 24,379,215.98 euro, as it was adjusted for the value of the 1,524,259 treasury shares held in portfolio at the balance sheet date (620,784.02 euro).
As governed by the bylaws the shares constitute a guarantee to the Bank for any obligations of a member towards the Bank. No member's interest may exceed 0.50% of the share capital. On becoming aware that this limit has been exceeded the Parent Company serves formal notice of the breach on the member concerned. The excess shares must be sold within a year of such notice; after this deadline, the related rights pertaining to these shares are acquired by the Bank until their disposal. This limit does not apply to mutual investment funds; the relevant limits in such cases are those imposed by the rules of the fund concerned.
Shares cannot be split. In the event that they are owned jointly, the rights of the joint owners have to be exercised by a common representative.
Dividends not claimed within five years from the date they become payable fall and are absorbed by the Parent Company.

14.4 Retained earnings: other information

As required by paragraph 79b) of IAS 1 and article 2427, paragraph 7-bis of the Italian Civil Code, the following is a description of the nature and scope of each reserve included in shareholders' equity.

Share premium reserve: the share premium reserve is a capital reserve to which, when capital is increased, the excess price of issued shares compared to nominal value (if expressed) is credited. This reserve also contains:

- differences arising from the conversion of bonds into shares;
- positive or negative differences between the selling price of treasury shares and their corresponding book value;
- costs accessory to the capital increase.

Reserves

Legal reserve: funded by profits allocated for the purposes of article 2430 of the Italian Civil Code and article 60 of the bylaws. Specifically, article 2430 requires the mandatory formation of a legal reserve to safeguard the share capital against possible losses. The legal reserve is formed from an annual withdrawal of net income as per the financial statements in the percentages specified by law (Legislative Decree no. 385/93 – "Banking Law") until an amount equal to one fifth of the share capital is reached.

Statutory reserve: as provided by article 10 of the bylaws, this reserve is formed from an annual withdrawal of net income as per the financial statements in the amount set by the shareholders' meeting from time to time as proposed by the Board of Directors. Its use is not subject to legal or statutory restrictions. Article 60, paragraph 3 of the Bank's bylaws provides that allocations to the legal reserve and to the statutory reserve may under no circumstances total less than 25% of the year's profit (net of the Unavailable reserve as per Legislative Decree no. 38/2005).

Treasury share reserve: the purchase of treasury shares is regulated by articles 2357 and 2357 bis of the Italian Civil Code. Ideally, at the time of registration the treasury share reserve is reduced by the cost of the shares purchased as a negative component of shareholders' equity.

Extraordinary reserve: this reserve is funded at the time of allocation of the year's net income; its use is not subject to restriction by law or the bylaws.

Unavailable reserve as per Legislative Decree no. 38/2005: article 6 of Legislative Decree no. 38/2005 establishes that annual profits may not be distributed for the part corresponding to profits arising from:

- capital gains recognised in the income statement net of taxes and other than those deriving from financial instruments and from currency and hedging operations based on the application of fair value or the equity method;
- reserves whose origin and movements are a direct counter-entry to the measurement of financial instruments and assets at fair value.

This reserve may only be used to cover losses after available reserves and the legal reserve have been used.

Reserve under Law 21.11.00 no. 342, article 14: the "Reserve under Law 21.11.2000 no. 342 article14" arises from the recognition for fiscal purposes of the higher values stated in the financial statements for assets to which part of the merger deficit deriving from the merger of Banca Agricola Milanese and Banca Briantea into the Bank was attributed. In 2000, the Bank decided to align tax values to accounting values by paying the 19% substitute tax provided by such law. For this purpose, the Bank transferred 18,163 thousand euro from the "available reserve" to the "Reserve under Law 21.11.2000 no. 342, article 14", being the fiscal alignment (22,423 thousand euro) less the substitute tax due (4,260 thousand euro). If this reserve is used to cover losses profits may not be distributed until the reserve is supplemented or reduced in an equivalent amount.

Merger reserve: the negative reserve generated from the merger of Banca di Legnano S.p.A. in BPM on 14 September 2013.

Other reserves: this item includes the balance of the reserves constituted at the time of issue of the "BPM ordinary share warrants 2009/2013" that matured on 1 June 2013, and the allocation to the income statement of profits granted in shares to employees as per article 60 of the bylaws and the variable component of remuneration in shares which, based on IFRS 2, are recognised in shareholders' equity as a counter-entry.

Equity instruments: this item consisted of the amount of financial instruments pursuant to article 12 of Decree Law no. 185/08 ("Tremonti Bonds"). In this respect reference should be made to point 14.5 below.

Valuation reserves:

Financial assets available for sale: this item consists of the unrealised post-tax gains and losses arising on financial assets classified as "available for sale" as defined by IAS 39. Gains and losses are transferred from the fair value reserve to profit and loss when the financial asset is disposed of or becomes impaired.

Actuarial gains (losses) on defined benefit pension plans: this item consists of actuarial gains and losses deriving from the change in certain actuarial assumptions formulated in prior years.

Cash flow hedges: this item consists of the unrealised post-tax gains and losses arising from cash flow hedges.

Information on items of shareholders' equity pursuant to article 2427, no. 7 bis of the Italian Civil Code

In accordance with article 2427, paragraph 1. no. 7 bis) of the Italian Civil Code, the following table analyses each item of shareholders' equity by origin, showing possible use and the distributable portion, as well as uses in the three financial years preceding the balance sheet date.

Nature/description	31.12.2016						Uses in past three years (b))		Tax restriction (c)
	Share capital and reserves	Available portion	Possible uses (a)				Loss coverage	Other uses	
1. Share capital	**3,365,439,319**	**–**	**–**	**–**	**–**		**–**	**–**	**721,935,458**
2. Share premium reserve	**–**	**–**	**A**	**B**	**C**	**(1)**	**–**	**–**	**–**
3. Reserves	**747,735,776**	**357,467,631**					**–**	**–**	**18,162,847**
– of earnings									
a) legal	357,306,171	–	A	B	–	(2)	–	–	–
b) bylaws	190,719,051	190,719,051	A	B	C		–	–	–
c) treasury shares	25,000,000	–	–	–	–		–	–	–
d) other:									
available extraordinary	–	–	A	B	C		–	–	–
extraordinary	144,243,032	144,243,032	A	B	C				
unavailable as per article 6, Lgs. Decree no. 38/05	8,818,426	–	–	–	–	(3)	–	–	–
reserve as per article 13, para. 6 Lgs. Decree no. 124/93	–	–	A	B	C		–	–	–
reserve as per article 14, Law 21.11.2000 no. 342,	18,162,847	18,162,847	A	B	–		–	–	18,162,847
merger surplus/deficit reserve	(2,763,680)	–	A	B	C		–	–	–
– other	6,249,929	4,342,701	A	B	C		–	–	–
4. Equity instruments	**–**	**–**					**–**	**–**	**–**
5. (Treasury shares)	**(620,784)**	**–**	**–**	**–**	**–**		**–**	**–**	**–**
6. Valuation reserves:	**8,459,364**	**–**	**–**	**–**	**–**		**–**	**–**	**–**
– Financial assets available for sale	72,739,565	–	–	–	–	(3)	–	–	–
– Property and equipment		–	–	–	–		–	–	–
– Intangible assets		–	–	–	–		–	–	–
– Hedging of foreign investments		–	–	–	–	(2)	–	–	–
– Cash flow hedges	(3,165,336)	–	–	–	–	(2)	–	–	–
– Exchange differences		–	–	–	–	(2)	–	–	–
– Non-current assets held for sale		–	–	–	–	(2)	–	–	–
– Actuarial gains (losses) on defined benefit plans	(61,114,865)	–	–	–	–	(4)	–	–	–
– Portion of valuation reserves arising from investments carried at equity	–	–	–	–	–	(2)	–	–	–
– Special revaluation laws	–	–	–	–	–	(2)	–	–	–
Total	**4,121,013,675**	**357,467,631**							**740,098,305**
Non-distributable portion (d)		**18,162,847**							
Net income for the period		**339,304,784**							

(a) Possible uses: A = for bonus capital increase B = for loss coverage C = for distribution to shareholders

(1) Under article 2431 of the Italian Civil Code the entire amount of the "share premium reserve" can only be distributed if the legal reserve has reached one fifth of the share capital (a limit established by article 2430 of the Italian Civil Code). Specifically, the difference between the amount of "share premiums" and the available portion equals the amount that the legal reserve needs to reach its required limit.

(2) Use of the legal reserve is usually limited to the coverage of losses for the year. The reserve is only available for bonus capital increases and distribution for the part that exceeds one fifth of share capital (article 2430, paragraph 1 of the Italian Civil Code).

(3) Unavailable reserves as per article 6 of Legislative Decree no. 38/2005.

(b) Summary of uses in past three years (2014-2016): no loss coverage was carried out in the period 2014-2016.

(c) Tax restriction: untaxed amounts which, in case of distribution, contribute to the formation of the company's taxable income (for more information reference should be made to column "b" in the following table).

(d) Non-distributable portion: the non-distributable portion refers to the reserve under Law no. 342/2000.

Tax position of line items forming shareholders' equity and relative tax treatment in case of distribution

(amounts in euro)

Description of reserves	Reserves and provisions not forming shareholder income in case of distribution (a)	Reserves and provisions contributing to the company's taxable income in case of distribution (b)	Other reserves and provisions (c)	31.12.2016 (a + b + c)	31.12.2015 (a + b + c)
Share premium	**–**	**–**	**–**	**–**	**444,795**
Reserves:	**–**	**18,162,847**	**729,572,929**	**747,735,776**	**640,052,498**
– of earnings:					
a) legal	–	–	357,306,171	357,306,171	333,066,911
b) bylaws	–	–	190,719,051	190,719,051	154,360,161
c) treasury shares	–	–	25,000,000	25,000,000	25,000,000
d) other:	–				
– unavailable as per article 6, Lgs. Decree no. 38/05	–	–	8,818,426	8,818,426	10,093,779
– available	–	–	–	–	–
– extraordinary	–	–	144,243,032	144,243,032	80,985,602
– reserve as per article 13, para. 6 Lgs. Decree no. 124/93	–	–	–	–	–
Reserve Law 21.11.2000 no. 342, article 14	–	18,162,847	–	18,162,847	18,162,847
Merger surplus reserve	–	–	–2,763,680	–2,763,680	–2,763,680
– other			6,249,929	6,249,929	21,146,878
Equity instruments	**–**	**–**	**–**	**–**	**–**
Valuation reserves:	**–**	**–**	**8,459,364**	**8,459,364**	**209,069,218**
– Financial assets available for sale	–	–	72,739,565	72,739,565	271,365,705
– Cash flow hedges	–	–	–3,165,336	–3,165,336	–4,429,395
– Actuarial gains (losses) on defined benefit plans	–	–	–61,114,865	–61,114,865	–57,867,092
Total (A)	**–**	**18,162,847**	**738,032,293**	**756,195,140**	**849,566,511**

(amounts in euro)

Description of reserves		Reserves and provisions not forming shareholder income in case of distribution (a)	Reserves and provisions contributing to the company's taxable income in case of distribution (b)	Other reserves and provisions (c)	31.12.2016 (a + b + c)	31.12.2015 (a + b + c)
Reserves recognised in share capital on bonus increases						
Share premium reserve	1	150,425,231	–	–	150,425,231	150,425,231
	2	68,476,471	–	–	68,476,471	68,476,471
	3	61,758,351	–	–	61,758,351	61,758,351
Valuation reserves: valuation of property and equipment at "assumed cost"	1	–	251,457,503	13,151,496	264,608,999	264,608,999
Revaluation reserve Law 2.12.1975 no. 576	2	–	1,394,324	–	1,394,324	1,394,324
	3	–	4,291,016	–	4,291,016	4,291,016
Revaluation reserve Law 19.3.1983 no. 72	2	–	21,283,594	–	21,283,594	21,283,594
	3	–	72,577,049	–	72,577,049	72,577,049
Revaluation reserve Law 30.12.1991 no. 413	2	–	12,051,471	–	12,051,471	12,051,471
	3	–	129,180,893	230,980	129,411,873	129,411,873
Merger surplus reserve	2	1,531,881	–	8,835,013	10,366,894	10,366,894
Reserve as per article 7, Law 30.7.1990 no. 218	3	–	144,529,879	–	144,529,879	144,529,879
Reserve as per Law 30.7.1990 no. 218	3	–	3,909,196	–	3,909,196	3,909,196
Fund as per article 55 3b, D.P.R. no. 917/86	3	–	–	142,938	142,938	142,938
Fund as per article 3, Law 5.12.1978 no. 787	3	–	–	11,402,594	11,402,594	11,402,594
Extraordinary reserve	3	3	–	35,337,671	35,337,674	35,337,674
Former Banca 2000	4	–	1,114,514	–	1,114,514	1,114,514
Former Bipiemme Immobili	4	–	26,570,414	–	26,570,414	26,570,414
Former Banca di Legnano	5	–	19,616,507	–	19,616,507	19,616,507
Former C.R. di Alessandria	5	–	33,959,098	–	33,959,098	33,959,098
Total (B)		**282,191,937**	**721,935,458**	**69,100,692**	**1,073,228,087**	**1,073,228,087**
Total (A + B)		**282,191,937**	**740,098,305**	**807,132,985**	**1,829,423,227**	**1,922,794,598**

(1) Reserves credited to share capital on bonus increases of 415,034 thousand euro, deriving from the increase in the nominal value of shares from euro 3 to euro 4, implementing the resolution of the Extraordinary Shareholders' Meeting of 15 February 2007.

(2) Following the resolution of the Extraordinary Shareholders' Meeting of 21 April 2001, the Bank converted share capital into euro pursuant to Legislative Decree no. 213 of 24.6.1998, as amended by Legislative Decree no. 206 of 15.06.1999. With the use of the specified reserves, the conversion led to bonus increases of share capital amounting to 113,573 thousand euro through the increase of the nominal value of each share from Lire 5,000 to Lire 5,808.81 and the simultaneous determination of the nominal value of each share at euro 3, with the consequent redenomination of share capital in euro.

(3) Reserves credited to share capital on bonus increases of 463,361 thousand euro (897,191 thousand lire), deriving from the increase in the nominal value of shares from Lire 1,000 to Lire 5,000 in implementation of the resolution of the Extraordinary Shareholders' Meeting of 4 December 1996.

(4) Reserves credited to share capital by the former Banca 2000 and by the former Bipiemme Immobili.

(5) Reserves credited to share capital by the former Banca di Legnano and former C.R. di Alessandria.

14.5 Equity instruments: analysis and changes during the year

The Bank has no equity instruments at the balance sheet date, as at the end of the previous year.

Other information

1. Guarantees given and commitments

Transactions	31.12.2016	31.12.2015
1) Financial guarantees:	228,506	283,592
a) Banks	5,535	80,535
b) Customers	222,971	203,057
2) Commercial guarantees:	2,808,402	2,897,775
a) Banks	80,413	102,569
b) Customers	2,727,989	2,795,206
3) Irrevocable commitments to grant funding:	4,466,242	5,213,109
a) Banks	504,964	749,196
i) certain to be called	5,083	228,271
ii) not certain to be called	499,881	520,925
b) Customers	3,961,278	4,463,913
i) certain to be called	230,330	399,420
ii) not certain to be called	3,730,948	4,064,493
4) Commitments underlying credit derivatives: sales of protection	–	4,653
5) Assets pledged in guarantee for third party obligations	106,734	79,702
6) Other commitments	581,549	82,096
Total	**8,191,433**	**8,560,927**

"Guarantees given" by the Bank are stated at nominal value net of any drawdowns and any adjustments.

"Irrevocable commitments to grant funding" are stated on the basis of the commitment given less the sums already disbursed and any adjustments. They exclude commitments arising from derivative contracts.

"Irrevocable commitments to grant funding" which are certain to be called include forward and spot purchases of securities awaiting settlement and loans and deposits to be made at a specified future date.

"Commitments underlying credit derivatives: sales of protection" refer to the notional amount of such commitments, less the sums already disbursed and any adjustments.

"Assets pledged in guarantee for third party obligations" include an amount of 106.734 million euro (79.702 million euro at 31 December 2015) relating to contribution quotas to the Default Fund paid into the Cassa di Compensazione e Garanzia for MTS Repo operations.

2. Assets pledged as guarantees for own liabilities and commitments

Portfolio	31.12.2016	31.12.2015
1. Financial assets held for trading	–	50,663
2.Financial assets designated at fair value through profit and loss	7,659	27,633
3. Financial assets available for sale	4,207,049	4,950,253
4. Investments held to maturity	–	–
5. Due from banks	134,055	36,345
6. Loans to customers	11,435,099	9,204,485
7. Property and equipment	–	–

The table summarises the assets provided by the Bank as collateral for its liabilities:

- deposit of drafts for 24.332 million euro (23.293 million euro at 31.12.2015) with the Bank of Italy;
- advances for pooling operations (Open Market Operations – OMA) for 75.637 million euro (646.43 million euro at 31.12.2015);
- for repurchase and repo transactions conducted with asset securities for 3,977.631 million euro (4,235.858 million euro at 31.12.2015);
- for other guarantees for 137.107 million euro (122.966 million euro at 31.12.2015).

The amount on line "5. Due from banks "includes margins paid to institutional counterparties in financial instrument transactions.

The amount on line "6. Loans to customers" consists of the year end balance of mortgage loans transferred to the vehicle BPM Covered Bond 2 S.r.l. starting from 2008 as part of the covered bond programme; the year end balance of loans pledged in guarantee for advances for pooling transactions; margins paid to Cassa di Compensazione & Garanzia in transactions on the MTS Repo market; and margins paid to institutional counterparties in financial instrument transactions.

Guaranteed funding transactions

In accordance with the requirements of the Bank of Italy communicated on 16 February 2011 and 10 February 2012, assets not recognised in the financial statements in accordance with IAS 39 which the Group has pledged in guarantee for its own liabilities and commitments are shown below.

The following are the issued own bonds repurchased as part of refinancing operations with the European Central Bank – of which two are covered by state guarantees pursuant to article 8 of Decree Law no. 201 of 6 December 2011, converted into Law no. 214 of 22 December 2011 – and provided as collateral for the advances received from central banks (OMO – Open Market Operations):

- covered bonds "BPM CB 18.7.2011-18.1.2014 floating rate with maturity extended to 18.1.2019" having a nominal value of 0.37 billion euro (0.37 billion euro at 31.12.2015);
- covered bonds "BPM CB 28.5.2013-28.5.2016 floating rate with maturity extended to 2021" having a nominal value of 0.50 billion euro (0.48 billion euro at 31.12.2015);
- covered bonds "BPM CB 15-20 floating rate" having a nominal value of 0.747 billion euro (0.555 billion euro at 31.12.2015);
- covered bonds "BPM CB 19.11.15-22 floating rate" having a nominal value of 0.65 billion euro (0.65 billion euro at 31.12.2015);
- covered bonds "BPM CB 7.11.16-21 floating rate" having a nominal value of 1 billion euro.

In addition, the following have been provided as collateral:

- "BPM Securitisation 15.01.06/43 floating rate" bonds arising from the securitisation carried out by the Bank in 2006 having a residual nominal value of 57.00 million euro (73.98 million euro at 31.12.2015);
- "BPM Securitisation 3 20.01.14/57 floating rate A" bonds having a residual nominal value of 493.98 million euro (254 million euro at 31.12.2015);
- securities arising from lending repurchase agreements or securities lending having a nominal value of 74.85 million euro (368.4 million euro at 31.12.2015);
- "Profamily Securitisation 15/39 floating rate A" bonds which the Bank has received as an irregular pledge.

3. Information on operating leases

Leased assets basically consist of:

- POS equipment;
- the central computer;
- motor vehicles acquired under long-term rental contracts

The POS equipment is installed on the premises of authorised businesses and allows the holders of "Pagobancomat" cards and other debit and credit cards to pay for goods and services offered by authorised businesses.

The current agreement, stipulated with CartaSì on 1 January 2014, expires on 31 December 2017. The annual fee for 2017 and subsequent years is calculated with reference to the current POS lease agreement.

The increases in fees are due to the activation of a higher percentage of Ethernet terminals having a higher unit fee compared to other types of POS. Fees are fixed for the entire term of the lease and are paid monthly.

The current agreement provides that, in case of termination, the Bank has the right to purchase the POS equipment installed at such businesses under terms and conditions to be agreed by the parties. The economic value of the POS will be calculated on the basis of the criteria and means of ordinary depreciation defined in current ministerial tables.

The computer lease forms part of an all-inclusive agreement stipulated with IBM in September 2012 and expiring on 31 December 2017 (with a possible extension to 30 June 2018) for the integrated management, inter alia, of:

- the technological evolution/substitution of the storage infrastructure;
- the provision of the services needed to support technological renovation;
- the maintenance of central hardware;
- software licences and new releases for the operating system and certain subsystems.

Motor vehicles under long-term rental contracts are leased for a contractual term of 48 months, with the provision of full service assistance (maintenance, insurance, ownership tax, breakdown service, etc.). There is no option to acquire the vehicles at the end of the lease.

Future operating lease and car rental payments under current contracts fall due as follows.

Leased assets	Up to 1 year	Between 1 and 5 years	Beyond 5 years	31.12.2016	Up to 1 year	Between 1 and 5 years	Beyond 5 years	31.12.2015
POS	3,320	3,386	–	6,706	3,250	3,315	–	6,565
Central computer	6,036	3,018	–	9,054	5,929	15,668	–	21,597
Motor vehicles	1,450	7,250	–	8,700	1,591	7,955	–	9,546
Total	**10,806**	**13,654**	**–**	**24,460**	**10,770**	**26,938**	**–**	**37,708**

4. Administration and brokerage on behalf of third parties

Type of service	31.12.2016	31.12.2015
1. Execution of instructions on behalf of customers	**177,902**	**280,171**
a) Purchases	71,203	116,529
1. settled	59,822	107,180
2. not settled	11,381	9,349
b) Sales	106,699	163,642
1. settled	106,699	162,141
2. not settled	–	1,501
2. Portfolio management	**–**	**–**
a) Individual	–	–
b) Collective	–	–
3. Custody and administration of securities	**44,688,371**	**49,924,803**
a) Third party securities on deposit (excluding portfolio management): as custodian bank)	–	–
1. securities issued by the reporting bank	–	–
2. other securities	–	–
b) Third party securities on deposit (excluding portfolio management): other	20,662,847	23,604,183
1. securities issued by the reporting bank	1,444,240	2,352,117
2. other securities	19,218,607	21,252,066
c) Third party securities deposited with third parties	14,674,381	16,357,314
d) Portfolio securities deposited with third parties	9,351,143	9,963,306
4. Other transactions		
1. Collection of receivables for third parties: debit and credit adjustments		
a) debit adjustments	5,843,878	5,663,433
1. Current accounts	12,937	17,706
2. Central portfolio	5,830,941	5,645,727
3. Cash	–	–
4. Other accounts	–	–
b) credit adjustments	5,788,970	5,828,509
1. Current accounts	10,396	12,540
2. Presenters of notes and documents	5,777,504	5,813,351
3. Other accounts	1,070	2,618
2. Reception and transmission of orders and brokerage		
a) purchases	54,334,980	75,426,122
b) sales	64,862,196	78,545,602
3. Other transactions		
a) collection of notes, documents and other instruments on behalf of third parties	5,781,711	5,809,245
b) offer to customers of Asset Portfolio Management services performed by third parties	1,285,225	1,376,172

Regarding the above amounts:

Service 1. "Execution of instructions on behalf of customers": includes purchases and sales of forward contracts traded on Italy's future's market (MIF) and derivatives traded on Italy's derivatives market (IDEM) where the Bank executes orders received from its customers.

Service 2. "Portfolio management": the portfolio management service for customers is provided by Anima S.G.R.; the amount of the assets managed is shown in line item 4.4.3 b) below.

Service 3. "Custody and administration of securities": securities subject to custody and administration agreements, including securities received as collateral, are shown at nominal value. Sub-item b) also shows securities received from third parties as collateral for credit transactions, for whom the Bank provides an accessory custody and administration service.

Service 4. "Other transactions":

1 "Collection of receivables for third parties: debit and credit adjustments": the notes and documents received by the Bank subject to collection or after collection and for which the Bank handles collection on behalf of third parties are only recognised in the balance sheet (as cash, loans to banks and customers, amounts due to banks and customers) when they are settled. To this purpose the notes portfolio has been reclassified in the financial statements by settlement date, making the accounting adjustments specified.

2 "Reception and transmission of orders and brokerage": the reception and transmission of orders includes all transactions by transaction date even if not settled at period end.

5. Financial assets subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical form	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c = a – b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f = c – d – e)	Net amount 31.12.2015
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	88,774	–	88,774	71,426	14,760	2,588	11,423
2. Repurchase agreements	159,024	157,267	1,757	1,754	–	3	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
31.12.2016	**247,798**	**157,267**	**90,531**	**73,180**	**14,760**	**2,591**	**x**
31.12.2015	**657,842**	**196,931**	**460,911**	**444,882**	**4,780**	**x**	**11,249**

6. Financial liabilities subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical form	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2016 (f = c – d – e)	Net amount 31.12.2015
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	163,332	–	163,332	71,426	91,195	711	215
2. Repurchase agreements	3,906,423	157,267	3,749,156	3,748,923	–	233	–
3. Securities lending	317,544	–	317,544	306,874	–	10,670	14,399
4. Other transactions	1,754	–	1,754	1,754	–	–	–
31.12.2016	**4,389,052**	**157,267**	**4,231,785**	**4,128,977**	**91,195**	**11,614**	**x**
31.12.2015	**6,062,455**	**196,931**	**5,865,524**	**5,827,117**	**23,793**	**x**	**14,614**

The Bank has stipulated offsetting contracts on financial instruments and foreign exchange operations primarily with its subsidiary Banca Akros, and for less significant amounts with major international banks. The amount relating to repurchase agreements mainly regards operations carried out with the Cassa di Compensazione e Garanzia by means of MTS Repo transactions, whereas the line item Securities lending relates to transactions with Banca Akros. The amounts in line item "4. Other transactions" refer to Forward/Repo transactions based on repurchased treasury securities recognised in securities issued.

Financial assets and liabilities included at line item "1. Derivatives (columns a) and d))" are stated at fair value. The other line items are stated at amortised cost.

7. Securities lending transactions

At 31 December 2016, the Bank has outstanding securities lending transactions with customers, conducted using the Webank service, for a total countervalue of 305,708 thousand euro (413,242 thousand euro at 31 December 2015), for collateral of 316,213 thousand euro (427,439 thousand euro at 31 December 2015).

The equity component of the instruments involved in securities lending is represented by ETFs and shares denominated in euro, traded almost exclusively on Italian markets. The fixed income component involves bonds exclusively in euro.

The service is provided for securities held by customers who have explicitly subscribed by enabling securities loans on one or more components (equity and/or fixed income) of their portfolio through the website.

The securities lent by customers are subject to a securities loan to counterparties against cash collateral proportionate to the countervalue of the lent securities and updated daily based on market value.

The liquidity generated by each loan transaction is ascribed to collateral for such transaction and deposited in a separate account in the customer's name.

Almost all of the Bank's securities lending transactions are conducted with counterparty Banca Akros.

Part C
Information on the income statement

Section 1 – Interest
Line items 10 and 20

1.1 Interest and similar income: analysis

Item/technical form	Debt securities	Loans	Other transactions	Year 2016	Year 2015
1. Financial assets held for trading	479	–	342	821	5,122
2. Financial assets available for sale	130,258	–	–	130,258	166,940
3. Investments held to maturity	–	–	–	–	–
4. Due from banks	–	3,583	–	3,583	2,780
5. Loans to customers	1,749	750,291	–	752,040	844,583
6. Financial assets designated at fair value through profit and loss	1,371	–	–	1,371	5,231
7. Hedging derivatives	–	–	–	–	1,769
8. Other assets	–	–	54,853	54,853	50,291
Total	**133,857**	**753,874**	**55,195**	**942,926**	**1,076,716**

Item "1. Financial assets held for trading" includes a net positive balance of 0.342 million euro arising from derivative contracts operationally linked to financial assets and liabilities designated at fair value through profit and loss (under the fair value option) (4.458 million euro in 2015).

The amount in item "2. Financial assets available for sale" includes 120.49 million euro of interest accrued on Italian government bonds (156.24 million euro in 2015).

Items 4 and 5 "Due from banks" and "Loans to customers" show, in the "Debt securities" column, interest income on owned securities not listed on active markets, classified in these portfolios. The "Loans" column also includes interest income accrued on repurchase agreements used for lending purposes.

Item "8. Other assets" contains the excess spreads on securitisation transactions and covered bonds as well as interest income accrued on tax credits.

Interest, other than that reported in item 130. "Write-backs", accrued during the year on "non-performing" positions, totals 24.8 million euro (31.78 million euro in 2015). This interest, calculated on financial assets measured at amortised cost under the effective interest rate method, is reported in the various columns according to the technical form that gave rise to the interest. Any past due interest accruing during the year is only recognised in the income statement when actually collected.

1.2 Interest and similar income: differentials on hedging transactions

Item	Year 2016	Year 2015
A. Positive differentials on hedging transactions	–	21,525
B. Negative differentials on hedging transactions	–	(19,756)
C. Balance (A–B)	**–**	**1,769**

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Item	Year 2016	Year 2015
Interest income on financial assets in foreign currency	15,185	15,012

"Interest and similar income" on financial assets in foreign currency relates to that received and accrued on assets in currencies other than the euro.

1.3.2 Interest income from finance leases

Item	Year 2016	Year 2015
Interest income from financial leases	3,815	4,934

1.4 Interest and similar expense: analysis

Item/technical form	Payables	Securities	Other transactions	Year 2016	Year 2015
1. Due to central banks	(1,686)	X	–	(1,686)	(2,774)
2. Due to banks	(6,672)	X	–	(6,672)	(5,653)
3. Due to customers	(42,795)	X	–	(42,795)	(59,357)
4. Securities issued	X	(159,494)	–	(159,494)	(262,310)
5. Financial liabilities held for trading	–	–	(286)	(286)	(348)
6. Financial liabilities designated at fair value through profit and loss	–	(476)	–	(476)	(4,969)
7. Other liabilities and provisions	X	X	(152)	(152)	(108)
8. Hedging derivatives	X	X	(8,697)	(8,697)	–
Total	**(51,153)**	**(159,970)**	**(9,135)**	**(220,258)**	**(335,519)**

Items 2 and 3 "Due to banks" and "Due to customers" include, in the "Payables" column: the interest related to amounts due for repurchase agreements on owned securities, and charges relating to amounts due for repurchase agreements on securities whose availability was obtained through reverse repurchase agreements.

Item 4. "Securities issued" includes the interest expense accrued on bonds and certificates of deposit measured at amortised cost. An analysis of this is given in the following table.

Item 5. "Financial liabilities held for trading: other transactions" consists of a net negative balance of 0.286 million euro (0.348 million euro in 2015) which relates to differentials and positive/negative margins on derivatives operationally linked to financial assets and liabilities classified in the trading book and accrued interest. These are multiflow derivatives (interest rate swaps) connected to fixed rate debt securities classified in the trading portfolio.

Item 6. "Financial liabilities designated at fair value through profit and loss" includes interest expense accrued on structured and fixed-rate bonds issued hedged by derivative contracts.

Item 7. "Other liabilities and provisions" relates to interest accrued on IRES tax credits pertaining to subsidiaries for which the consolidating company has applied for a refund.

Analysis of item 4. "Securities issued"

Item/amount	Year 2016	Year 2015
Bonds	(159,254)	(261,025)
Certificates of deposit	(241)	(1,285)
Other securities	–	–
Total	**(159,495)**	**(262,310)**

"Bonds" include interest on subordinated bonds of 50.525 million euro (65.579 million euro in 2015) and on covered bond issues of 50.005 million euro (66.349 million euro in 2015).

1.5 Interest and similar expense: differentials on hedging transactions

Item	Year 2016	Year 2015
A. Positive differentials on hedging transactions	3,533	–
B. Negative differentials on hedging transactions	(12,230)	–
C. Balance (A–B)	**(8,697)**	**–**

This item consists of the net interest expense (expense less income) accrued on "hedging derivatives" stated in the above table under item "8. Hedging derivatives".

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Item	Year 2016	Year 2015
Interest expense on foreign currency liabilities	(2,565)	(1,436)

"Interest and similar expense" on foreign currency liabilities relates to that paid and accrued on assets in currencies other than the euro.

1.6.2 Interest expense on finance leases

There is no interest expense on finance leases.

Section 2 – Fees and commissions
Line items 40 and 50

2.1 Fee and commission income: analysis

Type of service/amount	Year 2016	Year 2015
a) guarantees given	**35,265**	**34,677**
b) credit derivatives	**–**	**–**
c) management, dealing and advisory services	**280,844**	**290,360**
1. trading of financial instruments	56	102
2. currency trading	5,313	5,503
3. portfolio management	–	–
3.1. individual	–	–
3.2. collective	–	–
4. custody and administration of securities	8,144	9,496
5. custodian bank	–	–
6. placement of securities	189,723	184,245
7. receipt and transmission of instructions	18,470	24,239
8. advisory services	26	51
8.1 on investments	–	–
8.2 on financial structure	26	51
9. distribution of third party services	59,112	66,724
9.1 portfolio management	3,785	4,250
9.1.1. individual	3,785	4,250
9.1.2. collective	–	–
9.2 insurance products	45,738	53,645
9.3 other products	9,589	8,829
d) collection and payment services	**96,363**	**102,362**
e) servicing for securitisation transactions	**2,790**	**2,207**
f) factoring services	**–**	**–**
g) tax collection services	**–**	**–**
h) management of multilateral trading systems	**–**	**–**
i) management of current accounts	**53,691**	**57,808**
j) other services	**151,635**	**147,669**
Total	**620,588**	**635,083**

The item "j) Other services" includes net fee and commission income on loans granted of 116.508 million euro (113.157 million euro in 2015), on the use of safe deposit boxes of 2.358 million euro (2.298 million euro in 2015) and on securities lending of 1.002 million euro (1.078 million euro in 2015), and income and recharged expenses for other banking services of 31.766 million euro (31.136 million euro in 2015).

