BANCO BPM
GROUP

Consolidated 2017 Annual Report

Consolidated 2017
Annual Report

This document is a courtesy translation into English of the document in Italian approved by the Board of Directors. In case of any discrepancies or doubts between the English and the Italian versions of the Report, the Italian version prevails.

Banco BPM S.p.A.

Registered office: Piazza F. Meda, 4 - 20121 Milan
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona
Fully paid up share capital as at 31 December 2017: euro 7,100,000,000.00
Tax Code, VAT No. and Milan Companies' Register Enrolment No. 09722490969
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of the Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2017

Board of Directors

Chairman	Carlo Fratta Pasini
Acting Deputy Chairman	Mauro Paoloni (*)
Deputy Chairman	Guido Castellotti (*)
Deputy Chairman	Maurizio Comoli (*)
Managing Director	Giuseppe Castagna (*)
Directors	Mario Anolli
	Michele Cerqua
	Rita Laura D'Ecclesia
	Carlo Frascarolo
	Paola Elisabetta Maria Galbiati
	Cristina Galeotti
	Marisa Golo
	Piero Sergio Lonardi (*)
	Giulio Pedrollo
	Fabio Ravanelli
	Pier Francesco Saviotti (*)
	Manuela Soffientini
	Costanza Torricelli
	Cristina Zucchetti

(*) members of the Executive Committee

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

General Management

General Manager	Maurizio Faroni
Joint General Manager	Domenico De Angelis
Joint General Manager	Salvatore Poloni

Manager responsible for preparing the Company's financial reports

Gianpietro Val

Independent Auditors

PricewaterhouseCoopers S.p.A.

LETTER TO SHAREHOLDERS

Dear Shareholders,

you are hereby requested to approve the financial statements for the first financial year of Banco BPM S.p.A..
During this period, the Bank established from the merger between Banco Popolare and Banca Popolare di Milano had to achieve an initial important series of objectives.
One year later, they can be considered as achieved: ordinary operations showed positive trends, some of the best in the industry, for almost all indicators and generated margins that were able to absorb the prudential adjustments and write-downs that are still concentrated in the non-performing loans segment.
The Bank successfully migrated to a single information system and was able to reorganise its range of services into a single service and organisational model, compliant with the rules introduced by MiFID 2. Very recently, the ECB substantially validated the revision of the AIRB model and its extension to the risk assets originating from the BPM area, although with prudential effect from 31 March 2018. Significant progress was made in the coverage of non-performing loans, with regard both to write-down techniques and to the discounting of the relative values.
The Bank also commenced the process of replacing insurance partners UnipolSai and Aviva with Società Cattolica di Assicurazione, by entering into a far-reaching partnership agreement with the latter, although retaining ownership of a fair share of this important business.
Asset disposal activities, with a view to both strengthening capital and simplifying the structure of the Group, were particularly intense and significant in terms of the extent of the disposal perimeters (Aletti Gestielle SGR, Insurance Management entities and the Custodian Bank), the capital gains recorded (around euro 1 billion), the multiples obtained and, lastly, the choice of the transferee, which in the case of the disposal of Aletti Gestielle to Anima, enabled the Group to continue operating in the asset management business and at the same time to boost its reputation in a booming national industry, as the largest shareholder, together with an important entity such as Poste Italiane.
These extraordinary transactions enabled the Bank to prepare itself for the swift rises of NPL stock reduction targets, required by the financial markets and the Supervisory Authority.
Banco BPM has not just halved the time horizon, from 36 to 18 months, to dispose of the stock of NPL planned in the original business plan, it also managed to schedule a further large-scale reduction of the amount of NPL of around euro 5 billion for next year.
By virtue of this manoeuvre, by 2020, our Bank will have achieved a level of asset quality that is comparable with the best domestic performers, using solely internal resources.
Although asset disposal activities have had and will have extraordinarily positive impacts on the level of capitalisation, Group structure, asset quality and de-risking, there have, however, been some limited negative effects, that these activities necessarily have on future liquidity and profitability.
The prompt adjustments of the "funding plan" immediately introduced a further level of rigour and enabled us to confirm our objectives both in terms of risk management and profitability.
In brief, Banco BPM, after having overcome all of the challenges of this first year of business, is now picking up the pace in terms of improving asset quality, at the same time complying with capitalisation and liquidity levels, and more generally, risk management parameters, which are more than satisfactory. In this regard, the reduction of the final result, influenced by a further rise in the coverage of NPL, with a view to decreasing/deconsolidating the same, should be seen as an external factor which, also due to further measures taken to offset the same, is not expected to compromise the Group's future profitability.
These strategic objectives, and the mindset required to achieve them, have been discussed and agreed by the Board of Directors, the Managing Director, General Management and all employees, united in their determination to succeed.
Moreover, the need to concentrate on and prioritise asset quality, de-risking, maintaining comfortable capital profiles, is dependent both on the continuous production of legislation and regulations by the various Authorities, and on the fact that the improvement of our economy appears to still be only partial, and is slow to be reflected in the financial statements of banks, which are subject to international financial risk and domestic risk, also related to the upcoming political elections.

This does not however mean that we will postpone the fair capital remuneration of our ever patient shareholders, who are often also loyal customers; it means that we will prioritise removing the causes that have a negative effect on the share prices of our Bank with respect to dividend payments, payments that we would like to return to making from this financial year. "*Omnia vicit labor improbus*".

Verona/Milan, 7 February 2018

The Board of Directors

CONTENTS

Notice to convene the ordinary and extraordinary Shareholders' Meeting 8

REPORT ON OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 13

Banco BPM Group structure 14
Group territorial network 16
Group financial highlights and economic ratios 18

Group report on operations 21
Economic scenario 22
Significant events during the year 29
Results 37
Consolidated income statement figures 37
Consolidated balance sheet figures 55
Results by business segment 72
Commercial Network 74
Private & Investment Banking 92
Wealth Management 97
Leasing 98
Corporate Centre 99
Risk management 104
Supervisory, control and support activities 108
Human resources 108
Internal audit 111
Compliance 112
Research and development activities 114
Technological projects and investments 115
Communication 117
Investor Relations 119
Other information 120
Performance of the main Group companies 123
Outlook for business operations 130

Declaration of the Managing Director and the Manager responsible for preparing the Company's financial reports 133

Independent Auditors' Report on the consolidated financial statements 137

Consolidated financial statements 151
Consolidated Balance Sheet 153
Consolidated Income Statement 154
Consolidated statement of consolidated comprehensive income 155
Consolidated statement of changes in consolidated Shareholders' Equity 156
Consolidated statement of cash flows 158

Notes to the consolidated financial statements 161
Part A – Accounting policies 162
Part B – Information on the Consolidated Balance Sheet 230
Part C – Information on the Consolidated Income Statement 302
Part D – Statement of consolidated comprehensive income 319
Part E – Information on risks and related hedging policies 320
Part F – Information on consolidated shareholders' equity 417
Part G – Business combinations regarding companies or divisions 429
Part H – Transactions with related parties 439
Part I – Share-based payment agreements 444
Part L – Segment reporting 448

Attachments 453

BANCO BPM

NOTICE TO CONVENE THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING

In accordance with articles 13 and 43 of the Articles of Association, the ordinary and extraordinary Shareholders' Meeting of Banco BPM S.p.A. shall be convened in a single call on **Saturday, 7 April 2018 at 9 a.m. in Milan, at MiCo – Milano Congressi, Gate 3 – Viale Eginardo at the corner with Via Colleoni,** to discuss and deliberate the following

AGENDA

ORDINARY PART

1) Approval of the financial statement at 31 December 2017 of Banco BPM S.p.A., together with the reports of the Board of Directors and the Board of Statutory Auditors, as well as the Independent Auditor; presentation of the consolidated financial statement of Banco BPM Group. Allocation of the result of the financial year. Relevant and consequent resolutions.

2) The supplementation, on the proposal with justification of the Board of Statutory Auditors, of the fees of the independent auditor PricewaterhouseCoopers S.p.A., responsible for the statutory audit of the accounts for the period 2017-2025. Relevant and consequent resolutions.

3) Remuneration policies:
   a) decisions on remuneration and incentive policies; approval of the report in compliance with the current legal provisions. Relevant and consequent resolutions;
   b) proposal to approve the maximum limit of 2:1 of the ratio between the variable and fixed components of the remuneration for selected corporate figures. Relevant and consequent resolutions;
   c) proposal to approve the criteria for determining the remuneration to be agreed in the event of early conclusion of the employment contract and the early termination of the post, including the fixed limits of that remuneration. Relevant and consequent resolutions;
   d) a share-based compensation plan of Banco BPM S.p.A.: annual incentive scheme (2018). Relevant and consequent resolutions.

4) Request for authorisation of the purchase and sale of own shares in support of the share-based compensation plan of Banco BPM S.p.A.. Relevant and consequent resolutions.

EXTRAORDINARY PART

1) Proposals to amend articles 1.5., 5.3., 8.1., 8.2., 20.1.6., 24.2.2., 30.2. and 30.3. of the Articles of Association. Relevant and consequent resolutions.

The necessary information is provided below in compliance with the provisions of article 125-*bis* of the Legislative Decree 58/1998 and subsequent amendments (Consolidated Finance Law).

ATTENDANCE AT THE SHAREHOLDERS' MEETING AND REPRESENTATION

All shareholders with voting rights who, within the prescribed time limits under the law (**4 April 2018**, third trading day prior to the date of the 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 article 83-*sexies* of the Consolidated Finance Law and article 22 of the Bank of Italy – Consob Joint Order of 22/02/2008 and subsequent amendments/additions (the "Joint Order"), this notification to the Company issued by the authorised intermediary shall be based on the records at the end of the accounting day of the seventh trading day prior to the date of the Shareholders' Meeting (**27 March 2018 - so-called "*record date*"**).
Anyone whose shareholding has been recorded after the above date will not be entitled to attend and to vote at the Shareholders' Meeting.
The right to participate and vote shall remain valid should the notifications be received by the Company after the aforementioned date of 4 April 2018 as long as they are received by the start of the work of the Meeting.
Shareholders whose shares have already been deposited in a custody and administration account with the Parent Company Banco BPM S.p.A., with BPM S.p.A. or with Banca Aletti S.p.A., and as such have already been dematerialised, must in any case, under article 22 of the Joint Order, give specific instructions **by 3 April 2018** 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 have been deposited at other authorised intermediaries, note that, pursuant to the abovementioned article 22 of the Joint Order, instructions must still be submitted no later than **3 April 2018**, making sure to obtain a copy of the notification.

Shareholders in possession of shares that have not yet been dematerialised must turn them in to Banco BPM S.p.A. or to another Bank of the Group, or to another authorised intermediary for their dematerialisation, 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. (Group Corporate Affairs, Piazza Filippo Meda, 4 – 20121 Milan and Piazza Nogara, 2 – 37121 Verona).
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., of BPM S.p.A. or of Banca Aletti S.p.A. **by 3 April 2018;**
or
(ii) notify the proxies by certified e-mail to the address soci@pec.bancobpmspa.it **by 5 April 2018.**

Should the representative transmit or deliver to the Company a copy of the proxy, 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.

REPRESENTATIVE DESIGNATED BY THE COMPANY

The proxy may also be granted free of charge – 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 as "Designated Representative" in accordance with article 135-*undecies* of the Consolidated Finance Law, by the end of the second trading day prior to the Shareholders' Meeting (hence no later than **5 April 2018)**. 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 grant the proxy to the Designated Representative, please use the specific form available on the website (www.bancobpm.it - "Corporate Governance – Shareholders' Meetings").
For any information in this regard, contact Spafid S.p.A. (tel. +39 02.80687331) or Banco BPM S.p.A. (Group Corporate Affairs – toll free number +39 800 013 090).

The original proxy form, complete with the voting instructions reserved exclusively to the Designated Representative, must be submitted by the above deadline of 5 April 2018, to the following address: Spafid S.p.A., Foro Buonaparte, 10 – 20121 Milan, Ref. "Delega Assemblea Banco BPM 2018", 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 email 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, within 17 March 2018 (ten days of publication of this notice), for additions to the list of items on the Meeting's agenda (with the exception of matters to be resolved by the Shareholders' 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 article 125-*ter*, paragraph 1, Consolidated Finance Law), specifying in the request the additional subject-matters they propose, pursuant to article 13.3 of the Articles of Association, or proposing new resolutions on items already on the agenda, in compliance with article 126-*bis* of the Consolidated Finance Law. 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 (Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan) or by certified e-mail at the certified e-mail address soci@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 Shareholders' Meeting (22 March 2018). 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 THE MATTERS ON THE AGENDA

Shareholders with voting rights may ask questions on items on the agenda even before the Shareholders' Meeting, by sending them no later than the third day prior to the date of the Shareholders' Meeting (4 April 2018) by certified email to the address soci@pec.bancobpmspa.it or delivering them in a sealed envelope for the attention of the Group Corporate Affairs office at the head office in Piazza Filippo Meda, 4 - 20121 Milan.
The applicants must deliver to the Company – through their intermediary – 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

Shareholders' 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 Shareholders' Meeting at the latest. The Company may provide a comprehensive answer to questions covering the same content.

INFORMATION ON THE SHARE CAPITAL

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 holds no. 4,481,811 own shares.

DOCUMENTATION

The reports on the items on the agenda shall be made available to the public at the head office of Banco BPM and at Borsa Italiana, and shall be published on the corporate website (www.bancobpm.it, "Corporate Governance – Shareholders' Meeting" section), as well as on the website of the authorised central storage mechanism www.emarketstorage.com, in compliance with the terms and procedures under the law.
The Directors' explanatory reports on each of the items on the agenda, as well as any other document, including the proposed resolutions to be published before the Shareholders' Meeting, are made available to the public at the head office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., in addition to being published on the corporate website (www.bancobpm.it, *"Corporate Governance – Shareholders' Meetings"* section) as well as on the website of the authorised 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. to the certified email address soci@pec.bancobpmspa.it.

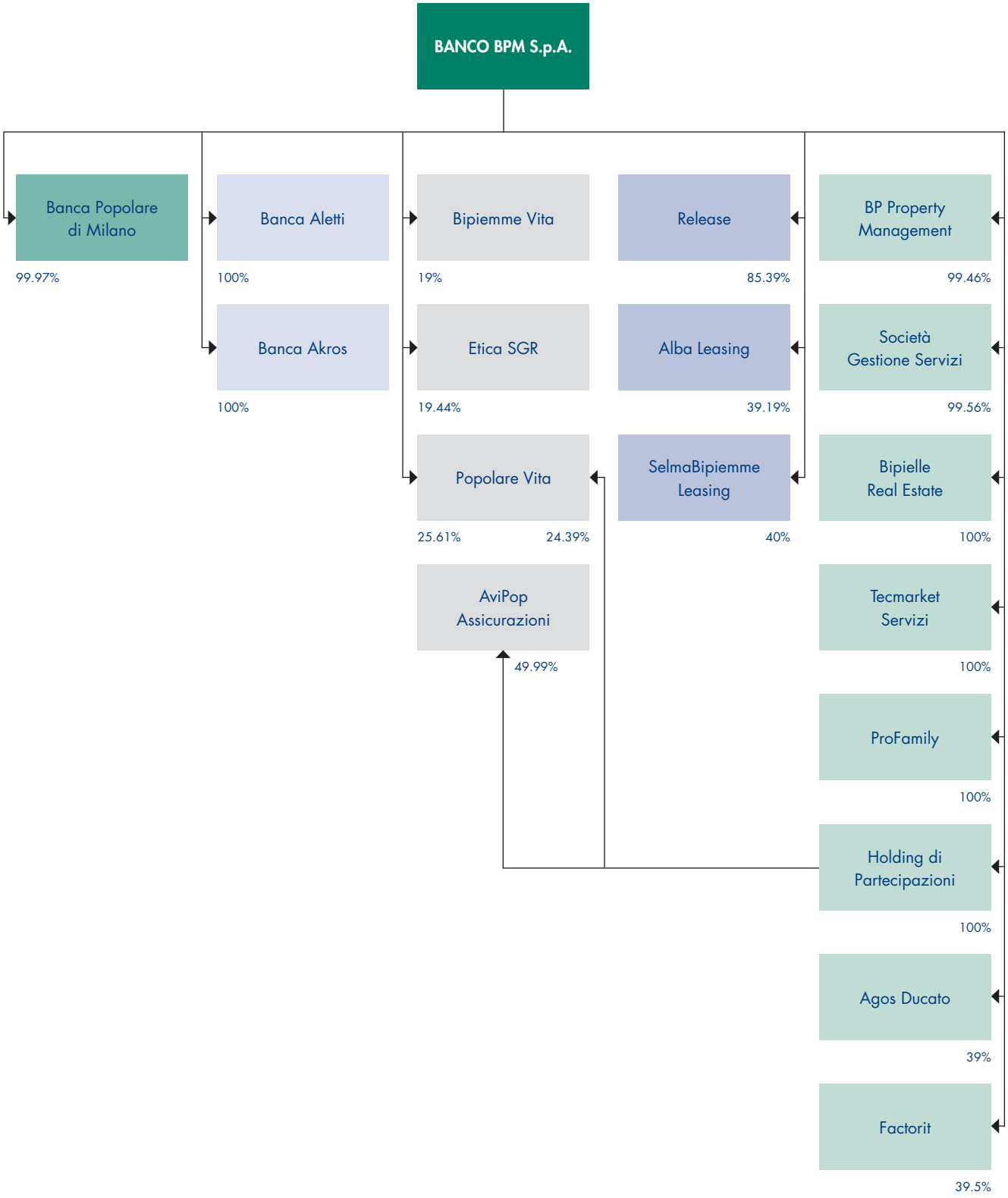
This notice to convene – issued also for the purposes of article 84 of the Consob Regulation 11971/99 and subsequent amendments (Issuers Regulation) – shall be published, in accordance with articles 125-*bis* of the Consolidated Finance Law and 13.4 of the Articles of Association, in the daily newspapers "Il Sole 24 Ore" and "MF" as well as by the other methods indicated above.
Further information regarding the methods of taking part in the Shareholders' Meeting may be requested from Banco BPM S.p.A. by calling the toll-free number +39 800 013 090 on working days from 9 a.m. to 5 p.m. or by sending an email to the certified email address soci@pec.bancobpmspa.it.
In accordance with the Privacy regulations (Legislative Decree 196/2003) the Data Controller of the personal data is Banco BPM S.p.A. Complete information on the processing of data with regard to the exercise of the rights relating to the Shareholders' Meeting is provided on the website www.bancobpm.it, *"Corporate Governance – Shareholders' Meeting"* section.

Milan-Verona, 7 March 2018

On behalf of the BOARD OF DIRECTORS
The Chairman
(Carlo Fratta Pasini)

Report on operations and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES

(*) Established on 31 December 2017. Note that the new Commercial Network model became operational from 2018, and envisages, inter alia, a new territorial structure for the Retail and Corporate networks.

(**) The segment includes the contribution of the subsidiary company Aletti Gestielle SGR, sold on 28 December 2017.

GROUP TERRITORIAL NETWORK

N° BRANCHES	
NORTH	1,786
CENTRE	345
SOUTH AND ISLANDS	189
TOTAL	2,320

Banco BPM Group Branches in Italy	Number
Banco BPM	1,662
Banca Popolare di Milano	604
Banca Aletti	51
Banca Akros	3
Total	**2,320**

Presence abroad

The Group's foreign operations include the subsidiary company Banca Aletti Suisse and Representative Offices in China (Hong King and Shanghai) and India (Mumbai).

Group financial highlights and economic ratios

Highlights

The highlights and main ratios of the Group, calculated on the basis of the reclassified financial statements, are presented below. The underlying calculations for these are illustrated in the "Results" section of this Report.

(in millions of euro)	2017	2016 aggregate	Change
Income statement figures			
Financial margin	2,279.5	2,254.7	1.1%
Net fee and commission income	1,950.4	1,824.7	6.9%
Operating income	4,483.8	4,656.0	(3.7%)
Operating expenses	(3,031.0)	(3,739.0)	(18.9%)
Income (loss) from operations	1,452.7	916.9	58.4%
Income (loss) before tax from continuing operations	(336.5)	(2,050.8)	(83.6%)
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	557.8	(1,334.7)	not significant
Parent Company's net income (loss)	2,616.4	(1,613.7)	not significant

(in millions of euro)	31/12/2017	31/12/2016 aggregate	Change
Balance sheet figures			
Total assets	161,206.8	168,254.9	(4.2%)
Loans to customers (gross)	120,918.2	120,668.6	0.2%
Financial assets and hedging derivatives	33,874.0	25,650.4	32.1%
Shareholders' equity	11,900.2	11,940.9	(0.3%)
Customers' financial assets			
Direct funding	107,509.8	116,773.1	(7.9%)
Indirect funding	101,328.5	101,729.9	(0.4%)
- Asset management	60,545.2	58,125.7	4.2%
- Mutual funds and SICAVs	37,605.3	34,358.4	9.5%
- Securities and fund management	6,941.1	6,936.1	0.1%
- Insurance policies	15,998.8	16,831.2	(4.9%)
- Administered assets	40,783.3	43,604.2	(6.5%)
Information on the organisation			
Average number of employees and other staff (*)	23,227	23,777	
Number of bank branches	2,320	2,349	

(*) Weighted average calculated on a monthly basis. This does not include the Directors and Statutory Auditors of Group Companies.

Financial and economic ratios and other Group figures

	2017 (*)
Alternative performance measures	
Profitability ratios (%)	
ROE	4.92%
Return On Assets (ROA)	0.35%
Financial margin/Operating income	50.84%
Net fee and commission income/Operating income	43.50%
Operating expenses/Operating income	67.60%
Operational productivity figures (000s of euro)	
Loans to customers (gross) per employee (**)	5,205.9
Operating income per employee (**)	193.0
Operating expenses per employee (**)	130.5
Credit risk ratios (%)	
Net bad loans / Loans to customers (net)	6.00%
Unlikely to pay / Loans to customers (net)	5.98%
Net bad loans / Shareholders' equity	54.52%
Other ratios	
Financial assets and hedging derivatives / Total assets	21.01%
Derivative assets / Total assets	1.33%
- trading derivatives / total assets	1.18%
- hedging derivatives / total assets	0.15%
Net trading derivatives (***) / Total assets	0.78%
Gross loans / Direct funding	112.47%
Regulatory capitalisation and liquidity ratios	
Common equity tier 1 ratio (CET1 capital ratio)	12.36%
Tier 1 capital ratio	12.66%
Total capital ratio	15.21%
Tier 1 capital ratio/Tangible assets	6.01%
Liquidity Coverage Ratio (LCR)	125.61%
Leverage ratio	5.59%
Banco BPM stock	
Number of outstanding shares	1,515,182,126
Official closing prices of the stock	
- Final	2.620
- Maximum	3.508
- Minimum	2.162
- Average	2.863
Basic EPS	0.368
Diluted EPS	0.368

(*) The ratios are calculated excluding the merger difference (badwill in the income statement) and the impairment is recognised on goodwill and other intangible assets.
(**) Arithmetic average calculated on a monthly basis which does not include the Directors and Statutory Auditors of Group companies, the amount of which is shown in the previous table.
(***) The aggregate of net trading derivatives corresponds to the mismatch, in absolute terms, between the derivatives included under item 20 of assets in the Balance Sheet "Financial assets held for trading" and item 40 of liabilities "Financial liabilities held for trading".

The alternative performance measures (APMs) shown in the table above have been identified by the directors to facilitate the understanding of the economic and financial performance of the Banco BPM Group's operations. The APMs are not envisaged in IAS/IFRS and, although they are calculated based on financial statement data, they are not subject to audit.
The above-mentioned measures are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), applicable as of 3 July 2016, and incorporated in Consob communication no. 0092543 of 3 December 2015.
In this regard, it should be specified that for each APM the calculation formula has been provided, and the figures used in the calculations can be identified using the information contained in the table above or in the reclassified financial statements provided in the "Results" section of this Report.

Group report on operations

ECONOMIC SCENARIO

The international scenario

2017 was characterised by stronger global economic recovery due to the reduction of several elements of uncertainty. At the beginning of the year, growth forecasts were actually more cautious due to fears relating to several geopolitical risks, which then lessened. More specifically, the threat of US protectionism, which had caused concern when the Trump Administration was sworn in, did not materialise to the extent anticipated and the results of political consultations in Holland, France above all and Germany significantly diminished prospects of a populist and anti-Eu drift, fuelled by the results of the Brexit referendum and the US Presidential elections.
The fall in the political risk perceived in the Eurozone went hand in hand with a strengthening of the area's economy, combined with other positive contributory factors that impacted the pace of the recovery. International trade recorded a strong uptrend, bearing witness to the extent of growth at global level and at the same time representing one of the main drivers: the most recent estimates point to an increase in trade in 2017 close to 5%, a higher figure than that forecast for world GDP for the first time in two years. Growth in China continued to maintain the levels predicted by the authorities, making a significant contribution to the above-mentioned trend of international trade. As regards global monetary policies, despite the inversion of the trend launched by the FED and the measures adopted by the Chinese authorities to curb the rising indebtedness of companies, they continued mostly to be characterised by an expansive stance, maintaining conditions of high liquidity for retail customers and enterprise. Inflation showed some signs of recovery from the lows of 2016 in the main advanced economies, although it lacks decisiveness, especially as regards the underlying components. The major share markets, reflecting the growth prospects and the liquidity conditions, recorded steady rises in a context characterised by very low price volatility. In these expansive circumstances, the climate of confidence of retail customers and businesses improved and reached high levels in many countries, boosting consumption and investment. The most recent estimates of the IMF place the increase of global GDP for 2017 at +3.6% (+3.2% in 2016) and confirm expectations of the continuation of the current expansive phase of the world economy into 2018 (+3.7%).

More specifically, for the US economy, initial final estimates for 2017 indicate a growth rate of +2.3% for GDP, a faster rate of growth than the increase of 1.5% recorded in 2016. More specifically, almost all of the main components contributed to the positive result. Household consumption recorded steady rises, +2.7%, in line with the situation in 2016. Gross fixed investments represented the element with the most marked change against 2016, rising by 3.2% (-1.6% in the previous year), with a peak of +4.8% for the machinery and equipment component (-3.4% in 2016); instead, the trend of investments in residential housing slowed down: +1.7% against +5.5% in 2016. Household spending was also sustained by the weak inflationary trend which, contrary to the initial peak in February, closed the year at the levels recorded for the end of 2016: the yoy rise of consumer prices in December was actually 2.1%. The lively tone of the labour market further contributed to the increase in consumption. The number of people in employment rose on a par with the participation rate of the workforce, while the rate of unemployment fell at the end of 2017 to 4.1% compared to 4.8% in December 2016, close to the lows from the beginning of the century. Real wages continued to rise, albeit to a lesser extent compared to previous expansive periods. This latter development, even more so than the weak inflationary trend, represents the greatest element of uncertainty for the monetary decisions of the FED, which is seeking to normalise its budget and the level of reference interest rates in this expansive economic scenario. The tax reform promised during the electoral campaign by President Trump only received the green light from the US Congress in December, by a slim majority. One of the main provisions of the new legislation, which has been the topic of heated debate during the year, and whose impact is still to be evaluated, is to cut the corporate tax rate, as well as to implement measures that will encourage the return of capital held abroad by US companies.
In China, as already mentioned, the economy continue to record an uptrend, also due to the positive performance of the global economy and despite the end of expansive budget policy incentives, which led to a slowdown in investments in the second half of the year. GDP actually rose by 6.8% yoy in the fourth quarter, while available estimates indicate a figure of +6.9% for 2017 as a whole (higher than the 6.5% objective set by the Government). In this context, after having reached a peak of +1.9% qoq in October, inflation figures cooled down to +1.8% in December, still lower than the 3% objective set by the Government.
The 19th National Congress of the Communist Party of China, held in the Autumn, approved the further strengthening of President Xi Jinping's position and endorsed the subsequent launch of reforms which will encourage

a greater opening of the Chinese financial markets to foreign operators and establish limits to the role of "shadow banking" in the economy of the Asian superpower.

Also in Japan, economic growth exceeded expectations at the beginning of the year, sustained by the highly expansive tone of monetary policy. In the third quarter, GDP rose, in fact, by 2.5% qoq, in annualised terms, and available estimates indicate an annual growth of 1.7% for 2017. The components of demand shifted, with a fall in consumption, especially during the summer months, and an acceleration of the non-residential private investment component, and a significant and unexpected improvement in exports, especially in the first half of the year. The labour market, reflecting these positive developments, recorded a positive trend, with the rate of unemployment recording 2.7% in November, the lowest figure in 24 years. Despite the lively GDP trend and the employment situation, the inflationary trend remained weak, +0.6% yoy, a long way from the 2% objective set by the monetary authorities.

The international dollar prices of the main non-energy commodities, given the positive economic trend and the lively Chinese demand in particular, mostly rose decidedly over the year. On the other hand, the price of crude oil, after an initial period of weakness in the first half of the year, closed the year with a sudden uptrend, surpassing 60 dollars per barrel, due to extraordinarily aggressive speculation, even though the OPEC meeting held in November did not reach any important decisions in terms of production cuts.
On the foreign exchange markets, the year was characterised by the continuous strengthening of the Euro against the dollar, despite expectations of higher interest rates in the United States. The exchange rate of the single currency rose from a cross rate of around 1.05 at the beginning of the year, from one of the lowest levels in 15 years, to around 1.20 towards the end of the year, one of the highest levels in the past 3 years.

The situation in Europe and Italy

The vigour of the economic cycle in the Eurozone continued to be a constant source of surprise. The strength of domestic demand was one of the most surprising factors, especially due to the rate of growth of household consumption, stimulated by a positive trend in the labour market and a rise in household buying power given the still very modest inflationary trend. Despite the appreciation of the Euro, production benefitted in primis from international demand, which continued to fairly strong, and from the favourable tone of domestic demand, due to the wide supply of available labour.
The combination of high economic growth and low inflation, widespread in EMU countries, boosted a rise in GDP, which reached +2.6% in the third quarter, compared to the same quarter of 2016 (+0.6% against the previous quarter) while initial Eurostat estimates indicate an annual increase for 2017 as a whole of +2.5%. Looking at the 3rd quarter in more detail, the positive contribution of gross fixed investments should be noted, +1.1% in the period (+2.2% in the previous one); results were also boosted by the positive trend of exports, which rose by 1.2% in the quarter (+1.0% in the previous one) despite the appreciation of the Euro.
The positive scenario in the Eurozone as a whole continues to hide the different trends of the economies of the Member countries, although these differences have lessened over the course of the last few quarters. On one hand, we have the German and Spanish economies. The former, which didn't suffer any repercussions from the sovereign debt crisis, enjoys a more advanced cyclic position (GDP of +2.8% in the third quarter) and, instead, recorded bottlenecks in development due to a lack of specialist manpower, the latter which, benefitting from the numerous reforms launched, recorded a more lively growth trend (GDP of +3.1% in the third quarter). On the other hand, there continue to be Member countries experiencing considerable problems in balancing public finances and greater growth difficulties, although 2017 actually marked a cyclical turnaround for several of these, including Italy. Overall, the relatively encouraging growth rate further boosted, on average, the already positive tone of the labour market in the Eurozone and unemployment fell to 8.7% in December 2017, compared to 9.7% in the corresponding period of 2016; consumer price trends remained fairly low-key, despite the expansive incentives of monetary policy: in December 2017, the rate of inflation settled at +1.4% against 1.1% recorded at the end of 2016 (1.5% in November for EU-19 and +1.8% for Germany).

In the favourable European and international scenario, Italy recorded a faster pace of economic recovery, which boosted GDP to potential output levels. Although still wide, the gap that has been created over the last decade with the more dynamic economies of the Eurozone, lessened in 2017, also due to a mix of expansive tax policies, very relaxed monetary conditions and the drive of foreign trade, which gave the country an even more lively export trend than the average prevailing in the Eurozone.

The growth rate of GDP at the end of the third quarter reached +1.7% yoy (+0.4% against the previous quarter), a very positive figure which supports the estimate of a 1.6% annual increase in GDP at year end, the highest figure in seven years and considerably higher than the forecasts made at the beginning of the year (+0.9% in March 2017). More specifically, in terms of components, the figure at the end of the third quarter received a positive contribution from household consumption (+0.3% against the second quarter and +1.5% against the corresponding period of last year), fixed gross investments (+3.0% and +4.6% respectively), in particular from the machinery and equipment component (+6.0% and +5.4%) as well as from good export performance. Imports rose (+1.2% and +6.0%), although less than exports (+1.6% and +5.3%) and slowed down against the previous quarter, permitting a positive contribution of the foreign segment to GDP of two decimal points. Lastly, stock fell after the accumulation made in the first six months, which has a slightly negative impact on GDP.
In the first 9 months of the year, the rise in household consumption therefore continued, although at times at a slower pace than the previous two years, stimulated above all by positive employment figures. However, the most interesting development in the year was the greater boost to GDP originating from fixed gross investments, a critical component in the initial stages of the recovery. After a weak start to the year, also due to uncertainties as to the continuation of tax incentives due to lapse, investments then recovered momentum, driven by a positive demand trend and favourable lending conditions. Initially, investments in vehicles were the most dynamic, as in 2016. Subsequently, all types of investment recorded a mode decisive and widespread uptrend, in particular those in capital goods, most likely driven by a demand for goods with a high technological content, which benefitted from the tax incentives launched in the meantime (Industria 4.0). Investments in construction also recorded a positive trend in the last quarter.
The good performance of exports contributed to a further improvement in the current account surplus of the balance of payments, which in the first eight months of the year reached 2.7% of GDP. At the same time, real estate prices stabilised, which in some circumstances even showed some signs of recovery.
The favourable scenario also had a positive impact on the labour market, supporting the improvement that have been underway for the past three quarters: the rate of employment reached 58.4% in November against 57.3% twelve months previously, while the rate of unemployment fell to 11.0% (11.9% in November 2016). Moreover, the economic recovery has not fuelled any significant inflationary pressure: consumer prices have started to show a more lively trend, but without any particularly important peaks, all to the benefit, as already mentioned, of the buying power of households: on average over the year, they recorded an increase of 1.2% (against a slight fall in 2016, -0.1%), while underlying inflation, net of energy and fresh food prices, reached +0.7%, a slightly higher figure than 2016 (+0.5%).
In October, to emphasise the faster pace of the economy and the better growth prospects, Standard & Poor's decided to upgrade Italy's rating by one notch, the first increase in our sovereign rating by one of the main international rating agencies since 2002.
Despite the economic scenario, in 2017 public finances continued to present elements of difficulty, although demonstrating a gradual convergence towards equilibrium. In fact, while total income rose by 1.3% in the first 9 months of the year compared to the same period of 2016 (+1.1% in the 3rd quarter against the same quarter of 2016), total expenditure rose by 1.7% (+1.5%). Also taking the above into account, at the end of the third quarter, the plan to reach breakeven was revised, making the same more gradual, while a budget manoeuvre was set on place which increases the budget deficit with respect to the yoy figure, expected to be 2.1% of GDP in 2017 (against 2.5% in 2017). The public debt to GDP ratio should finally stabilise: for 2017, it is estimated to be 131.8% (132.0% in 2016).
The fiscal manoeuvre at the end of the year extended investment incentives: maxi-depreciation and amortisation continued to be valid, but fell from 140 to 130%, while hyper-depreciation and amortisation was maintained at 250%.

Monetary policy interventions

During the year, the process to normalise US monetary policy continued to take shape, given the favourable conditions of the US economy. In fact, the Federal Reserve continued with its plan to raise the reference tax rates, bringing the target range on FED Funds to 1.00%-1.25% in June (the fourth tax hike since 2015) and then to 1.25%-1.50% in December. Furthermore, in the second half of the year, the process to gradually downsize the securities held in the FED's portfolio commenced. The announcement of the plan to achieve this was made at a meeting of the FOMC in June, and the decision to launch it was taken in October. The plan envisages reducing the reinvestment of the income resulting from maturing securities initially for an amount of 10 billion USD per month, split between Treasury (60%) and Asset-Backed Securities (40%), gradually increasing this amount over the course if one year, up

to 50 billion USD per month. This monthly reduction will then be maintained unchanged until the balance sheet assets are normalised, falling from the record high of over 4,500 billion USD.
In his last address to Congress in November, the departing President of the FED, Janet Yellen, reiterated the importance of normalising monetary policy by gradually raising policy rates until they reach a "neutral" level. In the opinion of the commentators, the appointed successor, Jerome Powell, who will formally take office in February, should continue with the direction of current monetary policy, while, unlike his predecessor, he would appear to be more open to pressure from the Trump Administration to implement measures to deregulate the US financial system.
Instead, the European Central Bank maintained its current monetary policy approach, continuing in the direction of significant quantitative easing and envisaging the substantial stability of the reference interest rates at current levels. On numerous occasions, the Executive Committee of the ECB confirmed its opinion that a high degree of quantitative easing continues to be needed to guarantee achieving target inflation. Nevertheless, even though forecasts see inflation rising, also due to the fact that the Euro is gaining ground, debate began in the ECB as to the programme to normalise the securities purchase plan that started in the first few months of 2015, and more generally on the possibility of reducing the current level of monetary stimulus. In March, the last planned longer-term refinancing operation of the Eurosystem took place (Targeted Longer-Term Refinancing Operations, TLTRO). In the press release made following the executive committee meeting held in June, President Draghi, in the wake of the upward revision of growth forecasts for the area, defined deflation as a tail risk, eliminating the possibility that rates will be lowered any further from forward guidance, although not "tying his hands" should said risk re-emerge. At the October meeting, the ECB's decision to prolong the quantitative easing programme to at least September 2018 was announced to the markets, although from January 2018, net monthly purchases of securities are to be reduced to euro 30 billion (from the euro 60 billion in force at the time), and if necessary, extending this beyond said term. The amount indicated adds to the continuous re-investment of the income resulting from maturing securities, a measure that will continue beyond the above-indicated end date of the programme. At the December meeting, the council decided to gradually release information to the public to prepare the markets, from the beginning of 2018, for the slow but progressive shift in the measures taken by the Frankfurt Institute towards normalising monetary policy if the Eurozone's economy continues to get stronger. The purchases of securities made resulted, in mid-October, in euro 1,774 billion Government securities in the hands of the European Central Bank (of which over euro 300 billion issued by the Italian authorities) and euro 234 billion.

Financial market performance

The expansive economic scenario, expectations of higher company profits and greater liquidity still guaranteed by the monetary authorities encouraged a positive performance in the major international share markets, in particular in the US, in a climate of trade still characterised by price volatility at record lows. Not even the climate of tension with the North Korean Government following repeated atomic experiments and missile launches had a lasting negative influence on share prices or generated a significant increase in implicit price volatility. In the United States, the main indexes marked a series of new all-time records and made consistent progress: the Dow Jones rose by 25.1%, Standard & Poor's 500 rose by 19.4% and the Nasdaq by an incredible 31.5%. This outstanding performance was also reflected in some of the main Asian stock markets, Hong Kong and Tokyo in primis, which rose respectively by 25.1%, to record highs and 19.1% (Nikkei 225). In the emerging markets, developments were even more evident: the Msci Emerging market index (USD) rose by 34.3%. In Europe, share price increases were less pronounced, but positive in any event: the Eurostoxx 50 rose by 6.5% in the same period, the Dax by 12.5%, while the FTSEMib proved to be one of the best indices of the Eurozone, with an increase of 13.6%. The favourable climate also continued into the first few weeks of 2018.
The European banking sector's shares also performed well, although not to the extent of other segments. In the wake of the leap in prices recorded in the last quarter of 2016, in 2017, the Eurostoxx banks index reported a performance of +8.1%. In Italy, share prices increased even more, +14.9%, although there were periods in which they fell, particularly in the Autumn, following the announcement by the regulatory authorities regarding additional regulations on the management of non-performing loans. During the same period, the perceived risk of Italian banks fell considerably due primarily to the greater capital solidity of the banking system and to the solutions to the major crisis situations: the premiums of credit default swaps (CDS) relating to bank securities fell on average by around 100 basis points, i.e. they were practically halved.
The yield trend of American and German bonds, although with a certain variability, continued along the underlying uptrend that emerged in the last quarter of 2016, consistent with the improvement of the economic scenario, although it did not record a marked difference in the balance between the beginning and end of the year. Following the US Presidential elections, greater expectations of a rise in interest rates by the FED drove the yield of the 10-year

T-bond from around 1.5% at the end of September to briefly surpassing 2.5% at the beginning of 2017, returning the yield of the 10-year Bund to positive territory. During the current year, the yields of the T-bond therefore stabilised, returning close to 2% in the Autumn, in the wake of weaker inflation figures, closing the year at around 2.40%. The yield of the 10-year German bond fluctuated mostly in a range of 0.20% and 0.50%, with a peak recorded over the Summer of 0.60% in the wake of the first rumours about tapering by the ECB. The performance of the BTP and of other Eurozone bonds, to a greater or lesser extent, initially reflected the uncertainty related to the risk of electoral results that are unfavourable to European integration in various countries, which led to a generalised rise in sovereign risk, partly reabsorbed after the Dutch elections. The BTP-BUND spread, which started out at 160 points at the beginning of the year, rose to over 200 basis points at times of greater tension, during the Spring, to then fall back to around 140 basis points, in the wake of the economic uptrend and the passing of anti-European fears, closing the year at its initial levels following the dissolution of the chambers. The two downgrades made in January by DBRS did not have any great repercussions on Italian Government bonds, although they did lead to a rise in haircuts on refinancing operations with the ECB, nor did the downgrade by Fitch in April or the timid upgrade by Standard & Poor's. Even the announcement by the ECB that the amount of Quantitative Easing was to be reduced from January failed to trigger any significant changes in prices.
The positive climate in the financial markets also benefitted corporate bonds issued on both sides of the Atlantic, with a general narrowing of the spreads of corporate bonds compared to risk-free bonds (Government bonds), in particular high-yield bonds. Towards the end of the year, some inversions of the trend were seen in the US markets.

Domestic banking scenario

As the signs of the faster pace of economic activity grew stronger, the recovery of loans to retail customers and enterprise followed suit, albeit at more modest growth rates.
In this context, in December 2017, based on data issued by the ABI, bank credit to the private sector (calculated including loans not recorded on bank financial statements as securitised and net of changes in assets not related to transactions) rose by 2.2% yoy, while that to retail customers and enterprise rose by +2.3%. In any event, retail customers fuelled the recovery in lending, in fact in November (latest available figures), the relative stock of loans recorded a rise of +2.8%, those to enterprise only rose by +0.3% annually. The lacklustre trend of loans to companies, even given the substantially strong economic scenario, was due to factors relating to both the demand for and the supply of credit. As regards enterprise, the recovery of investments saw a greater tendency to seek alternative forms of financing with respect to the banks, such as the use of liquidity generated by the improved economic situation and greater recourse to the markets. Although the supply of credit appears to be slowing down, as confirmed by the most recent surveys on bank lending in the Eurozone (Bank Lending Survey), it has been mostly directed towards more solid and larger companies, which are more easily able to obtain the alternative sources cited previously.
Retail customers, both consumer credit (+10.1% yoy in November), with a greater rise in the North, and the total amount of active mortgage loans of retail customers (+3.4% in November), which rose to the same extent throughout Italy, contributed to the increase in loans. The rise in consumer credit was stimulated by the increase of spending on durable goods. Mortgage loans of retail customers were sustained by the moderate increase in income, by interest rates that continue to be low and by optimistic prospects for the real estate market.
As regards domestic credit quality, 2017 marked and important turning point, due to a steady improvement resulting not only from the stronger economic scenario, but also from the careful management of creditworthiness and of the stock of non-performing loans, as demonstrated by the important securitisation transactions concluded over the year, as well as by policies for higher provisions encouraged by the Supervisory Authority. Over the year, in fact, also considering the transactions of the two Venetian people's banks, acquired by the Intesa Group and of MPS, the total amount of disposals of non-performing loans made by domestic Banks was estimated to have reached a record value of around euro 80 billion (17 billion in 2016 and 19 billion in 2015).
The improvement in credit quality was also extremely important. In the third quarter, the flow of new bad loans as a percentage of total loans, net of seasonal factors and over the year, fell by 1.7%, in line with the average figure for the two year period before the start of the global financial crisis. Furthermore, the pace at which the ratio of non-performing loans and total loans is falling has increased; in September it recorded 15.3%, 2 percentage points lower than the figures for the end of 2016. In the same period, the NPE ratio, net of adjustments, was 7.8% due to the improvement in the coverage rate of non-performing loans (54%). As at November 2017 (latest available figure), net bad loans actually fell significantly over the year from euro 86.8 billion in December (85.2 billion in November) to euro 66.3 billion, corresponding to a decrease of -24%.

The total stock of direct funding from customers (deposits and bonds) at the end of 2017 was stable compared to the end of 2016. The trend of deposits was positive, while the bond component of bank funding continues to fall. Again in 2017, customers confirmed their preference for short-term forms of deposit rather than medium-long term ones. Therefore deposits of resident customers continue to be reorganised (into current accounts, certificates of deposit, repurchase agreements net of transactions with central counterparties and deposits with a set term connected to disposals of loans); as at November 2017, the latter recorded a yoy increase of +3.6% (euro 50.5 billion annually), continuing to be the preferred of the various savings options due to the low level of interest rates and the flat yield curve. On the contrary, the stock of bank bonds fell, over the same time period, by -15.2%, also due to the high risk premium associated to the bonds issued by banks generated by the entry into force of bank bail-out regulations.
The trend of bank interest income and expense rates for the period is the combined result of the above-mentioned factors. The bank interest spread, calculated as the difference between the average interest rate on loans and the average interest rate on total funding from retail and non-financial corporate customers, consequently fell 8 percentage points, from 1.88% in December 2016 to 1.80% in December 2017. At the end of the year, the mark-up (calculated as the difference between the average interest rate on the above loans and the 3-month Euribor rate) fell to 302 basis points (-21 basis points compared to last year), while the mark-down (calculated as the difference between the 3-month Euribor rate and the interest rate on total funding) closed 9 basis points down, falling from 131 to 122 basis points in the same period.
Over the year as a whole, the conditions of bank solidity improved considerably. The Common Equity Tier 1 (CET1) of significant banks should, according to the estimates provided by the Bank of Italy, have reached 12.6% in the last quarter of the year from the 11.8% recorded at the end of the first quarter.

Lastly, the asset management industry recorded net funding of euro +97.5 billion (+54.9 billion in 2016). Assets invested in open-ended Italian and foreign mutual funds at the end of the same period rose, reaching euro 1,013.3 billion, against euro 903.3 billion in the previous year. 25.6% of this figure is represented by Italian funds, while the remaining 74.4% is represented by foreign funds.

Structural changes for the domestic banking system

At the start of the year, the Bank of Italy approved entering into the contract for the disposal to Ubi Banca of three of the four banks established with the resolution - in November 2015 - of Banca delle Marche, Banca dell'Etruria e del Lazio, Cassa di Risparmio di Chieti and Cassa di Risparmio di Ferrara. On 30 June, the disposal to BPER Banca of Nuova Cassa di Risparmio di Ferrara was completed, closing the chapter on the events surrounding the four above-mentioned banks subject to the resolution procedure.
In 2017, the issues regarding Italy's main banking groups in difficulty, the Banche Venete and Monte Paschi di Siena, as well as the Carige Banking Group were successfully resolved. After the unsuccessful outcome of interventions regarding the Atlante fund, committed to attempting the recovery of the above-mentioned groups, complicated by several obstacles on the regulatory front, by decree of 25 June the Ministry for the Economy and Finance, on the proposal of the Bank of Italy, first resolved the crisis of Banca Popolare di Vicenza and Veneto Banca. Indeed, the two banks were put into administrative compulsory liquidation and their non-performing loans (corresponding to around euro 18 billion) will be sold to the national Bad Bank SGA, assigned, directly or indirectly with their subsequent management. The healthy part of the assets and liabilities of the two banks was sold, on the basis of an open and competitive procedure working alongside state support, to Intesa Sanpaolo for the symbolic price of one euro. Thus the continuation of operations was guaranteed and the impact on the national economy was minimised. The bail-in procedure was not actually applied, although the shareholders and subordinated bondholders in any event contributed to covering the losses, without prejudice to the provision of a lump-sum reimbursement (recovery) for retail subordinated bondholders subject to specific conditions. With regard to Banca MPS on the other hand, following the approval of the restructuring plan by the European authorities on 4 July, the procedure for its access to the precautionary recapitalisation set forth in the BRRD Directive was concluded. Therefore, in August, the precautionary capitalisation of the Monte dei Paschi di Siena Banking Group was completed, entailing burden sharing with the holders of subordinate Lower Tier II bonds of around euro 4.7 billion. At the same time, the Ministry for the Economy and Finance subscribed a share capital increase for the Group of euro 4.7 billion. The Atlante Fund was granted the exclusive right to manage and assign the bad loans of MPS (euro 29.4 billion at the end of 2016). Lastly, Banca Carige, another institution in significant difficulty, concluded a securitisation of doubtful loans for euro 938 million and at year end sold a further tranche of euro 1.2 billion to Credito Fondiario, and in the same period also completed a share capital increase, an integral part of the capital strengthening plan announced mid-

September, subscribed for a total of over euro 544 million, higher than the target set by the ECB of euro 500 million.
Lastly, at the beginning of the fourth quarter, the ECB announced an addition to legislation regarding the management of non-performing loans applicable to significant banks for supervisory purposes. More specifically, according to the draft revision, placed under consultation with the above-cited banks, banks should fully write down new non-performing positions within two years for the portion covered by a guarantee, and within seven years for the uncovered portion. The provision was initially set to take effect from 1 January 2018, but it has been postponed.

SIGNIFICANT EVENTS DURING THE YEAR

The main events which occurred during the year ending 31 December 2017 are described below.

The business combination between Banco Popolare and Banca Popolare di Milano

On 1 January 2017, the merger between Banco Popolare Soc. Coop. ("Banco Popolare") and Banca Popolare di Milano S.c. a r.l. ("BPM") was finalised, creating a new banking company, with the legal status of a joint stock company, called Banco BPM S.p.A., parent company of the Banking Group of the same name.
In detail, the proposed merger and the articles of association of the new Parent Company, approved by the Board of Directors of Banco Popolare and the Management Board of Banca Popolare di Milano on 24 May 2016 - in line with what is established in the memorandum of understanding (the "Memorandum") signed by the two banks in March 2016 - were approved by the respective Extraordinary Shareholders' Meetings on 15 October 2016, effective as of 1 January 2017.

The main steps that led to the completion of the business combination during the course of 2016, are summarised below.

Structure of the transaction

As set forth in the Memorandum signed in March 2016, the operation took place through what is known as a "merger of equals", namely through the establishment of a new parent company, which will conduct banking activities and act as a holding company for the group at the same time, as well as coordinating and supervising all of the companies belonging to the new Group.
The registered office of the new Parent Company is in Milan, and its administrative headquarters are in Verona.
Therefore, the outcome of this merger was the transformation of Banco Popolare and of Banca Popolare di Milano from cooperative companies into a joint stock company, in compliance with the provisions of the Cooperative Bank Reform.

The main steps of the process towards achieving the merger

The management bodies of the parties have agreed that, given their respective contributions, the impact of the share capital increase undertaken by Banco Popolare, and the distribution of ordinary dividends from the profit for the year ending 31 December 2015 to the shareholders of Banco Popolare and Banca Popolare di Milano, the merger would be based on the following shareholding percentages:

- the shareholders of Banco Popolare were allocated 54.626% of the share capital of the new Parent Company;
- the shareholders of BPM were allocated 45.374% of the share capital of the new Parent Company.

In May 2016, the cross-checked confirmatory due diligence exercise conducted on the two banks was concluded, based on which no elements emerged that required an adjustment to the shareholding percentages.
Following the completion of Banco Popolare's share capital increase transaction and in application of the above-cited shareholding percentages, the rates of exchange for the merger between Banco Popolare and BPM were established as 1 share of the new Parent Company for each Banco Popolare share and 1 share of the new Parent Company for every 6.386 shares of BPM in issue at the time the merger takes effect.
In July 2016, the transaction received the approval of the Monopolies and Mergers Commission, pursuant to art. 16, paragraph 4 of Italian Law no. 287 of 10 October 1990.
Following the completion of the preliminary stage, the approval process was concluded in September 2016 and on 8 September 2016, the Bank of Italy authorised the merger in accordance with the provisions of art. 57 of the Consolidated Banking Law. On 9 September 2016, the European Central Bank issued the authorisation for the new Parent Company to exercise banking activities. In October 2016, IVASS (Italian Supervisory Body for Insurance companies) authorised the new Parent Company to hold qualified equity investments in the insurance companies AviPop Assicurazioni, AviPop Vita, Popolare Vita, Bipiemme Vita and Bipiemme Assicurazioni, which belong to the companies involved in the merger.

The Extraordinary shareholders' meetings of Banco Popolare and of Banca Popolare di Milano, held on 15 October 2016, approved the Proposed Merger as well as the deed of incorporation and the articles of association of the company resulting from the merger, called Banco BPM S.p.A.
Following these resolutions, the next steps of the merger were launched, entailing a request for the newly-issued shares of Banco BPM to be listed on the Electronic Equity Market (MTA), managed by Borsa Italiana.
On 13 December 2016, the merger deed was signed.

The finalisation of the transaction

The merger transaction was finalised following the registration of the merger deed on the relevant Company Registers of Verona and Milan on 1 January 2017. The merger took effect from an accounting and tax perspective on the same date.
The new Parent Company Banco BPM S.p.A. has an initial share capital of euro 7,100,000,000, represented by 1,515,182,126 ordinary shares with no nominal value. The shares were listed on the MTA from 2 January 2017, at the same time as trading of the shares of the two banks participating in the merger was revoked.