2.2 Fee and commission expense: distribution channels for products and services

Channel/amount	Year 2016	Year 2015
a) at own branches	**247,670**	**249,751**
1. portfolio management	–	–
2. placement of securities	188,645	183,058
3. third party services and products	59,025	66,693
b) door-to-door	**1,165**	**1,218**
1. portfolio management	–	–
2. placement of securities	1,078	1,187
3. third party services and products	87	31
c) other distribution channels	**–**	**–**
1. portfolio management	–	–
2. placement of securities	–	–
3. third party services and products	–	–

2.3 Fee and commission expense: analysis

Type of service/amount	Year 2016	Year 2015
a) guarantees received	**(1,243)**	**(2,138)**
b) credit derivatives	**–**	**–**
c) management and dealing services	**(7,238)**	**(5,663)**
1. trading of financial instruments	(1,388)	(1,337)
2. currency trading	–	–
3. portfolio management	–	–
3.1 own	–	–
3.2 mandated by third parties	–	–
4. custody and administration of securities	(2,103)	(2,367)
5. placement of financial instruments	–	–
6. door-to-door sales of financial instruments, products and services	(3,747)	(1,959)
d) collection and payment services	**(30,739)**	**(30,964)**
e) other services	**(16,210)**	**(16,590)**
Total	**(55,430)**	**(55,355)**

The item "e) Other services" includes amongst other things brokerage commissions of 9.4 million euro (8.2 million euro in 2015), commission expense on securities lending of 0.515 million euro (0.65 million euro in 2015) and order processing fees of 3.78 million euro (4.65 million euro in 2015).

Section 3 – Dividend and similar income
Line item 70

3.1 Dividend and similar income: analysis

	Year 2016			Year 2015		
Item/income	**Dividends**	**Income from mutual funds**	**Total**	**Dividends**	**Income from mutual funds**	**Total**
A. Financial assets held for trading	–	–	**–**	–	–	**–**
B. Financial assets available for sale	5,734	1,469	**7,203**	7,359	1,403	**8,762**
C. Financial assets designated at fair value through profit and loss	–	–	**–**	–	–	**–**
D. Investments in subsidiaries, associates and companies subject to joint control	24,975	X	**24,975**	24,298	X	**24,298**
Total	**30,709**	**1,469**	**32,178**	**31,657**	**1,403**	**33,060**

The following table lists the dividends received during the year from subsidiaries (IFRS 10) and associates (IAS 28) with the corresponding amounts received in the previous year.

Analysis of line item "D. Investments in subsidiaries, associates and companies subject to joint control"

Name	**Year 2016**	**Year 2015**
A. Subsidiaries	**8,024**	**10,644**
Banca Akros S.p.A.	8,024	8,787
BPM Capital I LLC	–	1,857
B. Companies subject to joint control	**–**	**–**
C. Associates	**16,951**	**13,654**
Anima Holding S.p.A.	12,629	8,436
Factorit S.p.A.	2,448	3,060
Bipiemme Vita S.p.A.	1,225	1,498
Aedes Bipiemme Real Estate SGR S.p.A.	–	390
Etica SGR S.p.A.	649	270
Total	**24,975**	**24,298**

Section 4 – Profits (losses) on trading
Line item 80

4.1 Profits (losses) on trading: analysis

Transaction/ income item	Realised profits (A)	Trading profits (B)	Realised losses (C)	Trading losses (D)	Net result [(A+B) – (C+D)] Year 2016
1. Financial assets held for trading	**5,919**	**1,421**	**(5,758)**	**(792)**	**790**
1.1 Debt securities	–	743	(17)	(684)	42
1.2 Equities	–	3	–	(24)	(21)
1.3 Mutual funds	–	2	–	(1)	1
1.4 Loans	–	–	–	–	–
1.5 Other	5,919	673	(5,741)	(83)	768
2. Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**
2.1 Debt securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. Other financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**11,414**
4. Derivatives	**34,918**	**211,370**	**(41,148)**	**(177,563)**	**26,195**
4.1 Financial derivatives:	34,918	211,370	(41,148)	(177,563)	26,195
– On debt securities and interest rates	34,881	211,355	(41,148)	(177,529)	27,559
– On equities and stock indices	37	15	–	(34)	18
– On currency and gold	X	X	X	X	(1,382)
– Other	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
Total	**40,837**	**212,791**	**(46,906)**	**(178,355)**	**38,399**

The table shows the profits or losses attributable to the portfolio of financial assets and liabilities held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted, with the valuation results being shown in Section 7 – "Profits (losses) on financial assets and liabilities designated at fair value – Line item 110".

1. **Financial assets held for trading:** line item "1.5 Other" includes profits and losses from trading in currency, gold and other precious metals.
3. **Other financial assets and liabilities:** foreign exchange differences: this sub-item includes the positive or negative balance of changes in the value of financial assets and liabilities in foreign currency, other than those designated at fair value and those subject to fair value hedging (exchange risk or fair value) or cash flow hedging (exchange risk), and changes in the value of hedging derivatives.
4. **Derivatives:** positive and negative differentials and margins are recognised in the "trading profits" and "trading losses" columns respectively.

Section 5 – Fair value adjustments in hedge accounting Line item 90

5.1 Fair value adjustments in hedge accounting: analysis

Income item/amount	Year 2016	Year 2015
A. Income relating to:		
A.1 Derivatives hedging fair value	21,594	20,303
A.2 Financial assets with fair value hedges	4,452	1,857
A.3 Financial liabilities with fair value hedges	–	9,332
A.4 Derivatives hedging cash flows	–	–
A.5 Foreign currency assets and liabilities	–	–
Total income from hedging activity (A)	**26,046**	**31,492**
B. Expense relating to:		
B.1 Derivatives hedging fair value	(4,163)	(14,427)
B.2 Financial assets with fair value hedges	(12,854)	(16,353)
B.3 Financial liabilities with fair value hedges	(6,431)	(7,040)
B.4 Derivatives hedging cash flows	–	–
B.5 Foreign currency assets and liabilities	–	–
Total expense from hedging activity (B)	**(23,448)**	**(37,820)**
C. Net fair value adjustments in hedge accounting (A–B)	**2,598**	**(6,328)**

The table sets out the net result from hedging activity. It therefore shows realised income recognised in profit and loss and arising from measuring hedged assets and liabilities and the related derivative contracts, including any exchange differences.

For information on the hedging derivatives whose income and expense are classified in lines A.1 and B.1 of the above table, reference should be made to Section 8 "Hedging derivatives – Line item 80" in assets and Section 6 "Hedging derivatives – Line item 60" in liabilities in Part B of these explanatory notes.

For further information on hedged financial assets and liabilities reference should be made to the detailed tables set out in Part B of the explanatory notes, in the sections relating to the balance sheet items in which the hedged items are classified.

The following table provides details of net income items.

Fair value adjustments in hedge accounting: details of income items

Item/amount	Income	Expense	Year 2016 Net result	Income	Expense	Year 2015 Net result
1 Derivatives hedging fair value:						
Interest rate risk	17,565	(3,282)	**14,283**	14,429	(10,398)	**4,031**
Foreign exchange risk	–	–	**–**	–	–	**–**
Credit risk	–	–	**–**	–	–	**–**
Price risk	4,029	(881)	**3,148**	5,874	(4,029)	**1,845**
Several risks	–	–	**–**	–	–	**–**
2 Financial assets with fair value hedges:						
Specific hedges	3,567	(12,844)	**(9,277)**	1,857	(9,338)	**(7,481)**
Macrohedges	885	(10)	**875**	–	(7,015)	**(7,015)**
3 Financial liabilities with fair value hedges:						
Specific hedges	–	–	**–**	9,332	–	**9,332**
Macrohedges	–	(6,431)	**(6,431)**	–	(7,040)	**(7,040)**
4 Derivatives hedging cash flows:						
Forecast transactions	–	–	**–**	–	–	**–**
Foreign investments	–	–	**–**	–	–	**–**
Foreign exchange risk	–	–	**–**	–	–	**–**
5 Foreign currency assets and liabilities:						
Assets in foreign currency	–	–	**–**	–	–	**–**
Liabilities in foreign currency	–	–	**–**	–	–	**–**
Total	**26,046**	**(23,448)**	**2,598**	**31,492**	**(37,820)**	**(6,328)**

The following table sets out the net result from hedging activity based on the underlying positions.

Description	Year 2016 Net result	Year 2015 Net result
Assets		
Debt securities available for sale	3,493	(2,506)
Equities available for sale	–	–
Due from banks	–	–
Loans to customers	(777)	(3,486)
Liabilities		
Outstanding bonds	–	(308)
Due to customers	(118)	(28)
Net fair value adjustments in hedge accounting	**2,598**	**(6,328)**

Section 6 – Profits (losses) on disposal or repurchase
Line item 100

6.1 Profits (losses) on disposal or repurchase: analysis

Income item/amount	Year 2016			Year 2015		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from banks	–	–	–	–	–	–
2. Loans to customers	1,694	(14,850)	(13,156)	997	(25,904)	(24,907)
3. Financial assets available for sale	183,331	(5,648)	177,683	187,534	(1,428)	186,106
3.1 Debt securities	160,244	(1,079)	159,165	110,391	(1,394)	108,997
3.2 Equities	23,021	(4,569)	18,452	76,434	(32)	76,402
3.3 Mutual funds	66	–	66	709	(2)	707
3.4 Loans	–	–	–	–	–	–
4. Investments held to maturity	–	–	–	–	–	–
Total assets	**185,025**	**(20,498)**	**164,527**	**188,531**	**(27,332)**	**161,199**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	–	(20)	(20)	26	(13,007)	(12,981)
Total liabilities	**–**	**(20)**	**(20)**	**26**	**(13,007)**	**(12,981)**
Total	**185,025**	**(20,518)**	**164,507**	**188,557**	**(40,339)**	**148,218**

The table sets out the result of selling financial assets other than those held for trading and those designated at fair value through profit and loss, and the result of repurchasing own financial liabilities.

Analysis of "Financial assets: Due from banks and Loans to customers"

Item/amount	Year 2016			Year 2015		
	Profits	Losses	Net result	Profits	Losses	Net result
1. Due from banks:						
Loans	–	–	–	–	–	–
Debt securities	–	–	–	–	–	–
2. Loans to customers:						
Loans	1,694	(14,850)	(13,156)	997	(25,904)	(24,907)
Debt securities	–	–	–	–	–	–
Total	**1,694**	**(14,850)**	**(13,156)**	**997**	**(25,904)**	**(24,907)**

Section 7 – Profits (losses) on financial assets and liabilities designated at fair value Line item 110

7.1 Profits (losses) on financial assets and liabilities designated at fair value: analysis

Transaction/Income item	Unrealised gains (A)	Profits on disposal (B)	Unrealised losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)]	
					Year 2016	Year 2015
1. Financial assets	**148**	**–**	**(9,169)**	**(231)**	**(9,252)**	**(5,402)**
1.1 Debt securities	148	–	(9,169)	(231)	(9,252)	(5,440)
1.2 Equities	–	–	–	–	–	–
1.3 Mutual funds	–	–	–	–	–	38
1.4 Loans	–	–	–	–	–	–
2. Financial liabilities	**371**	**89**	**(92)**	**–**	**368**	**1,417**
2.1 Debt securities	371	89	(92)	–	368	1,417
2.2 Due to banks	–	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–	–
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**–**	**–**
4. Credit and financial derivatives	**182**	**14**	**(363)**	**(101)**	**(268)**	**(2,355)**
Total	**701**	**103**	**(9,624)**	**(332)**	**(9,152)**	**(6,340)**

This item consists of the capital gains and losses arising from the measurement at fair value of financial assets and liabilities classified in the fair value option portfolio and the relative hedging derivatives.

Debt securities consist of the net result of bonds for which the fair value option was elected, in the same way as the result of the derivatives hedging them. In this case, the use of the fair value option addresses the need to reduce the accounting mismatch that would otherwise result from measuring the financial liabilities issued at amortised cost and the related hedging derivatives at fair value. For further details, reference should be made to Section 5 of liabilities regarding "Financial liabilities designated at fair value through profit and loss".

For the purposes of the limits imposed by article 6 of Legislative Decree no. 38/2005 on the distribution of earnings, it is noted that in 2016 unrealised capital gains were booked, net of tax, of 0.08 million (0.105 million at 31 December 2015) on structured securitises not hedged for operational purposes by derivatives. On allocation of the net result for the year these will be transferred to a restricted reserve pursuant to article 6 of Legislative Decree no. 38 of 28 February 2005. Moreover, part of the restricted reserve as per Legislative Decree no. 38/2005 set up in previous years became distributable for an amount of 2.824 million euro (1.380 million euro at 31 December 2015) deriving from the effective realisation during 2016 of gains on the sale of financial assets designated at fair value through profit and loss. This amount had already flowed through the income statement in prior years on application of the fair value option.

Section 8 – Net losses/recoveries on impairment
Line item 130

8.1 Net losses/recoveries on impairment of loans: analysis

Transaction/income item	Adjustments			Write-backs				Year 2016	Year 2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
– Loans	–	–	(1,448)	–	–	–	–	(1,448)	(21)
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers									
Non-performing loans purchased									
– Loans	–	–	X	–	–	X	X	–	–
– Debt securities	–	–	X	–	–	X	X	–	–
Other receivables									
– Loans	(29,541)	(553,486)	(11,760)	52,301	94,858	–	44,082	(403,546)	(313,454)
– Debt securities	–	(305)	–	–	–	–	–	(305)	(2,039)
C. Total	**(29,541)**	**(553,791)**	**(13,208)**	**52,301**	**94,858**	**–**	**44,082**	**(405,299)**	**(315,514)**

Key: A = for interest B = other write-backs

This item includes adjustments and write-backs to cover impairment of financial instruments allocated to the "loans to customers" and "due from banks" portfolios. In particular, the "Write-offs" column shows the losses booked on the final cancellation of the loans, while the "Other" column includes specific write-downs on non-performing loans subject to analytical assessment. The portfolio adjustments are quantified on the performing financial instruments.

As part of the specific write-backs, column A consists mainly of the write-backs represented by the release of interest on non-performing loans measured at amortised cost.

8.2 Net losses/recoveries on financial assets available for sale: analysis

Transaction/income item	Adjustments		Write-backs		Year 2016	Year 2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	–	(5)	–	–	**(5)**	**(24,960)**
B. Equities	–	(21,452)	X	X	**(21,452)**	**(14,236)**
C. Mutual funds	–	(48,602)	X	–	**(48,602)**	**(3,322)**
D. Loans to banks	–	–	–	–	**–**	**–**
E. Loans to customers	–	–	–	–	**–**	**–**
F. Total	**–**	**(70,059)**	**–**	**–**	**(70,059)**	**(42,518)**

Key: A = for interest B = other write-backs

Specific value adjustments relate to the write-offs and write-downs made to investments held in the following companies:

Specific adjustments	Year 2016	Year 2015
Equities	**(21,452)**	**(14,229)**
• Cuki S.p.A. formerly Comital S.p.A.	(714)	(1,224)
• Eurofidi S.p.A.	(632)	(245)
• Expo Piemonte S.p.A.	(579)	(39)
• Fiera di Milano S.p.A.	(953)	(443)
• FITD	(1,897)	–
• Ferroli S.p.A. – participating instruments	(1,117)	–
• Gabetti S.p.A. – ordinary shares	(1,435)	–
• Milanosesto S.p.A. – participating instruments	(51)	(18)
• Premuda	(887)	–
• Release S.p.A.	(359)	(5,993)
• Risanamento S.p.A.	(10,050)	–
• Prelios S.p.A.	(1,432)	–
• Soc.Coop.banche popolari	(4)	–
• Sorgenia S.p.A. – ordinary shares	(8)	–
• Sorgenia S.p.A. – participating instruments	–	(6,010)
• Tassara S.p.A. – participating instruments	(1,267)	–
• Telegate AG	–	(32)
• Terme di Acqui S.p.A.	(67)	(76)
• Zucchi S.p.A.	–	(149)
Mutual funds	**(48,602)**	**(3,322)**
• Cambria Co–Invest Fund	(182)	(122)
• China Opportunity	(952)	–
• Amber Energia Fund	(179)	(69)
• Immobiliare italiano Goethe Fund	(2,120)	(679)
• Immobiliare italiano Tikal Fund	(206)	(323)
• Italiano di Investimento Fund	–	(1,568)
• Immobiliare italiano Sei Fund	(307)	(561)
• Atlante Fund	(40,145)	–
• Rho immobiliare Fund	(4,511)	–
Total	**(70,054)**	**(17,551)**

8.3 Net losses/recoveries on impairment of investments held to maturity: analysis

There are no investments held to maturity at the balance sheet date.

8.4 Net losses/recoveries on impairment of other financial assets: analysis

Transaction/income item	Adjustments			Write-backs				Year 2016	Year 2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	–	(3,287)	(1,236)	–	18,870	–	911	15,258	14,896
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. Total	**–**	**(3,287)**	**(1,236)**	**–**	**18,870**	**–**	**911**	**15,258**	**14,896**

Key: A = for interest B = other write-backs

This line item consists of the adjustments/write-backs made on guarantees given with respect to the expected loss in the event of enforcement.

The adjustments, in the "Other" column, relate to provisions made on specific positions of guarantees given, while the portfolio adjustments are calculated using the method adopted for collective write-downs.

Section 9 – Administrative expenses
Line item 150

9.1 Personnel expenses: analysis

In addition to employee expenses these costs include:

- the cost of employees seconded to other companies and the related recharges;
- costs for non-standard employment contracts (e.g. temporary and contract workers);
- reimbursement of the cost of employees of other companies seconded to the Bank;
- remuneration payable to the members of the Management Board and the Supervisory Board (including the cost of civil liability insurance policies);
- costs associated with share-based payments;
- provisions made, with counter-entry to "other liabilities", for productivity bonuses relating to the year but paid the following year.

Type of expense/amount	Year 2016	Year 2015
1) Employees	**(731,317)**	**(570,609)**
a) wages and salaries	(378,915)	(373,735)
b) social security charges	(115,460)	(110,634)
c) termination indemnities	(20,099)	(20,034)
d) pension costs	–	–
e) charge to employee termination indemnities	(2,375)	(2,245)
f) charge to provision for post-employment benefits:	(4,383)	(10,156)
– defined contribution	–	–
– defined benefit	(4,383)	(10,156)
g) payments to external supplementary pension funds:	(15,887)	(9,150)
– defined contribution	(15,887)	(9,150)
– defined benefit	–	–
h) costs associated with share-based payments	(775)	(16,331)
i) other employee benefits	(193,423)	(28,324)
2) Other personnel	**(205)**	**(259)**
3) Directors and statutory auditors	**(3,490)**	**(3,433)**
4) Retired personnel	**–**	**–**
5) Recovery of costs for personnel on secondment to other companies	**2,504**	**2,174**
6) Reimbursement of cost of employees of other companies seconded to the Bank	**(959)**	**(1,413)**
Total	**(733,467)**	**(573,540)**

Further details of the above are as follows:

Line item "c) termination indemnities" consists of termination indemnity payments made to the BPM pension fund for 15.2 million euro (15 million euro in 2015) and to the INPS treasury fund for 4.7 million euro (4.9 million euro in 2015).

Line item "g) payments to external supplementary defined benefit pension funds" refers to the payment made to the Bipiemme Pension Fund.

Line item "h) costs associated with share-based payments" included in 2015 an accrual of 15.5 million euro representing the portion of profits reserved for employees and payable in shares pursuant to article 60 of the bylaws.

Line item "3) Directors and statutory auditors" consists of the fees for the year payable to the members of the Management and Supervisory Boards. More specifically:

- 1.205 million euro relating to the Management Board (1.269 million euro in 2015);
- 2.284 million euro relating to the Supervisory Board (2.164 million euro in 2015).

9.2 Average number of employees by level

Item	Year 2016	Year 2015
Employees	**6,680**	**6,727**
a) managers	115	117
b) officers	2,532	2,506
– of whom: 3rd and 4th level	1,287	1,271
c) other employees	4,058	4,121
d) employees seconded to other companies	–25	–17
Other personnel	**10**	**16**
Employees seconded from other Group companies	10	14
Other types of contract (consultants and temporary workers)	0	2
Total	**6,690**	**6,743**

The average is calculated as the weighted average number of employees where the weighting is given by the number of months worked during the year. Part-time employees are conventionally considered at 50%.

Actual number of employees by level

Item	Year 2016	Year 2015
Employees	**7,185**	**7,246**
a) managers	116	116
b) officers	2,622	2,606
– of whom: 3rd and 4th level	1,305	1,300
c) other employees	4,475	4,542
d) employees seconded to other companies	–28	–18
Other personnel	**10**	**11**
Employees seconded from other Group companies	10	11
Other types of contract (consultants and temporary workers)	–	–
Total	**7,195**	**7,257**

The number of employees includes 1,083 part-time workers (1,066 at 31.12.2015), representing 15% of total personnel in service at the balance sheet date.

Changes in the number of employees are shown in "The distribution network and human resources" chapter of the report on operations, to which reference should be made.

9.3 Defined benefit pension plans: total income and expense

	Year 2016	Year 2015
• pension cost:	**(2,379)**	**(7,559)**
– BPM supplementary pension plan	(2,379)	(7,559)
– plan of the former Banca Popolare Bologna e Ferrara	–	–
– plan of the former Banca Popolare Agricola Milanese	–	–
– plan of the former CR Alessandria	–	–
• interest expense:	**(1,745)**	**(1,484)**
– BPM supplementary pension plan	(1,140)	(830)
– plan of the former Banca Popolare Bologna e Ferrara	(169)	(288)
– plan of the former Banca Popolare Agricola Milanese	(1)	(1)
– plan of the former CR Alessandria	(435)	(365)
Total	**(4,124)**	**(9,043)**

In addition to the above costs there is also a solidarity contribution of 10% pursuant to Law no. 166/91 of 0.26 million euro (1.113 million euro in 2015) recognised in the income statement in the sub-item "charge to provision for post-employment benefits".

Analysis of "actuarial gains (losses) recognised in shareholders' equity"

Item	31.12.2015	Change	31.12.2016
BPM supplementary pension plan	(35,936)	3,205	(32,731)
Plan of the former Banca Popolare Bologna e Ferrara	(10,018)	(844)	(10,862)
Plan of the former Banca Popolare Agricola Milanese	(6)	(1)	(7)
Plan of the former CR Alessandria	(9,672)	(833)	(10,505)
Total actuarial gains (losses)	**(55,632)**	**1,527**	**(54,105)**

9.4 Other employee benefits

Analysis of expense line "i) other employee benefits"

Item	Year 2016	Year 2015
Contributions towards the running of staff canteens	(6,750)	(6,696)
Adjustments to managers' indemnity fund	(273)	911
Subsidised rate loans given to employees	(4,251)	(3,681)
Social initiatives	(1,208)	(1,163)
Bursaries	(865)	(650)
Solidarity Fund	(167,981)	(6,824)
Other	(12,095)	(10,221)
Total	**(193,423)**	**(28,324)**

The line item "Solidarity Fund" mainly consists of an amount of 165 million euro relating to the Solidarity Fund agreement signed by the Bank and the trade unions in 2016 regarding membership of the Fund; the remainder refers to the previous Solidarity Fund agreement signed by the Bank with the trade unions in December 2012.

9.5 Other administrative expenses: analysis

Type of service/amount	Year 2016	Year 2015
IT expenses	**(64,708)**	**(59,477)**
Maintenance and rent of hardware and software and data transmission	(50,802)	(47,422)
Services rendered by Group companies	–	–
ATM running costs	(1,554)	(1,364)
Outsourced IT services	(12,352)	(10,691)
Expenses for buildings and furniture	**(42,378)**	**(44,250)**
Property maintenance	**(31,382)**	**(32,607)**
Property leases	(31,035)	(32,308)
Office machine lease charges	(347)	(299)
Office machine lease charges	**(10,996)**	**(11,643)**
Maintenance	(6,934)	(7,194)
Cleaning of premises	(4,062)	(4,449)
Purchase of non-professional items and services	**(52,667)**	**(50,894)**
Telephone and postage	(8,966)	(8,981)
Subcontracted work	(14,028)	(10,716)
Security and cash-counting services	(7,689)	(7,715)
Electricity, heating and water	(10,451)	(11,522)
Transport	(7,674)	(7,010)
Stationary and printing	(2,799)	(3,519)
Removals and porterage	(708)	(1,044)
Subscriptions to newspapers and magazines	(352)	(387)
Purchase of professional services	**(56,242)**	**(44,118)**
Professional fees	(40,208)	(29,141)
Legal expense and company information	(15,868)	(14,807)
Corporate body fees	(166)	(170)
Insurance premiums	**(3,745)**	**(3,279)**
Advertising expenses	**(14,557)**	**(20,462)**
Indirect taxes and duties	**(96,287)**	**(100,382)**
Other	**(64,438)**	**(60,837)**
Charity	(1,100)	(460)
Membership fees and fees mandatory by law	(64,987)	(59,060)
Other	1,649	(1,317)
Total	**(395,022)**	**(383,699)**

"Indirect taxes and duties" include indirect taxes (stamp duty and flat-rate tax) mostly recharged to customers of 82.753 million euro (86.222 million euro in 2015). In the reclassified income statement, as indicated in the notes thereto, this amount has been reversed from both "other administrative expenses" and "other operating charges/income".

Analysis of the line item "Indirect taxes and duties"

Item	Year 2016	Year 2015
Stamp duty	(75,179)	(79,148)
Flat-rate tax	(9,018)	(8,703)
Other indirect taxes and duties	(3,659)	(4,161)
Municipal property taxes	(8,431)	(8,370)
Total	**(96,287)**	**(100,382)**

"Membership fees and fees mandatory by law" include the contribution paid to the National Resolution Fund – by way of an ordinary and extraordinary contribution – in the amount of 39.5 million euro (48.7 million euro in 2015), the ordinary contribution of 12.2 million euro (5.8 million euro in 2015) paid to the Deposit Guarantee Fund and the contribution made to the Voluntary Intervention Scheme – as provided by the bylaws of the IDPF – in favour of TERCAS for 8.5 million euro.

Section 10 – Net provisions for risks and charges
Line item 160

10.1 Net provisions for risks and charges: analysis

	Year 2016	Year 2015
Provisions	**(45,505)**	**(22,356)**
Legal disputes	**(16,327)**	**(11,857)**
Other risks and charges	**(29,178)**	**(10,499)**
– Provisions for clawback actions	(2,705)	(1,153)
– Provision for tax disputes	–	–
– Provision for other future charges	(26,473)	(9,346)
Reallocations	**13,960**	**31,169**
Legal disputes	**12,767**	**26,607**
Other risks and charges	**1,193**	**4,562**
– Provisions for clawback actions	326	90
– Provision for tax disputes	–	–
– Provision for other future charges	867	4,472
Total	**(31,545)**	**8,813**

Net provisions for risks and charges regard the risk related to pending legal disputes, and others, to provide against any loss that might arise from contractual disputes of a commercial nature; they also include changes in provisions during the year as the timing of expected liabilities approaches to reflect the financial component relating to the time value of money.

Section 11 – Net adjustments to/recoveries on property and equipment Line item 170

This item consists of the depreciation charged on properties and other fixed assets.

11.1 Net adjustments to/recoveries on property and equipment: analysis

Asset/income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) Year 2016
A. Property and equipment				
A.1 Owned	(36,844)	–	–	(36,844)
– for business use	(35,900)	–	–	(35,900)
– for investment	(944)	–	–	(944)
A.2 Acquired under finance leases	–	–	–	–
– for business use	–	–	–	–
– for investment	–	–	–	–
Total	**(36,844)**	**–**	**–**	**(36,844)**

Net adjustments to/recoveries on property and equipment: comparison with the previous year

A.1 Owned property and equipment	Year 2016	Year 2015
– for business use	(35,900)	(38,032)
– for investment	(944)	(946)
Total	**(36,844)**	**(38,978)**

Further details of these amounts may be found in asset section 11 of these explanatory notes.

Section 12 – Net adjustments to/recoveries on intangible assets Line item 180

12.1 Net adjustments to/recoveries on intangible assets: analysis

Asset/income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) Year 2016
A. Intangible assets				
A.1 Owned	(31,052)	(75,625)	–	(106,677)
– Internally generated	(137)	–	–	(137)
– Other	(30,915)	(75,625)	–	(106,540)
A.2 Acquired under finance leases	–	–	–	–
Total	**(31,052)**	**(75,625)**	**–**	**(106,677)**

As part of the combination between Banco Popolare and BPM it is planned to integrate the information systems of the two banks; this envisages the migration of the data contained in the information system currently used by BPM to that of the former Banco Popolare in 2017.

Accounting standards require a critical analysis to be performed at the end of each year of the utilisation of an entity's software: if this shows that the software will no longer be used or that the period of time over which the software is able to provide the expected economic benefits has decreased, an entity must recognise an impairment loss or make changes to the asset's depreciation plan to account for a shorter useful life.

As a consequence for measurement purposes a review had to be performed of the software being used by BPM that will be disposed of or be put to other uses following the above migration.

For the software identified as being subject to disposal, following the above-mentioned decision to use the system adopted by Banco Popolare as a target, a write-down of 75.6 million euro was recognised in profit and loss to take account of the resulting revision of its useful life.

Net adjustments to/recoveries on intangible assets: comparison with the previous year

A.1 Owned intangible assets: other	Year 2016	Year 2015
Amortisation:	**(31,052)**	**(23,588)**
Owned software	(22,592)	(15,721)
Licensed software	(8,460)	(7,679)
Total	**(31,052)**	**(23,588)**

Section 13 – Other operating expenses/income
Line item 190

13.1 Other operating expenses: analysis

Income item/amount	Year 2016	Year 2015
Depreciation of leasehold improvements recognised in other assets	(4,565)	(4,082)
Other operating expenses	(9,126)	(14,093)
Total	**(13,691)**	**(18,175)**

13.2 Other operating income: analysis

Income item/amount	Year 2016	Year 2015
Tax recoveries	82,753	86,222
Rental and leasing income	5,603	7,280
Income and IT services rendered to:	2,383	2,141
Group companies	2,383	2,141
Third parties	–	–
Recharge of costs	29,401	37,290
On deposits and overdrafts	19,030	25,324
Other	10,371	11,966
Other income	4,927	5,682
Total	**125,067**	**138,615**

	Year 2016	Year 2015
Total line item 190 Other operating expenses/income	**111,376**	**120,442**

"Tax recoveries" mainly relate to the stamp duty on current accounts and securities deposits and the flat-rate tax on medium-term loans.

"Recharge of costs on deposits and overdrafts" includes 14.52 million for the recharge of expenses for "processing fees and overdrafts" (20.01 million in 2015).

"Other income", mainly relates to revenue for services rendered to Group companies in the amount of 2.38 million (2.14 million in 2015) and to the excess spread of securitisation, negative by 3.8 million (negative by 1.4 million in 2015).

Section 14 – Profits (losses) on investments in subsidiaries, associates and companies subject to joint control
Line item 210

14.1 Profits (losses) on investments in subsidiaries, associates and companies subject to joint control: analysis

Income item/amount	Year 2016	Year 2015
A. Income	**145,552**	**15,909**
Investments held at equity (write-ups)	120,412	–
2. Profits on disposal	12,868	2,617
3. Write-backs	12,272	13,292
4. Other income	–	–
B. Expense	**–**	**(1,383)**
Investments held at equity (write-downs)	–	–
2. Impairment losses	–	(1,383)
3. Losses on disposal	–	–
4. Other expense	–	–
Net result	**145,552**	**14,526**

Profits (losses) on investments in subsidiaries, associates and companies subject to joint control: analysis

Details of income item/amount	Year 2016	Year 2015
A. Income	**145,552**	**15,909**
1.Write-ups:	**120,412**	**–**
Anima Holding S.p.A.	*120,412*	–
2. Profits on disposal:	**12,868**	**2,617**
Anima Holding S.p.A.	*10,964*	–
Pitagora 1936 S.p.A.	–	*2,075*
Etica SGR S.p.A.	*1,170*	–
BPM Luxembourg S.A.	*339*	–
Aedes Bipiemme Real Estate SGR S.p.A.	*395*	*542*
3. Write-backs:	**12,272**	**13,292**
SelmaBipiemme Leasing S.p.A.	–	*6,944*
Profamily S.p.A.	*12,272*	*5,668*
Banca Popolare di Mantova S.p.A.	–	*680*
4. Other income:	**–**	**–**
B. Expense	**–**	**(1,383)**
2. Impairment losses:	**–**	**(1,383)**
BPM Luxembourg S.A.	–	*(694)*
Wise Venture SGR S.p.A.	–	*(689)*
3. Losses on disposal	**–**	**–**

Further details of these amounts may be found in asset section 10 of these explanatory notes.

Section 15 – Net result of valuation differences on property and equipment and intangible assets measured at fair value
Line item 220

The bank has no property and equipment or intangible assets measured at fair value or revalued.

Section 16 – Goodwill impairment
Line item 230

The impairment tests on the recovery of goodwill resulted in the entire balance being written off in 2012.

Section 17 – Profits (losses) on disposal of investments
Line item 240

17.1 Profits (losses) on disposal of investments: analysis

Income item/amount	Year 2016	Year 2015
A. Buildings	(85)	6
– Profits on disposal	133	6
– Losses on disposal	(218)	–
B. Other assets	1,478	–
– Profits on disposal	1,478	1
– Losses on disposal	–	(1)
Net result	**1,393**	**6**

Section 18 – Taxes on income from continuing operations
Line item 260

18.1 Taxes on income from continuing operations: analysis

Income item/amount	Year 2016	Year 2015
1. Current taxes (–)	4,193	(57,689)
2. Change in prior period income taxes (+/–)	17,159	22,403
3. Reduction in current taxes (+)	–	–
3. *bis* Reduction in current taxes due to tax credits pursuant to Law no. 214/2011 (+)	–	–
4. Change in deferred tax assets (+/–)	36,816	(19,074)
5. Change in deferred tax liabilities (+/–)	(3,468)	360
6. Income taxes for the period (–) (–1+/–2+3+3bis+/–4+/–5)	**54,700**	**(54,000)**

Taxes on income from continuing operations: analysis by type of tax

Item/amount	Year 2016	Year 2015
1. Current taxes (–):	**4,193**	**(57,689)**
IRES	5,521	(43,080)
IRAP	(1,328)	(14,609)
Other income taxes	–	–
2. Change in prior period income taxes (+/–):	**17,159**	**22,403**
IRES	11,068	16,525
IRAP	6,091	5,878
Other income taxes	–	–
3. Reduction in current taxes (+):	**–**	**–**
IRES	–	–
IRAP	–	–
Other income taxes	–	–
4. Change in deferred tax assets (+/–):	**36,816**	**(19,074)**
IRES	42,156	(18,542)
IRAP	(5,340)	(532)
5. Change in deferred tax liabilities (+/–):	**(3,468)**	**360**
IRES	(3,176)	360
IRAP	(292)	–
6. Reduction in current taxes due to tax credits pursuant to Law no. 214/2011 (+)	**–**	**–**
IRES	–	–
IRAP	–	–
7. Income taxes for the period (–1+/–2+3+/–4+/–5/+6)	**54,700**	**(54,000)**

Analysis by type of tax

Item/amount	Year 2016	Year 2015
IRES	55,569	(44,737)
IRAP	(869)	(9,263)
Other income taxes (flat-rate tax)		
Total	**54,700**	**(54,000)**

The balance on line item 260 "Taxes on income from continuing operations" represents income of 54.7 million euro (expense of 54 million euro in 2015).
The change in deferred tax assets of 37 million euro is discussed in asset section 13 – tables 13.3 and 13.5 – and is mostly due to the deferred tax asset recognised for IRES losses, prior year provisions for the Solidarity Fund, legal disputes and the impairment adjustments made to goodwill and loans.
The change in deferred tax liabilities of 3.5 million euro mainly arises from deferred taxes on AFS equities and is discussed in asset section 13 – tables 13.4 and 13.6.

18.2 Reconciliation between the theoretical and actual tax charge

Item/amount	Year 2016			
	IRES		IRAP	
	Taxable income	Tax	Taxable income	Tax
Profit before taxes	**11,022**	**–**	**–**	**–**
Theoretical tax charge (27.5%)	–	3,031	–	–
Net revenues subject to IRAP			**55,598**	**–**
Theoretical tax charge (5.57%)			–	3,097
Temporary differences taxable in future years	12,452	3,424	5,235	292
Temporary differences deductible in future years	–281,811	–77,498	–	–
Reversal of temporary differences from prior years:				
Elimination of deductible temporary differences	219,201	60,280	101,858	5,673
Elimination of taxable temporary differences	–900	–248	–5,986	–333
Differences not reversing in future years:				
Negative permanent changes in taxable income	–113,613	–31,244	–203,862	–11,355
Positive permanent changes in taxable income	38,377	10,554	70,999	3,955
Taxable income for IRES purposes	**–115,272**			
Other changes	–	–		
1. Current taxes: IRES		**–31,700**		
Taxable income for IRAP purposes – Net production value			**23,842**	
Other changes			–	–
1. Current taxes: IRAP				**1,328**

Item/amount	Year 2015			
	IRES		IRAP	
	Taxable income	Tax	Taxable income	Tax
Profit before taxes	**295,117**	**–**	**–**	**–**
Theoretical tax charge (27.5%)	–	81,157	–	–
Net revenues subject to IRAP			**839,726**	
Theoretical tax charge (5.57%)			–	46,773
Temporary differences taxable in future years	1,313	361	–	–
Temporary differences deductible in future years	147,388	40,532	85,897	4,784
Reversal of temporary differences from prior years:				
Elimination of deductible temporary differences	–191,629	–52,698	–69,570	–3,875
Elimination of taxable temporary differences	–23,193	–6,378	–25,879	–1,441
Differences not reversing in future years:				
Negative permanent changes in taxable income	–130,687	–35,939	–685,439	–38,179
Positive permanent changes in taxable income	58,347	16,045	117,550	6,548
Taxable income for IRES purposes	**156,656**			
Other changes	–	–		
1. Current taxes: IRES		**43,080**		
Taxable income for IRAP purposes – Net production value			**262,285**	
Other changes			–	–
1. Current taxes: IRAP				**14,609**

Section 19 – Income (loss) after tax from discontinued operations Line item 280

There was no income (loss) from discontinued operations during the year.

Section 20 – Other information

Further information on the Bank's 2016 results is provided in the section of the report on operations, as is information on the various business sectors.

Section 21 – Earnings per share

International accounting standards (IAS 33) emphasise the importance of the "earnings per share" return, generally known as EPS, and require disclosure of the following:

- "Basic EPS", calculated by dividing the net income attributable to the holders of the ordinary shares of the parent company by the weighted average number of ordinary shares outstanding during the period;
- "Diluted EPS", calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period as adjusted for the dilutive effect of all potential shares, i.e. those financial instruments and/or contracts which give their owners the right to obtain ordinary shares.

21.1 Average number of diluted ordinary shares

The average number of ordinary shares used as the denominator in the calculation of basic EPS (4,390,120,325) was determined taking into account the number of ordinary shares outstanding during the period, adjusted by the number of treasury shares held.

At 31 December 2016 there were no outstanding instruments that could have a dilutive effect on earnings per share; consequently the basic and diluted EPS shown below are the same.

	31 December 2016			31 December 2015		
	"Attributable" result (euro)	Weighted average ordinary shares	EPS (euro)	"Attributable" result (euro)	Weighted average ordinary shares	EPS (euro)
Basic EPS	65,722,447	4,390,120,325	0.015	241,117,253	4,390,322,436	0.055
Diluted EPS	65,722,447	4,390,120,325	0.015	241,117,253	4,390,322,436	0.055

Part D
Statement of comprehensive income

Statement of comprehensive income

Line items		Gross amount	Income tax	Net amount
10.	**Net income (loss) for the period**	**X**	**X**	**65,722**
	Other comprehensive income without reversal to the income statement			
20.	Property and equipment	–	–	–
30.	Intangible assets	–	–	–
40.	Actuarial gains (losses) on defined benefit plans	(4,480)	1,232	(3,248)
50.	Non-current assets held for sale	–	–	–
60.	Portion of valuation reserves of investments carried at equity	–	–	–
	Other comprehensive income with reversal to the income statement			
70.	**Hedging of foreign investments:**	**–**	**–**	**–**
	a) changes in fair value	–	–	–
	b) transfer to income statement	–	–	–
	c) other changes	–	–	–
80.	**Foreign exchange differences:**	**–**	**–**	**–**
	a) change in amount	–	–	–
	b) transfer to income statement	–	–	–
	c) other changes	–	–	–
90.	**Cash flow hedges:**	**1,891**	**(627)**	**1,264**
	a) changes in fair value	1,891	(627)	1,264
	b) transfer to income statement	–	–	–
	c) other changes	–	–	–
100.	**Financial assets available for sale:**	**(287,423)**	**88,798**	**(198,625)**
	a) changes in fair value	(102,061)	27,774	(74,287)
	b) transfer to income statement	(185,362)	61,024	(124,338)
	– impairment adjustments			–
	– profits (losses) on disposal	(185,362)	61,024	(124,338)
	c) other changes	–	–	–
110.	**Non-current assets held for sale:**	**–**	**–**	**–**
	a) changes in fair value	–	–	–
	b) transfer to income statement	–	–	–
	c) other changes	–	–	–
120.,	**Portion of valuation reserves connected with investments carried at equity:**	**–**	**–**	**–**
	a) changes in fair value	–	–	–
	b) transfer to income statement	–	–	–
	– impairment adjustments	–	–	–
	– profits (losses) on disposal	–	–	–
	c) other changes	–	–	–
130.	**Total other comprehensive income**	**(290,012)**	**89,403**	**(200,609)**
140.	**Total comprehensive income (items 10+130)**			**(134,887)**

Parte E
Information on risks and related hedging policies

Introduction

This Note contains only quantitative information on risks referring to the Parent Company. For qualitative information on: risk management process, Risk Appetite Framework (RAF), risk management methods, and the corporate bodies involved in monitoring risk control, see the corresponding part of the Consolidated Note.

Section 1 – Credit Risk

Qualitative information

Qualitative information on asset quality and related risks of Banca Popolare di Milano are described in the pertinent section of Part E of the Consolidated Note, to which reference is made.

Quantitative information

A. Asset quality

For purposes of quantitative information on asset quality, "credit exposures" excludes equities and shares of mutual funds, whereas "exposures" includes equities and shares of mutual funds.

A.1. Impaired and performing positions: balance, impairment adjustments, change, distribution by business segment and geographical location

A.1.1 Distribution of credit exposures by originating portfolio and credit quality (carrying amount)

Portfolio/quality	Bad loans	Unlikely to pay	Impaired past due positions	Performing past due positions	Performing positions	Total
1. Financial assets available for sale	–	–	–	–	8,736,196	8,736,196
2. Investments held to maturity	–	–	–	–	–	–
3. Due from banks	–	–	–	–	1,480,702	1,480,702
4. Loans to customers	1,559,721	1,998,659	25,994	1,104,483	29,541,602	34,230,459
5. Financial assets designated at fair value through profit and loss	–	–	–	–	19,240	19,240
6. Financial assets due for disposal	–	–	–	–	–	–
Total 31.12.2016	**1,559,721**	**1,998,659**	**25,994**	**1,104,483**	**39,777,740**	**44,466,597**
Total 31.12.2015	**1,467,070**	**2,027,357**	**87,967**	**1,432,604**	**38,280,955**	**43,295,953**

With reference to the various asset portfolios, the table shows the composition by loan quality based on the definition of bad loans provided by the Bank of Italy and adopted for purposes of the financial statements.
The total shown in the table corresponds to the total of the financial assets shown in Assets on the Balance Sheet, net of equities and shares of mutual funds. The items "Due from banks" and "Loans to customers" include not only loans but also other technical forms (debt securities, etc.). The amounts shown are those of the financial statements, i.e., net of uncertain results.

A.1.2 Distribution of credit exposures by originating portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired assets			Performing			Total net exposure
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Specific adjustments	Net exposure	
1. Financial assets available for sale	–	–	–	8,736,196	–	8,736,196	8,736,196
2. Investments held to maturity	–	–	–	–	–	–	–
3. Due from banks	–	–	–	1,482,934	2,232	1,480,702	1,480,702
4. Loans to customers	6,150,691	2,566,317	3,584,374	30,776,714	130,629	30,646,085	34,230,459
5. Financial assets designated at fair value through profit and loss	10,145	10,145	–	X	X	19,240	19,240
6. Financial assets due for disposal	–	–	–	–	–	–	–
Total 31.12.2016	**6,160,836**	**2,576,462**	**3,584,374**	**40,995,844**	**132,861**	**40,882,223**	**44,466,597**
Total 31.12.2015	**5,902,089**	**2,319,695**	**3,582,394**	**39,808,525**	**163,735**	**39,713,559**	**43,295,953**

Portfolio adjustments for "Loans to customers" (130.629 million) represent 0.42% of performing positions (162.951 million at 31.12.2015, equal to 0.54% of performing positions).

Portfolio/quality	Assets with low credit quality		Other assets
	Accumulated capital losses	Net exposure	Accumulated capital losses
1. Financial assets held for trading	(252)	456	154,504
2. Hedging derivatives	–	–	16,070
Total 31.12.2016	**(252)**	**456**	**170,574**
Total 31.12.2015	**(692)**	**641**	**290,722**

The value shown in "Accumulated capital losses" refers only to the adjustment due to the counterparty rating.

The following table shows the aggregate of "Loans to customers" (item 5 of the previous table, in the "net performing exposures" column), the amounts of loans subject to renegotiation in collective agreements and other exposures. Past due positions for both groups are analysed by maturity.

Portfolio/ageing of past due	Up to 3 months (*)	3 to 6 months	6 months to 1 year	Past due for more than 1 year	Non past due	Total 31.12.2016
Exposure subject to renegotiation under collective agreements (relating to renegotiations with customers in difficulty)	1,084	–	1,670	–	141,626	144,380
Exposure subject to renegotiation under collective agreements (other)	880	252	–	153	124,178	125,463
Total exposure subject to renegotiation under collective agreements	**1,964**	**252**	**1,670**	**153**	**265,804**	**269,843**
Other exposures (relating to renegotiations with customers in difficulty)	86,759	14,438	4,972	4,125	540,029	650,323
Other exposures (other)	842,085	94,798	52,105	1,162	28,735,769	29,725,919
Total other exposures	**928,844**	**109,236**	**57,077**	**5,287**	**29,275,798**	**30,376,242**
Total performing positions	**930,808**	**109,488**	**58,747**	**5,440**	**29,541,602**	**30,646,085**

(*) The balance of "Exposures up to 3 months" does not include loans with one instalment overdue by 1 day for 1,356 million euro (1,366 million euro at 31 December 2015).

A.1.3 Cash loans and off-balance sheet exposures to banks: gross and net amounts and maturities

Type of exposure/amount	Gross exposure					Specific adjustments	General adjustments	Net exposure
	Impaired assets				Performing loans			
	Up to 3 months	3 to 6 months	6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Bad loans	–	–	–	–	X	–	X	–
– of which: exposures with forbearance measures	–	–	–	–	X	–	X	–
b) Unlikely to pay	–	–	–	–	X	–	X	–
– of which: exposures with forbearance measures	–	–	–	–	X	–	X	–
c) Past due impaired exposures	–	–	–	–	X	–	X	–
– of which: exposures with forbearance measures	–	–	–	–	X	–	X	–
d) Past due performing exposures	X	X	X	X	–	X	–	–
– of which: exposures with forbearance measures	X	X	X	X	–	X	–	–
e) Other performing exposures	X	X	X	X	1,720,536	X	2,232	1,718,304
– of which: exposures with forbearance measures	X	X	X	X	–	X	–	–
TOTAL A	**–**	**–**	**–**	**–**	**1,720,536**	**–**	**2,232**	**1,718,304**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	–	–	–	–	X	–	X	–
b) Performing	X	X	X	X	1,138,870	X	85	1,138,785
TOTAL B	**–**	**–**	**–**	**–**	**1,138,870**	**–**	**85**	**1,138,785**
TOTAL (A+B)	**–**	**–**	**–**	**–**	**2,859,406**	**–**	**2,317**	**2,857,089**

"Cash exposures" summarise the amounts due from banks shown in item "60. Due from banks" and the other financial assets consisting of bank securities included in items "20. Financial assets held for trading," "30. Financial assets designated at fair value through profit and loss," and "40. Financial assets available for sale" in balance sheet assets, excluding equities and derivative contracts, which are considered off-balance sheet in this section.

"Off-balance sheet exposures" include all financial transactions other than cash (guarantees given, commitments, and derivatives (including hedges)) that involve the assumption of credit risk, evaluated based on the measurement criteria required by the Bank of Italy.

A.1.4 Cash loans to banks: changes in gross impaired exposures

As at the date of the financial statements, just as at the close of the previous year, there are no impaired cash exposures to banks.

A.1.4bis – Cash loans to banks: changes in gross exposures with forbearance measures based on credit quality

As at the date of the financial statements, just as at the close of the previous year, there are no cash exposures to banks with forbearance measures.

A.1.5 Impaired cash loans to banks: changes in total adjustments

As at the date of the financial statements, just as at the close of the previous year, there are no impaired cash exposures to banks.

A.1.6 Cash loans and off-balance sheet exposures to customers: gross and net amounts and maturities

Type of exposure/amount	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Impaired assets				Performing loans			
	Up to 3 months	3 to 6 months	6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Bad loans	6	1	96	3,423,988	X	1,864,370	X	1,559,721
– of which: exposures with forbearance measures	–	–	–	179,745	X	102,379	X	77,366
b) Unlikely to pay	1,659,688	95,163	259,545	693,915	X	709,652	X	1,998,659
– of which: exposures with forbearance measures	1,175,450	49,572	99,600	469,248	X	412,659	X	1,381,211
c) Past due impaired exposures	10,030	6,357	8,743	3,304	X	2,440	X	25,994
– of which: exposures with forbearance measures	1,037	1,300	1,026	905	X	316	X	3,952
d) Past due performing exposures	X	X	X	X	1,115,308	X	10,825	1,104,483
– of which: exposures with forbearance measures	X	X	X	X	114,428	X	1,380	113,048
e) Other performing exposures	X	X	X	X	38,179,247	X	119,804	38,059,443
– of which: exposures with forbearance measures	X	X	X	X	691,902	X	10,247	681,655
TOTAL A	**1,669,724**	**101,521**	**268,384**	**4,121,207**	**39,294,555**	**2,576,462**	**130,629**	**42,748,300**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	457,770	–	–	–	X	24,142	X	433,628
b) Performing	X	X	X	X	6,799,910	X	9,868	6,790,042
TOTAL B	**457,770**	**–**	**–**	**–**	**6,799,910**	**24,142**	**9,868**	**7,223,670**
TOTAL (A+B)	**2,127,494**	**101,521**	**268,384**	**4,121,207**	**46,094,465**	**2,600,604**	**140,497**	**49,971,970**

A.1.7 Cash loans to customers: changes in gross impaired exposures

Description/category	Bad loans	Unlikely to pay	Past due impaired exposures
A. Gross exposure at beginning of year	**3,204,517**	**2,601,624**	**95,948**
– of which: exposures sold but not eliminated	139,098	37,935	9,469
B. Increases	**518,060**	**1,043,903**	**331,247**
B.1 transfers from performing positions	12,474	737,623	323,012
B.2 transfers from other categories of impaired exposures	472,542	182,744	3,417
B.3 other increases	33,044	123,536	4,818
– of which corporate aggregation transactions	–	–	–
C. Decreases	**298,486**	**937,216**	**398,761**
C.1 transfers to performing positions	502	128,829	220,907
C.2 write-offs	151,849	37,222	–
C.3 collections	93,503	283,930	15,906
C.4 recovery through disposals	15,354	2,004	–
C.5 losses on disposal	13,072	1,778	–
C.6 transfers to other categories of impaired exposures	22,700	474,055	161,948
C.7 other decreases	1,506	9,398	–
– of which corporate aggregation transactions	–	–	–
D. Gross exposure at end of year	**3,424,091**	**2,708,311**	**28,434**
– of which: exposures sold but not eliminated	58,220	41,697	6,357

"Other decreases" (line C.7) refer to the recovery of assets under financial lease for which the purchase option was not exercised.

A.1.7bis – Cash loans to customers: gross changes in exposures with forbearance measures based on credit quality

Description/category	Exposures with forbearance measures: bad loans	Exposures with forbearance measures: performing
A. Gross exposure at beginning of year	**1,817,997**	**782,927**
– of which: exposures sold but not eliminated	2,909	22,283
B. Increases	**497,086**	**468,834**
B.1 transfers from performing positions without forbearance measures	49,942	437,403
B.2 transfers from performing positions with forbearance measures	201,297	X
B.3 transfers from impaired exposures with forbearance measures	X	62,380
B.4 other increases	245,847	31,431
– of which corporate aggregation transactions	–	–
C. Decreases	**337,200**	**96,179**
C.1 transfers to performing positions without forbearance measures	X	210,335
C.2 transfers to performing positions with forbearance measures	62,380	X
C.3 transfers to impaired exposures with forbearance measures	X	201,297
C.4 write-offs	23,905	–
C.5 collections	235,839	96,179
C.6 recovery through disposals	4,004	–
C.7 losses on disposal	2,817	–
C.8 other decreases	8,255	–
D. Gross exposure at end of year	**1,977,883**	**1,155,582**
– of which: exposures sold but not eliminated	19,062	115,068

A.1.8 – Impaired cash loans to customers: changes in total adjustments

Description/category	Bad loans		Unlikely to pay		Past due impaired exposures	
	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures
A. Total write-downs at beginning of year	**1,737,447**	**63,404**	**574,267**	**336,690**	**7,981**	**563**
– of which: exposures sold but not eliminated	35,132	34	5,638	386	709	8
B. Increases	**380,814**	**42,109**	**300,064**	**145,972**	**2,128**	**266**
B.1 adjustments	292,820	31,439	288,384	142,506	2,128	266
B.2 losses on disposal	13,072	1,039	1,778	1,778	–	–
B.3 transfers from other categories of impaired exposures	72,478	9,631	900	–	–	–
B.4 other increases	2,444	–	9,002	1,688	–	–
– corporate aggregation transactions	–	–	–	–	–	–
C. Decreases	**253,891**	**3,134**	**164,679**	**70,003**	**7,669**	**513**
C.1 write-backs	77,294	1,758	42,084	28,154	7,669	513
C.2 write-backs on collection	10,683	–	9,429	5,184	–	–
C.3 profits on disposal	6	–	1,688	1,688	–	–
C.4 write-offs	151,849	337	37,222	23,568	–	–
C.5 transfers to other categories of impaired exposures	900	–	72,478	9,631	–	–
– corporate aggregation transactions	–	–	–	–	–	–
C.6 other decreases	13,159	1,039	1,778	1,778	–	–
D. Total write-downs at end of year	**1,864,370**	**102,379**	**709,652**	**412,659**	**2,440**	**316**
– of which: exposures sold but not eliminated	17,491	371	6,434	2,484	453	65

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash loans and off-balance sheet exposure by external rating classes

Exposures	External rating classes						Without rating	Total 31.12.2016
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposure	580,048	2,912,031	15,083,901	4,259,588	647,077	356,819	23,513,795	47,353,259

Exposures	External rating classes						Without rating	Total 31.12.2015
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposure	253,280	3,063,139	12,688,981	6,327,974	738,561	368,810	22,529,589	45,970,334

The exposures considered are the gross amounts stated in the financial statements as shown in tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers) above and mutual funds for 177.3 million euro (129.8 million euro in 2015), mostly without rating. If more than one external rating has been assigned, the criteria used in selecting the rating

are those required by the Bank of Italy (in the presence of two ratings, use the lower one; in the presence of three or more different ratings, take the best two and, if they are different, use the lower one).

"Without rating" is mainly attributed to loans to customers, to which an internal rating is assigned.

The risk classes for external ratings indicated in the following table refer to levels of creditworthiness assigned to debtors pursuant to current capital adequacy rules. The reconciliation between risk classes and the ratings of rating agencies is shown below:

External rating classes		Ratings used by rating agencies			
		Cerved	Fitch's	Moody's	
1	from	–	AAA	Aaa	good asset quality and liquidity, with a minimum/modest risk level
	to	–	AA–	Aa3	
2	from	Aa.1+	A+	A1	satisfactory asset quality and liquidity, with a medium/low risk level
	to	Baa.7	A–	A3	
3	from	Baa.8+	BBB+	Baa1	acceptable asset quality, liquidity and risk level
	to	Baa.8	BBB–	Baa3	
4	from	Baa.9	BB+	Ba1	acceptable asset quality, limited liquidity and acceptable risk level if care is taken
	to	B.13	BB–	Ba3	
5	from	B.14	B+	B1	assets under observation and constant monitoring of risk level
	to	B.15	B–	B3	
6	below	B.16 a C.19	CCC	B3	assets under close observation, with clear difficulties on the part of the debtor

A.2.2 Distribution of cash loans and off-balance sheet exposure by internal rating class

Exposure	Internal rating classes												Total 31.12.2016
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	Class 9	Class 10	Class 11	Class 12	
A. Cash loans													
Companies	254,112	915,215	1,980,856	1,663,301	588,090	804,955	268,634	269,991	49,752	X	X	X	6,794,906
SMEs	9,381	84,953	295,737	560,033	715,260	883,317	626,587	520,515	452,268	196,199	82,528	23,556	4,450,334
Small Businesses	118,683	305,670	527,426	597,112	548,598	619,819	582,341	451,137	282,740	256,525	133,136	84,429	4,507,616
Individuals	1,963,986	2,429,092	1,774,498	1,527,561	419,062	266,643	499,162	250,020	237,151	108,091	59,936	61,415	9,596,617
Total													**25,349,473**
C. Guarantees given													
Companies	158,717	616,161	289,314	336,250	75,544	170,830	48,398	44,897	3,080	X	X	X	1,743,191
SMEs	35,020	33,127	55,802	112,365	72,917	47,998	42,007	14,252	5,040	8,590	26,776	1,091	454,985
Small Businesses	13,778	37,140	40,475	24,615	28,414	33,315	27,334	19,493	16,904	6,897	2,012	1,538	251,915
Individuals	998	145	1,944	5,612	936	17,673	2,384	304	255	180	234	13	30,678
Total													**2,480,769**

The table shows (in order of increasing risk) the distribution by rating class of exposures in segments to which internal rating models are applied; such internal models are the ones used in credit risk control and management systems.

With reference to customer segments, the scale used calls for 9 rating classes for performing counterparties: the first class identifies a counterparty at minimum risk, whereas the ninth indicates greater risk.

Item "A. Cash loans" refers only to "Loans to customers" and excludes "impaired assets," relations with Group companies, "repurchase agreements" and loans to governments and public entities. The amounts shown include portfolio adjustments.

Item "C. Guarantees given" excludes "Guarantees given to impaired customers and relations with Group companies. The amounts shown include portfolio adjustments.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed exposures to banks

	Net exposures	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Credit derivatives				
		Property, mortgages	Property, finance leases	Securities	Other secured guarantees	CLN	Other derivatives				Governments and central banks	Other public entities	Banks	Other parties	
							Governments and central banks	Other public entities	Banks	Other parties					
1. Guaranteed cash exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Totally guaranteed	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Partly guaranteed	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Guaranteed off-balance sheet exposures	**445**	**–**	**–**	**–**	**396**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**49**	**–**	**445**
2.1 Totally guaranteed	445	–	–	–	396	–	–	–	–	–	–	–	49	–	445
– of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2.2 Partly guaranteed	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

A.3.2 Banking Group – Guaranteed exposures to customers

	Net exposures	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Credit derivatives				
		Property, mortgages	Property, finance leases	Securities	Other secured guarantees	CLN	Other derivatives				Governments and central banks	Other public entities	Banks	Other parties	
							Governments and central banks	Other public entities	Banks	Other parties					
1. Guaranteed cash exposures	**21,205,646**	**16,467,436**	**197,073**	**177,582**	**552,353**	**–**	**–**	**–**	**–**	**–**	**309,293**	**99,372**	**90,514**	**2,771,676**	**20,665,299**
1.1 Totally guaranteed	19,415,787	15,905,254	197,073	123,357	470,790	–	–	–	–	–	135,992	71,561	12,917	2,498,843	19,415,787
– of which impaired	2,437,428	2,066,163	13,242	4,558	75,464	–	–	–	–	–	4,651	10,350	–	263,000	2,437,428
1.2 Partly guaranteed	1,789,859	562,182	–	54,225	81,563	–	–	–	–	–	173,301	27,811	77,597	272,833	1,249,512
– of which impaired	369,647	230,345	–	7,804	6,664	–	–	–	–	–	6,807	6,004	110	64,939	322,673
2. Guaranteed off-balance sheet exposures	**1,125,225**	**234,443**	**–**	**20,731**	**95,655**	**–**	**–**	**–**	**–**	**–**	**1,045**	**286**	**4,972**	**671,644**	**1,028,776**
2.1 Totally guaranteed	967,525	233,153	–	14,893	78,027	–	–	–	–	–	7	254	4,237	636,954	967,525
– of which impaired	85,807	69,203	–	172	9,033	–	–	–	–	–	–	–	–	7,400	85,808
2.2 Partly guaranteed	157,700	1,290	–	5,838	17,628	–	–	–	–	–	1,038	32	735	34,690	61,251
– of which impaired	21,643	–	–	881	2,309	–	–	–	–	–	–	–	–	1,066	4,256

B. Distribution and concentration of credit exposures

The cash exposures to customers and to banks shown in the following tables are the exposures presented in the financial statements, whereas the off-balance sheet transactions include all financial transactions other than cash (guarantees given, commitments, and derivatives) that involve the assumption of credit risk, evaluated based on the measurement criteria required by the Bank of Italy.
Distribution by economic segment of debtors and payers is conducted based on the classification criteria specified by the Bank of Italy in the Supervisory folder "Classification of customers by economic segments and groups," published by the Bank of Italy.

In the geographical distribution tables, exposures are distributed based on the counterparty's country of residence.

B.1 Segment distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.1

Exposure/Counterparty	Governments			Other public entities			Finance-sector companies		
	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments
A. Cash exposures									
A.1 Bad loans	–	–	X	422	240	X	4,360	25,460	X
– of which: exposures with forbearance measures		–		–	–		143	41	
A.2 Unlikely to pay	–	–	X	12	46	X	113,452	92,291	X
– of which: exposures with forbearance measures	–	–		–	–		78,724	61,476	
A.3 Past due impaired exposures	–	–	X	11	7	X	2	–	X
– of which: exposures with forbearance measures	–	–	X	–	–		–	–	–
A.4 Performing exposures	8,984,585	X	–	150,907	X	463	3,919,362	X	11,015
– of which: exposures with forbearance measures	–	X	–	262	X	1	33,891	X	318
Total A	**8,984,585**	**–**	**–**	**151,352**	**293**	**463**	**4,037,176**	**117,751**	**11,015**
B. Off-balance sheet exposures									
B.1 Bad loans	–	–	X	–	–	X	196	417	X
B.2 Unlikely to pay	–	–	X	96	25	X	50,336	30	X
B.3 Other impaired assets	–	–	X	–	–	X	–	–	–
B.4 Performing exposures	–	X	–	251,299	X	6	604,495	X	327
Total B	**–**	**–**	**–**	**251,395**	**25**	**6**	**655,027**	**447**	**327**
Total (A+B) 31.12.2016	**8,984,585**	**–**	**–**	**402,747**	**318**	**469**	**4,692,203**	**118,198**	**11,342**
Total (A+B) 31.12.2015	**8,641,484**	**–**	**–**	**390,825**	**178**	**161**	**4,856,038**	**112,108**	**14,600**

B.1 Segment distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.2

Exposure/Counterparty	Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments	Net exposure	Specific value adjustments	General adjustments
A. Cash exposures									
A.1 Bad loans	–	–	X	1,219,766	1,591,330	X	335,173	247,340	X
– of which: exposures with forbearance measures	–	–	X	72,445	100,264	X	4,778	2,074	X
A.2 Unlikely to pay	–	–	X	1,771,122	591,150	X	114,073	26,165	X
– of which: exposures with forbearance measures	–	–	X	1,239,734	342,888	X	62,753	8,295	X
A.3 Past due impaired exposures	–	–	X	11,724	998	X	14,257	1,435	X
– of which: exposures with forbearance measures	–	–	X	2,681	211	X	1,271	105	X
A.4 Performing exposures	50,370	X	1	15,239,758	X	105,316	10,818,944	X	13,834
– of which: exposures with forbearance measures	–	X	–	560,733	X	9,484	199,817	X	1,824
Total A	**50,370**	**–**	**1**	**18,242,370**	**2,183,478**	**105,316**	**11,282,447**	**274,940**	**13,834**
B. Off-balance sheet exposures									
B.1 Bad loans	–	–	X	10,086	10,661	X	376	539	X
B.2 Unlikely to pay	–	–	X	366,750	12,407	X	1,622	12	X
B.3 Other impaired assets	–	–	X	3,130	13	X	1,036	38	X
B.4 Performing exposures	20,978	X	17	5,627,647	X	8,783	285,623	X	735
Total B	**20,978**	**–**	**17**	**6,007,613**	**23,081**	**8,783**	**288,657**	**589**	**735**
Total (A+B) 31.12.2016	**71,348**	**–**	**18**	**24,249,983**	**2,206,559**	**114,099**	**11,571,104**	**275,529**	**14,569**
Total (A+B) 31.12.2015	**165,049**	**–**	**79**	**24,026,526**	**1,960,158**	**141,947**	**11,403,318**	**278,922**	**15,691**

B.2 Geographical distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.1

Exposure/Geographical area	Italy		Other European countries		America
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure
A. Cash exposures					
A.1 Bad loans	1,559,218	1,854,102	497	4,718	6
A.2 Unlikely to pay	1,994,930	686,010	2,762	21,142	967
A.3 Past due impaired exposures	25,943	2,433	40	3	11
A.4 Performing exposures	38,588,891	126,275	343,071	4,278	209,313
Total A	**42,168,982**	**2,668,820**	**346,370**	**30,141**	**210,297**
B. Off-balance sheet exposures					
B.1 Bad loans	10,658	11,617	–	–	–
B.2 Unlikely to pay	398,573	12,474	19,023	–	1,208
B.3 Other impaired assets	4,166	51	–	–	–
B.4 Performing exposures	6,510,074	8,824	262,841	1,044	17,125
Total B	**6,923,471**	**32,966**	**281,864**	**1,044**	**18,333**
Total (A+B) 31.12.2016	**49,092,453**	**2,701,786**	**628,234**	**31,185**	**228,630**
Total (A+B) 31.12.2015	**48,956,143**	**2,488,474**	**460,802**	**25,602**	**44,817**

B.2 Geographical distribution of cash and off-balance sheet exposures to customers (carrying amount)

P.2

Exposure/Geographical area	America	Asia		Rest of the world	
	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures					
A.1 Bad loans	4,844	–	706	–	–
A.2 Unlikely to pay	2,500	–	–	–	–
A.3 Past due impaired exposures	4	–	–	–	–
A.4 Performing exposures	35	2,265	1	20,386	40
Total A	**7,383**	**2,265**	**707**	**20,386**	**40**
B. Off-balance sheet exposures					
B.1 Bad loans	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–
B.4 Performing exposures	–	–	–	2	–
Total B	**–**	**–**	**–**	**2**	**–**
Total (A+B) 31.12.2016	**7,383**	**2,265**	**707**	**20,388**	**40**
Total (A+B) 31.12.2015	**6,490**	**2,077**	**3,240**	**19,401**	**38**

B.3 Geographical distribution of cash and off-balance sheet exposures to banks (carrying amount)

P.1

Exposure/Geographical area	Italy		Other European countries		America
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure
A. Cash exposures					
A.1 Bad loans	–	–	–	–	–
A.2 Unlikely to pay	–	–	–	–	–
A.3 Past due impaired exposures	–	–	–	–	–
A.4 Performing exposures	1,518,328	2,109	183,935	51	3,690
Total A	**1,518,328**	**2,109**	**183,935**	**51**	**3,690**
B. Off-balance sheet exposures					
B.1 Bad loans	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–
B.4 Performing exposures	395,015	10	706,043	55	17,005
Total B	**395,015**	**10**	**706,043**	**55**	**17,005**
Total (A+B) 31.12.2016	**1,913,343**	**2,119**	**889,978**	**106**	**20,695**
Total (A+B) 31.12.2015	**1,905,401**	**714**	**684,347**	**112**	**31,728**

B.3 Geographical distribution of cash and off-balance sheet exposures to banks (carrying amount)

P.2

Exposure/Geographical area	America	Asia		Rest of the world	
	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures					
A.1 Bad loans	–	–	–	–	–
A.2 Unlikely to pay	–	–	–	–	–
A.3 Past due impaired exposures	–	–	–	–	–
A.4 Performing exposures	13	11,515	57	836	2
Total A	**13**	**11,515**	**57**	**836**	**2**
B. Off-balance sheet exposures					
B.1 Bad loans	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–
B.4 Performing exposures	2	18,678	16	2,044	2
Total B	**2**	**18,678**	**16**	**2,044**	**2**
Total (A+B) 31.12.2016	**15**	**30,193**	**73**	**2,880**	**4**
Total (A+B) 31.12.2015	**8**	**41,020**	**47**	**2,505**	**5**

B.4 Large exposures

	31.12.2016	31.12.2015
a) Nominal value	17,977,085	19,046,249
b) Weighted value	1,499,471	1,191,788
c) Number	7	6

Under the new rules on concentration risk, the sum of risk assets for cash and off-balance sheet transactions versus a single customer or group of related customers is considered a "large exposure" if it equals or exceeds 10% of the Bank's regulatory capital.