Repayment of shares subject to withdrawal

The Merger resulting in the incorporation of Banco BPM entailed the transformation of the two participating banks from cooperative companies to joint stock companies (known as a "transformational merger"). For this reason, the shareholders and the members that did not participate in the resolutions of the shareholders' meeting that approved the Merger, were able to exercise their right to withdraw pursuant to art. 2437 of the Italian Civil Code (the "Right to Withdraw").
Following the exercise of the option and pre-emptive right offered to the members and the shareholders of Banco Popolare and BPM relating to the shares for which the right to withdraw had been exercised and the subsequent offer on the stock market of the unopted shares pursuant to the law in force, 65,289,263 shares related to withdrawal remained, with a total counter value of around euro 205 million.
At a meeting on 11 May 2017, the Board of Directors resolved to restrict the repayment of the remaining shares to a total of euro 14.6 million, based on the relevant laws and the criteria indicated in reports illustrating merger transactions, as well as subject to obtaining authorisation from the European Central Bank to reduce its own funds.
Said authorisation was received on 25 October and in November, Banco BPM organised the repayment through the purchase of 4,627,460 ordinary shares.

Process to define the corporate and organisational structure of the Banco BPM Group

With the birth of the Banco BPM Group, the activities for defining its corporate and organisational structure, described below, got under way.

Transfer of the branch network of the former Banca Popolare di Milano S.c.a r.l.

Effective 1 January 2017, in implementation of the agreements set forth in the memorandum of understanding signed in March 2016, the transfer of a business division by the former Banca Popolare di Milano S.c.a r.l., represented by the entire network of branches of the latter, to Banca Popolare di Mantova S.p.A. which, effective from the same date, changed its company name to Banca Popolare di Milano S.p.A., was completed.

Migration of the information systems of the former Bipiemme Group to the Banco BPM platform

In the first few months of 2017, the Group launched and completed all of the stages of the process that led to the IT migration of BPM S.p.A. to the Target operating system from 24 July 2017. For further details on the series of integration activities carried out during the year, refer to the section entitled "Supervisory, control and support activities - Technological and administrative services" in this Report on Operations.

Reorganisation of the Group's Private Banking and Corporate & Investment Banking activities

In the first half of the year, the restructuring of the Group's Private Banking and Corporate & Investment Banking activities set forth in the 2016-2019 Strategic Plan was launched. This restructuring calls for the centralisation of Private Banking activities within Banca Aletti and Corporate & Investment Banking activities within Banca Akros.

In particular, in June the subsidiaries BPM S.p.A. and Banca Aletti signed, as of 1 July, the deed for the sale of BPM's Private Banking division to Banca Aletti.
The business complex sold by BPM to Aletti consists of the set of assets and relationships functional to the exercise of Private Banking activities, with the related customers, as well as all relationships correlated with Private Banking activities.
The price paid for the sale was set at euro 150.1 million, based on the equity situation of the business division on the effective date of the transaction.

The centralisation within Banca Aletti of the Group's private banking activities continued in the second half of the year with the deed of transfer from Banco BPM to Banca Aletti of the "private credited" division, to increase the net equity of the assignee, effective 1 December 2017, and for an amount corresponding to the mismatch of the business division corresponding to euro 4.6 million.

On 11 May 2017, the Parent Company's Board of Directors also approved a corporate restructuring transaction, to be implemented by means of two partial spin-offs, which envisage, on one hand, the assignment of the business division represented by the series of goods and resources organised to conduct Private Banking activities by Banca Akros to Banca Aletti; on the other hand, the assignment of the business division represented by the series of goods and assets organised to conduct Corporate & Investment Banking activities by Banca Aletti to Banca Akros. These transactions will be legally effective in the first few months of 2018.

The Reorganisation of Group Information Technology and Back Office activities

On 29 November, the Parent Company and Banca Akros signed a deed transferring SGS BP the Information Technology and Back Office business divisions.
More specifically, by means of these transfer transactions, which are effective from 1 December 2017, Banco BPM has transferred the business division represented by the assets and liabilities of the contractual relations relating to the performance of the Information Technology, Safety and Business Continuity, Security and Physical Prevention, Unified Group Support, Smart Centre, General and Support Services functions, including all of the contracts, debts, provisions and liabilities relating to the employment contracts with the employees that carry out the above-described activities, for a total of 716 operational resources. The business division also includes all tangible and intangible assets needed to conduct the activities of the division as well as all of the contracts required for the operations of the division.

Banca Akros has transferred SGS BP the business division represented by the assets, the liabilities and the contractual relations relating to the performance of the Organisation and Information Technology, Middle Office Capital Markets, Middle Office Brokerage, Back Office Forex and OTC Derivatives functions and Operations and Banking Services Management, including all of the contracts, debts, provisions and liabilities relating to the employment contracts with the employees that carry out the above-described activities, for a total of 51 operational resources, as well as all of the tangible and intangible assets used to operate the division in question and all of the contracts relating to the operations of the same.

By virtue of the above transactions, the transferor company, SGS BP, increased its own share capital by an amount corresponding to the book value of the divisions transferred (euro 10.1 million for the Banco BPM division and euro 5 million for the Banca Akros one).

Approval of the new Commercial Network model

At a meeting held on 18 October, the Parent Company's Board of Directors approved the guidelines of the new single Commercial Network model, which took effect from 1 January 2018 and which regards the entire Group network.

The guidelines envisage a restructuring of the Retail area, by means of an organisational model comprised by 8 Territorial Departments which cover the Group's traditional areas. These Departments will be tasked with coordinating and providing commercial support to around 45 Retail Areas, which in turn are responsible for around 50 branches each, with a view to getting closer to the customer and responding faster.

The new model also envisages the reorganisation of the Corporate area, dedicated to companies with a turnover exceeding euro 75 million. The new organisational structure envisages two business divisions (Corporate and Large Corporate) with close supervision of the main product areas relating to the Origination, Structured Finance, Foreign operations and Trade Finance segments, and is organised into 5 Markets and 18 Corporate Centres.

Through the above-illustrated reorganisation, Banco BPM confirms its intention to continue its business activities in line with the Strategic Plan, the objectives of which are the central role of the customer and strengthening territorial presence.

Sale of the shareholding in Aletti Gestielle SGR

On 9 November 2017, Banco BPM and Anima Holding signed an share purchase agreement regarding the sale of 100% of the share capital of Aletti Gestielle SGR to Anima Holding.
The agreement was finalised on 28 December 2017, following the issue of the relative authorisations and once all of the conditions precedent included in the contract had been met, including the approval of the extraordinary shareholders' meeting of Anima Holding, which took place on 15 December 2017, of a share capital increase to a maximum of euro 300 million and the signature of new distribution agreements with the Anima Group.
The sale price was set at euro 700 million, plus an amount corresponding to the shareholders' equity of the company, including the profit for the period accrued up until the closing date, over the conventional amount of euro 10 million.
Before the sale of the shareholding, on 27 December 2017, the shareholders' meeting of Aletti Gestielle SGR resolved to allocate available and eligible reserves amounting to a total of euro 161.5 million to the sole shareholder Banco BPM.
The above-illustrated transaction had a positive impact on the Group's profit & loss of euro 673,1 million.

Restructuring in the bancassurance sector

In line with the strategic plan and at the same time as the natural expiry of the partnerships of the former Banco Popolare group with the Unipol group (life segment) and with the Aviva group (protection segment), respectively, the Banco BPM Group launched the process for the overall streamlining of its distribution networks. The deadline of 30 June 2017 for the cancellation of the bancassurance agreements of the former Banco Popolare Group represented an occasion for discussion with the partners.
The discussions held brought to light the desire to conclude the experience they have had to date, through the termination of the two partnerships. In both cases, a notice was sent of the intention not to renew the distribution agreements expiring on 31 December 2017.
Aside from the cancellation of the distribution agreements with the former Banco Popolare network, Unipol Assicurazioni announced its exercise of the option for the sale of its controlling equity investment in Popolare Vita, all on the basis of what is established in the shareholders' agreement entered into on 7 September 2007 by the former Banco Popolare and FondiariaSai (now UnipolSai Assicurazioni).
The consideration for the sale, assessed by two independent experts, has been set as euro 535.5 million.

With regard instead to the protection segment, on 25 August, Aviva informed Banco BPM of the exercise of the put option for the entire share held in Avipop Assicurazioni.
On 28 September, Banco BPM signed an agreement with the Aviva group regarding the repurchase of 50% + 1 share of the share capital of Avipop Assicurazioni held by Aviva Italia Holding. The economic terms of the agreement with Aviva, which also take into account the valuation criteria for the shareholding established in the Shareholders' Agreement, envisage a price for the purchase of 50% + 1 share of Avipop Assicurazioni of euro 252.5 million, corresponding to a valuation of 100% of the company at euro 505 million. Furthermore, according to that agreed by the parties, Aviva has be awarded the right to received 50% of the dividend on the ordinary profits of 2017 of Avipop Assicurazioni up to a maximum amount of euro 12.5 million and an additional fee of around euro 1 million per month for the period between 1 January 2018 and the closing date.

The termination of the two partnerships has offered Banco BPM the opportunity to promote a process meant to identify new strategic structures in the bancassurance sector, in line with the Group's insurance business development and efficiency boosting objectives.
At the end of the competitive process launched to find a new partner, which attracted the interest of leading insurance companies, on 3 November, Banco BPM announced that it had reached a formal agreement with Cattolica Assicurazioni for the establishment of a 15-year strategic partnership in life and non-life bancassurance.
The agreement envisages Cattolica purchasing a 65% shareholding in Avipop Assicurazioni and in Popolare Vita; the transaction is based on a valuation of 100% of Popolare Vita of euro 789.6 million and 100% of Avipop Assicurazioni at euro 475.0 million.
In particular, Banco BPM will receive euro 853.4 million for the sale of 65% of the insurance companies, broken down into euro 544.6 million for the sale of 65% of Popolare Vita (of which euro 89.6 million through the allocation of available reserves, before the closing, to the shareholder Banco BPM) and euro 308.8 million for the sale of 65% of Avipop Assicurazioni. In addition to the above-cited amounts, Banco BPM will have the right to receive an amount corresponding to the entire profit made by the two companies in 2017. The prices could also be subject to certain adjustments by virtue of the audits that Cattolica will conduct on the capital consistency of the two companies.

Cattolica will manage and coordinate the insurance companies. Banco BPM will maintain vetoing power in matters of strategic importance; Cattolica will appoint the managing directors of the companies and Banco BPM the general managers.

Based on the information available on the date of preparation of this report, the entire process of restructuring the bancassurance sector will entail a total disbursement for Banco BPM for the repurchase of the shareholdings of Popolare Vita from UnipolSai and of Avipop Assicurazioni from Aviva Italia Holding, lower than the proceeds that will result from the sale of the shareholdings to Cattolica Assicurazioni. It is therefore envisaged that the overall restructuring operation will result in the recognition of a net gain.
The finalisation of the operation is conditional to the issue of the envisaged authorisations by the relevant authorities.

The industrial plan and derisking activity

Assignment without recourse of bad loans

In 2017, Banco BPM formalised a number of assignments without recourse of loans, bringing total assignments of bad loans carried out since 2016 to around euro 4.5 billion.
In the first half of the year, two transactions were finalised.
The first transaction, completed in January, concerned a portfolio of unsecured bad loans, including around 1,800 positions for a total nominal value of euro 641 million. The portfolio was acquired by Marte SPV, an SPE owned by Hoist Finance, one of the most important pan-European financial institutions in the Non-Performing Loans market.
The second transaction, completed in late June, entailed the assignment of a portfolio of bad loans from the tourism, hotel and residential sector backed by collateral (the "Project Rainbow" portfolio) for a total nominal value of euro 693 million. The portfolio was assigned to the SPE Algebris.
During the second half of the year and more precisely in December, the bank completed three assignments of portfolios of bad loans, called Project Sun-Large, Project Sun-Mid and Project Small Ticket due to the characteristics of the three separate portfolios assigned. All of the portfolios were comprised by loans not secured by real guarantees (with the exclusion of a small part of the loans with a registered judicial lien).

The nominal amount of the receivables sold was around euro 1.8 billion gross nominal value.

The transactions were concluded through the assignment, without recourse, the transfer of the ownership of the loans and the related risks and benefits from the assignor to the assignee. The portfolios were sold to the best offeror, identified by means of competitive auctions in J-Invest and Hoist Finance.

In a letter dated 18 December 2017, the European Central Bank informed the bank of its observations regarding the 2017 plan to reduce Non-Performing Loans (NPL) and its expectations regarding the update of said plan for 2018. The update of the NPL plan must be sent to the Supervisory Authority by 31 March 2018, and is currently being prepared. The guidelines of the new plan have, in any event, substantially been established. The target level of gross NPL for 2020 is indicated as euro 13 billion, and therefore euro 10 billion lower than the previous target set for the

same aggregate in the 2016-2019 strategic plan. It is envisaged that this target will be achieved by making further assignments of bad loans with respect to those already carried out as at 31 December 2017 of around euro 8.5 billion and a further reduction of total non-performing loans of around euro 4 billion.

Conclusion of inspection activities conducted in 2016 by the ECB on Banco Popolare and Banca Popolare di Milano

In 2016, the two banks which merged to become Banco BPM S.p.A. (Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l.) were subject, inter alia, to inspections by the European Central Bank (ECB) concerning their management of credit and counterparty risk and their risk control system. On 18 May 2017, the ECB sent Banco BPM a letter containing recommendations concerning the actions that the Supervisory Authority expected Banco BPM to carry out in relation to the findings arising during the inspections regarding, inter alia, several gaps, weaknesses and areas for improvement found in the areas of governance, internal control systems and the loan management, monitoring, classification and assessment processes of the two previous banks.
Following said recommendations, Banco BPM revised its credit exposure management, monitoring and measurement processes, in order to render them compliant with the corrective measures requested by the Supervisory Authority.
For further details, see the information contained in Part A of the Notes to the Consolidated Financial Statements.

NPL Unit

In January 2017, the NPL (Non-Performing Loans) Project was launched, with the objective of defining the target operating model to manage NPL and to ensure that the objectives set in the Business plan are reached, in terms of reducing the portfolio of NPL and optimising credit collection performance.
More specifically, a new dedicated organisational unit was created: NPL Unit, reporting directly to the Managing Director, focused on managing and recovering NPL (therefore excluding other types of impaired loans) with a view to optimising credit collection efficiency and speed and creating opportunities for the maximisation of value, also by adopting differentiated credit collection strategies for clusters of portfolios.
The creation of a dedicated unit, in parallel to the assignments plan, demonstrates that the Group considers credit quality a high priority.
The new organisational unit envisages establishing the harmonised coordination of managers in charge of credit collection from Banco Popolare and BPM Scarl, and is also comprised by several organisational units dedicated to specific activities and controls to assist credit collection activities: Administrative and Operations Support (NPL Administration), Assignment Improvement, Performance Management and Real Estate Advisory.

Extension of the outsourcing model to irregular credit

In 2017, a specific project was set in place to define a Group model to manage credit collection, entrusted to third parties on an outsourcing arrangement.
From January 2018, the new model was released, extending the best practices adopted prior to the merger on 1 January 2017 to the entire portfolio of the Banco BPM Group.
The new model envisages differentiated management for products and customer segments (current accounts and loans to private individuals and companies), and enables functional and operational advantages to be obtained in terms of a high level of automation, advantageous conditions for the Bank, operating synergies and effective monitoring.

Other activities under way and projects

Digital & Omnichannel Transformation

From the second half of 2017, a Group development programme has been under way regarding digital and omnichannel development, which will enable customers to interact with the bank through all channels in a simpler way. The project envisages significant investment and the involvement of numerous internal resources.

The first step completed regarded interventions on payment systems, bringing the same in line with changes in the reference legislation ("PSD2").

The project will result in the improvement of the customer requirement response model, with specific focus on specific needs and on the provision of credit to small and medium enterprise, as well as the creation of new service tools.

To achieve the above, numerous activities were launched, ranging from the method to listen to the customer's "voice", to the development of new technologies to support services and customer relations, the dissemination of digital culture and of innovation for all company resources, and the upgrade of social channels and public websites.

Other events in the period

ECB sets capital requirements for the Group

On 27 December 2017, the European Central Bank (ECB) notified Banco BPM of its final decision on the minimum capital ratios to be complied with by Banco BPM on an ongoing basis.
The decision is based on the supervisory review and evaluation process (SREP) conducted in compliance with art. 4(1)(f) of Regulation (EU) no. 1024/2013, based on the individual assessments of the previous Banco Popolare and Banca Popolare di Milano Groups.
Therefore, in compliance with art. 16(2)(a) of the same Regulation no. 1024/2013, which confers on the ECB the power to require supervised banks to hold own funds in excess of the minimum capital requirements laid down by current regulations, a requirement of 2.50% was introduced to be added to the requirements highlighted above.

Taking the above into account, in 2018, the Banco BPM Group is required to meet the following capital ratios at consolidated level:

- CET1 ratio: 8.875%;
- Tier 1 ratio: 10.375%;
- Total Capital ratio: 12.375%.

Please refer to Part F - Information on consolidated shareholders' equity - of the Notes to the consolidated financial statements for more details.

Participation in the Atlante Fund

During the year, Banco BPM made the separate payments against call notices of the Atlante Fund for a total of euro 16.5 million (euro 9.4 million in May, euro 0.5 million on 19 June and euro 6.5 million on 11 December).
The total initial commitment made by the Group in 2016 in the investment fund in question amounted to euro 150 million; after the payments made, the residual commitment is equal to euro 11.7 million.
For further details about the Atlante Fund and about the value recorded on the financial statements, which as at 31 December 2017 amounted to euro 18.3 million, please refer to the Notes to the Consolidated Financial Statements, Part A.4 - Fair value disclosure.

Payment of contributions to resolution funds

In 2017, the measure to support the Interbank Deposit Guarantee Fund with regard to three banks Caricesena, Carim and Carismi was finalised by the Voluntary Scheme. This measure entailed the recapitalisation in the form of a grant, of the three banks and the subsequent sale of the same to Crédit Agricole Cariparma.

The total cost recognised in the 2017 Income statement of Banco BPM was euro 56.1 million.

Provision of the AGCM (Italian Antitrust Authority) regarding Banco BPM

With regard to the report made by the former Banco Popolare Group to Intermarket Diamond Business S.p.A. regarding customers interested in purchasing diamonds, on 30 October 2017, the proceeding before the Italian Antitrust Authority (ACGM) was concluded, with a ruling that confirmed the existence of unfair business practices pursuant to articles 20 and 21, paragraph 1, letters b), c), d) e f), 22 and of article 23, paragraph 1, letter t) of the Consumer Code. This ruling envisaged the application of a monetary fine to Banco BPM of euro 3.35 million (as well as fines to Intermarket Diamond Business S.p.A., its subsidiary IDB Intermediazioni S.r.l. and other reporting banks).

The Bank paid the fine within the terms of the law and, on 28 December, filed an appeal to the TAR (Regional Administrative Court) against the ruling of the Authority.

Impacts resulting from the application of the new international accounting standard IFRS 9

We refer to Part A of the Notes to the Financial Statements for a description of the changes that will be introduced by the new IFRS 9 standard (in force from 1 January 2018) and on the state of progress of the implementation project for the new standard. Initial estimates of the quantitative effects resulting from the first-time application of the standard are illustrated below, based on information available at this time. More specifically, the impacts estimated, before tax, are as follows:

(I) application of the new impairment model to non-performing loans: estimated increase of adjustment provisions of around euro 1.2 billion. This impact results from the inclusion of selling scenarios as part of the loan measurement process;

(II) application of the new impairment model to non-performing debt securities and loans: estimated increase of adjustment provisions of around euro 0.1 billion, following the measurement of expected loss for the residual life of the financial assets for which a significant increase in credit risk has been found, with respect to original data;

(III) application of new rules for the classification and measurement of financial assets/liabilities: high value of net assets estimated to be around euro 0.1 billion.

In terms of capital ratios, the above-indicated impacts will lead to a reduction of around 175 bps of the fully-phased CET 1 ratio. These impacts do not consider the phase-in envisaged by the regulation, which envisages the dilution of the effect resulting from the application of accounting standard IFRS 9 over 5 years starting from 2018 (the year in which only 5% of the effects measured at the time of first application are considered).

We feel it is important to state that the above estimates of impacts are based on the best information that the Group had available on the date of approval of this Annual Financial Report for 2017. For operating reasons relating to the time required to process consolidated figures as at 31 December 2017, the estimates of the impacts of the application of the new accounting standards as at 1 January 2018 are based, in some cases, on accounting information from prior to 31 December 2017, insofar as deemed not to be significantly different from year-end data. The above estimates were therefore made also on the basis of calculations of non-accounting data and therefore may be subject to possible changes with regard to completing the process of first-time application of standard IFRS 9 and the progressive fine-tuning of the new criteria defined and of the envisaged internal and external validation and control activities.

RESULTS

Introduction

The balance sheet and income statement schedules shown below have been reclassified, according to operating criteria, in order to provide clear indications on the Group's general performance based on the economic-financial data that can be determined rapidly and easily.

The reclassified statements were drawn up in accordance with the financial statement schedules envisaged by Bank of Italy Circular no. 262/2005, in continuity with the criteria used by the former Banco Popolare Group in the financial statements as at 31 December 2016, without prejudice to the amendments made in order to specifically highlight the "Merger difference (Badwill)", and the results of the annual impairment testing on goodwill and on other intangible assets with an indefinite useful life.

In the above-mentioned statements, the comparative data as at 31 December 2016 have been provided for both the former Banco Popolare Group and in aggregate form. This latter information (for the "aggregate 31/12/2016" balance sheet and for the "Aggregate 2016" income statement) was obtained by aggregating the data contained in the consolidated financial statements as at 31 December 2016 of the former Banco Popolare Group and the former BPM Group and making the following adjustments:

- cancellation of the main intercompany balance sheet and income statement transactions;
- adjustment of the measurement at equity of the investments held in the associates Alba Leasing and Factorit, for the share held which, prior to the merger, was classified in the portfolio of "Financial assets available for sale" of the former BPM Group for Alba Leasing and the former Banco Popolare Group for Factorit;
- elimination of the investment held by the former BPM Group in Release S.p.A. in the segment of "Financial assets available for sale", as a balancing entry to the reduction in "Minority interests", as it is a subsidiary of the former Banco Popolare Group and subject to line-by-line consolidation.

With regard to the reclassified figures of the former Banco Popolare Group, published as at 31 December 2016, the representation in the income statement of the result correlated with the change in own credit risk of fair value option liabilities was eliminated. Moreover, the latter had already been recognised in an ad hoc item, as it was considered significant for the purpose of understanding the performance of operations.

It should also be noted that the contribution to the income statement of the subsidiary company Aletti Gestielle SGR, sold in December, is shown in a separate item "Income/(loss) after tax from discontinued operations", both for 2017 and for the previous year, in line with the retrospective presentation of discontinued operations required by IFRS 5. The figure relating to 2017 also includes the net gain made on the disposal.

Lastly, the income statement for 2017 includes the economic impact resulting from the Purchase Price Allocation (PPA) of the cost of the business combination between the Banco Popolare Group and the BPM Group, as illustrated in more detail in Part G of the Notes to the consolidated financial statements to which the reader should refer.

A reconciliation between the income statement for 2016, restated as illustrated, and that originally published (both the version of the official schedule envisaged by Circular no. 262 and the reclassified one).

Consolidated income statement figures

Disclosures on the business combinations and the main reclassifications systematically made to the financial statements envisaged by Circular no. 262/05, in compliance with the requirements of Consob as per communication no. 6064293 dated 28 July 2006 are shown below:

- the positive impact of the "reversal effect" in the income statement of the lower value recognised during the PPA for non-performing loans classified as unlikely to pay of the former BPM Group acquired as part of the business combination was reclassified from item 130 "Net losses/recoveries on impairment" to "Interest margin";

- dividends on shares classified under financial assets available for sale and financial assets held for trading (included in item 70) have been reclassified under the "Net financial result";
- the profits and losses on the disposal of loans, not represented by debt securities, (included in item 100) have been grouped, together with net losses/recoveries on impairment of loans, under item "Net adjustments on loans to customers";
- the profits and losses on the disposal of financial assets available for sale, receivables represented by debt securities and financial liabilities (recognised under item 100) have been stated under the "Net financial result". This last aggregate also includes adjustments due to impairment on debt securities classified in the loans portfolio, which in the financial statements are shown under item 130;
- recoveries on taxes and other costs (included in item 220) have been booked directly against administrative expenses, where the relative cost has been recognised, rather than being indicated in the reclassified aggregate "Other net operating income";
- the amortisation of leasehold improvement costs (recorded in item 220) has been stated under "Value adjustments on property and equipment and intangible assets", rather than stated together with "Other net operating income";
- the portion of the economic results pertaining to investee companies carried at equity (included in item 240) has been stated in a specific item which represents, together with the "Interest margin", the aggregate defined as the "Financial margin".
- "Impairment on goodwill and client relationship after tax" includes all of the adjustments relating to goodwill and to other intangible assets with an indefinite useful life made following annual impairment testing, recognised in the accounts under items 260 and 210 of the consolidated income statement, respectively "Value adjustments on goodwill" and "Net adjustments to/recoveries on intangible assets";
- "Merger difference (Badwill)" includes the badwill that emerged following the completion of the PPA process, recognised in the accounts under item 220 of the consolidated income statement "Other operating income (expenses)".

A reconciliation between the reclassified income statement and that drawn up on the basis of Circular no. 262 is provided in the attachments to the financial statements and includes comments explaining the reclassifications made.

Reclassified consolidated income statement

Reclassified income statement items *(in thousands of euro)*	2017	2016 (*)	2016 aggregate	Change on aggregate
Interest margin	2,113,447	1,317,138	2,106,848	0.3%
Profits (losses) on investments in associates and companies subject to joint control carried at equity	166,036	124,547	147,862	12.3%
Financial margin	**2,279,483**	**1,441,685**	**2,254,710**	**1.1%**
Net fee and commission income	1,950,410	1,239,439	1,824,677	6.9%
Other net operating income	98,817	100,904	138,258	(28.5%)
Net financial result	155,049	195,752	438,318	(64.6%)
Other operating income	**2,204,276**	**1,536,095**	**2,401,253**	**(8.2%)**
Operating income	**4,483,759**	**2,977,780**	**4,655,963**	**(3.7%)**
Personnel expenses	(1,784,854)	(1,462,223)	(2,237,519)	(20.2%)
Other administrative expenses	(979,266)	(842,682)	(1,180,941)	(17.1%)
Net value adjustments on property and equipment and intangible assets	(266,915)	(164,921)	(320,568)	(16.7%)
Operating expenses	**(3,031,035)**	**(2,469,826)**	**(3,739,028)**	**(18.9%)**
Income (loss) from operations	**1,452,724**	**507,954**	**916,935**	**58.4%**
Net value adjustments on loans to customers	(1,660,963)	(2,539,331)	(2,958,152)	(43.9%)
Net value adjustments on receivables due from banks and other assets	(140,217)	(40,799)	(112,461)	24.7%
Net provisions for risks and charges	(13,757)	(24,737)	(55,062)	(75.0%)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	25,698	17,031	157,990	(83.7%)
Income (loss) before tax from continuing operations	**(336,515)**	**(2,079,882)**	**(2,050,750)**	**(83.6%)**
Taxes on income from continuing operations	122,436	603,692	650,249	(81.2%)
Income (loss) after tax from discontinued operations	762,262	46,438	46,438	1541.5%
Income (loss) attributable to minority interests	9,658	22,848	19,352	(50.1%)
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**557,841**	**(1,406,904)**	**(1,334,711)**	
Impairment on goodwill and client relationship after tax	(1,017,616)	(279,000)	(279,000)	
Merger difference (Badwill)	3,076,137	-	-	
Parent Company's net income (loss)	**2,616,362**	**(1,685,904)**	**(1,613,711)**	

(*) The figures relating to 2016 have been restated in compliance with the provisions of IFRS 5 and adjusted to exclude the impact of the FVO consistent with the periods presented for comparison purposes.

In addition to the reclassified income statement shown above, a further income statement is provided below, in which the costs and the income relating to the consolidated contribution of the subsidiary Aletti Gestielle SGR are shown on a line-by-line basis, leaving only the amount of the gain from the disposal under "Income (loss) after tax from discontinued operations".

Reclassified income statement items ***(in thousands of euro)***	**2017**	**2016 aggregate**	**Change**	**% change**
Interest margin	2,113,991	2,107,771	6,220	0.3%
Result of investments in associates and companies subject to joint control carried at equity	166,036	147,862	18,174	12.3%
Financial margin	**2,280,027**	**2,255,633**	**24,394**	**1.1%**
Net fee and commission income	2,092,956	1,903,396	189,560	10.0%
Other net operating income	99,111	139,215	(40,104)	(28.8%)
Net financial result	156,633	440,083	(283,450)	(64.4%)
Other operating income	**2,348,700**	**2,482,694**	**(133,994)**	**(5.4%)**
Operating income	**4,628,727**	**4,738,327**	**(109,600)**	**(2.3%)**
Personnel expenses	(1,792,682)	(2,245,469)	452,787	(20.2%)
Other administrative expenses	(989,947)	(1,190,503)	200,556	(16.8%)
Net value adjustments on property and equipment and intangible assets	(267,289)	(320,931)	53,642	(16.7%)
Operating expenses	**(3,049,918)**	**(3,756,903)**	**706,985**	**(18.8%)**
Income (loss) from operations	**1,578,809**	**981,424**	**597,385**	**60.9%**
Net adjustments on loans to customers	(1,660,963)	(2,958,152)	1,297,189	(43.9%)
Net adjustments on receivables due from banks and other transactions	(140,217)	(112,461)	(27,756)	24.7%
Net provisions for risks and charges	(13,757)	(55,062)	41,305	(75.0%)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	25,698	157,990	(132,292)	(83.7%)
Income (loss) before tax from continuing operations	**(210,430)**	**(1,986,261)**	**1,775,831**	**(89.4%)**
Taxes on income from continuing operations	85,061	629,674	(544,613)	(86.5%)
Income (loss) after tax from discontinued operations	673,552	2,524	671,028	not significant
Income (loss) attributable to minority interests	9,658	19,352	(9,694)	(50.1%)
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**557,841**	**(1,334,711)**	**1,892,552**	
Impairment on goodwill and client relationship after tax	(1,017,616)	(279,000)	(738,616)	264.7%
Merger difference (Badwill)	3,076,137	-	3,076,137	
Parent Company's net income (loss)	**2,616,362**	**(1,613,711)**	**4,230,073**	

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items *(in thousands of euro)*	FY 2017				FY 2016 aggregate			
	Q4	Q3	Q2 (*)	Q1 (*)	Q4 (*)	Q3 (*)	Q2 (*)	Q1 (*)
Interest margin	528,768	524,923	511,149	548,607	496,098	517,017	535,575	558,158
Profits (losses) on investments in associates and companies subject to joint control carried at equity	45,166	38,931	40,354	41,585	36,642	33,826	32,779	44,615
Financial margin	**573,934**	**563,854**	**551,503**	**590,192**	**532,740**	**550,843**	**568,354**	**602,773**
Net fee and commission income	472,096	458,935	503,605	515,774	477,953	431,892	460,999	453,833
Other net operating income	24,738	29,401	14,362	30,316	41,016	31,768	32,525	32,949
Net financial result	41,915	12,957	63,320	36,857	118,791	110,851	132,690	75,986
Other operating income	**538,749**	**501,293**	**581,287**	**582,947**	**637,760**	**574,511**	**626,214**	**562,768**
Operating income	**1,112,683**	**1,065,147**	**1,132,790**	**1,173,139**	**1,170,500**	**1,125,354**	**1,194,568**	**1,165,541**
Personnel expenses	(420,796)	(450,628)	(456,711)	(456,719)	(659,557)	(618,002)	(481,339)	(478,621)
Other administrative expenses	(212,334)	(273,178)	(233,055)	(260,699)	(370,399)	(267,103)	(262,424)	(281,015)
Net value adjustments on property and equipment and intangible assets	(95,466)	(62,160)	(56,406)	(52,883)	(152,569)	(67,190)	(52,079)	(48,730)
Operating expenses	**(728,596)**	**(785,966)**	**(746,172)**	**(770,301)**	**(1,182,525)**	**(952,295)**	**(795,842)**	**(808,366)**
Income (loss) from operations	**384,087**	**279,181**	**386,618**	**402,838**	**(12,025)**	**173,059**	**398,726**	**357,175**
Net adjustments on loans to customers	(673,127)	(340,816)	(354,530)	(292,490)	(1,029,512)	(793,128)	(385,944)	(749,568)
Net adjustments on receivables due from banks and other assets	(12,718)	(48,322)	(70,820)	(8,357)	(88,619)	(5,941)	(12,964)	(4,937)
Net provisions for risks and charges	(9,235)	4,615	(9,641)	504	(41,489)	(16,373)	5,887	(3,087)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	12,064	333	(3,765)	17,066	122,846	2,688	30,894	1,562
Income (loss) before tax from continuing operations	**(298,929)**	**(105,009)**	**(52,138)**	**119,561**	**(1,048,799)**	**(639,695)**	**36,599**	**(398,855)**
Taxes on income from continuing operations	103,202	45,612	1,122	(27,500)	319,941	213,894	1,946	114,468
Income (loss) after tax from discontinued operations	699,971	16,498	25,790	20,003	24,494	10,340	6,242	5,362
Income (loss) attributable to minority interests	867	1,397	4,256	3,138	2,311	12,832	1,991	2,218
Net income (loss) for the period without Badwill and Impairment on goodwill and client relationship	**505,111**	**(41,502)**	**(20,970)**	**115,202**	**(702,053)**	**(402,629)**	**46,778**	**(276,807)**
Impairment on goodwill and client relationship after tax	(1,017,616)	-	-	-	(279,000)	-	-	-
Merger difference (Badwill)	-	-	-	3,076,137	-	-	-	-
Parent Company's net income (loss)	**(512,505)**	**(41,502)**	**(20,970)**	**3,191,339**	**(981,053)**	**(402,629)**	**46,778**	**(276,807)**

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

In compliance with the instructions contained in Consob Communication no. DEM/6064293 of 28 July 2006, the following paragraphs provide information on the effects that non-recurrent events or transactions had on the consolidated economic result of the years compared.

For the purposes of identifying the non-recurrent components, the following approaches are used on the whole:

- the results of disposal transactions relating to all fixed assets (investments in associates and companies subject to joint control, property and equipment) are considered to be non-recurrent;
- profits and losses on non-current assets held for sale and discontinued operations are considered to be non-recurrent;
- the income statement components associated with improvements, reorganisations, etc. (e.g. expenses for use of the redundancy fund, leaving incentives, merger/integration expenses) are considered to be non-recurrent;
- income statement components for a significant amount which are not destined to reoccur frequently (e.g. fines, impairments of fixed assets, goodwill and other intangibles, effects associated with legislative changes, exceptional results, etc.) are considered to be non-recurrent;
- impacts on the income statement, as long as significant, resulting from valuation aspects and/or changes in parameters in the application of the valuation methods applied on an on-going basis are instead considered to be recurrent.

In the light of the above criteria, in addition to the amounts already included in items that are per se non-recurrent (e.g. profit (loss) on assets held for sale), the income statement result for 2017 was affected by the following non-recurring impacts:

- the item "Interest margin" includes interest income on the TLTRO II loan relating to the year 2016 for a total amount of euro 31.7 million gross of tax effects, as well as the negative impact of interest expense, totalling euro 4.1 million, paid in the settlement for the closure of the prior tax dispute relating to the former Banca Italease;
- the item "Profits (losses) on investments in associates and companies subject to joint control carried at equity" includes the share of negative result from the second quarter of 2017 of SelmaBipiemme Leasing, equal to euro -10.5 million, nearly entirely due to extraordinary expenses connected to the settlement of tax demands linked to the tax dispute;
- the item "Personnel expenses" includes the positive impact of euro 3.1 million relating to the recalculation of the redundancy fund;
- the item "Other administrative expenses" includes the out-of-period income of euro 27.2 million gross of the tax effect, correlated with the reversal of the fee attributed for the year 2015 to guarantee the convertibility of certain DTAs, charged in the year 2016 but no longer due for that year according to the legislative provisions introduced with Law no. 15 of 17 February 2017. The same item also includes the expenses for registration tax on the intragroup disposal of a business division, corresponding to euro 4.5 million, as well as merger and integration expenses of euro 50.7 million;
- "Net value adjustments on property and equipment and intangible assets" include the impairment, corresponding to euro 34.5 million, recognised following the recalculation of the useful life of the software of the former BPM Group resulting from the integration of IT systems made last July and the write-downs totalling euro 18.0 million, mainly relating to real estate investments, in order to bring their book value down to the lower appraisal value;
- "Net adjustments on receivables due from banks and other assets" includes write-downs relating to investments in the Atlante Fund and in the subordinated security issued by Banca Popolare di Vicenza, classified in financial assets available for sale, respectively for euro 61.0 million and euro 15.3 million before the relative taxes. The item in question also includes the total expenses resulting from the Group's participation in the Voluntary Scheme of the Interbank Deposit Guarantee Fund (IDGF) amounting to euro 56.1 million;
- "Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments" includes non-recurring net income of euro 25.7 million, before tax. The main components are represented by the valuation, corresponding to euro 11.7 million, resulting from the reclassification of the investment held in Energreen to the "Financial assets available for sale" portfolio and from the disposal of some properties (euro 14.0 million);
- "Income (loss) after tax from discontinued operations" of euro 673.1 million includes the net gain resulting from the disposal of Aletti Gestielle SGR;
- "Tax on income for the year from continuing operations" includes the expense incurred to close the dispute with the former Banca Italease, referred to above, totalling euro 13.7 million, the positive impact of intragroup transactions of euro 5.9 million, as well as the tax effects on the items listed in the previous points, equal to euro 44.9 million. The overall impact on "taxes" was euro 37.1 million;

- the separate item "Impairment on goodwill and client relationship after tax" includes the effect of impairment testing on goodwill and on other intangible assets with an indefinite useful life, which led to the need to make a full write-down of the goodwill allocated to the Commercial Network CGU and to the Private & Investment Banking CGU, amounting to euro 1,033.5 million (euro 1,012.7 after tax). An adjustment of euro 7.4 million was made to the Client Relationship (euro 4.9 million after tax);
- similarly, in the separate item "Merger difference (Badwill)" badwill of euro 3,076.1 million was recognised, credited to the income statement following the completion of the Purchase Price Allocation (PPA) process at 1 January 2017, the date on which the merger between the Banco Popolare and BPM Groups became effective.

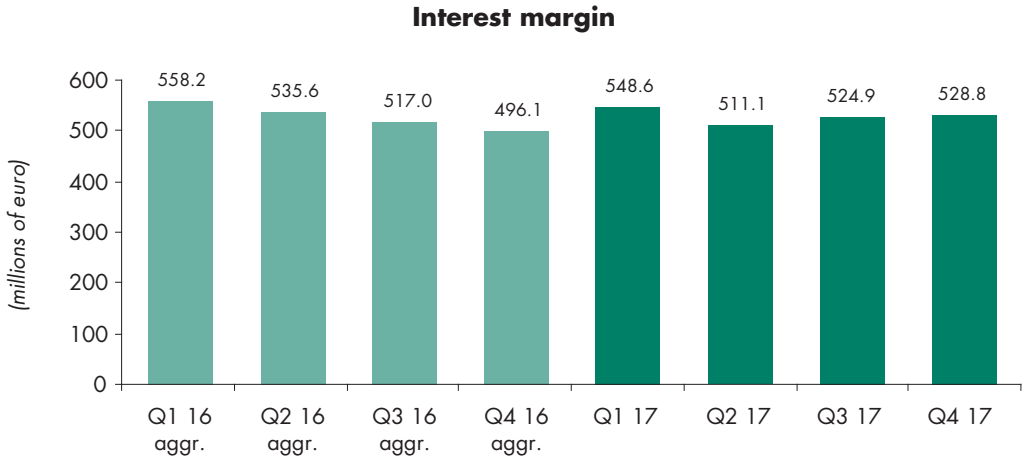
The main income statement items as at 31 December 2017 are illustrated below, compared with the figures of the former Banco Popolare Group as at 31 December 2016 and with the aggregated figures for last year, respectively.

Operating income

Interest margin

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Financial assets held for trading	56,081	122,536	131,771	(75,690)	(57.4%)
Financial assets designated at fair value through profit and loss	225	(717)	653	(428)	(65.5%)
Financial assets available for sale	364,401	326,480	455,401	(91,000)	(20.0%)
Investments held to maturity	185,963	170,324	170,324	15,639	9.2%
Net interest due to banks	(33,971)	(38,235)	(54,069)	(20,098)	(37.2%)
Net interest due to customers	2,124,404	1,523,274	2,295,988	(171,584)	(7.5%)
Hedging derivatives (net balance)	(52,206)	(28,277)	(6,115)	46,091	753.7%
Net interest on other assets/liabilities	130,453	8,291	31,510	98,943	314.0%
Debt securities issued	(528,399)	(583,846)	(733,367)	(204,968)	(27.9%)
Financial liabilities held for trading	(16,931)	(28,115)	(30,293)	(13,362)	(44.1%)
Financial liabilities designated at fair value through profit and loss	(116,573)	(154,577)	(154,955)	(38,382)	(24.8%)
Total	**2,113,447**	**1,317,138**	**2,106,848**	**6,599**	**0.3%**

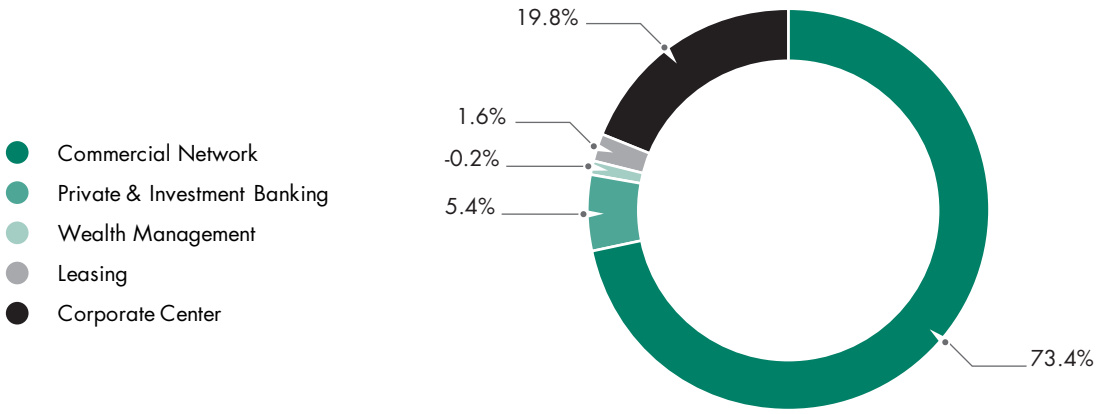
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The **interest margin** amounted to euro 2,113.4 million, slightly higher with respect to the aggregate figure of euro 2,106.8 million as at 31 December 2016 (+0.3%). On a like-for-like basis, net of non-recurring components, the interest margin shows a fall of 1%, mainly due to the lower contribution of the securities portfolio resulting from the fair value measurement (under the PPA) of the debt securities that the former Banca Popolare di Milano held on the portfolio of financial assets available for sale and from the fall of average customer spread. This impact was partially offset by the lower cost of funding and by the recognition of the benefit of the refinancing operations with the ECB. In the fourth quarter, the aggregate in question recorded a rise (+0.7%) due to the fall in the cost of funding against a substantially stable customer spread compared to that of the second quarter.

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Commercial Network	1,552,325	1,041,486	1,671,503	(119,178)	(7.1%)
Private & Investment Banking	113,682	148,585	158,245	(44,563)	(28.2%)
Wealth Management	(4,736)	(3,349)	(2,787)	(1,949)	69.9%
Leasing	34,373	42,930	42,160	(7,787)	(18.5%)
Corporate Centre	417,803	87,486	237,727	180,076	(75.7%)
Total	**2,113,447**	**1,317,138**	**2,106,848**	**6,599**	**0.3%**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The Commercial Network, which represents 73% of the item's results, reported net interest down by 7.1%. The fall of the interest margin reflected the reduction of interest rates resulting from high competitive pressure on the pricing of customer loans, both as regards short and medium term loans, and from continuing financing with negative returns, accentuated by the downtrend of interest rates.

The interest margin of the Private & Investment Banking segment fell due to the lower returns of the securities portfolio of the subsidiary companies Banca Akros and Banca Aletti, which constitute the sector. In particular, the interest margin of this last company is influenced in turn by the lower placement volumes of certificates during the year, which generates the liquidity used to increase the volume of said portfolio.

The Leasing division's contribution to the Group's result fell, due to the gradual decrease of the portfolio of loans, in run-off.

The interest margin of Corporate Centre improved against last year thanks to interest on the TLTRO loans (equal to more than euro 115 million) and the reduction in the cost of funding, represented by loans issued, the amounts of which are gradually declining. These positive effects were offset in part by the lower contribution of the portfolio of securities in which the Group has invested and by the negative impact of the PPA relating to the consumer credit of the subsidiary company ProFamily.

Profits (losses) on investments in associates and companies subject to joint control carried at equity

The result of the investee companies measured at equity was positive at euro 166.0 million, up compared to euro 147.9 million recognised last year (which also included the contribution of Anima Holding of euro 12.7 million, no longer included in the companies measured at equity after the partial sale of the interests held in it and its subsequent reclassification to the portfolio of financial assets available for sale), with a fourth quarter contribution of euro 45.2 million, higher than that of the first three quarters, corresponding respectively to euro 41.6 million, 40.4 million and 38.9 million, mainly due to the greater contribution made in the last quarter by consumer credit. Within this aggregate, the main contribution was indeed provided by the shareholding held in Agos Ducato (euro 116.2 million, with respect to euro 90.0 million in 2016), followed by that of the insurance segment for a total of euro 44.7 million (euro 33.8 million as at 31 December 2016). This item also includes the contribution of the associated company Factorit of euro 6.0 million, Alba Leasing of euro 5.4 million and SelmaBipiemme Leasing, whose contribution was a loss of euro 7.9 million, mainly due to the impact of extraordinary expenses relating to the cited tax dispute.

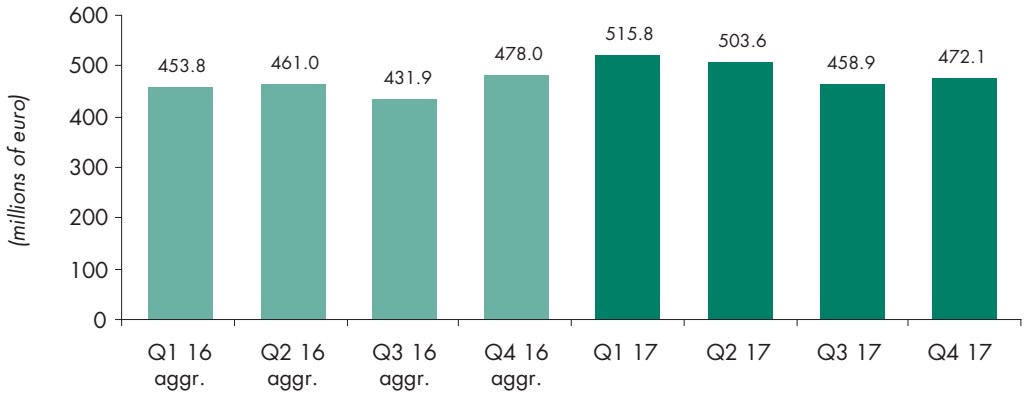
In terms of sector of economic activity, the Leasing sector contribution was negative at euro 2.5 million, represented by the sum of the measurements at equity of Alba Leasing and SelmaBipiemme Leasing. The contribution of the Wealth Management segment, corresponding to euro 45.5 million, is mostly represented by the contribution of insurance segment companies for euro 44.7 million, while that of the Corporate Centre, which amounts to euro 123.1 million, substantially relates to the contributions of Agos Ducato and Factorit, for a total of euro 122.2 million.

Net fee and commission income

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Management, brokerage and advisory services	982,429	513,210	802,283	180,146	22.5%
Distribution of savings products	831,916	369,701	617,745	214,171	34.7%
- Placement of financial instruments	676,266	244,503	438,046	238,220	54.4%
- Portfolio management	39,867	30,046	38,445	1,422	3.7%
- Bancassurance	115,783	95,152	141,254	(25,471)	(18.0%)
Consumer credit	30,749	26,203	26,203	4,546	17.3%
Credit cards	30,587	31,151	31,151	(564)	(1.8%)
Custodian bank	18,861	18,187	18,187	674	3.7%
Trading securities, currencies and acceptance of orders	67,028	44,575	79,290	(12,262)	(15.5%)
Other	3,288	23,393	29,707	(26,419)	(88.9%)
Current account management and loans	630,894	508,525	688,319	(57,425)	(8.3%)
Collection and payment services	162,060	112,702	178,718	(16,658)	(9.3%)
Guarantees given and received	76,129	50,768	84,997	(8,868)	(10.4%)
Other services	98,898	54,234	70,360	28,538	40.6%
Total	**1,950,410**	**1,239,439**	**1,824,677**	**125,733**	**6.9%**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

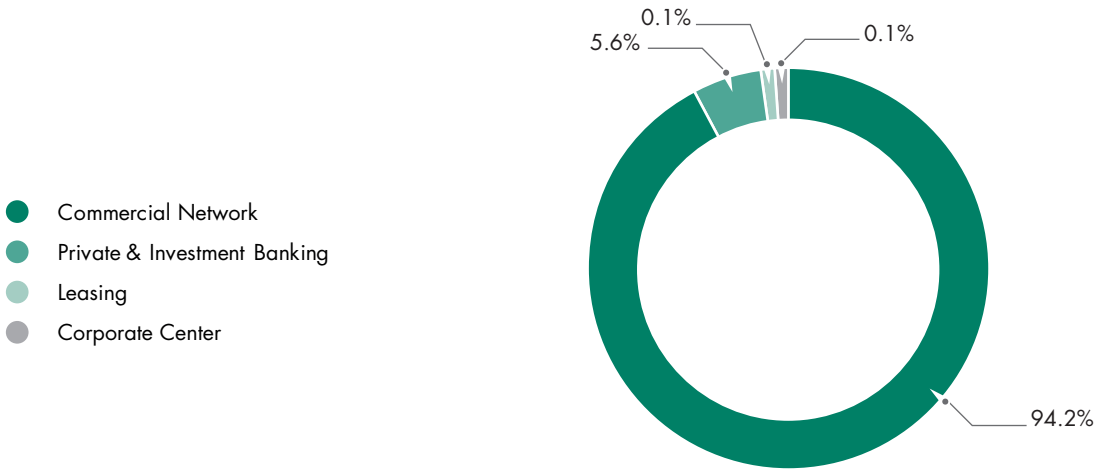
Net fee and commission income



Net fee and commission income was euro 1,950.4 million and recorded a 6.9% rise against the euro 1,824.7 million recorded last year.
This increase is due to the excellent performance of the management, brokerage and advisory services segment, which recorded an increase in absolute value of euro 180.1 million compared to the aggregate figure for 2016 (+22.5%), due essentially to the contribution of asset management products and that of portfolio management. The trend of commission from other services was also positive, recording an increase of over 40% compared to 2016, although offset by a lower contribution from commission on current accounts and collection and payment services.
The contribution of the fourth quarter was euro 472.1 million, up compared to the third quarter (euro 458.9 million).

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Commercial Network	1,838,845	1,187,116	1,757,397	81,448	4.6%
Private & Investment Banking	109,136	31,424	52,462	56,674	108.0%
Leasing	6	29	29	(23)	(79.3%)
Corporate Centre	2,423	20,870	14,789	(12,366)	(83.6%)
Total	**1,950,410**	**1,239,439**	**1,824,677**	**125,733**	**6.9%**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



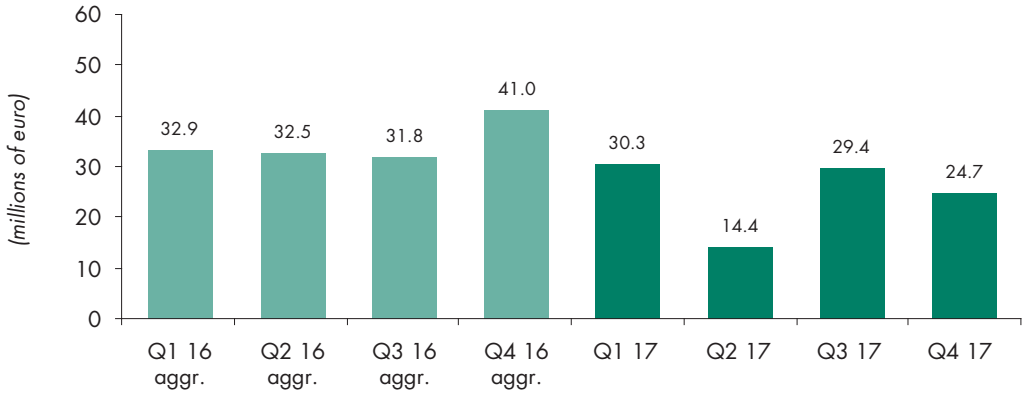
The excellent performance of investment product placement activities, particularly regarding funds, enabled the Commercial Network to obtain fees and commissions of euro 1,838.8 million in 2017, up by 4.6% compared to the previous year.
More specifically, the rise recorded by net fee and commission income reflected the uptrend in investment products, which rose by 29% against the corresponding period of last year, generating income of euro 403.5 million, compared to euro 327.7 million in 2016.
No net fee and commission income was recorded for the Wealth Management segment, as, following the sale of Aletti Gestielle SGR to Anima Holding finalised in December, the contribution of this subsidiary has been recorded under "Income (loss) after tax from discontinued operations", in accordance with accounting standard IFRS 5, both for this year and for the previous year used as comparison.
The Private & Investment Banking segment doubled its fee and commission income compared to 2016, both due to the higher income recorded by Private Banking (which rose from euro 44.4 million to 66.1 million), and to the lower retrocession commission paid by the Commercial Network due to the reduction in production volumes.
The contribution of the other segments was marginal.