Therefore, the following large exposures are reported:

- Exposure to the Italian Government for securities in portfolio with a nominal value of 9.4 billion euro (9.76 billion in 2015) and a weighted value of zero euro.
- Exposure to Bipiemme Group companies with a total nominal value of approximately 2.2 billion euro (3 billion in 2015) and a weighted value of 10 million euro (52 million in 2015).
- Exposure to Cassa di Compensazione e Garanzia with a nominal value of 4 billion euro (4.6 billion in 2015) relating mainly to repurchase agreements, with a weighted value of 0.1 million.
- Exposure to an Italian banking group with a nominal value of 0.7 billion euro (0.674 billion in 2015) and a weighted value of 502 million euro (513 million in 2015).
- Exposure to a leading Italian financial-industrial group with a nominal value of 0.6 billion (0.511 billion in 2015), and a weighted value of 499 million euro (373 million in 2015).
- Exposure to another Italian banking group with a nominal value of 0.6 billion euro and a weighted value of 489 million euro.
- Exposure to the Government with a nominal value of 0.49 billion euro and a weighted value of zero euro.

C. Securitisation transactions

Qualitative information

BPM Securitisation 2 S.r.l.

In July 2006 the Bank finalised a securitisation transaction which involved transferring without recourse, as permitted by Law no. 130 of 30 April 1999, a portfolio of 2,011.3 million euro in performing loans to BPM Securitisation 2 S.r.l. These loans refer to property and other secured loans granted by the Bank itself and backed by first-degree mortgages. For more information, please see the disclosure provided in the section on Bipiemme Group's 2016 consolidated financial statements.

Other securitisation transactions

The Bank holds certain securities in its loan book that are linked to the securitisations of third-party issuers. These investments are of relatively modest amounts and constitute a residual alternative form of loan diversification.

Qualitative information

C.1 Exposures deriving from main "own" securitisation transactions analysed by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	Cash exposure					
	Senior		*Mezzanine*		*Junior*	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A. Completely eliminated from financial statements	**–**	**–**	**–**	**–**	**–**	**–**
B. Partially eliminated from financial statements	**–**	**–**	**–**	**–**	**–**	**–**
C. Not eliminated from financial statements	**56,877**	**–**	**50,442**	**–**	**10,117**	**–**
C.1 BPM Securitisation 2 S.r.l	56,877	–	50,442	–	10,117	–
– residential mortgages	56,877	–	50,442	–	10,117	–

The table shows the exposures incurred by the Bank for each own securitisation transaction and also indicates the contractual forms applicable to the assets sold. The "Adjustments/write-backs" column shows any adjustments and write-backs for the year, as well as write-downs and revaluations recognised in the income statement or directly to an equity reserve.

The part of the table regarding Guarantees given and Lines of credit is not provided as they both have zero balances.

C.2 Exposures deriving from main third-party securitisation transactions analysed by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	Cash exposure					
	Senior		*Mezzanine*		*Junior*	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A.1 Pharmafin 3 cl. A	12,541	–	–	–	–	–
– Receivables	–	–	–	–	–	–
A.2 Pharmafin 3 cl. B	–	–	41	–305	–	–
– Receivables	–	–	–	–	–	–
A.3 Pharmafin 3 cl. C	–	–	4,299	–	–	–
– Receivables	–	–	–	–	–	–
A.4 Multiseller 16-36 cl. A1 2%	1,000	–	–	–	–	–
– Receivables	–	–	–	–	–	–

The amounts in the "book value" include accrued interest.

The part of the table regarding Guarantees given and Lines of credit is not provided as they both have zero balances.

C.3 Special purpose vehicle for securitisation

Name of securitisation / Name of special purpose vehicle	Headquarters	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	*Senior*	*Mezzanine*	*Junior*
Bpm Securitisation 2	Rome	Integral	265,019	–	25,152	200,929	50,400	–

There are no holdings in this special purpose vehicle; the vehicle is consolidated to comply with the principle of "continuing involvement".

C.4 Unconsolidated special purpose vehicle for securitisation

As at the date of the financial statements, there are no unconsolidated special purpose vehicles.

C.5 Servicer activities – own securitisations: collections of securitised receivables and reimbursements of securities issued by special purpose vehicle

Special purpose vehicle	Securitised assets (at end of period)		Receivables collected in year		Percentage of securities reimbursed (at end of period)					
					Senior		*Mezzanine*		*Junior*	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
BPM Securitisation 2 S.r.l.	31,470	233,516	1,743	58,637		89.77%		0%		0%

D. Disclosure on structured entities not consolidated for accounting purposes (other than companies for securitisation)

As at the date of the financial statements, there are no structured entities (other than special purpose vehicles for securitisation) in the Bipiemme Group.

E. Disposal transactions

A. Financial assets sold but not eliminated

Qualitative information

The Bank's "financial assets sold but not eliminated" are of two types:

- the securitisation of loans carried out through the SPV "Bpm Securitisation 2", as described in detail in paragraph "C. Securitisation transactions" of Bipiemme Group's consolidated financial statements;
- typical transactions concerning repurchase agreements, with which the Bank obtains funding from the sale of securities it owns.

Qualitative information

E.1 Financial assets sold but not eliminated: book value and full value

Technical forms/ Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Investments held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2016	31.12.2015
A. Cash assets	–	–	–	–	–	–	**3,559,295**	–	–	–	–	–	–	–	–	**264,986**	–	–	**3,824,281**	**4,384,354**
1. Debt securities	–	–	–	–	–	–	3,559,295	–	–	–	–	–	–	–	–	–	–	–	3,559,295	4,060,384
2. Equities	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	–	–
4. Loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	264,986	–	–	264,986	323,970
B. Derivatives	–	–	–	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	–	–
Total 31.12.2016	–	–	–	–	–	–	**3,559,295**	–	–	–	–	–	–	–	–	**264,986**	–	–	**3,824,281**	X
of which impaired		–	–	–	–	–	–	–	–	–	–	–	–	–	–	**31,470**	–	–	**31,470**	X
Total 31.12.2015	–	–	–	–	–	–	**4,060,384**	–	–	–	–	–	–	–	–	**323,970**	–	–	X	**4,384,354**
of which impaired		–	–	–	–	–	–	–	–	–	–	–	–	–	–	**35,527**	–	–	X	**35,527**

Key:
A = Financial assets sold and fully recognised (book value);
B = Financial assets sold and partially recognised (book value);
C = Financial assets sold and partially recognised (full value).

The table shows the book value of financial assets sold but not eliminated and fully recognised as assets in the balance sheet. Line 1. "Debt Securities" only includes securities sold as part of repurchase agreements; with respect to transactions on the MTS Repo market, the margin deposited and default fund of 288 million euro to guarantee collateralisation are shown in the financial statements under "Loans to customers".
The amount shown in line 4. "Loans" refers to the loans involved in the "BPM Securitisation 2" securitisation without derecognition carried out by the Bank in 2006.

Moreover, securities with a book value of 196 million euro have been provided as collateral for repo transactions; this value is not shown in the table because the amounts receivable and payable have been offset.

E.2 Financial liabilities for financial assets sold but not eliminated: book value

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Due from banks	Loans to customers	Total
1. Due to customers	**–**	**–**	**3,552,925**	**–**	**–**	**119,543**	**3,672,468**
a) for assets fully recognised	–	–	3,552,925	–	–	119,543	3,672,468
b) for assets partially recognised	–	–	–	–	–	–	–
2. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets fully recognised	–	–	–	–	–	–	–
b) for assets partially recognised	–	–	–	–	–	–	–
Total 31.12.2016	**–**	**–**	**3,552,925**	**–**	**–**	**119,543**	**3,672,468**
Total 31.12.2015	**–**	**–**	**4,108,725**	**–**	**–**	**159,461**	**4,268,186**

The table shows the book value of financial liabilities recorded as an opposite entry to financial assets sold and not fully eliminated from the asset side of the balance sheet. These liabilities were recorded against repurchase agreements and the Bpm Securitisation 2 performing loan securitisation transaction. With reference to this transaction, the amount recorded in the "Loans to customers" column is net of the value of Notes issued by the special purpose vehicle and repurchased by BPM for about 57 million euro.

E.3 Disposals of liabilities with recourse only to transferred assets: fair value

Technical forms/Portfolio	Financial assets held for trading		Financial assets designated at fair value through profit and loss		Financial assets available for sale		Investments held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31.12.2016	31.12.2015
A. Cash assets	**–**	**–**	**–**	**–**	**3,559,295**	**–**	**–**	**–**	**–**	**–**	**282,279**	**–**	**3,841,574**	**4,407,053**
1. Debt securities	–	–	–	–	3,559,295	–	–	–	–	–	–	–	3,559,295	4,060,384
2. Equities	–	–	–	–	–	–	X	X	X	X	X	X	–	–
3. Mutual funds	–	–	–	–	–	–	X	X	X	X	X	X	–	–
4. Loans	–	–	–	–	–	–	–	–	–	–	282,279	–	282,279	346,669
B. Derivatives	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total assets	**–**	**–**	**–**	**–**	**3,559,295**	**–**	**–**	**–**	**–**	**–**	**282,279**	**–**	**3,841,574**	**4,407,053**
C. Associated liabilities	**–**	**–**	**–**	**–**	**3,552,925**	**–**	**–**	**–**	**–**	**–**	**119,543**	**–**	**X**	**X**
1. Due to customers	–	–	–	–	3,552,925	–	–	–	–	–	119,543	–	X	X
2. Due to banks	–	–	–	–	–	–	–	–	–	–	–	–	X	X
Total liabilities	**–**	**–**	**–**		**3,552,925**	**–**	**–**	**–**	**–**	**–**	**119,543**	**–**	**3,672,468**	**4,268,186**
Net value 31.12.2016	**–**	**–**	**–**	**–**	**6,370**	**–**	**–**	**–**	**–**	**–**	**162,736**	**–**	**169,106**	**X**
Net value 31.12.2015	**–**	**–**	**–**	**–**	**–48,341**	**–**	**–**	**–**	**–**	**–**	**187,208**	**–**	**X**	**138,867**

Key:
A = Financial assets sold and fully recognised
B = Financial assets sold and partially recognised

The table shows the fair value of financial assets sold but not eliminated, fully recognised as assets in the balance sheet, as well as the related liabilities.
In the column "Financial assets available for sale," line "1. Debt securities" in assets shows the fair value of securities sold under repurchase agreements, while the associated Liabilities shows the fair value of the repurchase agreements conduced with the above-mentioned owned securities.
In the column "Loans to customers," line "4. Loans" in assets shows the fair value of loans involved in the "BPM Securitisation 2 srl" securitisation without derecognition, which the Bank conducted in 2006. The associated liability shows the fair value of the Bank's debt to special purpose vehicle Bpm Securitisation 2 S.r.l.

B. Financial assets sold and fully eliminated with recognition of continuing involvement

Qualitative information

The Bank has no financial assets sold and fully eliminated for which it needs to recognise continuing involvement.

E.4 Covered bond transactions

See the pertinent section of the consolidated notes for a description of the objectives of covered bond programmes and the performance of transactions conducted by Banca Popolare di Milano.

F. Credit risk measurement models

Information regarding Banca Popolare di Milano is presented in the pertinent section of Part E of the consolidated notes, to which reference should be made.

Section 2 – Market risk

See the corresponding section of the Consolidated Notes for a description of the role of Banca Popolare di Milano in the organization of market risk management processes.

2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

Qualitative information on the measurement of financial risks for Banca Popolare di Milano as generated by the regulatory trading book are described in the pertinent section of Part E of the Consolidated Noted, to which reference is made.

Quantitative information

1 Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Summary table

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**5**	**2**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	5	2	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	5	2	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**70,589**	**7,121,182**	**2,796,769**	**615,631**	**2,342,657**	**688,752**	**362,655**	**–**
3.1 With underlying security	–	5,112	5,054	–	9	58	–	–
– Options	–	–	–	–	9	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	9	–	–	–
– Other derivatives	–	5,112	5,054	–	–	58	–	–
+ Long positions	–	29	5,054	–	–	29	–	–
+ Short positions	–	5,083	–	–	–	29	–	–
3.2 Without underlying security	70,589	7,116,070	2,791,715	615,631	2,342,648	688,694	362,655	–
– Options	70,589	103,074	154,915	176,713	114,928	99,352	142,116	–
+ Long positions	40,719	54,840	101,624	88,865	62,499	42,371	39,926	–
+ Short positions	29,870	48,234	53,291	87,848	52,429	56,981	102,190	–
– Other derivatives	–	7,012,996	2,636,800	438,918	2,227,720	589,342	220,539	–
+ Long positions	–	3,454,834	1,345,038	218,718	1,107,011	283,729	155,251	–
+ Short positions	–	3,558,162	1,291,762	220,200	1,120,709	305,613	65,288	–

1 Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Euro

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**5**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	5	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	5	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**70,589**	**4,289,255**	**2,519,874**	**431,221**	**2,328,911**	**678,782**	**362,655**	**–**
3.1 With underlying security	–	5,112	5,054	–	9	58	–	–
– Options	–	–	–	–	9	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	9	–	–	–
– Other derivatives	–	5,112	5,054	–	–	58	–	–
+ Long positions	–	29	5,054	–	–	29	–	–
+ Short positions	–	5,083	–	–	–	29	–	–
3.2 Without underlying security	70,589	4,284,143	2,514,820	431,221	2,328,902	678,724	362,655	–
– Options	70,589	54,686	121,159	88,267	110,554	99,352	142,116	–
+ Long positions	40,719	30,646	84,746	44,642	60,312	42,371	39,926	–
+ Short positions	29,870	24,040	36,413	43,625	50,242	56,981	102,190	–
– Other derivatives	–	4,229,457	2,393,661	342,954	2,218,348	579,372	220,539	–
+ Long positions	–	2,088,384	1,223,469	170,736	1,102,325	278,744	155,251	–
+ Short positions	–	2,141,073	1,170,192	172,218	1,116,023	300,628	65,288	–

1 Regulatory trading book: distribution by residual duration (repricing date) of the financial assets and liabilities in cash and financial derivatives

Currency: Other currencies

Type/Residual duration	On demand	Up to three months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**–**	**–**	**–**	**–**	**2**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	2	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	2	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**2,831,927**	**276,895**	**184,410**	**13,746**	**9,970**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,831,927	276,895	184,410	13,746	9,970	–	–
– Options	–	48,388	33,756	88,446	4,374	–	–	–
+ Long positions	–	24,194	16,878	44,223	2,187	–	–	–
+ Short positions	–	24,194	16,878	44,223	2,187	–	–	–
– Other derivatives	–	2,783,539	243,139	95,964	9,372	9,970	–	–
+ Long positions	–	1,366,450	121,569	47,982	4,686	4,985	–	–
+ Short positions	–	1,417,089	121,570	47,982	4,686	4,985	–	–

2. Regulatory trading book: distribution of exposures in equities and equity indices for the main countries of the listing market

Type of operation/Quotation index	Listed						Unlisted
	ITALY	UNITED KINGDOM	GERMANY	U.S.A.	AUSTRALIA	Other countries	
A. Equities							
– long positions	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–
B. Purchases/sales not yet settled							
– long positions	–	–	–	–	–	–	13
– short positions	–	–	–	–	–	–	–
C. Other derivatives on equities							
– long positions	–	–	–	–	–	–	9
– short positions	–	–	–	–	–	–	–
D. Derivatives on equity indices							
– long positions	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–

2.2 Interest rate risk and price risk – Banking book

Qualitative information

Qualitative information on the measurement of financial risks for Banca Popolare di Milano as generated by the banking book are described in the pertinent section of Part E of the Consolidated Noted, to which reference is made.

Quantitative information

1 Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Type/residual duration	Demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**8,011,747**	**16,422,977**	**5,574,304**	**1,658,222**	**4,794,188**	**6,510,715**	**1,495,276**	**–**
1.1 Debt securities	–	954,223	1,542,278	607,381	2,196,270	3,498,758	1,000	–
– with early redemption option	–	13,022	7,659	–	–	–	1,000	–
– other	–	941,201	1,534,619	607,381	2,196,270	3,498,758	–	–
1.2 Loans to banks	140,119	923,391	131,526	7,295	278,370	–	–	–
1.3 Loans to customers	7,871,628	14,545,363	3,900,500	1,043,546	2,319,548	3,011,957	1,494,276	–
– current accounts	2,782,126	–	294	–	78	429,729	123	–
– other loans	5,089,502	14,545,363	3,900,206	1,043,546	2,319,470	2,582,228	1,494,153	–
– with early redemption option	1,752,585	10,931,480	1,358,521	341,562	963,536	1,078,566	1,440,674	–
– other	3,336,917	3,613,883	2,541,685	701,984	1,355,934	1,503,662	53,479	–
2. Cash liabilities	**24,137,845**	**4,974,573**	**1,083,508**	**1,200,400**	**8,373,708**	**2,491,606**	**6**	**–**
2.1 Due to customers	23,991,303	3,815,107	502,604	815,104	265,824	3	6	–
– current accounts	23,442,454	534,890	422,695	609,563	265,219	3	6	–
– other payables	548,849	3,280,217	79,909	205,541	605	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	548,849	3,280,217	79,909	205,541	605	–	–	–
2.2 Due to banks	142,519	410,912	59,843	312,652	6,300,000	–	–	–
– current accounts	126,067	–	–	–	–	–	–	–
– other payables	16,452	410,912	59,843	312,652	6,300,000	–	–	–
2.3 Securities issued	4,023	748,554	521,061	72,644	1,807,884	2,491,603	–	–
– with early redemption option	–	454,176	205,938	–	–	–	–	–
– other	4,023	294,378	315,123	72,644	1,807,884	2,491,603	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**1,338,736**	**347,323**	**1,097,125**	**1,346,000**	**586,318**	**10,846**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,338,736	347,323	1,097,125	1,346,000	586,318	10,846	–
– Options	–	7,290	–	–	–	68	7,222	–
+ Long positions	–	7,290	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	68	7,222	–
– Other derivatives	–	1,331,446	347,323	1,097,125	1,346,000	586,250	3,624	–
+ Long positions	–	781,623	347,261	717,000	325,000	185,000	–	–
+ Short positions	–	549,823	62	380,125	1,021,000	401,250	3,624	–
4. Other off-balance sheet transactions	**1,016,268**	**22,716**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	513,524	5,968	–	–	–	–	–	–
+ Short positions	502,744	16,748	–	–	–	–	–	–

1 Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: Euro

Type/residual duration	Demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**7,968,699**	**16,106,335**	**5,564,040**	**1,658,173**	**4,597,552**	**6,510,715**	**1,495,276**	**–**
1.1 Debt securities	–	954,223	1,542,278	607,381	2,000,172	3,498,758	1,000	–
– with early redemption option	–	13,022	7,659	–	–	–	1,000	–
– other	–	941,201	1,534,619	607,381	2,000,172	3,498,758	–	–
1.2 Loans to banks	131,194	874,195	130,193	7,295	278,370	–	–	–
1.3 Loans to customers	7,837,505	14,277,917	3,891,569	1,043,497	2,319,010	3,011,957	1,494,276	–
– current accounts	2,755,420	–	294	–	78	429,729	123	–
– other loans	5,082,085	14,277,917	3,891,275	1,043,497	2,318,932	2,582,228	1,494,153	–
– with early redemption option	1,752,585	10,931,480	1,358,521	341,562	963,536	1,078,566	1,440,674	–
– other	3,329,500	3,346,437	2,532,754	701,935	1,355,396	1,503,662	53,479	–
2. Cash liabilities	**23,952,750**	**4,601,624**	**1,083,508**	**1,200,400**	**8,373,708**	**2,491,606**	**6**	**–**
2.1 Due to customers	23,821,216	3,815,107	502,604	815,104	265,824	3	6	–
– current accounts	23,273,567	534,890	422,695	609,563	265,219	3	6	–
– other payables	547,649	3,280,217	79,909	205,541	605	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	547,649	3,280,217	79,909	205,541	605	–	–	–
2.2 Due to banks	127,511	37,963	59,843	312,652	6,300,000	–	–	–
– current accounts	115,457	–	–	–	–	–	–	–
– other payables	12,054	37,963	59,843	312,652	6,300,000	–	–	–
2.3 Securities issued	4,023	748,554	521,061	72,644	1,807,884	2,491,603	–	–
– with early redemption option	–	454,176	205,938	–	–	–	–	–
– other	4,023	294,378	315,123	72,644	1,807,884	2,491,603	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**1,338,736**	**347,323**	**1,097,125**	**1,346,000**	**586,318**	**10,846**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,338,736	347,323	1,097,125	1,346,000	586,318	10,846	–
– Options	–	7,290	–	–	–	68	7,222	–
+ Long positions	–	7,290	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	68	7,222	–
– Other derivatives	–	1,331,446	347,323	1,097,125	1,346,000	586,250	3,624	–
+ Long positions	–	781,623	347,261	717,000	325,000	185,000	–	–
+ Short positions	–	549,823	62	380,125	1,021,000	401,250	3,624	–
4. Other off-balance sheet transactions	**1,015,267**	**21,715**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	512,523	5,968	–	–	–	–	–	–
+ Short positions	502,744	15,747	–	–	–	–	–	–

1 Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

Other currencies

Type/residual duration	Demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**43,048**	**316,642**	**10,264**	**49**	**196,636**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	196,098	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	196,098	–	–	–
1.2 Loans to banks	8,925	49,196	1,333	–	–	–	–	–
1.3 Loans to customers	34,123	267,446	8,931	49	538	–	–	–
– current accounts	26,706	–	–	–	–	–	–	–
– other loans	7,417	267,446	8,931	49	538	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	7,417	267,446	8,931	49	538	–	–	–
2. Cash liabilities	**185,095**	**372,949**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	170,087	–	–	–	–	–	–	–
– current accounts	168,887	–	–	–	–	–	–	–
– other payables	1,200	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	1,200	–	–	–	–	–	–	–
2.2 Due to banks	15,008	372,949	–	–	–	–	–	–
– current accounts	10,610	–	–	–	–	–	–	–
– other payables	4,398	372,949	–	–	–	–	–	–
2.3 Securities issued	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with early redemption option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**1,001**	**1,001**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	1,001	–	–	–	–	–	–	–
+ Short positions	–	1,001	–	–	–	–	–	–

2. Banking book: internal models and other methodologies used for sensitivity analysis

Quantitative information

The exposure to interest rate risk in terms of profitability is measured by the change in the expected interest margin over a period of one year following a parallel shock on the spot rate curve of +/– 100 basis points.
The following table shows the results of the estimate of this change at 31 December 2016.

(in millions of euro)

Floating	at 31 December 2016
Sensitivity of interest margin +100bps	*77*
Sensitivity of interest margin –100bps	*–75*

The exposure to interest rate risk from a capital point of view is measured by the change in economic value (fair value) following a parallel shock on the spot rate curve of +/– 200 basis points.
The following table shows the actual results of the estimate of this change at 31 December 2016.

(in millions of euro)

Floating	at 31 December 2016
Sensitivity of economic value +200bps	–111
Sensitivity of economic value –200bps	15

The following table sets out capital absorption corresponding to a shock of +/– 200 bps, or the maximum loss in fair value in relation to own funds.

Floating	at 31 December 2016
Capital absorption +/– 200bps	2.38%

The change in the value of the securities portfolio (including relative hedging swaps) for a uniform parallel change in the interest rate curve of one percentage point ("sensitivity") was –354.2 million euro at 31 December 2016 in case of an increase in interest rates, higher than the –253.2 million euro at the end of 2015.

The following table sets out changes in sensitivity during 2016.

BPM – Sensitivity of the fair value of the securities portfolio and relative hedging swaps to changes in interest rates

(in millions of euro)

	Total securities + hedging swaps				
Change in rates	31 December 2016	Average	Min	Max	31 December 2015
+100 bps	–354.2	–350.5	–400.3	–296.7	–253.2
–100 bps	370.3	366.5	310.3	418.5	262.0

Limited to the interest rate derivative portfolio used to hedge changes in the interest margin of the banking book, sensitivity was +27.1 million euro at 31 December 2016 in case of a parallel increase of 100 basis points of the interest rate curve and –27.2 million euro in case of a decrease of 100 basis points of the interest rate curve.

BPM – Sensitivity of the fair value of the derivatives portfolio to changes in interest rates

(in millions of euro)

	other derivatives				
Change in rates	31 December 2016	Average	Min	Max	31 December 2015
+100 bps	27.1	71.3	16.4	109.2	15.7
–100 bps	–27.2	–74.2	–109.8	–10.5	–9.9

Lastly, the following table shows changes of the total sensitivity of the portfolio of securities and relative hedging swaps and of other derivatives in 2016.

BPM – Total sensitivity of the fair value of the securities and derivatives portfolio to changes in interest rates

(in millions of euro)

Change in rates	31 December 2016	Average	Min	Max	31 December 2015
+100 bps	–327.0	–279.1	–248.2	–216.8	–237.5
–100 bps	343.1	292.2	220.7	367.9	252.1

The change of the securities and derivatives portfolio with a change of +1 in relative yield (basis point value) was –3.01 million euro at 31 December 2016, higher than the –2.2 million euro at 31 December 2015.

BPM – Basis Point Value of securities and derivatives portfolio

(in millions of euro)

Change in yield	31 December 2016	30 June 2016	31 December 2015
+1 bps	–3.01	–0.77	–2.20

2.3 Exchange rate risk

Qualitative information

Qualitative information, including with regard to exchange rate risk hedging activities conducted by Banca Popolare di Milano, are described in the pertinent section of Part E of the Consolidated Noted, to which reference is made.

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Item	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. Financial assets	**497,879**	**9,948**	**1,796**	**1,063**	**55,905**	**1,966**
A.1 Debt securities	196,100	–	–	–	–	–
A.2 Equities	1,916	–	–	–	–	–
A.3 Loans to banks	11,108	5,553	1,419	103	39,305	1,966
A.4 Loans to customers	288,755	4,395	377	960	16,600	–
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**8,039**	**4,923**	**1,861**	**679**	**3,804**	**1,379**
C. Financial liabilities	**510,983**	**9,229**	**3,586**	**6,675**	**24,377**	**3,193**
C.1 Due to banks	356,770		2,431	6,363	20,488	1,904
C.2 Due to customers	154,213	9,229	1,155	312	3,889	1,289
C.3 Debt securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities						
E. Financial derivatives	**3,073,513**	**133,579**	**5,730**	**15,285**	**23,900**	**29,046**
– Options	174,078	888	–	–	–	–
+ Long positions	87,039	444	–	–	–	–
+ Short positions	87,039	444	–	–	–	–
– Other	2,899,435	132,691	5,730	15,285	23,900	29,046
+ Long positions	1,433,558	66,081	2,832	10,093	468	14,691
+ Short positions	1,465,877	66,610	2,898	5,192	23,432	14,355
Total assets	**2,026,515**	**81,396**	**6,489**	**11,835**	**60,177**	**18,036**
Total liabilities	**2,063,899**	**76,283**	**6,484**	**11,867**	**47,809**	**17,548**
Difference (+/–)	**–37,384**	**5,113**	**5**	**–32**	**12,368**	**488**

2. Internal models and other methodologies for sensitivity analysis

BPM does not use internal sensitivity analysis models for exchange risk.
As stated in the general aspects (see "Exchange rate risk – General aspects, management processes and methods of measuring exchange rate risk" in part E of the Consolidated Notes), the Bank's forex operations on its own account are substantially limited to servicing the needs of its commercial functions.
Moreover, in 2016 supervisory reports, capital requirements for exchange rate risk were always essentially equal to zero or of a very limited size as the net forex position was always below 2% of regulatory capital.

2.4 Derivatives

A. Financial derivatives

A.1 Regulatory trading book: year-end notional values

Underlying asset/type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**7,388,004**	**–**	**6,864,662**	**–**
a) Options	3,855,411	–	1,675,363	–
b) Swaps	3,532,593	–	5,189,299	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**16,486**	**–**	**16,486**	**–**
a) Options	16,486	–	16,486	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**3,035,985**	**–**	**2,521,104**	**–**
a) Options	242,286	–	316,859	–
b) Swaps	2,294,957	–	1,663,300	–
c) Forwards	498,742	–	540,945	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**10,440,475**	**–**	**9,402,252**	**–**

A.2 Banking book: year-end notional values

A.2.1 Hedging

Underlying asset/type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,423,010**	**–**	**2,167,671**	**–**
a) Options	186,887	–	191,554	–
b) Swaps	2,236,123	–	1,166,373	–
c) Forwards	–	–	809,744	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**2,423,010**	**–**	**2,167,671**	**–**

A.2.2 Other derivatives

Underlying asset/type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**119,761**	**–**	**193,594**	**–**
a) Options	–	–	–	–
b) Swaps	119,761	–	193,594	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equities and stock indices	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	**–**	**–**	**–**	**–**
5. Other underlyings	**–**	**–**	**–**	**–**
Total	**119,761**	**–**	**193,594**	**–**

A.3 Financial derivatives: gross positive fair value – analysis by product

Portfolio/type of derivative	Positive fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**154,610**	**–**	**219,167**	**–**
a) Options	24,872	–	9,985	–
b) Interest rate swaps	81,104	–	190,771	–
c) Cross currency swaps	37,563	–	12,988	–
d) Equity swaps	–	–	–	–
e) Forwards	11,071	–	5,423	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
B. Banking book – hedging	**16,070**	**–**	**10,058**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	16,070	–	8,423	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	1,635	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**343**	**–**	**960**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	343	–	960	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**171,023**	**–**	**230,185**	**–**

A.4 Financial derivatives: gross negative fair value – analysis by product

Portfolio/type of derivative	Negative fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**154,595**	**–**	**148,998**	**–**
a) Options	25,286	–	12,716	–
b) Interest rate swaps	83,859	–	122,889	–
c) Cross currency swaps	34,454	–	7,436	–
d) Equity swaps	–	–	–	–
e) Forwards	10,996	–	5,957	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
B. Banking book – hedging	**32,894**	**–**	**39,011**	**–**
a) Options	5,589	–	5,098	–
b) Interest rate swaps	27,305	–	29,182	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	4,731	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**16**	**–**	**1,581**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	16	–	1,581	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**187,505**	**–**	**189,590**	**–**

A.5 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair values by counterparty – contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	238,394	4,613,702	229,483	–	2,224,818	81,607
– positive fair value	–	765	32,921	5,007	–	57,480	4,884
– negative fair value	–	–15,858	–81,190	–27	–	–2,669	–4,531
– future exposure	–	1,695	32,406	704	–	9,215	327
2. Equities and stock indices							
– notional value	–	–	–	–	–	16,486	–
– positive fair value	–	–	–	–	–	37	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	1,319	–
3. Currency and gold							
– notional value	–	–	2,607,597	–	–	426,423	1,965
– positive fair value	–	–	45,823	–	–	7,681	12
– negative fair value	–	–	–41,776	–	–	–8,363	–181
– future exposure	–	–	25,475	–	–	3,881	20
4. Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–

A.6 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	–	–	–	–	–	–
– positive fair value (before offsetting)	–	–	–	–	–	–	–
– negative fair value (before offsetting)	–	–	–	–	–	–	–
2. Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value (before offsetting)	–	–	–	–	–	–	–
– negative fair value (before offsetting)	–	–	–	–	–	–	–
3. Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value (before offsetting)	–	–	–	–	–	–	–
– negative fair value (before offsetting)	–	–	–	–	–	–	–
4. Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value (before offsetting)	–	–	–	–	–	–	–
– negative fair value (before offsetting)	–	–	–	–	–	–	–

A.7 OTC financial derivatives – banking book: notional values, gross positive and negative fair values by counterparty – contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	–	2,122,771	420,000	–	–	–
– positive fair value	–	–	15,130	1,283	–	–	–
– negative fair value	–	–	–32,443	–467	–	–	–
– future exposure	–	–	13,779	3,600	–	–	–
2. Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
3. Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
4. Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–

A.8 OTC financial derivatives – banking book: notional values, gross positive and negative fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2. Equities and stock indices							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
3. Currency and gold							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
4. Other instruments							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

A.9 Residual life of OTC financial derivatives: notional values

Underlying/residual life	Up to 1 year	Between 1 and 5 years	Beyond 5 years	Total
A. Regulatory trading book	**5,595,850**	**3,415,129**	**1,429,496**	**10,440,475**
A.1 Financial derivatives on debt securities and interest rates	2,568,521	3,389,987	1,429,496	7,388,004
A.2 Financial derivatives on equities and stock indices	–	16,486	–	16,486
A.3 Financial derivatives on currency and gold	3,027,329	8,656	–	3,035,985
A.4 Financial derivatives on other instruments	–	–	–	–
B. Banking book	**420,011**	**1,446,227**	**676,533**	**2,542,771**
B.1 Financial derivatives on debt securities and interest rates	420,011	1,446,227	676,533	2,542,771
B.2 Financial derivatives on equities and stock indices	–	–	–	–
B.3 Financial derivatives on currency and gold	–	–	–	–
B.4 Financial derivatives on other instruments	–	–	–	–
Total 31.12.2016	**6,015,861**	**4,861,356**	**2,106,029**	**12,983,246**
Total 31.12.2015	**4,925,372**	**3,916,175**	**2,921,970**	**11,763,517**

A.10 OTC financial derivatives: Counterparty risk/financial risk – Internal models

BPM does not use internal models to analyze counterparty risk and financial risk.

B. Credit derivatives

B.1 Credit derivatives: year-end notional values

Type of transaction	Regulatory trading book		Banking book	
	on a single subject	on several subjects (basket)	on a single subject	on several subjects (basket)
1. Purchases of protection				
a) Credit default products	–	–	–	–
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Other	–	–	–	–
Total 31.12.2016	**–**	**–**	**–**	**–**
Total 31.12.2015	**–**	**–**	**–**	**–**
2. Sales of protection				
a) Credit default products	–	–	–	–
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Other	–	–	–	–
Total 31.12.2016	**–**	**–**	**–**	**–**
Total 31.12.2015	**–**	**–**	**–**	**4,653**

B.2 OTC credit derivatives: gross positive fair value – analysis by product

Portfolio/type of derivative	Positive Fair Value	
	31.12.2016	31.12.2015
A. Regulatory trading book	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
B. Banking book	**–**	**4,487**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	4,487
Total	**–**	**4,487**

B.3 OTC credit derivatives: gross negative fair value – analysis by product

Portfolio/type of derivative	Negative Fair Value	
	31.12.2016	31.12.2015
A. Regulatory trading book	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
B. Banking book	**–**	**–**
a) Credit default products	–	–
b) Credit spread products	–	–
c) Total rate of return swaps	–	–
d) Other	–	–
Total	**–**	**–**

B.4 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading book							
1. Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
Banking book							
1. Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading book							
1. Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
Banking book							
1. Purchase of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
2. Sale of protection							
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–

B.6 Residual life of credit derivatives: notional values

Underlying/residual life	Up to 1 year	Between 1 and 5 years	Beyond 5 years	Total
A. Regulatory trading book	**–**	**–**	**–**	**–**
A.1 Credit derivatives with qualified reference obligation	–	–	–	–
A.2 Credit derivatives with unqualified reference obligation	–	–	–	–
B. Banking book	**–**	**–**	**–**	**–**
B.1 Credit derivatives with qualified reference obligation	–	–	–	–
B.2 Credit derivatives with unqualified reference obligation	–	–	–	–
Total 31.12.2016	**–**	**–**	**–**	**–**
Total 31.12.2015	**4,653**	**–**	**–**	**4,653**

B.7 Credit derivatives: counterparty and financial risk – internal models

BPM does not use internal models to analyze counterparty risk and financial risk.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative agreements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
– net counterparty risk	–	–	–	–	–	–	–
2) Bilateral credit derivative agreements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
– net counterparty risk	–	–	–	–	–	–	–
3) Cross product agreements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
– net counterparty risk	–	–	–	–	–	–	–

Section 3 – Liquidity risk

Qualitative information

For qualitative information, see the pertinent section in part E of the Consolidated Notes.

Quantitative information

The following is an analysis of the main financial obligations falling due in the next twelve months.

Main financial liabilities falling due – management figures

(millions of euro)

	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17	09/17	10/17	11/17	12/17	Total
Maturing wholesale bonds (senior, subordinate, covered)	–	–	–	–	–	–	–	–	–	–	–	–	–
Retail bonds	170	7	27	–	41	37	39	69	25	17	–	1	433
Retail certificates of deposit	1	–	1	–	1	–	2	1	2	1	1	–	10
Total	**171**	**7**	**28**	**–**	**42**	**37**	**41**	**70**	**27**	**18**	**1**	**1**	**443**

Conventionally, callable instruments are considered falling due at the first call date provided in the issue regulations, as per IFRS 7.

Considering the maturities of financial liabilities in the next 12 months (i.e., at parity of customer loans and deposits), the funding requirement of 0.4 billion euro is amply covered, on the one hand by reserves of available liquidity and, on the other, by the expected renewal on maturity of liabilities represented by retail issues placed by the commercial network or by their substitution with other forms of collection.

1 Distribution of financial assets and liabilities by residual contractual duration

Summary table

P.1

Item/Time band	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to one month	From 1 to 3 months
Cash assets	**5,806,952**	**312,771**	**238,589**	**1,055,929**	**2,010,423**
A.1 Government securities	–	–	50,005	250,073	200,118
A.2 Other debt securities	–	–	10,000	–	928
A.3 Mutual funds	177,331	–	–	–	–
A.4 Loans	5,629,621	312,771	178,584	805,856	1,809,377
– Banks	140,303	192,169	23,765	105,525	38,213
– Customers	5,489,318	120,602	154,819	700,331	1,771,164
Cash liabilities	**24,228,092**	**181,047**	**1,174,976**	**1,847,552**	**1,292,207**
B.1 Current accounts and deposits	23,908,639	125,876	94,929	145,674	392,321
– Banks	126,667	78,897	38,060	36,517	57,500
– Customers	23,781,972	46,979	56,869	109,157	334,821
B.2 Debt securities	94,168	–	262	194,603	68,590
B.3 Other liabilities	225,285	55,171	1,079,785	1,507,275	831,296
Off-balance sheet transactions	**712,297**	**617,288**	**511,216**	**1,893,689**	**2,495,236**
C.1 Financial derivatives with exchange of capital	9	594,272	510,456	1,893,128	2,491,690
– Long positions	–	294,469	255,959	947,006	1,246,187
– Short positions	9	299,803	254,497	946,122	1,245,503
C.2 Financial derivatives without exchange of capital	180,732	299	760	538	3,470
– Long positions	86,682	–	2	6	357
– Short positions	94,050	299	758	532	3,113
C.3 Deposits and loans to be received	9,910	9,910	–	–	–
– Long positions	9,910	–	–	–	–
– Short positions	–	9,910	–	–	–
C.4 Irrevocable commitments to grant finance	516,361	12,806	–	23	13
– Long positions	13,617	5,968	–	23	13
– Short positions	502,744	6,838	–	–	–
C.5 Financial guarantees given	5,285	1	–	–	63
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1 Distribution of financial assets and liabilities by residual contractual duration

Summary table

P.2

Item/Time band	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Beyond 5 years	Unspecified duration
Cash assets	**1,902,376**	**3,873,249**	**13,966,445**	**15,826,617**	**274,761**
A.1 Government securities	179,500	792,160	3,046,227	3,951,000	–
A.2 Other debt securities	150	35,143	233,240	89,698	1,582
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	1,722,726	3,045,946	10,686,978	11,785,919	273,179
– Banks	147,892	175,856	389,379	–	273,179
– Customers	1,574,834	2,870,090	10,297,599	11,785,919	–
Cash liabilities	**698,969**	**1,322,501**	**8,944,468**	**2,697,138**	**–**
B.1 Current accounts and deposits	489,155	618,635	265,824	9	–
– Banks	58,995	–	–	–	–
– Customers	430,160	618,635	265,824	9	–
B.2 Debt securities	130,525	185,840	2,378,644	2,697,129	–
B.3 Other liabilities	79,289	518,026	6,300,000	–	–
Off-balance sheet transactions	**556,452**	**366,493**	**66,604**	**443,437**	**–**
C.1 Financial derivatives with exchange of capital	551,332	358,152	14,324	60	–
– Long positions	278,219	179,092	7,163	30	–
– Short positions	273,113	179,060	7,161	30	–
C.2 Financial derivatives without exchange of capital	4,416	7,731	–	–	–
– Long positions	3,062	840	–	–	–
– Short positions	1,354	6,891	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	676	595	46,401	442,290	–
– Long positions	676	595	46,401	442,290	–
– Short positions	–	–	–	–	–
C.5 Financial guarantees given	28	15	5,879	1,087	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1 Distribution of financial assets and liabilities by residual contractual duration

Currency: Euro

P.1

Item/Time band	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to one month	From 1 to 3 months
Cash assets	**5,762,553**	**301,161**	**201,954**	**1,005,554**	**1,856,145**
A.1 Government securities	–	–	50,005	250,073	200,118
A.2 Other debt securities	–	–	10,000	–	928
A.3 Mutual funds	177,331	–	–	–	–
A.4 Loans	5,585,222	301,161	141,949	755,481	1,655,099
– Banks	131,360	185,457	323	89,448	35,135
– Customers	5,453,862	115,704	141,626	666,033	1,619,964
Cash liabilities	**24,042,997**	**102,150**	**1,136,916**	**1,783,174**	**1,100,323**
B.1 Current accounts and deposits	23,729,142	46,979	56,869	109,157	368,574
– Banks	116,057	–	–	–	33,753
– Customers	23,613,085	46,979	56,869	109,157	334,821
B.2 Debt securities	94,168	–	262	194,603	68,590
B.3 Other liabilities	219,687	55,171	1,079,785	1,479,414	663,159
Off-balance sheet transactions	**710,850**	**315,320**	**250,726**	**906,992**	**1,229,806**
C.1 Financial derivatives with exchange of capital	9	293,305	249,966	906,431	1,226,260
– Long positions	–	174,127	104,984	497,455	585,584
– Short positions	9	119,178	144,982	408,976	640,676
C.2 Financial derivatives without exchange of capital	180,286	299	760	538	3,470
– Long positions	86,461	–	2	6	357
– Short positions	93,825	299	758	532	3,113
C.3 Deposits and loans to be received	9,779	9,779	–	–	–
– Long positions	9,779	–	–	–	–
– Short positions	–	9,779	–	–	–
C.4 Irrevocable commitments to grant finance	515,491	11,936	–	23	13
– Long positions	12,747	5,968	–	23	13
– Short positions	502,744	5,968	–	–	–
C.5 Financial guarantees given	5,285	1	–	–	63
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1 Distribution of financial assets and liabilities by residual contractual duration

Currency: Euro

P.2

Item/Time band	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Beyond 5 years	Unspecified duration
Cash assets	**1,895,774**	**3,871,520**	**13,709,885**	**15,812,630**	**274,761**
A.1 Government securities	179,500	792,160	2,847,005	3,951,000	–
A.2 Other debt securities	150	35,143	233,237	89,698	1,582
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	1,716,124	3,044,217	10,629,643	11,771,932	273,179
– Banks	146,559	175,856	389,379	–	273,179
– Customers	1,569,565	2,868,361	10,240,264	11,771,932	–
Cash liabilities	**698,969**	**1,322,501**	**8,944,468**	**2,697,138**	**–**
B.1 Current accounts and deposits	489,155	618,635	265,824	9	–
– Banks	58,995	–	–	–	–
– Customers	430,160	618,635	265,824	9	–
B.2 Debt securities	130,525	185,840	2,378,644	2,697,129	–
B.3 Other liabilities	79,289	518,026	6,300,000	–	–
Off-balance sheet transactions	**279,956**	**182,879**	**59,238**	**443,437**	**–**
C.1 Financial derivatives with exchange of capital	274,836	174,538	6,958	60	–
– Long positions	139,971	87,285	3,480	30	–
– Short positions	134,865	87,253	3,478	30	–
C.2 Financial derivatives without exchange of capital	4,416	7,731	–	–	–
– Long positions	3,062	840	–	–	–
– Short positions	1,354	6,891	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	676	595	46,401	442,290	–
– Long positions	676	595	46,401	442,290	–
– Short positions	–	–	–	–	–
C.5 Financial guarantees given	28	15	5,879	1,087	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1 Distribution of financial assets and liabilities by residual contractual duration

Other currencies

P.1

Item/Time band	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to one month	From 1 to 3 months
Cash assets	**44,399**	**11,610**	**36,635**	**50,375**	**154,278**
A.1 Government securities	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	44,399	11,610	36,635	50,375	154,278
– Banks	8,943	6,712	23,442	16,077	3,078
– Customers	35,456	4,898	13,193	34,298	151,200
Cash liabilities	**185,095**	**78,897**	**38,060**	**64,378**	**191,884**
B.1 Current accounts and deposits	179,497	78,897	38,060	36,517	23,747
– Banks	10,610	78,897	38,060	36,517	23,747
– Customers	168,887	–	–	–	–
B.2 Debt securities	–	–	–	–	–
B.3 Other liabilities	5,598	–	–	27,861	168,137
Off-balance sheet transactions	**1,447**	**301,968**	**260,490**	**986,697**	**1,265,430**
C.1 Financial derivatives with exchange of capital	–	300,967	260,490	986,697	1,265,430
– Long positions	–	120,342	150,975	449,551	660,603
– Short positions	–	180,625	109,515	537,146	604,827
C.2 Financial derivatives without exchange of capital	446	–	–	–	–
– Long positions	221	–	–	–	–
– Short positions	225	–	–	–	–
C.3 Deposits and loans to be received	131	131	–	–	–
– Long positions	131	–	–	–	–
– Short positions	–	131	–	–	–
C.4 Irrevocable commitments to grant finance	870	870	–	–	–
– Long positions	870	–	–	–	–
– Short positions	–	870	–	–	–
C.5 Financial guarantees given	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

1 Distribution of financial assets and liabilities by residual contractual duration

Other currencies

P.2

Item/Time band	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Beyond 5 years	Unspecified duration
Cash assets	**6,602**	**1,729**	**256,560**	**13,987**	**–**
A.1 Government securities	–	–	199,222	–	–
A.2 Other debt securities	–	–	3	–	–
A.3 Mutual funds	–	–	–	–	–
A.4 Loans	6,602	1,729	57,335	13,987	–
– Banks	1,333	–	–	–	–
– Customers	5,269	1,729	57,335	13,987	–
Cash liabilities	**–**	**–**	**–**	**–**	**–**
B.1 Current accounts and deposits	–	–	–	–	–
– Banks	–	–	–	–	–
– Customers	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–
Off-balance sheet transactions	**276,496**	**183,614**	**7,366**	**–**	**–**
C.1 Financial derivatives with exchange of capital	276,496	183,614	7,366	–	–
– Long positions	138,248	91,807	3,683	–	–
– Short positions	138,248	91,807	3,683	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.4 Irrevocable commitments to grant finance	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.5 Financial guarantees given	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–
– Long positions	–	–	–	–	–
– Short positions	–	–	–	–	–

Self-securitizations

As of the reporting date of these financial statements there is a self-securitization of mortgage loans completed by the Bank in September 2014, with a view to issuing Asset Backed Securities (ABS). The operation was carried out through a non-recourse sale to the vehicle company BPM Securitisation 3 S.r.l. (a company created ad hoc) of a portfolio of performing loans amounting to approximately 864 million euro, deriving from commercial loans secured by first rank mortgages and unsecured loans granted by the Bank. Euro 638 million was added to the portfolio in 2016.

For details, refer to the pertinent section of the Consolidated Financial Statements at 31 December 2016.

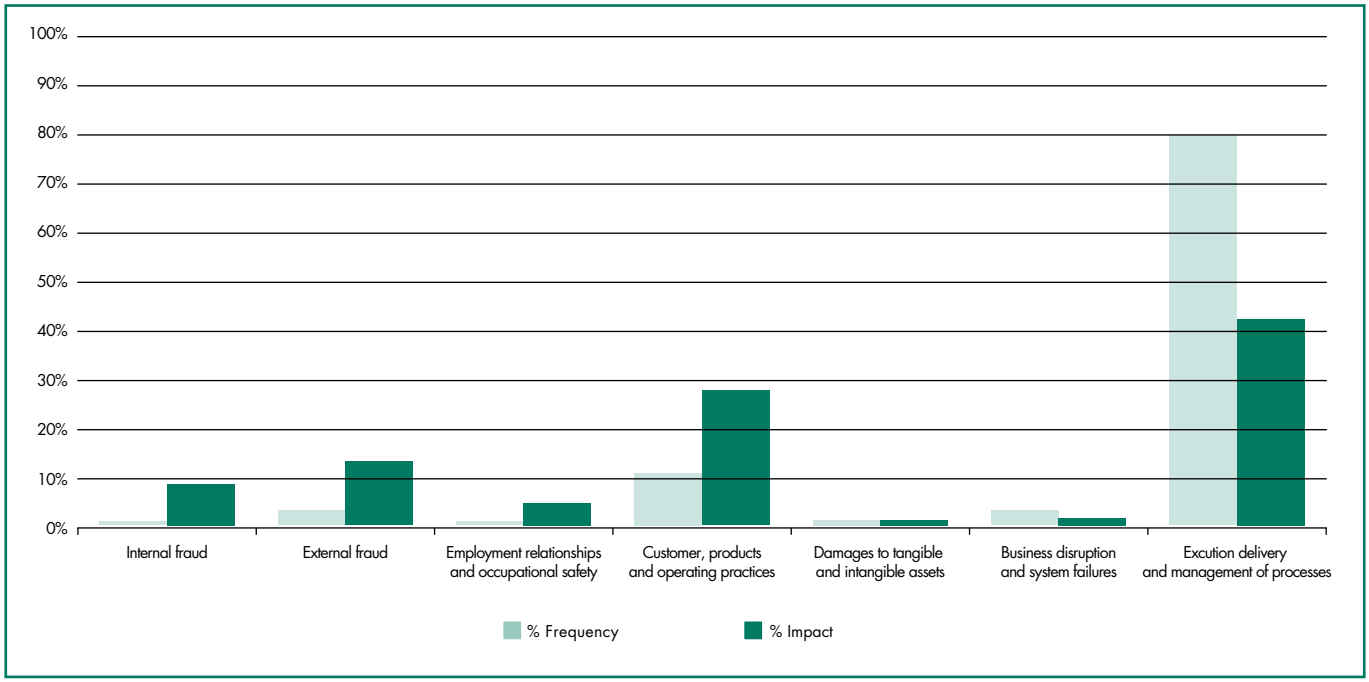
Section 1.4 – Operational risks

Qualitative information

For qualitative information, see the pertinent section in part E of the Consolidated Notes.

In relation to the analysis (for BPM only) of the sources of operational risk, the main source of operational loss in 2016, in terms of both frequency and impact, was the category "Execution, delivery and management of processes." Following this, in terms of both impact and frequency, was the category "Customers, products and operating practices."

Percentage distribution of losses of Banca Popolare di Milano in 2016



Quantitative information

Lawsuits pending

Legal risk can derive from a failure to comply with laws, regulations or directives from the Supervisory Authorities or from unfavorable changes in the legislative framework. The impact of this risk may take the form of fines or other sanctions or it may involve the Group in legal proceedings. In principle this concerns all the corporate functions that are affected by legislative, regulatory and other legal provisions.

The lawsuits pending at 31 December 2016 fall mainly into the following categories:

- **erroneous application of interest rates:** there are 445 lawsuits pending, against which specific provisions of 16.1 million euro have been made over the years for possible losses;
- **operational errors in the provision of services to customers:** there are 357 lawsuits pending, against which specific provisions of 15.5 million euro have been made over the years for possible losses;
- **financial lawsuits:** these are disputes associated with financial advisory activities (documentary errors, incorrect information on financial risks, etc.); there are 134 lawsuits pending against which specific provisions of 4.9 million euro have been made over the years.

Part F
Information on capital

Section 1 – Individual capital

A. Qualitative information

Capital management involves a range of policies and decisions needed to define its size, as well as the best combination of the various alternative capitalization instruments to ensure that the Bank's capital and capital ratios are consistent with the risk profile taken in full compliance with the requirements of the Supervisory Authority.

Regarding the policies adopted by the Bank regarding compliance with the capital adequacy requirements, as well as the policies and processes adopted in the field of capital management, reference should be made to Section 2 "Own funds and capital adequacy ratios", and to the explanation in Part F "Information on capital" of the consolidated financial statements.

B. Quantitative information

B.1 Capital: breakdown

Line items/Amounts	31.12.2016	31.12.2015
1. Share capital	**3,365,439**	**3,365,439**
2. Share premium reserve	**0**	**445**
3. Reserves	**747,736**	**640,052**
– of earnings	741,486	618,905
a) legal	357,306	333,067
b) statutory	190,719	154,360
c) treasury shares	25,000	25,000
d) extraordinary	144,243	80,986
d) other	24,218	25,492
- other	6,250	21,147
3.*bis* Interim dividends	**0**	**0**
4. Equity instruments	**0**	**0**
5. (Treasury shares)	**(621)**	**(1,416)**
6. Valuation reserves	**8,459**	**209,069**
– Financial assets available for sale	72,739	271,365
– Cash flow hedges	(3,165)	(4,429)
– Translation reserve	0	0
– Non-current assets held for sale	0	0
– Actuarial gains (losses) on defined benefit pension plans	(61,115)	(57,867)
– Special revaluation laws	0	0
7. Net income (loss)	**65,722**	**241,117**
Total	**4,186,735**	**4,454,706**

Net income for 2015	**241,117,252.92**
+ amount released from the restricted reserve as per Art. 6 of Decree 38/2005	1,275,352.87
Net income to be allocated	**242,392,605.79**
– 10% to the legal reserve	–24,239,260.58
– 15% to the statutory reserve	–36,358,890.87
– to the Members, Euro 0.027 for each of the 4,390,260,208 shares issued	–118,537,025.62
Residual balance to the extraordinary reserve	63,257,428.72

B.2 Valuation reserves of financial assets available for sale: analysis

Asset/Amount	31.12.2016		31.12.2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	76,452	(44,266)	212,042	(3,414)
2. Equities	61,077	(31,292)	59,016	(7,756)
3. Mutual funds	12,916	(2,148)	11,688	(211)
4. Loans	–	–	–	–
Total	**150,445**	**(77,706)**	**282,746**	**(11,381)**

Valuation reserves of financial assets available for sale: analysis gross and net of the tax effect

The analysis of the reserve by class of financial instrument is required for the quantification of the filters on own funds. The amounts are stated net of the related tax effect, if any.

	Gross reserve	Tax effect	Net reserve
Debt securities:	**48,087**	**(15,902)**	**32,185**
- Italian government securities	47,903	(15,839)	32,064
- Government securities of other countries	(613)	202	(411)
- Other debt securities	797	(265)	532
Equities	**32,477**	**(2,692)**	**29,785**
Mutual funds	**16,041**	**(5,272)**	**10,769**
Cash Flow Hedging	**(4,728)**	**1,563**	**(3,165)**
Total	**91,877**	**(22,303)**	**69,574**

B.3 Valuation reserves of financial assets available for sale: changes during the year

	Debt securities	Equities	Mutual funds	Loans
1. Opening balance	**208,628**	**51,260**	**11,477**	**–**
2. Positive changes	**107,850**	**20,278**	**8,514**	**–**
2.1 Increases in fair value	16,128	18,643	6,300	–
2.2 Reclassification to profit and loss of negative reserves	83	18	–	–
- for impairment	–	–	–	–
- on disposal	83	18	–	–
2.3 Other changes	91,639	1,617	2,214	–
3. Negative changes	**284,292**	**41,753**	**9,223**	**–**
3.1 Decreases in fair value	95,414	40,330	7,389	–
3.2 Impairment adjustments	–	–	–	–
3.3 Reclassification to profit and loss of positive reserves: on disposal	184,420	1,043	–	–
3.4 Other changes	4,458	380	1,834	–
4. Closing balance	**32,186**	**29,785**	**10,768**	**–**

The amounts in item 1 "Opening balance" and 4 "Closing balance" are shown net of the related tax effect.

Line item 2.1 "Increases in fair value" in the "Debt securities" column mainly includes revaluations of Italian government securities.

Line item 2.2 "Transfer of negative reserves to income statement", sub-item "for impairment", shows the amount of impairment adjustments that have been charged, before tax, to line item 130 b) - "Net impairment adjustments to financial assets held for sale" in the income statement.

The other changes referred to in sections 2.3 and 3.4 relate primarily to the tax effects attributable to the changes indicated in the remaining items.

B.4 Valuation reserves relating to defined benefit plans: changes during the year

The following table shows the positive and negative elements related to defined-benefit plans for employees.

	Pension funds	Termination indemnities	TOTAL
Net revaluation reserve at 31.12.2015	**(40,333)**	**(17,534)**	**(57,867)**
Increases	**1,527**	**1,652**	**3,179**
Actuarial gains	1,527	–	1,527
Other positive changes	–	1,652	1,652
- other positive changes - tax effect	–	*1,652*	*1,652*
Decreases	**(420)**	**(6,007)**	**(6,427)**
Actuarial losses		(6,007)	(6,007)
Other negative changes	(420)	–	(420)
- other negative changes - tax effect	*(420)*	–	*(420)*
Net revaluation reserve at 31.12.2016	**(39,226)**	**(21,889)**	**(61,115)**

Section 2 – Own funds and capital adequacy ratios

Changes in prudential bank regulations

The new harmonized framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26 June 2013 is applicable from 1 January 2014; these transpose the standards defined by the Basel Committee on Banking Supervision (the "Basel 3 Framework") into European Union legislation.

The Regulation (CRR) is directly applicable in the national legal systems, without the need for transposition, and constitutes the "Single Rulebook"; the rules contained in the Directive (CRD IV), on the other hand, have to be transposed into the sources of national law.
In order to implement and facilitate the application of the new EU requirements, as well as to achieve an overall revision and simplification of the rules for banks, on 19 December 2013 the Bank of Italy issued Circular no. 285 "Supervisory Provisions for Banks" which:

- incorporates the provisions of CRD IV, implementation of which is the responsibility of the Bank of Italy under the Consolidated Banking Act;
- indicates the manner in which the discretional decisions granted by the EU framework to the national authorities were exercised;
- outlines a comprehensive regulatory framework that is organic, rational and integrated with the directly applicable EU provisions, in order to facilitate its use by operators.

EU Regulation no. 575/2013 ("CRR") requires banks, as a general rule, to include gains in their own funds and to deduct from same any unrealized losses on assets valued at fair value in financial statements and classified in the AFS portfolio. The CRR provides a transitional period in which these gains and losses may be only partially included or deducted from common equity tier 1 ("CET 1") by means of a gradually increasing approach until full inclusion/deduction is reached as of 1 January 2018.
Nevertheless, following the European Central Bank's emanation of EU Regulation no. 2016/445 regarding the exercise of options and of discretional measures provided under EU law (ECB Regulation") and the European Commission's issuance of EU Regulation 2016/2067 adopting IFRS 9 "Financial Instruments" ("IFRS 9 Regulation"), the Bank of Italy issued a letter on 23 January in which it provided, in the scope of its responsibilities, instructions on the prudent handling of net accumulated balances of capital gains and losses on exposures to central governments, as classified in the portfolio "Financial assets available for sale" and entered, pursuant to currently applicable accounting standard IAS39, in the Available For Sale (AFS) reserve (hereinafter, "unrealized capital gains and losses from exposures to central governments").
In particular, "important" banks (including the Bipiemme Group must, respectively, include in/deduct from CET 1 unrealized gains and losses from exposures to central governments classified in the AFS portfolio in the following percentages: 60% for 2016; 80% for 2017. Amounts remaining after the application of these percentages (i.e., 40% for 2016; 20% for 2017) must not be included in the calculation of own funds because they remain subject to sterilization. The Italian regime in effect as at 31 December 2013 is applied for purposes of the transitional period provided by the CRR.

2.1 Own funds

A. Qualitative information

Own funds (which under the previous rules constituted regulatory capital) are the first line of defense against the risks involved in the banking business as a whole and are the first parameter of reference for any assessment of a bank's solidity.

Own funds are the sum of:

- "Common Equity *Tier* 1" or "CET1"
- "Additional *Tier* 1" or "AT1"
- "*Tier* 2" or "T2"

As mentioned above, with reference to the transitional arrangements for own funds, the Bipiemme Group has chosen not to include unrealized capital gains and losses related to exposures to central governments classified as "financial assets available for sale" in any item of own funds.

B. Quantitative information

Set out below is a quantification of own funds at 31 December 2016:

	31.12.2016	31.12.2015
A. Common Equity *Tier* 1 – CET1 before the application of prudential filters	**4,131,097**	**4,289,461**
of which CET1 instruments subject to transitional instructions	–	–
B. Prudential instruments of CET1 capital (+/–)	–10,075	–1,800
C. CET1 before items to be deducted and the effects of transitional instructions (A +/- B)	4,121,022	4,287,661
D. Items to be deducted from CET1	–167,884	–167,028
E. Transitional regime – Impact on CET1 (+/–), including minority interests subject to transitional instructions	–7,135	–239,878
F. Total Common Equity *Tier* 1 – CET1 (C – D +/– E)	**3,946,003**	**3,880,755**
G. Additional *Tier* 1 – AT1 before items to be deducted and the effects of transitional instructions	**115,664**	**134,942**
of which AT1 instruments subject to transitional instructions	115,664	134,942
H. Items to be deducted from AT1	–	–
I. Transitional regime – Impact on AT1 (+/–), including instruments issued by subsidiaries and included in AT1 as per transitional instructions	–12,891	–
L. Total Additional *Tier* 1 – AT1 (G – H +/– I)	**102,773**	**134,942**
M. *Tier* 2 – T2 before items to be deducted and the effects of transitional instructions	**588,641**	**815,404**
of which T2 instruments subject to transitional instructions	163,276	253,988
N. Items to be deducted from T2	–30,887	–38,492
O. Transitional regime – Impact on T2 (+/–),including instruments issued by subsidiaries and included in T2 as per transitional instructions	–916	18,791
P. Total *Tier* 2 – T2 (M – N +/– O)	**556,838**	**795,703**
Q. Total own funds (F + L + P)	**4,605,614**	**4,811,400**

Composition of own funds at the respective reporting dates:

Common Equity *Tier* 1 – CET1	**31.12.2016**	**31.12.2015**
CET1 instruments:	3,357,439	3,340,884
Paid-in capital	3,365,439	3,365,439
Share premium reserve	–	445
Treasury shares:	–8,000	–25,000
Reserves:	**773,657**	**948,577**
Retained earnings	745,828	623,401
Net income for the year attributed to regulatory capital	–	122,539
Other comprehensive income (OCI)	27,829	202,637
***Tier* 1 capital prudential filters:**	–10,074	–1,800
Deductions:	**–175,019**	**–406,906**
Goodwill	–22,298	–39,685
Other intangible assets	–81,130	–127,343
Deductions with 10% limit: Significant investments in CET1 instruments of other financial sector entities	–64,456	–
Transitional regime- impact on CET1	–7,135	–239,878
Total Common Equity *Tier* 1 – CET1	**3,946,003**	**3,880,755**
Additional *Tier* 1 – AT1		
AT1 instruments subject to transitional provisions (grandfathering)	115,664	134,942
Transitional regime- impact on AT1	–12,891	–
Total Additional *Tier* 1 – AT 1	**102,773**	**134,942**
Total *Tier* 1 capital	**4,048,776**	**4,015,697**
TIER 2 – T2		
T2 instruments	588,641	815,404
Instruments and subordinated debt included in the calculation of *Tier* 2 capital	425,365	561,416
T2 instruments subject to transitional provisions (grandfathering)	163,276	253,988
Deductions:	–31,803	–19,701
Tier 2 equity instruments issued by other financial sector entities	–30,887	–38,492
adjustments arising from transitional provisions	–916	18,791
Total *Tier* 2 capital	**556,838**	**795,703**
Total own funds	**4,605,614**	**4,811,400**

Instruments included in the calculation of Additional *Tier* 1 capital and of *Tier* 2 capital at 31 December 2016 are listed below; for the characteristics of individual bonds reference should be made to Section 3 – "Debt securities in issue" of these notes.

Type of issue	31.12.2016		Original nominal amount issued		Issue price	Interest rate	Issue/maturity date	Early redemption from
	Carrying amount	Contribution to own funds						
1. Additional *Tier* 1	**205,938**	**102,773**						
Additional *Tier* 1 - AT1 instruments subject to transitional provisions:								
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	205,938	102,773	300,000	Euro	98.955	Floating	25.6.2008 *Perpetual*	25.6.2018
2. *TIER* 2 – T2	**1,246,576**	**588,641**						
Banca Popolare di Milano subordinated bond loan - Fixed Rate 7.125% – 1.2.11/21 (issued as part of the EMTN Programme)	529,321	371,865	475,000	Euro	99.603	7.125%	01.03.2011/21	n. p.
Banca Popolare di Milano subordinated bond loan - Fixed Rate – 4.5% – 18.4.08/18	262,579	53,500	252,750	Euro	100	4.50%	18.4.08/2018	n. p.
Banca Popolare di Milano subordinated bond loan – Floating Rate – 20.10.08/18 (*)	454,176	163,276	502,050	Euro	100	Floating	20.10.08/2018	20.10.2013
Banca Popolare di Milano subordinated bond loan – Floating Rate – 18.6.08/18	500	–	17,850	Euro	100	Floating	18.6.08/2018	n. p.
Total	**1,452,514**	**691,414**						

(*) T2 instruments subject to transitional provisions (grandfathering).

2.2 Capital adequacy

A. Qualitative information

Minimum capital ratios at 31 December 2015 have been calculated in accordance with the methodology set out in the Basel 2 Capital Accord, transposed by the Bank of Italy with the "New regulations for the prudential supervision of banks" Circular no. 285 of 27 December 2006 and subsequent updates and the "Instructions for preparing reports on regulatory capital and prudential ratios" Circular no. 155/91 and subsequent updates.

Based on the instructions of the Supervisory Authority, banks and banking groups have to maintain an amount of regulatory capital that is higher than the total minimum capital requirement (this being the sum of the capital requirements for credit risk, counterparty risk, market risk and operational risk).

The aforementioned Circular 285 states that the ratio of capital to risk-weighted assets has to be at least 8%; compliance with this requirement on a separate basis is verified quarterly by the Bank of Italy.

Credit and counterparty risk. The capital requirement for credit and counterparty risk is 8% of risk-weighted assets. This risk is determined on the basis of the standardized approach.
Market risk. The total capital requirement for market risk is the sum of the requirements calculated for regulatory position risk, concentration risk, exchange rate risk and commodity risk. BPM uses the Standardized Approach to determine these requirements. Within the Group, Banca Akros has been authorized to use internal models.

Operational risk. The capital requirement for operational risk is determined by means of the Standardized Approach, which involves applying regulatory coefficients to the relevant indicator for each of the Bank's lines of business.

The following coefficients take on particular importance for the assessment of capital solidity:

- Common Equity *Tier* 1 ratio, represented by the ratio of Common Equity *Tier* 1 to risk-weighted assets;
- *Tier* 1 ratio, represented by the ratio of total Additional *Tier* 1 capital to total risk-weighted assets;
- Total capital ratio, represented by the ratio of total own funds to total risk-weighted assets.