Other net operating income

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Income on current accounts and loans	48,958	45,813	60,908	(11,950)	(19.6%)
Rents receivable	65,994	56,724	62,149	3,845	6.2%
Expenses on leased assets	(11,713)	(10,957)	(10,957)	756	6.9%
Other income and charges	41,927	31,276	48,110	(6,183)	(12.9%)
Subtotal	**145,166**	**122,856**	**160,210**	**(15,044)**	**(9.4%)**
Client relationship (PPA)	(46,349)	(21,952)	(21,952)	24,397	111.1%
Total	**98,817**	**100,904**	**138,258**	**(39,441)**	**(28.5%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

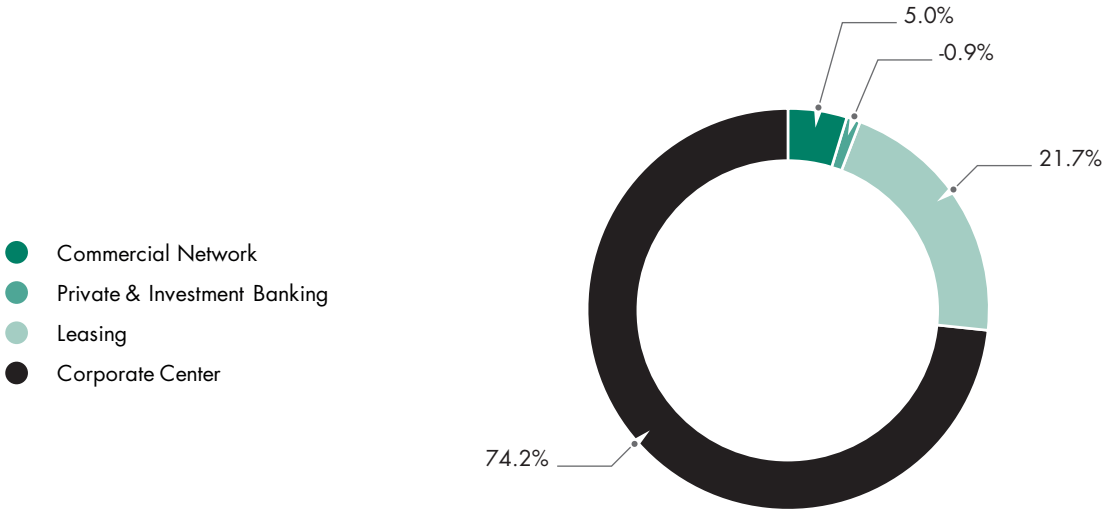
Other net operating income



Other net operating income totalled euro 98.8 million, compared to euro 138.3 million recorded in 2016. The decrease was due, on one hand to the lower contribution of "commissioni di istruttoria veloce (CIV)" (fast track fees) of 19.6% and, on the other hand, to higher adjustments of "client relationships", of euro 24.4 million, following the recognition on 1 January 2017 of new intangibles related to the PPA of the business combination transactions of the former BPM Group.

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Commercial Network	4,931	44,664	37,851	(32,920)	(87.0%)
Private & Investment Banking	(905)	271	853	(1,758)	
Leasing	21,452	21,697	21,697	(245)	(1.1%)
Corporate Centre	73,339	34,272	77,857	(4,518)	(5.8%)
Total	**98,817**	**100,904**	**138,258**	**(39,441)**	**(28.5%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

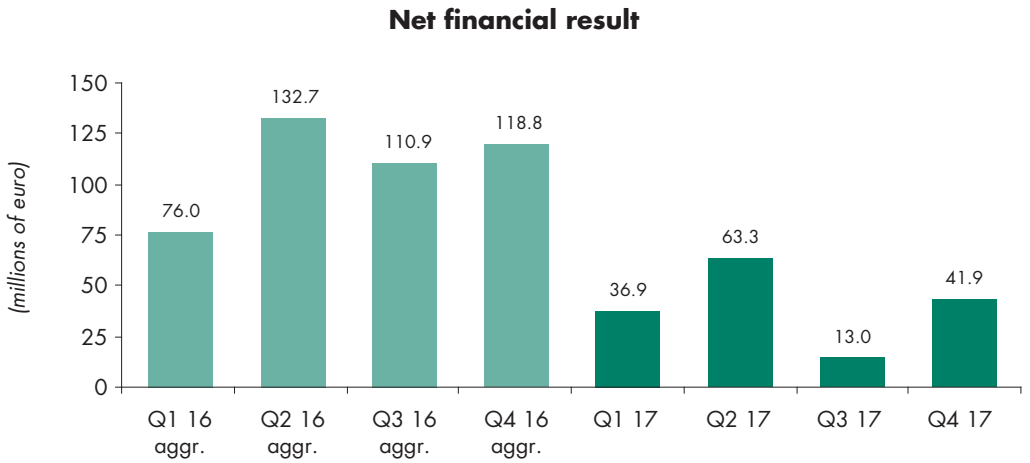


With regard to the Commercial Network, the result for 2017, which fell considerably (euro -32.9 million compared to 2016) is mainly linked to "commissioni di istruttoria veloce" (fast track fees), amounting to euro 48.5 million (euro -11.3 million against last year), as well as to the amortisation of client relationships, which rose from euro 22 to euro 43.5 million, following the business combination with the former BPM Group.
The contribution of Leasing to the consolidated result, which was substantially stable compared to 2016, is related to income from the rental of properties resulting from credit collection, net of charges relating to the maintenance of the same.
The result of the Corporate Centre instead is due to amounts received from renting the properties of other Group real estate companies to third parties, as well as from income from Tecmarket and other net income.

Net financial result

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Profits (losses) on trading	50,355	69,974	119,452	(69,097)	(57.8%)
Profits/losses on the disposal of financial assets	74,726	131,173	316,357	(241,631)	(76.4%)
Dividends and similar income on financial assets	30,034	12,332	27,271	2,763	10.1%
Profits/Losses from repurchase of financial liabilities	(9,196)	(2,418)	(371)	8,825	not significant
Fair value adjustments in hedge accounting	919	787	740	179	24.2%
Other income/expense	8,211	(16,096)	(25,131)	33,342	
Total	**155,049**	**195,752**	**438,318**	**(283,269)**	**(64.6%)**

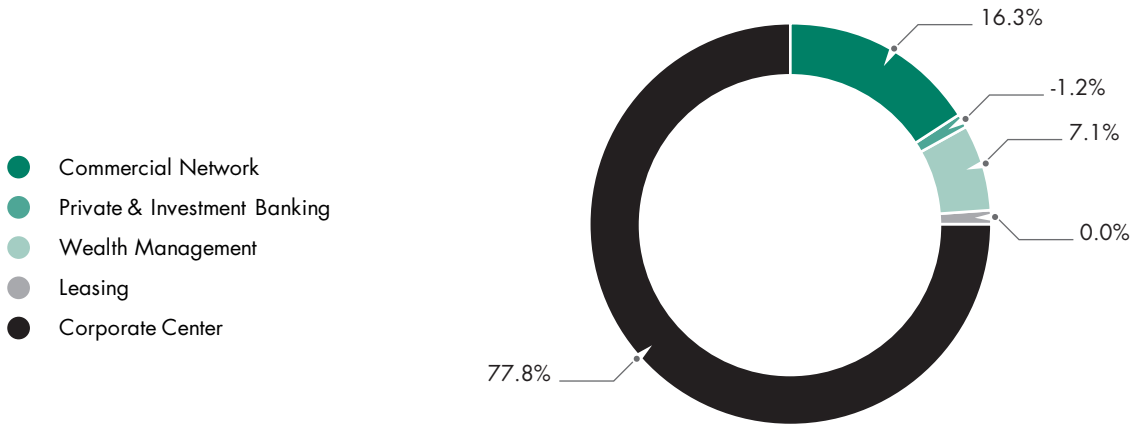
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The **net financial result** was a profit of euro 155.0 million, compared with euro 438.3 million recorded in 2016. The lower contribution is most due to the lower contribution of income generated by the disposal of financial assets available for sale and specifically debt securities, which generated total profits of euro 54.0 million (euro 254.1 million as at 31 December 2016). Trading activities made a contribution of euro 50.4 million to the result for the year (euro 119.5 million in 2016), while the collection of dividends from non-strategic equity investments was euro 30.0 million (euro 27.3 million in 2016). The contribution of the fourth quarter was euro 41.9 million, up against euro 13.0 million recorded in the third quarter, mainly related to the disposal of debt securities.

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Commercial Network	25,218	14,094	19,858	5,360	27.0%
Private & Investment Banking	(1,901)	21,243	51,277	(53,178)	
Wealth Management	10,992	-	-	10,992	
Leasing	-	(97)	(96)	96	
Corporate Centre	120,740	160,512	367,279	(246,539)	(67.1%)
Total	**155,049**	**195,752**	**438,318**	**(283,269)**	**(64.6%)**

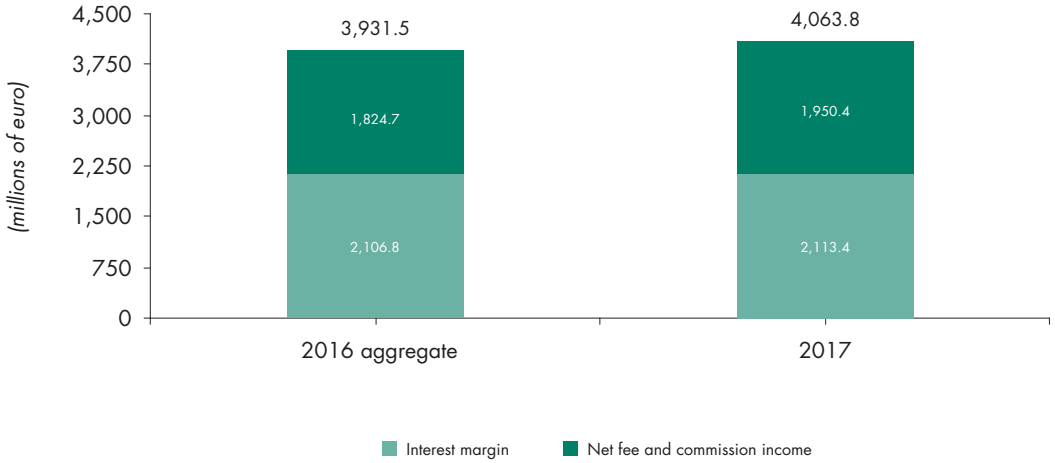
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The contribution of the Commercial Network was 27% higher than that of the previous year, due to financial revenues connected to the sale of derivatives to customers.
The contribution of the Private & Investment Banking segment is associated to the financial results generated by Banca Aletti (equal to euro -19.0 million) and Banca Akros (euro +17.1 million), decidedly lower than the result achieved in 2016. In particular, as regards Banca Aletti, its performance reflected lower placements of certificates, whereas for both companies trading activities were more limited over the year.
The contribution provided by Wealth Management was linked exclusively to the collection of dividends from shareholdings (particularly those held in Anima Holding).
The contribution of the Corporate Centre to the net financial result was euro 120.7 million, down on last year, mainly due to the lower contribution of the securities portfolio.

By virtue of the above-illustrated trends, total **operating income** for the year amounted to euro 4,483.8 million, down 3.7% compared to the figure of euro 4,656 million recorded the previous year.

Core Banking Business



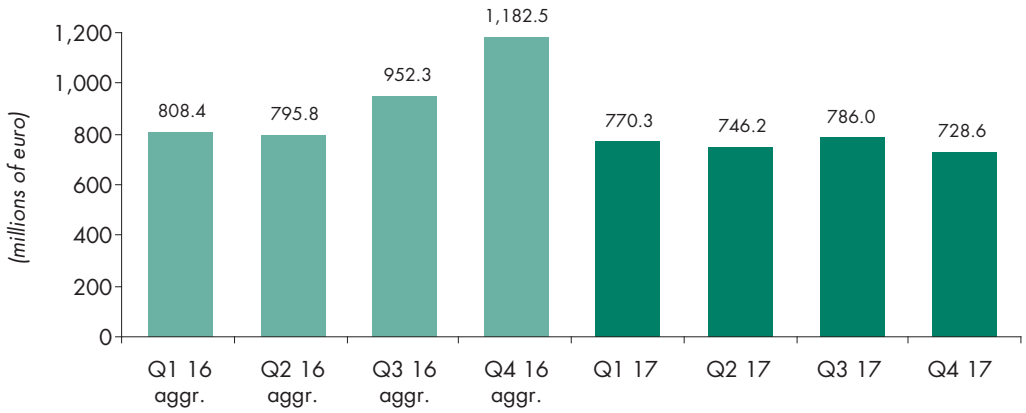
Taking only the revenues of the "core banking business" into account, represented by the sum of the aggregates relating to the interest margin, net fee and commission income, euro 4,063.8 million was recorded in 2017, up 3.4% compared to the figure for the previous year.

Operating expenses

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Personnel expenses	**(1,784,854)**	**(1,462,223)**	**(2,237,519)**	**(452,665)**	**(20.2%)**
- Leaving incentives and solidarity funds	3,123	(198,600)	(366,654)	369,777	
- Other personnel expenses	(1,787,977)	(1,263,623)	(1,870,865)	(82,888)	(4.4%)
Other administrative expenses	**(979,266)**	**(842,682)**	**(1,180,941)**	**(201,675)**	**(17.1%)**
- Taxes and duties	(339,457)	(240,217)	(338,440)	1,017	0.3%
- Services and advisory services	(399,372)	(252,940)	(408,689)	(9,317)	(2.3%)
- Properties	(217,903)	(171,203)	(226,118)	(8,215)	(3.6%)
- Postal, telephone and stationery	(37,173)	(27,618)	(40,308)	(3,135)	(7.8%)
- Maintenance and rentals for furniture, machines and equipment	(63,560)	(33,725)	(34,483)	29,077	84.3%
- Advertising and representation	(22,138)	(22,282)	(38,474)	(16,336)	(42.5%)
- Other administrative expenses	(193,363)	(296,888)	(388,764)	(195,401)	(50.3%)
- Recovery of expenses	293,700	202,191	294,335	(635)	(0.2%)
Value adjustments on property and equipment and intangible assets	**(266,915)**	**(164,921)**	**(320,568)**	**(53,653)**	**(16.7%)**
- Value adjustments on property and equipment	(114,943)	(70,704)	(109,660)	5,283	4.8%
- Value adjustments on intangible assets	(85,698)	(54,528)	(90,460)	(4,762)	(5.3%)
- Value adjustments on improvements to third party assets	(13,751)	(8,016)	(13,150)	601	4.6%
- Net losses on impairment	(52,523)	(31,673)	(107,298)	(54,775)	(51.0%)
Total	**(3,031,035)**	**(2,469,826)**	**(3,739,028)**	**(707,993)**	**(18.9%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Operating expenses



Personnel expenses, corresponding to euro 1,784.9 million, decreased by 20.2% compared to the euro 2,237.5 million recorded last year, thanks to the reduction of the workforce on an aggregate basis (-1,345 resources compared to 31 December 2016). Net of components relating to the redundancy fund, this item would be euro 1,788.0 million compared to the like-for-like figure for 2016 of euro 1,870.9 million, therefore down by 4.4%. As at 31 December 2017, the total number of employees was 23,263 against 24,608 resources at the end of 2016.

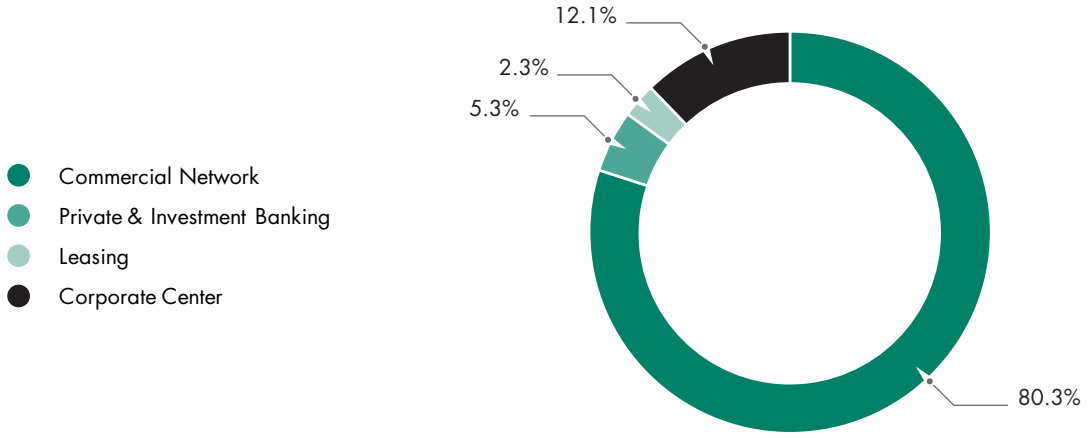
Other administrative expenses amounted to euro 979.3 million, down 17.1% compared to the figure recorded for the previous year. The item includes a positive impact of euro 27.2 million linked to the recovery of the expense recognised in 2016 for the conversion of DTAs for the year 2015 as well as integration, merger and company reorganisation expenses of euro 55.2 million. Excluding the components highlighted in the comparison with 2016, which also included the extraordinary contribution to the Resolution Fund of euro 117.7 million, other administrative expenses fell by 3%. If "system expenses" totalling euro 133.6 million (euro 120.5 million as at 31 December 2016) and represented by the ordinary contributions to the Single Resolution Fund (SRF) of euro 62.4 million (euro 58.7 million in 2016), the fee to maintain the deductibility of DTAs for the year of euro 26.7 million (euro 27.2 million in 2016) and by the estimated contributions to the Interbank Deposit Guarantee Fund of euro 44.5 million (euro 34.6 million in 2016) are also included, other administrative expenses would be down by 4.9% due to efficiency measures.

Net value adjustments on property and equipment and intangible assets for the year amounted to euro 266.9 million, down 16.7% compared to euro 320.6 million recorded as at 31 December 2016. This item includes value adjustments due to impairment of euro 52.5 million (euro 107.3 million as at 31 December 2016) mainly related to the acceleration of the amortisation process following the reduction of the useful life of the software that was rationalised as a result of the merger. Net of these non-recurring components, the performance of the aggregate was in line with that of last year (+0.8%). With regard to the item in question, higher amortisation and depreciation of euro 8.9 million was recognised, due to the recognition of the BPM Group's real estate at fair value upon application of the PPA process.

Total **operating expenses** amounted to euro 3,031.0 million, compared to euro 3,739.0 million recorded in 2016, down 18.9%. Net of the above-mentioned non-recurring components, total operating expenses would show a fall of 3.6%.

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Commercial Network	(2,432,335)	(1,834,739)	(2,688,066)	(255,731)	(9.5%)
Private & Investment Banking	(160,761)	(112,833)	(169,483)	(8,722)	(5.1%)
Leasing	(70,758)	(81,108)	(81,109)	(10,351)	(12.8%)
Corporate Centre	(367,181)	(441,146)	(800,370)	(433,189)	(54.1%)
Total operating expenses	**(3,031,035)**	**(2,469,826)**	**(3,739,028)**	**(707,993)**	**(18.9%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The Commercial Network recorded operating expenses down by 9.5%. More specifically, personnel expenses fell (-19.0%) due to the impact of leaving incentive policies adopted by the company in 2017 and last year; while other administrative expenses recorded a rise of 2.5%, which includes the Commercial Network's share of "system expenses" (ordinary contributions to the Single Resolution Fund (SRF) and contributions to the Interbank Deposit Guarantee Fund for the deposit guarantee scheme).

No operating expenses are allocated to the Wealth Management segment following the cited reclassification of the contribution of Aletti Gestielle SGR to "Income (loss) after tax from discontinued operations".
The fall in total costs for Leasing is solely attributable to the lower value adjustments for impairment on certain properties obtained as datio in solutum (transfer in lieu of payment), carried out to adjust the book value to the updated appraisal values.
The Corporate Centre recorded a significant fall in operating expenses: in the area of personnel expenses, the reduction was mainly due to expenses for the Redundancy Fund, present in 2016; as regards administrative expenses, in 2016, an extraordinary contribution was made to the National Resolution Fund (euro 117.7 million) and the expense, refunded in 2017, to maintain the deductibility of eligible DTAs (euro 27.2 million).
Net value adjustments on property and equipment and intangible assets were also lower due to a decrease in write-downs.

Income (loss) from operations

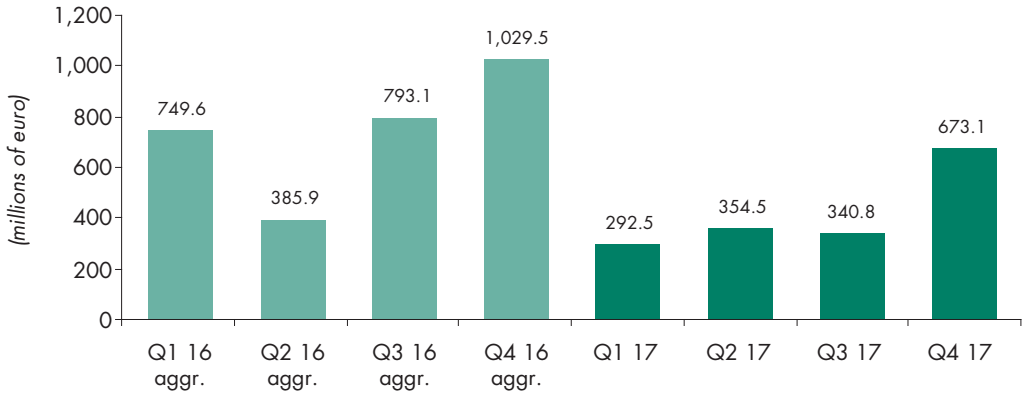
The **income (loss) from operations** therefore amounted to euro 1,452.7 million, an increase of 58.4% compared to euro 916.9 million recorded in 2016. Net of non-recurring components, the aggregate would be euro 1,513.1 million, down 3% compared to the corresponding figure for last year.

Adjustments and provisions

(in thousands of euro)	2017	2016 (*)	2016 aggregate	Absolute change on aggregate	% change on aggregate
Net value adjustments on loans to customers	**(1,433,288)**	**(2,441,850)**	**(2,892,534)**	**(1,459,246)**	**(50.4%)**
Specific value adjustments: derecognitions	(181,195)	(855,465)	(885,770)	(704,575)	(79.5%)
Specific value adjustments: other	(2,433,068)	(2,247,347)	(2,819,355)	(386,287)	(13.7%)
Specific recoveries	1,118,887	661,125	812,591	306,296	37.7%
Net portfolio adjustments/recoveries	62,088	(163)	37,485	24,603	65.6%
Net adjustments on guarantees given	1,329	(5,032)	2,556	(1,227)	(48.0%)
Profits (losses) on disposal of loans	(229,004)	(92,449)	(105,659)	123,345	116.7%
Total	**(1,660,963)**	**(2,539,331)**	**(2,958,152)**	**(637,845)**	**(43.9%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Net adjustments on loans to customers



Net value adjustments on loans to customers were euro 1,661.0 million compared to euro 2,958.2 million in 2016 and include the negative impact of disposals of loans made during the year of euro 229.0 million. The cost of credit, measured by the ratio of net value adjustments on loans to net loans, is 154 b.p., significantly down compared to the figure for last year, equal to 268 b.p., which was affected by the impacts of the decisions taken to raise the average level of coverage of non-performing loans. Net flows of performing loans to non-performing loans were also down (-55%, equal to euro 1.1 billion against euro 2.5 billion last year). More specifically, in the fourth quarter, adjustments were euro 673.1 million, significantly higher than the figure for the third quarter (euro 340.8 million); these adjustments reflect the intention to maintain levels of coverage high, even in the presence of disposals of unsecured loans (the nature of which has coverage levels that are higher than average) as well as the one-off impact due to the introduction of new loan measurement policies, not related to the adoption of IFRS 9, but to guarantee an increasingly rigorous approach and in line with new regulatory guidelines, as well as to encourage the Group's derisking activities.

In addition, the income statement for the year included **net adjustments on receivables due from banks and other assets** of euro 140.2 million (euro -112.5 million as at 31 December 2016), which include write-downs on shares held in the Atlante Fund of euro 61.0 million and the subordinated security of Banca Popolare di Vicenza for euro 15.3 million, as well as adjustments made for the commitments to the voluntary scheme of the Interbank Deposit Guarantee Fund of euro 56.1 million.

Net provisions for risks and charges amounted to an expense of euro 13.8 million, compared to the euro 55.1 million recorded last year, mostly represented by the estimated expenses of legal disputes and other expenses.

In 2017, **profits on disposal of investments in associates and companies subject to joint control and other investments** of euro 25.7 million were recorded, with euro 11.7 million coming from the fair value measurement of the shareholdings in the investee Energreen, resulting from the decision made to reclassify the equity investment to the portfolio of financial assets available for sale as it is no longer subject to significant influence, and euro 10.2 million from the disposal of owned property (which had generated a profit of euro 15.6 million as at 31 December 2016).

Income before tax from continuing operations recorded a loss of euro 336.5 million compared to the loss of euro 2,050.7 million in 2016.

Other revenue and cost items

Taxes on income from continuing operations as at 31 December 2017 amounted to euro +122.4 million (euro +650.2 million as at 31 December 2016) and mainly relate to the benefit resulting from the recognition of deferred tax assets on tax losses for the year; they also include the expense of euro 13.7 million linked to the closure of a tax dispute of the former Banca Italease.

"**Income (loss) after tax from discontinued operations**" included the economic contribution generated by the subsidiary Aletti Gestielle SGR, sold in December, which entailed a net gain of euro 673.1 million resulting from the disposal of this subsidiary.

Considering the share of profits pertaining to minority interests (euro +9.7 million), 2017 closed with a **net profit for the year without Badwill and impairment on goodwill and client relationship** of euro 557.8 million, compared to net loss of euro 1,334.7 million last year.

Impairment on goodwill and client relationship after tax includes the effect of the results of impairment testing on goodwill and on other intangible assets, amounting to euro 1,040.9 million (euro 1,017.6 after tax).

The "**badwill**" recognised in the income statement following the completion of the PPA process as at 1 January 2017, the date on which the merger between the Banco Popolare and BPM Groups became effective, totalled euro 3,076.1 million and brings the result for 2017 to a **net profit for the year** of euro 2,612.4 million.

Consolidated balance sheet figures

The reclassified balance sheet represents a simple aggregation of the items envisaged in the layout of the balance sheet as per the Bank of Italy circular No. 262 dated 22 December 2005.

The main aggregations regarding the balance sheet are as follows:

- the asset item "Financial assets and hedging derivatives" encompasses the financial instruments shown in the portfolios relating to "Financial assets held for trading", "Financial assets designated at fair value through profit and loss", "Financial assets available for sale", "Investments held to maturity" and "Hedging derivatives" shown under assets items 20, 30, 40, 50 and 80 in the Bank of Italy schedule;
- the residual asset item "Other assets" aggregates the "Fair value change of financial assets in micro fair value hedge portfolios", "Tax assets" and "Other assets" (respectively asset items 90, 140 and 160);
- the grouping of the amount due to customers (item 20) and securities issued (classified under item 30, and if measured at fair value, under item 50) into a single item;
- the inclusion of the financial instruments recognised in the financial statements in portfolios relating to "Financial liabilities held for trading" and "Hedging derivatives" (respectively liability items 40 and 60) as a single aggregate;
- the grouping of the "Liability provisions" for "Employee termination indemnities" (item 110) and "Provisions for risks and charges" (item 120) into a single item;
- the residual liability item "Other liabilities" includes the "Fair value change of financial liabilities in macro fair value hedge portfolios", "Tax liabilities" and "Other liabilities" (respectively liability items 70, 80 and 100);
- the indication of "capital and reserves" as an aggregate, net of any treasury shares held (financial statement items 140, 160, 170, 180, 190 and 200).

Reclassified asset items ***(in thousands of euro)***	**31/12/2017**	**31/12/2016**	**31/12/2016 aggregate**	**Changes on aggregate**	
Cash and cash equivalents	976,686	648,255	897,704	78,982	8.8%
Financial assets and hedging derivatives	33,873,977	25,650,351	36,580,435	(2,706,458)	(7.4%)
Due from banks	5,164,715	4,559,188	6,678,493	(1,513,778)	(22.7%)
Loans to customers	108,176,382	75,840,234	110,550,576	(2,374,194)	(2.1%)
Investments in associates and companies subject to joint control	1,349,191	1,195,214	1,594,849	(245,658)	(15.4%)
Property and equipment	2,735,182	1,977,766	2,695,781	39,401	1.5%
Intangible assets	1,297,160	1,751,895	1,833,509	(536,349)	(29.3%)
Non-current assets held for sale and discontinued operations	106,121	77,369	77,369	28,752	37.2%
Other assets	7,527,351	5,710,731	7,346,204	181,147	2.5%
Total	**161,206,765**	**117,411,003**	**168,254,920**	**(7,048,155)**	**(4.2%)**

Reclassified liability and shareholders' equity items ***(in thousands of euro)***	**31/12/2017**	**31/12/2016**	**31/12/2016 aggregate**	**Changes on aggregate**	
Due to banks	27,199,304	16,017,401	23,276,415	3,922,889	16.9%
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	107,509,849	80,446,701	116,773,095	(9,263,246)	(7.9%)
Financial liabilities and hedging derivatives	8,707,966	9,438,062	10,682,892	(1,974,926)	(18.5%)
Liability provisions	1,460,989	1,133,434	1,706,089	(245,100)	(14.4%)
Liabilities associated with non-current assets held for sale and discontinued operations	35	960	960	(925)	(96.4%)
Other liabilities	4,365,082	2,729,597	3,816,296	548,786	14.4%
Minority interests	63,310	69,568	58,238	5,072	8.7%
Shareholders' equity	11,900,230	7,575,280	11,940,935	(40,705)	(0.3%)
Total	**161,206,765**	**117,411,003**	**168,254,920**	**(7,048,155)**	**(4.2%)**

Reclassified consolidated balance sheet - Quarterly changes

Reclassified asset items ***(in thousands of euro)***	**31/12/2017**	**30/09/2017**	**30/06/2017**	**31/03/2017**	**31/12/2016 aggregate**
Cash and cash equivalents	976,686	811,894	790,196	780,307	897,704
Financial assets and hedging derivatives	33,873,977	38,134,629	38,145,739	39,210,354	36,580,435
Due from banks	5,164,715	4,621,535	4,897,797	5,692,416	6,678,493
Loans to customers	108,176,382	107,900,007	109,440,543	110,341,098	110,550,576
Investments in associates and companies subject to joint control	1,349,191	1,383,550	1,344,125	1,455,341	1,594,849
Property and equipment	2,735,182	2,893,903	2,985,957	3,004,018	2,695,781
Intangible assets	1,297,160	2,382,970	2,394,868	2,399,897	1,833,509
Non-current assets held for sale and discontinued operations	106,121	256,727	6,722	9,744	77,369
Other assets	7,527,351	7,494,680	7,714,386	7,250,107	7,346,204
Total	**161,206,765**	**165,879,895**	**167,720,333**	**170,143,282**	**168,254,920**

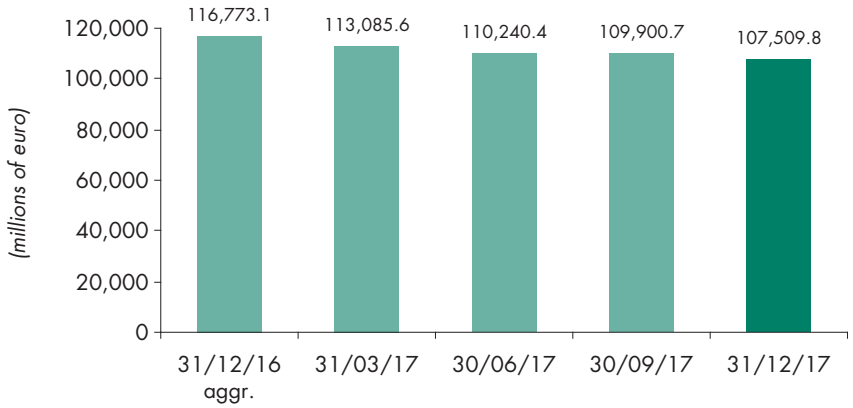
Reclassified liability and shareholders' equity items ***(in thousands of euro)***	**31/12/2017**	**30/09/2017**	**30/06/2017**	**31/03/2017**	**31/12/2016 aggregate**
Due to banks	27,199,304	27,570,548	26,286,161	26,707,518	23,276,415
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	107,509,849	109,900,734	110,240,379	113,085,563	116,773,095
Financial liabilities and hedging derivatives	8,707,966	9,811,031	10,008,681	10,689,794	10,682,892
Liability provisions	1,460,989	1,530,622	1,601,258	1,642,848	1,706,089
Liabilities associated with non-current assets held for sale and discontinued operations	35	20,990	101	941	960
Other liabilities	4,365,082	4,577,260	7,140,401	5,652,082	3,816,296
Minority interests	63,310	51,740	53,120	57,814	58,238
Group shareholders' equity	11,900,230	12,416,970	12,390,232	12,306,722	11,940,935
Total	**161,206,765**	**165,879,895**	**167,720,333**	**170,143,282**	**168,254,920**

Loan brokering activities

Direct funding

(in thousands of euro)	**31/12/2017**	**% impact**	**31/12/2016**	**% impact**	**31/12/2016 aggregate**	**% impact**	**Absolute change on aggregate**	**% change on aggregate**
Due to customers	**87,848,146**	**81.7%**	**58,671,580**	**72.9%**	**89,360,019**	**76.5%**	**(1,511,873)**	**(1.7%)**
Deposits and current accounts	80,988,958	75.3%	48,546,250	60.3%	75,627,409	64.8%	5,361,549	7.1%
current accounts and unrestricted savings accounts	77,390,766	72.0%	46,332,101	57.6%	70,855,862	60.7%	6,534,904	9.2%
time deposits and other term deposits	3,598,192	3.3%	2,214,149	2.8%	4,771,547	4.1%	(1,173,355)	(24.6%)
Repurchase agreements	4,180,122	3.9%	7,704,649	9.6%	11,311,929	9.7%	(7,131,807)	(63.0%)
Loans and other payables	2,679,066	2.5%	2,420,681	3.0%	2,420,681	2.1%	258,385	10.7%
Securities	**19,661,703**	**18.3%**	**21,775,121**	**27.1%**	**27,413,076**	**23.5%**	**(7,751,373)**	**(28.3%)**
Bonds and other securities	18,894,663	17.6%	20,147,800	25.0%	25,771,458	22.1%	(6,876,795)	(26.7%)
Certificates of deposit	767,040	0.7%	1,627,321	2.0%	1,641,618	1.4%	(874,578)	(53.3%)
Total direct funding	**107,509,849**	**100.0%**	**80,446,701**	**100.0%**	**116,773,095**	**100.0%**	**(9,263,246)**	**(7.9%)**

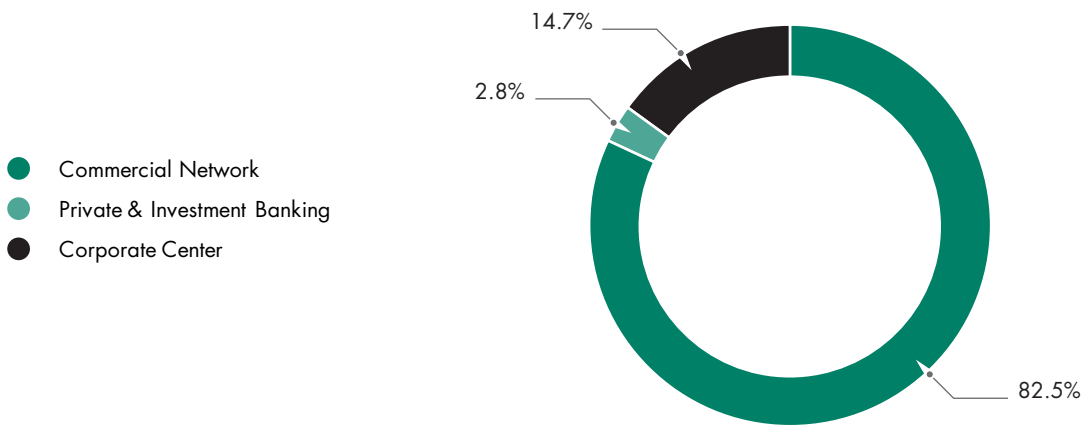
Direct funding



As at 31 December 2017, **direct funding** totalled euro 107.5 billion, showing a decrease of 7.9% compared to the aggregate figure of euro 116.8 billion as at 31 December 2016. The fall recorded in 2017 was primarily attributable to the drop in the securities segment of euro 7.8 billion, in addition to the decrease linked to repurchase agreements (euro -7.1 billion) and time deposits (euro -1.2 billion). Compared to the previous year, the component represented by current accounts and on demand deposits of the commercial network recorded a substantial increase (+9.2%, rising from euro 70.9 billion to euro 77.4 billion). Excluding repurchase agreements and securities lending, which represent highly volatile forms of funding, direct funding was down by 2%. This trend is in line with the policy that seeks to gradually reduce the cost of funding by decreasing more onerous forms of funding.
Note that the aggregate does not include the stable funding guaranteed by the stock of certificates issued by the Group, which as at 31 December 2017 reached euro 4.0 billion, down by 13.2% compared to the aggregate figures as at 31 December 2016, equal to euro 4.6 billion.

(in thousands of euro)	31/12/2017	% impact	31/12/2016 (*)	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Commercial Network	88,651,858	82.5%	62,721,705	78.0%	90,246,276	77.3%	(1,594,418)	(1.8%)
Private & Investment Banking	2,996,716	2.8%	1,192,833	1.5%	2,289,621	2.0%	707,095	30.9%
Wealth Management	-	0.0%	2,554	0.0%	2,554	0.0%	(2,554)	
Leasing	9,047	0.0%	18,835	0.0%	18,835	0.0%	(9,788)	(52.0%)
Corporate Centre	15,852,228	14.7%	16,510,774	20.5%	24,215,809	20.7%	(8,363,581)	(34.5%)
Total direct funding	**107,509,849**	**100.0%**	**80,446,701**	**100.0%**	**116,773,095**	**100.0%**	**(9,263,246)**	**(7.9%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



Funding relating to the Commercial Network amounted to euro 88.7 billion down 1.8% compared to the end of 2016. Performance was influenced by the early repayment of bond issues, only partly offset by the rather significant growth in direct funding in the strict sense (current accounts and deposits).
As regards the Private & Investment Banking segment, the increase was due to growth in the current accounts and demand deposits component of the subsidiary Banca Aletti.
The funding attributed to the Corporate Centre recorded a sharp decrease, due both to the fall in bonds held by institutional customers and to lower stock for transactions with the Clearing and Guarantee House. This performance was only partly offset by the increase of funding with ECB, thanks to the increased liquidity originating from TLTRO.
The contribution of the other segments was marginal.

Indirect funding

(in thousands of euro)	31/12/2017	% impact	31/12/2016 (*)	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Managed assets	**60,545,187**	**59.8%**	**35,979,522**	**52.0%**	**58,125,705**	**57.1%**	**2,419,482**	**4.2%**
mutual funds and SICAVs	37,605,308	37.1%	20,661,374	29.9%	34,358,375	33.8%	3,246,933	9.5%
securities and fund management	6,941,119	6.9%	4,866,045	7.0%	6,936,164	6.8%	4,955	0.1%
insurance policies	15,998,760	15.8%	10,452,103	15.1%	16,831,166	16.5%	(832,406)	(4.9%)
Administered assets	**40,783,277**	**40.2%**	**33,222,324**	**48.0%**	**43,604,225**	**42.9%**	**(2,820,948)**	**(6.5%)**
Total indirect funding	**101,328,464**	**100.0%**	**69,201,847**	**100.0%**	**101,729,930**	**100.0%**	**(401,466)**	**(0.4%)**

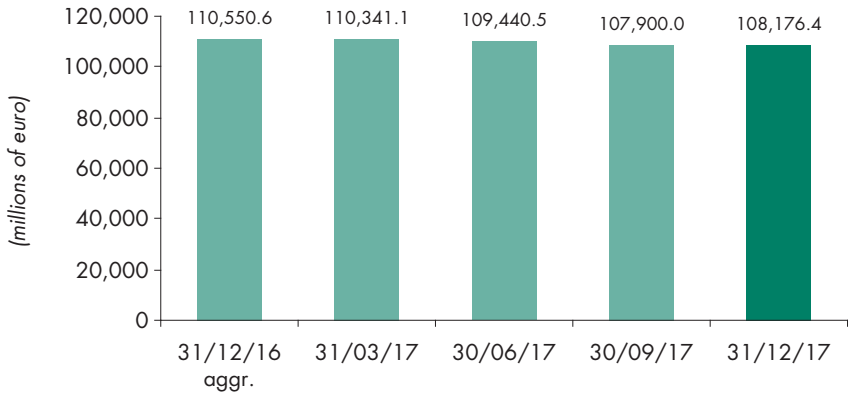
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

As at 31 December 2017, **indirect funding** inclusive of certificates totalled euro 101.3 billion, a fall compared to the aggregate figure of euro 101.7 billion as at 31 December 2016 (-0.4%), which, however, included the contribution of the subsidiary Aletti Gestielle SGR. Following the disposal of the investee at the end of December 2017, the share of managed assets placed out of the Group is no longer present.
On a like-for-like basis, excluding the contribution of Aletti Gestielle at the end of 2016, corresponding to euro 1.7 billion, total indirect funding recorded a rise of 1.3%. This rise is related to the managed asset component (+7.3%), corresponding to 60.5 billion, driven by the good performance of funds and SICAV, which over the year rose by 15.2%, by a total amount of around euro 5 billion. The rise in managed assets was only partly offset by the fall in administered assets, which totalled euro 40.8 billion, with a decrease of euro 2.8 billion (-6.5% against the end of 2016).

Loans to customers

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Mortgage loans	62,663,514	57.9%	38,128,508	50.3%	56,941,022	51.5%	5,722,492	10.0%
Current accounts	13,331,195	12.3%	9,529,672	12.6%	13,016,867	11.8%	314,328	2.4%
Repurchase agreements	6,364,149	5.9%	6,540,186	8.6%	6,720,281	6.1%	(356,132)	(5.3%)
Financial leases	2,620,722	2.4%	2,969,384	3.9%	3,214,490	2.9%	(593,768)	(18.5%)
Credit cards, personal loans and salary-backed loans	2,099,943	1.9%	355,346	0.5%	2,009,079	1.8%	90,864	4.5%
Debt securities	433,703	0.4%	342,610	0.5%	386,253	0.3%	47,450	12.3%
Other loans	20,663,156	19.1%	17,974,528	23.7%	28,262,584	25.6%	(7,599,428)	(26.9%)
Total net loans to customers	**108,176,382**	**100.0%**	**75,840,234**	**100.0%**	**110,550,576**	**100.0%**	**(2,374,194)**	**(2.1%)**

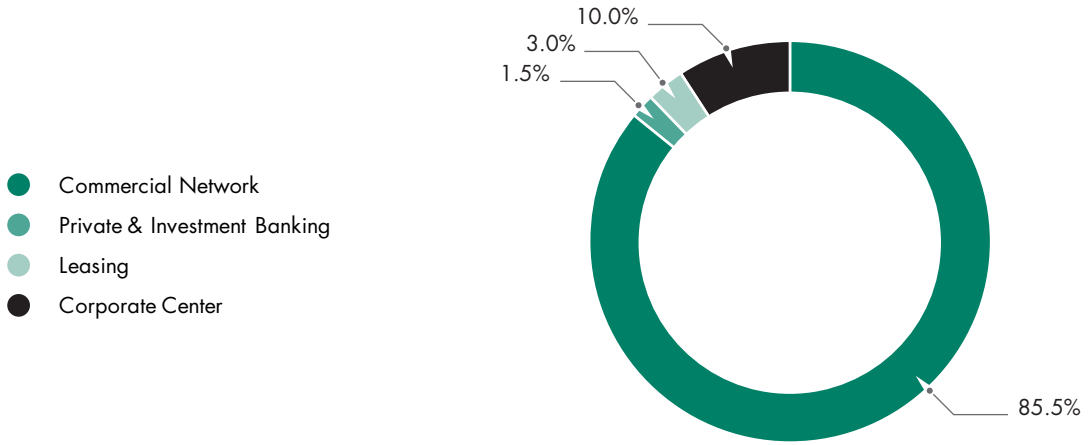
Net loans to customers



As at 31 December 2017, total net loans had reached euro 108.2 billion and showed a decrease of 2.1% compared to the aggregate figure of euro 110.6 billion recorded as at 31 December 2016.
The decrease is mostly due to the considerable decline in net non-performing loans, down during the year by around euro 3.2 billion, while performing loans recorded an increase of euro 0.8 billion; excluding the component relating to repurchase agreements and that of the Leasing division, the increase of the performing loans portfolio is euro 1.3 billion. Also in comparison to the figures as at 30 September 2017, the trend of non-performing loans showed a decrease of around euro 1 billion.

(in thousands of euro)	31/12/2017	% impact	31/12/2016 (*)	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Commercial Network	92,537,167	85.5%	61,115,109	80.6%	93,548,708	84.6%	(1,011,541)	(1.1%)
Private & Investment Banking	1,626,746	1.5%	1,387,484	1.8%	1,847,362	1.7%	(220,616)	(11.9%)
Wealth Management	-	0.0%	37,702	0.0%	37,702	0.0%	(37,702)	
Leasing	3,244,333	3.0%	3,709,461	4.9%	3,709,461	3.4%	(465,128)	(12.5%)
Corporate Centre	10,768,136	10.0%	9,590,478	12.6%	11,407,343	10.3%	(639,207)	(5.6%)
Total net loans	**108,176,382**	**100.0%**	**75,840,234**	**100.0%**	**110,550,576**	**100.0%**	**(2,374,194)**	**(2.1%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



The Commercial Network recorded a fall in net loans to customers of 1.1%, due both to the decrease recorded for medium-long term performing loans, and to the increase in the levels of coverage of non-performing loans.
The Private & Investment Banking segment also recorded a decrease (-11.9%) due to the fall of the repurchase agreement and current account components.
The envisaged fall in the stock of the Leasing segment, in run-off, continued. The Corporate Centre's figures were also down, due to the decrease in transactions with the Clearing and Guarantee House.

Credit quality

(in thousands of euro)	31/12/2017		31/12/2016		31/12/2016 aggregate		Absolute change on aggregate	% change on aggregate
	Net exposure	% impact	Net exposure	% impact	Net exposure	% impact		
Bad loans	6,487,624	6.0%	6,238,860	8.2%	7,822,246	7.1%	(1,334,622)	(17.1%)
Unlikely to pay	6,464,318	6.0%	6,234,237	8.2%	8,257,139	7.5%	(1,792,821)	(21.7%)
Past due	80,425	0.1%	95,265	0.1%	124,969	0.1%	(44,544)	(35.6%)
Non-performing loans	**13,032,367**	**12.0%**	**12,568,362**	**16.6%**	**16,204,354**	**14.7%**	**(3,171,987)**	**(19.6%)**
Performing loans	**95,144,015**	**88.0%**	**63,271,872**	**83.4%**	**94,346,222**	**85.3%**	**797,793**	**0.8%**
Total loans to customers	**108,176,382**	**100.0%**	**75,840,234**	**100.0%**	**110,550,576**	**100.0%**	**(2,374,194)**	**(2.1%)**

(in thousands of euro)	31/12/2017				31/12/2016				Change in gross exposure	Change in gross exposure %	Change in total value adjustments
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure (*)	Total value adjustments (*)	Net exposure	Coverage			
Bad loans	15,793,632	(9,306,008)	6,487,624	58.92%	10,915,992	(4,677,132)	6,238,860	42.85%	4,877,640	44.7%	4,628,876
Unlikely to pay	9,566,293	(3,101,975)	6,464,318	32.43%	8,618,725	(2,384,488)	6,234,237	27.67%	947,568	11.0%	717,487
Past due	95,394	(14,969)	80,425	15.69%	119,175	(23,910)	95,265	20.06%	(23,781)	(20.0%)	(8,941)
Non-performing loans	**25,455,319**	**(12,422,952)**	**13,032,367**	**48.80%**	**19,653,892**	**(7,085,530)**	**12,568,362**	**36.05%**	**5,801,427**	**29.5%**	**5,337,422**
of which: forborne	*7,225,055*	*(2,538,408)*	*4,686,647*		*5,182,834*	*(1,390,247)*	*3,792,587*		*2,042,221*	*39.4%*	*1,148,161*
Performing loans	**95,462,928**	**(318,913)**	**95,144,015**	**0.33%**	**63,527,825**	**(255,953)**	**63,271,872**	**0.40%**	**31,935,103**	**50.3%**	**62,960**
of which: forborne	*2,430,545*	*(30,715)*	*2,399,830*		*2,549,974*	*(36,452)*	*2,513,522*		*(119,429)*	*(4.7%)*	*(5,737)*
Total loans to customers	**120,918,247**	**(12,741,865)**	**108,176,382**	**10.54%**	**83,181,717**	**(7,341,483)**	**75,840,234**	**8.83%**	**37,736,530**	**45.4%**	**5,400,382**

(*) as at 31 December 2016, the amounts of gross bad loans and the relative value adjustments do not include the portion retained non-recoverable of loans to debtors subject to insolvency proceedings still under way, which have been derecognised in advance with respect to the date of closure of the insolvency proceedings, corresponding to euro 4,682.3 million.

(in thousands of euro)	31/12/2017				31/12/2016 aggregate				Change in gross exposure	Change in gross exposure %	Change in total value adjustments
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage			
Bad loans	15,793,632	(9,306,008)	6,487,624	58.92%	14,412,625	(6,590,379)	7,822,246	45.73%	1,381,007	9.6%	2,715,629
Unlikely to pay	9,566,293	(3,101,975)	6,464,318	32.43%	11,348,927	(3,091,788)	8,257,139	27.24%	(1,782,634)	(15.7%)	10,187
Past due	95,394	(14,969)	80,425	15.69%	152,788	(27,819)	124,969	18.21%	(57,394)	(37.6%)	(12,850)
Non-performing loans	**25,455,319**	**(12,422,952)**	**13,032,367**	**48.80%**	**25,914,340**	**(9,709,986)**	**16,204,354**	37.47%	(459,021)	(1.8%)	2,712,966
of which: forborne	*7,225,055*	*(2,538,408)*	*4,686,647*				-				
Performing loans	**95,462,928**	**(318,913)**	**95,144,015**	**0.33%**	**94,754,226**	**(408,004)**	**94,346,222**	0.43%	708,702	0.7%	(89,091)
of which: forborne	*2,430,545*	*(30,715)*	*2,399,830*				-				
Total loans to customers	**120,918,247**	**(12,741,865)**	**108,176,382**	**10.54%**	**120,668,566**	**(10,117,990)**	**110,550,576**	**8.38%**	**249,681**	**0.2%**	**2,623,875**

Non-performing loans (bad loans, unlikely to pay and past due), net of value adjustments, amounted to euro 13,032.4 million as at 31 December 2017 and recorded a 19.6% drop with respect to the aggregate figure of euro 16,204.4 million recorded as at 31 December 2016. This figure declined thanks to the limited net flows of new entries into the category of non-performing loans, which in 2017 totalled euro 1,123 million (down by 55.3% compared to the aggregate figure of 2016, totalling euro 2,515 million), the internal workout, the sale transactions carried out during the year, as well as the adjustments on loans made both through the process of fair value measurement of the non-performing loans of the former BPM Group as part of the purchase price allocation (PPA) process, and through the introduction of new measurement policies as mentioned above.

Net non-performing loans represented 12.0% of total net loans to customers, down on 14.7% of the aggregate figure recorded at the end of 2016; a similar trend was recorded for the percentage represented by the same before value adjustments, corresponding to 21.1% (21.5% at the end of 2016). Including also the receivables to be derecognised, the rate of coverage of non-performing loans was 50.1%, an increase of around three percentage points compared to 47.9% of the aggregate figure recorded as at 31 December 2016.

More specifically, bad loans before and after value adjustments amounted to euro 15,793.6 million and euro 6,487.6 million respectively, while the percentage represented by the same of total loans to customers before and after value adjustments, was 13.1% and 6.0% respectively. Taking into account receivables for bad loans relating to debtors undergoing insolvency proceedings, which as at 31 December were still in progress, but had already been derecognised from the accounts, the rate of coverage was 60.5%, compared with the aggregate figure of 60.0% as at 31 December 2016.

Unlikely to pay before and after value adjustments amounted to euro 9,566.3 million and euro 6,464.3 million respectively (-15.7% and -21.7% respectively compared to the aggregate figure as at 31 December 2016), while the percentage represented by the same of total loans to customers before and after value adjustments, was 7.9% and 6.0% respectively (against the aggregate figures of 9.4% and 7.5% respectively at the end of last year). The rate of coverage was 32.4%, compared to the aggregate figure of 27.2% last year.

Past due loans before and after value adjustments amounted to euro 95.4 million and 80.4 million respectively, and were down 37.6% and 35.6%, respectively, compared to the aggregate figure as at 31 December 2016. The rate of coverage was 15.7% (the aggregate figure was 18.2% at the end of 2016).

The rate of coverage of performing loans was 0.33%, down from 0.43% of the aggregate figure as at 31 December 2016, and reflected the increasing quality of the performing loan portfolio. Excluding exposures to repurchase agreements and securities lending, which are essentially risk free, from the calculation, the rate of coverage is 0.36% (0.46% as at 31 December 2016).

Financial assets

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Financial assets held for trading	3,006,576	8.9%	3,164,542	12.3%	3,459,542	9.5%	(452,966)	(13.1%)
Financial assets designated at fair value through profit and loss	28,952	0.1%	4,304	0.0%	13,548	0.0%	15,404	113.7%
Financial assets available for sale	17,128,622	50.6%	12,090,988	47.1%	21,451,883	58.6%	(4,323,261)	(20.2%)
Investments held to maturity	11,560,769	34.1%	8,368,223	32.6%	8,368,223	22.9%	3,192,546	38.2%
Total securities portfolio	**31,724,919**	**93.7%**	**23,628,057**	**92.1%**	**33,293,196**	**91.0%**	**(1,568,277)**	**(4.7%)**
Derivative trading and hedging instruments	2,149,058	6.3%	2,022,294	7.9%	3,287,239	9.0%	(1,138,181)	(34.6%)
Total financial assets	**33,873,977**	**100.0%**	**25,650,351**	**100.0%**	**36,580,435**	**100.0%**	**(2,706,458)**	**(7.4%)**

The breakdown by type of assets is as follows:

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Debt securities	29,570,754	87.3%	22,034,399	85.9%	31,075,538	85.0%	(1,504,784)	(4.8%)
Equity instruments	1,687,056	5.0%	723,960	2.8%	1,169,960	3.2%	517,096	44.2%
UCIT units	467,109	1.4%	869,698	3.4%	1,047,698	2.9%	(580,589)	(55.4%)
Total securities portfolio	**31,724,919**	**93.7%**	**23,628,057**	**92.1%**	**33,293,196**	**91.0%**	**(1,568,277)**	**(4.7%)**
Derivative trading and hedging instruments	2,149,058	6.3%	2,022,294	7.9%	3,287,239	9.0%	(1,138,181)	(34.6%)
Total financial assets	**33,873,977**	**100.0%**	**25,650,351**	**100.0%**	**36,580,435**	**100.0%**	**(2,706,458)**	**(7.4%)**

The Group's financial assets, inclusive of derivative instruments, as at 31 December 2017 amounted to euro 33,874.0 million, down on the aggregate figure of euro 36,580.4 million recorded as at 31 December 2016 (-7.4%); the reduction can be seen mainly in the debt securities segment following the sale of government securities.

Financial assets held for trading

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Debt securities	2,283,911	46.5%	2,686,819	56.6%	2,909,819	46.5%	(625,908)	(21.5%)
Equity instruments	693,004	14.1%	270,470	5.7%	342,470	5.5%	350,534	102.4%
UCIT units	29,661	0.6%	207,253	4.4%	207,253	3.3%	(177,592)	(85.7%)
Total securities portfolio	**3,006,576**	**61.2%**	**3,164,542**	**66.7%**	**3,459,542**	**55.3%**	**(452,966)**	**(13.1%)**
Financial and lending derivatives	1,905,248	38.8%	1,578,883	33.3%	2,798,993	44.7%	(893,745)	(31.9%)
Total	**4,911,824**	**100.0%**	**4,743,425**	**100.0%**	**6,258,535**	**100.0%**	**(1,346,711)**	**(21.5%)**

Regarding the debt securities component of financial assets held for trading, euro 0.8 billion is represented by Italian Government securities, while the remainder is comprised by corporate securities issued by Italian and foreign banks in the amount of euro 0.8 billion (of which euro 0.1 billion in subordinated securities).

The equity trading portfolio instead mainly regards securities relating to leading Italian and foreign companies.

Financial assets designated at fair value through profit and loss

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Debt securities	9,412	32.5%	-	0.0%	9,244	68.2%	168	1.8%
Equity instruments	579	2.0%	565	13.1%	565	4.2%	14	2.5%
UCIT units	18,961	65.5%	3,739	86.9%	3,739	27.6%	15,222	407.1%
Total	**28,952**	**100.0%**	**4,304**	**100.0%**	**13,548**	**100.0%**	**15,404**	**113.7%**

Financial assets designated at fair value through profit and loss include investments in UCIT units (Undertakings for collective investment in transferable securities), mostly comprised by shares of hedge funds.

Financial assets available for sale

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Debt securities	15,716,662	91.8%	10,979,357	90.8%	19,788,252	92.2%	(4,071,590)	(20.6%)
Equity instruments	993,473	5.8%	452,925	3.7%	826,925	3.9%	166,548	20.1%
UCIT units	418,487	2.4%	658,706	5.4%	836,706	3.9%	(418,219)	(50.0%)
Total	**17,128,622**	**100.0%**	**12,090,988**	**100.0%**	**21,451,883**	**100.0%**	**(4,323,261)**	**(20.2%)**

As at 31 December 2017, the portfolio of debt securities was comprised by Government securities with a total book value of euro 12.8 billion (of which Italian Government securities of euro 9.9 billion)

The remainder of the debt securities portfolio is comprised mainly by corporate securities issued by Italian and foreign banks in the amount of euro 1.8 billion (of which euro 0.3 billion in subordinated securities).

UCIT units include real estate funds of euro 86.7 million, share funds of euro 124.8 million, bond funds of euro 18.8 million, flexible funds of euro 128.1 million and balanced funds of 60.2 million.

The portfolio of equity instruments is represented by investments whose value is less than 20% of the share capital of said companies, which is not considered a strategic investment by the Banco BPM Group. The main investments in shareholdings of this nature refer to Anima Holding, amounting to euro 262.1 million, the investment in the Bank of Italy for euro 113.5 million, Dexia Crediop for euro 110.9 million, Cassa di Risparmio di Asti for euro 95.4 million, SIA for euro 80.4 million, Nexi (former Istituto Centrale delle Banche Popolari Italiane) for euro 64.0 million, Energreen for euro 61.0 million, Palladio Finanziaria for euro 30.4 million, S.A.C.B.O. for euro 27.0 million, Autostrade del Brennero for euro 22.6 million, Genextra for euro 11.4 million and lastly Seief for euro 12.4 million.

Investments held to maturity

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Debt securities	11,560,769	100.0%	8,368,223	100.0%	8,368,223	100.0%	3,192,546	38.2%
Total	**11,560,769**	**100.0%**	**8,368,223**	**100.0%**	**8,368,223**	**100.0%**	**3,192,546**	**38.2%**

This item is almost entirely represented by Italian Government debt securities and, with regard to the prices as at 31 December 2017, latent gains were around euro 124 million.
The increase recorded in the year mainly refers to the investments made by the Parent Company in French and Spanish Government securities.

Exposure to sovereign risk

As illustrated in better detail in the section on the economic scenario in this Report, over the past year, the situation of the peripheral countries of the Eurozone did not show the difficulties that have distinguished them for several years.

The Group's total exposure in sovereign debt securities as at 31 December 2017 was euro 26,088.5 million, and is provided below, broken down by country (in thousands of euro):

Countries	Debt securities	of which Parent Company	Loans	of which Parent Company	Total
Italy	20,733,450	20,026,831	848,873	308,137	21,582,323
Spain	405,857	405,857	-		405,857
France	2,204,388	2,204,388			2,204,388
Austria	74,822	74,782	-	-	74,822
Other EU countries	499,493	499,493	-	-	499,493
Total EU Countries	**23,918,010**	**23,211,351**	**848,873**	**308,137**	**24,766,883**
USA	1,320,935	1,320,932	-	-	1,320,935
Turkey	2	-			2
Argentina	654		-	-	654
Mexico	34	-			34
Total other countries	**1,321,625**	**1,320,932**	**-**	**-**	**1,321,625**
Total	**25,239,635**	**24,532,283**	**848,873**	**308,137**	**26,088,508**

The exposure is represented almost exclusively by debt securities issued by central and local governments of euro 25,239.6 million, mostly issued by EU Member States. This position is held mostly by the Parent Company Banco BPM which, as at 31 December, held a total of euro 24,532.3 million, relating mainly to Italian Government securities.
The exposure represented by loans granted to the Italian State is marginal and amounts to euro 848.9 million.
The tables below provide more detailed information on the breakdown of the exposure in debt securities to EU countries, which represented nearly the entire exposure, by accounting portfolio, residual life brackets and fair value hierarchy.

Financial assets held for trading

Country	Maturing by 2018	Matures between 2018 and 2022	Matures between 2022 and 2027	Matures beyond 2027	Total fair value as at 31/12/2017	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	236,461	9,517	582,707	1,598	830,283	830,113	168	2
Greece	-	-	-	1	1	-	1	
Other EU countries	-	6	30	2	38	30	5	3
Total	**236,461**	**9,523**	**582,737**	**1,601**	**830,322**	**830,143**	**174**	**5**
of which Parent Company		**2**	**417,549**	**3**	**417,554**	**417,552**		**2**

Financial assets available for sale

Country	Maturing by 2018	Matures between 2018 and 2022	Matures between 2022 and 2027	Matures beyond 2027	Total fair value as at 31/12/2017	Net AFS Reserve	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,031,125	6,913,761	1,973,850	-	9,918,736	59,650	-	9,918,736		-
Spain		-	80,980	-	80,980	492	-	80,980	-	-
France	-	-	1,414,610	-	1,414,610	28,502	-	1,414,610	-	-
Other EU countries	-	-	124,953	-	124,953	602		124,953	-	-
Total	**1,031,125**	**6,913,761**	**3,594,393**	**-**	**11,539,279**	**89,246**	**-**	**11,539,279**	**-**	**-**
of which Parent Company	**995,407**	**6,655,592**	**3,594,393**	**-**	**11,245,392**	**88,430**		**11,245,392**	**-**	

Investments held to maturity

Country	Maturing by 2018	Matures between 2018 and 2022	Matures between 2022 and 2027	Matures beyond 2027	Total book value as at 31/12/17	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,710,352	3,561,628	4,712,451	-	9,984,431	10,082,779	10,082,779		
Spain	-	-	324,877	-	324,877	329,748	329,748		
France	-	-	689,683	100,095	789,778	808,077	808,077		
Other EU countries		-	449,323	-	449,323	452,040	452,040		
Total	**1,710,352**	**3,561,628**	**6,176,334**	**100,095**	**11,548,409**	**11,672,644**	**11,672,644**	**-**	**-**
of which Parent Company	**1,710,352**	**3,561,627**	**6,176,332**	**100,095**	**11,548,406**	**11,672,641**	**11,672,641**	**-**	**-**

The majority of investments in sovereign debt securities of EU countries regard Italian government bonds and, as illustrated above, around 3.5% of these have been allocated to the portfolio of financial assets held for trading and 48.2% to the financial assets available for sale portfolio, while the remaining 48.3% have been classified as investments held to maturity.

Net Interbank Position

Due from banks

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Due from central banks	**2,001,231**	**38.7%**	**1,977,986**	**43.4%**	**2,368,445**	**35.5%**	**(367,214)**	**(15.5%)**
Due from other banks	**3,163,484**	**61.3%**	**2,581,202**	56.6%	**4,310,048**	**64.5%**	**(1,146,564)**	**(26.6%)**
Current accounts and demand deposits	979,528	19.0%	595,904	13.1%	1,346,916	20.2%	(367,388)	(27.3%)
Time deposits	208,181	4.0%	110,941	2.4%	221,871	3.3%	(13,690)	(6.2%)
Repurchase agreements	94,612	1.8%	508,004	11.1%	528,284	7.9%	(433,672)	(82.1%)
Debt securities	225,492	4.4%	100,198	2.2%	129,216	1.9%	96,276	74.5%
Other loans	1,655,671	32.1%	1,266,155	27.8%	2,083,761	31.2%	(428,090)	(20.5%)
Total loans (A)	**5,164,715**	**100.0%**	**4,559,188**	**100.0%**	**6,678,493**	**100.0%**	**(1,513,778)**	**(22.7%)**

Due to banks

(in thousands of euro)	31/12/2017	% impact	31/12/2016	% impact	31/12/2016 aggregate	% impact	Absolute change on aggregate	% change on aggregate
Due to central banks	**21,383,001**	**78.6%**	**12,020,001**	**75.0%**	**18,329,489**	**78.7%**	**3,053,512**	**16.7%**
Refinancing operations (TLTRO, TLTRO2)	21,346,369	78.5%	12,000,000	74.9%	18,300,000	78.6%	3,046,369	16.6%
Other payables	36,632	0.1%	20,001	0.1%	29,489	0.1%	7,143	24.2%
Due to other banks	**5,816,303**	**21.4%**	**3,997,400**	**25.0%**	**4,946,926**	**21.3%**	**869,377**	**17.6%**
Current accounts and demand deposits	594,482	2.2%	611,703	3.8%	748,853	3.2%	(154,371)	(20.6%)
Time deposits	187,645	0.7%	75,759	0.5%	371,083	1.6%	(183,438)	(49.4%)
Repurchase agreements	3,534,794	13.0%	1,328,609	8.3%	1,599,601	6.9%	1,935,193	121.0%
Other payables	1,499,382	5.5%	1,981,329	12.4%	2,227,389	9.6%	(728,007)	(32.7%)
Total payables (B)	**27,199,304**	**100.0%**	**16,017,401**	**100.0%**	**23,276,415**	**100.0%**	**3,922,889**	**16.9%**
Mismatch loans/payables (A) - (B)	**(22,034,589)**		**(11,458,213)**		**(16,597,922)**		**5,436,667**	**32.8%**
Due to central banks: refinancing operations	(21,346,369)		(12,000,000)		(18,300,000)		3,046,369	16.6%
Interbank balance (excl. refinancing operations)	(688,220)		541,787		1,702,078		(2,390,298)	
Mismatch towards central banks (excl. refinancing operations)	1,964,599		1,957,985		2,338,956		(374,357)	(16.0%)
Interbank balance towards other banks	(2,652,819)		(1,416,198)		(636,878)		2,015,941	316.5%

Net interbank exposure as at 31 December 2017 amounted to 22,034.6 million, compared to the balance of 16,597.9 million at the end of last year.
The exposure to the ECB amounted to euro 21.3 billion, up by euro 3.0 billion compared to the aggregate figure as at 31 December of last year, and was entirely represented by TLTRO, which rose during the period due to the increased drawdowns by BPM S.p.A.
If net exposures towards central banks are not considered (in reality linked to the mandatory reserve), the net interbank balance towards other banks is negative, and amounts to euro -2,652.8 million (euro -636.9 million as at 31 December of last year).

Investments in associates and companies subject to joint control

Investments in associates and companies subject to joint control as at 31 December 2017 amounted to euro 1,349.2 million, compared with the aggregate figure of euro 1,594.8 million as at 31 December 2016.

The change recorded in the year includes the impact resulting from the valuation of investments in associated companies using the equity approach, relating to the share of the results recorded by the same in the year (euro +166.0 million), the effects of the reduction of capital of Agos Ducato (-67.1 million), of Popolare Vita (euro -76.0 million) and of Avipop Assicurazioni (euro -7.5 million) due to the distribution of dividends and the increase in the reserves of said companies attributable to the Group (euro +14.2 million).

It should also be noted that upon allocation of the fair values during the purchase price allocation (PPA) process, a write-down of euro 31.8 million was recognised on investments.

During the year, the Group also reclassified some of its investments to the financial assets available for sale portfolio (including Energreen for euro 49 million) as, following the merger, the conditions are no longer in place for the Parent Company to exercise significant influence.

Lastly, it should be noted that, following the overall reorganisation of the bancassurance segment, which entails the purchase of the remaining 50% stake in Avipop Assicurazioni and Popolare Vita, and the simultaneous re-sale of 65% of the two companies to Cattolica Assicurazioni, the Banco BPM Group will hold a stake of 35% in the two investees. Therefore, as at 31 December 2017, the 35% interest held in the two companies are classified under "equity investments" and the remainder (15% in Popolare Vita and 14.999% in Avipop) under item 150 "Non-current assets held for sale and discontinued operations".

Property and equipment

(in thousands of euro)	31/12/2017	31/12/2016	31/12/2016 aggregate	Absolute change on aggregate	% change on aggregate
Property and equipment used in operations	**1,477,320**	**634,426**	**1,331,243**	**146,077**	**11.0%**
Property and equipment held for investment purposes	**1,257,862**	**1,343,340**	**1,364,538**	**(106,676)**	**(7.8%)**
- held by Release	708,130	758,483	758,483	(50,353)	(6.6%)
- held by other Group companies	549,732	584,857	606,055	(56,323)	(9.3%)
Total property and equipment (item 120)	**2,735,182**	**1,977,766**	**2,695,781**	**39,401**	**1.5%**
Property and equipment held for sale (item 150)	**27,223**	**77,023**	**77,023**	**(49,800)**	**(64.7%)**
Total property and equipment	**2,762,405**	**2,054,789**	**2,772,804**	**(10,399)**	**(0.4%)**

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

Property and equipment used in operations *(in thousands of euro)*	31/12/2017	31/12/2016	31/12/2016 aggregate
	Book value	**Book value**	**Book value**
1. Owned assets	**1,477,052**	**634,144**	**1,330,961**
- land	469,996	213,737	505,276
- buildings	843,225	348,140	643,367
- other	163,831	72,267	182,318
2. Assets acquired under financial lease	**268**	**282**	**282**
- land	-	-	-
- buildings	268	282	282
- other	-	-	-
Total	**1,477,320**	**634,426**	**1,331,243**

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

Property and equipment held for investment purposes ***(in thousands of euro)***	**31/12/2017**	**31/12/2016**	**31/12/2016 aggregate**
	Book value	**Book value**	**Book value**
1. Owned assets	**1,257,862**	**1,335,350**	**1,356,548**
- land	565,261	631,929	636,568
- buildings	692,601	703,421	719,980
2. Assets acquired under financial lease	**-**	**7,990**	**7,990**
- land	-	5,720	5,720
- buildings	-	2,270	2,270
Total	**1,257,862**	**1,343,340**	**1,364,538**

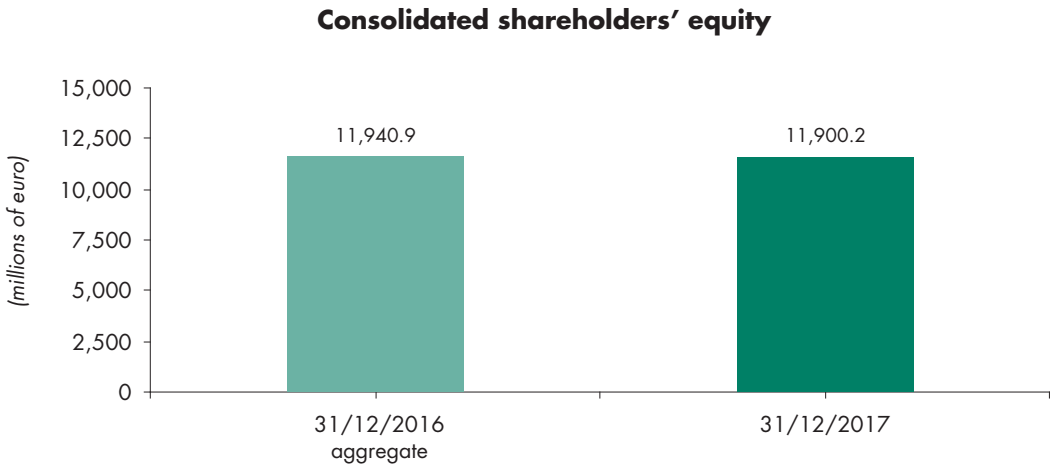
As at 31 December 2017, the total property and equipment held by the Group amounted to euro 2,762.4 million, compared to the aggregate figure of euro 2,772.8 million at the end of the previous year. In the segment of property and equipment used in operations, the increase was attributable to the process of allocating (PPA) the fair value to the properties of the former BPM Group subject to acquisition through the merger, which resulted in the recognition of a higher consolidated value by roughly euro 311 million. Properties were also sold during the year, resulting in the recognition of euro 10.2 million in gains in the income statement.
As regards property and equipment held for sale, as at 31 December 2017 this item included euro 27.2 million of property and equipment (euro 77.0 million as at 31 December 2016), most of which regards properties resulting from credit collection activities of the former Italease Group.

Liability provisions

As at 31 December, liability provisions amount to euro 1,461.0 million (aggregate figure of euro 1,706.1 million last 31 December) and include the provisions for employee severance indemnities of euro 408.2 million (euro 457.7 million at the end of last year), retirement plans of euro 166.8 million (euro 180.7 million as at 31 December 2016) and other provisions for risks and charges of euro 886.0 million (aggregate figure of euro 1,067.6 million at the end of 2016).
The latter include provisions for personnel expenses of euro 611.2 million, primarily attributable to allocations to the Solidarity Funds relating to agreements for voluntary personnel redundancy plans, and provisions for legal disputes of euro 166.2 million.

Details of the main pending legal proceedings and the main disputes outstanding with the Tax Authority are provided in the notes to the consolidated financial statements, part B - liabilities, section 12- Provisions for risks and charges.

Shareholders' equity and solvency ratios



The Group's consolidated shareholders' equity as at 31 December 2017, including valuation reserves and net income (loss) for the year, amounted to euro 11,900.2 million, compared to the aggregate figure at the end of 2016, of euro 11,940.9 million.
The comprehensive income recorded as at 31 December 2017, in terms of the share pertaining to the Group, was a positive euro 2,785.4 million due to the net profit of euro 2,616.4 million (of which euro 3,076.1 million in "badwill" deriving from the PPA process), and the positive change in valuation reserves of euro 169.0 million.

The following table shows the breakdown of valuation reserves:

(in thousands of euro)	**31/12/2017**
Financial assets available for sale	297,875
Property and equipment	217
Foreign investment hedges	1,805
Cash flow hedges	(8,182)
Exchange rate differences	18,278
Financial liabilities designated at fair value through profit and loss - changes in own creditworthiness	14,517
Special revaluation laws	2,314
Actuarial gains/(losses) on defined benefit pension plans	(79,436)
Investments in associates and companies subject to joint control carried at equity	4,318
Total	**251,706**

As regards in particular the valuation reserve for financial assets available for sale, the following table shows the breakdown as at 31 December 2017.

Category	**Positive reserve**	**Negative reserve**	**Total reserve**
Debt securities	132,913	(14,907)	118,006
of which government securities:			
- Italian	63,335	(5,897)	57,438
- foreign	29,596	(8,081)	21,515
Equity instruments	176,404	(7,012)	169,392
UCIT units	18,186	(7,709)	10,477
Total	**327,503**	**(29,628)**	**297,875**

The valuation reserves of financial assets available for sale attributable to the Group totalled euro 297.9 million after tax and derived from the imbalance of positive net reserves of euro 327.5 million and net negative reserves of euro 29.6 million. The most significant reserves are those relating to the valuation of capital instruments, which total euro 169.4 million and mainly regard equity investments held in Anima Holding S.p.A. of euro 33.0 million, in S.I.A. S.p.A. of euro 27.2 million, in Autostrada del Brennero S.p.A. of euro 20.9 million, in Nexi S.p.A. of euro 26.8 million and in S.A.C.B.O. S.p.A. of euro 17.8 million.

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

(in thousands of euro)	**Shareholders' equity**	**Net income (loss)**
Balance as at 31/12/2017 as per the Parent Company's financial statements	**10,565,791**	**2,721,257**
Impact of the consolidation of subsidiaries	1,069,381	65,603
Impact of the valuation at equity of associated companies	225,635	166,053
Cancellation of the dividends received during the year from subsidiaries and associates		(341,502)
Other consolidation adjustments	39,423	4,951
Balance as at 31/12/2017 as per the consolidated financial statements	**11,900,230**	**2,616,362**

Capital ratios

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.

The new regulations have introduced a transition period, during which several items will be calculated or deducted at different percentages for each year. Generally, a share is attributed to Common Equity Tier 1 (CET1), while the remainder of the aggregate is split between Additional Tier 1 (AT1) and Tier 2 (T2) capital, or attributed to Risk-Weighted Assets (RWA).
A gradual process of elimination (phase-out over a period of time extended to 2021 under the "grandfathering" system) is also envisaged for equity instruments that do not fully meet the calculation requirements of the new regulations.

The minimum capital requirements for 2017 are as follows:

- a minimum Common Equity Tier 1 capital ratio (CET1 ratio) of: 4.5% + 2.5% Capital Conservation Buffer: "CCB"; [1]
- a minimum Tier 1 capital ratio of: 6.0% + 2.5% of CCB;
- minimum total capital ratio of: 8% + 2.5% of CCB.

The capital conservation buffer must, in any event, consist of high quality funds.

With regard to the measurement of risk-weighted assets, note that the Banco BPM Group is authorised to use the following methods based on its own internal models:

- internal system to measure credit risk relating to corporate and retail customers, according to the advanced approach (Advanced IRB), to calculate the relative consolidated and separate capital requirements.
  The model applies at individual level to Banco BPM S.p.A.;
- internal model to measure market risk (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco BPM S.p.A. and to Banca Aletti S.p.A.;
- internal model to measure market risk, applicable only at individual level to Banca Akros S.p.A from 30 June 2014 (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units, exchange rate risk on all assets/liabilities of the entire individual financial statements) to calculate the relative separate and capital requirement.
  The model applies at individual level to Banca Akros S.p.A.;
- internal model to measure operating risk (AMA) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco BPM S.p.A., to Banca Aletti S.p.A., to SGS Soc. Cons., to BP Property Management S.c.a.r.l. and has been extended, from the reference date of 30 June 2016, to the Leasing Division of the Parent Company[2] and to Aletti Gestielle SGR S.p.A..

In a communication dated 22 September 2017, the Bank of Italy stated that the countercyclical capital buffer for the fourth quarter of 2017 was set at zero percent.

On 27 December 2017, the European Central Bank (ECB) notified Banco BPM of the minimum consolidated capital ratios to be complied with by Banco on an ongoing basis from 1 January 2018. The decision is based on Article 16 of EU Regulation no. 1024 of 15 October 2013, which confers on the ECB the power to require any supervised bank to hold own funds in excess of the minimum capital requirements laid down by current regulations.
The minimum level required by the Regulator is a Common Equity Tier 1 ratio (CET1 ratio) of 8.875% and a Total Capital Ratio of 12.375%.
In addition, on 30 November 2017, the Bank of Italy identified the Banco BPM Banking group as an "Other Systemically Important Institution" (O-SII).

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[1] On 4 October 2016, the Bank of Italy, in update 18 of Circular Letter 285, reduced the CCB to 1.25% for 2017 and to 1.875% for 2018.

[2] Decision of the European Central Bank notified on 15 June 2016.

The Group must maintain, on an ongoing basis, an O-SII capital reserve corresponding to 0.25% of its total risk-weighted exposures, reaching said level gradually: 0% for 2018, 0.06% from 1/1/2019, 0.13% from 1/1/2020, 0.19% from 1/1/2021, 0.25% from 1/1/2022.

Applying the transition rules in force as at 31 December 2017, the capital ratios are as follows:

- Common Equity Tier1 (CET1) Ratio of 12.36%, compared to 12.3% at the end of December 2016[3];
- Tier 1 Capital Ratio was 12.66%, up against the end of December 2016, amounting to 12.5%;
- Total Capital Ratio of 15.21%, compared to 14.9% at the end of December 2016.

The level of own funds as at 31 December 2017, enables Banco BPM to fully comply with the Regulators' requirements, both with respect to the calculation rules currently applicable in the transition period, as well as when the new capital requirements shall apply in full.

The pro-forma CET1 ratio calculated on the basis of rules that will take effect at the end of the transition period (so-called CET1 Ratio fully phased) is estimated at 11.92% against 11.4% as at 31 December 2016 [4].

Liquidity position and leverage ratio

The Delegated Regulation (EU) no. 61/2015 came into force on 1 October 2015, and requires banks to maintain a certain level of liquidity measured with reference to a short-term horizon (Liquidity Coverage Ratio, "LCR"). The regulation envisages a gradual phase-in [5]. As at 31 December 2017, the Banco BPM group shows a consolidated LCR of 125.6%.

In the near future, the introduction of a further liquidity requirement is envisaged, measured on a longer time horizon called the Net Stable Funding Ratio ("NSFR"). The above ratio, calculated in accordance with the most recent rules set by the Quantitative Impact Study and including protected capital certificates, is higher than 100%.

Lastly, note that the Leverage Ratio was 5.59% as at 31 December 2017, while the level at full implementation is estimated at 5.26%.

In this regard, note that from September 2016, the legislative changes set forth in the (EU) Delegated Regulation 2015/62 of 10 October 2014 and the new technical standards set forth in (EU) Implementing Regulation 2016/428 of 23 March 2016 came into force. The asset items on the balance sheet that constitute exposures and the composition of the aggregates from which this coefficient originates have been amended.

Note that this ratio is currently not mandatory. The Basel Committee proposed a minimum level of 3%.

[3] The comparative figure as at 31/12/2017 originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation.

[4] The comparative figure as at 31/12/2017 originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation.

[5] 60% from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017; 100% from 1 January 2018.

RESULTS BY BUSINESS SEGMENT

Introduction

According to IFRS 8, companies must provide information that enables users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various "operating segments" to the formation of the Group's income.
The operating segment must be identified on the basis of the systems used by Top Management to make operating decisions.

Due to the business combination, it was necessary to partially modify the operating segments previously identified by Banco Popolare (defined as the buyer from the accounting perspective).
The new operating segments were identified taking into due consideration the current status of the Group business model evolution process laid out in the 2017-2019 Strategic Plan. In particular, for the year 2017 the operating segments taken as a reference to provide the disclosure in question are as follows:

- Commercial Network;
- Private & Investment Banking;
- Wealth Management;
- Leasing;
- Corporate Centre.

Please note that Leasing is identified as an operating segment as it is necessary to separately highlight the economic contribution of an activity that was abandoned some time ago by the Group as it was not strategic. The economic contribution indicated is therefore represented solely by the result deriving from the management of the progressive reduction in assets and liabilities of the former Banca Italease (today incorporated within Banco BPM) and the subsidiary Release.

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

The **Commercial Network** segment represents the cornerstone of the development of the Group's commercial activities throughout Italy and is the backbone of its organisational structure. The latter, centred on the Network Divisions, which ensures a balanced coverage at national level, is instrumental to the development of a product and service offer in step with the customer needs characterising the different market territories of the banks.
The business of this segment is represented by traditional loan brokerage activities in Italy and the provision of related financial services, which seek to meet the needs of both retail (private individuals and small businesses) and corporate customers.

The **Private & Investment Banking** segment includes the following companies:

- Banca Aletti;
- Banca Akros

The **Wealth Management** segment includes the companies that carry out asset management activities. In particular:

- Aletti Gestielle SGR (classified IFRS 5);
- the equity investments held in companies active in that segment: Popolare Vita, Avipop, Bipiemme Vita, Etica SGR and Anima SGR.

The **Leasing** segment includes data relating to activities connected to the Group's Leasing business, the scope of which encompasses:

- activities relating to the contracts of the former Banca Italease;
- Release;
- the equity investments held in companies active in that segment: Alba Leasing and SelmaBipiemme Leasing.

The **Corporate Centre** segment includes, amongst other activities, also governance and support functions, the portfolio of owned securities, the treasury and the Group's Asset and Liability Management, the stock of bond issues placed on institutional markets, equity investments not allocated to Wealth Management and Leasing (in particular the investments in the consumer credit company Agos Ducato, and Factorit), service companies and companies operating in the real estate sector.
Lastly, all the consolidation entries not specifically attributable to the previous business segments have been included in this residual segment.

Note that for the purpose of reconciling segment results with consolidated results the effect of the purchase price allocation of business combinations (Purchase Price Allocation - PPA) referring to the acquisition of the former Banca Popolare Italiana Group and of the former BPM Group have been allocated to Commercial Network, Leasing and Corporate Centre.

For a like-for-like comparison, note that the figures relating to the previous year have been restated on an aggregate basis, calculated on the basis of the financial statements for 2016 of the former Banco Popolare and BPM Groups.

	Group	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Operating income						
2017	4,483,759	3,421,319	220,012	51,729	53,324	737,375
2016 aggregate	4,655,963	3,486,609	262,837	31,724	69,964	804,829
Operating expenses						
2017	(3,031,035)	(2,432,335)	(160,761)	-	(70,758)	(367,181)
2016 aggregate	(3,739,028)	(2,688,066)	(169,483)	-	(81,109)	(800,370)
Income (loss) from operations						
2017	1,452,724	988,984	59,251	51,729	(17,434)	370,194
2016 aggregate	916,935	798,543	93,354	31,724	(11,145)	4,459
Net income (loss)						
2017	2,616,362	(377,917)	28,014	141,548	(86,367)	2,911,084
2016 aggregate	(1,613,711)	(1,311,332)	67,807	193,346	(152,028)	(411,504)
Net loans						
2017	108,176,382	92,537,167	1,626,746	-	3,244,333	10,768,136
2016 aggregate	110,550,576	93,548,708	1,847,362	37,702	3,709,461	11,407,343
Direct funding						
2017	107,509,849	88,651,858	2,996,716	-	9,047	15,852,228
2016 aggregate	116,773,095	90,246,276	2,289,621	2,554	18,835	24,215,809

The following paragraphs provide details on the individual segments focusing first on the performance of the income statement, then providing a more detailed analysis of the main commercial and other activities performed, providing a breakdown that is consistent with the internal organisation of the segment in question.

Commercial Network

	2017	2016 aggregate	absolute change	% change
Interest margin	1,552,325	1,671,503	(119,178)	(7.1%)
Financial margin	**1,552,325**	**1,671,503**	**(119,178)**	**(7.1%)**
Net fee and commission income	1,838,845	1,757,397	81,448	4.6%
Other net operating income	4,931	37,851	(32,920)	(87.0%)
Net financial result	25,218	19,858	5,360	27.0%
Other operating income	**1,868,994**	**1,815,106**	**53,888**	**3.0%**
Operating income	**3,421,319**	**3,486,609**	**(65,290)**	**(1.9%)**
Personnel expenses	(1,240,158)	(1,530,426)	(290,268)	(19.0%)
Other administrative expenses	(1,145,782)	(1,117,773)	28,009	2.5%
Net value adjustments on property and equipment and intangible assets	(46,395)	(39,867)	6,528	16.4%
Operating expenses	**(2,432,335)**	**(2,688,066)**	**(255,731)**	**(9.5%)**
Income (loss) from operations	**988,984**	**798,543**	**190,441**	**23.8%**
Net adjustments on loans to customers	(1,510,248)	(2,608,964)	(1,098,716)	(42.1%)
Income (loss) before tax from continuing operations	**(521,264)**	**(1,810,421)**	**(1,289,157)**	**(71.2%)**
Taxes on income from continuing operations	143,347	499,089	(355,742)	(71.3%)
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**(377,917)**	**(1,311,332)**	**(933,415)**	**(71.2%)**
Parent Company's net income (loss)	**(377,917)**	**(1,311,332)**	**(933,415)**	**(71.2%)**

Economic trend in the sector

Total operating income for the Commercial Network, compared to last year, was down 1.9%, corresponding in absolute terms to euro 65.3 million. The interest margin contributed to this drop, as well as other net operating income in part, which is theoretically represented by the non-interest margin.

Even given the substantial stability of volumes, the downtrend of the interest margin reflected the reduction of interest rates resulting from high competitive pressure on the pricing of customer loans, both as regards short and medium-long term loans, and from continuing financing with negative returns, accentuated by the downtrend of interest rates. In fact, direct funding saw a shift in the weights of stable funding and demand deposits. This rebalancing enabled funding in demand deposits to be privileged, reducing time deposits, leading to an improvement of the cost of funding profile.
The negative impact of the above phenomena on the interest margin was mitigated by measures to contain the fall of the mark-down on customer deposits with respect to the fall of market interest rates and by the positive impact of the effects of the PPA ("Purchase Price Allocation" of euro 70.3 million), relating to loans to customers (excluding bad loans) resulting from the business combination with the former BPM Group.

Other operating income showed a rise of 3% compared to the previous year, due above all to the greater contribution of investment products placed with customers, of insurance products (both protection products linked to loans, and simply insurance against risk) and to the larger contribution of corporate finance. The amount of "commissioni di istruttoria veloce" (fast track fees) paid by customers fell, due to the settlement of positions and the update of pricelists.
More specifically, the rise recorded by net fee and commission income reflected the uptrend in investment products, which rose by 29% against last year (euro 18.6 billion against euro 14.4 billion in 2016, with the same scope), generating income of euro 403.5 million, compared to euro 327.7 million in 2016. The Bank's product policy concentrated mainly on proposing asset management instruments, supplementing the Group's traditional offer with mutual funds and SICAVs of important market Asset Managers, multi-segment insurance policies and certificates with different levels of protection (mutual funds placed for euro 10.3 billion, SICAV for euro 5.7 billion, Segment I - V policies for euro 1 billion and "Multi-segment" Unit policies for euro 0.4 billion). Fee and commission income generated by the MLT loans segment also rose (+4%, reaching euro 115.7 million) and as well as that of the specialist corporate finance segment (+8.3%).

Lastly, note the decrease, against 2016, recorded by other net operating income, which is due to the amortisation of client relationships, corresponding to euro 21.6 million, resulting from the business combination with the former BPM Group.
Personnel expenses were down (-19.0%), as they were significantly affected by the leaving incentive policies implemented by the company both this year and in 2016; excluding the extraordinary impact of redundancy funds from the analysis, personnel costs for the year would have been down by 4.9%.
Other administrative expenses recorded a rise of 2.5%, which, without the Commercial network's share of "system expenses" (ordinary contributions to the Single Resolution Fund (SRF) and contributions to the Interbank Deposit Guarantee Fund for the deposit guarantee scheme) of euro 68.6 million, would have recorded a rise of 1.7% against the previous year.
Total operating expenses amounted to euro 2,432.3 million, compared to euro 2,688.1 million recorded in 2016, down 9.5%. Net of the extraordinary component relating to the redundancy fund (euro -12.7 million in 2017 and euro -239.7 million in 2016), total operating expenses show a fall of 1.2%.

By virtue of the above trends, income from operations, corresponding to euro 989 million, rose by euro 190.4 million compared to 2016, corresponding to a percentage increase of 23.8%.

Net value adjustments to customer loans, which amounted to euro 1,510.2 million, were down significantly compared to last year, mainly due to lower provisions and to the positive impact of the PPA (Purchase Price Allocation) of euro 192.6 million relating to the bad loans of the Commercial Network of the former BPM Group.

Commercial business activities - Private Customers

"Private" customers include private individuals, natural persons with personal assets of less than euro 1 million[1], which breaks down into "Affluent" and "Universal" customers: the former, the "Affluent" customers are those with assets (deposits) of between euro 50 thousand and 1 million; the latter, the "Universal" customers, are those with personal assets of less than euro 50 thousand. Within this segmentation, different quality-based targets are also identified: shareholders, students, young people, the more senior customers etc.

The customer portfolio of the above Department also includes professional customers (freelance professionals, artisans, tradesmen,...) who are characterised by the fact that they have current accounts dedicated to their business activities, even though their financial needs are substantially similar to those of the private customer segment. This type of customer (known as Small Business Operators) will be illustrated in more detail further on.

In December 2017, the Private customer breakdown (excluding Small Business Operators) was as follows:

Segment	% of customers with current account
Universal	78.0%
Affluent	19.0%
Other Retail segments	3.0%
Total Retail customers with a current account (including card accounts)	**3.35 million**

Products, services and loans for private Retail customers

Current accounts

In July, the harmonisation of the catalogue of products of the two banking groups, Banco BPM and BPM S.p.A. was completed. More specifically, the catalogue of current account products was rationalised and harmonised throughout the Network, guaranteeing a competitive offer and able to meet the needs of the major customer profiles.

[1] A specific type of offer and a service coordinated with Banca Aletti is envisaged for "Private Customers" with assets exceeding one million euro.

2017 closed with a stock of over 3.2 million commercial current accounts, of which around 2.8 million related to Private customers and 0.4 million to Business customers (all segments).
Despite the natural reductions of the customer base generated by a merger, 2017 succeeded in ending the year with a positive balance of over 27,000 accounts (those opened net of those closed).

Looking at the weighting of the various types of account, note that, of the 340 thousand (gross figure) accounts recorded in 2017:

- 34% related to the YouWelcome range, the account with a promotional monthly fee, available to Private and Business customers;
- 14% related to the range of accounts with a decreasing monthly fee (dependent on the level of interaction between the customer and the bank, currently called Premiaconto;
- 10% related to YouBanking, the online account with a supporting physical network (Branch);
- 6% related to WeBank, the exclusively online account.

In the third quarter of 2017, the foundations were laid to redesign the offer targeting unsatisfied customers and to contain the number of customers leaving (Retention).

Loyalty

YouShop Premium
Again in 2017, the most prestigious loyalty programme dedicated to top customers (mostly Affluent), YouShop Premium, continued to be available.

ThankYou Premium

The ThankYou Premium programme, the "feather in the cap" in terms of initiatives that seek to prevent customers from leaving, also continued on into 2017.
This programme is addressed to customers with a good level of assets, but who have showed signs of disaffection towards the bank.
A welcome reward is envisaged for the same, and then, depending on their level of loyalty and on the increase of the amount of capital deposited with the Bank, further rewards.

Multichannels

A modern banking model must have a range of advanced digital products, with a view to offering its customers an increasingly positive multichannel experience; again in 2017, the Banco BPM Group continued in this direction by launching an important programme of digital transformation.

The table below illustrates the main figures for multichannel services.

Product/Service	End of 2016 figures (former BP)	End of 2017 figures (former BP)	% Change	31/12/2017 (BancoBPM + BPM)
No. of Home Banking - YouWeb/YouApp Customers	1,237,772	1,320,320	6.67%	1,849,253
No. of YouCall - Telephone Banking Customers	1,159,007	1,248,192	7.69%	1,760,716
No. of On Line Trading Customers	52,935	58,628	10.75%	61,755

You Services
Within the range of internet banking services, the most important result achieved during the year was the creation of a common internet banking platform for BP and BPM S.p.A. customers. This important milestone enabled cost synergies to be achieved as well as rationalising the range of services offered.
From an operational perspective, it is also worth noting the introduction of several new services such as foreign bank transfers, previously only available in the branch, the payment of F23 forms, a function that is increasingly requested for payments to the public administration, and Cardless cash withdrawals, an innovative formula whereby customers can withdraw cash without the physical procedure of a cashpoint card.

YouApp
YouApp is the application which enables the customer to manage his accounts while on the move on his smartphone or tablet. This channel recorded the highest increases, with around 570 thousand customers (+29% year on year, based only on Banco BPM Group customers) who performed almost 4.2 million transactions.

During the year, the interface was completely overhauled, with a view to greater simplification, guaranteeing easier and more intuitive use.

Webank
The Webank brand maintained its distinctive positioning within the Group in terms of acquiring and managing customers who are more interested in digital channels. More specifically, in addition to providing a full range of banking services, WeBank is one of the market leaders in evolved services and platforms for online trading and one of the main players in the brokerage of online mortgage loans. WeBank continued to expand, acquiring over 17 thousand new current accounts in 2017, with the support of online advertising and a consolidated partnership model with one of the main Italian e-commerce comparison engines. At the end of 2017, the customer base served had surpassed 183 thousand.

From a commercial strategy perspective, the market scenario drove a significant progressive reduction in the interest rates offered to customers on restricted lines (average interest rate of new subscriptions lower than 61 basis points compared to the previous year) with consequent benefits for the interest margin. However, in parallel, the range of asset management products continued to expand, which includes over 3,500 funds and SICAV segments and 30 Management Agencies. The increase of total assets under management was sustained by a promotion called "Zero subscription fees" and periodic promotions of Etica SGR on flat fees.

As regards "mobile devices", the importance and the quality of the investments made in previous years was confirmed. Active customers on the App channel almost doubled against 2016 (+95%), surpassing two-thirds of the total WeBank customer base. The number of transactions made from mobile devices rose at a considerable pace (+81.5%).

Contact Centre

Contact Centres have continued to provide private and business customers with active support mainly by telephone, IVR (Interactive Voice Response), e-mail and chat functions.
The main activities in 2017 regarded:

- providing general support to customers that were affected by the migration to new applications and services;
- providing before- and after- sales support to customers of the Webank online service, for all the products and services offered, in synergy with the Virtual Branch, representing the only communication channel between the bank and the customer;
- providing before- and after- sales support to customers with regard to YouBanking products;
- managing several Social Media channels (Facebook and Twitter, both Banco BPM Group and WeBank) from a customer care perspective;
- launching outbound campaigns to support the commercial objectives of the network;
- support for anti-fraud services on payment cards or direct channels.

Payment cards

2017 marked a year of important changes for the Banco BPM Group both in technological terms (IT migration) as well as from an organisational and commercial perspective. These events also had an impact on the e-money sphere which, despite some complexities characteristic of this segment, managed in any event to guarantee continuity of service to its customers.

At the end of 2017, the total number of cards managed by the Banco BPM Group included around 2.5 million debit cards, 0.9 million credit cards and 0.9 million prepaid cards.

Private mortgage loans

In 2017, the trend of disbursements of mortgage loans to consumer households slowed down compared to previous years.
Disbursements of mortgage loans to private customers of the Banco BPM Group totalled euro 2.8 billion (of which around euro 300 million disbursed by WeBank).
33% of total disbursements were made to new customers.
The Banco BPM Group essentially sought to adapt products in the catalogue to the conditions of the new economic scenario. As in previous years, efforts continued to provide support to customers that have suffered from the current economic crisis or that have been affected by natural disasters, by renegotiating loans or suspending instalments.

In 2017, the Banco BPM Group launched a new promotion based on the "YouPremium" mortgage loan with a variable and optional variable interest rate and on the "MutuoPromo" at a fixed interest rate, which were particularly appreciated by customers due to the competitive spreads offered and correlated to the duration of the mortgage loan.

Consumer credit

In 2017, disbursements of Consumer Credit to consumer households recorded a slight increase: the Banco BPM Group disbursed around 65 thousand consumer loans, amounting to a total of over euro 900 million.
Almost all of the personal loans granted to private customers were disbursed through the product companies Agos Ducato and ProFamily, with whom Banco continues to enjoy a strong partnership.

Savings/investment products and services

In a 2017 that was substantially positive for all of the financial markets, our customers favoured flexible asset management products, able to combine the exposure on the financial markets with varying degrees of protection.

In this regard, the Bank's product policy concentrated mainly on proposing asset management instruments; in particular mutual funds and SICAVs of important Italian and foreign Asset Managers, multi-segment insurance policies and certificates with different levels of protection.

Due to the trend of market interest rates, which continue to be at very low levels, customers were not offered Banco BPM Group bonds. Subscriptions of Certificates of Deposit also fell.

Asset management and certificates

The funding volumes for asset management products recorded during the year confirm our customers' preference for flexible forms of investment and the will to delegate their investment choices and the diversification of the financial assets in their portfolios to experienced professionals.
Given the above, subscriptions to mutual funds and multiasset and multimanager SICAVs reached around euro 14.4 billion in 2017.

With regard to the funds offered, during the year, Gestielle Profilo Cedola II, Gestielle Cedola Multifactor, Gestielle Cedola Emerging Bond Opportunity, Gestielle Cedola Multi Asset III and Gestielle Profilo Cedola III funds were placed in different time windows.
At the end of November, a new product called PRO ITALIA PIR was offered, always available to customers, which allows subscribers to enjoy tax benefits in accordance with the terms established by law.

With a view to completing the range of asset management products, the Banco BPM Group continued to propose various bonds of the most important and prestigious international investment houses.

As regards Certificates, in 2017, customers continued to subscribe Aletti Certificates for a total of around euro 405 million.
These products offer the opportunity to invest in different indices, while at the same time enabling the investor to benefit from a certain level of protection and to receive conditioned coupon income.

The main structures placed this year (e.g. "Target Cedola", "Autocallable Step", "Coupon Premium") were index-linked to the main share or sector indices (e.g. FTSE/MIB or EurostoxxBanks) to offer a wide diversification of underlying instruments consistent with market scenarios.

It is worth mentioning that, among the initiatives launched to support customers, in 2017, Equity Crowdfunding operations were consolidated. This entails the collection of venture capital, regulated by Consob, for innovative start-up companies through on-line specialist portal Operators. The Banco BPM Group provided this service to around one hundred new businesses, therefore contributing to the development of several highly innovative sectors.

Bancassurance Life

In 2017, the Group continued to distribute insurance products through Popolare Vita, a joint-venture with the Unipol Group, and through the Irish company The Lawrence Life Assurance.

Total premiums collected amounted to around euro 814 million, of which euro 397 million related to Unit Policies (Segment III) and around euro 417 million to Multi-Segment Life Policies.

Like last year, due to the trend of market interest rates, the placement of traditional Segment I policies was dominated by multi-segment products, namely "hybrid" products, which invest their premiums partially in Separate Portfolios, with guaranteed capital and partially in Unit-Linked Insurance Funds.
These products provided an answer to the customer's need for security, as well as the opportunity to increase the capital invested in the medium term. Multi-segment policies recorded premiums of around euro 283 million over the year.

Lastly, to meet the growing need for pensions and to therefore benefit from the tax advantages offered by this product, significant efforts were made to place a product called PIP Pensione Sicura (Safe Pension) by Popolare Vita, with decidedly interesting results.

Unit-Linked policies were then placed through the Irish company Lawrence Life, which invests the premiums in flexible funds and envisages the distribution of capital in the first years of the product's life of around euro 51 million.

Bancassurance Protection

In 2017, the Banco BPM Group continued to enjoy good results in the distribution of insurance products in collaboration with Avipop Assicurazioni, Avipop Vita, BPM Assicurazioni and BPM Vita.
Over the course of 2017, a number of new products were added to the product range. RCAuto policies were revised: the rate was rendered more modular to give customers the opportunity to freely choose which guarantees to subscribe to.
In addition, the Avipop300 policy was launched by Avipop Assicurazioni, an innovative policy to cover the expenses incurred following a diagnosis of a malignant tumour.
During the year, efforts continued to increase customers' awareness of their insurance needs through the release of ad hoc initiatives throughout the network, which seek to provide customers with increasingly in-depth and personalised advisory services.

Products, services and loans for SBO - Small Business Operators

The sphere of private customers also includes SBO, namely Small Business Operators which record a turnover of up to euro 250 thousand.
These are professional customers (freelance professionals, artisans, tradesmen,...) who are characterised by the fact that they have current accounts dedicated to their business activities, even though their financial needs are substantially similar to those of the private customer segment.

Current accounts

In 2017, the Banco BPM Group continued to offer new Small Business Operator customers the "YouBusiness" current account, a complete and reasonably priced product, which features two highly innovative technological services:

"YouPOS Mobile", which enables takings to be managed outside of the place of business and "YouCard Business", which enables the petty cash expenses of the business to be optimised.

This account was added to the "Idea" range of current accounts, which envisages a personalised account based on the business activity in question and on the different requirements and approaches when conducting bank transactions.

Loans and lending

In 2017, the Short and Medium/Long Term "Loans Catalogue" for SBO customers was updated, with a view to promptly meeting all of their financial requirements.
Furthermore the needs of specific customer targets continued to be met through specific products such as "Orizzonte Donna" addressed to female entrepreneurs and the range of "Tourism" loans, addressed to the tourist and hotel industry.

For details of the main changes made, please refer to the section below called "Loans and lending" section relating to the Business sphere, contained in this report.

Insurance policies

By virtue of its partnerships with the insurance companies Avipop Assicurazioni and BPM Assicurazioni, the Banco BPM Group is able to offer a wide range of policies that are able to meet the protection needs of its Business customers. In this context, the range of products offered by the non-life segment regards the credit area (Credit Protection Insurance for mortgage and ordinary loans) and envisages specific policies to cover risks related to events that may have economic repercussions, as well as affect equity and business continuity (Allrisk Commerce, Allrisk Enterprise, Legal Company Protection, Temporary Life Insurance and Civil Liability).

Commercial Initiatives

During the year, the Banco BPM Group implemented specific commercial initiatives with a view to supporting its Small Business Operator customers in various spheres: financial, insurance and transactional.
In particular, the main commercial initiatives launched were as follows:

- "F24 and Wages Initiative": an initiative addressed to supporting the financial commitments of SBO customers in May/August and November/December, periods which represent a number of tax payment and operational deadlines, in addition to the monthly tax obligations, by disbursing a dedicated loan to be repaid over 12 months at particularly competitive economic conditions;
- "A bridge for the growth of SBOs": with a view to supporting their short-term financial needs relating to the core business activities of its customers, the Banco BPM Group launched a specific commercial initiative that envisages the award of an unsecured loan with 12-monthly payments by instalment;
- "POS for SBO customers": with a view to facilitating its SBO customers, an initiative was launched to promote the POS and YouPOS Mobile services at competitive terms on the market with all reference target customers;
- "Business Insurance": the initiative envisaged the offer of specific policies based on the needs of the customer. More specifically, the "Legal Company Protection" policy was proposed to customers to protect their businesses against legal disputes, resulting in events that could cause important consequences in economic and equity terms. The "Temporary Life Insurance" policy was offered to customers to safeguard their businesses from economic damages originating from the death of people that made a particularly significant contribution to the success of the company ("Key Man");
- "Allrisk SBO": this initiative was launched to provide support to Small Business Operators through specific policies ("Allrisk Enterprise" or Allrisk Commerce"), which provide services or operate in the commercial sphere against events that risk compromising business continuity, such as a fire in the building where the business operates from, the theft of insured goods or assets located in the head office and adjacent buildings or involuntary damage caused by third parties.

Commercial Activities - Business Customers

As at 31 December 2017, there were over 300,000 Business customers with a current account, of which Corporate customers represented around 24%, as shown by the table below:

Segment	no. of single customers with c/a	% against total companies
Small Businesses	221,930	73.8%
MID	40,038	13.3%
SME retail	31,090	10.3%
Entities	1,947	0.7%
Large and EX EFI	2,191	0.7%
Other companies	3,689	1.2%
Total	**300,885**	**100%**

The breakdown of customers (single customers with a current account) by turnover bracket confirms the substantial concentration in the category of up to euro 25 million (around 97%), already recorded in previous years, confirming the Banco BPM Group's vocation for managing medium sized businesses.