B. Quantitative information

The following table shows the absorption of capital in relation to the overall capital adequacy requirement. At 31 December 2016, meeting this requirement involved absorption of capital of 2,654 million (2,607 million at 31.12.2015).

As can be seen from the composition of regulatory capital and from the prudential requirements detailed below, the Bank has:

1. a ratio of Common Equity *Tier* 1 to risk-weighted assets (CET 1 capital ratio) of 11.89% (11.91% at 31.12.2015);
2. a ratio of Core *Tier* 1 capital to risk-weighted assets (Tier 1 ratio) of 12.20% (12.32% at 31.12.2015);
3. a ratio of own funds to risk-weighted assets (Total capital ratio) of 13.88% (14.76% at 31.12.2015) that exceeds the minimum requirement of 8%.

Total risk-weighted assets for credit risks totaled 30,620 million (29,957 million euro at 31.12.2015), an increase of 663 million (+2.21%) compared with the end of 2015.

Overall, taking account of market and operational risk, risk-weighted assets came to 33,176 million, an increase of 586 million (+1.80%).

Note that, as from 1 January 2014, a capital preservation buffer of 0.625% (required by the transitional and final provisions of Circular 285 of 17 December 2013) will be added to the 8% minimum requirement.

The following table sets out capital requirements at 31 December 2016.

Category/amount	Unweighted amounts		Weighted/required amounts	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	**52,588,914**	**52,602,880**	**30,619,507**	**29,956,616**
1. Standardized approach	52,571,032	52,580,561	30,588,593	29,730,172
2. Method based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitizations	17,882	22,319	30,914	226,444
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**2,449,561**	**2,396,529**
B.2 Risk of downgrading the credit rating			**1,163**	**857**
B.3 Regulation risk			**–**	**–**
B.4 Market risk			**3,934**	**11,425**
1. Standardized approach			3,934	11,425
2. Internal models			–	–
3. Concentration risk			–	–
B.5 Operational risk			**199,453**	**198,431**
1. Basic approach			–	–
2. Standardized approach			199,453	198,431
3. Advanced approach			–	–
B.6 Other prudential requirements			**–**	**–**
B.7 Total minimum requirements			**2,654,111**	**2,607,242**
C. RISK ASSETS AND CAPITAL ADEQUACY REQUIREMENTS				
C.1 Risk-weighted assets (*)			33,176,383	32,590,527
C.2 Tier 1 capital/ Risk-weighted assets (CET1 capital ratio)			11.89%	11.91%
C.3 Core *Tier* 1 capital/ Risk-weighted assets (*Tier* 1 capital ratio)			12.20%	12.32%
C.4 Total own funds/ Risk-weighted assets (Total capital ratio)			13.88%	14.76%

(*) Risk-weighted assets (line item C.1) are the product of total minimum capital requirements and the reciprocal of the obligatory minimum ratio for credit risk, namely 8%.

Part G
Business combinations

Section 1 – Transactions carried out during the year

1.1 Business combinations

No business combinations were made in 2016.

Section 2 – Transactions carried out after the end of the year

2.1 Business combinations

Merger between Banca Popolare di Milano and Banco Popolare

As explained in the section of the consolidated report on operations concerning significant events, the merger between Banco Popolare Soc. Coop. and the Banca Popolare di Milano S.c.a r.l. was finalised on 1 January 2017, and resulted in the incorporation of a new bank in the form of a joint-stock company, called Banco BPM S.p.A.

On the basis of the information contained in Part A – Accounting Policies of these explanatory notes, IFRS 3 requires that all business combinations be accounted for using the acquisition method, which involves:

- identification of the acquirer;
- determination of the cost of the combination;
- purchase price allocation.

This method applies to the merger between Banco Popolare and BPM, even if it may be considered an actual merger, from which a new company is formed involving the shareholders of the merged companies.

Identification of the acquirer
In accordance with IFRS 3, the acquirer is the entity that obtains control, understood as having the power to govern the financial and operating policies of the acquired company so as to obtain benefits from its activities. In the specific case of a merger, the main indicators of this power are represented by (i) the number of new ordinary shares with voting rights versus the total number of ordinary shares with voting rights of the acquiring company after the merger, (ii) the fair value of the entities involved in the merger, (iii) the composition of the new corporate bodies of the acquiring company, (iv) the entity issuing new shares.
As regards the business combination under review, the acquirer from an accounting point of view has been identified as Banco Popolare on the basis of quantitative factors relating to the number of new shares issued (54.62% for the shareholders of the former Banco Popolare and 45.374% for the shareholders of the former BPM) and the balance sheet aggregates of the two groups involved in the merger.

Determination of the cost of the combination
IFRS 3 requires the cost of a business combination be measured as the sum of fair value on the date of the exchange: (i) of assets given, (ii) liabilities incurred and (iii) equity instruments issued by the acquirer, in exchange for the control of the acquiree.
As regards the merger between Banco Popolare and BPM, the cost of the combination is 1,548.2 million euro, determined through the valorisation of the shares issued by the merged entity (Banco BPM S.P.A.) in exchange for the BPM shares, on the basis of the respective fair value on the date of the exchange (2.252 euro per share, equal to the opening price on 2 January 2017, which was the first day of trading since the legal effects of the transaction came into force).

Purchase price allocation

As required by the above accounting standard, the cost of the business combination must be allocated by recognising the identifiable assets and liabilities, including contingent liabilities, which must be measured at fair value on the date of combination; the value of the minority interests of the acquiree must also be recognised. The difference between the cost of the business combination and the net fair value of the assets, liabilities and contingent liabilities must be recognised:

- as goodwill, if positive;
- as negative goodwill (i.e. badwill), if negative, as a gain from a bargain purchase.

The merger between Banco Popolare and BPM shows a negative difference between the cost of the business combination, as illustrated above, and Bipiemme Group's book value of shareholders' equity as of 31 December 2016, of 2.8 billion euro. For the quantification of "badwill" we will need to determine the high/lower fair values of Bipiemme Group's assets and liabilities compared to the respective book values, as well as measure the additional identifiable assets, contingent liabilities not currently recognised by the acquiree, whose recognition is however required as part of the purchase price allocation process. The main equity balances of Bipiemme Group for which the relative fair value needs to be measured in order to compare it with the book values are the items "Due from Banks", "Loans to customers", "Investments in associates and companies subject to joint control", "Property and equipment" (especially buildings), and "Securities issued". We will also recognise the value of any intangibles not currently recognised, such as the BPM trademark, any "client relationships" and contingent liabilities.

Pursuant to IFRS 3, the recognition of identified assets and liabilities must be made within twelve months from the acquisition date and take effect from the acquisition date; in this regard, on the date when this financial report was prepared, we are currently working on collecting all the necessary information and, therefore, the allocation of the cost of the business combination cannot be considered complete.

Some information is provided below regarding BPM, namely the entity considered as acquired for accounting purposes, in relation to the cost of the combination, the interest held, the financial results in terms of revenues and net income of the Bipiemme Group as at 31 December 2016.

Name	Date of transaction	(1)	(2)	(3)	(4)
Banca Popolare di Milano	01/01/2017	1,548,210	100%	1,601,697	72,724

(1)= Cost of the transaction.
(2)= Percentage of interest acquired with voting rights at the ordinary meeting of members
(3)= Total Bipiemme Group revenues as at 31 December 2016 (net interest and other banking income)
(4)= Net income of the Bipiemme Group as at 31 December 2016.

Transfer of BPM's branch network

Within the scope of the Memorandum of Understanding and the merger plan, it was established that, subject to completion of the merger, BPM S.c.a.r.l. could transfer a number of assets encompassing the BPM branch network to an existing banking company that will be, upon completion of the merger, a subsidiary of Banco BPM S.p.A. BPM determined that the recipient of the spun-off assets was to be Banca Popolare di Mantova S.p.A.

On 12 December 2016, the Extraordinary Shareholders' Meeting of the Banca Popolare di Mantova approved a capital increase of 4 billion euro (including the share premium) by issuing 125,498,070 ordinary shares excluding option rights as they are intended to be subscribed and paid up by BPM S.c. a r.l through the contribution in kind of the business unit consisting of the entire network of bank branches currently owned by BPM, including the assets and liabilities strictly connected to these branches' customer relationships and operations.

On 13 December 2016, the transfer agreement was signed, with effect from 1 January 2017, subject to completion of the Merger. As a result of the transfer and the completion of the Merger, as of 1 January 2017 the name of the Bank is "Banca Popolare di Milano – Società per azioni", 99.97% owned by Banco BPM S.p.A.

Please note that this transaction, considering that Banca Popolare di Mantova SpA is a subsidiary of Banca Popolare di Milano Scarl, falls under "business combination between entities under common control" and is therefore excluded from the scope of IFRS 3.

Section 3 – Retrospective adjustments

No retrospective adjustments were made in 2016.

Part H
Related party transactions

1. Information relating to the remuneration of key management personnel

As a result of the Extraordinary General Meeting of Members held on 22 October 2011, the Bank changed its system of corporate governance, adopting the "two-tier" model which envisages:

- a Supervisory Board elected by the General Meeting of Members and vested with the control functions foreseen by law and the Articles of Association;
- a Management Board elected by the Supervisory Board which is responsible for running the business.

Therefore, based on the requirements of IAS 24, remuneration of the administrative and control bodies, recognised in the income statement in line item 150 a) "Personnel expenses" is shown below.

Remuneration	**Year 2016**	**Year 2015**
Supervisory Board	2,284	2,164
Management Board	1,206	1,270
Total	**3,490**	**3,433**

Information relating to the remuneration of key management personnel

The information required by paragraph 16 of IAS 24 concerning managers belonging to the Bank's senior management teams is provided below.

Remuneration	**Year 2016**	**Year 2015**
Salaries and other short-term benefits	2,817	2,898
Bonuses and other incentives in cash	485	339
Bonuses and other share-based payment incentives	385	263
Post-employment benefits [1]	291	300
Salaries and other short-term benefits	-	462

(1) Represents the annual provision for the employees' termination indemnity and pension fund.

2. Information on related party transactions

For further details on the process for related party transactions see the specific section in the report on operations.

A. Companies subject to significant influence and control

The table below shows the main transactions and balances between the Bank and subsidiaries, companies subject to joint control and companies subject to significant influence:

Line items	31.12.2016				31.12.2015			
	Subsidiaries	Companies subject to joint control	Companies subject to significant influence	Total	Subsidiaries	Companies subject to joint control	Companies subject to significant influence	Total
Balance sheet: assets	**1,357,349**	**1,385**	**339,478**	**1,698,212**	**1,760,399**	**2,459**	**708,756**	**2,471,614**
Financial assets held for trading	27,569	–	–	27,569	139,500	–	481	139,981
Financial assets designated at fair value through profit and loss	–	–	–	–	–	–	–	–
Financial assets available for sale	–	–	–	–	–	–	–	–
Due from banks	275,245	–	–	275,245	673,569	–	–	673,569
Loans to customers	1,039,880	1,385	339,391	1,380,656	936,722	2,459	708,275	1,647,456
Hedging derivatives	10,639	–	–	10,639	5,786	–	–	5,786
Other assets	4,016	–	87	4,103	4,822	–	–	4,822
Balance sheet: liabilities	**577,049**	**1,750**	**127,168**	**705,967**	**711,021**	**2,306**	**267,331**	**980,658**
Due to banks	320,292	–	–	320,292	438,398	–	–	438,398
Due to customers	6,126	1,750	95,415	103,291	4,545	2,306	234,362	241,213
Securities issued	115,268	–	31,719	146,987	120,161	–	31,701	151,862
Financial liabilities held for trading	78,625	–	34	78,659	111,923	–	1,268	113,191
Financial liabilities designated at fair value through profit and loss	25,233	–	–	25,233	12,574	–	–	12,574
Hedging derivatives	25,783	–	–	25,783	19,529	–	–	19,529
Other liabilities	5,722	–	–	5,722	3,891	–	–	3,891
Balance sheet: guarantees and commitments	**16,005**	**–**	**2,564**	**18,569**	**95,083**	**–**	**42,615**	**137,698**
Guarantees given	5,922	–	2,564	8,486	81,301	–	2,615	83,916
Commitments	10,083	–	–	10,083	13,782	–	40,000	53,782
Income statement	**36,709**	**155**	**228,720**	**265,584**	**43,979**	**280**	**240,286**	**284,545**
Interest income	16,988	150	6,530	23,668	22,746	284	5,780	28,810
Interest expense	7,910	(3)	(2,719)	5,188	4,690	(4)	(2,935)	1,751
Fee and commission income	3,698	8	206,585	210,291	8,700	–	222,265	230,965
Fee and commission expense	(2,253)	–	–	(2,253)	(2,784)	–	–	(2,784)
Dividends	8,024	–	16,950	24,974	10,644	–	13,653	24,297
Profits (losses) on trading	–	–	–	–	–	–	–	–
Profits (losses) on financial assets/ liabilities designated at fair value	(257)	–	–	(257)	(1,204)	–	–	(1,204)
Net losses/recoveries on impairment of loans	–	–	–	–	–	–	–	–
Recharge of personnel expenses for staff seconded to third parties	1,968	–	520	2,488	1,456	–	668	2,124
Cost of staff seconded to the Bank	(728)	–	–	(728)	(3,300)	–	–	(3,300)
Administrative expenses	(2,333)	–	–	(2,333)	(252)	–	–	(252)
Other operating expenses	–	–	–	–	–	–	–	–
Other operating income	3,692	–	854	4,546	3,283	–	855	4,138

B. Bank corporate officers

The following table reports transactions and balances between the bank and members of the Management Board and of the Supervisory Board, as well as key management personnel of the bank and other parties related to them (in particular relatives of members and companies controlled by them and their relatives).

Management Board		Members of of the Board	Relatives of members of the Board	Companies controlled by members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	667	3	1,854	–
	Drawdowns	–	–	985	–
Deposits		622	409	604	–
Indirect deposits (at market value)		42	2	207	–
Assets under management (at market value)		691	129	–	–
Guarantees given		–	–	–	–
Interest income		9	–	8	–
Interest expense		(3)	(4)	–	–
Commission and other income		7	1	5	–
Amounts recognised for professional and consultancy services		–	–	–	–

Supervisory Board		Members of the Board	Relatives of members the Board	Companies controlled by members the Board	Companies controlled by relatives of members the Board
Loans	Granted	248	30	158	1,047
	Drawdowns	60	–	95	981
Deposits		524	447	123	4
Indirect deposits (at market value)		603	260	–	–
Assets under management (at market value)		501	444	–	–
Guarantees given		–	–	–	–
Interest income		2	–	1	4
Interest expense		(5)	–	–	–
Commission and other income		13	8	3	1
Amounts recognised for professional and consultancy services		–	–	–	–

General Management		Members of General Management	Relatives of members of General Management	Companies controlled by members of General Management	Companies controlled by relatives of members of General Management
Loans	Granted	1,591	43	–	288
	Drawdowns	1,007	38	–	197
Deposits		2,610	596	–	83
Indirect deposits (at market value)		1,498	395	–	–
Assets under management (at market value)		598	274	–	27
Guarantees given		–	–	–	20
Interest income		7	1	–	4
Interest expense		(6)	(6)	–	–
Commission and other income		9	5	–	2
Amounts recognised for professional and consultancy services		–	–	–	–

C. Group corporate officers

The following table reports transactions and balances between the bank and members of the Board of Directors, the Board of Statutory Auditors and the General Managers of the other Group companies, as well as with affiliated counterparties (in particular relatives and companies controlled by them and by their relatives).

Board of Directors		Members of the Board	Relatives of members of the Board	Companies controlled by members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	2,268	392	5,423	10
	Drawdowns	1,992	382	3,347	–
Deposits		1,416	817	946	1
Indirect deposits (at market value)		1,346	71	–	–
Assets under management (at market value)		1,778	134	–	–
Guarantees given		–	–	88	–
Interest income		34	6	83	255
Interest expense		(1)	(2)	–	–
Commission and other income		31	5	16	–
Amounts recognised for professional and consultancy services		–	–	–	–

Board of Statutory Auditors		Members of the Board	Relatives of members of the Board	Companies controlled by members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	13	1	495	–
	Drawdowns	–	–	219	–
Deposits		16	4	40	–
Indirect deposits (at market value)		–	–	–	–
Assets under management (at market value)		29	–	–	–
Guarantees given		–	–	170	–
Interest income		–	–	11	–
Interest expense		–	–	–	–
Commission and other income		3	–	8	–
Amounts recognised for professional and consultancy services		–	–	–	–

General Management		Members of General Management	Relatives of members of General Management	Companies controlled by members of General Management	Companies controlled by relatives of members of General Management
Loans	Granted	404	40	–	–
	Drawdowns	205	35	–	–
Deposits		46	519	–	–
Indirect deposits (at market value)		113	108	–	–
Assets under management (at market value)		129	644	–	–
Guarantees given		–	–	–	–
Interest income		2	1	–	–
Interest expense		–	–	–	–
Commission and other income		2	9	–	–
Amounts recognised for professional and consultancy services		–	–	–	–

Proportion of related party transactions

On the basis of Consob Communication DEM/6064293 of 28 July 2006, as well as the requirements of the international accounting standard on Related Party Disclosures (IAS 24), the following information is provided for related party transactions and balances as classified by IAS 24, and their impact on the Bank's balance sheet and income statement.

Impact of related party transactions or balances on Income statement and Balance Sheet line items	31.12.2016			31.12.2015		
	Book value	Related parties		Book value	Related parties	
		Absolute	%		Absolute	%
Asset line items						
20. Financial assets held for trading	154,960	27,569	17.8%	281,311	139,981	49.8%
30. Financial assets designated at fair value through profit and loss	19,240	–	0.0%	75,543	–	0.0%
40. Financial assets available for sale	9,462,503	–	0.0%	8,967,523	–	0.0%
60. Due from banks	1,480,702	275,245	18.6%	1,266,267	673,569	53.2%
70. Loans to customers	34,230,459	1,390,199	4.1%	33,474,317	1,673,046	5.0%
80. Hedging derivatives	16,070	10,639	66.2%	10,058	5,786	57.5%
150. Other assets	528,799	4,103	0.8%	745,383	4,822	0.6%
Liability line items						
10. Due to banks	7,226,844	320,292	4.4%	4,829,578	438,398	9.1%
20. Due to customers	29,387,380	113,118	0.4%	27,807,746	253,089	0.9%
30. Securities issued	5,614,860	146,987	2.6%	8,233,838	151,862	1.8%
40. Financial liabilities held for trading	154,611	78,659	50.9%	150,579	113,191	75.2%
50. Financial liabilities designated at fair value through profit and loss	120,132	25,233	21.0%	142,201	12,574	8.8%
60. Hedging derivatives	32,894	25,783	78.4%	39,011	19,529	50.1%
100. Other liabilities	932,377	5,722	0.6%	1,233,569	3,891	0.3%
Income statement line items						
10. Interest and similar income	942,926	24,096	2.6%	1,076,716	29,488	2.7%
20. Interest and similar expense	(220,258)	5,161	–2.3%	(335,519)	1,698	–0.5%
40. Fee and commission income	620,588	210,419	33.9%	635,083	231,120	36.4%
50. Fee and commission expense	(55,430)	(2,253)	4.1%	(55,355)	(2,784)	5.0%
70. Dividends	32,178	24,974	77.6%	33,060	24,297	73.5%
80. Profits (losses) on trading	38,399	–	0.0%	24,738	–	0.0%
110. Profits (losses) on financial assets and liabilities designated at fair value	2,598	(257)	–9.9%	(6,328)	(1,204)	19.0%
150. Administrative expenses	(1,128,490)	(830)	0.1%	(957,240)	(1,685)	0.2%
a) Personnel expenses	(733,467)	1,760	–0.2%	(573,540)	(1,176)	0.2%
b) Other administrative expenses	(395,022)	(2,590)	0.7%	(383,699)	(509)	0.1%
190. Interest and similar expense	111,379	4,546	4.1%	120,442	4,138	3.4%

Part I
Share-based payments

A. Qualitative information

1. Remuneration linked to incentive schemes: share-based compensation plans

As Parent Company, Banca Popolare di Milano prepares an annual update of the **Remuneration Report** in accordance with current provisions on remuneration policies and practices of the Bank of Italy (Circular no. 285/2013, 7th update of 18 November 2014, First Part, Title IV, Chapter 2), article 123-ter of Legislative Decree no. 58/1998 (Consolidated Finance Act or CFA) and article 84-quater of the Issuers' Regulations (Consob Resolution no. 11971/1999 as amended). This document is available on the website www.gruppobpm.it (Governance > Remuneration Policy).

The remuneration policies (the "Policy") define – in the interests of all stakeholders – the guidelines of the remuneration and incentive system for personnel of the Group. The aim on the one hand is to encourage the pursuit of strategies, objectives and results over the long term in line with the levels of liquidity and capitalisation and in accordance with sound and prudent risk management; and on the other hand to attract and retain within the Group people with the right professional skills and abilities for the needs of the business, to the benefit of competitiveness and good governance.

The remuneration system includes a variable component of remuneration linked to performance targets ("bonus"). Recognition of the "**bonus**":

- depends on the implementation of an incentive system by the Group company for which the person works, which provides for the assignment of quantitative and qualitative objectives;
- is subject to full compliance with the predetermined access conditions (the «access gate»); and
- is paid in line with the guidelines issued by the Supervisory Authorities from time to time.

The "bonus" for so-called "**key personnel**" (i.e. those whose professional duties have or may have a significant impact on the risk profile of the Group, identified in accordance with Delegated Regulation (EU) no. 604/2014), is divided into:

- an up-front portion of 60% of the "bonus", payable by the end of July of the year after which the bonus relates to;
- three annual instalments, amounting in total to 40% of the "bonus", each of an equal amount, deferred over the three-year period subsequent to the year in which the up-front portion is paid, with each instalment payable by the end of July of each year.

Both the 50% up-front portion and the 50% deferred portion of the "bonus" are settled in Banca Popolare di Milano shares.

Where the "bonus" target represents 100% of gross annual remuneration[1] and at the same time is equal to or greater than 150,000 euro, the deferred portion is 60% of the "bonus" and is paid in five, rather than three, annual instalments.

A two-year **retention** period (a restriction on sale) is envisaged for the up-front portion and one year retention period is envisaged for the deferred portion of the allocated shares; for the latter, the retention period starts on the date on which the deferred remuneration is granted.
Both the up-front portion and the deferred portions are subject to "malus" and "claw-back" mechanisms as explained in the Policy.

1 Comprising payments under agreements linked to constant employment.

In line with national banking system practices and in keeping with current regulations, the rules, as previously stated in this paragraph, concerning bonus payments are applied based on a scale of materiality thresholds, as specified below:

- for target bonuses less than or equal to a threshold of 35,000 euro the payment is made in cash and up-front;
- for target bonuses less than or equal to a threshold of 50,000 euro the payment is made in cash without prejudice to the deferral mechanism.

The scale is not applied to bonus payments to members of corporate bodies[2] and persons serving in General Management Departments of Group companies and in Parent Company frontline management.

The Ordinary General Meeting of the Members of Banca Popolare di Milano held on 30 April 2016 approved, in accordance with article 114-*bis* of Legislative Decree 58/1998 (the "CFA") and article 84-*bis* of Consob Regulation no. 11971/1999 and subsequent amendments (the "Issuers' Regulation"), the BPM **share-based compensation plan** (the "Plan"), for "key personnel" of the Group, as set out in the Information Document prepared for this purpose by the Management Board on 10 March 2016, on the basis of the 2016 Remuneration Policy and under the 2016 Incentive scheme.
The Ordinary General Meeting of the Members approved the plan with a theoretical maximum requirement of some 1.6 million euro.

Conditional upon exceeding the "access gates" established by the Policy for the 2016 Incentive scheme, the "Plan" will be implemented by determining the total number of shares that may be assigned to each beneficiary, based on the achievement of the qualitative/quantitative targets assigned on an individual basis. The up-front portion of shares will be granted by the end of July 2017.

Conditional upon exceeding the "access gates" relating to the 2016 Incentive scheme, the deferred portion of shares relating to the 2014 (2nd deferred portion) and 2015 (1st deferred portion) Incentive schemes may also be payable, as defined in the annual remuneration policies, approved by the General Meeting of the Members of the Banca Popolare di Milano on 12 April 2014 and 11 April 2015, respectively.

As required by IFRS 2, the transaction described in this paragraph is considered an expense for the year and is recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the service received, with the contra entry recognised in shareholders' equity.

2. Termination compensation

For certain members of "key personnel", in specific cases of employment termination, the payment of a golden parachute may be agreed – in accordance with the procedures provided for in the Policy, up to a maximum of two years of gross fixed annual remuneration and within a maximum limit of 1.6 million euro (gross amount paid to employees).
Without prejudice to the exceptions provided for by the Supervisory Provisions of the Bank of Italy, payment is made in accordance with the procedures established for providing bonuses to key personnel: 50% in cash and 50% in shares, divided into an up-front portion (60% or 40%, as appropriate) and three or five deferred annual instalments (as appropriate).

A two-year retention period (a restriction on sale) is envisaged for the up-front portion of the shares and one-year retention period is envisaged for the deferred portion; for the latter, the retention period starts on the date on which the deferred remuneration is granted.

2 Does not include Group employees who hold positions on the Board of Directors of the subsidiaries on behalf of the group, positions for which no fixed or variable remuneration is envisaged.

Both the up-front portion and the deferred portions are subject to "malus" and "claw-back" mechanisms as explained in current remuneration policies.

3. Allocation of net income pursuant to art. 60 of the BPM Articles of Association

Art. 60 of the Banca Popolare di Milano Articles of Association provided that 5% of the profit before income taxes be allocated to all current employees in the form of Bank shares; the merger of Banca Popolare di Milano S.c.ar.l. and Banca Popolare Soc. Coop. came into effect on 1 January 2017, resulting in the establishment of a new bank called Banco BPM S.p.A. Therefore, the new Articles of Association of Banco BPM S.p.A. have entered into force, thereby making the previous Articles of Association null and void.

B. Quantitative information

4. Other information

As regards the incentive scheme for key personnel, the passing of the "access gate" in relation to 2016 performance resulted in the allocation of the following amounts related to the equity component of remuneration:

- **2016 Incentive scheme 2016** - up-front portion – 444,400 euro (gross amount paid to employees)[3];
- **2015 Incentive scheme** – 1st deferred portion – 92,169 euro (gross amount paid to employees); for this portion a malus in the amount of 5,261 euro (gross amount payable to employees) was applied to one individual no longer in office;
- **2014 Incentive scheme –** 2nd deferred portion – 71,995 euro (gross amount paid to employees); for this portion a malus in the amount of 9,795 euro (gross amount paid to employees) was applied to two individuals no longer in office;

With regard to a golden parachute granted in 2015 to an individual identified as "key personnel", the 2nd portion of deferred shares, in the amount of 33,000 euro (gross amount paid to employee) is expected to be allocated in 2017.

As regards the allocation of profits to employees as per article 60 of the Articles of Association, as at 31 December 2016, no amount was recognised (an amount of 15.5 million euro was recognised in the income statement as at 31 December 2015).

3

Part L
Segment reporting

Segment information

Segment information is provided in the consolidated financial statements.

Certification of the separate financial statements pursuant to article 81-*ter* of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

On 15 October 2016, the Extraordinary General Meetings of Banco Popolare Soc. Coop and Banca Popolare di Milano S.c.a r.l. approved their merger into Banco BPM S.p.A., which became effective on 1 January 2017. As a result of this extraordinary operation, the Board of Directors of Banco BPM S.p.A., at their meeting on 10 February 2017, must approve the draft financial statements as at 31 December 2016 of Banco Popolare Soc. Coop and Banca Popolare di Milano S.c.a r.l.
In consideration of the above, the certification pursuant to article 154-bis of Legislative Decree no. 58 of 24 February 1998 is provided below based on the model established under art. 81-*ter* of Consob regulation no. 1197/99, for the financial statements of Banca Popolare di Milano S.c.a r.l., issued by the Chief Executive Officer and by the Financial Reporting Manager of Banco BPM S.p.A.

Certification of the separate financial statements pursuant to article 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

1. Giuseppe Castagna as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val as the Financial Reporting Manager of Banco BPM S.p.A. certify, taking into account article 154-*bis*, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the preparation of the separate financial statements of Banca Popolare di Milano S.c. a r.l. during the course of 2016.
2. The assessment of adequacy and verification of the effective application of the administrative and accounting procedures as a basis for the formation of the financial statements of Banca Popolare di Milano S.c. a r.l as at 31 December 2016 is based on an internal model developed by Banca Popolare di Milano S.c. a r.l using as a reference the "Internal Control – Integrated Framework (COSO)" and, for the IT component, the "*Control Objectives for Information and Related Technologies (COBIT)*", which are generally accepted international standards for internal control systems.
3. In addition, we certify that:

3.1 the financial statements of Banca Popolare di Milano S.c. a r.l as at 31 December 2016:

a) have been prepared in accordance with international accounting standards applicable and recognised by the European Community as per Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the underlying accounting entries and records;

c) provide a true and fair view of the financial position and performance of the issuer.

3.2 The report on operations includes a reliable analysis of the development and performance of the issuer's (Banca Popolare di Milano S.c. a r.l) business and of its position together with a description of the principal risks and uncertainties that it faces.