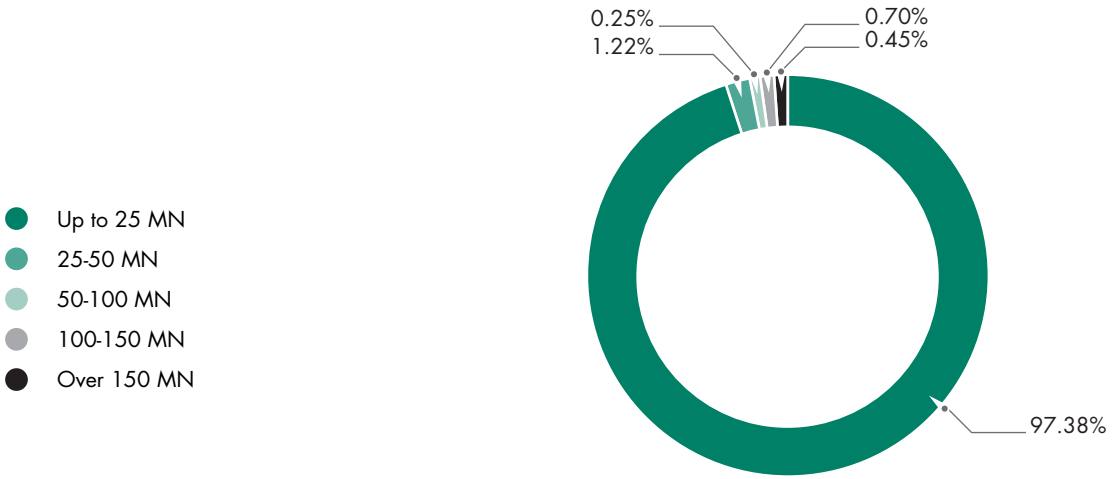


Figure 1 - Breakdown of Business customers in 2017 by turnover bracket

As regards the breakdown of customers by business sector, commercial and manufacturing activities continued to represent the largest share, followed by those related to the construction industry and to the agricultural sphere.

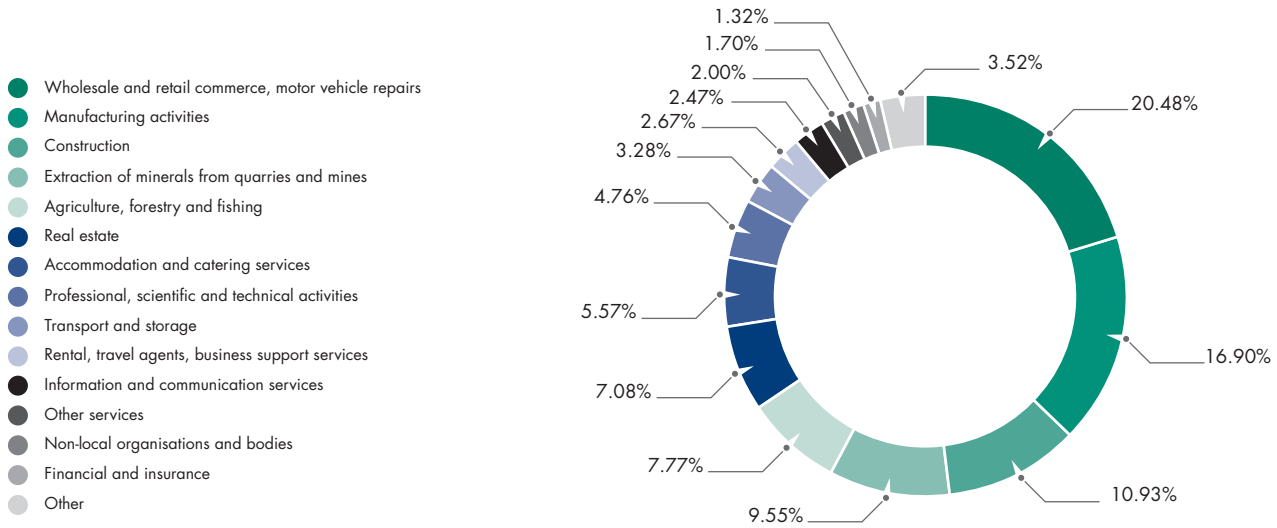


Figure 2 - Breakdown of Business Customers in 2017 by business sector

As already mentioned above, the distribution of Business customers includes a large share of small and medium enterprises. In 2017, the Group made increased efforts with regard to the latter, confirming its role as reference bank and supporting local businesses in the main areas served.
More specifically, this entailed the offer of dedicated products and services, illustrated below.

Current accounts

In January 2017, following the establishment of the Banco BPM Group, the first commercial offer was designed and launched, called "You Welcome Business", made available simultaneously on the Banco BPM Network and on the BPM S.p.A. Network.

The aim of the offer was to acquire new business customers with an annual turnover of up to euro 5 million, and was characterised by a wide range of services included in the package (current account, Internet Banking, POS, credit and debit cards) able to meet the banking needs of businesses.
To complete the above-indicated offer, specific and further special terms and conditions were applied to innovative services, financing facilities and loans paid by instalment.

Loans and lending

In July 2017, the new range of ordinary loans for business was released, the following of which is worth a special mention:

- ordinary ST loans (21 loan products);
- ordinary MLT loans (21 loan products);
- Italian unsecured loans (7 products for all "Business" customers);
- "Semina" (Sow) for Businesses that operate in the agricultural industry (14 loan products);
- "Orizzonte Donna" for female businesswomen, "InRete" for companies that are members of a Business Network and "Tourism" for businesses that operate in the tourism/hotel industry (14 loan products dedicated to businesses with the relative specific features).

The lending products that comprise the various Catalogues, unique to the Banco BPM Group, seek to meet their main and most frequent requirements: investment, working capital, liquidity, expansion, advances, cash flexibility.

In July 2017, the new lending products addressed to "active subrogation for Small businesses" were released: these new solutions are an integral part of the catalogue of ordinary MLT lending products for companies, and their characteristics are those already used for "Flexible Mortgage Loans" and "Flexible Loans".

The new products for the "active subrogation for Small Businesses" were created to increase the volume of MLT loans due, in particular, to their flexibility (the customer can choose, for example, between three different types of repayment plan).

In 2017, the internal amount of the ceiling relating to Flexible Business loans/mortgages was also increased, this innovative loan product, which starts with an analysis of the financial flows to support the investment and ends with a highly-personalised medium/long-term loan, with a view to enabling the customer to choose the best repayment option based on factors such as: the type of business activity, any seasonal factors, the invoicing cycle, etc.
In addition, the customer also has the option of making further adjustments in the meantime so that the same is able to have the best financial balance possible at any given time. This therefore resulted in a net decrease of other more traditional forms of loan, which are characterised by a higher level of rigidity in terms of the repayment plan, which are not always optimal for the customer or the bank. Therefore the flexible loan/mortgage loan has enabled the Banco BPM Group to offer a highly innovative product, which, at present, is unique in the domestic banking industry, and which extends the range of instalment-based loan products, as it is able to manage irregular, customisable repayment plans, which may be changed over time.

Commercial initiatives

The Banco BPM Group has set in place a series of schemes for businesses aimed to encourage the development of their business activities and, indirectly, the strong recovery of the industry. In particular, the main commercial initiatives were addressed to supporting its customers' day-to-day business:

- A bridge for growth - This initiative seeks to support and encourage their business activities in the short term, which will be gradually replaced by a natural increase in trading activities facilitated by customer loyalty. The target customers for this initiative are small and medium-sized Businesses which, due to their production/commercial characteristics or to their potential for national and international development/expansion, deserve to receive an instalment-based unsecured loan for 12 months.
- F24 and wages initiative - Designed to enable the best companies to more easily manage and plan their financial requirements (e.g. tax payment deadlines) by awarding a specific loan to be repaid in instalments over 12 months (with a grace period of 4 months) at particularly competitive economic terms).
- ST loan support - Addressed to Small Businesses that are considered eligible for the award and/or increase of short-term financing facilities, at the same time increasing the channels of transaction volumes in the collections and payments cycle, both Italian and foreign. These special terms regard both obtaining current account credit and credit lines for advances on trade receivables, very common types of financing facility in business.
- Current account alignment - Initiative that seeks to re-balance the support that the Banco BPM Group provides to its customers, proposing a level of credit when a facility is opened on a current account which is in line with that usually granted to similar companies. The objective is to make the evaluation and the fiduciary support of the Bank consistent, enabling the business customer to be repositioned at more adequate service levels.
- Let's invest in the future! - Initiative whose aim is to encourage small and medium enterprises to make wise investment and/or expansion choices, which will lead to higher volumes of loans in the medium/long term. This initiative draws on strategic economic policy plans for expansion with a view to relaunching the real economy (for example the EU strategic plan called "Juncker Plan" or the national plan "Industry 4.0" for 2017-2020).
- Objective reference bank - Addressed to businesses that are already customers, who use more than one bank, belong to industries of economic interest and have positive credit ratings. They are offered the opportunity to increase the credit lines agreed, therefore enabling them to potentially make better use of them to acquire new commercial cash flows and new additional opportunities/operations. The granting of new credit lines by the Banco BPM Group in addition to those already in place, has enabled the bank to increase its share of the target customers, in line with its role as reference bank.

Support following disastrous events

In order to provide maximum support to the areas in the Lazio, Marche, Umbria and Abruzzo Regions, struck by the earthquake on 24 August and by a later one on 30 October 2016, the Banco BPM Group approved the application, on its own initiative, of improved and more extensive solutions with respect to those prescribed by the legal provisions issued in this regard. More specifically, it envisaged the suspension of loans, without any fee, for a

longer period of 12 months, applying the suspension measure on its own initiative, without the customer having to make a specific request and expending the scope of beneficiaries of said facilities also to non-resident customers who own property located in the towns declared as being in a state of emergency.

The Banco BPM Group also intervened on further occasions to support its customers that were hard hit by exceptional climatic events between the end of 2016 and 2017, specifically by:

- suspending mortgage loan payments following the exceptional climatic events that took place between 23 and 25 November 2016 in the Piedmont and Liguria Regions (provinces of Imperia and Savona).
- suspending mortgage loan payments following the urgent civil protection measures adopted following the exceptional earthquake that hit the towns of Casamicciola Terme, Forio and Lacco Ameno on the Island of Ischia on 21 August 2017.

In accordance with legislative provisions and the orders of the Civil Protection corps, the Banco BPM Group agreed to suspend the payment of instalments of loans for those that effectively needed this, on condition that the head office or operational headquarters were located in one of the towns hit. The suspension of the payment of the instalment was agreed without the application of any costs or commission charged to the customer.

Other activities to support and increase business loans

It should also be noted that, again in 2017, activities relating to the so-called industry "moratorium" continued, as a result of the impact of the "2015 Credit Agreement" signed by ABI, Confindustria and the other major Trade Associations which the Banco BPM Group joined in April 2015.

Agriculture

The agricultural industry continues to hold an important position in the commercial strategies of the Banco BPM Group.
This is confirmed by the fact that in 2017, commercial efforts continued with the reconfirmation of agreements with the main parties of the agrifood chain, particularly with regard to Protection Consortia (see "Asnacodi" Agreement).

In addition, specific agreements were reached with the payment agencies AVEPA (Veneto Region), AGREA (Emilia Romagna Region) and AGEA (national payment agency that operates in Regions without regional payment agencies) to manage the 2017 Advance PAC Contribution. Following these agreements, the Banco BPM Group made a loan facility available, with a view to paying part or all of the PAC contribution due from agricultural enterprises in advance, at competitive economic conditions and undertaking to provide responses on the result of credit rating assessments in very short timeframes.

Also in 2017, the Group continued to pursue the important business opportunities resulting from the implementation of Rural Development Programmes (RDP) envisaged for 2014-2020, confirming the important commercial scheme called "RDP - We are with you 100%" with a view to providing financial support for the investments that businesses intend to make using the RDP contributions.
The RDP and related state contributions envisaged for agricultural and agrifood companies represent an exclusive and powerful engine for investments in the agriculture sector and, consequently, an interesting opportunity for Banco BPM, which has decided to provide financial support through both short-term products (dedicated to different options of anticipating the state contribution) and medium-long term products (dedicated to supporting investment).
For this reason, the Banco BPM Group also promptly joined the proposed agreement promoted by ABI, MIPAAF (Ministry for Agricultural and Forestry Policies) and AGEA (Agency for Disbursements in Agriculture) and approved by a resolution of the Campania Regional Authority, similarly to that carried out in the past for the Piedmont and Puglia Regions; the purpose of the agreement is to facilitate the access to credit of a company making an investment, because the same envisages that the RDP contribution is irrevocably paid into the lending bank and that the credit/debit transactions relating to the investment are made on a current account opened specifically and dedicated to this purpose, called "RDP Reserved Green Account - ABI Regions Agreement".

In 2017, the credit assessment procedure for agricultural enterprises continued to be adopted and maintained; this is an innovative assessment system that takes the specific nature of businesses in this industry into account. This procedure together with the service model developed through the customer relationship managers allocated to the

Network and the range of "Semina" (Sow) lending products, makes Banco BPM one of the Italian banks with the most focus on the development of the Agricultural sector.

The range of "Semina" products was further extended in 2017, with the release of the following products: Flexible Agrarian Loan/Mortgage Loan and Flexible Subrogate Agrarian Loan/Mortgage Loan, which originate from, for the Agricultural segment, the previously illustrated flexible loan/mortgage loan arrangements.

Insurance policies

As a result of the current Bancassurance partnerships with Avipop Assicurazioni and BPM Assicurazioni, again in 2017, the Banco BPM Group continued to offer its non-life insurance policies, linked both to credit (Allrisk Commerce and Allrisk Enterprise and Credit Protection Insurance for mortgage loans and loans) as well as stand-alone policies (Temporary Life Insurance, Civil Liability, Legal Company Protection ...).
In 2017, the range of non-life insurance products was also further extended with the release of a special insurance policy for trade receivables called "Modula SMART", offered by the branches of the former Banco Popolare and created in collaboration with the Insurance Company Atradius and Arena Broker.
In the current economic climate, protecting oneself against the risk of customer insolvency is extremely important. The objective is to offer Business customers a simple and efficient tool to protect themselves against the non-receipt of trade receivables.
The trade receivables policy called "Modula SMART" enables companies to manage their business activities with the peace of mind they need as they can count on an indemnity to cover any losses suffered due to non-payments.

Instead, as regards **Corporate customers**, the customer segmentation and the service model adopted by the Group are illustrated below.

In 2017, the two former BPM and former Banco Popolare Corporate networks maintained their pre-merger segmentation and control model.

More specifically:
Former BPM Corporate customers and commercial network:
This segment includes companies with a turnover exceeding euro 15 million (range: euro 15-500 million).
Customers are managed by a network organised into Corporate Commercial Areas, located throughout the country, each of which with dedicated customer relationship managers and analysts.
Large Corporate: serves companies with a turnover exceeding euro 500 million through an ad hoc Commercial Area belonging to the Corporate Department.

Former Banco Popolare Corporate customers and commercial network:
The segment called "MID CORPORATE" includes companies with a turnover exceeding euro 5 million (range: euro 5-350 million).
Customers are managed by an ad hoc team of Corporate customer relationship managers and analysts, located in Business branches.
Large Corporate: includes companies with a turnover, at group risk level, exceeding euro 350 million and/or a turnover exceeding euro 250 million and loans exceeding euro 50 million. Large Corporate customers are managed directly by a team of dedicated customer managers and analysts, who are part of the Corporate Department.

Products and services for the Corporate segments

In 2017, the Banco BPM Group confirmed its support to the world of business by continuing to strengthen the Bank-Business partnership and confirming its role as the reference Bank in the main areas served.
In the period analysed, loans awarded to eligible businesses, which were actively exploiting the economic recovery, rose in terms of volumes.

Current accounts
To celebrate the newly-established Banking Group and to introduce itself to the market with a view to acquiring customers for current accounts, Banco BPM extended its range of products, creating a product dedicated to new Corporate customers called: "You Welcome Corporate - celebratory account".
This account meets the day-to-day needs of businesses and represents a way for the Bank to get closer to its business customers.

Loans and lending
In 2017, efforts continued to fine-tune and develop all types of loan in the catalogue, with a view to create products that increasingly meet the needs of the customer.
More specifically, the range of loans with a modular approach (e.g. Unsecured Loans to large enterprises in tranches, with delayed disbursement, with financial covenants ...) was gradually extended to meet the needs of customers in the most personalised way possible.

The volumes recorded for the Unsecured Loan with commercial covenant product were significant, a solution that offers benefits to customers in terms of spread and advantageous conditions which depend on the channelling of specific commercial flows established by contract between the Customer and the Bank.

Banco BPM also utilised specific funding provided by the EIB and the Deposits and Loans Fund, enabling its Customers to benefit from the economic advantages resulting from the lower cost of this funding option.

Main commercial initiatives
In 2017, the Banco BPM Group decided to confirm its mission to support the growth of businesses operating in its local areas.

In line with this decision, the Corporate department sought to increase the traditional market shares of the two original banks and to fulfil its role as the third largest Italian banking group, by continuing to make a series of tools available to its Business customers with a view to exploiting the economic recovery and further increasing their business activities.
The main commercial initiatives for existing customers sought to strengthen the Group's positioning on the Corporate target in line with business objectives.

Purchase of trade receivables in the form of discounts without recourse
In 2017, Banco BPM confirmed and consolidated the development of services in the sector of corporate lending assisted by the assignment of trade and tax receivables without recourse. In this regard, the objective is to facilitate our top customers to assign their trade and tax receivables and to draw up personalised agreements with leading companies that intend to optimise existing opportunities in the management of trade payables and offer financial services to its suppliers, with a view to strengthening and managing their commercial relations.

Corporate agreements and sponsorships

One of the most important agreements that will help the Group in its new role of the third largest banking group in Italy in the Corporate sphere and as an active contributor to supporting businesses in pursuing their growth objectives, is the Agreements with Borsa Italiana and Élite Lounge.

Élite Lounge is an international service platform created to provide support to excellent businesses in implementing their development projects by sharing experiences, providing access to finance and training. The commercial agreement between the Bank, Akros and Élite is represented by a 2-year project in which the selected customer businesses are assisted with training in business/finance, with a view to achieving a listing on the market.
Under this agreement, in 2017, 36 Group business customers were selected and brought to Elite class.

Multichannels for business customers: remote banking and YouBusiness Web portal

In 2017, YouBusiness Web, the digital services portal for businesses was enhanced with new services (Car Tax, F3 Form, ...); at the same time, the platform continued to be functionally renewed with a view to improving the customer's user experience.

The continuous development of YouBusiness Web enabled Banco Popolare and Banca Popolare di Milano customers to be provided with a single Remote Banking platform dedicated to businesses from July. This important objective enabled the digital offer to be rationalised and economies of scale to be achieved.

With regard to the traditional Remote Banking services (active and passive), they have also been updated, in line with the continuous developments of Corporate Interbanking standards.
By virtue of these upgrades, the YouBusinessWeb recorded an increase in the number of Banco BPM users in 2017 (+4.84%).

Hedging financial risk

In 2017, the Banco BPM Group closed 4 thousand hedge contracts against financial risk with Business customers: hedges against exchange rate risk totalled over 1,200, corresponding to euro 733 million, while those against interest rate risk totalled around 2,600, corresponding to around euro 2.7 billion. In terms of the type of the same, over 98% of the transactions carried out in 2017 belonged to the Effective Hedge category and break down substantially into Fixed Rate (IRS) and Maximum Rate (CAP) for hedges against interest rate risk and Flexible Forward for hedges against exchange rate risk. As at 31 December 2017, the portfolio of active derivatives with customers indicated the presence of over 9,000 transactions which corresponds to a notional commercial value of over euro 7.8 billion.

Structured finance

Structured finance activities were particularly important in 2017, with a view to strengthening relations with Corporate and institutional counterparties, which have more sophisticated financial requirements, by providing high level support for "extraordinary" financing transactions and/or those with specific purposes, addressed mainly to companies in the SME and Large Corporate segments.
Efforts were mainly directed towards providing support for company acquisitions, investments and restructuring of balance sheet liabilities, as well as financing transactions conducted through leveraged buy-outs, usually promoted by private equity funds (Financial Sponsor).
2017 saw a significant increase in the number of transactions and commissions collected by the newly-established bank, in comparison to the aggregate figures of Banco Popolare and Banca Popolare di Milano. The growth, which regards all business lines (Corporate Lending, Financial Sponsor, Real Estate Financing and Project Finance), was facilitated by the rapid reorganisation of activities following the merger, which enabled the Group to grasp market opportunities.
In particular, commission income from new financing with the Financial Sponsor rose significantly (+30%).
Nonetheless, constant attention was also dedicated to portfolio management, with a view to continually optimising credit risk and to monitoring a specialist portfolio and returns.
The Structured Finance area continues to represent an important point of reference and driver for the overall development of customer relations, providing, in terms of a service model, systematic support for specialist financing to the commercial networks, as well as support to commercial development and the negotiation and structuring of the activities.

Origination

In 2017, with a view to effectively managing its high potential Corporate customers and integrating products internal and external to the Group by improving cross selling, the Banco BPM Group established the Corporate Origination unit, comprised by senior bankers with many years of experience in corporate lending, acquisition financing, ECM, DCM and IPO.

Initially, the unit focused on identifying the priority portfolios of business groups in order to direct their commercial activities. These portfolios were identified by an overall analysis of Corporate customers using an industry-oriented approach, to draw up a strategic plan in line with the objectives of the Group's Business Plan.

Foreign network and services

Dedicated network and presence abroad

The Banco BPM Group serves its customers through a dedicated commercial Network, comprised by over 60 Foreign specialists located throughout the country, with extensive technical-commercial skills, able to fully support their customers in their internationalisation activities.

In addition, the Banco BPM Group uses the following foreign - goods units located throughout Italy for its operations, specifically in: Milan, Legnano, Monza, Alessandria, Modena, Rome, Verona, Modena, Bergamo, Novara, Lucca and Lodi.

Overall, the Operations department has around 135 employees and handles foreign documentary transactions, therefore excluding electronic collections and direct remittances (namely in the simple transactional sphere, so called "open account").

In particular, it handles documentary credit, documented remittances and international guarantees, in accordance with the relative process rules in force, seeking to provide customers with a high value-added service that guarantees consistent returns in terms of commission income.

Lastly, Banco BPM has 3 representation offices abroad (Mumbai, Shanghai, Hong Kong) able to assist customers directly in the relevant foreign country.

Foreign Commercial Business Activities

In order to extend the support provided to its customers, Banco BPM has integrated existing agreements with leading institutions (ICE, Chamber of Commerce, SACE) with further partnership agreements with companies and entities to assist the process of internationalisation, which are able to provide a wide range of complementary services (e.g. legal, fiscal, commercial, strategic etc.).

Agreements with leading institutions

ICE: In 2017, Banco BPM renewed its collaboration agreement with ITA - Italian Trade Agency, previously ICE (Agency for the promotion and internationalisation of Italian companies abroad) for 2017-2018, the objective of which is to provide internationalisation, information services and specific advice. This agreement means that customers may receive services relating to Countries in which Banco BPM is not present.

Chambers of Commerce: in 2017, Banco BPM continued to work with the Italo-Russian Chamber of Commerce and with the Italo-German Chamber of Commerce - DE International Italia (a company of the CCIG that specialises in the German market) for the provision of internationalisation services and to promote forms of cooperation (business days, business to business meetings between Bank customers and foreign operators).

SACE SRV: in 2017, Banco BPM signed an agreement with SACE SRV, a subsidiary of SACE S.p.A. (Deposits and Loans Fund Group), which specialises in the provision of services for the recovery and restructuring of trade receivables (court action, out-of-court action, negotiation of restructuring agreements, repossession and remarketing of supplies abroad) and in the provision of commercial information.

Partnership agreements with external companies

Minding S.r.l., Milan: in 2017, Banco BPM renegotiated a partnership agreement with Minding, a business advisory company, which specialises in the international development of SME, particularly in the production industry. Its core business entails conducting an analysis of the companies in their competitive arenas and then designing and implementing financially sustainable internationalisation projects. The reference industries are agrifood, consumer goods, luxury goods and fashion.

P&P-People and Projects Ltd, Hong Kong: in 2017, Banco BPM signed a partnership agreement with P&P-People and Projects, a company founded in Hong Kong in 2005, which provides advisory services on a national and international level. The reference countries are China, Hong Kong, Macao, Singapore, Japan and Spain.

IC & Partners S.p.A., Udine: in 2017, Banco BPM signed a partnership agreement with IC&Partners, a consultancy company that provides operational assistance to companies that wish to develop internationalisation projects, specifically providing corporate, administrative and tax services and those needed to set up a company. The reference countries are Serbia, Bulgaria, Russian Federation, Poland and Hungary.

Foreign Products and Services

In 2017, Banco BPM continued to develop new cutting edge channels, with both information and order functions, addressed to companies that work with or intend to work with firms abroad. In particular:

- YouWorld, an information platform that enables businesses to access an exhaustive and continuously updated amount of information on foreign trade (e.g. political-institutional overview of a country, customs and fiscal regulations, contractual obligations, tenders, lists of professionals) and provides references for potential foreign suppliers or buyers (organised by country, type of goods or services);
- You Trade Finance, which enables goods operations to be managed (International guarantees - already operational, Documented Receivables, Import-Export documents), on-line, simplifying and optimising the bank-customer relationship. You Trade Finance, which is in reality an evolution of the You Business Web platform, enables digital documents to be exchanged between the bank and the customer, by means of a guided and constantly traced procedure, able to guarantee the utmost safety (e.g. use of a digital signature) and guaranteeing the reduction in the time and the monitoring of the state of progress of a file by the customer.

Lastly, Banco BPM signed the renewal of the convention on financial guarantees with SACE (Institute for Insurance Services of Foreign Trade, CDP Group), which envisages the opportunity for the Bank to disburse loans with a SACE guarantee. Of the products designed, it is worth noting the IT.EX loan (funding working capital), the JET loan (to support business internationalisation projects) and discounts on SACE policy transfers (for the discount, without recourse, of bills guaranteed by a Supplier Credit Policy issued by SACE).

Commercial Activities, Institutional customers, Entities and the Third Sector

The coordination and commercial support relating to Institutional Customers, the Public Administration, Religious Entities, the Third Sector and Centralised Alliances, has been entrusted to the Institutional Customers, Entities and Third Sector Function, which manages the product range offered, developing suitable distributing channels and evolving the service model.

The "business" offices that the Institutional Customers, Entities and Third Sector Function is comprised by, are as follows:

- Institutional Customers;
- Entities and P.A.;
- Third Sector and Religious Entities.

Institutional Customers

Institutional Counterparties are the main "supervised" parties such as Insurance companies and Non-banking finance companies, SGRs, SIMs, open and closed-end Mutual Funds, Bank Foundations, Social Security and National Insurance entities and Pension Funds. Furthermore, Institutional Counterparties also encompass the State, Constitutional Bodies, Central state entities and several companies part-owned by the Central P.A..

Relations with Institutional Counterparties are managed by the office of the same name by means of a complete service model, which encompasses customer relationship managers and specialist staff.

As at 31/12/2017, the breakdown of Institutional Customers by type of SAE/Economic activity was as follows:

Type of Entity per SAE (*)	Breakdown %
Mutual Investment Funds, Pension Funds and UCITs	29%
Bank foundations	2%
Insurance companies	4%
Non-banking (Leasing, Factoring) and Consumer Credit	8%
Social Security Entities	1%
SIM and SGR	6%
Other financial intermediaries	50%
Total	**100%**

(*) Group companies are not included

The office which handles Institutional Counterparties also manages the operations performed for Banco BPM Group Companies.

To more effectively manage relations, the services offered have been harmonised and commercial strategies have been developed for this type of customer, with particular emphasis on asset management (direct and administered) and on services (transactional bank, collection and payment services).

Commercial partnership with allies external to the Group

The Institutional Customers, Entities and Third Sector Function is also tasked with overseeing and coordinating the Business Area dedicated to the centralised management of commercial alliances with "partners" external to the Banco BPM Group.

These alliances are regulated by specific commercial partnership agreements, which envisage a range of products addressed exclusively to the customers of the external alliance, through a dual distribution channel:

- "door-to-door" sales through external financial advisors;
- "branch" sales, through dedicated branches, in the financial shops of the commercial ally.

Centralised sales management is conducted through a "dedicated" Business Area, included within the Institutional Customers, Entities and Third Sector Function, in charge of 13 branches distributed throughout the country.

Direct supervision through a wholly dedicated structure enables commercial agreements to be constantly developed in view of legislative changes as well as better economic returns for Banco BPM and better supervision of operating risks especially as regard Money Laundering Legislation.

In collaboration with the Allies, we serve over 30,000 customers.

The market of door-to-door sales of banking products and services through networks of financial advisors belonging to groups that do not have banks in their area is a high potential one and the organisational model specifically set in place and the knowhow acquired to date by Banco BPM have given us the opportunity to further develop a business that is constantly growing in the market.

Entities and the Public Administration

Entities or also "Public Sector" customers, pursuant to EU Regulation 549/2013 on the European systems of national and regional accounts, is comprised by:

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

In 2017, commercial activities were conducted in full respect of the Group's guidelines, with special attention paid not just to economic results, but also to:

- the economic-financial situation of the counterparties, to mitigate credit risk;
- minimising commitments on the localization of services, to facilitate any future policies to rationalise the network;
- reducing contributions/sponsorships.

Furthermore, in 2017, the audit conducted by the certifying body was successfully carried out, and the certification scope was also extended to the disbursement of loans to the Public Administration.

As at 31/12/2017, the breakdown of Entities and P.A. customers by type of SAE/Economic activity was as follows:

Type of Entity by SAE	Breakdown %
Municipalities - Unions of municipalities	36%
Schools	30%
Healthcare organisations and hospitals	2%
Subsidiaries	16%
Other entities	16%
Total	**100%**

Third Sector and Religious Entities

The customers belonging to the Third Sector and Religious Entities are represented by Associations, Foundations, ONLUS, Social Cooperatives and other non-profit organisations, which comprise the Third Sector, and by dioceses, parishes, congregations and religious orders, which comprise Religious Entities.

As at 31/12/2017, the breakdown of the Third Sector and Religious Entities customers by type of SAE/legal status was as follows:

Type of Entity by legal status	Breakdown %
Associations	50%
Foundations	2%
Religious Entities (parishes)	9%
Social Cooperatives	5%
Other entities with or without legal status	34%
Total	**100%**

Given the importance attributed by the Legislator to the Third Sector, which offers significant growth prospects, Banco BPM has decided to strengthen its sales efforts through a dedicated Office, launching a series of commercial initiatives.

As regards the Third Sector, the following important initiatives already launched in 2016 and continued in 2017 are worth noting:

1. the development of products designed to meet the growing need for credit in the world of social cooperatives, by setting in place transactions "without recourse" in arrangements with Territorial Government Offices to handle the "initial welcome" of migrants;
2. the support provided to customers for fund raising activities, based on the activation of transactional banking services;
3. advance of the "five per thousand" contribution in favour of associations and beneficiary entities based on the lists published by the Tax Authority;
4. the development of partnership agreements to develop products and services dedicated both to Entities and to their supply chains (the most important of which are those signed with ACLI, the COESI Consortium and CGM Finance).

As regards Religious Entities, the following important initiatives are worth noting:

1. Treasury Banking activities for payment service of the wages to over 35,000 Italian priests, on the mandate of the Central Institute for Clergy Support;
2. the issue, on behalf of the Holy See, of cheques to be delivered to parishes to dispense the alms of Pope Francis to the most needy and the collection, through a dedicated IBAN, of payments from the Faithful for Peter's Pence;
3. support of "ReteSicomoro", namely a free portal to provide support to the activities carried out by Religious Entities, Parishes, Congregations and Voluntary Associations, Schools and Religious Institutes;
4. commercial partnership agreements with FIDAE (Federation of primary and secondary Catholic Schools) and with FISM (Italian Federation of Nursery Schools); as regards the latter, in particular, Banco BPM provided a dedicated product for the advance of public contributions addressed to the schools that are members of the Federation;
5. development of products and services to render the Treasury of religious congregations more financially efficient by means of cash pooling;
6. development of products dedicated to the diocese structures, designed in collaboration with the Bursars of the Dioceses, customers of Banco BPM, through a permanent working table, which seeks to strengthen the commercial relationship and encourage a more effective exchange of information on the segment managed.

Private & Investment Banking

	2017	2016	absolute change	% change
Interest margin	113,682	158,245	(44,563)	(28.2%)
Financial margin	**113,682**	**158,245**	**(44,563)**	**(28.2%)**
Net fee and commission income	109,136	52,462	56,674	108.0%
Other net operating income	(905)	853	(1,758)	
Net financial result	(1,901)	51,277	(53,178)	
Other operating income	**106,330**	**104,592**	**1,738**	**1.7%**
Operating income	**220,012**	**262,837**	**(42,825)**	**(16.3%)**
Personnel expenses	(76,719)	(82,031)	5,312	(6.5%)
Other administrative expenses	(76,740)	(82,084)	5,344	(6.5%)
Net value adjustments on property and equipment and intangible assets	(7,302)	(5,368)	(1,934)	36.0%
Operating expenses	**(160,761)**	**(169,483)**	**8,722**	**(5.1%)**
Income (loss) from operations	**59,251**	**93,354**	**(34,103)**	**(36.5%)**
Net adjustments on loans to customers	2,649	1,777	872	49.1%
Net adjustments on receivables due from banks and other assets	1,099	(21)	1,120	
Net provisions for risks and charges	(1,304)	1,438	(2,742)	
Recoveries (losses) on investments in associates and companies subject to joint control	(1,571)	(1,605)	34	(2.1%)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	(1)	-	(1)	
Income (loss) before tax from continuing operations	**60,123**	**94,943**	**(34,820)**	**(36.7%)**
Taxes on income from continuing operations	(17,810)	(27,136)	9,326	(34.4%)
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**42,313**	**67,807**	**(25,494)**	**(37.6%)**
Impairment on goodwill and client relationship after tax	(14,299)	-	(14,299)	
Parent Company's net income (loss)	**28,014**	**67,807**	**(39,793)**	**(58.7%)**

Economic trend in the sector

The sector in question is comprised of the legal entities Banca Aletti and Banca Akros.
The performance of the main economic aggregates shows a fall in the interest margin due to the decrease recorded by Banca Aletti, following a lower contribution of the securities portfolio. Other operating income, substantially stable, are in reality, again in this case, due to the dynamics of Banca Aletti's income statement. More specifically, the rise in net fee and commission income is due both to the income generated by Private Banking (which rose from

euro 44.4 million to 66.1 million), and to the lower retrocession commission paid by the Commercial Network due to the reduction in production volumes. This latter aspect also explains the decided fall recorded by the Net financial result.
Operating expenses fell, both in terms of personnel expenses and as regards other administrative expenses.
In addition, goodwill was brought to zero, mostly due to a business division of the former Bipitalia SGR sold in 2007.

Below we provide greater details on the business lines discussed above.

Private Banking

At the end of 2017, Banca Aletti recorded a global amount of "assets under management" (administered and managed) of euro 20.8 billion.
The year was characterised by significant growth in net interest and other banking income in the private segment (administrative figure at Group level) compared to the average figure last year, due to the steady rise of the non-interest margin and the deterioration, especially in the first half of the year, of the financial margin. It is worth noting the rise in recurring income from investment and services and asset management.
These positive results were achieved in a context of share market normalisation, even though the main global markets recorded different levels of positive trends, and greater uncertainty and volatility of the bond and above all currency markets.
Given the continuing negative structural yields of interbank monetary interest rates, customers increasingly showed less interest in very short-term investments, represented by the volumes of direct demand funding.
The overall impact on investment services with a higher added value and more generally on asset management was a rise due to a net positive cash flow, with a balanced mix of directional and controlled-risk investment choices.
The year saw stronger signs of recovery within a framework of economic uncertainty and the prudence of customers when assessing investment choices both in the real economy and in the financial markets, preferring "wait and see" positions. Even in this context, the numerous strategies and measures taken to increase assets in the medium term and to extend the scope of customers, enabled a positive result to be obtained in terms of net funding, particularly in the first half of the year. This figure was eroded by the negative impact of the outflow of assets following the resignation of private bankers in the last quarter of the year.
Private-corporate cross selling (Pri-Corp) has reached its tenth year in harmony and collaboration with the Group's corporate network. The strategic worth of this activity was confirmed in the strategic plan of the new Banco BPM Group for 2016-2019; in this regard, it is important to note that since the launch of this activity (2007), gross funding has reached euro 4.5 billion.

To support development activities, in line with the strategy of previous years, efforts were made to create opportunities to meet potential customers through a series of local events (around 60 over the year).
In the second half of the year, in accordance with the group integration plan, two important steps were taken, which had an impact on the scope of the private customer network.
More specifically, at the beginning of the second half, following the sale of BPM's Private Banking division to Banca Aletti, 9 units and 2 remote branches (reporting to two of the cited new units) were opened and 73 private bankers were hired.
The new units and remote branches were opened in the following locations: Milan (3 units), Bologna, Rome, Legnano, Saronno (with a remote branch in Seregno), Magenta, Monza (with a remote branch in Merate).
Subsequently, in December, following the contribution of the "private credited" division by Banco BPM to Banca Aletti, 7 remote branches (reporting to five existing units) were opened and 20 private bankers were hired.
The remote branches were opened in Aosta, Asti, Vercelli, Verbania, Borgomanero, Benevento and Palermo.
These significant changes to the network organisational structure led to the establishment of two new areas (Milan Centre and Brianza Lakes) tasked with coordinating the greater local presence in Lombardy.
As at 31 December 2017, Banca Aletti's network was comprised of 11 Areas, 42 Units, 9 remote branches and 275 Private Bankers.

The Private banking business conducted by Banca Akros during the year focused on high net worth customers, with the primary objective of managing the customer and providing support for his relative needs, also with a view to the spin-off of the division to Banca Aletti. In this regard, also given the highly competitive nature of this segment, the company succeeded in maintaining the substantial stability of the customer assets administered and managed, the

value of which, at the end of the year, totalled around euro 1.2 billion, with an average customer equity of around euro 1.2 million. During the year, the performance commission component in the managed asset segment recorded positive results, surpassing the envisaged reference benchmarks.

Portfolio Management

For the whole of 2017, the strategies adopted for portfolio management saw a preference for the share asset class over bonds, and within the latter, a preference for investment grade Corporate bonds over Government bonds. Customers continued to prefer a wide currency diversification of the portfolios, which in the last quarter of the year was managed with a tactical rather than a strategic approach.
The strategic decisions are mainly based on the following factors: the continuous and synchronised improvement of world economic growth at global level and the measures of Central Banks (conventional and otherwise) to support the economic situation and the financial markets, which have remained immune from tensions. Indeed, geo-political events were not able to destabilise the financial markets, which instead proved resilient to volatility, particularly the share markets.
Portfolio management adopted a tactical approach for strategic investments with regard to exposure to various risk factors, which also enabled profits to be made, thus consolidating results as they arose.
Overall, the management mandates on an aggregate level, portfolios managed closed the year overall with positive overall gross performance on average exceeding that of the benchmarks with the most significant overperformance in the portfolios with the highest share content.
As at 31 December 2017, assets under management totalled euro 15.2 billion, slightly down total assets recorded at the end of 2016.

Investment Banking

The investment banking activities managed by the subsidiary company Banca Aletti during the year were organised into the business lines illustrated below.

Global markets

Derivative Instruments and Structured Products - Financial Engineering
The main topics during 2017 were the economic recovery, also driven by monetary incentives, and the resulting expectations regarding the monetary policy decisions of the Central Banks. The recovery of inflationary pressure has made it clear that interest rates are going to rise and the markets have started to count on further rate hikes by the FED and the start of tapering by the ECB. The Euro swap curve fell down to 0.3% at the 5y node (from around 0% at the beginning of 2017), and the government bonds of the "peripheral" countries have shown significant performance, with the spread between BTP and German government bonds at around the 130 basis point mark from over 200 basis points reached in the first part of the year. Liquidity in the main markets has stayed low, both due to the measures taken by the Central Bank in the government bond markets and due to fact that market-makers are less keen to provide liquidity to hold risk positions on its books.
During the period, the climate of confidence in the share markets strengthened due to the increase in world growth, driven by the expectations of the US economy, confirmed by the main macroeconomic indicators. Price lists recorded good performance with stable volatility at medium-low levels.
In this context, the structuring of products indexed to the performance of share markets ("growth products") saw a greater demand with respect to the past, characterised by volatility control mechanisms and distributed in the form of structured SICAV in collaboration with Aletti Gestielle SGR. Instead structured and plain vanilla products linked to interest rates were unpopular, with volumes down considerably.
The demand for interest rate and exchange hedging instruments of corporate customers was stable.
Trading was characterised on one hand by the search for better risk hedging strategies for the risks related to the structuring and placement of investment products distributed to Group customers, and on the other hand, by the search for opportunities linked to the assumption of new risk positions on the cash and volatility market.

Financial Engineering
In 2017, new in-house pricing tools for interest rate derivatives were developed, needed to extend the information systems of Banco Popolare to the entire operating perimeter of Banco BPM.
Furthermore, in-house pricing models are continuously developed with a view to extending the Groups range of commercial products, with specific reference to asset management products with capital protection mechanisms.

Brokerage
The "controlled" increase of interest rates in the United States and the "dovish" behaviour of the European Central Bank assisted the uptrend of share prices in the major industrialised countries for the whole year. Any fall in values represented a repurchase opportunity; investors, including retail ones, demonstrated greater dynamism with respect to last year, enabling the Bank's trading volumes in the major national and international markets to rise significantly.
The annual report published by Assosim confirms the increase in domestic shares, positioning Banca Aletti in 5th place among the most active market brokers, gaining 4 places against last year and recording a rise in market share from 4.46% to 5.79%.
Even in a fairly negative scenario as regards trading in bonds over the year, Banca Aletti managed to do better than its competitors, gaining two places with respect to 2016, and was positioning in 9th place in the Assosim ranking.
Its fourth place on the SEDEX market was confirmed, with a market share of over 11%.

Sales

Group Networks Distribution
2017 was a positive year for the high-risk asset classes, characterised by low average volatility, although there were periods in which volatility rose due to geopolitical events.
In this scenario, the Group's structuring activities and distribution strategies were characterised on one hand from the search for diversification, in terms of product lines and investment areas, and on the other by the desire to create an offering that focuses on yield as well as minimises risk.
Alongside the production of Certificates, Gis (Gestielle Investment Sicav) segments were placed, which enable customers to take on share market exposure, limiting the risks thanks to algorithms that control and reduce the volatility of the investment.

Corporate and Institutional Sales
The commercial strategies of the distribution networks and the portfolio decisions of Italian institutional customers in 2017 were conditioned, as in 2016, by a market characterised by yields in the Eurozone at record lows and by considerable volatility.
The search for yields on one hand and the introduction of Individual Savings Plans (ISP) on the other, encouraged the boom of IPO, particularly on the AIM market, and the placement of Special Purpose Acquisition Companies (SPAC) with professional investors.
Expectations of a reduction of quantitative easing encouraged the primary market of government and corporate bonds by European issuers, with an increase in trading volumes on the secondary bond market.
In relation to risk hedging with corporate customers, expectations of a rise in medium to long term interest rates influenced decisions on hedges of liabilities index-linked to floating interest rates. Specific attention continues to be focused on exposure to exchange rate risk, considering the trend of the Euro in relation to the major currencies.

With regard, instead, to the operations of Banca Akros in this segment, even though the operating scenario was characterised by particularly low levels of volatility in the main financial markets, even against several previous years, the contribution made by Investment Banking activities in the primary share and bond markets recorded an increase, due to its participation in numerous stock market listings and company share capital increases, advisory and fund raising campaigns to promote the so-called *Special Purpose Acquisition Vehicle* (SPAC) and the subscription and placement of bond issues and to advisory services provided for securitisation and the sale of non-performing loans. In synergy with other Group commercial departments, Banca Akros intends to expand its range of added-value services, by extending the Investment Banking business, alongside traditional trading, market-making, brokerage and financial risk hedging activities, with a view to facilitating customer access to the capital markets and to M&A transactions, to consolidate and internalise Italian companies.

The positive management performance, combined with careful risk monitoring and management, also guaranteed high levels of profitability, adjusted for risk, capitalisation and liquidity.
Efforts were continuously made to develop and innovate the range of products and services offered, in line with the customers' needs, assisted by the excellent expertise of our staff and the highly technological approach adopted.

With regard to operating performance, the following is worth noting:

- in market marking activities, the positive contribution of over-the-counter operations on Government securities and bonds, with around 20.1 billion securities traded; participation, as Co-Dealer and market maker, in the placement on the MOT market of Borsa Italiana, of the eleventh and twelfth issues of BTP-Italia, maturing, respectively, in May and November 2023;
- the increase in operations on share derivative instruments, with notional over-the-counter (OTC) trading volumes up by around euro 1.1 billion, and the positive performance as market maker on the Idem markets of Borsa Italiana and Eurex;
- operations on instruments to hedge and manage financial risk, and on industrial commodities, serving customers also in terms of joint coverage with the Parent Company in the mid corporate segment, with significant notional volumes traded on interest rate hedges (around 3.8 billion) and exchange hedges (around 133.3 billion).
- brokerage on behalf of third parties, an area in which the Bank has established itself, holding the first places in the share and bond markets, also due to the contribution of "SABE", the in-house system that automatically searches for the dynamic best execution; note, in particular, the second place gained in the aggregate ranking of Italian and foreign brokers working on behalf of third parties in the Italian bond markets, 4th place in the Electronic Equity Market (MTA), managed by Borsa Italiana, 1st place in the SeDeX market, 3rd place in the options on the FTSE MIB index and 4th place on the ETF Plus market (source: Assosim). Brokerage on foreign share markets also works with ESN - European Securities Network LLP, a partnership in European share searches and trading, established by Banca Akros and another seven independent investments banks, active in their respective national markets.
- In Equity Capital Market activities, the partnership, as Co-Bookrunner, with the guarantee consortium for the share capital increase of Unicredit and as Joint Global Coordinator for the share capital increase of Il Sole 24 Ore. Banca Akros also acted as Joint-Bookrunner in the institutional offer aimed at listing Indel B on the Electronic Equity Market (MTA), managed by Borsa Italiana, as Co-Lead Manager in those relating to the listing of Banca DoBank and Banca Farmafactoring, as well as of Gamenet and, as *Co-Manager*, in the listing of Pirelli. The Bank also coordinated the public purchase offers of Mediacontech, Best Union Company, Meridie and Alerion, in which it also acted as financial advisor for the offeror;
- in the Special Purpose Acquisition Company (SPAC) segment, where the Bank has over time become a benchmark in the relative market, attracting considerable interest from investors over the period, its participation, as Global Coordinator and Joint Bookrunner, in the placement of Industrial Stars of Italy 3 on the AIM Italia market and, as Joint Global Coordinator and Joint Bookrunner, in that of IDeaMI;
- in the Debt Capital Market, the placement with institutional investors of numerous bond issues: as Co-Global Coordinator and Joint-Bookrunner, in the issue of Superstrada Pedemontana Veneta maturing in 2047; as Joint-Lead Manager and Bookrunner, in two issues of CMC Ravenna maturing in 2022 and 2023, and in two issues of Atlantia maturing in 2025 and 2027; as Joint-Lead Manager, in an issue of KOS, in two tranches, maturing in 2024 and 2025. Banca Akros also led, as Joint Lead Manager, the private placement of a bond issued by Saras maturing in 2022 and, as Co-Manager, it participated in the issue of Esselunga, in two tranches, maturing in 2023 and 2027, in the issue of Salini Impregilo maturing in 2024, and in the issue of Nuovo Trasporto Viaggiatori maturing in 2023. In the Financial Institutions segment, Banca Akros led, as Joint-Lead Manager and Bookrunner, an institutional issue of Iccrea Banca maturing in 2020, as Joint Bookrunner, a Tier 2 subordinate issue of the Parent Company Banco BPM maturing in 2027, as well as, as Joint-Lead Manager and Joint Arranger, in the securitisation segment, the Agos Ducato operation, maturing in 2041. The Bank was also involved in a further twenty issues of leading Italian and foreign issuers, including the European Investment Bank (EIB) and the German KFW;
- in the Non Performing Loans disposal activity, the assistance, as Joint Advisor, in the sale of a portfolio of Euro 693 million of real estate related non-performing loans (so called Project Rainbow) and of a portfolio of approximately Euro 1.8 billion of unsecured non-performing corporate loans (so called Project Sun) by the parent Company Banco BPM. The Bank also acted as Arranger in a multi-originator disposal of mostly mortgage backed non-performing loans by five Italian banks (so called Project Multiseller 2017). The Bank also assisted, as Arranger, Hoist Finance in the purchase by Gruppo Credito Valtellinese of a loan portfolio classified as unlikely to pay;

- in the Advisory area, the assistance to Banca Popolare Pugliese and Banca di Credito Popolare in connection with the signing of two agreements with the European Investment Fund (EIF) related to the InnovFin project of the European Commission; the Bank also assisted Banca di Credito Popolare in the signing of a synthetic securitisation agreement with the European Investment Fund (EIF) related to the SME Initiative project. Activities in the Credit Advisory area continued, and saw Banca Akros involved in origination activities as part of the partnership agreement with SACE (Deposits and Loans Fund Group), with regard to which Banca Akros acted as arranger, advisor and agent in loan transactions secured by inventory, with SACE as guarantor.

Wealth Management

	2017	2016 aggregate	absolute change	% change
Interest margin	(4,736)	(2,787)	(1,949)	69.9%
Profits (losses) on investments in associates and companies subject to joint control carried at equity	45,473	34,511	10,962	31.8%
Financial margin	**40,737**	**31,724**	**9,013**	**28.4%**
Net financial result	10,992	-	10,992	
Other operating income	**10,992**	**-**	**10,992**	
Operating income	**51,729**	**31,724**	**20,005**	**63.1%**
Income (loss) from operations	**51,729**	**31,724**	**20,005**	**63.1%**
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	-	118,420	(118,420)	
Income (loss) before tax from continuing operations	**51,729**	**150,144**	**(98,415)**	**(65.5%)**
Taxes on income from continuing operations	1,109	(707)	1,816	
Income/(loss) after tax from discontinued operations	88,710	43,909	44,801	102.0%
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**141,548**	**193,346**	**(51,798)**	**(26.8%)**
Parent Company's net income (loss)	**141,548**	**193,346**	**(51,798)**	**(26.8%)**

Wealth Management is the segment which aggregates all the contributions to the consolidated financial statements made by asset management companies. More specifically, Aletti Gestielle SGR and the investments held in Popolare Vita, Avipop Assicurazioni, Bipiemme Vita, Anima Holding and Etica SGR belong to this segment. On 28 December 2017, the sale of Aletti Gestielle SGR to Anima Holding was finalised. This transaction led to the contribution of Aletti Gestielle SGR being recorded under "Income (loss) after tax from discontinued operations", in accordance with accounting standard IFRS 5, both for this year and for the previous year used as comparison.

Economic trend in the sector

The main economic aggregates of this business line recorded a rise in operating income. More specifically, income from investments in associates and companies subject to joint control carried at equity benefitted from the positive contribution of subsidiaries Avipop, Popolare Vita and Bipiemme Vita. The dividends collected by Anima Holding (euro 11.0 million) made a significant contribution. In 2016, also note the extraordinary contribution relating to the reclassification of Anima Holding S.p.A. from item 100 of balance sheet assets "Investments in associates and companies subject to joint control" to item 40 "Financial assets available for sale".
No operating expenses were allocated to this segment.

Leasing

	2017	2016 aggregate	absolute change	% change
Interest margin	34,373	42,160	(7,787)	(18.5%)
Profits (losses) on investments in associates and companies subject to joint control carried at equity	(2,507)	6,174	(8,681)	
Financial margin	**31,866**	**48,334**	**(16,468)**	**(34.1%)**
Net fee and commission income	6	29	(23)	(79.3%)
Other net operating income	21,452	21,697	(245)	(1.1%)
Net financial result	-	(96)	96	
Other operating income	**21,458**	**21,630**	**(172)**	**(0.8%)**
Operating income	**53,324**	**69,964**	**(16,640)**	**(23.8%)**
Personnel expenses	(7,739)	(8,674)	(935)	(10.8%)
Other administrative expenses	(38,815)	(41,645)	(2,830)	(6.8%)
Net value adjustments on property and equipment and intangible assets	(24,204)	(30,790)	(6,586)	(21.4%)
Operating expenses	**(70,758)**	**(81,109)**	**(10,351)**	**(12.8%)**
Income (loss) from operations	**(17,434)**	**(11,145)**	**6,289**	**56.4%**
Net adjustments on loans to customers	(103,016)	(253,182)	(150,166)	(59.3%)
Net provisions for risks and charges	(46)	431	(477)	
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	1,825	20,779	(18,954)	(91.2%)
Income (loss) before tax from continuing operations	**(118,671)**	**(243,117)**	**(124,446)**	**(51.2%)**
Taxes on income from continuing operations	20,799	71,086	(50,287)	(70.7%)
Income (loss) attributable to minority interests	11,505	20,003	(8,498)	(42.5%)
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**(86,367)**	**(152,028)**	**(65,661)**	**(43.2%)**
Parent Company's net income (loss)	**(86,367)**	**(152,028)**	**(65,661)**	**(43.2%)**

Economic trend in the sector

The Leasing segment, which includes the figures relating to the lease contracts of the former Banca Italease and Release and the equity investments held in companies active in that segment (Alba Leasing and SelmaBipiemme Leasing), recorded total operating income of euro 53.3 million. The fall of euro 16.7 million compared to euro 70.0 million last year is due to the negative result of SelmaBipiemme (euro -7.9 million) and to the decision to no longer directly disburse loans in the form of lease contracts.

Operating expenses (euro 70.8 million against euro 81.1 million) fell by euro 10.3 million, due to a euro 2.8 million fall in other administrative expenses and a euro 6.6 million fall in value adjustments on property and equipment and intangible assets (lower impairment of real estate).
The above impacts illustrated led to a fall of euro -6.3 million in income (loss) from operations compared to last year (euro -17.4 million compared to euro -11.1 million).
The cost of credit was euro -103.0 million, down compared to euro -253.2 million last year when extraordinary adjustments of around euro 144.0 million were made.
Profits/(losses) on disposals of investments in associates and companies subject to joint control and other investments, amounting to euro 1.8 million, fell significantly compared to the euro 20.8 million recorded the previous year, positively impacted by the adjustment to equity of the investee company SelmaBipiemme Leasing (+21.3 million)

A loss of euro 86.4 million was recorded for the year, therefore better than the euro -152.0 million recorded last year, mainly due to the decrease of adjustments on loans.