Milan, 10 February 2017

Chief Executive Officer	Financial Reporting Manager
Giuseppe Castagna	Gianpietro Val

Attachments to the financial statements

Banca Popolare di Milano – Reconciliation between the balance sheet and the reclassified balance sheet

(euro/000)

Reclassified balance sheet line items		Balance sheet line items	31.12.2016	31.12.2015
Cash and cash equivalents			**247,431**	**294,513**
Line item	10	Cash and cash equivalents	247,431	294,513
Financial assets carried at fair value and hedging derivatives:			**9,663,287**	**9,345,672**
Line item	20	Financial assets held for trading	154,960	281,311
Line item	30	Financial assets designated at fair value through profit and loss	19,240	75,543
Line item	40	Financial assets available for sale	9,462,503	8,967,523
Line item	50	Investments held to maturity	–	–
Line item	80	Hedging derivatives	16,070	10,058
Line item	90	Fair value change of financial assets in hedged portfolios (+ /–)	10,514	11,237
Due from banks			**1,480,702**	**1,266,267**
Line item	60	Due from banks	1,480,702	1,266,267
Loans to customers			**34,230,459**	**33,474,317**
Line item	70	Loans to customers	34,230,459	33,474,317
Fixed assets			**1,105,079**	**1,251,017**
Line item	100	Investments in subsidiaries, associates and companies subject to joint control	352,360	440,808
Line item	110	Property and equipment	681,404	682,866
Line item	120	Intangible assets	71,315	127,343
Non-current assets held for sale and disposal groups held for sale			**–**	**–**
Line item	140	Non-current assets held for sale and disposal groups held for sale	–	–
Other assets			**1,559,634**	**1,811,478**
Line item	130	Tax assets	1,030,834	1,066,095
Line item	150	Other assets	528,800	745,383
Total assets			**48,286,592**	**47,443,264**

(euro/000)

Reclassified balance sheet line items		Balance sheet line items	31.12.2016	31.12.2015
Due to banks			**7,226,844**	**4,829,578**
Line item	10	Due to banks	7,226,844	4,829,578
Due to customers			**29,387,380**	**27,807,746**
Line item	20	Due to customers	29,387,380	27,807,746
Securities issued			**5,614,860**	**8,233,838**
Line item	30	Securities issued	5,614,860	8,233,838
Financial liabilities and hedging derivatives:			**327,578**	**349,877**
Line item	40	Financial liabilities held for trading	154,611	150,579
Line item	50	Financial liabilities designated at fair value through profit and loss	120,132	142,201
Line item	60	Hedging derivatives	32,894	39,011
Line item	70	Fair value change of financial liabilities in hedged portfolios (+/–)	19,941	18,086
Liabilities associated with non-current assets held for sale and disposal group held for sale			**–**	**–**
Line item	90	Liabilities associated with non-current assets held for sale and disposal group held for sale	–	–
Other liabilities			**991,010**	**1,355,220**
Line item	80	Tax liabilities	58,633	121,650
Line item	100	Other liabilities	932,377	1,233,570
Provisions for specific use			**552,185**	**412,299**
Line item	110	Employee termination indemnities	124,643	117,762
Line item	120	Provisions for risks and charges	427,542	294,537
Capital and reserves			**4,121,013**	**4,213,589**
Line item	130	Valuation reserves	8,459	209,069
Line item	140	Redeemable shares	–	–
Line item	150	Equity instruments	–	–
Line item	160	Reserves	747,736	640,052
Line item	170	Share premium reserve	–	445
Line item	180	Share capital	3,365,439	3,365,439
Line item	190	Treasury shares (–)	(621)	(1,416)
Income (loss) for the period (+/–)			**65,722**	**241,117**
Line item	200	Net income (loss) for the year (+/–)	65,722	241,117
Total liabilities and shareholders' equity			**48,286,592**	**47,443,264**

Banca Popolare di Milano – Reconciliation between the income statement and the reclassified income statement

(euro/000)

Reclassified income statement line items		Income statement line items	Year 2016	Year 2015
Interest margin			**722,668**	**741,197**
	Line item 10	**Interest and similar income**	**942,926**	**1,076,716**
	Line item 20	Interest and similar expense	(220,258)	(335,519)
	(–) Line item 20	**(partial) Interest expense fiscal transactions**	**–**	**–**
		Interest and similar expense	**(220,258)**	**(335,519)**
Non-interest margin			**769,974**	**793,765**
Net fee and commission income			**565,158**	**579,728**
	Line item 40	Fee and commission income	620,588	635,083
	Line item 50	Fee and commission expense	(55,430)	(55,355)
Other income			**204,816**	**214,037**
Dividends from equity investments			**24,974**	**24,298**
	Line item 70	Dividends and similar income	32,178	33,060
	(–) Line item	Dividends from banking activities (HFT, FVO, AFS)	(7,204)	(8,762)
	70	Dividends from equity investments	24,974	24,298
		Dividends from equity investments	**24,974**	**24,298**
Net income (loss) from banking activities			**146,653**	**151,439**
	Line item 80	Profits (losses) on trading	38,399	24,738
	Line item 90	Fair value adjustments in hedge accounting	2,598	(6,328)
	Line item 100	Profits (losses) on disposal or repurchase of	164,507	148,218
	Line item	a) loans	(13,156)	(24,907)
	Line item	b) financial assets available for sale	177,683	186,106
	Line item	c) investments held to maturity	–	–
	Line item	d) financial liabilities	(20)	(12,981)
	(–) Line item 100	a) Profits (losses) on disposal or repurchase of loans	13,156	24,907
		Profits (losses) on disposal or repurchase of financial assets/liabilities	**177,663**	**173,125**
	Line item 110	Profits (losses) on financial assets and liabilities designated at fair value	(9,152)	(6,340)
	(+) Line item 70	Dividends from banking activities (HFT, FVO, AFS)	7,204	8,762
	(+) Line item 130	b) Net losses/recoveries on impairment: financial assets available for sale	(70,059)	(42,518)
Other operating charges/income			**33,189**	**38,300**
	Line item 190	Other operating expenses/income	111,377	120,440
	(–) Line item *190*	(partial) – Recoverable portion of indirect taxes	(82,753)	(86,222)
	(+) Line item *190*	(partial) – Depreciation of leasehold improvements	4,565	4,082

(euro/000)

Operating income			**1,492,642**	**1,534,962**
Administrative expenses:			**(1,037,242)**	**(871,017)**
a) personnel expenses			*(733,467)*	*(573,540)*
	Line item 150	a). Personnel expenses	(733,467)	(573,540)
b) other administrative expenses			*(303,775)*	*(297,477)*
	Line item 150	b). Other administrative expenses	(395,022)	(383,699)
	(+) Line item 190	(partial) – Other operating expenses/income (recoverable portion of indirect taxes)	82,753	86,222
	(+) Line item 130	d) Net losses/recoveries on impairment: other activities	8,494	–
Net adjustments to property and equipment and intangible assets			**(148,086)**	**(66,648)**
	Line item 170	Net adjustments to/recoveries on property and equipment	(36,844)	(38,978)
	Line item 180	Net adjustments to/recoveries on intangible assets	(106,677)	(23,588)
	(+) Line item 190	*(partial) – Other operating expenses/income (depreciation of leasehold improvements)*	(4,565)	(4,082)
Operating expenses			**(1,185,328)**	**(937,665)**
Operating profit			**307,314**	**597,297**
Net adjustments for impairment of loans and other activities			**(411,691)**	**(325,525)**
	Line item 130	Net losses/recoveries on impairment of:	(460,100)	(343,136)
	Line item	a) loans	(405,299)	(315,514)
	Line item	b) financial assets available for sale	(70,059)	(42,518)
	Line item	c) investments held to maturity	–	–
	Line item	d) other financial activities	15,258	14,896
	(+) Line item 100	*a) Profits (losses) on disposal or repurchase of loans*	*(13,156)*	*(24,907)*
	(–) Line item 130	*b) Net losses/recoveries on impairment of: financial assets available for sale*	*70,059*	*42,518*
	(–) Line item 130	*d) Net losses/recoveries on impairment of: other activities*	*(8,494)*	–
Net provisions for risks and charges			**(31,545)**	**8,813**
	Line item 160	Net provisions for risks and charges	(31,545)	8,813
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets			**146,944**	**14,532**
	Line item 210	Profits (losses) on investments in associates and companies subject to joint control	145,552	14,526
	70	Dividends from equity investments in liquidation	–	–
	Line item 220	Net result of valuation differences on property, equipment and intangible assets measured at fair value	–	–
	Line item 230	Goodwill impairment	–	–
	Line item 240	Profits (losses) on disposal of investments	1,392	6
Income (loss) before tax from continuing operations			**11,022**	**295,117**
Taxes on income from continuing operations			**54,700**	**(54,000)**
	Line item 260	Taxes on income from continuing operations	54,700	(54,000)
Income (loss) after tax from continuing operations			**65,722**	**241,117**
Income (loss) after tax from discontinued operations			**–**	**–**
	Line item 280	Income (loss) after tax from discontinued operations	–	–
Net income (loss)			**65,722**	**241,117**

Banca Popolare di Milano – Reclassified income statement net of non-recurring items

Line items	Year 2016		
	4th Quarter		
	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
Interest margin	**176,057**	**–**	**176,057**
Non-interest margin:	**190,664**	**(42,069)**	**232,733**
– Net fee and commission income	136,419	–	136,419
– Other income:	54,245	(42,069)	96,314
– Dividends from equity investments	–	–	–
– Net income (loss) from banking activities	45,665	(42,069)	87,734
– Other operating expenses/income	8,580	–	8,580
Operating income	**366,721**	**(42,069)**	**408,790**
Administrative expenses:	(248,862)	(46,791)	(202,071)
a) personnel expenses	(142,523)	(2,349)	(140,174)
b) other administrative expenses	(106,339)	(44,442)	(61,897)
Net adjustments to property and equipment and intangible assets	(95,392)	(75,625)	(19,767)
Operating expenses	**(344,254)**	**(122,416)**	**(221,838)**
Operating profit	**22,467**	**(164,485)**	**186,952**
Net adjustments for impairment of loans and other activities	(187,263)	–	(187,263)
Net provisions for risks and charges	(25,524)	(10,000)	(15,524)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	123,146	123,251	(105)
Income (loss) before tax from continuing operations	**(67,174)**	**(51,234)**	**(15,940)**
Taxes on income from continuing operations	59,200	41,315	17,885
Net income (loss) for the period	**(7,974)**	**(9,919)**	**1,945**

quarter by quarter

(euro/000)

Year 2016								
3rd Quarter			2nd Quarter			1st Quarter		
Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
175,382	**–**	**175,382**	**181,215**	**–**	**181,215**	**190,014**	**–**	**190,014**
160,711	**7,400**	**153,311**	**246,300**	**–**	**246,300**	**172,299**	**–**	**172,299**
135,033	–	135,033	147,475	–	147,475	146,231	–	146,231
25,678	7,400	18,278	98,825	–	98,825	26,068	–	26,068
–	–	–	14,502	–	14,502	10,472	–	10,472
18,631	7,400	11,231	75,206	–	75,206	7,151	–	7,151
7,047	–	7,047	9,117	–	9,117	8,445	–	8,445
336,093	**7,400**	**328,693**	**427,515**	**–**	**427,515**	**362,313**	**–**	**362,313**
(367,027)	(170,938)	(196,089)	(206,933)	(318)	(206,615)	(214,420)	(164)	(214,256)
(297,724)	(165,150)	(132,574)	(148,447)	(318)	(148,129)	(144,773)	(164)	(144,609)
(69,303)	(5,788)	(63,515)	(58,486)	–	(58,486)	(69,647)	–	(69,647)
(18,685)	–	(18,685)	(17,398)	–	(17,398)	(16,611)	–	(16,611)
(385,712)	**(170,938)**	**(214,774)**	**(224,331)**	**(318)**	**(224,013)**	**(231,031)**	**(164)**	**(230,867)**
(49,619)	**(163,538)**	**113,919**	**203,184**	**(318)**	**203,502**	**131,282**	**(164)**	**131,446**
(72,134)	–	(72,134)	(87,477)	–	(87,477)	(64,817)	–	(64,817)
(10,634)	–	(10,634)	4,189	–	4,189	424	–	424
2,649	2,630	19	16,156	16,156	–	4,993	4,993	–
(129,738)	**(160,908)**	**31,170**	**136,052**	**15,838**	**120,214**	**71,882**	**4,829**	**67,053**
54,500	55,983	(1,483)	(37,000)	(62)	(36,938)	(22,000)	(358)	(21,642)
(75,238)	**(104,925)**	**29,687**	**99,052**	**15,776**	**83,276**	**49,882**	**4,471**	**45,411**

Banca Popolare di Milano – Reclassified income statement net of non-recurring items

Line items	Year 2015		
	4th Quarter		
	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
Interest margin	**182,337**	**–**	**182,337**
Non-interest margin:	**239,011**	**63,186**	**175,825**
– Net fee and commission income	147,282	–	147,282
– Other income:	91,729	63,186	28,543
– Dividends from equity investments	–	–	–
– Net income (loss) from banking activities	86,486	63,186	23,300
– Other operating expenses/income	5,243	–	5,243
Operating income	**421,348**	**63,186**	**358,162**
Administrative expenses:	(263,252)	(39,634)	(223,618)
a) personnel expenses	(147,601)	(3,081)	(144,520)
b) other administrative expenses	(115,651)	(36,553)	(79,098)
Net adjustments to property and equipment and intangible assets	(22,121)	–	(22,121)
Operating expenses	**(285,373)**	**(39,634)**	**(245,739)**
Operating profit	**135,975**	**23,552**	**112,423**
Net adjustments for impairment of loans and other activities	(91,935)	–	(91,935)
Net provisions for risks and charges	15,627	21,849	(6,222)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	4,815	4,810	5
Income (loss) before tax from continuing operations	**64,482**	**50,211**	**14,271**
Taxes on income from continuing operations	14,000	6,415	7,585
Net income (loss) for the period	**78,482**	**56,626**	**21,856**

quarter by quarter

(euro/000)

	Year 2015								
	3rd Quarter			2nd Quarter			1st Quarter		
	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net result	Net income (loss) from non-recurring items	Net income (loss) from recurring items
	185,502	**–**	**185,502**	**190,267**	**–**	**190,267**	**183,091**	**–**	**183,091**
	157,248	**(6,140)**	**163,388**	**191,800**	**(6,253)**	**198,053**	**205,706**	**(11,504)**	**217,210**
	139,556	–	139,556	150,847	–	150,847	142,043	–	142,043
	17,692	(6,140)	23,832	40,953	(6,253)	47,206	63,663	(11,504)	75,167
	5	–	5	15,505	–	15,505	8,788	–	8,788
	7,716	(6,140)	13,856	13,284	(6,253)	19,537	43,953	(11,504)	55,457
	9,971	–	9,971	12,164	–	12,164	10,922	–	10,922
	342,750	**(6,140)**	**348,890**	**382,067**	**(6,253)**	**388,320**	**388,797**	**(11,504)**	**400,301**
	(194,427)	(1,593)	(192,834)	(204,229)	(1,228)	(203,001)	(209,109)	(922)	(208,187)
	(141,125)	(1,593)	(139,532)	(141,220)	(1,228)	(139,992)	(143,594)	(922)	(142,672)
	(53,302)	–	(53,302)	(63,009)	–	(63,009)	(65,515)	–	(65,515)
	(15,660)	–	(15,660)	(14,513)	–	(14,513)	(14,354)	–	(14,354)
	(210,087)	**(1,593)**	**(208,494)**	**(218,742)**	**(1,228)**	**(217,514)**	**(223,463)**	**(922)**	**(222,541)**
	132,663	**(7,733)**	**140,396**	**163,325**	**(7,481)**	**170,806**	**165,334**	**(12,426)**	**177,760**
	(75,291)	–	(75,291)	(89,258)	–	(89,258)	(69,041)	–	(69,041)
	(7,079)	–	(7,079)	1,455	–	1,455	(1,190)	–	(1,190)
	2,418	2,419	(1)	7,299	7,297	2	–	–	–
	52,711	**(5,314)**	**58,025**	**82,821**	**(184)**	**83,005**	**95,103**	**(12,426)**	**107,529**
	(14,000)	2,127	(16,127)	(20,000)	1,926	(21,926)	(34,000)	4,058	(38,058)
	38,711	**(3,187)**	**41,898**	**62,821**	**1,742**	**61,079**	**61,103**	**(8,368)**	**69,471**

Disclosure of amounts paid for auditing and other services in accordance with art. 149-*duodieces* of Consob's Issuers' Regulations

The following table shows the information required by art. 149-*duodieces* of Consob's Issuers' Regulations on audit and other fees paid to PricewaterhouseCoopers S.p.A. and companies belonging to the same network for the following services:

1. Audit services which include:
   - audit of the annual accounts with a view to expressing an opinion on them;
   - audit of the interim accounts.
2. Certification services, which include engagements with which the auditor evaluates a specific element; the valuation is carried out by another person who is responsible for it, whereas the auditor applies suitable criteria in order to come to a conclusion that provides the recipient with a degree of reliability with regard to the specific element in question.
3. Other services, which include engagements of a residual nature, for which an adequate level of detail has to be provided. This category of services includes, but is not limited to: due diligence reviews of accounting, tax and administrative matters agreed upon procedures on lending operations and on the internal control system, provision of assistance (risk assessment, gap analysis, project management and risk management) and methodological support.

The fees shown in the table for 2016 are those established by contract for Banca Popolare di Milano, including forfeit expenses, index-linking and the supervisory contribution, if due.

In accordance with the instructions, they do not include any fees paid to secondary auditors or to members of their respective networks.

Type of service	Service provided by	Remuneration (euro/000)
Audit	PricewaterhouseCoopers S.p.A.	596
Certification services (*)	PricewaterhouseCoopers S.p.A.	279
Other services (**)	PricewaterhouseCoopers S.p.A. PricewaterhouseCoopers Advisory S.p.A. TLS Associazione Professionale di Avvocati e Commercialisti	1,116
Total		**1,991**

(*) The certification services consisted of the comfort letter and the work performed with respect to the EMTN programme and the Covered Bond Issuance Programme, as well as the review of the pro-forma figures and data as at 30 June 2016.

(**) The amount includes fees for the activities carried out as part of the merger with the bank and for methodological support for the adjustments required by regulatory updates.

List of IAS/IFRS

List of IAS/IFRS endorsed by the European Commission as at 31 December 2016

Accounting standards		Approved Regulation(*)	
			Amendments
IAS 1	Presentation of financial statements	1126/2008	1260/2008; 1274/2008; 53/2009; 70/2009; 494/2009; 243/2010; 149/2011; 475/2012; 1254/2012; 1255/2012; 301/2013; 2406/2015; 1905/2016; 2067/2016
IAS 2	Inventories	1126/2008	70/2009; 1255/2012; 1905/2016; 2067/2016
IAS 7	Statement of cash flows	1126/2008	1260/2008; 1274/2008; 70/2009; 494/2009; 243/2010; 1254/2012; 1174/2013
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008	1274/2008; 70/2009; 1255/2012; 2067/2016
IAS 10	Events after the reporting period	1126/2008	1274/2008; 70/2009; 1142/2009; 1255/2012; 2067/2016
IAS 11	Construction contracts (**)	1126/2008	1260/2008; 1274/2008
IAS 12	Income taxes	1126/2008	1274/2008; 495/2009; 475/2012; 1254/2012; 1255/2012; 1174/2013; 1905/2016; 2067/2016
IAS 16	Property, Plant and Equipment	1126/2008	1260/2008; 1274/2008; 70/2009; 495/2009; 1255/2012; 301/2013. 28/2015; 2113/2015; 2231/2015; 1905/2016
IAS 17	Leases	1126/2008	243/2010; 1255/2012
IAS 18	Revenue (**)	1126/2008	69/2009; 1254/2012; 1255/2012
IAS 19	Employee benefits	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 29/2015; 2343/2015
IAS 20	Accounting for government grants and disclosure of government assistance	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 2067/2016
IAS 21	The effects of changes in foreign exchange rates	1126/2008	1274/2008; 69/2009; 494/2009;149/2011; 475/2012; 1254/2012; 1255/2012; 2067/2016
IAS 23	Borrowing costs	1126/2008	1260/2008; 70/2009; 2067/2016
IAS 24	Related party disclosures	1126/2008	1274/2008; 632/2010; 475/2012; 1254/2012; 1174/2013; 28/2015
IAS 26	Accounting and reporting by retirement benefit plans	1126/2008	
IAS 27	Separate financial statements	1126/2008	1274/2008; 69/2009; 70/2009; 494/2009; 149/2011; 1254/2012; 1174/2013; 2441/2015
IAS 28	Investments in associates and joint ventures	1126/2008	1274/2008; 70/2009; 494/2009; 495/2009; 149/2011; 1254/2012; 1255/2012; 2441/2015; 1703/2016; 2067/2016
IAS 29	Financial reporting in hyperinflationary economies	1126/2008	1274/2008; 70/2009
IAS 32	Financial instruments: presentation	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 495/2009;1293/2009; 149/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 301/2013; 1174/2013; 1905/2016; 2067/2016
IAS 33	Earnings per share	1126/2008	1274/2008; 494/2009; 495/2009; 475/2012; 1254/2012; 1255/2012; 2067/2016
IAS 34	Interim financial reporting	1126/2008	1274/2008; 70/2009; 495/2009; 149/2011; 475/2012; 1255/2012; 301/2013; 1174/2013; 2343/2015; 2406/2015; 1905/2016
IAS 36	Impairment of assets	1126/2008	1274/2008; 69/2009; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 1374/2013; 1905/2016; 2067/2016
IAS 37	Provisions, contingent liabilities and contingent assets	1126/2008	1274/2008; 495/2009; 28/2015; 1905/2016; 2067/2016
IAS 38	Intangible assets	1126/2008	1260/2008; 1274/2008; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 28/2015; 2231/2015; 1905/2016
IAS 39	Financial instruments: recognition and measurement (except for certain instructions on how to book hedging transactions) (***)	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 495/2009; 824/2009; 839/2009; 1171/2009; 243/2010; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1375/2013; 28/2015; 1905/2016; 2067/2016
IAS 40	Investment property	1126/2008	1274/2008; 70/2009; 1255/2012; 1361/2014
IAS 41	Agriculture	1126/2008	1274/2008; 70/2009; 1255/2012; 2113/2015; 1905/2016

Accounting standards		Approved Regulation(*)	
			Amendments
IFRS 1	First-time adoption of international financial reporting standards	1126/2008	1260/2008; 1274/2008; 69/2009; 70/2009; 254/2009; 494/2009; 495/2009; 1136/2009; 1164/2009; 550/2010; 574/2010; 662/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 183/2013; 301/2013; 313/2013; 1174/2013; 2173/2015; 2343/2015; 2441/2015; 1905/2016; 2067/2016
IFRS 2	Share-based payments	1126/2008	1261/2008; 495/2009; 243/2010; 244/2010; 1254/2012; 1255/2012; 28/2015; 2067/2016
IFRS 3	Business combinations	1126/2008	495/2009; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1361/2014; 28/2015; 1905/2016; 2067/2016
IFRS 4	Insurance contracts	1126/2008	1274/2008; 494/2009; 1165/2009; 1255/2012; 1905/2016; 2067/2016
IFRS 5	Non-current assets held for sale and discontinued operations	1126/2008	1274/2008; 70/2009; 494/2009; 1142/2009; 243/2010; 475/2012;
IFRS 6	Exploration for and evaluation of mineral resources	1126/2008	1254/2012; 1255/2012; 2343/2015; 2067/2016
IFRS 7	Financial instruments: disclosures	1126/2008	1274/2008; 53/2009; 70/2009; 495/2009; 824/2009; 1165/2009; 574/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 1174/2013; 2343/2015; 2406/2015; 2067/2016
IFRS 8	Operating Segments	1126/2008	1274/2008; 243/2010; 632/2010; 475/2012; 28/2015
IFRS 9	Financial instruments	2067/2016	1905/2016
IFRS 10	Consolidated financial statements	1254/2012	313/2013; 1174/2013; 1703/2016
IFRS 11	Joint arrangements	1254/2012	313/2013; 2173/2015
IFRS 12	Disclosure of interests in other entities	1254/2012	313/2013; 1174/2013; 1703/2016
IFRS 13	Fair value measurement	1255/2012	475/2012; 1361/2014; 2067/2016
IFRS 15	Revenue from contracts with customers	1905/2016	

(*) Regulation 1126/2008 brings together in a single text all of the accounting standards and interpretations contained in the previous Regulation no. 1725/2003 and subsequent amendments.

(**) With regulation 1905/2016, which will come into force on 1 January 2018, IFRS 15 «Revenue from contracts with customers» was introduced, leading to the withdrawal of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31.

(***) With regulation 2067/2016, which will come into force on 1 January 2018, IFRS 9 «Financial instruments» was introduced, leading to the withdrawal IFRIC 9, while for IAS 39 only the parts relating to fair value hedge accounting will remain in force.

Interpretations		Approved Regulation (*)	
			Amendments
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	1126/2008	1260/2008; 1274/2008
IFRIC 2	Members' shares in co-operative entities and similar instruments	1126/2008	53/2009; 301/2013; 1255/2012; 2067/2016
IFRIC 4	Determining whether an arrangement contains a lease	1126/2008	254/2009; 1255/2012
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1126/2008	1254/2012; 2067/2016
IFRIC 6	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1126/2008	
IFRIC 7	Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies	1126/2008	1274/2008
IFRIC 9	Restatement of embedded derivatives (***)	1126/2008	495/2009; 1171/2009; 243/2010; 1254/2012
IFRIC 10	Interim financial statements and impairment	1126/2008	1274/2008; 2067/2016
IFRIC 12	Service concession arrangements	254/2009	1905/2016; 2067/2016
IFRIC 13	Customer loyalty programmes (**)	1262/2008	149/2011; 1255/2012
IFRIC 14	IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction	1263/2008	1274/2008; 633/2010; 475/2012
IFRIC 15	Agreements for the construction of real estate (**)	636/2009	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/2009	243/2010; 1254/2012; 2067/2016
IFRIC 17	Distributions of Non-cash Assets to Owners	1142/2009	1254/2012; 1255/2012
IFRIC 18	Transfers of Assets from Customers (**)	1164/2009	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010	1255/2012; 2067/2016
IFRIC 20	Stripping costs in the production phase of a surface mine	1255/2012	
IFRIC 21	Levies	634/2014	
SIC 7	Introduction of the Euro	1126/2008	1274/2008; 494/2009
SIC 10	Government assistance – No specific relation to operating activities	1126/2008	1274/2008
SIC 15	Operating leases – Incentives	1126/2008	1274/2008
SIC 25	Income taxes – Changes in the tax status of an entity or its shareholders	1126/2008	1274/2008
SIC 27	Evaluating the substance of transactions involving the legal form of a lease	1126/2008	1905/2016; 2067/2016
SIC 29	Service concession arrangements: disclosures	1126/2008	1274/2008; 254/2009
SIC 31	Revenue – Barter transactions involving advertising services (**)	1126/2008	
SIC 32	Intangible assets- website costs	1126/2008	1274/2008; 1905/2016

(*) Regulation 1126/2008 brings together in a single text all of the accounting standards and interpretations contained in the previous Regulation no. 1725/2003 and subsequent amendments.

(**) With regulation 1905/2016, which will come into force on 1 January 2018, IFRS 15 «Revenue from contracts with customers» was introduced, leading to the withdrawal of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31.

(***) With regulation 2067/2016, which will come into force on 1 January 2018, IFRS 9 «Financial instruments» was introduced, leading to the withdrawal IFRIC 9, while for IAS 39 only the parts relating to fair value hedge accounting will remain in force.

List of EC Regulations of the European Commission

Approved Regulation	Publication in the Official Journal of the European Union	Title	Date implemented
1126/2008 of 03.11.2008	L. 320 of 29.11.2008	The Regulation brings together in a single text all of the accounting standards and interpretations contained in the previous Regulation 1725/2003 and subsequent amendments. IFRS 8 – "Operating Segments"	**01.01.2009** – First period beginning after 31/12/2008
1260/2008 of 10.12.2008	L. 338 of 17.12.2008	Amendments to IAS 23 – "Financial charges"	**01.01.2009** – First period beginning after 31/12/2008
1261/2008 of 16.12.2008	L. 338 of 17.12.2008	Amendments to IFRS 2 – "Share-based payments"	**01.01.2009** – First period beginning after 31/12/2008
1262/2008 of 16.12.2008	L. 338 of 17.12.2008	IFRIC 13 – "Customer Loyalty Programmes"	**01.01.2009** – First period beginning after 31/12/2008
1263/2008 of 16.12.2008	L. 338 of 17.12.2008	IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"	**01.01.2009** – First period beginning after 31/12/2008
1274/2008 of 17.12.2008	L. 339 of 18.12.2008	Amendments to IAS 1 – "Presentation of Financial Statements"	**01.01.2009** – First period beginning after 31/12/2008
53/2009 of 21.01.2009	L. 17 of 22.01.2009	Amendments to IAS 1 – "Presentation of Financial Statements" Amendments to IAS 32 – "Financial instruments": Presentation"	**01.01.2009** – First period beginning after 31/12/2008
69/2009 of 23.01.2009	L. 21 of 24.01.2009	Amendment to IFRS 1 – "First-time adoption of International Financial Reporting Standards" Amendments to IAS 27 – "Consolidated and separate financial statements" – Cost of investments in subsidiaries, joint ventures and associates"	**01.01.2009** – First period beginning after 31/12/2008
70/2009 of 23.01.2009	L. 21 of 24.01.2009	Improvements to IFRS: Amendments to: IFRS 5; IAS 1; IAS 8; IAS 16; IAS 20; IAS 23; IAS 27; IAS 28; IAS 29; IAS 31; IAS 34; IAS 36; IAS 38; IAS 39; IAS 40; IAS 41	**01.01.2010** – First period beginning after 30/6/2009 only for the amendments relating to IFRS 5
254/2009 of 25.03.2009	L. 80 of 26.03.2009	IFRIC 12 "Service Concession Arrangements"	**01.01.2009** – First period beginning after 31/12/2008
460/2009 of 04.06.2009	L. 139 of 05.06.2009	IFRIC 16 – "Hedges of a Net Investment in a Foreign Operation"	**01.01.2010** – First period beginning after 30/6/2009
494/2009 of 03.06.2009	L. 149 of 12.06.2009	Amendments to IAS 27 – "Consolidated and separate financial statements"	**01.01.2010** – First period beginning after 30/6/2009
495/2009 of 03.06.2009	L. 149 of 12.06.2009	Amendments to IFRS 3 "Business combinations"	**01.01.2010** – First period beginning after 30/6/2009
636/2009 of 22.07.2009	L. 191 of 23.07.2009	IFRIC 15 "Agreements for the Construction of Real Estate"	**01.01.2010** – First period beginning after 31/12/2009
824/2009 of 09.09.2009	L. 239 of 10.09.2009	Amendments to IAS 39 – "Financial instruments": recognition and measurement" – Reclassification of financial assets – Implementation date and transitional instructions Amendments to IFRS 7 – "Financial instruments: disclosures" – Reclassification of financial assets – Implementation date and transitional instructions	**01.01.2009** – First period beginning after 31/12/2008
839/2009 of 15.09.2009	L. 244 of 16.09.2009	Amendments to IAS 39 – "Financial instruments: recognition and measurement" – Eligible hedged items	**01.01.2010** – First period beginning after 30/6/2009
1136/2009 of 25.11.2009	L. 311 of 26.11.2009	Amendment to IFRS 1 – "First-time adoption of International Financial Reporting Standards"	**01.01.2010** – First period beginning after 31/12/2009
1142/2009 of 26.11.2009	L. 312 of 27.11.2009	IFRIC 17 "Distributions of Non-cash Assets to Owners"	**01.01.2010** – First period beginning after 31/10/ 2009
1164/2009 of 27.11.2009	L. 314 of 01.12.2009	IFRIC 18 "Transfers of Assets from Customers"	**01.01.2010** – First period beginning after 31/10/2009
1165/2009 of 27.11.2009	L. 314 of 01.12.2009	Amendments to IAS 4 – "Insurance contracts" Amendments to IFRS 7 – "Financial instruments: Disclosures"	**01.01.2009** – First period beginning after 31/12/2008
1171/2009 of 30.11.2009	L. 314 of 01.12.2009	Amendments to IAS 39 – "Financial instruments: recognition and measurement" Amendments to IFRIC 9 "Restatement of embedded derivatives"	**01.01.2009** – First period beginning after 31/12/2008
1293/2009 of 23.12.2009	L. 347 of 24.12.2009	Amendments to IAS 32 – "Financial instruments: Presentation"	**01.01.2011** – First period beginning after 31/1/2010
243/2010 of 23.03.2010	L. 77 of 24.03.2010	Improvements to IFRS: Amendments to: IFRS 2; IFRS 8; IAS 1; IAS 7; IAS 17; IAS 36; IAS 38; IAS 39; IFRIC 9; IFRIC 16	**01.01.2010** – First period beginning after 31/12/2009
244/2010 of 23.03.2010	L. 77 of 24.03.2010	Amendments to IFRS 2 – "Share-based payments"	**01.01.2010** – First period beginning after 31/12/2009

550/2010 of 23.06.2010	L. 157 of 24.06.2010	Amendments to IFRS 1 "First–time adoption of International Financial Reporting Standards" – Additional exemptions for first-time adopters	**01.01.2010** – First period beginning after 31/12/2009
574/2010 of 30.06.2010	L. 166 of 01.07.2010	Amendments to IFRS 1 "First–time adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters Amendments to IFRS 7 – "Financial instruments: Disclosures"	**01.01.2011** – First period beginning after 30/6/2010
632/2010 of 19.07.2010	L. 186 of 20.07.2010	Amendments to IAS 24 "Related party disclosures" Amendment to IFRS 8 – "Operating Segments"	**01.01.2011** – First period beginning after 31/12/2010
633/2010 of 19.07.2010	L. 186 of 20.07.2010	Amendments to IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" – Prepayments of a minimum funding requirement	**01.01.2011** – First period beginning after 31/12/2010
662/2010 of 23.07.2010	L. 193 of 24.07.2010	IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards"	**01.01.2011** – First period beginning after 30/6 2010
149/2011 of 18.02.2011	L. 46 of 19.02.2011	Improvements to IFRS: Amendments to: IFRS 1; IFRS 3; IFRS 7; IAS 1; IAS 27; IAS 34; IFRIC 13	**01.01.2011** – First period beginning after 31/12/2010
1205/2011 of 22.11.2011	L. 305 of 23.11.2011	Amendments to IFRS 7 – "Financial instruments: Disclosures" – Transfers of Financial Assets	**01.01.2012** – First period beginning after 30/6/2011
475/2012 of 05.06.2012	L. 146 of 06.06.2012	Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of items of Other Comprehensive Income Amendments to IAS 19 "Employee benefits" (new version)	**01.01.2013 –** First period beginning after 01/07/2012 **01.01.2013** – First period beginning on 1/1/2013 (the Group opted for the early application of the standard as from 1/1/2012)
1254/2012 of 11.12.2012	L. 360 of 29.12.2012	IFRS 10 " Consolidated Financial Statements" IFRS 11 "Joint arrangements" IFRS 12 "Disclosure of interests in other entities" Amendments to IAS 27 "Separate financial statements" (new version) Amendments to IAS 28 "Investments in associates and joint ventures" (new version)	**01.01.2014** – First period beginning on 1/1/2014
1255/2012 of 11.12.2012	L. 360 of 29.12.2012	Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards" – Severe hyperinflation and removal of fixed dates for first-time adopters Amendments to IAS 12 "Income taxes" – Deferred tax: recovery of underlying assets IFRS 13 "Fair value measurement" IFRIC 20 "Stripping costs in the production phase of a surface mine"	**01.01.2013** – First period beginning on 1/1/2013
1256/2012 of 13.12.2012	L. 360 of 29.12.2012	Amendments to IFRS 7 – "Financial instruments: Disclosures" – Offsetting financial assets and liabilities Amendments to IAS 32 – "Financial instruments: presentation" – Offsetting financial assets and financial liabilities	**01.01.2013** First period beginning on 1/1/2013 **01.01.2014** First period beginning on 1/1/2014
183/2013 of 04.03.2013	L. 61 of 05.03.2013	Amendment to IFRS 1 – "First-time adoption of International Financial Reporting Standards" – Government loans	**01.01.2013** – First period beginning on 1/1/2013
301/2013 of 27.03.2013	L. 90 of 28.03.2013	Improvements to IFRS: Amendments to: IFRS 1; IAS 1; IAS 16; IAS 32; IAS 34	**01.01.2013** – First period beginning on 1/1/2013
313/2013 of 04.04.2013	L. 95 of 05.04.2013	Amendments to: IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements", IFRS 12 "Disclosure of interests in other entities" – Guide to transitional provisions	**01.01.2014** – First period beginning on 1/1/2014
1174/2013 of 20.11.2013	L. 312 of 21.11.2013	Amendments to: IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interests in other entities", IAS 27 "Separate Financial Statements" – Investment Entities	**01.01.2014** – First period beginning on 1/1/2014
1374/2013 of 19.12.2013	L. 346 of 20.12.2013	Amendments to IAS 36 "Impairment of assets" – Recoverable amount disclosures for non-financial assets	**01.01.2014** – First period beginning on 1/1/2014
1375/2013 of 19.12.2013	L. 346 of 20.12.2013	Amendments to IAS 39 – "Financial instruments: Recognition and Measurement" – Novation of derivatives and continuation of hedge accounting	**01.01.2014** – First period beginning on 1/1/2014
634/2014 of 13.06.2014	L. 175 of 14.06.2014	IFRIC 21 "Levies"	**01.01.2014 –** First period beginning on 1/1/2014

1361/2014 of 18.12.2014	L.365 of 19.12.2014	IFRS- Annual improvements cycle 2011-2013 Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 3 "Business combinations", IFRS 13 "Fair Value Measurement" and IAS 40 "Investment property"	**01.01.2015 –** First period beginning after 1/7/2014
28/2015 of 17.12.2014	L. 5 of 9.1.2015	IFRS- Annual improvements cycle 2010-2012 Amendment to IFRS 2 "Share-based payments", IFRS 3 "Business combinations", IFRS 8 "Operating Segments", IAS 16 "Property and equipment", IAS 24 "Related party disclosures", IAS 38 "Intangible assets".	**01.01.2016 –** First period beginning after 1/2/2015
29/2015 of 17.12.2014	L. 5 of 9.1.2015	Amendments to IAS 19 "Employee benefits" – Defined benefit plans: employees' contributions	**01.01.2016 –** First period beginning after 1/2/2015
2113/2015 of 23.11.2015	L. 306 of 24.11.2015	Amendments to IAS 16 "Property, Plant and Equipment" and to IAS 41 "Agriculture"	**01.01.2016 –** First period beginning on 1/1/2016
2173/2015 of 24.11.2015	L.307 of 25.11.2015	Accounting for Acquisition of Interests in Joint Operations Amendments to IFRS 11 "Joint arrangements"	**01.01.2016 –** First period beginning on 1/1/2016
2231/2015 of 2.12.2015	L.317 of 3.12.2015	Clarification of Acceptable Methods of Depreciation and Amortisation Amendments to IAS 16 "Property, Plant and Equipment" and to IAS 38 "Intangible Assets"	**01.01.2016 –** First period beginning on 1/1/2016
2343/2015 of 15.12.2015	L. 330 of 16.12.2015	IFRS- Annual improvements cycle 2012-2014 Amendments to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations issued" and IFRS 7 "Financial instruments: disclosures", to IAS 19 "Employee benefits" and to IAS 34 "Interim Financial Reporting".	**01.01.2016 –** First period beginning on 1/1/2016
2406/2015 of 18.12.2015	L. 333 of 19.12.2015	Amendments to IAS 1 "Presentation of Financial Statements"	**01.01.2016 –** First period beginning on 1/1/2016
2441/2015 of 18.12.2015	L. 336 of 23.12.2015	Amendment to IAS 27 "Separate financial statements"	**01.01.2016 –** First period beginning on 1/1/2016
1703/2016 of 22.09.2016	L. 257 of 23.09.2016	Amendments to IFRS 10 "Consolidated financial statements, IFRS 12 "Disclosures of interests in other entities" and IAS 28 "Investments in associates and joint ventures"	**01.01.2016 –** First period beginning on 1/1/2016
1905/2016 of 22.09.2016	L. 295 of 29.10.2016	IFRS 15 "Revenue from contracts with customers"	**01.01.2018** – First period beginning on 1/1/2018
2067/2016 of 22.11.2016	L. 323 of 29.11.2016	IFRS 9 "Financial instruments"	**01.01.2018 –** First period beginning on 1/1/2018

Summary of properties owned by the bank with revaluations

Total historical cost	**921,846,602**
Total Revaluation Law 49 of 14.02.48	109,027
Total Revaluation Law 74 of 11.02.52	892,149
Total Revaluation Law 660 of 05.11.73	834,479
Total Revaluation Law 823 of 19.12.73	184,071
Total Revaluation Law 576 of 02.12.75	2,904,101
Total Revaluation Law 72 of 19.03.83	69,514,238
Total Revaluation Law 218 of 30.07.90	7,147,742
Total Revaluation Law 413 of 30.12.91	120,021,101
Total merger deficit	38,080,106
Total writedowns	(8,441,103)
Total gross book value	**1,153,092,513**
Total net reductions in values	(578,886,610)
Total net book value	**574,205,903**

Report of the Board of Statutory Auditors to the Shareholders of Banco Bpm S.p.A. as per Article 153 of Italian Legislative Decree no 58 of 24 February 1998

Banca Popolare di Milano S.c.ar.l.
YEAR 2016

Shareholders meeting
8 April 2017

16 MARCH 2017

Report of the Board of Statutory Auditors to the Shareholders of Banco Bpm S.p.A. as per Article 153 of Italian Legislative Decree no 58 of 24 February 1998

Foreword

To the shareholders,

On 1 January 2017, the merger between Banca Popolare di Milano S.c.ar.l. (hereinafter "Banca Popolare di Milano" or "BPM") and Banco Popolare Soc. Coop. (hereinafter "Banco Popolare"), which resulted in the creation of Banco BPM S.p.A. (hereinafter "Banco BPM"), went into effect.

As such, the term of Board of Statutory Auditors of Banco BPM began on that same date.

In accordance with the memorandum of understanding signed in March 2016, the Board – the composition of which was established within the scope of the Merger Plan approved by the shareholders of the banks involved in the merger at their respective General Meetings held on 15 October 2016 – comprises five Statutory Auditors selected, for the sake of continuity, from among the members of the Supervisory Board and Board of Statutory Auditors of the two banks in office until 31 December 2016. As you will be aware, the banks involved in the merger had adopted different systems of governance (i.e. the "dual" system for BPM and the "conventional" system for Banco Popolare), so it is important to note that the Supervisory Board of Banca Popolare di Milano was not the body to which the role of strategic oversight had been assigned, as such role had been granted to the Management Board.

Both BPM and Banco Popolare, as well as Banco BPM today, had already been subject to European supervision.

Given the effective date of the merger (i.e. 1 January 2017), the Board of Directors of Banco BPM has drafted and consequently approved, at their board meeting of 10 February 2017, the draft separate and consolidated financial statements for the financial year ended 31 December 2016 for the two banks as legally separate and autonomous entities as at year end.

In observance of the provisions of Article 153 of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Finance Act), and despite being a new and different body from those that fulfilled the roles of supervision and control for the 2016 financial year, the Board of Statutory Auditors of Banco BPM S.p.A. has prepared two distinct reports to the shareholders – one in relation to Banca Popolare di Milano and one in relation to Banco Popolare – which share this foreword in common.

The independent audits of the accounts as at 31 December 2016 for the two banks have been conducted by two different auditing firms: PricewaterhouseCoopers S.p.A. ("PWC" or the "Independent Auditor") for BPM and Deloitte & Touche S.p.A. ("Deloitte") for Banco Popolare. As indicated in the Merger Plan upon completion of the selection process conducted by the Supervisory Board of BPM and the Board of Statutory Auditors of Banco Popolare, PWC has been named as the independent auditor of the accounts of Banco BPM effective as of 1 January 2017 and until approval of the financial statements for financial year 2025.

Now therefore, this report, which has been prepared the Board of Statutory Auditors of Banco BPM in accordance with Article 153 of the Consolidated Finance Act and the CONSOB recommendations contained in Communication no. 1025564 of 6 April 2001 as amended, provides information concerning both the supervisory activities conducted since 1 January 2017 and those conducted by the Supervisory Board of Banca Popolare di Milano during the 2016 financial year in accordance with applicable laws and regulations and taking account of the rules of conduct of the boards of statutory auditors of publicly listed companies as recommended by the Italian National Board of Charted Accountants.

It should be underscored that, for the purposes of preparing this report, the Board of Statutory Auditors of Banco BPM has thereby acquired the necessary information concerning the controls and other activities conducted by the Supervisory Board of Banca Popolare di Milano both by obtaining and examining the minutes of the various meetings conducted in 2016 (including related documentation) and all other information received, including from the current members of the Board of Banco BPM who had previously held analogous roles for Banca Popolare di Milano.

Report

In 2016, the Supervisory Board of Banca Popolare di Milano – in its prior form (i.e. Piero Dino Giarda, Mauro Paoloni, Marcello Priori, Alberto Balestreri, Andrea Boitani, Angelo Busani, Emilio Luigi Cherubini, Maria Luisa Di Battista, Carlo Frascarolo, Roberto Fusilli, Donata Gottardi, Piero Sergio Lonardi, Maria Luisa Mosconi, Alberto Montanari, Giampietro Giuseppe Omati, Luca Raffaello Perfetti, Cesare Piovene Porto Godi, and Lucia Vitali) and from 30 April 2016 in its new form (Nicola Rossi, Mauro Paoloni, Marcello Priori, Alberto Balestreri, Carlo Bellavite Pellegrini, Mara Bergamaschi, Angelo Busani, Massimo Catizone, Emanuele Cusa, Carlo Frascarolo, Roberto Fusilli, Paola Galbiati, Piero Sergio Lonardi, Maria Luisa Mosconi, Mariella Piantoni, Ezio Maria Simonelli, Manuela Soffientini e Daniela Venanzi) – conducted the oversight activities within the scope of its responsibilities and fulfilled its related functions.

Specifically:

- the members of the Board's Internal Control Committee participated in the meetings of the Management Board, and, as deemed necessary, the chairman or other appointed member of the Supervisory Board attended the meetings of the Risks Committee established within the Management Board in order to obtain, in accordance with the law and with the articles of association, thorough information concerning activities conducted and on the operations of greatest relevance conducted by the bank and by its subsidiaries;
- the Board obtained the necessary information concerning observance of the law and the articles of association, observance of the principles of administration, and the functioning and adequacy of the organizational structure of the bank and of the systems of administration, accounting and internal control by way of direct audits and by gathering information from the heads of the various company functions concerned, as well as from the independent auditor, PricewaterhouseCoopers S.p.A. In this regard, approval of the merger of Banco Popolare and Banca Popolare di Milano required that the auditing and other controlling functions report on the dynamics of the system of internal control prior to 31 December 2016 in order to allow the various bodies of Banca Popolare di Milano to analyze and acknowledge the related outcome prior to any effects of the merger and to lay the groundwork for an informed definition of the architecture of controls for the surviving banking entity;
- they conducted the analysis of legitimacy within the scope of their responsibilities for the purposes of issuing a related opinion in accordance with Article 39, letter (t), and Article 5, letter (m), of the Articles of Association of Banca Popolare di Milano and subsequently issued a favorable opinion in accordance with said articles;
- they monitored the merger process by: (i) examining events that took place between approval of the Merger Plan and subsequent approval by the shareholders (i.e. the increase in capital of Banco Popolare and new information related to issues involved in the due diligence); (ii) conducting analyses concerning the authorization process; (ii) examining the interim financial reports as at 30 June 2016 and 30 September 2016 of the banks involved in the merger; (iv) examining preparatory activities concerning the organizational structure of the new entity, particularly concerning the structure of the internal control functions (i.e. auditing, compliance, risk management, and anti-money laundering); (v) preparing the report of the Supervisory Board to BPM shareholders for the General Meeting of 15 October 2016; (vi) examining preparatory activities for the General Shareholders' Meeting of 15 October 2016, particularly concerning the mechanism for facilitating shareholder participation and conduction of the meeting itself; (vii) preparing the calendar of measures to be implemented in the event failure to complete the merger taking account of the deadlines set for transformation into a joint-stock company;
- they conducted a specific evaluation and prepared a proposal concerning the selection of an independent auditor. A similar process was followed by the Board of Statutory Auditors of Banco Popolare. The shareholders of Banca Popolare di Milano and of Banco Popolare subsequently appointed PWC in conjunction with approval of the Merger Plan;

- they conducted audits of the system of internal controls, including by way of the Internal Control Committee, by taking advantage of the attendance of the head of the Auditing Office at meetings, at which the Chief Risk Officer, the head of Compliance, and the head of Anti-money Laundering were also frequently in attendance, thereby ensuring the necessary functional and informational interaction concerning performance of the various functions of corporate control and their respective activities;
- they conducted all due audits of the adequacy of the instructions issued to the subsidiaries, including in accordance with Article 114(2) of the Consolidated Finance Act;
- they received regular information concerning the activities of the Supervisory Body under the Model of Organization, Management and Control adopted by BPM in accordance with Italian Legislative Decree no. 231/2001, which was last updated in December 2015;
- they monitored the actual procedures for implementing the rules of corporate governance defined in the Code of Corporate Governance promoted by Borsa Italiana S.p.A., which Banca Popolare di Milano follows;
- they verified, based on declarations issued by the individual members of the Supervisory Board appointed during the year and on related support documentation, that said members meet the requirements of integrity, professionalism and independence as defined by applicable law and by the Articles of Association for the office concerned;
- they oversaw compliance with the rules concerning related party transactions established in accordance with the provisions of prudent supervision defined by the Bank of Italy with regard to related parties (Circular no. 263/2006, Title V, Chapter 5), with CONSOB's rules for related party transactions (Resolution no. 17221 of 12 March 2010 as amended), and with Article 136 of the Consolidated Banking Act, as well as of general observance of such rules;
- they verified observance of laws and regulations concerning the financial reporting process.

In light of the activities conducted, there were no events in 2016 of significance that would require reporting to the Supervisory Authorities nor observations to be made with regard to the principles of proper administration.

* * *

In maintaining continuity with the work done by the Supervisory Board of Banca Popolare di Milano – as referred to briefly herein – the Board of Statutory Auditors of Banco BPM S.p.A. has verified and analyzed the process of configuring and layout out the separate and consolidated financial statements of Banca Popolare di Milano for the 2016 financial year, as well as their compliance with applicable laws and regulations and the consistency with the decisions made by the Board of Directors.

In this regard, on various occasions we met with the Financial Reporting Manager of the former Banca Popolare di Milano and Banco Popolare (appointed to the same role for Banco BPM S.p.A.) and with the independent auditor PWC for the general purpose of ensuring the exchange of information needed in order to perform the supervision required by the Board under Article 19 of Italian Legislative Decree no. 39/2010 and so as to examine the issues deemed to be of greatest relevance for the purpose of preparing the 2016 financial reports.

During the first few months of 2017 up until the preparation of this Report, the Banco BPM Board of Statutory Auditors also:

- conducted supervisory activities in the various realms specified under Article 19 of Italian Legislative Decree no. 39/2010, which establishes the role of "internal control and accounts auditing committee" to the Board of Statutory Auditors, which included obtaining the results of the audits conducted by the Independent Auditor concerning the proper maintenance of the company's accounts and proper recognition of operations in the accounting records;
- received the PWC report in accordance with Article 19(3) of Legislative Decree no. 39/2010 concerning key issues arising from the audit, in which no "significant deficiencies" in the system of internal controls as concern the financial reporting process were mentioned;
- obtained from PWC, in accordance with Article 17(9) of Legislative Decree no. 39/2010, confirmation of their independence and notification of the non-auditing services provided to Banca Popolare di Milano by PWC or other entities within the PWC network and discussed the measures adopted with regard to such independence.

The Banco BPM Board of Statutory Auditors also oversaw adoption by the Board of Directors of decisions suited to ensuring an internal framework of regulations suited to maintaining proper application of operating processes without interruption from prior to the merger in anticipation of full integration of the information systems including with regard to the financial reporting process. This was achieved, first of all, by continuing to apply the regulations in use for the two former banks to the new organization, which were then gradually adapted to the new scope of Banco BPM.

* * *

Based on the primary information gathered within the scope of our functioning, a number of significant events occurring in 2016 were identified and in relation to which, although described in the Directors' Report on Operations of the Group, we felt were worthy of mention herein:

(i) on 24 May 2016, the Management Board, having obtained the favorable opinion of the Supervisory Board, approved the Merger Plan aimed at creating a new bank in the form of a joint-stock company (i.e. Banco BPM S.p.A.), thereby complying with the provisions of Italian Law Decree no. 3 of 24 January 2015, which was converted into Law no. 33 of 24 March 2015 (i.e. the "Reform of Cooperative Banks"). The Merger Plan (together with the memorandum of incorporation and the articles of association of Banco BPM S.p.A.) was approved by the shareholders of Banca Popolare di Milano (and, at the same time, by the shareholders of Banco Popolare) in an extraordinary general meeting on 15 October 2016. The merger agreement was signed on 13 December 2016 with an effective date of 1 January 2017.

The Supervisory Board reported on the supervisory activities conducted on the merger process in a document approved by the majority of its members, and this report was then provided to the shareholders at the General Shareholders' Meeting called to approved the Plan and is available online at www.bancobpm.it. Therefore, for further information see the content of said report and the minutes of the meeting of shareholders (also available online at www.bancobpm.it), which contain the statements made by the chairman of the Supervisory Board on this issue.

Subsequent to the General Shareholders' Meeting of 15 October 2016, the Supervisory Board continued its monitoring efforts by meeting with the senior management of Banco Popolare and studying, with the help of outside counsel, the issue of the potential impact on the merger of orders issued by the Italian Council of State on 2 December 2016 and on 15 December 2016 – taking account of the ruling of Italy's Constitutional Court on 21 December 2016 concerning the assessment of constitutionality of the Region of Lombardy with an appeal reported on 22 May 2015 – and we were assured that any ruling by the Constitutional Court that should declare the reform of cooperative banks unconstitutional would not have an effect on the validity and efficacy of the merger of BPM and Banco Popolare;

(ii) during the second half of 2016, Banca Popolare di Milano purchased shares (totaling roughly a 30% interest in the bank) from the minority shareholders (and parties connected with same) of Banca Popolare di Mantova. The Supervisory Board examined the terms and conditions of the purchase in a meeting on 6 September 2016 as a "less material" related-party transaction and verified the functional interest of BPM and the appropriateness and substantial fairness of the related conditions within the scope of the planned merger of BPM and Banco Popolare in light of the issues described under the following point herein;

(iii) on 12 December 2016, the shareholders of Banca Popolare di Mantova approved an increase in share capital of 4 billion euro (including share premium) in exchange for payment in kind, by the Parent Company, in the form of the transfer of the business unit comprising BPM's entire branch network effective as of 1 January 2017. The Supervisory Board, within the scope of efforts to monitor the merger, oversaw the proper execution of this operation;

(iv) by way of a resolution in April 2016, BPM subscribed units in the Atlante Fund (an alternative closed-end reserved investment fund managed by Quaestio Capital Management SGR S.p.A.), which was created with the purpose of supporting the capital increase and the purchase of the non-performing loans of a number of Italian banks for a total of 100 million euro. On 31 December 2016, given the maximum commitment specified above, total payments of 81.1 million were made, which were written down by 40.1 million euro on the annual financial statements;

(v) on 27 September and 5 October 2016, respectively, members of the Management Board Davide Croff and Daniele Girelli submitted their resignations; on 25 October, the Supervisory Board, upon recommendation of the Appointments Committee, nominated Graziano Tarantini to become a member of the BPM Management Board;

(vi) on 3 October 2016, Poste Italiane S.p.A. informed BPM of their withdrawal from the shareholder agreement signed between Banca Popolare di Milano and Poste Italiane S.p.A. on 26 June 2015 in which the parties assigned and bound all shares held in Anima Holding S.p.A. The agreement will become null and void on 16 April 2017;

(vii) on 27 December 2016, the Bank purchased from the Cassa di Risparmio di Alessandria Foundation ("CRAL Foundation") – categorized as a related party by BPM – its 3.11% interest in the subsidiary Banca Akros S.p.A. Within this context, specific measures required by applicable laws and (internal and external) regulations concerning related parties were implemented;

(viii) on 21 December 2015, the European Central Bank reported that, in January and February 2016, it would begin an assessment of strategy, governance, processes and methodologies regarding non-performing loans as an integral part of its ordinary supervisory activities, and this involved a number of Italian and European banks, including BPM. Following this assessment, the European Central Bank made no specific observations concerning BPM. On 30 May 2016, the European Central Bank began an audit, which came to an end of 30 September 2016, concerning the management of credit risk, counterparty risk, and the system of risk controls, the preliminary results of which were discussed on 27 September 2016 during a meeting which was attended by the chairman of the Supervisory Board, who then reported to the Supervisory Board on 4 October 2016. On 4 July 2016, the European Central Bank also began an audit of the accuracy of the methods of calculated the capital position of the Bipiemme Group. The on-site portion of this audit came to a close on 7 October 2016. As of the date of this report, neither the report nor the follow-up letter containing the draft recommendations have been received. The information obtained during the audits within the scope of meetings with the audit teams and discussion of the preliminary results has been taken into account for the purposes of autonomously measuring the loans for recognition as at 31 December 2016 as described in the Report on Operations. The final outcome of the audits will be evaluated once the report has been received from the Supervisory Authority.

* * *

In completion of the information to be provided to the shareholders, provided below are the details required by CONSOB Communication no. 1025564 of 6 April 2001 as amended, which are being provided based on activities conducted in 2016 by the Supervisory Board of Banca Popolare di Milano, supplemented where necessary by verifications conducted by the Board of Statutory Auditors of Banco BPM subsequent to the start of the Board's term:

1. the Supervisory Board of Banca Popolare di Milano obtained sufficient information concerning the operations of greatest financial significance conducted by the bank and by its subsidiaries. Based on such information, it was determined that these operations were in compliance with the law and with the articles of association; were not manifestly imprudent, excessively risky, in conflict of interests, or in contrast with shareholder resolutions; and did not compromise the integrity of company capital.

   In addition to the information provided in this regard in the specific section of this Report, for a more complete description of the operations of greatest significance conducted during the year, see the Report on Operations and the explanatory notes to the consolidated financial statements for the year ended 31 December 2016;

2. no operations conducted by the bank with Group companies, related parties, or other third parties were found to be atypical or otherwise unusual. Transactions within the group and with related parties in 2016 were found to comply with applicable laws and regulations and to be in line with the interests of the bank and of the Group;

3. in the Report on Operations and the specific explanatory notes to the separate and consolidated financial statements, the Board of Directors of Banco BPM adequately reported the main transactions within the Group, with related parties, and with other third parties and described their characteristics, and the Board of Statutory Auditors of Banco BPM has verified compliance with the law and with internal and external regulations;

4. on 15 March 2017, the Independent Auditor issued their report on the separate financial statements of BPM and on the consolidated financial statements of the Bipiemme Group in accordance with Article nos. 14 and 16 of Italian Legislative Decree no. 39/2010 without issue, a report which included reference to information related to the merger of Banca Popolare di Milano S.c.ar.l. and Banco Popolare Soc. Coop. and the creation of Banco BPM S.p.A. They also: *(i)* expressed their opinion on the consistency of the Report on Operations and of certain information contained in the Report on Corporate Governance with the financial statements as required by law; *(ii)*

specified that, in the Report of the Board of Statutory Auditors of Banco BPM in accordance with Article 19(3) of Legislative Decree no. 39/2010, there were no significant deficiencies in the system of internal controls in related to the financial reporting process and pointed to any significant issues concerning situations of (actual or presumed) failure to comply with laws, regulations, or the articles of association that emerged during the audit;

5. in 2016 and as of the date of approval of this report, the Supervisory Board of BPM – which has been replaced by the Board of Statutory Auditors of Banco BPM S.p.A. following the merger of BPM and Banco Popolare, effective as of 1 January 2017 – received complaint filed by three BPM shareholders in accordance with Article 2408(1) of the Italian civil code concerning the existence of potential wrongdoing by the members of the Management Board in office at the time that allegedly compromised the free and regular expression of the will of the shareholders, specifically noting:
   - a lack of information concerning the pending rulings by the Constitutional Court and the administrative authorities concerning the primary and secondary legislation concerning the reform of cooperative banks;
   - the lack of reporting at the General Shareholders' Meeting of October 2016 concerning alternatives to the merger, i.e. the pure and simple transformation of BPM from a cooperative bank to a joint-stock company and/or the creation of cooperative holding companies of the two banks involved in the merger;
   - a lack of a precise description of the procedures and timing for withdrawal;
   - the unduly quick timing of the merger as compared to the timeframe allowed by law.

   Following this complaint, the Board of Statutory Auditors of Banco BPM conducted an investigation aimed at determining the validity of the various points specified. As such, the Board of Statutory Auditors conducted this investigation in accordance with the law, including by obtaining a specific opinion from outside counsel concerning the aspects within the scope of our responsibilities and with regard to the specific complaints filed. Upon completion of these investigations and verifications, taking account of activities previously conducted by the BPM Supervisory Board and of the legal opinions that board obtained, we have concluded that there has been no wrongdoing by members of the Management Board in office at that time in relation to the specific complaints filed, excluding any investigation into generic and insufficiently grounded complaints, noting in particular that:
   - the pending rulings by the Constitutional Court and the administrative authorities, which are known facts, were the subject of specific discussion at the meeting of shareholders;
   - including discussion of alternatives to the merger on the agenda for the meeting of shareholders at which the merger was approved would have been both contrary to contractual agreements as well as inadmissible as being inconsistent with legislation concerning supervisory profiles (taking account, too, of standard practice by the authorities within the scope of authorization processes), as was also confirmed by a specific legal opinion obtained by the BPM Supervisory Board;
   - information on the procedures and timing of withdrawal rights were provided both thoroughly and in full compliance with applicable law, taking account of the information available to the Management Board in office at that time;
   - the timing of convening the extraordinary meeting of shareholders for the merger met strategic needs for the operation itself and was in line with legal needs.

   Given the above, the Banco BPM Board of Statutory Auditors has not recommended any corrective action and/or other measures for the actions of the Management Board at the time, nor have we deemed it necessary to investigate further, with the exception of noting the need, as reported to the Board of Directors, to monitor the progress and outcome of the pending rulings of the Constitutional Court and the administrative authorities so as to take due account of same.

   It should be noted, finally, that on 23 January 2017 a number of shareholders have contested the shareholder resolution for the merger;

6. in 2016, the Supervisory Board, along with the Management Board and other controlling authorities, received a number of requests for clarification concerning the participation of employee members at the General Meeting of Members of 15 October 2016, to which the Managing Director provided an adequate response;
7. in accordance with applicable law, PricewaterhouseCoopers S.p.A. has been paid 595,864 euro by the Parent

Company and 510,783 euro by the other companies of the Group in fees for independent auditing.

The Independent Auditor was also hired for additional verification services by the Parent Company for a total of 278,700 euro. For other sundry services, PWC was also paid 633,485 euro by the Parent Company and 3,630 euro by other companies of the Group.

Details of these fees are contained in an attachment to the separate financial statements and the consolidated financial statements of Banca Popolare di Milano as required by Article 149-*duodecies* of CONSOB's Issuers' Regulations;

8. companies within the same network as PWC were also paid the following fees in 2016:
   - 483,387 euro for other services to the Parent Company;
   - 112,340 euro for other services to the subsidiaries. No fees were paid for verification services.

   Details of these fees are also contained in an attachment to the separate financial statements and the consolidated financial statements of Banca Popolare di Milano as required by Article 149-*duodecies* of CONSOB's Issuers' Regulations;
9. in 2016, the Supervisory Board provided its opinions and observations required by law and by the Articles of Association. The content of these opinions were not contrary to the resolutions passed by the Management Board.

   In particular, on 24 May 2016 the Supervisory Board provided the Management Board with an opinion concerning the Merger Plan in accordance with Article nos. 39 and 51 of BPM's Articles of Association.

   On 12 September 2016, the Supervisory Board also provided an opinion, in accordance with Article 28, paragraph 2-*ter*, of the Consolidated Banking Act and Article 39(4) of BPM's Articles of Association, concerning the option of limiting or postponing, in whole or in part, the redemption of shares subject to withdrawal;
10. during 2016 the Supervisory Board held 28 meetings, the Internal Control Committee held 32 meetings; the Nominations Committee held 5 meetings, and the Remuneration Committee held 3 meetings. The Management Board held 30 meetings in 2016. These meetings were attended by members of the Internal Control Committee (the presence of at least one member was compulsory under Article 52 of the BPM Articles of Association). The Risk Committee held 14 meetings. See the Report on Corporate Governance and the section dedicated to BPM therein for details on the activities of the aforementioned committees;
11. the Supervisory Board, with the help of its Chairman and the Internal Control Committee, analyzed and monitored, within the scope of its responsibilities, the adequacy of the organizational structure and compliance with the principles of proper governance. Specifically, these supervisory activities were carried out through attendance at meetings of the Management Board by members of the Internal Control Committee, as well through hearings, direct observations of the heads of key functions, of the Financial Reporting Manager, of the chairmen of the Boards of Statutory Auditors of subsidiaries, as well as of the Independent Auditor for a mutual exchange of data and relevant information as per Article 150, paragraph 3, of the Consolidated Finance Act. Following the work carried out, the Supervisory Board believes that the principles of good management were applied and complied with at all times;
12. the Supervisory Board obtained information about and oversaw the organizational structure. The main changes in the organizational structure during 2016 concerned the creation of:
    - towards the goal of making credit quality monitoring more efficient, a dedicated unit to ensure timely changes in credit rating to ensure observance of established lending policies and to properly apply the rating system;
    - a new organizational unit responsible for managing and overseeing decisions of guidance, assessing the portfolio of property loans, and executing building and land appraisals in order to manage lending practices in the real estate segment more efficiently and more consistently.

    A number of changes to the organizational structure were also made in the Market function, which was restructured in order to provide unified coverage of the processes of developing and providing the bank's products and services.

    Finally, organizational analyses of the entire Group were conducted in order to support the merger with Banco Popolare.

    With regard to the three controlling functions (i.e. Internal Audit, Compliance, and Risk Management), the conditions required by applicable legislation aimed at ensuring their independence were found to be generally met. The Supervisory Board, by way of the Internal Control Committee, also verified that these functions had an adequate number of resources (within both the Parent Company and the subsidiaries). With regard to first-level controls, in first and second instance, the

Internal Control Committee has pointed to areas for improvement in terms of both the organization and independence;

13. based on and within the limits of the information obtained and studies conducted and following an assessment of the annual reports provided by the controlling functions of the bank, the Supervisory Board determined that the Group's system of internal controls was sufficiently robust. In particular, the internal control system provides sufficiently adequate control of the main risks; it encourages sufficiently prudent conduct by management, and it ensures the reliability of the financial reporting process and compliance with the law, regulations and prudential supervision requirements. The assignment of responsibilities and powers appears, in general, sufficiently clear to ensure compliance with internal policies and decisions. In order to further standardize control efforts, work by the Committee to Coordinate the Group's Internal Control Systems continued with the goal of: *(i)* strengthening the mechanisms and coordination of cooperation between the various internal control functions and *(ii)* providing a thorough description of the level of coverage of the control systems over company processes and the risks to which the Group is exposed.

    For further details on the activities conducted by the control functions, see BPM section of the Report on Corporate Governance.

    Although there are areas for improvement, the analyses of cybersecurity conducted resulted in an essentially positive assessment thanks both to company policies concerning the management and control of the information system and to the resolution of a number of critical issues that had emerged in the past.

    The Supervisory Body, including by way of the Internal Control Committee and the various control functions, also examined the outcome of audits conducted by the Supervisory Authority with regard to transparency and monitored the progress of work towards the calendar of deadlines in 2016.

    With regard to anatocism (compound interest), on 23 November 2016, ruling no. 21951/16 of the Court of Rome was published. With this ruling, the court rejected the bank's filings and confirmed the injunction issued by the Court of Milan. The bank appealed this ruling on 30 December 2016.

    For the sake of full disclosure, it should be noted that, in 2016, the Supervisory Board, together with the supervisory body, by way of their chairmen, issued two communications to the Bank of Italy in accordance with Article 52(2) of Italian Legislative Decree no. 231/2007 for certain omitted registrations that emerged following the assessment conducted by the Anti-money Laundering unit, the causes of which have been identified and corrective action has been taken.

    In terms of risk management, 2016 was characterized both by ordinary operations regarding the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), and the self-assessment of the system of managing operational risks, as well as by completion of activities concerning the Internal Rating System (IRS) within the AIRB project and by management of the ECB stress tests;

14. with regard to the adequacy of the system of accounting and administration, during periodic meetings with both the BPM Supervisory Board and the Banco BPM Board of Statutory Auditors aimed at exchanging information and conducting oversight by the auditing body, the Financial Reporting Manager did not report any significant deficiencies in operating or control processes that could compromise the assessment of the adequacy and actual application of accounting and administration procedures for the purposes of properly representing the facts of operations in accordance with applicable international accounting standards.

    Within the scope of the report for the purpose of issuing the certification required under Article 154-*bis* of the Consolidated Finance Act (which was examined by the Banco BPM Board of Statutory Auditors), the Financial Reporting Manager verified the essential adequacy and effective application of the procedures of accounting and administration that govern preparation of the financial statements, prepared in light of the assessment of the residual risk remaining in the areas analyzed and the mitigation efforts identified. In expressing this opinion, the Financial Reporting Manager also took account of the measures taken in 2016 in light of the information gathered in relation to the previous year, noting the existence of limited areas for improvement (mainly in terms of organization or the adoption/updating of internal regulations) that did not have an impact on the overall assessment expressed.

    As such, the Banco BPM Board of Statutory Auditors has no observations to be made concerning the adequacy of the system of accounting and administration or on its ability to properly represent the facts of operations. As concerns the accounting information contained in BPM's separate and consolidated financial statements for the year ended 31 December 2016, it should be noted that the Managing Director and the Financial Reporting Manager

have issued their certifications in accordance with Article 81-*ter* of CONSOB Regulation no. 11971 of 14 May 1999;

15. we have no comments to make on the adequacy of the instructions issued to BPM subsidiaries in order to acquire the information flows necessary to ensure timely fulfillment of all reporting obligations envisaged by law; control was also achieved through the presence of senior management and members of the Management Board in the Boards of Directors of the subsidiaries. The Supervisory Board, including by way of the Internal Control Committee, exchanged information during 2016 with the corresponding control bodies and examined the evidence submitted by the control functions of the BPM Parent Company. From these activities, no critical issues worthy of mention were revealed;
16. during the course of regular exchanges of information, pursuant to Article 150 of the Consolidated Finance Act, between the Supervisory Board, including by way of the Financial Reporting Commission, and the Independent Auditors, no major issues were revealed. The Supervisory Board reviewed the key aspects of the audit plan, including an analysis of the significant risks and the related measures for checking them;
17. Banco BPM complies with the Code of Corporate Governance promoted by Borsa Italiana and, with respect thereto, reference should be made to the Report on Corporate Governance – including in relation to BPM – which contains, in particular, information on the manner in which the recommendations contained in the Code were applied, or suitable information on the reasons for any partial or non-application;
18. from the supervisory work carried out by the Supervisory Board, no omissions, irregularities or wrongdoing were found worthy of mention to the shareholders based on the above. See the Report on Operations for information on disputes and the inspections carried out concerning the Bipiemme Group during the year. The BPM Supervisory Board did not make use of its right to call General Meetings of Members or Management Board meetings;
19. in conclusion, to complete the supervisory activities conducted by the Supervisory Board, the Banco BPM Board of Statutory Auditors does not feel that the conditions have been met that would require enacting the option to issue proposals to the shareholders in accordance with Article 153(2) of the Consolidated Finance Act concerning approval BPM's financial statements for the year ended 31 December 2016 or other issues within the scope of our responsibilities.

Milan, 16 March 2017

The Board of Statutory Auditors of Banco BPM S.p.A.

Marcello Priori, Chairman;

Gabriele Camillo Erba;

Maria Luisa Mosconi;

Claudia Rossi;

Alfonso Sonato

Report of the Independent Auditors

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Banco BPM SpA

Report on the financial statements

We have audited the accompanying financial statements of Banca Popolare di Milano Scarl, which comprise the balance sheet as of 31 December 2016, the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of Banco BPM SpA are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers SpA

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banca Popolare di Milano Scarl as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that as described in the financial statements and in the report on operations, on 1 January 2017 the merger between Banca Popolare di Milano Scarl and Banco Popolare Società Cooperativa became effective, leading to the establishment of Banco BPM SpA.

Other aspects

The financial statements of Banca Popolare di Milano Scarl for the year ended 31 December 2015, were audited by another auditor whose report dated 29 March 2016 expressed an unmodified opinion on the financial statements.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure of Banca Popolare di Milano Scarl referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Banco BPM SpA, with the financial statements of Banca Popolare di Milano Scarl as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Banca Popolare di Milano Scarl as of 31 December 2016.

Milan, 15 March 2017

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

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