Corporate Center

	2017	2016 aggregate	absolute change	% change
Interest margin	417,803	237,727	180,076	75.7%
Profits (losses) on investments in associates and companies subject to joint control carried at equity	123,070	107,177	15,893	14.8%
Financial margin	**540,873**	**344,904**	**195,969**	**56.8%**
Net fee and commission income	2,423	14,789	(12,366)	(83.6%)
Other net operating income	73,339	77,857	(4,518)	(5.8%)
Net financial result	120,740	367,279	(246,539)	(67.1%)
Other operating income	**196,502**	**459,925**	**(263,423)**	**(57.3%)**
Operating income	**737,375**	**804,829**	**(67,454)**	**(8.4%)**
Personnel expenses	(460,238)	(616,388)	(156,150)	(25.3%)
Other administrative expenses	282,071	60,561	221,510	365.8%
Net value adjustments on property and equipment and intangible assets	(189,014)	(244,543)	(55,529)	(22.7%)
Operating expenses	**(367,181)**	**(800,370)**	**(433,189)**	**(54.1%)**
Income (loss) from operations	**370,194**	**4,459**	**365,735**	**not significant**
Net adjustments on loans to customers	(50,348)	(97,783)	(47,435)	(48.5%)
Net adjustments on receivables due from banks and other assets	(141,316)	(112,440)	28,876	25.7%
Net provisions for risks and charges	(12,407)	(56,931)	(44,524)	(78.2%)
Recoveries (losses) on investments in associates and companies subject to joint control	1,571	1,605	(34)	(2.1%)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	23,874	18,791	5,083	27.1%
Income (loss) before tax from continuing operations	**191,568**	**(242,299)**	**433,867**	
Taxes on income from continuing operations	(25,009)	107,917	(132,926)	
Income/(loss) after tax from discontinued operations	673,552	2,529	671,023	not significant
Income (loss) attributable to minority interests	(1,847)	(651)	1,196	183.7%
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**838,264**	**(132,504)**	**970,768**	
Impairment on goodwill and client relationship after tax	(1,003,317)		(1,003,317)	
Merger difference (Badwill)	3,076,137		3,076,137	
Parent Company's net income (loss)	**2,911,084**	**(132,504)**	**3,043,588**	

Corporate Centre is the sector which aggregates all the contributions to the consolidated financial statements not represented in the other business lines. Specifically, Corporate Centre includes the contributions to the income statement of the Finance Department of the Parent Company Banco BPM, the Consumer Credit segment, thanks to the joint ventures with Agos Ducato and the subsidiary company ProFamily, of the Group's real estate and service companies, as well as the centralised management of functions for the entire Group (such as cost management, human resources, etc.).

Economic trend in the sector

The positive trend of the interest margin (euro +180.1 million) is due, in particular, to the marked reduction in the stock of institutional bond issues, which led to a fall in the cost of funding, and to the interest income on the TLTRO II loan for 2016, which offset both the lower contribution of the securities portfolio and the negative impact of the PPA on consumer credit (ProFamily), originating from the business combination between the Banco Popolare Group and the Banca Popolare di Milano Group (effective from 1 January 2017).

As regards profits on investments in associates and companies subject to join control carried at equity, the results of Agos Ducato and Factorit are worth mentioning. More specifically, the greater contribution with respect to last year, was due to the associated company Agos Ducato, which in 2016 had generated a pro-rata profit of euro 90 million, against that of 2017 of euro 116.2 million.

Other operating income was down, particularly due to the significant lower contribution of the net financial result. In fact, the latter was euro 120.7 million, down against the previous year, mainly due to the lower contribution of the securities portfolio and to the inclusion of the sale price of the share held in the investee company ICBI, which had had a positive impact of euro 32.6 million in 2016 (sale made in 2015).

Operating expenses were down considerably. As regards personnel expenses, amounting to euro 460.2 million, the decrease is mainly due to expenses for the Redundancy Fund, recorded in 2016.
As regards other administrative expenses, in 2016, an extraordinary contribution was made to the National Resolution Fund (euro 117.7 million) as well as the expense, refunded in 2015, to maintain the deductibility of eligible DTAs (euro 27.2 million). This expense was refunded in 2017.
Net value adjustments on property and equipment and intangible assets amounting to euro 189 million, were lower due to a decrease in write-downs. In particular, in 2016 write-downs of software, amounting to euro 75.6 million, were recognised.

With regard to other cost components, lower adjustments on loans were recorded, whereas in 2016, the higher coverage of several counterparties had been recognised. Provisions for risks and charges were also down, following the allocations made in 2016 for legal and tax disputes. Instead, value adjustments on other assets increased, due to the contribution to the Voluntary Scheme (IDGF) of euro 56.1 million, and to the write-down of the stake held in the Atlante Fund of euro 61 million.

Income/(loss) after tax from discontinued operations of euro 673.1 million includes the gain made on the sale of Aletti SGR to Anima Holding.

Lastly, we draw attention to two extraordinary items for large amounts: following the merger between the Banco Popolare and Banca Popolare di Milano groups, a positive income component (Merger difference) of euro 3.1 billion was generated. Instead, the goodwill of the Commercial Network CGU and of the Private & Investment Banking CGU and a share of the Client Relationship were booked to the income statement, with a total expense, after tax, of euro 1 billion.

Group Finance

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

Funding e Capital Management

The Group's liquidity position continued to be extremely strong throughout 2017, with a Liquidity Coverage Ratio (LCR) which over the year continued to be well over the Group's Risk Appetite Framework targets.

Given the advantageous conditions of the new monetary policy measures announced in 2016 by the European Central Bank (TLTRO II), the Group increased its existing amount by participating in the auction held in March 2017 for euro 3.1 billion. The overall funding position with the ECB in terms of TLTRO II therefore amounts to euro 21.4 billion, divided between the Parent Company (euro 15 billion) and BPM S.p.A. (6.4 billion).

With regard to the issue of bond instruments addressed to the wholesale market, a new EMTN programme was established by the Parent Company, and the Covered Bond Programmes that can be used for the issues of covered bonds, in both public and retained placements, were adapted and updated.
As regards issues, note the placement of the Tier 2 subordinated security made in September for euro 500 million. The issue attracted a high demand and orders for over euro 1 billion; the main types of investor were investment funds (67%) and banks (28%).

As regards the active management of its liabilities, in March, the bank closed a voluntary public offer to repurchase the "Banco BPM Serie 359 Subordinated Lower Tier II Bonds at Fixed Rate with periodic amortisation, 18.11.2013-/18.11.2020", originally issued by Banco Popolare. This transaction to optimise sources of funding was also due to regulatory changes, which do not allow these securities to be included in the bank's Tier 2 components. At the end of the offer period, the total nominal value of the securities subscribed was around euro 200 million, corresponding to 31% of the total amount of securities in issue.

Investments and ALM

ALM

The Parent Company manages the interest rate risk of the Banking Book centrally through a specific delegated function; the primary objective of management decisions is the need to match the rebalancing of economic value volatility with the volatility of the interest market to changes in the monetary and financial market interest rate curves in general, in accordance with that envisaged by specific regulations (BCBS, EBA, Bankit).
The Group uses an integrated Asset Liability Management (ALM) system, which seeks to develop risk measures, which also entails the use of behavioural models and measures, and the management is primarily based on a natural hedge model, which tends to pursue a natural offsetting of the risks generated by the gaps between asset and liability items. The items for which hedges are present are above all on-demand items, bond issues, mortgage loans and the securities portfolio.

Management of Proprietary Portfolios

The strategies briefly described below were followed in 2017 to manage financial instruments under assets.

Positions in the HFT category
As regards trading activities, note that the management of the government asset class was flanked by that set in place for financial/corporate bonds, both Italian and foreign, in euro and in foreign currency. As regards Government securities, the emphasis was on reducing the exposure of Italian government securities, while increasing transactions on French and German government securities.
In addition to the above-illustrated strategies, transactions in options on French and Italian government securities were implemented, as well as strategies for term sales and purchases with a view to reducing credit risk; in addition, arbitrage spreads were conducted to improve the interest margin and minimise risk.
As regards non-government bonds, a greater diversification of the issuers held in the portfolio was noted (above all French, US, Japanese, Australian, Spanish and German) as well as the gradual reduction of the exposure to the interest rate risk and the credit risk of issuers by reducing the T2 subordinated instruments in the portfolio and favouring senior instruments.
The significant increase in trading volumes and the positive economic results of the share segment also contributed to the above-illustrated situation, enabling trading activities to achieve a good result.

Positions in the HTM category
In 2017, a process of diversification started for the positions recorded in HTM, in line with the decision to improve diversification, as well as the credit risk profile of the government securities in the portfolio, by reducing investments in Italian Government securities and increasing those in the government securities of other Eurozone countries. Overall, the HTM portfolio therefore reached a nominal amount of euro 11.6 billion with an average duration of around 5.35 years.

Positions in the AFS category
Also in the AFS category, the government bond component underwent a consistent geographical diversification process. Italian government securities gradually fell in favour of those of other countries, which at the end of the year had reached a nominal amount of around euro 3 billion. As regards non-government bond investments, there was a slight increase in the total nominal amount, as well as a rise in positions on foreign issuers.
The indirect exposure to the share markets, resulting from the portfolio of mutual investment funds, did not change significantly over the year.

Private Equity and Funds
Over the year, investments in closed-end investment funds continued, privileging private equity funds focusing mainly on the Italian SME segment.

Group Treasury

In a situation of low interest rates, the Group's short-term liquidity requirements, corresponding on average to around euro 2.2 billion and to around USD 1.2 billion, were mostly met through the refinancing of owned assets on the secured market.
Funding activities on the money market were guided by principles of optimising available collateral and reducing the cost of funding, seeking the best conditions and the highest diversification of funding sources both in euro and in foreign currency.

With a view to optimising the economic return of the securities in the portfolio belonging to the High Quality Liquid Asset category, for regulatory purposes, during the year uncollateralised securities lending activities with leading market counterparties were launched. Overall, the volumes traded by the newly-established Banco BPM on the money markets in 2017 totalled around euro 1,665 billion (counter value in Euro).

As regards Forex transactions, in 2017, the lower volatility of the major currencies generated a fall in volumes which, however, did not impact the economic return, which continued to be in line with expectations.

Real Estate Sector

Operations in the real estate sector involve the management of the Group's instrumental assets and the enhancement and possible disposal of non-instrumental assets.
With the merger of Banco Popolare and BPM, the offices that handle the real estate sector are currently being rationalised and made more efficient.
BP Property Management is the Group company that together with the Real Estate Management function of Banco BPM handles services relating to the management and maintenance of Banco BPM's instrumental property assets and the non-instrumental ones of BPM S.p.A. (both technical and administrative).
The rationalisation of branches, following the merger of the two banks, had led, so far, to the closure of 167 branches between the end of 2016 and the first half of 2017, and will continue on into 2018.
With a view to making the space occupied more efficient and reducing the costs of managing the same, the renegotiation of lease instalments continued.

During 2017, the compliance measures resulting from investigations and surveys shared with the manager of the Eracle Fund - to which some of the Group's instrumental property was contributed in 2009 - continued and most were completed. Efforts also continued on the equally important energy efficiency project, focused at present on remote adjustment systems for technological plant; the IT platform has been purchased and the first remote tests have been conducted. In 2018, the controlled systems will be implemented.

With regard to non-instrumental assets, Bipielle Real Estate continued the work to enhance the value of non-instrumental assets and the purchase and sale of such assets, and over the course of 2017 incorporated Italease Gestione Beni, as well as other single-product real estate companies, therefore achieving managerial and operating synergies between the respective organisational structures.
Bipielle Real Estate has therefore become the Group company that is in charge of managing non-instrumental assets it owns and those owned by direct subsidiaries or companies held by Banco BPM. In particular, Bipielle Real Estate is also in charge of managing and remarketing properties, both owned and deriving from defaulted lease contracts.

In 2017, the real estate sector, especially in Milan and in high streets, continued to increase the number of investments made.
In this regard, in November 2017, three important trophy assets located in the centre of Milan were sold for a total of euro 110 million. In addition, we draw attention, of the most important, to the sale of two properties in Rome, in Piazza Verdi to the AGCM and in Via Veneto to Krialos SGR for a total of euro 93 million, which brought the total revenues of the Group from the sale of real estate to over euro 250 million.

Work also continued for the purpose of generating income from free spaces, including those deriving from recent branch closures.
In relation to the most important income property, the lease contract of a property in Rome owned by the subsidiary Sviluppo Comparto 8 was extended to the end of 2022 for the lessee World Food Programme.
The subsidiary company Manzoni 65 completed the lease of office space in its property in Rome to the same lessee, FCA Partecipazioni, guaranteeing good future profitability.
The subsidiary company Lido dei Coralli, instead, entered into an eight-year contract for a village in Sardinia, enabling it to guarantee good long-term income for a potential investor.
The subsidiary company Sirio Immobiliare reached an agreement with a subsidiary of the Lazio Regional Authority for the extension of a lease contract for a further six years.
The subsidiary company PMG signed a preliminary sale agreement for a property in Genoa Nervi, which should be finalised by the end of 2018.
The re-launch of the properties owned by the subsidiary company Terme Ioniche was also very successful, as these tourist hotel properties are generating income, and it also sold several of its other properties.

In 2017, Sagim, an agricultural company that owns an agricultural tourist complex, which stretches around 1,054 hectares, a part of which will be used as a natural park, was acquired on a *datio in solutum* basis. The company is being improved and enhanced through targeted investments, and the entire complex or portions of the same are being marketed.

The most complex cases include the subsidiary Sviluppo Comparto 8, which also owns developable plots of land in Lombardy and Piedmont: one of the most critical cases is the approval of the proposed project submitted to the City Council of Collegno (TO), for which a dispute is underway before the Court of Turin; while the proposed Implementation Plan submitted to the City Council of Cologno Monzese appears to be progressing better, even though the planning process is still a long way from approval, although this has not hindered business interest in this area.

RISK MANAGEMENT

Capital adequacy and main risks

The current level of own funds and of risk-weighted assets means that Banco BPM Group is easily able to comply with both the regulatory thresholds and the specific threshold required by the Regulator on conclusion of the *Supervisory Review and Evaluation Process* (SREP).

In order to provide its Management, stakeholders and the Supervisory Authority with a complete and knowledgeable disclosure that bears witness to the adequacy of own funds, the first line of defence for covering the risks assumed, the Banco BPM Group evaluates its capital position under normal and stressed conditions, on a current and prospective basis, from a First and Second Pillar perspective, on the basis of the rules of Basel 3 and the specific guidelines communicated to banks by the Supervisory Authority. The Group's capital adequacy is substantiated in the continuous monitoring and management of capital ratios, so as to verify compliance with regulatory limits and ensure the maintenance of the minimum levels of capitalisation required by the Supervisory Authority. These ratios are also estimated during the Budget and/or Strategic Plan preparation process and their consistency with the thresholds established in the Risk Appetite Framework is verified. The RAF is the instrument which makes it possible to establish, formalise, communicate and monitor in a unitary and synergistic manner the consistency of the risk profile of the Group with the risk appetite approved by the Board of Directors and constitutes a policy for the development of the main company processes. The Risk Function develops the RAF to support the Body with Management Functions, in collaboration with the Planning Function and the other competent Functions, revising the framework at least annually based on changes in the internal and external conditions in which the Group operates. Preventing exposure to risks that are inconsistent with the risk appetite is also carried out in the process of managing ST - Significant Transactions (relating to credit, finance, etc. transactions) which involves in the first place the Risk Function, which is required by law to express a prior, non-binding opinion on all transactions categorised as significant. One of the ways in which risk exposure is managed is an effective integrated risk reporting system, which enables all risk measurements and the main risk factors to which the group is exposed to be closely monitored; this reporting system is supplemented by benchmarking analyses on the performance of the main national and international competitors.

With a view to properly and promptly managing the risks to which it is exposed, the Banco BPM Group uses a complex set of policies, processes, methods and tools, which are described briefly in the following paragraphs. The relative in-depth explanations are contained in the Notes to the financial statements (Part E).

As regards the processes and the tools used to manage and control the quality of the loans portfolio, a key element is represented by internal ratings calculated by models that are differentiated and estimated specifically for each customer segment. The rating represents a valuation, referring to a time horizon of 12 months, made on the basis of all reasonably accessible information, both quantitative and qualitative, expressed by means of a classification on a ranking scale, of the ability of a party to whom a loan has been granted or is to be granted to honour its contractual obligations.
Rating plays a key role in loan granting, credit product disbursement, monitoring and management processes. In particular, it plays a role in deciding which the competent bodies to approve loans are, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process (Watchlist).

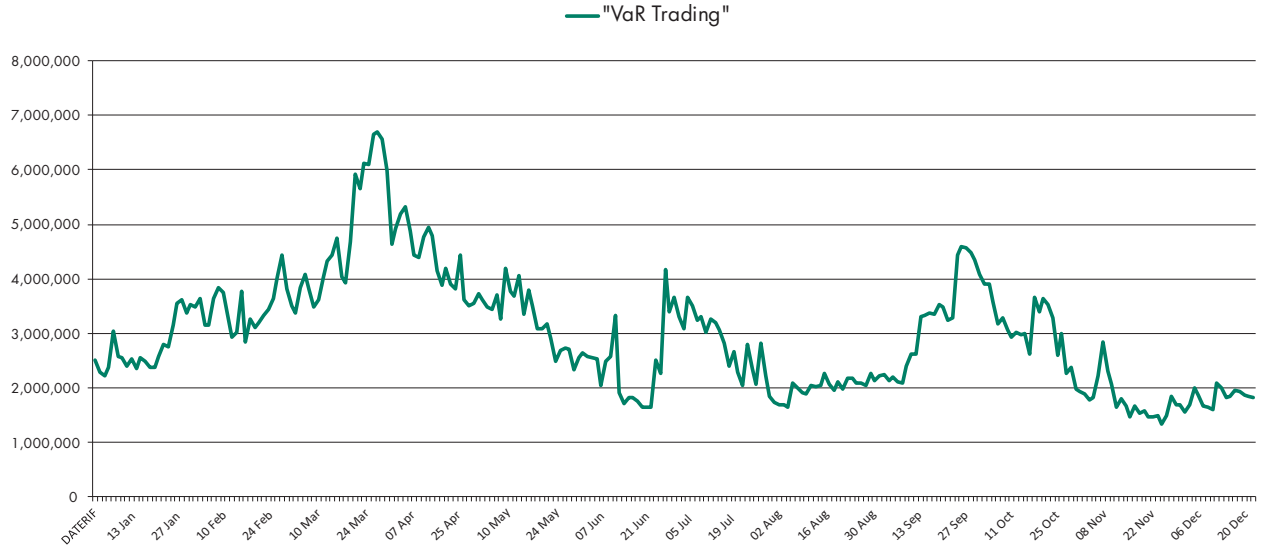
Credit risk is managed by means of a portfolio risk estimation model, VaR, which is a default model, applied on a monthly basis mainly to credit exposures of Banco Popolare Group banks, with regard to performing loans, cash loans and endorsement credits, of ordinary and otherwise resident customers. This model enables operating capital absorption to be estimated, taking into account the portfolio concentration and the assumption of a joint non-fulfilment of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year. At the end of the model's simulation process, the maximum potential loss of the loans portfolio is broken down into the expected loss component and the unexpected loss component. As regards the economic capital on the non-performing exposures of Corporate and Retail customers, it is calculated by means of internal models, submitted to the European Central Bank for the relative calculation of the capital requirements (AIRB approach); for the other performing and non-performing exposures that

are not included in the above categories, the management and control of the risks is carried out through the use of regulatory metrics (Standard).

The classification of non-performing exposures is conducted in line with the criteria established by the Bank of Italy circular no. 272 of 30 July 2008 and subsequent updates.
The management of non-performing loans in the Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. The use of management models that are not based on specialist resources is limited to positions classified as Past Due and Unlikely to Pay, for amounts under the established materiality threshold.
The monitoring, management and assessment of non-performing loans is supported by structured processes and by a specific management procedure.
More specifically, value adjustments are quantified by applying the average LGD estimated by the Risk Function on a forfeit basis to Past Due positions regardless of their amount and to those classified as Unlikely to Pay or Bad Loans for amounts below a materiality threshold, while for amounts over said threshold, they are quantified analytically by the manager. Value adjustments valued analytically by the managers are periodically reviewed.

As regards the management control of financial risk, the identification, measurement and operating control of the risk positions of Group Banks, is conducted by means of a sophisticated position-keeping and risk control system, which continuously monitors exposure levels and compliance with the operating limits approved by the Parent Company's Board of Directors and the Boards of Directors of Group Banks.
Financial risks are monitored on a daily basis through the use of deterministic indicators (sensitivity to market risk factors and referred to the issuer) as well as probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, represents a synthetic risk measurement. The approach used to calculate the VaR is that of historical simulation models. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of values in the trading portfolio.

Daily VaR Banco BPM Group
Regulatory trading portfolio



The most important risk component is the specific risk of debt securities and the generic and specific component of shares, due to the presence of positions in financial securities, Italian Government bonds and position in shares. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, the portfolio showed a higher level of risk in the first half of the year, due both to the exposures and the market volatility of Italian Government securities. In the second half of the year, the risk started to fall, settling at values that were below the average values for the period, due to the greater volatility of the interest rates market, as well as to a higher level of trading of government securities.

The Banco BPM Group was authorised by the European Supervisors to use for regulatory purposes a combination of the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company, Banca Aletti, SGS BP and BP Property Management), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (former BPM segments of the Parent Company, BPM SpA, ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up the Banco BPM Group.

With a view to ensuring a more accurate measurement of the exposure to these risks, the improvement of operating practices and risk measurement techniques, the medium-term reduction of the frequency and gravity of events of operating loss and the adoption of solutions in line with industry best practice, the Banco BPM Group has developed a measurement and management system (rules and processes, parties, roles and responsibilities, models and IT applications) in line with the legislative requirements envisaged for advanced AMA models. This model is used for the regulatory First Pillar measurement on the component authorised for the use of advanced methods, while at overall Group level, the model in question is used continuously at management level and for Second Pillar purposes.
Risk measured using AMA methods is conducted by means of an internal method based on a quantitative and qualitative analysis along VaR logic. The quantitative assessment is based on internal loss data, gathered through a loss collection process and combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the Risk Self Assessment, in which also qualitative information resulting from the ongoing assessment of the internal and external operational context are used.

With regard to the current risk profile of the Group, the trend recorded in recent years in terms of operating loss, as well as the ongoing analysis of the internal and external operating context and forecasts, indicate that the production activities of the Banco BPM Group are performed in an operating context that is retained substantially favourable.
This opinion is also confirmed, inter alia, by the downtrend recorded by operating losses recorded between 2008 and 2017, which benefit both from first, second and third level controls that have been considerably strengthened over the period considered, and from continuous measures to prevent and mitigate risk.
In line with mission of the Banco BPM Group, the main risk impacts regard the "Commercial practices" category, followed by "Processes", which together represent the predominant portion of total risk and which, for the most part, arise in the Group's sales networks.
With reference to the category of "External Fraud", given the tendency for criminals to adopt increasingly sophisticated techniques (e.g. identity theft, IT fraud etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind.
The Group takes the measures established in the Mitigation plan (e.g. training, implementation of applications processes/procedures etc.) as protection against the main risk factors that arise.

With regard to liquidity risk, in 2017, the Banco BPM Group set in place and launched the ILAAP – Internal Liquidity Adequacy Assessment Process, through which the Management Bodies guarantee that the Group is operating with levels of liquidity that comply both with the minimum regulatory requirements and with the risk appetite approved within the RAF.
This process envisages the periodic monitoring of liquidity risk, conducted on an intraday, daily, monthly (short-term liquidity) and quarterly (structural liquidity) basis, both for regulatory metrics (LCR, NSFR, ALMM) and for those processed internally. In 2017, the necessary work was carried out to guarantee that all regulatory liquidity reports are sent, at both Banco BPM Group level and as regards relevant companies.

For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same chapter also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation operations and operations in derivatives.

Outlook for Group risks and objectives

The continuing conditions of uncertainty in the economic scenario and financial markets - particularly in the medium term - make predicting the outlook in terms of risk a difficult task. In general terms, the Group's objectives are to take a prudent approach and to continuously monitor activities with a view to limiting the impact of potential adverse changes, including unexpected ones, in the economic scenario.

On this basis, as regards credit risk, recent performance combined with the objectives pursued in terms of the composition of loans, would suggest a prudential improvement of the risk profile, with reference to both performing loans and, thanks to allocation policies, to the non-performing portfolio.
In the light of the above-mentioned macroeconomic scenario and considering the de-risking objectives envisaged by the Group in the Business Plan, combined with the internal disposal activities (workout) the plan of large-scale disposals with a view to speeding up the reduction of NPL volumes and their relative percentage of the loans portfolio of Banco BPM will continue in coming years.

The Group's interest rate risk continues to reflect a bullish profile, which, in the event of a rise in interest rates, would enable a better interest margin to be obtained. During the year the Group's overall risk profile appeared to be adequate and consistent with the approved risk thresholds, just as the liquidity profile appeared to be adequate in the short and longer term, complying with the internal risk limits and, where present, with regulatory ones.

In 2017, Banco BPM formally asked the European Central Bank to authorise the adoption of advanced internal models (AIRB) to measure capital requirements for credit risk at consolidated level, and therefore through the extension of the same to BPM S.p.A. This request also represented an opportunity to make a significant update of the model, in order to also take the most recent legislative guidelines to estimate PD and LGD into account.

Based on the indications received from the Supervisory Authority in early 2018, we are expecting to soon receive authorisation for the use of the new models from reporting as at 31 March 2018.

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

Human resource management was considerably affected by the establishment of the new Group and was characterised by the need to effectively manage both the new General Management offices, resulting from the reorganisation of the Parent Company, and the distribution network, by undertaking activities with a view to the subsequent revision of the distribution model, at the same time encouraging the integration of new colleagues.
The new Group seeks to enhance human capital, by optimising the use of the managerial expertise of the two banks, also by means of a careful process of integration of distinctive skills, guaranteeing the best management of the Risk, Compliance and Operations functions and at the same time the excellent coverage of business functions in both central and local offices.
This scenario also led to the establishment of new professional career development paths, able to offer real growth opportunities in all banking spheres.
In accordance with that envisaged by the business plan, all of the activities needed to assist the resources that had signed up to the Solidarity Fund, or who were included in redundancy plans, to leave the bank.
Therefore all of the positions freed up following the above were able to be filled. This was made possible also thanks to the establishment of the professional career paths, the aim of which is to set in place adequate succession plans.
Specific efforts were dedicated to reorganising the departments of the head office, with a view to designing a functional and effective organisational structure, which would enable synergies to be obtained by releasing resources to be transferred to the expanding commercial network.
The colleagues who were impacted by the latter activity received specific professional training, with a view to facilitating their insertion into the new position.
To guarantee an adequate generational turnover, young people looking for their first job, with excellent educational qualifications, were hired to work in branches with professional apprenticeship contracts.
Specific attention was paid to a further reduction of variable costs, through the best logistics allocation of resources, to eliminate the costs of mobility and through the optimal use of the available resources, based on the criterion of best match between position/qualification.
In the fourth quarter, work started on the reorganisation of the commercial network, which will regard around 16 thousand employees.

Breakdown and evolution of the workforce

The breakdown of personnel by category and gender as at 31 December 2017 is illustrated in the following table:

Category	Men			Women			Total
	Full time	Part time	Total	Full time	Part time	Total	
Executives	306	-	306	30	-	30	336
Middle Managers	6,153	34	6,187	2,278	403	2,681	8,868
White collar workers	6,232	130	6,362	4,880	2,689	7,569	13,931
Other personnel	73	4	77	14	18	32	109
Companies abroad	12	-	12	7	-	7	19
Total workforce	**12,776**	**168**	**12,944**	**7,209**	**3,110**	**10,319**	**23,263**
of which:							
Apprentices	66	-	66	65	1	66	132
Job training for new recruit contracts	2	-	2	-	-	-	2
Permanent contracts	12,705	167	12,872	7,144	3,108	10,252	23,124
Temporary contracts	3	1	4	-	1	1	5

In 2017, efforts continued towards achieving the objectives envisaged by the Business Plan and their achievement was made possible by both usual turnover (256 resources), and by the planned redundancies following subscription to the Solidarity Fund (1,181 resources) and those that left the bank voluntarily (69 resources).
As a result of the employees leaving the bank, 161 people were hired on professional apprenticeship contracts.

Development and Training

This department is tasked with development, selection and training, and harmonises and innovates the underlying processes to give continuity to professional career paths.

Planning and Development

As regards development, the new performance appraisal system, applied to all Group companies, was designed and implemented. The purpose of the system is to enhance the awareness of managers and employees and to encourage the dissemination of quality and best practices, by appreciating individual contributions and applying appraisal criteria that respect the principles of fairness and meritocracy. The appraisal process was launched in December, with a self-appraisal phase and will be concluded within the first four-month period of 2018 with appraisal phases and the return of feedback on the same. There will be around 22,800 people involved, of which 2,200 will be appraisers and 350 facilitators, a position held by managers who are hierarchically higher than the appraisers, to guarantee the overall quality of the appraisal process.
Furthermore, a requalification programme has been launched to provide support to the commercial network with the arrival of the new resources. The objective is to assist employees re-design their professional career paths, by facilitating the approach at the time of the change. The implementation of this programme entails identifying the best fit between the individual professional profiles and the needs of the company and setting out medium-term career paths, starting from personalised basic technical training, with the support of a dedicated tutor for the period of insertion into the new professional context. The programme, launched mid-year, involved a first group of employees in 2017 and will continue on into 2018 to achieve the set quantitative objectives.

Selection and Assessment

In 2017, Banco BPM participating in a number of employer branding initiatives promoted by Universities, with the objective of encouraging knowledge of the company by students, providing support to them as they get closer to the world of work. More specifically, partnership arrangements were signed with the Placement offices of Universities and with local training entities, also through participation in career days and company testimonials. These initiatives confirm the Group's intention to strengthen its ties with the academic world and local entities.
The placements proved to be a useful experience for both undergraduates and graduates, as they enable them to gain insight into the world of work. In 2017, the Banco BPM Group launched 19 placements from a variety of academic sources representative of their local areas.
The office provided support in the search for junior and senior profiles to hire in Group companies. More specifically as regards junior profiles, in line with the business plan, around 300 new graduates and undergraduates participated in entry tests in the classroom.

Training

In 2017, the office tasked with training was asked to provide support to the organisational decisions to be made to integrate the Banco BPM Group. In line with that contained in the milestones of the 2017 Master Plan, considerable investment was dedicated to supporting the IT migration of BPM S.p.A. towards the Target model, to the integration of the Private Banking network of BPM S.p.A. into Banca Aletti and to the completion of the process integration with the adoption of a single financial advisory model.
In 2017, a total of 922,448 training hours were imparted: the table below shows the breakdown by the various types of training course and the level of attendees.

2017	Man days/ Hours provided
Training days	122,993
Training hours	922,448
of which in % by training area:	
Mandatory	48%
Technical - professional	42%
Relational - skills development	5%
Commercial services	4%
Managerial	1%

Since the first few months of 2017, grasping the opportunity to find new solutions and starting from the excellent results achieved in the previous companies, the Training team drew up a training proposal focused on harmonising teaching methods, the training tools and the content of the training courses.
The most important objectives developed in the Training Plan therefore are focused on:

- developing professional skills with job-specific training courses;
- facilitating and supporting the management integration process with a view to encouraging a common culture based on ethics, accountability and fairness;
- integrating the business and the risk management and control culture;
- supporting the creation of a multichannel strategy;
- increasing the ability to assess the creditworthiness of businesses, to improve the quality of loans and risk management;
- promoting a culture of inclusion and to stimulate its expression in tangible managerial and operational actions;
- encouraging generational integration with programmes that seek to retain young people.

The main training initiatives implemented in 2017 were:

- a training plan to support the transfer of the network of Private Bankers of BPM S.p.A. to Banca Aletti;
- training plans to support the process of IT migration of the Retail and Corporate networks of BPM S.p.A.;
- initiatives to support the migration of the central offices that were most impacted;
- compulsory and fundamental training courses for all head office and network positions;
- job-specific training in private and company spheres for a period of three years;
- initiatives to promote inclusion and training initiatives on generational differences, employability and young people;
- initiatives dedicated to disseminating the digital culture and skills.

Remuneration Policies

In 2017, the Human Resources department coordinated activities relating to the remuneration policies for Group personnel.
With regard to implementing remuneration policies, the initiatives illustrated below were particularly important:

- the annual incentive system, as a way to further involve and encourage personnel to participate in achieving the objectives of the company and of the Group as a whole, drawn up with particular attention to the characteristics and distinguishing features of each Group company, and to the overall consistency at Group level in terms of rules and means of application;
- the new three-year 2017-2019 incentive system, which seeks to align the addressees selected from Group top management, with the objectives established in the Strategic Plan and to involve the same in creating value for the shareholders and for the enterprise as a whole.

These two systems represent managerial levers that the company can use to enhance the contribution of personnel and to acknowledge individual merit.

Detailed information on the Group's remuneration and incentive policies is contained in the "Report on Remuneration of the Banco BPM Banking Group", drawn up in compliance with the provisions in force dictated in this regard by the national and European supervisory authority and approved by the Bank's Corporate Bodies.

The Report is presented at the annual Ordinary Shareholders' Meeting and is published on the Group's website www.bancobpm.it (section *Corporate Governance* - Remuneration Policies).

Industrial Relations - agreements relating to employees

During the first half of the year, industrial relations were characterised by intense discussions with Trade Union organisations, focusing on the priority matters relating to the implementation of the 2016-2019 Strategic Plan and of the merger agreements of 23 December 2016.
In detail these include:

- the definition of a bonus for personnel in the Professional Areas and Middle Managers, to be disbursed in welfare instruments;
- the activation for 2017-2019 of a plan for voluntary suspension from work for a total amount of 200,000 days, subject to verification of the company's organisational requirements;
- the application to Banca Akros workers of the credit national collective labour agreement to replace the national agreements previously in force: "national collective labour agreement for tertiary employees: commerce, distribution and services" and "national collective labour agreement for managers of companies producing goods and services";
- the further extension of the Solidarity Fund to 76 eligible resources, in addition to the activation of an access window to the same fund of 30 November, which may be used by the colleagues of the former BPM Group.

In the second half of the year, discussions with the Trade Union organisations, through a specific agreement, first enabled access to the funding of the Interprofessional Equal Rights Fund relating to 3 training projects addressed to a wide bracket of workers, whose purpose was to accompany and support the climate of change, with a view to the Group's growth and development.

The industrial relations then paved the way for a complex series of negotiations, with the aim of establishing a second level Collective Company Contract for the Banco BPM Group, applicable to all companies and consistent with the organisational structures of the new operational distribution model from 2018.
In this regard, once the implementation stages of these complex negotiations, with a view to gradually defining the areas that would form the above-mentioned Collective Company Agreement, had been established, and once the contractual procedure of trade union discussions for the implementation of the new distribution model had been undertaken, at the end of 2017, the parties reached a first overall agreement, under which, the regulations for the following areas were identified:

- professional figures of the new commercial network model
- mobility
- conciliation between personal life and work, specifically as regards part-time arrangements, permits, accumulating hours in a "bank" and flexible work arrangements.

Without prejudice to the commitment of the parties to discussing the subsequent stages of the planned negotiations on further second-level regulations, specifically as regards the financial situations of employees and welfare, at the end of the year, discussions with the trade unions led to the signature of a specific agreement regarding company bonuses, within the regulatory framework of art. 48 of the National Collective Labour Contract for the industry.
If the conditions for variable pay envisaged for the recognition of the company bonus are met in 2018, the agreement envisages the disbursement to employees in professional areas and middle managers of an amount that can be used in accordance with individual criteria and procedures ("welfare" or "cash") established by legislative provisions and current tax law.

Internal audit

The job of the Audit Function of the Parent Company, on one hand, in terms of third level control, including on-site audits, is to oversee the regular performance of operations and the evolution of risk and, on the other hand, to assess the completeness, the adequacy, the functioning and the reliability of the organisational structure and of the other components of the internal control system. The Function brings possible improvements, with specific reference to the Risk Appetite Framework (RAF), the risk management process and the tools to measure and control the same,

to the attention of the corporate bodies. Based on the results of its analyses, it makes recommendations to the Corporate Bodies.

The Audit Function is responsible for conducting internal audits of all central and peripheral organisations of the banking Group's Italian companies; it also performs the planning, coordination and control function for the units tasked with auditing the foreign entities belonging to the Group.

The audits conducted in 2017 regarded the following areas:

- Governance and Compliance;
- Credit and NPL;
- Finance and Wealth Management;
- Operations;
- Information and Communication Technology;
- Bank Networks;

with regard to the organisational processes adopted, compliance with internal regulations as well as the conduct of employees.

It is important to note the efforts made relating to the applications to extend internal models to measure credit and market risk: preliminary audits envisaged by external legislation and the subsequent in-depth examination required by the Supervisory Authority at the time of the on-site inspections.
The Function made a notable commitment to overseeing the "Integration and Migration of Information Systems" Project, implemented following the merger between the BPM Group and Banco Popolare, with a view to guaranteeing consistency with the company's objectives and the alignment of the solutions with the compliance requirements of the new Group.
In accordance with the definition of Internal Audit envisaged by international principles, the Audit Function also provides an advisory service, sharing its experience in this sphere mainly by participating in projects and working groups.
The most important projects in 2017 included initiatives relating to credit processes, the changes required to adopt the new international accounting standard (IFRS 9) and the Market Abuse II and Mifid II regulations, the process of reorganising the Group's Wealth Management and that relating to the implementation of EMIR regulations.

Lastly, the Function participated in projects external to the Group (AIIA roundtables) regarding:

- SREP – evolution of Internal Audits according to SREP guidelines;
- BMA – Business Model Analysis;
- internal and external fraud in the banking industry.

Compliance

The Banco BPM Group attaches specific importance to managing the risk of non-compliance with legislation, based on the tenet that the observance of the laws and the regulations envisaged by the Supervisory Authority to safeguard substantial correctness in business relations with customers are key to the banking business, which by its own nature is founded on a relationship of trust.

From 1 January 2017, within the new Group, the Compliance Function reports directly to the Managing Director, both as regards the Parent Company and for the Group companies that have outsourced this service.
The function's current organisational structure breaks down into four specific areas:

- Compliance Methods and Reporting;
- Compliance of Banking Services and Governance and Support Activities;
- Compliance of Investment Services, Collective Investment Management and Fiduciary Services;
- Anti-Money laundering.

Following the merger, the Compliance Function initially focused on setting projects in place to encourage effective integration and the harmonisation of control practices, with respect to the pre-existing models applied by the former Banco Popolare and BPM Groups; these projects regarded defining and formalising:

- the Compliance Policy;
- the scope of action of the function (Corporate and Legislative);
- internal Compliance processes;
- Risk Assessment methodologies;
- the Compliance Reporting Model.

With regard to banking services and governance and support activities, following the creation of the new legal entity, the support provided to the IT integration project as well as the audit of the new internal regulatory framework and related processes were particularly important, with a view to guaranteeing compliance with legislative and regulatory provisions in force.
The contribution made in the following areas should also be noted:

- the support given to adapting internal processes with relation to the new PAD (Payment Account Directive) and the FAQ of the MEF regarding the MCD (Mortgage Credit Directive);
- the impact analyses of European legislation regarding payment services (EU Directive 2015/2366, known as PSD2) and insurance distribution (EU Directive 2016/97, known as IDD);
- the participation in the company project regarding GDPR - General Data Protection Regulation;
- the participation in efforts made to define the Organisation, Management and Control Model, under Italian Legislative Decree 231/01 and the Code of Ethics;
- the support given to the strategic company project to digitalise Key processes (DOT - Digital Omnichannel Transformation).

As regards collective investment management, in 2017, the Compliance function provided support to Aletti Gestielle SGR, as well as to the Parent Company Banco BPM, in its capacity as custodian bank of UCITS, with a view to bringing the internal organisation and processes in line with new legislative provisions (Bank of Italy Provision 23/12/2016, Directive 2014/91/EU - known as "UCITS V" - and EU Delegated Regulation 2016/438 of 17/12/2015 regarding the obligations of custodian banks of UCITS).
More specifically, by virtue of the issue of the above-mentioned Delegated Regulation (EU) 2016/438, Banco BPM and Aletti Gestielle SGR made changes to their respective Corporate bodies and, as regards the latter, also to the processes to select the custodian bank.
The function also provided support to the SGR in conducting assessments prior to the implementation of product and commercial policies.

With regard to investment services, in 2017, the Banco BPM Group launched an important project called "MiFID II Project", with a view to bringing the Group's operating model for the provision of investment services in line with the new legislative requirements, which came into force at the beginning of January 2018. More specifically, the areas most affected by the legislative changes are those regarding disclosure and the protection of the investor and the markets.
In this regard, another project was set in place, regarding extending the portfolio advisory model to all of the Group networks, and in particular the commercial network of Banco BPM (former Banco Popolare), with the same timing as the entry into effect of the MiFID II directive.
The entry into effect, at the end of 2017, of new legislative provisions regarding transaction reporting, should also be noted. These are being analysed within projects conducted at Group level.
Furthermore, with a view to preventing market abuse, the monitoring of transactions executed by Banco BPM, BPM S.p.A. and Banca Aletti were integrated into a single information system, using a set of diagnostics in line with the Regulation of the European Parliament and Council 596/2014, known as "MAR" and with the Market Abuse Directive (MAD II).

Anti-Money laundering

The Anti-Money laundering function reports hierarchically to the Compliance function.
In 2017, the work of this function was mainly directed towards integrating operations, IT and processes, required to consolidate the pre-existing functions of the former Banco Popolare and BPM Groups into a single structure.
These consolidation activities specifically regarded:

- the gradual introduction of a new anti-money laundering model (currently in progress), with a view to increasing the effectiveness and the efficiency of the controls in place;
- the analysis and resolution of the existing problems of the individual entities that form the new Group, including some AUI irregularities that generated disclosure obligations under art. 52 of Italian Legislative Decree 231/2007 with regard to the subsidiary BPM S.p.A.;
- in-depth project work regarding the implementation of Italian Law 90/2017;
- efforts directed towards gradually overcoming the technical problems resulting from the migration of the information systems to the Target information system and to the improvement of the same.

Research and development activities

Given the banking nature of the Group, research and development mainly regards studying the possible application of new technology to customer accounts, to improve and/or extend the range of products/services offered, as well as in internal company services, to simplify them or make them more efficient. In addition, important regulatory projects, relating to the issue of new legislation at industry level have been completed or are in progress.
These activities are managed centrally by the subsidiary company SGS BP, a company to which Banco BPM has transferred all IT functions, security management and the supervision of middle and back office administrative activities.

During the year, the company was highly committed to planning and organising the complex project of IT integration to the "Target" system, comprised by the information systems of the former Banco Popolare integrated with the "excellent features" of the former BPM world, represented by several applications with a high commercial impact, which were made available on the Group's systems.

The "Banco BPM integration programme" included the following activities:

- Banco BPM, 1 January 2017 (known as the Day 1 project): creation of the Parent Company through the merger of Banco Popolare and BPM, with the spin-off of the commercial network of the former BPM to the new Banca Popolare di Milano; treasury and liquidity activities were centralised to the Parent Company, as well as the reallocation of proprietary portfolios, the implementation of shared customer databases and the credit management and monitoring of shared customers;
- Banca Aletti, 1 July 2017: acquisition of the Private customers of the former BPM; subsequently, on 1 December 2017, transfer of accredited customers of Banco BPM to the Group's Private Bank (Aletti);
- BPM, 23 July 2017 (known as the Day M project): all of the structures of Banca Popolare di Milano adopted the Target information system and related services. The migration to the Group platform will enable the validated AIRB processes for credit management to also be extended to BPM, all subject to the required authorizations of the competent Supervisory Authorities;
- Banca Akros (known as the Day A project): preparation of the road map for the corporate operations that will result in all of the Group's Investment Banking activities being concentrated in Banca Akros, with the transfer to the same by Banca Aletti, of the business division relating to Investment Banking. At the same time, Banca Akros will also adopt the Group's information system. At present, the date forecast is June 2018. In addition, the first implementation activities have been launched;
- Branch Network: as at April 2017, the closure of 48 BPM branches.

Apart from the merger project, the company was also involved in other important regulatory projects (relating to the issue of new legislation at industry level), as well as business projects (also triggered by the migration operations) and regarding the rationalisation of its systems. Alongside these projects, the ordinary development of the system continued, although to a lesser extent due to the availability of resources. The main initiatives in each area are illustrated below.

Safety and Security

The Banco BPM Group considers safety and security as essential to the development, innovation and competitiveness of its business.
Safety and security are a pre-requisite for any activity conducted with regard to business operations, to manage the growing threat originating from cyberspace, which introduces new risk scenarios for traditional assets (spaces,

physical assets) and those relating to IT, which have today become strategic resources (data, information, networks and services), which denote so-called cyber risk.
The numerous activities performed to strengthen IT safety and security were addressed to the application of adequate technical - organisational - procedural measures as regards digital identity, IT incidents and last, but not least, the new applications (app) present in the mobile devices of our customers.
Business Continuity projects were also conducted from a cyber perspective: cyber incidents and cyber resilience, as criminal actions could have an impact on business activities and processes as well as on the entire operating capacity of the Company, even putting its survival at risk.

Technological projects and investments

Legal compliance

IFRS 9
From 1 January 2018, the new international accounting standard IFRS 9 Financial Instruments (hereinafter also "Standard") comes into force, replacing the current IAS 39 Financial Instruments: Recognition and Measurement with regard to the measurement and recognition of financial instruments, and introduces new and stricter rules for the classification, measurement and impairment of financial instruments.
The Banco BPM Group has adopted all of the measures to bring its processes and procedures in line with the principles defined by the new accounting standard, which enables any impairment of positions at risk to be identified more promptly and makes the financial statement disclosures more effective and clearer than in the past.
The projects linked to the implementation of the regulatory provisions of IFRS 9 continue in order to meet the requirements effective in 2018 and 2019.
Please refer to Part A of the Notes to the consolidated financial statements for more details.

MIFID II
On 3 January 2018, the new legislative requirements of Directive 2014/65/EU of the European Parliament and Council of 15 May 2014 relating to the market of financial instruments came into force, which amend directive 2002/92/EC and directive 2011/61/EU, called "MIFID II", the purpose of which is to develop a single market for financial services in Europe, which guarantees transparency and investor protection.
At the beginning of 2017, the Banco BPM Group launched a specific project called the "MiFID II Project", the purpose of which was to implement the new legislative provisions within the Group with specific reference to the provision of investment services.
In this regard, another project was set in place, with a view to extending a portfolio advisory model to the entire commercial network of the Banco BPM Group, therefore improving after-sales services, standardising the method adopted to classify financial products (e.g. complexity, market risk, time horizon) and the relative checks made at the time of the due diligence.

EMIR stage 2
In 2017, Banco BPM launched a project to bring its operations in line with the changes in EMIR legislation regarding Regulatory Technical Standards and Implementing Technical Standards (RTS/ITS) and to include Forex Swaps and Forex Forwards in the category of financial instruments. More specifically, as at October 2016, the European Commission adopted the Delegated Regulations (EU) 2017/104 (RTS) and 2017/105 (ITS) with which it integrated the legislative set regarding the existing EMIR reporting obligations for Trade Repository transactions, effective 1 November 2017. In addition, the entry into effect of MiFID II on 3 January 2018 meant that Forex Swaps and Forex Forwards, as considered financial instruments from that date, must now comply with the EMIR obligations already envisaged for derivatives.

Italian Legislative Decree 231/01 – Corporate administrative liability
At the beginning of 2017, Banco BPM brought its Organisation, Management and Control Model under Italian Legislative Decree 231/01 in line with the organisational structure of the new Parent Company, at the same time, establishing harmonised standards for the entire new Group in terms of structure of the model and the approach to supervision with regard to the subject matter related to 231/01 legislation. In parallel, procedures to categorise "231/01" risks were implemented, with the involvement of the relevant Parent Company functions and work started on updating the Model 231/01 of BPM S.p.A.

General Data Protection Regulation
From 25 May 2018, the General Data Protection Regulation (GDPR - EU Regulation 2016/679) will take effect, through which the European Commission intends to strengthen and standardise the protection of the personal data of citizens and residents in the European Union, both within and external to the borders of the European Union.
The Banco BPM Group has taken the necessary measures to comply with the rules defined by the new EU Regulation, also seizing the opportunity to improve its range of services, making them more transparent and safer vis-à-vis its customers.

Compliance with IV anti-money laundering directive
The Banco BPM Group has designed a new Group Anti-Money Laundering model, which takes into account the provisions contained in Italian Legislative Decree no. 90 of 25 May 2017, which implements EU Directive 2015/849 (known as the fourth anti-money laundering directive), which optimises, in all Member States, the use of tools to prevent the money laundering of the proceeds of criminal activities and terrorist financing.

Other projects in progress

Payment system management processes - PagoPA
In 2017, Banco BPM formalised its subscription to PagoPA, an electronic payment system designed to make payments to the Public Administration simpler, safer and more transparent, by guaranteeing, for example, the correctness of the amount to be paid and obtaining an immediate receipt with full discharge.

Banca Aletti Suisse
With a view to expanding the commercial range of products and services and to meet the requests of Private customers interested in evaluating an allocation of their equity, even partial, on an international basis, Banco BPM has envisaged a plan to develop and re-launch Banca Aletti Suisse & C. (SA) addressed to improving the commercial synergies with the parent company Banca Aletti & C. S.p.A.
In 2017, Banca Aletti Suisse, with the approval of the Bank of Italy, was authorised to freely provide in Italy the banking services listed below:

- collection of deposits or other redeemable funds, restricted to the Current Account service;
- provision of payment services, restricted to the paying in and withdrawal of cash and the execution of payment orders;
- custody and administration of securities.

Other Risk Management projects

The objective of the Banco BPM Group is to guarantee the development and continuous improvement of the models and metrics for the measurement of risk, also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls.
These risk measurements are effectively represented within the strategic processes of the Risk Appetite Framework (RAF) and in the ICAAP and ILAAP processes.
In addition, second level controls on Data Quality (DQ) have started, with a view to completing the DQ Framework, to extending it to all risk areas, to assessing the effectiveness of level I controls, to applying new level II controls and, in some specific reporting processes, to analyses to facilitate the use of reconciled, checked and traceable information.

In 2017, the Banco BPM Group sought to implement a framework to establish the risk appetite of the Group and of the individual Group companies, to monitor its risk profile and to activate escalation processes where necessary. Monitoring takes the form of a clear, forward-looking and prompt integrated risk and main risk factors report, accompanied by benchmarking exercises on the main Italian and European competitors.
The capital and liquidity adequacy processes saw the implementation of policies and procedures able to guarantee the maintenance of adequate and efficient levels with respect to the Group's business model.
During the year, efforts were made to spread a risk culture to all levels, with specific reference to the company's lines of business, also through ad hoc training courses. A holistic approach to risk exposure was taken, and an environment was created able to manage all information related to risk matters, guaranteeing the necessary data quality checks by establishing a structured framework.

Furthermore, work commenced to prepare the Group for the 2018 EU-Wide Stress testing conducted by the EBA. More specifically, in 2017, the work to prepare and manage the starting point was completed, as well as the recovery of prior information and first estimates of the impact of accounting standard IFRS 9 on the financial statements and on the stress test exercise.

During the year, the Group also completed numerous projects briefly illustrated below, broken down by type of risk.

Credit risk

- Revision, completion and extension of the internal validated rating models, recognised for reporting purposes by the former Banco Popolare Group, to the perimeter of the former Banca Popolare di Milano Group;
- Recalibration of the stress test/reverse test models of the Banco BPM perimeter as a whole;
- Development of credit risk models for provisioning purposes for the Banco BPM Group perimeter, with a view to IFRS 9.

Market risk

- Work to prepare for the extension of the internal risk models recognised for reporting purposes for the former Banco Popolare Group to Banca Akros and to the Parent Company Banco BPM;
- Extension of the counterparty risk models to the Banco BPM perimeter as a whole;
- Recalibration of the stress test/reverse test models for market and counterparty risks of the Banco BPM perimeter as a whole.

Operating risk

- Work addressed to extending the advanced metrics (AMA), already used for First Pillar purposes by the former Banco Popolare Group, to the former Banca Popolare di Milano Group, was completed from an operational standpoint.

Interest rate risk, liquidity risk and other second pillar risks

- Extension of internal models for interest rate risk of the banking book, liquidity risk and other Second Pillar risks to the Banco BPM perimeter;
- Recalibration of the stress test/reverse test models on interest rate risk of the banking book, liquidity risk and other Second Pillar risks to the Banco BPM perimeter;
- Extension of the risk integration model to the Banco BPM perimeter.

Risk-based incentive system

The 2017 Incentive System for the Group and for individual entities was drawn up on the basis of new Supervisory provisions regarding "Pay and incentive policies and practices" issued by the Bank of Italy (7th Update of Circular 285/2013). In this context, the conditions for the activation of the 2017 incentive system have been aligned with the Group RAF, and more generally, with the risk appetite approved by the Parent Company's Board of Directors.

Communication

From 1 January 2017, the Corporate Identity activities of the Banco BPM Group focused on Visual Identity and on the new brand of Banco BPM and of all Group companies, coordinating with Top Management and the Commercial Department, after having defined the Group's values and identity.
The new Image Manual was then drawn up and circulated, in accordance with the guidelines approved by Top Management. The Image Manual also includes all of the Group companies and banks.
The Visual Identity was applied to all types of material addressed to customers/staff and to forms/contracts, to advertising material, to the work environments etc., adopting the new creative concept of the Institutional and Commercial Campaign.
Corporate Identity, in accordance with the new communication strategy, planned a strategic video dedicated to the new banking group.
The office completed an initial revision of the institutional websites in place after the merger, in line with the new guidelines of the image manual.

The identity project

Banco BPM has made people its founding value because they represent the cornerstone of the centenarian history of the two Groups that led to the formation of Banco BPM on 1 January 2017.
This is why communication is also people-centred because, as claim goes, each company is a story, each colleague is the star and each customer is a person.
5 pillars were identified as the basis for the identity project, each of which represents an opportunity to promote the system of values and, in doing this, shapes the way it does banking and invests in relations, inside and out:

- financial awareness: workshops in branches, with different ways to interact (live and social networks) on economic and financial topics;
- road shows: tours of local areas, visiting the major cities in which Banco BPM operates;
- school projects: initiatives to give back to the community, in collaboration with local partners and institutions;
- brand ambassadors: ad hoc training of head office and branch colleagues, motivated to become ambassadors of the company's values;
- digital: elective communication channel and fulcrum of the IT ecosystem of the identity projects within the bancobpm.it website.

The communication function was also tasked, in collaboration with other offices, to draw up the Non-Financial Declaration for 2017, which will be published as a separate report to the Financial Statements' report.
This Declaration was introduced by Italian Legislative Decree 254/2016 on non-financial information, according to which large-scale entities of public interest are obliged to report specific information of a non-financial nature to the extent necessary to enable an understanding of the company's business, its performance, its results and the impact generated by the same, in terms of environmental, social and staff-related spheres, with regard to human rights and the active and passive prevention of corruption.
For each topic, the decree envisages a report on the business organisation and management model, the policies implemented, including those relating to due diligence, the results achieved as a result of these and the relative indicators; the main risks, generated or suffered, relating to said topics and that originate from the company's business, from its products, services or trade relations, including, where relevant, the supply and subcontracting chain.

With regard to the activities performed in 2017 in the area of Media Relations, the tools and the actions to manage and develop relations with national and local information bodies, mostly regarded promoting the changes relating to the start-up and operations of Banco BPM, in accordance with the guidelines set out in the 2016-2019 Strategic Plan.
Therefore, the usual task of collecting, processing and disseminating information regarding events relating to the company sphere, was flanked by an intense programme of presence in national and local media, through dedicated interviews, presentations at public events and participation in conferences on not just economic-financial topics.
With regard to the production and propagation of information, during the year, almost 130 press releases were written and issued relating to price sensitive, institutional aspects or dedicated to cultural and social initiatives set in motion by Banco BPM. A large number of high quality press conferences were held on the occasion of events, projects and initiatives promoted or sponsored by Banco BPM, directly or in collaboration with institutions, companies, entities and associations that operate in the various business segments.

Banco BPM's social media presence mainly regarded the Facebook, Twitter and Linkedin platforms, followed by Instagram.
The editorial plan on Facebook is based on the company's social activities, above all regarding local areas where branch distribution is more widespread. Sending press releases via Twitter proved to be another way to inform people of the bank's institutional activities.
Linkedin is a platform used to provide information about various initiatives, related mainly to the business sphere; furthermore, the direct channels made available by the platforms are used to listen to customers and people with a view to helping them in their daily lives.

As regards Internal Communication, the company Intranet, the events and the contests represented the most popular way to involve people in and to share the company's objectives and strategies, laying the foundations to create a single identity culture of Banco BPM and making all information promptly available to colleagues.

From 1 January 2017, efforts have been focused on guaranteeing total alignment, both in terms of content and in the timing of the dissemination of information, so that the populations of the two entities that created Banco BPM are informed in parallel. At the same time, the topic-related areas and the sections of the company intranet have been reorganised to be able to manage the creation of a harmonised tool to inform, communicate and share, while currently maintaining two different platforms (BANCO BPM and BPM SPA), which will be merged into a single one during 2018.

In 2017, Banco BPM's commercial communication focused on products for retail and business customers. The two main advertising campaigns, in the Spring and Autumn, were centred around the promotion of mortgage loans for the purchase of a home, at competitive interest rates. Media planning entailed the dominant use of the national and local radio channels, and of the digital channel, flanked by advertising space in national and local press and on billboards. The concept of the mortgage loan campaign involved all Banco BPM and BPM SpA for the first time, with a common graphics format. The visual side represents a bank able to talk to each customer, not as a vague group, but as individuals, by means of a personalised advertising message, which renders the bank so similar to its customers, that it shares the same interests and passions.
In the second half of 2017, the Regulation on promotional campaigns and sponsorships was approved, which regulates the process of approval of the same. During the year, efforts began to make an overall reduction of promotional campaigns and sponsorships, in line with the objectives of the business plan to curb costs. This was achieved, maintaining significance presence in all areas in which Banco BPM operates.

Investor Relations

In 2017, the Investor Relations team managed a total of 169 events, usually with the involvement of Group top management, which entailed meeting with 585 investment funds (from both the stock market and the bond market), financial analysts and rating agencies. These were supplemented by 4 telephone conferences held with audio webcasts over the year to present the Group's financial performance to the market (results as at 31 December 2016, 31 March 2017, 30 June 2017 and 30 September 2017).

	No. of events	% of total	no. of subsidiary companies	% of total
Industry conferences (stock market) (*)	10	6%	194	33%
Industry conferences (bond market) (*)	3	2%	16	2%
Roadshows (stock market)	5	3%	93	16%
Roadshows (bond market)	4	2%	23	4%
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	133	79%	245	42%
Other individual and/or group meetings, telephone conferences and video conferences (bond market)	11	6%	11	2%
Meetings with rating agencies	3	2%	3	1%
Total	**169**	**100%**	**585**	**100%**
Presentations to the financial market in conference call/webcast	4			

(*) Excluding investors from the calculation of the companies, who attended any "Floor presentations" of the industry conferences.

As regards the stock market, the Group attended 10 industry conferences and 5 Roadshows organised in various European cities by leading research and brokerage firms, which entailed meetings with 287 investors, corresponding to 49% of the total number of parties reached over the year.
Similarly, with regard to the bond market, the Group attended 3 industry conferences and 4 Roadshows, meeting with 39 investors (around 7% of the total) in various European cities.
The remaining 44% of parties (equity and fixed income investors and analysts and rating agencies) were able to meet with the Group on 147 other occasions (individual direct and/or group meetings, teleconferences and/or video conferences).

Lastly, note that at the end of 2017, the Banco BPM stock was "covered" by around 19 stock research companies (of which 12 have made positive recommendations, 5 neutral and 2 negative), with whom continuous dialogue was maintained throughout the year.

OTHER INFORMATION

Members and Shareholders

Banco BPM has a share capital of euro 7,100,000,000.00, represented by 1,515,182,126 ordinary shares with no nominal value.
Banco BPM shares are listed on the Electronic Equity Market (MTA) organised and managed by Borsa Italiana S.p.A.

As at 31 December 2017, the Bank's shareholders broke down as follows:

- around 255,000 depositors with the Banco BPM Group;
- around 125,000 depositors with other brokers. This figure represents the situation as at 2 January 2017, namely at the time of the share swap linked to the merger between Banco Popolare – Società Cooperativa and BPM S.c.ar.l.

Pursuant to art. 120 of the Consolidated Law on Finance, any investor with shares representing over 3% of the share capital of a listed company, must make a disclosure to the investee company and to Consob.
As at 31 December 2017, according to the information published on Consob's website, Invesco Ltd held an interest corresponding to 3.13% of the share capital of Banco BPM.

Banco BPM stock

In 2017, the global stock markets recorded positive performance, mainly due to the consolidation of global growth, also sustained by the expansive policies of the major world central banks. The MSCI All Country World Index recorded a rise of 21.6% within which the Information Technology industry showed the highest increases.
The US economy was particularly lively, sustaining stock market prices, which benefited in the last quarter of the year, from the announcement of tax reforms by the Government, which, amongst other things, envisage lower business taxes. The main US indices recorded good performances. The S&P 500 closed 2017 with an increase of 19.4%, driven by the technological segment.
The European indices benefited from the encouraging signs from a macro economic perspective in 2017, recording positive trends over the year. The Stoxx 600 recorded a rise of 7.7%, while in terms of individual country, the best performance of the main indices was recorded by Borsa Italiana, whose FTSE MIB index gained 13.6%, followed by the German DAX 30 index, which rose by +12.5%. In France, the CAC40 index recorded +9.3% and the British Stock market (FTSE 100) recorded +7.6%.
The European banking segment showed signs of improved profitability, even though interest rates are low. The Regulator has continued to focus on levels of non-performing loans which, although significantly lower, are still high in peripheral countries. The performance of bank shares was positive, in any event, with the European index (Euro Stoxx Banks) up by 8.1%. The Italian banks' index "FTSE Italia All Share Banks" recorded a rise of 14.9% and the performance of Banco BPM shares was substantially in line with that of the index (+14.3%).

Banco BPM shares, listed on the MTA from 2 January 2017 at the same time as trading of the shares of the two banks participating in the merger was revoked, fluctuated in a range between the minimum closing price of euro 2.162 on 24 February 2017 and a maximum closing price of euro 3.508 recorded on 29 September 2017. From the beginning of the year, Banco BPM shares recorded a positive performance of +14.3%, in line with the industry index.
Average trading volumes in 2017 were around 27 million shares.

Group ratings

Rating of the Banco BPM Group as at 31 December 2017

Rating agency	Type of Rating	Banco BPM
Moody's Investors Service	Long Term on Deposits	Ba1 - Stable Outlook
	Long Term on Senior Debt	(P)Ba2
	Issuer Rating	Ba2 - Negative Outlook
	Short term	NP
	Baseline Credit Assessment	b1
	Counterparty Risk Assessment	Ba1(cr) / NP(cr)
DBRS	Long-Term Issuer Rating	BBB (low) - Negative Trend
	Long Term on Senior Debt	BBB (low) - Negative Trend
	Long term on Deposits	BBB (low) - Negative Trend
	Short-Term Issuer Rating	R-2 (middle) - Negative Trend
	Short Term on Senior Debt	R-2 (middle) - Negative Trend
	Short Term on Deposits	R-2 (middle) - Negative Trend
	Intrinsic Assessment	BBB Low
	Support Assessment	SA-3

Rating of Banca Akros as at 31 December 2017

Rating agency	Type of Rating	Banca Akros
DBRS	Long-Term Issuer Rating	BBB (low) - Negative Trend
	Long Term on Senior Debt	BBB (low) - Negative Trend
	Long term on Deposits	BBB (low) - Negative Trend
	Short-Term Issuer Rating	R-2 (middle) - Negative Trend
	Short Term on Senior Debt	R-2 (middle) - Negative Trend
	Short Term on Deposits	R-2 (middle) - Negative Trend
	Support Assessment	SA-1

Changes in the ratings of the Banco BPM Group during 2017, broken down by rating agency, are described below.

Moody's Investors Service (Moody's)
Following the merger between Banco Popolare and BPM, on 3 January 2017, Moody's assigned the following ratings to Banco BPM: Long Term on "Ba1" Deposits, Short Term on "Not Prime" Deposits, Issuer Rating (long-term rating on senior unsecured debt) "Ba2", Baseline Credit Assessment rating "b1" and Counterparty Risk Assessment "Ba1(cr)/Not Prime(cr)". The Outlook assigned to the Long-Term rating on deposits is Stable, while that on the Issuer Rating is Negative.
All of the ratings and the Outlooks assigned in January were then later confirmed by the agency on 5 October 2017.

DBRS
Following the merger between Banco Popolare and BPM, on 5 January 2017, DBRS assigned ratings to Banco BPM, setting the Long-Term rating as "BBB (low)", the Short Term one as "R-2 (middle)", both with a Stable Trend, the so-called long and short-term Critical Obligations Ratings as "BBB (high) / R-1 (low)", with a Stable Trend, the Intrinsic Assessment as "BBB (low)" and the Support Assessment as "SA-3".
From a purely methodological perspective, it should be noted that on 14 July 2017, DBRS made some changes to its "Global Banking Methodology", proceeding, inter alia, with a harmonisation of the nomenclature of its short and long-term ratings assigned to European and Asia-Pacific banks. For Europe, this harmonisation entailed a separation between the "Senior Debt Ratings" and the "Deposit Ratings", as specified below:

- Long-Term Issuer Rating;
- Long-Term Senior Debt Rating;
- Long-Term Deposit Rating;
- Short-Term Issuer Rating;
- Short-Term Debt Rating;
- Short-Term Deposit Rating.

Also the nomenclature of the ratings assigned to Banco BPM were aligned to this new standard.
On 8 September 2017, DBRS also assigned initial ratings to Banca Akros, the subsidiary company of Banco BPM, which operates in the corporate and investment banking sphere. All debt ratings, the Issuer Rating and the relative Trends assigned to Banca Akros were in line with those of the Parent Company. In addition, DBRS assigned Banca Akros a Support Assessment of SA-1, in consideration of the fact that it represents a core component of the Banco BPM franchise.
Subsequently, on 15 December 2017, DBRS confirmed all of the ratings assigned to Banco BPM and to the subsidiary company Banca Akros, which were therefore maintained at investment grade, changing the Trend from Stable to Negative.

Fitch Ratings (Fitch)
On 24 January 2017, following the merger between Banco Popolare and Banca Popolare di Milano, Fitch withdrew the ratings previously assigned to Banco Popolare and to BPM as well as the subsidiaries Banca Aletti and Banca Akros. As a result, the Banco BPM S.p.A. group is not covered by Fitch.

PERFORMANCE OF THE MAIN GROUP COMPANIES

A summary of the main investments in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 31 December 2017.
As regards the Parent Company, Banco Popolare, please refer to the separate financial statements.

Banca Popolare di Milano

(in millions of euro)	31/12/2017	31/12/2016	Change
Income statement figures			
Financial margin	744	12	+722
Net fee and commission income	576	5	+571
Operating income	1,346	17	+1,329
Operating expenses	(738)	(10)	-728
Income (loss) from operations	608	7	+601
Income (loss) before tax from continuing operations	62	4	+58
Net income (loss)	41	2	+39

Note that, by virtue of the transfer of the business division (series of commercial network branches) of the former BPM Scarl to the former Banca Popolare di Mantova, the income statement figures for last year are not aligned to those of the current year; with regard to balance sheet figures, the amounts for Banca Popolare di Mantova as at 31 December 2016 have been restated by grouping the balances transferred.

At the end of 2017, the interest margin amounted to euro 744 million, mostly due to net interest from customers of euro 704 million, plus the contribution of the interest income on TLTRO operations of euro 33 million.
Net fee and commission income amounted to euro 576 million, mainly due to the contribution of asset management of euro 192 million, insurance products of euro 45 million, to commission for the custody and management of current accounts of euro 67 million and to collection and payment services, cashpoint and credit cards of euro 90 million.
The operating expenses aggregate is comprised of personnel expenses of euro 351 million, net value adjustments on property and equipment of euro 27 million and administrative expenses of euro 360 million, euro 225 million of which regards intragroup outsourcing services.
The cost of credit was 162 b.p., with an annual cost of euro 545 million, formed by euro 71 million in profits/losses on disposals of non-performing loans and by net adjustments on loans of euro 474 million.
Income (loss) from operations comprises the expense of euro 13.4 million relating to the extraordinary amount paid into the Voluntary Scheme of the IDGF for Casse di Risparmio di Rimini, Cesena and S. Miniato.
After recording taxes of euro 20.6 million, 2017 closed with a net profit of around euro 41.3 million, compared to the profit of euro 2.3 million recorded in December 2016 by Banca Popolare di Mantova.

(in millions of euro)	31/12/2017	31/12/2016 aggregate	Change
Balance sheet figures			
Total assets	44,888	40,058	+4,830
Loans to customers (gross)	36,199	36,855	-656
Financial assets and hedging derivatives	240	285	-45
Shareholders' equity	4,175	4,025	+150
Customers' financial assets			
Direct funding	26,568	26,274	+293
Indirect funding	25,824	31,071	+5,247
- Asset management	18,223	21,370	-3,147
- Mutual funds and SICAVs	11,982	13,697	-1,715
- Securities and fund management	769	1,294	-525
- Insurance policies	5,482	6,379	-897
- Administered assets	7,591	9,701	-2,110
Information on the organisation			
Average number of employees and other staff (*)	4,793	n.a.	n.a.
Number of bank branches	604	651	-47

(*) Weighted average calculated on a monthly basis. This does not include the Company's Directors and Statutory Auditors.

The stock of direct funding in December 2017 was euro 26.6 billion, up around +0.3 billion compared to the aggregate figure for 2016, above all due to the increase of the demand component of the Corporate segment. The indirect funding aggregate, instead, was lower due to the transfer of the Private customer business division to Banca Aletti on 1 July (euro 5 billion of indirect funding); net of this impact, indirect funding was substantially stable.
The performing loans of the commercial network were down compared to the aggregate figure for 2016 by euro 0.5 billion (-1.6%) due mainly to the reduction of the stock of medium-long term loans in the Commercial segment.

(in thousands of euro)	31/12/2017	31/12/2016 aggregate	Changes	
Gross non-performing loans	**5,649,897**	**6,103,753**	**-453,856**	**-7.4%**
Bad loans	3,125,307	3,396,767	-271,460	-8.0%
Unlikely to pay	2,515,498	2,678,166	-162,668	-6.1%
Past due	9,092	7,032	2,060	29.3%
Gross performing loans	**30,549,240**	**30,751,563**	**-202,323**	**-0.7%**
Total gross exposure	**36,199,137**	**36,855,316**	**-656,179**	**-1.8%**
Adjustments on non-performing loans	(2,430,993)	(2,560,213)	129,220	-5.0%
Adjustments on performing loans	(100,288)	(131,333)	31,045	-23.6%
Total net exposure	**33,667,856**	**34,163,770**	**-495,914**	**-1.5%**

Gross non-performing loans recorded a fall of euro 454 million, mainly due to the disposals made during the year for a total of euro 584 million.
The level of coverage of total non-performing loans was 43.4%, which rises to 45.4% if write-offs are included; net of disposals, the adjustments figure is substantially higher than 2016, particularly the increased level of coverage of unlikely to pay exposures by over 3 percentage points (from 26% last year to 29% at the end of 2017).

Banca Aletti

	31/12/2017	31/12/2016	Change
Income statement figures (*in millions of euro*)			
Interest margin	101.3	148.6	(31.8%)
Net fee and commission income	78.9	31.4	151.3%
Operating income	161.9	201.5	(19.7%)
Operating expenses	(110.6)	(112.8)	(1.9%)
Income (loss) from operations	51.3	88.7	(42.2%)
Income (loss) before tax from continuing operations	33.4	87.3	(61.7%)
Income (loss) after tax from continuing operations	20.0	61.8	(67.7%)
Income (loss) for the year	20.0	61.8	(67.7%)

	31/12/2017	31/12/2016	Change
Balance sheet figures (*in millions of euro*)			
Total assets	14,071.6	15,870.0	(11.3%)
Loans to customers (net)	93.5	1,387.5	(93.3%)
Financial assets and hedging derivatives	9.6	5,167.7	(99.8%)
Shareholders' equity	898.5	943.0	(4.7%)
Customers' financial assets (*in millions of euro*)			
Direct funding	1,646.0	935.9	75.9%
Indirect funding	26,148.9	18,379.7	42.3%
- Asset management	21,846.4	16,539.8	32.1%
- Mutual funds and SICAVs	4,948.3	642.1	670.7%
- Securities and fund management	15,305.8	15,714.4	(2.6%)
- Insurance policies	1,592.4	183.3	768.6%
- Administered assets	4,302.5	1,839.9	133.8%
Information on the Organisation			
Average number of employees	507.1	459.6	10.3%
Number of bank branches	51.0	33.0	54.5%

	31/12/2017	31/12/2016	Change
Profitability ratios (%)			
Financial margin/Operating income	62.6%	73.7%	(15.2%)
Net fee and commission income/Operating income	48.7%	15.6%	212.7%
Operating expenses/Operating income	68.3%	56.0%	22.0%
ROA	0.1%	0.4%	(63.4%)
ROE	2.3%	7.0%	(67.5%)
Operational productivity figures			
Gross loans to customers per employee (€/1000)	184.4	3,019.0	(93.9%)
Operating income per employee (€/1000)	319.3	437.3	(27.0%)
Operating expenses per employee (€/1000)	218.2	244.9	(10.9%)
Credit risk ratios			
Net bad loans/Loans to customers (net)	0.0%	0.0%	
Unlikely to pay/Loans to customers (net)	0.0%	0.0%	
Net bad loans/Shareholders' equity	0.0%	0.0%	
Capitalisation ratios			
Common Equity Tier 1 ratio	44.7%	48.0%	
Tier 1 capital ratio	44.7%	48.0%	
Total capital ratio	44.7%	48.0%	
Tier 1 Capital/Tangible assets	5.9%	5.2%	
Leverage ratio	16.4%	13.9%	
Other ratios			
Financial assets/Total assets	24.6%	41.5%	
Derivative assets/Total assets	10.7%	18.4%	
Net trading derivatives/total assets	(9.6%)	(31.4%)	
Gross loans/Direct funding	5.7%	206.8%	

For a more detailed description of the main events regarding Banca Aletti, please refer to the section of this Report on Operations that regards business segments, and particularly Private & Investment Banking.

Banca Akros

(in millions of euro)	31/12/2017	31/12/2016 (*)	Change
Income statement figures			
Financial margin	11.7	8.2	42.1%
Net fee and commission income	26.1	15.7	66.4%
Operating income	56.1	55.0	1.9%
Operating expenses	(47.1)	(49.8)	(5.4%)
Income (loss) from operations	8.9	5.2	72.0%
Income (loss) before tax from continuing operations	12.1	7.2	66.6%
Net income (loss)	8.1	6.0	33.1%

(*) Figures restated in compliance with that envisaged by IFRS 5.

(in millions of euro)	31/12/2017	31/12/2016	Change
Balance sheet figures			
Total assets	2,428.2	3,116.1	(22.1%)
Loans to customers (gross) (**)	185.1	465.2	(60.2%)
Financial assets and hedging derivatives	1,398.8	1,848.1	(24.3%)
Shareholders' equity	205.0	200.2	2.4%
Customers' financial assets			
Direct funding	850.5	1,110.4	(23.4%)
Indirect funding	1,232.7	1,222.8	0.8%
- Asset management	703.0	775.9	(9.4%)
- Administered assets	529.8	447.0	18.5%
Information on the organisation			
Average number of employees and other staff (**)	176	226	
Number of bank branches	3	3	

	31/12/2017	31/12/2016
Alternative performance measures		
Profitability ratios (%)		
ROE	4.09%	3.11%
Return On Assets (ROA)	0.33%	0.19%
Financial margin/Operating income	20.88%	14.98%
Net fee and commission income/Operating income	46.57%	28.52%
Operating expenses/Operating income	84.08%	90.57%
Operational productivity figures (000s of euro)		
Loans to customers (gross) per employee	1,051.8	2,058.6
Operating income per employee	318.6	243.4
Operating expenses per employee	267.8	220.5
Other ratios		
Financial assets and hedging derivatives/Total assets	57.61%	59.31%
Derivative assets/Total assets	32.51%	38.77%
- trading derivatives/total assets	32.51%	38.77%
- hedging derivatives/total assets	0.00%	0.00%
Net trading derivatives/Total assets	3.36%	2.89%
Gross loans/Direct funding	21.77%	41.90%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	24.19%	18.64%
Tier 1 capital ratio	24.19%	18.64%
Total capital ratio	24.19%	18.65%
Tier 1 capital ratio/Tangible assets	8.04%	5.86%
Liquidity Coverage Ratio (LCR)		
Leverage ratio	14.52%	11.13%

For a more detailed description of the main events regarding Banca Akors, please refer to the section of this Report on Operations that regards business segments, and particularly Private & Investment Banking.

Other equity investments

(in millions of euro)	Total assets	Shareholders' equity (*)	Direct funding	Indirect funding	Net loans	Income (Loss)
Banks						
Banca Aletti & C. (Suisse)	106.1	29.2	75.9	374.2	16.1	(1.7)
Bipielle Bank (Suisse)	84.8	43.6	4.3	-	-	0.2
Financial companies						
Aletti Fiduciaria	10.1	8.0	-	1,166.8	1.0	-
Release	2,083.4	407.4	9.0	-	1,212.3	(67.4)
Other companies						
Bipielle Real Estate	1,137.8	1,117.3	-	-	7.1	26.1
Holding di Partecipazioni Finanziarie Banco Popolare	771.0	767.4	-	-	-	43.4
Società Gestione Servizi - BP	455.0	122.1	-	-	0.5	1.4
Tecmarket Servizi	38.5	21.4	-	-	-	4.6
Ge.Se.So.	1.4	0.3	-	-	-	-

(*) Amount inclusive of the income (loss) for the year.

Relations with subsidiaries and associates

Please refer to the Notes to the Consolidated Financial Statements, part H, for a full description of related party transactions.

Treasury shares of the Parent Company and of subsidiaries

Please refer to section 15 - Group Shareholders' Equity in Part B of the Notes to the Consolidated Financial Statements.

Consolidated non-financial disclosure

The Banco BPM Group has prepared the Consolidated non-financial disclosure pursuant to Italian Legislative Decree 254/2016 and Consob Resolution no. 20267 of 18 January 2018 in a separate document, published on the website www.bancobpm.it, in the Investor Relations, Financial data.

OUTLOOK FOR BUSINESS OPERATIONS

The growth of the global economy and of the Eurozone is speeding up production activities and consumption in Italy. A good export trend has also encouraged investment, to the benefit of domestic demand. In the coming months, this favourable economic trend is expected to continue.
In scenario of recovery, the demand for credit of retail customers should continue to be fairly lively, continuing to favourably reflect the low levels of interest rates and the prospects of improvements in the residential housing market. The demand for business loans, in the wake of the recovery, could rise moderately, by virtue of the stronger investment cycle. On average, credit brokers are increasingly willing to disburse loans, particularly as regards customers with the best credit ratings. This willingness is encouraged by the continuing high availability of funding, by virtue of the monetary policy of the ECB, which will continue to be widely expansive for at least the next 12 months, as has been understood from the recent statements of the Council, also given the likely interruption of securities purchases next September.
However, competition continues to be aggressive in the world of lending; with specific regard to borrowers with high credit ratings. This selectivity could continue on into next year, and reflect on the trend of business loans. The rise of loans, net of bad loans, should in any event be positive, although slowed down by the banks' need to safeguard asset quality, as they are still suffering the repercussions of non-performing loans accumulated during the great crisis.
The reorganisation underway towards less onerous forms of funding could continue, by virtue of the aforementioned extensive liquidity guaranteed by the Eurosystem, although the pace is expected to slow down with respect to previous years.
Therefore, in the coming months, pressure on maintaining overall bank spreads low is expected to continue. Nevertheless, given the expected increase in the volumes of loans, the customer margin should rise, resulting in a higher overall interest margin, also sustained by greater flows of interest income from securities portfolios.
Revenues from services will maintain their recent uptrend. The further decline in results from trading and fair value measurement, however, could counterbalance the positive effects, slowing down the overall trend of revenues other than those from interest. The liveliness of asset management placements, could also deteriorate, given the reduction of the pool of administered assets to draw from. Overall, therefore, as a result of the trends described, net interest and other banking income is expected to rise at a slower pace than that of the interest margin. In this situation, to sustain growth in terms of net operating profit, operating costs will need to be carefully controlled and operations will have to become increasingly efficient.
Lastly, recent signs regarding credit quality are positive: the rate of default of bad loans, net of seasonal factors and over the year, fell significantly over the past 12 months, falling to 1.7% in the third quarter. In addition, the stock of non-performing loans has been significantly reduced following the significant assignments made in recent months.

As it has already completed a significant number of projects of the 2016-2019 Strategic Plan, including setting in place the organisational unit to manage non-performing loans, IT integration, establishing the partnership structures for asset management and bancassurance and reorganising the commercial network, the Group will focus on rationalising private and investment banking activities, on the digital transformation project and will speed up efforts for overall derisking, leveraging the excellent results achieved to date and its solid capital position.
Ordinary operations will continue to be based on recovering profit margins, which will reap the benefits of the synergies resulting from the merger.
Although competitive pressures remain on profit margins, income trends will be able to benefit from a further limitation of average funding costs, thanks to residual margins of optimisation of its mix, the increase of loans and trends characterising the aggregate of commission and fee income from management, brokerage and advisory services.
The limitation of operating costs by improving efficiency, carrying out specific actions intended to optimise spending and streamlining the organisational functions will continue to be one of the factors receiving the greatest attention.
The rates of coverage of non-performing loans will remain high, and the reduction in stocks will continue through the internal workout which, as already mentioned, will seek to accelerate the overall derisking plan.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

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

Milan, 7 February 2018

The Board of Directors

Declaration of the Managing Director and the Manager Responsible for preparing the Company's financial reports

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Giuseppe Castagna, as Managing Director of Banco BPM S.p.A. and Gianpietro Val, as Manager responsible for preparing the company's financial reports of Banco BPM S.p.A., hereby certify, also in consideration of the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. in 2017.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2017 were based on an internal model set in place by Banco BPM S.p.A., developed on the basis of the Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standards for the internal audit system generally accepted at international level.

3. We also hereby certify that:

3.1 the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2017:

a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;
b) comply with the results of the accounting records and journal entries;
c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

3.2 The report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, Banco BPM S.p.A., and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Milan, 7 February 2018

Signed by:
Giuseppe Castagna
Managing Director

Signed by:
Gianpietro Val
Manager responsible for preparing
the Company's financial reports

Independent auditors'report on the consolidated financial statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banco BPM SpA

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banco BPM group (the Group), which comprise the balance sheet as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flows statement for the year then ended, and notes thereto, which include a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as at 31 December 2017, and of the result of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of this report. We are independent of Banco BPM SpA (the Bank) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	*Auditing procedures performed in response to key audit matters*

Impairment of loans to customers

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet, Assets, section 7
Part C – Information on the consolidated income statement, section 8
Part E – Information on risks and related hedging policies

Loans to customers as of 31 December 2017 are the main portion of line item 70 “Loans to customers”, which shows a balance of Euro 108,176 million corresponding to 67 per cent of total assets.
Net losses on impairment of loans to customers charged in the current year amount to Euro 1.301 million and represent management’s best estimate of the incurred losses within the loan portfolios at the reporting date, determined on the basis of the applicable reporting standards.

As part of our audit activities special attention was paid to the impairment provisions on loans to customers considering the materiality of the balance, the large amount of non-performing loans and the changes in accounting estimates made during the year. Impairment processes and criteria necessarily require a high degree of judgement and complex processes for the estimation of a number of variables. Therefore, the use of significant assumptions is relevant for verifying the existence of objective evidence of impairment at the reporting date, for determining inputs to models and for determining future cash flows, recovery time, and the recoverable amount of any collateral for loans assessed on an individual basis.

In performing our audit we considered internal control relevant to the financial reporting in order to define adequate auditing procedures.
In detail, in order to address this key matter, we obtained an understanding and and performed an evaluation over the design of controls relevant to the monitoring, classification and impairment valuation of loans to customers, and the we verified the operating effectiveness of those controls.

Special attention was paid to understanding and verifying the appropriateness of the policies, procedures and models used to determine impairment provisions on loans to customers, both individually and collectively, and the criteria for determining the key parameters used.
In relation to changes in accounting estimates made during the year, we also performed the understanding and evaluation of the appropriateness and reasonableness of those changes.

In order to assess the reasonableness of management’s conclusions about the impairment valuation of loans, also considering the classification criteria and categories under the applicable financial and regulatory reporting framework, we selected a sample of non-performing loans and verified the reasonableness of the assumptions made, focusing specifically on the identification and quantification of future cash flows, collateral valuation and the recovery time.
We also selected a sample of loans not identified as non-performing and verified the reasonableness of their classification based on the available information about the debtor’s status and other evidence including external available information.
For non-performing loans assessed on the basis of statistical parameters and performing loans assessed collectively, in addition to verifying the appropriate application of the defined criteria,

Key audit matters	*Auditing procedures performed in response to key audit matters*
	we performed specific tests aimed at verifying the determination of parameters used as well as the completeness and accuracy of model inputs.
Recognition of the business combination between Banco Popolare Group and BPM Group *Notes to the consolidated financial statements:* *Part A-Accounting policies* *Part C- Information on the consolidated income statement, section 15* *Part G – Business combinations regarding companies or divisions* Line 220 'Other operating income/expense' of the income statement shows income of Euro 3,076 million related to the negative goodwill ("bargain purchase") resulting from the recognition of the business combination between Banco Popolare Group and BPM Group occurred during the year. The accounting treatment of this transaction was a key audit matter considering the materiality of the amounts, complexity of the process, the valuation methods used and the significant assumptions required to determine the fair value of the identifiable assets acquired and liabilities assumed as part of the purchase price allocation (PPA). Furthermore, in accordance with the applicable reporting standards, the recognition of an income related to negative goodwill requires specific verification activities by management as well as appropriate disclosure in the financial statements.	In order to address this key matter, in performing our audit we obtained an in-depth understanding of the business combination also by obtaining and reviewing documentary evidence and through discussion with management. In order to verify the reasonableness of the assumptions made and conclusions achieved by management, as well as compliance with the applicable reporting standards, we assessed the following aspects: • identification of the acquirer for accounting purposes; • identification of the acquisition date; • determination of the cost of acquisition; • purchase price allocation, including initiative taken and verification activities carried out in relation to the significant negative goodwill recognised. We obtained an understanding and performed a critical analysis, also with the support of the various experts belonging to the PwC network and through discussion with management of the Bank and their external consultants, of the valuation models used in the purchase price allocation process and the resulting calculation and subsequent review of fair values of the identifiable assets acquired and liabilities assumed; we also verified, on a sample basis, the accuracy of the mathematical calculations underlying the valuation models used. We assessed the reasonableness of the main qualitative and quantitative assumptions (estimated earnings, cash flows, discount rates) regarding specific characteristics of the assets and liabilities being valued, as well as available market information. We also assessed the

Key audit matters	*Auditing procedures performed in response to key audit matters*
	sensitivity analyses, if relevant, considering changes to the key inputs used. We verified the correct calculation and recognition of deferred taxes on temporary differences between the new carrying amounts of assets and liabilities and the related tax bases. Finally, we verified the completeness and adequacy of disclosures provided in the financial statements considering requirements of the applicable reporting standards.
Impairment of goodwill relating to the cash generating units (CGUs) "Commercial Network" and "Private & Investment Banking" *Notes to the consolidated financial statements:* *Part A-Accounting policies* *Part B – Information on the consolidated balance sheet, section 13* *Part C- Information on the consolidated income statement, section 18* Line 260 'Value adjustments on goodwill' of the income statement includes a loss of Euro 1,034 million related to the impairment of the entire balance of goodwill booked in previous years by Banco Popolare Group for the CGUs "Commercial Network" and "Private & Investment Banking" following the business combinations carried out. As required by the applicable reporting standards, it is necessary at least annually to test for impairment indefinite useful life intangible assets by comparing the carrying amount with the related recoverable amount (impairment test). Special attention was paid to this matter throughout the course of our audit considering the materiality of the amounts involved and because the estimate of the recoverable amount of a CGU is intrinsically subject to uncertainty	In performing our audit, as part of our analysis of this key matter, also with the support of the experts belonging to the PwC network, we obtained an understanding of the process and of the method underlying the impairment test performed by management. In detail, we performed a critical analysis of the method used for the impairment test as approved by the Board of Directors and the related valuation model applied (Dividend Discount Model). We also carried out the following: • analysis, also through discussion with management, of the criteria applied to define the CGUs to which goodwill were allocated; • assessment of the reasonableness of the main qualitative and quantitative assumptions (estimated earnings, cost of equity, discount and growth rates) by comparing to external available information; • verification of the accuracy of the mathematical calculations underlying the valuation models used and the correctness of the calculations made; • assessment of the sensitivity analyses of the results to changes to the key inputs; • assessment of the additional qualitative considerations made by the Board of Directors; • analysis of the assessments made by the independent consultant appointed in order to support the Board of Directors.

Key audit matters	*Auditing procedures performed in response to key audit matters*
and requires significant qualitative and quantitative assumptions. The valuation models used, even if consolidated and acknowledged in the practice, are extremely sensitive to inputs and assumptions and, by their very nature, incorporate a risk of incorrect valuation.	Finally, we verified the completeness and adequacy of the disclosures provided in the financial statements considering requirements of the applicable reporting standards.
Migration of the information systems of the former BPM Group to the Banco BPM platform Following the completion of the business combination between Banco Popolare Group and BPM Group and in accordance with the related strategic plan, information systems of the former BPM Group- which included accounting systems- were migrated during the year to the new Group platform. As part of our audit activities, special attention was paid to the migration of accounting systems, considering its operating complexity and possible impacts on financial statements due to the potential risk of incomplete or inaccurate migration of information from the old to the new accounting system.	In performing our audit we paid special attention to the analysis of the methodology defined and applied to the migration, as well as to the test activities planned and performed to address the related risks, including the controls performed by the internal audit function. With the support of specialists, we analysed and verified that the key controls defined to ensure the completeness and accuracy of migrated data and any additional verification and control eventually deemed necessary in order to address anomalies and exceptions, had actually been performed also verifying, on a sample basis, the complete and accurate migration of accounting balances from the old to the new accounting system. Furthermore, we carried out specific analyses and checks of the suspense accounts and any rejected transactions, verifying that these were appropriately and timely investigated and followed up.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of complex financial instruments not quoted in active markets and measured at fair value on a recurring basis *Notes to the consolidated financial statements:* *Part A - Accounting policies* *Part B – Information on the consolidated balance sheet: Assets, sections 2, 3 and 4; Liabilities, sections 4 and 5* *Part C – Information on the consolidated income statement, sections 4 and 7* Financial instruments not quoted in active markets whose fair values were determined through valuation models using data and parameters directly observable or not in the market (instruments with fair value hierarchy levels 2 and 3) comprise assets for a total of Euro 3,465 million and liabilities for a total of Euro 8,069 million, corresponding to 2 per cent of total assets and 5 per cent of total liabilities in the financial statements. The carrying amounts of these instruments represent the best estimate of their fair values at the reporting date determined in accordance with the applicable reporting standards. Throughout the course of our audit we paid special attention to the valuation of these financial instruments, focusing primarily on those having a significant complexity (structured instruments, equity instruments and derivatives). This was considered a key audit matter due to the materiality of the amounts, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used are numerous and different based on the type of instrument, requiring specific qualitative and quantitative assumptions that could determine results significantly different. The valuation models used, even if consolidated and acknowledged in the practice, could be	In performing our audit we considered the internal control system relevant to the financial reporting in order to define adequate auditing procedures. In detail, we performed the understanding and evaluation of the design of controls relevant to the identification, measurement and monitoring of the risk related to the valuation and recognition of financial instruments, as well as the operating effectiveness of those controls. In order to assess their appropriateness, we obtained an understanding and carried out a critical analysis of the policies adopted by the Group to determine the fair values of financial instruments. Furthermore, we analysed the valuation techniques and models used, as well as the criteria applied to determine significant assumptions and the necessary inputs. For the relevant balances, we performed specific substantive tests including, for a sample of financial instruments classified in levels 2 and 3, independent valuation of fair values, also with the support of experts belonging to the PwC network, in order to verify the reasonableness of management's valuations. In this respect, special attention was paid to qualitative and quantitative assumptions made and to inputs used (interest and inflation rate curves, credit and liquidity spreads, volatility parameters, adjustments for credit rating, correlation parameters). Furthermore, we verified the completeness and adequacy of disclosures closely related to this key matter, also considering requirements of the applicable reporting standards.

Key audit matters	*Auditing procedures performed in response to key audit matters*
extremely sensitive to inputs and assumptions and, by their very nature, incorporate a risk of incorrect valuation.	
Risks and contingent liabilities related to legal and tax litigation *Notes to the consolidated financial statements:* *Part A- Accounting Policies* *Part B – Information on the consolidated balance sheet, Liabilities, section 12* *Part C – Information on the consolidated income statement, section 12* The Group is involved in several tax and legal litigation and disputes for amounts that are individually and in aggregate significant, whose outcomes are uncertain in terms of timing and possible outflow of resources and that are outside the control of the Group. During our audit we paid special attention to this matter considering the materiality of litigation and disputes, the related potential risks, the above mentioned uncertainty and complexity as well as possible issues in terms of interpretation of the applicable legislation and the consequential use of significant estimates and assumptions in order to quantify risks, probability of occurrence and amount of possible outflows.	In performing our audit we considered internal control relevant to the financial reporting in order to define adequate auditing procedures. In detail, as part of our analysis of this key audit matter we performed the understanding and evaluation of the design of controls relevant to the identification, monitoring of litigation and disputes and estimation of provisions, verifying the operating effectiveness of these controls. Special attention was paid to understanding the nature of the main types of disputes and litigation outstanding, as well as the estimation criteria used and the key qualitative and quantitative assumptions made by management to assess the related risks, the probability of occurrence and the amount of possible outflows. In order to verify the reasonableness of management's conclusions and estimates, also with the support of experts belonging to the PwC network, we carried out, on a sample basis, an analysis of disputes and litigation outstanding, also by obtaining external confirmations from lawyers and consultants supporting the Group and by analysing historical outcomes of similar disputes and litigation. Finally, we verified the completeness and adequacy of the disclosures in the financial statements considering requirements of the applicable reporting standards.

Other matters

The consolidated financial statements of Banco Popolare Società Cooperativa as of and for the year ended 31 December 2016 were audited by another auditor, who issued an unqualified opinion thereon dated 15 March 2017.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the parent company Banco BPM SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- we concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional disclosures required by article 10 of Regulation (EU) No. 537/2014

On 15 October 2016 the shareholders of Banco Popolare Società Cooperativa and Banca Popolare di Milano Scarl in general meeting engaged us to perform the statutory audit of the Bank's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Banco BPM SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Banco BPM Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Banco BPM Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Banco BPM Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter and), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Banco BPM SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 15 March 2018

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

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Asset items	31/12/2017	31/12/2016
10. Cash and cash equivalents	976,686	648,255
20. Financial assets held for trading	4,911,824	4,743,425
30. Financial assets designated at fair value through profit and loss	28,952	4,304
40. Financial assets available for sale	17,128,622	12,090,988
50. Investments held to maturity	11,560,769	8,368,223
60. Due from banks	5,164,715	4,559,188
70. Loans to customers	108,176,382	75,840,234
80. Hedging derivatives	243,810	443,411
90. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	54,531	66,914
100. Investments in associates and companies subject to joint control	1,349,191	1,195,214
120. Property and equipment	2,735,182	1,977,766
130. Intangible assets	1,297,160	1,751,895
of which: Goodwill	76,389	1,109,895
140. Tax assets	4,520,189	3,677,941
a) current	319,462	211,989
b) deferred	4,200,727	3,465,952
of which pursuant to Italian Law 214/2011	2,695,009	2,447,962
150. Non-current assets held for sale and discontinued operations	106,121	77,369
160. Other assets	2,952,631	1,965,876
Total assets	**161,206,765**	**117,411,003**

Liability and shareholders' equity items	31/12/2017	31/12/2016
10. Due to banks	27,199,304	16,017,401
20. Due to customers	87,848,146	58,671,580
30. Debt securities issued	16,248,143	15,041,815
40. Financial liabilities held for trading	7,942,063	8,145,975
50. Financial liabilities designated at fair value through profit and loss	3,413,560	6,733,306
60. Hedging derivatives	765,903	1,292,087
70. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	8,535	-
80. Tax liabilities	669,494	274,146
a) current	14,493	8,554
b) deferred	655,001	265,592
90. Liabilities associated with non-current assets held for sale and discontinued operations	35	960
100. Other liabilities	3,687,053	2,455,451
110. Employee termination indemnities	408,160	325,339
120. Provisions for risks and charges:	1,052,829	808,095
a) retirement benefits and similar commitments	166,847	94,180
b) other provisions	885,982	713,915
140. Valuation reserves	251,706	28,796
170. Reserves	1,946,308	2,140,394
190. Share capital	7,100,000	7,089,340
200. Treasury shares (-)	(14,146)	(1,590)
210. Minority interests (+/-)	63,310	69,568
220. Net income (loss) for the year (+/-)	2,616,362	(1,681,660)
Total liabilities and shareholders' equity	**161,206,765**	**117,411,003**

CONSOLIDATED INCOME STATEMENT

Items	2017	2016 (*)
10. Interest and similar income	2,898,382	2,325,036
20. Interest and similar expense	(923,260)	(1,006,702)
30. Interest margin	**1,975,122**	**1,318,334**
40. Fee and commission income	2,075,063	1,296,857
50. Fee and commission expense	(124,653)	(57,418)
60. Net fee and commission income	**1,950,410**	**1,239,439**
70. Dividends and similar income	53,909	23,653
80. Profits (losses) on trading	26,480	58,653
90. Fair value adjustments in hedge accounting	919	787
100. Profits (losses) on disposal or repurchase of:	(201,619)	36,306
a) loans	(221,909)	(92,440)
b) financial assets available for sale	27,028	131,164
c) investments held to maturity	2,458	-
d) financial liabilities	(9,196)	(2,418)
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	8,211	(10,243)
120. Net interest and other banking income	**3,813,432**	**2,666,929**
130. Net losses / recoveries on impairment of:	(1,404,417)	(2,487,681)
a) loans	(1,299,048)	(2,441,799)
b) financial assets available for sale	(94,776)	(41,158)
d) other financial transactions	(10,593)	(4,724)
140. Net income from banking activities	**2,409,015**	**179,248**
170. Net income from banking and insurance activities	**2,409,015**	**179,248**
180. Administrative expenses:	(3,058,692)	(2,516,247)
a) personnel expenses	(1,775,051)	(1,455,976)
b) other administrative expenses	(1,283,641)	(1,060,271)
190. Net provisions for risks and charges	(13,757)	(33,268)
200. Net adjustments to/recoveries on property and equipment	(124,275)	(102,377)
210. Net adjustments to/recoveries on intangible assets	(169,983)	(76,480)
220. Other operating income/expense	3,498,186	326,182
230. Operating expenses	**131,479**	**(2,402,190)**
240. Profits (losses) on investments in associates and companies subject to joint control	178,664	124,246
260. Value adjustments on goodwill	(1,033,506)	(279,000)
270. Profits (losses) on disposal of investments	13,070	17,332
280. Income (loss) before tax from continuing operations	**1,698,722**	**(2,360,364)**
290. Taxes on income from continuing operations	145,720	609,418
300. Income (loss) after tax from continuing operations	**1,844,442**	**(1,750,946)**
310. Income (loss) after tax from discontinued operations	762,262	46,438
320. Net income (loss)	**2,606,704**	**(1,704,508)**
330. Net income (loss) attributable to minority interests	9,658	22,848
340. Parent Company's net income (loss)	**2,616,362**	**(1,681,660)**
Basic EPS (euro)	1.727	(2.774)
Diluted EPS (euro)	1.727	(2.774)

(*) The figures relating to the previous year have been restated in compliance with IFRS 5. The attachments contain a statement of reconciliation between the income statement published in the Annual Financial Report as at 31 December 2016 and that restated in this statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Items *(in thousands of euro)*	31/12/2017	31/12/2016
10 Net income (loss)	**2,606,704**	**(1,704,508)**
Other comprehensive income after tax without reclassification to profit or loss		
40 Defined benefit plans	(1,077)	(14,883)
60 Share of valuation reserves related to investments in associates carried at equity	(146)	-
65 Financial liabilities designated at fair value through profit and loss - changes in own creditworthiness (*)	(12,996)	-
Other comprehensive income after tax with reclassification to profit or loss		
70 Foreign investment hedges	2,031	(226)
80 Exchange rate differences	(6,583)	-
90 Cash flow hedges	(7,993)	1,423
100 Financial assets available for sale	181,481	(140,722)
120 Share of valuation reserves related to investments in associates carried at equity	14,360	5,936
130 Total other comprehensive income after tax	**169,077**	**(148,472)**
140 Comprehensive Income (Items 10+130)	**2,775,781**	**(1,852,980)**
150 Consolidated comprehensive income attributable to minority interests	9,649	22,852
160 Consolidated comprehensive income attributable to the Parent Company	**2,785,430**	**(1,830,128)**

(*) Early application of the new rules introduced by IFRS 9; for the reasons and details, please refer to "Part A - Section 5 Other aspects" of the Notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

31 December 2017 *(in thousands of euro)*	Balance as at 31/12/2016	Changes in opening balance (*)	Balance as at 01/01/2017	Allocation of net income from previous year		Changes in the year								Comprehensive income for 2017	Shareholders' equity as at 31/12/2017	Group shareholders' equity as at 31/12/2017	Minority interests as at 31/12/2017
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments				
Share Capital:	**7,200,332**	**-**	**7,200,332**	**-**		**(42,599)**	**23,470**	**-**					**(16,642)**		**7,164,561**	**7,100,000**	**64,561**
a) ordinary shares	7,200,332	-	7,200,332	-		(42,599)	23,470	-					(16,642)		7,164,561	7,100,000	64,561
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**1,112**	**-**	**-**					**104**		**1,216**	**-**	**1,216**
Reserves:	**2,121,665**	**(27,513)**	**2,094,152**	**(1,704,935)**		**1,558,382**	**(1,622)**	**-**	**-**		**-**		**7,379**		**1,953,356**	**1,946,308**	**7,048**
a) retained earnings	2,077,009	(27,513)	2,049,496	(396,237)		(216,130)	(2,048)	14,572	-				7,293		1,456,946	1,449,896	7,050
b) other	44,656	-	44,656	(1,308,698)		1,774,512	426	(14,572)				-	86		496,410	496,412	(2)
Valuation reserves	**28,949**	**27,513**	**56,462**	**-**		**26,310**							**-**	**169,077**	**251,849**	**251,706**	**143**
Equity instruments	**-**	**-**	**-**							**-**					**-**	**-**	**-**
Treasury shares	**(1,590)**	**-**	**(1,590)**			**-**	**2,016**	**(14,572)**							**(14,146)**	**(14,146)**	**-**
Net income (loss)	**(1,704,508)**	**-**	**(1,704,508)**	**1,704,935**	**(427)**									**2,606,704**	**2,606,704**	**2,616,362**	**(9,658)**
Shareholders' equity	**7,644,848**	**-**	**7,644,848**	**-**	**(427)**	**1,543,205**	**23,864**	**(14,572)**	**-**	**-**	**-**		**(9,159)**	**2,775,781**	**11,963,540**	**11,900,230**	**63,310**
- Group	**7,575,280**		**7,575,280**	**-**	**-**	**1,541,949**	**11,054**	**(14,572)**	**-**	**-**	**-**		**1,089**	**2,785,430**	**11,900,230**		
- minority interests	**69,568**	**-**	**69,568**	**-**	**(427)**	**1,256**	**12,810**	**-**					**(10,248)**	**(9,649)**	**63,310**		

(*) This is the restatement relating to the different accounting treatment applied by the Group as of 1 January 2017 for the representation of profit and loss correlated with changes in the creditworthiness of fair value option financial liabilities

as described in detail in the specific paragraph in the Notes to the consolidated financial statements, Part A - Accounting policies, which should be referred to for further details.

31 December 2016 *(in thousands of euro)*	Balance as at 31/12/2015	Changes in opening balance	Balance as at 01/01/2016	Allocation of net income from previous year		Changes in the year								Comprehensive income 2016	Shareholders' equity as at 31/12/2016	Group shareholders' equity as at 31/12/2016	Minority interests as at 31/12/2016
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments				
Share Capital:	**6,164,044**	**-**	**6,164,044**	**-**		**-**	**1,036,344**	**-**					**(56)**		**7,200,332**	**7,089,340**	**110,992**
a) ordinary shares	6,164,044	-	6,164,044	-		-	1,036,344	-					(56)		7,200,332	7,089,340	110,992
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**1,796,363**	**-**	**1,796,363**	**351,221**		**136**	**(25,703)**	**-**	**-**		**-**		**(352)**		**2,121,665**	**2,140,394**	**(18,729)**
a) retained earnings	1,751,796	-	1,751,796	351,221		47	(25,703)	-	-				(352)		2,077,009	2,095,646	(18,637)
b) other	44,567	-	44,567	-		89	-	-			-		-		44,656	44,748	(92)
Valuation reserves	**177,421**	**-**	**177,421**	**-**		**-**							**-**	**(148,472)**	**28,949**	**28,796**	**153**
Equity instruments	**-**	**-**	**-**												**-**	**-**	**-**
Treasury shares	**(2,483)**	**-**	**(2,483)**			**-**	**893**	**-**							**(1,590)**	**(1,590)**	**-**
Net income (loss)	**411,389**	**-**	**411,389**	**(351,221)**	**(60,168)**									**(1,704,508)**	**(1,704,508)**	**(1,681,660)**	**(22,848)**
Shareholders' equity	**8,546,734**	**-**	**8,546,734**	**-**	**(60,168)**	**136**	**1,011,534**	**-**	**-**	**-**	**-**		**(408)**	**(1,852,980)**	**7,644,848**	**7,575,280**	**69,568**
- Group	**8,493,565**	**-**	**8,493,565**	**-**	**(59,827)**	**136**	**971,534**	**-**	**-**	**-**	**-**		**-**	**(1,830,128)**	**7,575,280**		
- minority interests	**53,169**	**-**	**53,169**	**-**	**(341)**	**-**	**40,000**	**-**					**(408)**	**(22,852)**	**69,568**		

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

A	Operating activities	31/12/2017	31/12/2016
	1. Cash flow from operations	**5,281,505**	**699,247**
-	net income (loss) (+/)	2,616,362	(1,681,660)
-	capital gain/loss on financial assets/liabilities held for trading and financial assets/liabilities designated at fair value through profit and loss (-/+)	215,950	131,417
-	capital gain/loss on hedging activities (-/+)	-	-
-	net losses / recoveries on impairment (+/)	1,404,417	2,487,681
-	net adjustments to/recoveries on plant and equipment and intangible assets (+/)	1,327,764	458,216
-	allocations to provisions for risks and charges and other costs/revenues (+/-)	26,126	31,138
-	net premiums not collected (-)	-	-
-	other insurance income/expense not collected (-/+)	-	-
-	duties, taxes and tax credits not settled (+/-)	(143,078)	(602,998)
-	net adjustments to/recoveries on discontinued operations net of the tax effect (+/)	-	-
-	other adjustments (+/-)	(166,036)	(124,547)
	2. Cash flow from/used in financial assets	**8,661,692**	**1,205,832**
-	financial assets held for trading	1,122,947	1,406,688
-	financial assets designated at fair value through profit and loss	(7,589)	(15,914)
-	financial assets available for sale	4,228,484	778,550
-	due from banks: repayable on demand	367,388	17,473
-	due from banks: other loans	1,148,486	(1,758,778)
-	loans to customers	1,073,050	139,550
-	other assets	728,926	638,263
	3. Cash flow from/used in financial liabilities	**(9,675,129)**	**(2,032,403)**
-	due to banks: repayable on demand	(154,371)	(54,484)
-	due to banks: other payables	4,051,854	(262,854)
-	due to customers	(2,637,154)	5,201,198
-	debt securities issued	(4,096,933)	(1,526,626)
-	financial liabilities held for trading	(896,036)	648,061
-	financial liabilities designated at fair value through profit and loss	(3,278,501)	(5,369,315)
-	other liabilities	(2,663,988)	(668,383)
	Net cash flow from/used in operating activities	**4,268,068**	**(127,324)**
B.	**Investing activities**		
	1. Cash flow from:	**1,732,200**	**1,152,499**
-	sales of investments in associates and companies subject to joint control	-	53
-	dividends collected on investments in associates and companies subject to joint control	-	-
-	sales of investments held to maturity	1,482,920	1,139,694
-	sales of property and equipment	249,280	12,752
-	sales of intangible assets	-	-
-	sales of subsidiaries and business branches	-	-
	2. Cash flow used in:	**(5,919,523)**	**(1,905,152)**
-	purchases of investments in associates and companies subject to joint control	-	-
-	purchases of investments held to maturity	(4,740,704)	(1,798,667)
-	purchases of property and equipment	(377,910)	(39,183)
-	purchases of intangible assets	(800,909)	(67,302)
-	purchases of subsidiaries and business branches	-	-
	Net cash flow from/used in investing activities	**(4,187,323)**	**(752,653)**
C.	**Financing activities**		
-	issues/purchases of treasury shares	(1,336)	1,001,017
-	issues/purchases of equity instruments	-	-
-	dividend distribution and other allocations	(427)	(60,168)
	Net cash flow from/used in financing activities	**(1,763)**	**940,849**
	Net cash flow from/used in activities during the year	**78,982**	**60,872**

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

Reconciliation	31/12/2017	31/12/2016
- Cash and cash equivalents at the beginning of the year	897,704	587,383
- Net cash flow from/used in activities during the year	78,982	60,872
- Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at the end of the year	**976,686**	**648,255**

The information required by IAS 7 paragraph 44 is provided below.

(in thousands of euro)	31/12/2016	Cash flows	Non-monetary changes			31/12/2017
			Business combinations/ loss of company control	Changes in fair value	Other	
Liabilities resulting from loan activities (items 10, 20, 30, 40, 50 of liabilities)	104,610,077	(7,011,141)	44,756,686	(742,902)	1,038,496	142,651,216

Notes to the consolidated financial statements

Declaration for the exemption from the obligation to publish the Consolidated Financial Statements in extensible electronic format (XBRL language)

We hereby specifically declare, without reservation, that Banco BPM S.p.A. is exempt from the obligation to submit its consolidated financial statements in extensible electronic format pursuant to the provisions of art. 3 of the Council of Ministers Presidential Decree dated 10 December 2008, insofar as it is a joint stock company listed on a regulated market (Electronic Equity Market - MTA, managed by Borsa Italiana S.p.A.).

The Legal Representative
Carlo Fratta Pasini

PART A – ACCOUNTING POLICIES

A.1 - GENERAL PART

Introduction

Founding of Banco BPM S.p.A. and comparative information

On 1 January 2017, the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. was finalised, creating a new banking company, with the legal status of a joint stock company, called Banco BPM S.p.A., parent company of the Banking Group of the same name.

As described more extensively in part G "Business combinations regarding companies or divisions", on the basis of certain size and quality parameters laid out in IFRS 3, which governs business combinations, the merger in question is categorised for accounting purposes only as an acquisition of Banca Popolare di Milano S.c. a r.l. by Banco Popolare Soc. Coop..
Considering that Banca Popolare di Milano S.c. a r.l. and its subsidiaries have been part of the new Group since 1 January 2017, the balances reported for comparative purposes in the accounting statements and in the notes to the financial statements are those from the consolidated financial statements as at 31 December 2016 of Banco Popolare Soc. Coop., i.e., the entity considered the purchaser for accounting purposes.
To favour a like-for-like comparison as much as possible, the reclassified statements and the detailed tables contained in the "Group report on operations" also include the balance sheet and income statement values as at 31 December 2016 on an aggregate basis, as well as the relative aggregation method.

For a description of how the cited business combination was recorded in the accounts as at 1 January 2017, alongside the relative purchase price allocation (PPA), finalised and effective from the interim financial report as at 30 June 2017, please refer to Part G "Business combinations regarding companies or divisions" in these Notes to the consolidated financial statements.

Section 1 - Statement of compliance with the international accounting standards

These consolidated financial statements, in compliance with Italian Legislative Decree no. 38 of 28 February 2005, have been drawn up according to the IAS/IFRS issued by the International Accounting Standard Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), validated by the European Commission, as defined in EC Regulation no. 1606 of 19 July 2002.

The following documents have been used to interpret and apply the international accounting standards, although they have not been validated by the European Commission:

- Framework for the Preparation and Presentation of Financial Statements ("Framework");

- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or IFRIC as a supplement to issued accounting standards.

The accounting standards applied in preparing these financial statements are those in effect as at 31 December 2017 (including the SIC and IFRIC interpretation documents).

For an overview of the standards validated during 2017 or those validated in prior years, whose application is expected for 2017 (or for future years), reference is made to "Section 5 – Other Aspects", below, which also illustrates the main impacts for the Group.

The notices received from the Supervisory Authorities (Bank of Italy, Consob and ESMA), as applicable, have also been taken into consideration, as the same provide recommendations on the disclosures to be made in the Financial Report on aspects of particular importance or on the accounting treatment of certain transactions.

For a description of the accounting standards adopted in order to prepare this report, reference should be made to Part "A.2 - Key financial statement items" below.
These policies are substantially aligned with those adopted in 2016 by the two companies participating in the merger - Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. - with the exception of the accounting treatment of profit/loss relating to the own creditworthiness of liabilities measured based on the fair value option, for which the Group decided to rely on the right to apply the new rules introduced by IFRS 9 early, as described in detail in the next section "Accounting treatment of own creditworthiness for financial liabilities designated at fair value - Early application of IFRS 9".
Furthermore, with regard to the integration of the two companies that merged, a detailed analysis was conducted on the measurement criteria in use which confirmed the substantial consistency of said criteria and led to the realignment of accounting practices and processes that showed marginal differences in terms of their application by the two banks.

Section 2 - General preparation principles

The consolidated financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cashflow statement and the notes to the financial statements, and are accompanied by the Directors' report on operations and on the general situation of the consolidated companies.

The financial statements and the contents of the notes to the financial statements have been prepared in keeping with the provisions of the Bank of Italy in Circular no. 262 of 22 December 2005 "Bank Financial Statements: Layouts and Rules for Preparation" and the subsequent updates (most recently, the update published on 15 December 2015). Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262").

These financial statements are drawn up using the Euro as functional currency.

The amounts shown in the financial statements and the data illustrated in the tables in the notes to the financial statements are expressed in thousands of euro, unless specified otherwise.

The consolidated financial statements are drawn up clearly and provide a true and fair view of the equity and financial situation and economic result of Banco BPM and its subsidiaries for the year, as illustrated in more detail in Section 3 "Scope of consolidation and consolidation methods" below. The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries as at 31 December 2017, adjusted, if necessary, to comply with IAS/IFRS. The financial statements provide not only the accounting data as at 31 December 2017, but also the comparative balances relating to the last set of financial statements approved as at 31 December 2016. As noted in the introduction, following the merger, the comparative figures are those referring to the purchaser, Banco Popolare Soc. Coop..

Should the information required by the international accounting standards and the provisions of the above-mentioned Circular be deemed insufficient to provide a true and fair view, the notes to the financial statements provide supplementary information necessary for this purpose.
If, in exceptional cases, the application of provisions envisaged by the international accounting standards is incompatible with the true and fair view of the balance sheet, financial situation and economic result, it would not be applied. The notes to the financial statements will set forth an explanation of the reasons for any departure and its influence on the representation of the equity and financial situation and economic result.

The financial statements have been drawn up in observance of the following general principles:

- *going concern*: the financial statements are drawn up with a view to the continuity of the Group's business activities: on the basis of the main economic and financial indicators, the directors can reasonably expect the Group to continue to operate for the foreseeable future;
- *accrual accounting*: the financial statements have been drawn up on an accruals basis with the exception of cash flows information;
- *presentation consistency*: the presentation and classification of the items in the financial statements are consistent from one year to another unless the standard or interpretation requires a change in presentation or another presentation or classification is no longer appropriate taking into account that matters envisaged by IAS 8. In this latter case, disclosure is provided in the notes to the financial statements with regard to the changes made with respect to the previous year;
- *materiality and aggregation*: the balance sheet and income statement schedules are made up of items (identified by Arabic numerals), sub-items (identified by letters) and by additional detailed disclosure (the "of which" captions of the items and sub-items). The items, sub-items and related detailed disclosure represent the financial statement accounts. The financial statements are compliant with those established by the Bank of Italy in Circular no. 262 dated 22 December 2005 and subsequent amendments. Additional items can be added to the afore-mentioned financial statements if their content is not attributable to any of the items already envisaged by the schedules and only if the amounts involved are significant. The sub-items envisaged by the statements can be grouped together when one of the following two conditions applies:
  a) the amount of the sub-items is immaterial;
  b) the aggregation favours a clear financial statement presentation; in this case, the notes separately describe the sub-items that have been aggregated.

  Accounts which do not present amounts either for the year to which the financial statements refer or the previous year are not indicated in the balance sheet, income statement or statement of comprehensive income;
- *predominance of substance over form*: the transactions and other events are recognised and stated in compliance with their substance and economic entity and not just their legal form;
- *offsetting*: assets and liabilities, income and expenses are not offset, unless this is permitted or required by an international accounting standard or by an interpretation of the same or the provisions set forth by the aforementioned Bank of Italy Circular;
- *comparative information*: comparative information is provided for each balance sheet and income statement item relating to the previous year, unless an accounting standard or interpretation does not permit this or requires different presentation. The balances relating to the previous year can be appropriately adjusted, where necessary, for the purpose of ensuring the comparability of the information relating to the year underway. Any non-compatibility, adaptation or impossibility of the latter are reported and commented on in the notes.

The Notes to the financial statements are divided into sections: A-Accounting policies, B-Information on the consolidated balance sheet, C-Information on the consolidated income statement, D-Statement of consolidated comprehensive income, E-Information on risks and relative hedging policies, F-Information on consolidated shareholders' equity, G-Business combinations regarding companies or divisions, H-Transactions with related parties, I-Share-based payment agreements, and L-Segment reporting.
Each part of the notes is organised into sections, and each section describes a single element of operations.

Accounting policies and uncertainties with regard to the use of estimates for drawing up the consolidated financial statements (pursuant to the provisions of IAS 1 and the recommendations set forth in the Bank of Italy/Consob/Isvap documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010)

The application of certain accounting standards necessarily involves recourse to estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosure provided with regard to the potential assets and liabilities.
The assumptions underlying the estimates made take into account all the information available as of the date of preparation of the financial statements, as well as the hypotheses considered reasonable in light to past experience and the particular moment being experienced by the financial markets. In this regard, note that the situation caused by the current economic and financial crisis has made it necessary to make assumptions concerning the future trend characterised by significant uncertainty.
Precisely in consideration of the uncertain situation, it cannot be excluded that the hypotheses adopted, however reasonable, might not be confirmed by future scenarios in which the Group finds itself operating. The results which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up the financial statements and could consequently make adjustments necessary which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements.

The following paragraphs illustrate the accounting policies considered most critical to the truthful and correct portrayal of the Group's equity, economic and financial situation, both in terms of the materiality of the values to be recognised in the financial statements affected by said policies and the high level of judgement required for valuations that for which management need to use estimates and assumptions, referring the reader to the specific sections of the notes to the financial statements for detailed information on the valuation processes conducted as at 31 December 2017.

Determining the value adjustments on loans disbursed recognised in the balance sheet assets

Loans represent one of the items subject to estimates most exposed to choices made by the Group in terms of disbursement and risk management and monitoring.
More specifically, the Group manages the risk of default of borrowers by continuously monitoring customer accounts in order to assess their ability to repay the amount borrowed, based on their economic-financial situation. Monitoring in this way enables any signs of loan deterioration to be intercepted and therefore an estimate can be made of the value adjustment to be recognised against these loans either on an analytical basis or on a lump-sum basis, the latter calculated by considering the likelihood of insolvency, and the impairment recorded in the past on loans of a similar nature.
For loans for which objective evidence of impairment has not been assessed individually, a collective valuation process is implemented, based on loss percentages constructed on time series, suitably adjusted to take current conditions on the valuation date into account.
When assessing the value of loans, actual data and information that is certain on the date of preparation of the consolidated financial statements are of key importance. However, there are other equally important factors, such as:

- the reference context, from a macroeconomic and legislative-regulatory perspective, which influences management's vision in terms of future expectations and rigour in the valuation process. Said context is particularly important given the prolonged nature of the current economic-financial crisis, which could entail the further deterioration of borrowers as well as the values of the guarantees backing the loans;
- the outcome of the application of models to estimate the cash flows that individual borrowers (or portfolios of borrowers with similar risk profiles) are able to pay in order to meet, wholly or in part, the obligations they have undertaken with the Group, the estimates of recovery time and the estimates of the presumed sale value of property or of other collateral. Within the range of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a method or the selection of certain estimation parameters may have a significant influence on the valuation of loans. These methods and parameters are necessarily updated through a continuous process in order to best represent the estimated realisable value of the credit exposure.

In the light of the above, it is important to note that alternative monitoring criteria or different methods, parameters or assumptions in establishing the recoverable value of Group credit exposures, influenced incidentally also by possible alternative strategies set in place to recover the same and by the development of the economic-financial and

regulatory reference scenario, may lead to different valuations with respect to those conducted to prepare the financial statements as at 31 December 2017. Even if the monitoring criteria and the parameters that indicate the recoverability of receivables are maintained constant, it must be noted that, from 1 January 2018, the process of calculating adjustments on loans will be significantly influenced by the new impairment model introduced by standard IFRS 9, based on "forward looking" expected losses, as illustrated in greater detail in the paragraph entitled "New accounting standards/interpretations or amendments to existing standards/interpretations validated by the IASB/IFRIC" to which the reader should refer.

Estimated impairment losses in relation to intangible assets (including goodwill) and investments in associates

On a yearly basis, upon preparing the financial statements, intangible assets and investments in associates recognised in the balance sheet assets are tested for impairment. The impairment test is usually conducted by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment has been recognised in the financial statements is lower than the value in use or fair value, net of costs to sell, whichever is greater.
With regard to the "Commercial Network" and "Private & Investment Banking" cash generating units (CGU), to which almost all intangible assets with an undefined useful life, represented by goodwill have been allocated, impairment testing was conducted using the Value in Use, as higher than the fair value, obtained through the application of the Dividend Discount Model (DDM), based on which the value of a company depends on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected planning timeframe, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual capitalisation of the normalised dividend for the last year of the forecast, based on a pay-out ratio depending on profitability at full operation.
The tests conducted indicated the need to wholly write down the goodwill of the Commercial Network CGU, corresponding to euro 616 million and that of the Private and Investment Banking CGU corresponding to euro 418 million.
Considering that impairment testing requires significant elements of judgment, with specific reference to establishing the scope of the individual CGUs, the relative cash flows and the discounting rate, the assumptions and the parameters used may progress in a different manner to that assumed, also as a result of a different development of the macroeconomic and market context, which cannot currently be foreseen. In this regard, it is important to note that in future years, there will be no need to analyse the recoverability of the above-cited CGUs, as the goodwill to which impairment has been applied, may no longer be the subject of later recoveries.

Part B of these Notes to the Financial Statements, Section 13 - Intangible assets, provides an illustration of the main assumptions underlying the verification of the recoverability of goodwill and the relative results.
As regards equity investments, note that the non availability, as at the date of preparation of the draft consolidated financial statements, of the draft financial statements of the investee companies and of their updated business plans, introduces further elements of uncertainty to the process of assessing the value of equity investments. In these circumstances, we can therefore not exclude the possibility that the value attributed to the equity investments based on the information available may possibly differ from subsequent assessments made in light of different available information

Determination of the fair value of financial assets and liabilities

In the event of financial instruments that are not listed on active markets or illiquid and complex instruments, adequate valuation processes need to be set in place, characterised by a certain amount of subjective judgement as regards the choice of the valuation model and of the relative input parameters, which sometimes cannot be observed in the market.
There are margins of subjectivity in the valuation with regard to whether certain parameters are observable or not, and in the consequent classification in correspondence with the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of instruments recognised at fair value through profit and loss in the financial statements and for those values at amortised cost, please refer to the contents of the Notes to the financial statements, Part A.4 - Fair value disclosure.

Estimating impairment losses on financial assets available for sale

With regard to financial assets available for sale, identifying objective evidence of losses is a critical element, in the presence of which the reduction in the fair value must be recognised as a balancing entry in the income statement, rather than a specific reserve of shareholders' equity. With regard to equity instruments and investments in private equity funds and in similar investment vehicles, the policy approved by the Group establishes parametric thresholds connected to the significant or prolonged nature of the reduction in fair value, which, once exceeded, requires the recognition of a loss to the income statement, save for exceptional and justified circumstances.

Impairment testing on financial assets available for sale is illustrated in Section 4 of Part B of Assets in these Notes to the financial statements.

Estimating the recoverability of deferred tax assets

The Group has significant Deferred Tax Assets (DTA) among its assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, and also resulting from tax losses carried forward. The recognition of these assets and the subsequent maintenance in the balance sheet entails a judgement as to the potential recoverability of the same. Said judgement of recoverability is moreover based on the legislative tax provisions in force on the date of preparation of the financial statements. These provisions permit deferred tax assets that meet the requirements established by Law no. 214 of 22 December 2011 to be transformed into tax credit in the event that a "statutory loss", a "tax loss" for IRES purposes or a "net negative value of production" for IRAP purposes is recorded, therefore making their recovery certain, regardless of the ability to generate future profits. With regard to deferred tax assets resulting from tax losses for IRES purposes, current legislation allows the same to be carried forward without any time restriction. For said deferred tax assets and for the residual assets resulting from temporary differences other than those previously cited, the judgement of probability is based on the income forecasts that can be inferred on the basis of the approved strategic and forecast plans.
In this regard, it is important to note that verifying the recoverability of the recognition values of deferred tax assets is a valuation that requires significant elements of judgement.
The recoverability could also be negatively influenced by circumstances that are not foreseeable at the present time, such as changes to the current tax legislation or changes in the macroeconomic or market scenario, which would then require an update of the income forecasts used as a basis to estimate future taxable income. For this reason, the recoverability of the DTA that cannot be transformed into tax credit is continuously monitored with regard to changes in tax legislation and in the results recorded, which may be negatively influenced by the economic and market scenarios.

Section 14 - "Tax assets and tax liabilities", contained in Part B - Assets in these Notes to the Financial Statements, provides information on the nature and on the tests conducted as regards the recognition or otherwise of deferred tax assets.

Estimating provisions for risks and charges

The companies belonging to the Group are defendants in a wide range of lawsuits and tax disputes and are also exposed to a number of types of contingent liabilities. The complexity of the situations and corporate deals that underlie the outstanding disputes, along with the difficulties in the interpretation of applicable law, require significant elements of judgement to estimate the liabilities that may result when pending lawsuits are settled. The difficulties lie in assessing if and what may be due and how much time will elapse before liabilities materialise and are particularly evident when the proceedings are at the initial stage and/or the relative preliminary analysis is underway. The specific nature of the matter disputed and the consequent absence of case law relating to similar disputes, not to mention the differing opinions expressed by judgement bodies both at the various levels of the proceedings and by bodies at the same level over time, make a valuation of the potential liabilities difficult even when the provisional rulings relating to the courts of first instance are available. Previous experience demonstrates that in a number of cases, the rulings made by the judges in the courts of first instance were then completely overturned on appeal or in the supreme court, which may be in favour or not in favour of Group companies. On the basis of the above, the classification of potential liabilities and the consequent valuation of the provisions needed is based on subjective elements of judgement which require recourse to estimation processes which can be highly complex. It cannot therefore be ruled out that following the issue of the final ruling, allocations made to provisions for risks and charges

on the basis of the potential liabilities of lawsuits and tax disputes may turn out to be lacking or surplus to requirements.

For the disclosure of the main risk positions of the Group relating to legal disputes (clawback actions and lawsuits underway) and to tax disputes with the Tax Authority, the reader should refer to Section 12 - "Provisions for risks and charges" contained in Part B of Liabilities in these Notes to the Financial Statements.

Estimating the recoverable value of real estate assets held for investment purposes

The Group possesses real estate for investment purposes, mostly originating from properties repossessed to close an original credit position (so-called "datio in solutum" - acceptance in lieu) or from an agreement to settle a dispute. For these assets, in the event of indicators that could potentially show an impairment loss, the recoverable value has to be established, recognising a write-down if said value should be lower than the book value. The estimation of recoverable value, conducted using external appraisals, was impacted by an inevitable component of subjectivity in certain circumstances, amplified by the specific characteristics of each property. In this regard, note that the difficulties related to this estimation process are particularly evident in the current scenario of the Italian property market, the reference market for almost all of the Group's properties. In the future we can therefore not exclude a potential further reduction of the recoverable value if the real estate crisis should worsen with respect to the situation as at the date of the appraisals.

Estimating obligations relating to employee benefits

The calculation of the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of assessments depends, to a large extent, on the actuarial assumptions used in both demographic terms (such as mortality rates and employee turnover) and financial terms (such as discounting rates and rates of inflation). The judgement expressed by management is therefore fundamental when selecting the most suitable technical bases for the assessment in question, which is influenced by the socio-economic climate in which the Group operates, as well as the performance of the financial markets. The main actuarial assumptions and the sensitivity analysis of liabilities with respect to the actuarial assumptions retained most important are illustrated in sections 11 and 12 of liabilities, contained in Part B of these Notes to the financial statements, for Employee termination indemnities and for defined benefit company retirement plans respectively.

The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate. Moreover, financial statement valuations are formulated on the basis of the going concern principle: the directors have not identified any elements relating to operations or to the evolution of the equity and financial situation that could cast doubts as to the ability of Group companies to be able to continue to operate as usual. Disclosures on financial risks and related controls are set forth in "Part E - Information on risks and on relative hedging policies" of the Notes to the financial statements, as well as in the Group's report on operations.

Section 3 - Scope of consolidation and consolidation methods

(A) Subsidiary companies

The consolidated financial statements include the balance sheet and income statement results of the Parent Company Banco BPM S.p.A. and its direct and indirect subsidiaries, including structured entities, in accordance with that envisaged by accounting standard IFRS 10. Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity, including structured entities, and is met when an investor simultaneously:

- has the power to direct the relevant activities of the entity;
- is exposed to or benefits from variable returns resulting from its involvement with the entity;
- has the ability to use its power to affect the amount of said returns (link between power and returns).

IFRS 10 establishes therefore that, in order to possess control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to changes in the results that result from said power.

The Group therefore consolidates all types of entity when all three control elements are present.
Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of the voting rights.
In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

- the purpose and the design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held by means of contractual arrangements which awards the power to direct the relevant activities, such as the power to establish the financial and operating policies of the entity, the power to exercise majority voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any voting rights that may potentially be exercised and that are considered substantial;
- involvement with the entity in the role of agent or principal;
- the nature and dispersion of any rights held by other investors.

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2017, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 31 December 2017, companies in which a majority of voting rights in the ordinary shareholders meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2017, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same. On this basis, the consolidated structured entities recognised by the Group are represented by the SPEs for securitisation transactions.

Special Purpose Entities for securitisation transactions
With regard to Special Purpose Entities for securitisation transactions, the elements retained as relevant for the purpose of identifying control and therefore the need for any consolidation, are represented by:

- the purpose of said SPEs;
- exposure to the outcome of the transaction;
- the ability to structure transactions and to direct the relevant activities and take critical decisions through servicing contracts;
- the ability to arrange for their liquidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment in which a situation of control no longer exists, as described in the "Business combinations, goodwill and changes in interest holdings" section below under "A.2 - Key financial statement items", which should be referred to.
Full consolidation consists of the "line-by-line" acquisition of the balance sheet and income statement aggregates of subsidiary entities. For consolidation purposes, the book value of the equity investments held by the Parent Company or by the other Group companies is eliminated against the acquisition of the assets and liabilities of the investees, as a balancing entry to the corresponding portion of shareholders' equity attributable to the Group and the portion held by minority interests, also taking into account the Purchase Price Allocation upon acquisition of control.
For subsidiary entities, the portion of shareholders' equity, income (loss) for the year and comprehensive income pertaining to minority interests is indicated as a separate item in the respective schedules of the consolidated

financial statements (respectively in items: "210. Minority interests", "330. Income (loss) attributable to minority interests", "150. Consolidated comprehensive income attributable to minority interests").
In this regard, please note that there is no effect on the balance sheet, the income (loss) or comprehensive income pertaining to minority interests resulting from the consolidation of the separate equities held by the SPEs for securitisations originated by the Group, not subject to derecognition in the separate financial statements of the assigning Group banks. For a description of the effects of the consolidation of these equities, please refer to the information contained in part "A.2. Key financial statement items" below, section "18- Other information, Securitisations - derecognition from financial statements of financial assets transferred".

The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of the disposal; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item "270. Profits (Losses) on disposal of investments". In the event of the partial disposal of a subsidiary entity, which does not result in a loss of control, the difference between the sale price and the relative book value is recognised as a balancing entry of shareholders' equity.
The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full.
The balance sheet and income statement results of the consolidated companies whose operating currency is different from the Euro are translated based on the following rules:

- the balance sheet assets and liabilities are converted at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are converted at the average exchange rate for the period.

All exchange rate differences originated by the translation are recognised in a specific valuation reserve under shareholder's equity. Said reserve is eliminated through a concurrent debit/crediting of the income statement when the investment is disposed of. Changes in value of the valuation reserve due to exchange differences are included in the Statement of comprehensive income.
In order to prepare the consolidated financial statements as at 31 December 2017, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.
Investments in associates and companies subject to joint control held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "150. Non-current assets held for sale and discontinued operations" and "90. Liabilities associated with non-current assets held for sale and discontinued operations". As regards the income statement, expenses and income associated with assets and liabilities classified as held for sale, net of taxes, have been recognised in the separate item "310. Income/(loss) after tax from discontinued operations". If the fair value of the assets and liabilities held for sale, net of selling costs, turns out to be lower than the book value, a value adjustment is recognised in the income statement.

Cancellation of intragroup derivatives linked to own liabilities designated at fair value through profit and loss

The adoption of the fair value option for some bond issues, as illustrated in the paragraph entitled "Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness" in "Part A.2 – Key financial statement items", necessarily implies a series of assumptions with regard to the recognition of derivatives used as operational hedges in the consolidated financial statements. For the above issues, the fair value designation is closely linked to the actual methods the Group uses to carry out its hedging strategies, managing its market exposure in "bulk" terms, not through an equivocal or determinable relation with an individual loan or with a loan portfolio. More specifically, hedges linked to the bond issues of the Group are managed by the Group's investment bank, Banca Aletti. Infragroup derivatives entered into with Banca Aletti are recorded by the latter in its "trading portfolio" and managed in bulk along with the other trading instruments, in observance of the limits of position and risk which can be held by Banca Aletti. In general, it can be stated that:

- by adopting the fair value option, the issuer can represent in the accounts the operational strategy of hedging all risks associated with the bond issues. This is also reflected in the risk exposure of the "banking portfolio", where the issues and related hedging derivatives are classified;
- for Banca Aletti, the risk position resulting from entering into said derivatives is added to the other existing positions or to be created with market counterparties, to be managed based on a portfolio strategy, within the set risk limits. The set of those positions is recorded in the "trading portfolio";

- at consolidated level, this means that the risks associated with the "banking portfolio" are substantially hedged, and the actual risk exposure of the Group is the exposure resulting from management by Banca Aletti.

As at 31 December 2017, consolidation procedures envisage that the derivatives stipulated between Group companies are cancelled. In order to correctly recognise the risks related to the Group's "regulatory trading portfolio" and to the "banking portfolio", which would change following the cited cancellation, the derivatives that Banca Aletti has ideally stipulated with the market (in its trading portfolio) to hedge the liabilities issued by the Parent Company (in its banking portfolio), must be reclassified from the "regulatory trading portfolio" to the "banking portfolio". Essentially, said reclassification is made assuming that said derivatives correspond perfectly to those stipulated by the Parent Company, as the bulk management of risks carried out by Banca Aletti makes it impossible to accurately identify the specific derivative contracts entered into with external counterparties. Said assumption is supported by the fact that the Banca Aletti desks, which act as counterparties to the Parent Company, transfer the risks relating to the fair value option to the market, and that the potential risk position undertaken by the same, corresponds to an approved decision, which ignores the risks undertaken by entering into said derivative contracts.

(B) Investments in companies subject to joint control and subject to significant influence

Associates, namely subject to significant influence, are companies which are not subsidiaries, over which a party exercises significant influence. The company exercises a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Investments in companies subject to joint control and subject to significant influence are recognised according to the equity method; for a description of the classification, recognition, measurement and derecognition criteria, reference should be made to Part "A.2 - Key financial statement items" below - section "7. Investments in associates and companies subject to joint control".

1. Equity investments in exclusively controlled companies

The table below provides a list of equity investments in exclusively controlled companies. Information on investments held in enterprises that are jointly controlled and subject to significant influence exercised by the Banco BPM Group can be found in Part B – Information on the Consolidated Balance Sheet – Section 10. Equity Investments, of these Notes to the Financial Statements.

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		% of available votes (2)
				Holder	% held	
Banco BPM S.p.A.	**Verona**	**Milan**	**Parent Company**			
1. Agriurbe S.r.l. (in liquidation)	Milan	Milan		Banco BPM	100.000%	100.000%
2. Aletti & C. Banca di Investimento Mobiliare S.p.A.	Milan	Milan	1	Banco BPM	100.000%	100.000%
3. Aletti Fiduciaria S.p.A.	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
4. Arena Broker S.r.l.	Verona	Verona	1	Holding di Partecipazioni	57.300%	57.300%
5. Banca Akros S.p.A.	Milan	Milan	1	Banco BPM	100.000%	100.000%
6. Banca Aletti & C. (Suisse) S.A.	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
7. Banca Popolare di Milano S.p.A.	Milan	Milan	1	Banco BPM	99.970%	99.970%
8. Bipielle Bank (Suisse) S.A. (in liquidation)	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
9. Bipielle Real Estate S.p.A.	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
10. BPM Covered Bond S.r.l.	Rome	Rome	1	Banco BPM	80.000%	80.000%
11. BPM Covered Bond 2 S.r.l.	Rome	Rome	1	Banco BPM	80.000%	80.000%
12. BRF Property S.p.A.	Parma	Parma	1	Partecipazioni Italiane	51.114%	51.114%
				Banco BPM	14.314%	14.314%
13. BP Covered Bond S.r.l.	Milan	Milan	1	Banco BPM	60.000%	60.000%
14. BP Property Management Soc. Consortile a r.l.	Verona	Verona	1	Banco BPM	92.309%	99.462%
				Bipielle Real Estate	4.615%	
				Banca Aletti & C.	1.000%	
				S.G.S. BP	1.000%	
				Holding di Partecipazioni	0.538%	
15. BP Trading Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
16. Consorzio AT01	Lodi	Lodi	1	Sviluppo Comparto 8	95.000%	95.000%
17. FIN.E.R.T. S.p.A. (in liquidation)	Rome	Rome	1	Banco BPM	80.000%	80.000%
18. Ge.Se.So. S.r.l.	Milan	Milan	1	Banco BPM	100.000%	100.000%
19. Holding di Partecipazioni Finanziarie Banco Popolare S.p.A.	Verona	Verona	1	Banco BPM	100.000%	100.000%
20. Immobiliare Marinai d'Italia S.r.l.	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
21. Liberty S.r.l. (in liquidation)	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
22. Lido dei Coralli S.r.l.	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
23. Manzoni 65 S.r.l.	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
24. Mariner S.r.l. (*)	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
25. Meleti S.r.l.	Lodi	Lodi	1	Perca	100.000%	100.000%
26. Milano Leasing S.p.A. (in liquidation)	Milan	Milan	1	Banco BPM	99.999%	99.999%
27. Partecipazioni Italiane S.p.A. (in liquidation)	Milan	Milan	1	Banco BPM	99.966%	100.000%
28. Perca S.r.l.	Lodi	Lodi	1	Immobiliare Marinai d'Italia	100.000%	100.000%
29. P.M.G. S.r.l. (in liquidation)	Milan	Milan	1	Banco BPM	84.000%	84.000%
30. ProFamily S.p.A.	Milan	Milan	1	Banco BPM	100.000%	100.000%
31. Release S.p.A.	Milan	Milan	1	Banco BPM	85.387%	85.387%
32. Sagim S.r.l. Società Agricola	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
33. Sirio Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
34. Società Gestione Servizi BP Soc. Consortile p.az.	Verona	Verona	1	Banco BPM	68.334%	99.562%
				Banca Akros	4.093%	
				Banca Aletti & C.	8.753%	
				Banca Popolare di Milano	17.506%	
				Bipielle Real Estate	0.438%	

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		% of available votes (2)
				Holder	% held	
				Holding di Partecipazioni	0.438%	
35. Sviluppo Comparto 6 S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
36. Sviluppo Comparto 8 S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
37. Tecmarket Servizi S.p.A.	Verona	Verona	1	Banco BPM	100.000%	100.000%
38. Terme Ioniche S.r.l.	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%
39. Terme Ioniche Società Agricola S.r.l.	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
40. Tiepolo Finance S.r.l.	Lodi	Lodi	1	Banco BPM	60.000%	60.000%
41. BP Mortgages S.r.l. (**)	Milan	Milan	4	-	0.000%	
42. BPL Mortgages S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
43. BPM Securitisation 2 S.r.l. (**)	Rome	Rome	4	-	0.000%	
44. BPM Securitisation 3 S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
45. Erice Finance S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
46. Italfinance Securitisation VH 1 S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	Banco BPM	9.900%	9.900%
47. Italfinance Securitisation VH 2 S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
48. Leasimpresa Finance S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
49. Pami Finance S.r.l. (in liquidation)	Milan	Milan	1	Banco BPM	100.000%	100.000%
50. Profamily Securitisation S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Company undergoing disposal as per IFRS 5.
(**) Special Purpose Entity for securitisation transactions originated by the Group.

Changes in the scope of consolidation

The changes in the scope of consolidation that took place with respect to the situation as at 31 December 2016 are primarily related to the completion of the merger with Banca Popolare di Milano which, as of 1 January 2017, entailed the entry of the following companies:

- subsidiaries consolidated line-by-line:
  - Banca Akros S.p.A.
  - Banca Popolare di Milano S.p.A.
  - Ge.Se.So. S.r.l.
  - ProFamily S.p.A.
  - BPM Covered Bond S.r.l.
  - BPM Covered Bond 2 S.r.l.
  - BPM Securitisation 2 S.r.l.
  - BPM Securitisation 3 S.r.l.
  - Profamily Securitisation S.r.l.

- associated companies consolidated at equity:
  - Bipiemme Vita S.p.A.
  - Calliope Finance S.r.l. (in liquidation)
  - Etica SGR S.p.A.
  - Factorit S.p.A.
  - SelmaBipiemme Leasing S.p.A.

Please also note that, following the completion of the liquidation procedures and the resulting striking off from the applicable companies' register, starting in the first quarter the subsidiaries Bipitalia Residential and BPV Mortgages are no longer consolidated line-by-line.
These operations did not have significant impacts on the balance sheet or income statement of the Group.

In addition, as a result of the completion of separate mergers, the subsidiaries Italease Gestione Beni, Sviluppo Comparto 2, TT Toscana Tissue, Essegibi Promozioni Immobiliari, Nadir Immobiliare (incorporated into Bipielle Real Estate) and HCS (incorporated into Terme Ioniche) are no longer consolidated line-by-line.

These transactions were finalised during the year, with accounting and tax effects backdated to 1 January 2017, did not entail any share capital increase for the incorporating companies and took place with no exchange ratio or adjustment in cash.

In addition, note that following the signature of the *datio in solutum* agreement between Banco BPM and the Zunino Group, in July, several financial assets were assigned to Banco BPM, including a 100% stake in Agriurbe S.r.l. (in liquidation), a company which in turn wholly owns the agricultural company Sagim S.r.l. Both companies have been included in the scope of line-by-line consolidation.
Similarly, the investee company Terme Ioniche Società Agricola, established in December following the spin-off of the agricultural division of Terme Ioniche, is also included in the scope of line-by-line consolidation.

Lastly, as widely illustrated in the Report on Operations, to which reference should be made for more details, the sale of the entire shareholding of the subsidiary company Aletti Gestielle SGR was finalised in December. Following the above-mentioned sale, the requirements for the consolidation of the Gestielle Hedge Low Volatility Fund were no longer met, as the conditions on the basis of which the Group, acting as fund manager, is able to influence the returns by managing the relevant activities of said Fund are no longer fulfilled.

With regard instead to the segment of investments in associates and companies subject to joint control carried at equity, note that the associated companies Energreen and Soc. Coop. Luigi Luzzatti are no longer included as, following the events that took place during the year, the requirements and conditions are no longer met for the Parent Company to exercise dominant influence, and as a result the share of the equity investment was transferred to financial assets held for sale on the basis of the fair value determined at the transfer date.

Lastly, it should be noted that the reorganisation of the Bancassurance segment, following the termination of distribution agreements with the Unipol Group for life insurance business and with the Aviva Group for non-life insurance business, and the subsequent agreement signed with Cattolica Assicurazioni, did not lead to any change in the scope of consolidation as at 31 December 2017 regarding the stakes held respectively in Popolare Vita and Avipop Assicurazioni, over which, as at 31 December 2017, the Group continued to exercise significant influence.
However, following the overall reorganisation of the bancassurance segment, which entails the purchase of the remaining 50% stake in Avipop Assicurazioni and Popolare Vita, and the simultaneous re-sale of 65% of the two companies to Cattolica Assicurazioni, the Banco BPM Group will hold a stake of 35% in the two investees. Therefore, as at 31 December 2017, the 35% interest held in the two companies are classified under "equity investments" and the remainder (15% in Popolare Vita and 14.999% in Avipop) under item 150 "Non-current assets held for sale and discontinued operations". For further details, the reader should refer to the paragraph entitled "Bancassurance restructuring - impacts connected to the cancellation of the distribution agreements and the exercise of options established in the shareholders' agreements" contained in "Section 5 - Other aspects" below.

2. Valuations and assumptions used to establish the scope of consolidation

With regard to wholly-owned Companies, their inclusion in the Group's scope is linked to the concept of the majority of voting rights at the ordinary shareholders' meeting, without any instances of exclusion in the presence of legal control.

The only exceptions are those of special purpose entities for securitisation transactions where, as illustrated previously, even in the absence of direct investments, the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.

3. Investments in exclusively controlled companies with significant minority interests

As at 31 December 2017, there were no minority interests in subsidiary companies considered significant by the Group, either individually or as a whole, as also shown in the table of "Section 16 - Minority interests" contained in Part B of liabilities in these notes to the financial statements; the same is true for the financial statements as at 31 December 2016.

3.1 Minority interests, voting rights available to minority interests and dividends distributed to minority interests

No disclosure is made for the reasons illustrated above.

3.2 Equity investments with significant minority interests, accounting information

No disclosure is made for the reasons illustrated above.

4. Significant restrictions

As at 31 December 2017, there are no legal or substantial constraints or restrictions able to hinder the rapid transfer of capital resources within the Group. The only restrictions are those related to legislation and regulations, which may require a minimum amount of own funds to be maintained, or to the provisions of the Italian Civil Code on allocatable profits and reserves.
Furthermore, we hereby state that there are no protection rights held by minority interests able to restrict the Group's ability to access or to transfer assets between Group companies or to settle Group liabilities, also with regard to the fact that, there are no subsidiary companies with significant minority interests, as illustrated in the paragraph above.

5. Other information

All subsidiaries draw up financial statements as at 31 December 2017, corresponding to the end date of the consolidated financial statements (and the separate financial statements of the Parent Company).

Section 4 - Events occurring after the date of the financial statements

The following paragraphs illustrate the most significant events that occurred between the date of the financial statements and the approval of the draft financial statements by the Board of Directors.

Reorganisation of the Asset Management segment

On 7 February 2018, as part of the reorganisation and rationalisation of the Banco BPM Group and of capital management transactions related to the strategic restructuring of the asset management segment, following the sale of Aletti Gestielle SGR finalised on 28 December 2017, Banco BPM signed, among other things, two agreements to sell custodian banking and fund administration activities and to transfer the mandate for the delegated management of insurance assets.

More specifically, the first agreement, formalised as a binding Memorandum of Understanding, envisages the sale of a business division for the exercise of custodian banking and fund administration activities to BPN Paribas Securities Services.
The counter value of the sale was set at euro 200 million, to be paid in cash on closing, with a positive impact of the same amount, before tax, on the income statement for 2018.

With regard, instead to the second transaction, the Parent Company signed an agreement with Anima Holding, which envisages the transfer from Banca Aletti to Anima SGR of mandates for the delegated management of insurance assets, provided on behalf of the insurance joint ventures linked to the former Banco Popolare network (Popolare Vita, Lawrence Life, Avipop Assicurazioni and Avipop Vita), as well as establishing a twenty-year partnership relating to the assignment to Anima SGR of the delegated management of the assets underlying insurance products placed with the Banco BPM Group network.
The counter value of the transaction was set at euro 120 million, to be paid in cash on closing, with a positive impact of the same amount, before tax, on the income statement for 2018.

The above-illustrated transactions will be completed by the first half of 2018.

Section 5 - Other aspects

Financial statements approval and publication terms

Art. 154-ter of Italian Legislative Decree 58/98 (CFL), prescribes that within one hundred and twenty days from the end of the financial year, the financial statements must be approved and the financial report consisting of the draft individual financial statements and the consolidated financial statements, the report on operations and the declaration of the Manager responsible for preparing the Company's financial reports pursuant to article 154-bis, paragraph 5, must be published.

The draft financial statements of Banco BPM S.p.A. were approved by the Board of Directors at a meeting held on 7 February and will be submitted to the approval of the Shareholders' Meeting, convened for 7 April 2018.

Auditing

The financial statements for the year and the consolidated financial statements as at 31 December 2017 are audited by PricewaterhouseCoopers S.p.A., following the assignment awarded to said company, by means of a resolution of the shareholders' meetings of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. on 15 October 2016. Said assignment will last for the legal term (9 financial years) starting from the effective date of the merger (1 January 2017). The full auditors' report, together with the annual financial report, is made available to the public, pursuant to art. 154-ter of Italian Legislative Decree 58/98.

New accounting standards/interpretations or amendments to existing standards/interpretations validated by the IASB/IFRIC

The following paragraphs illustrate new accounting standards or amendments to existing standards approved by the IASB, as well as new interpretations or amendments to existing ones, published by the IFRIC, showing separately those applicable to financial year 2017 and those applicable in subsequent years.

IAS/IFRS accounting standards and relative SIC/IFRIC interpretations approved and to be applied on a compulsory basis in the preparation of 2017 financial statements

Regulation no. 1989 of 6 November 2017 - IAS 12 "Recognition of deferred tax assets for unrealised losses"
The purpose of the amendments is to provide some clarification and examples on the recognition of deferred tax assets relating to losses on debt securities measured at fair value.
The mandatory application of the amendments is envisaged from 1 January 2017.

Regulation no. 1990 of 6 November 2017 - IAS 7 "Disclosure initiative"
The purpose of the amendments is to provide users of financial statements with greater information to assess whether changes in liabilities for loans are due to changes in cash flows from financing activities.
The mandatory application of the amendments is envisaged from 1 January 2017.

Note that the application of the above-illustrated amendments did not have any impact on the Group.

IAS/IFRS accounting standards and SIC/IFRIC interpretations approved, the application of which takes effect after 31 December 2017

The following paragraphs illustrate the main accounting standards/interpretations or amendments of the same issued by the IASB/IFRIC and validated by the European Commission, which will be applicable on a mandatory basis subsequent to FY 2017.

Regulation no. 2067 of 22 November 2016 - IFRS 9 "Financial Instruments"

Regulation 2067 of 22 November 2016 endorsed the new international accounting standard IFRS 9 "Financial instruments", which regulates the stages of classification and measurement, impairment and hedge accounting for financial instruments, replacing accounting standard IAS 39.

Information on the main changes introduced, on the state of progress of the implementation project, of the main operating choices and decisions taken as regards accounting policies and relative areas of judgment, the expected qualitative impact on the book and regulatory value of shareholders' equity, can be found below.
In this regard, note that this information is provided in compliance with the provisions of accounting standard IAS 8 and the indications of the ESMA contained in the document entitled "European common enforcement priorities for 2017 financial statements" dated 27 October 2017.

Summary of the main changes

The main changes regard the following four aspects:

- the classification and measurement of financial assets (hereinafter also defined as "Classification and Measurement" or C&M). This is based on the business model and on the characteristics of the cash flows of the financial instruments, and envisages three accounting categories: financial assets measured at amortised cost, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income;
- as regards financial liabilities, the current rules for classification and measurement are still valid, with the exception of the amendment noted above in the method for recognising own credit risk for financial liabilities designated at fair value;
- the acknowledgement and recognition of hedge accounting relations (hereinafter also defined as hedge accounting for the sake of brevity), with the objective of guaranteeing greater alignment between the representation of underlying hedges in the accounts and risk management logic;
- the introduction of a single impairment model, to be applied to all financial assets not measured at fair value through profit and loss, based on a concept of forward-looking expected loss. The objective of the new approach is to guarantee a more immediate recognition of losses with respect to the "incurred loss" model envisaged by IAS 39, on the basis of which losses must only be recognised if there is objective evidence of impairment subsequent to the initial recognition of the asset. More specifically, the model envisages that financial assets measured at amortised cost should be classified into three separate stages, corresponding to different measurement criteria:
  - stage 1: to be measured on the basis of an estimate of expected forward-looking loss with reference to a time horizon of one year. Stage 1 includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition;
  - stage 2: to be measured on the basis of an estimate of expected forward-looking loss with reference to a time horizon corresponding to the entire residual life of the financial assets. Stage 2 includes the financial assets that have undergone significant impairment of credit risk with respect to initial recognition;
  - stage 3: to be measured on the basis of an estimate of expected forward-looking loss, based on a 100% likelihood of default. Stage 3 includes financial assets that are considered non-performing.

The mandatory application of this standard is envisaged from 1 January 2018.

The Banco BPM Group implementation project

Considering the significance of the amendments introduced by the new IFRS 9 and following the merger of the former Banco Popolare Group and the former BPM Group, starting from January 2017 the Banco BPM Group unified the specific projects already launched at individual level by the former groups. The new unified project is meant to:

- confirm and update the impacts of the new standard on existing administrative and accounting processes, and more generally on all of the activities and the organisation of the Group founded after the merger (confirmation of analyses and preliminary decisions);
- define the changes to be made to the afore-mentioned processes and activities in order to guarantee the compliance of the new Group with the new standard (design of the target operating model);
- implement the necessary changes to the organisational system, the information systems, and more generally to all of the new Group processes impacted by the legislative amendments introduced (development and impact analyses).

From the fourth quarter of 2017, project work has focused on formalising the decisions taken, through the issue of reference legislation in terms of methods, processes and procedures, and on verifying the correct implementation of the changes required in target information systems.
At present, several IT changes are being finalised, with a view to implementing certain methodological options decided in the IFRS 9 project in administrative and accounting processes.
The structure of the project reflects the areas of changes introduced by the new standard illustrated above, Classification and Measurement (C&M), Impairment and Hedge Accounting; specific working groups with responsibility over each thematic area have been formed.
The same methodological approach was used for each of the project's main areas, broken down into the following, previously-mentioned three macro activity stages: analysis and preliminary decisions, design of the target operating model and development and impact assessment. In this regard, it should be emphasised that for the "impairment" area, beginning from the second quarter of 2017 two parallel implementation paths were opened, the first regarding the stage assignment entrusted to the responsibility of the Loans function, while the second regarding the "processing engine and models" led by the Risk function; in the third quarter of 2017, a third implementation path was opened focused on the measurement methodology to be adopted for non-performing loans (stage 3), in line with the multi-scenario approach envisaged by standard IFRS 9, led by the NPL function.

The overall project is jointly led by the Administration and Budget function Head, with the support of the Special Projects and Monitoring function, and entails the active involvement of representatives from the Risk, Loans, Commercial, Organisation, IT, Finance, Planning & Control, Audit and NPL Unit functions. The results of the activities performed and the strategic decisions to be taken have been brought to the attention of the Operating Committee, comprised by all of the function Heads involved directly and indirectly in the implementation of the new rules. The main choices or decisions to be made are submitted for the attention of a Steering Committee (consisting of the Managing Director, the General Manager, the Joint General Managers, the Project Manager and the Head of the Special Projects and Monitoring Function) as well as the Board of Directors. In particular, the results of the preliminary impact assessment requested by the EBA on the reference situation as at 30 September 2016 (on the separate scope of the former Banco Popolare and Banco BPM Groups), delivered between February and March 2017, and as at 31 December 2016, delivered in July 2017 were submitted to the Steering Committee.
The overall project as well as the decisions taken and the initiatives launched were subject to specific analysis and assessment by the ECB ("IFRS 9 Thematic Review") which, in the first half of 2017, conducted an analysis on the progress status of the Banco BPM Group's project, with reference to the date of 31 March 2017. Following its own analyses, on 9 October 2017, the Supervisory Authority communicated its observations mainly regarding the project approach and the formalisation of the methodological choices. The Supervisory Authority also made some recommendations, indicating the relative deadlines by which the above-mentioned measures should be implemented. The observations of the Supervisory Authority, where not already superseded by the project activities carried out after 31 March 2017, were taken into due consideration when updating the work plan for the project. In greater detail, the recommendations were addressed to specific activities, which on the date of preparation of this report, were almost totally concluded.

Main changes and relative expected impact on the accounts

For the Banco BPM Group, the new classification, measurement and impairment requirements will be applied from 1 January 2018, date of first-time application, with the exception of the accounting treatment of the profits and losses relating to its creditworthiness for financial liabilities designated at fair value through profit and loss, for which early application was used in 2017, as already illustrated.
The application of the new requirements will result in an adjustment of the opening balances of shareholders' equity as at 1 January 2018, calculated by applying standard IFRS 9 retrospectively, unless otherwise envisaged. In line with that permitted by accounting standard IFRS 9, the Group will not present any information on a comparative basis in 2018.

For operational reasons relating to the timing of the processes to consolidate data as at 31 December 2017, and to complete some project activities, on the date of preparation of these financial statements, the effects relating to the application of the new standard, obtained on the basis of the results produced by accounting-administrative procedures, were not available. Nevertheless, in order to appreciate the effects relating to the application of the new accounting rules, a preliminary estimate of the quantitative impact on the book and regulatory value of shareholders' equity as at 1 January 2018 is provided in the report on operations; said estimate was made by using the best available information on the date of preparation of this financial report, obtained through non-accounting processes.

The cited processing often referred to data prior to 31 December 2017, as deemed not to be significantly different from those at year end. Based on the above, the estimates therefore may be subject to possible changes with regard to completing the process of first-time application of standard IFRS 9 and the internal and external validation and control activities on the same. In 2018, the Banco BPM Group will continue in its efforts to fine-tune the methodological reference framework, as well as the relative accounting processes and control systems.

The main decisions taken and the major qualitative impacts expected for each project area are illustrated below.

Classification and Measurement

According to accounting standard IFRS 9, the classification of financial assets depends on the combination of the following two drivers:

- The entity's Business Model: which reflects the objectives that company management intends to pursue by holding financial assets. More specifically:
  - "Hold To Collect" (HTC), when the objective is to collect contractual cash flows, maintaining the financial instrument until maturity;
  - "Hold To Collect And Sell" (HTC&S), when the financial assets are held with a view to collecting contractual cash flows for the duration of the asset, as well as collecting the proceeds from their sale;
  - "Other": when the objectives are different to those illustrated in the points above, and relate, for example, to the intention to collect cash flows by selling the assets ("Sell").
- Contractual characteristics of cash flows: depending on whether the cash flows are based exclusively on principal and interest ("Solely Payments of Principal and Interest", or SPPI) or whether, otherwise, they also depend on other variables (such as for example, profit sharing, such as dividends, or repayment of invested capital depending on the financial performance of the issuer etc.). The tests conducted to ascertain the contractual characteristics of the cash flows are indicated with the term "SPPI test".

Based on the combination between the business model and the characteristics of the financial assets, the following accounting categories can be identified:

- Financial assets measured at amortised cost: this includes debt instruments (loans, receivables and securities) with the "Hold To Collect" business model, the contractual terms of which are represented solely by payments of principal and interest (SPPI test passed);
- Financial assets measured at fair value through comprehensive income, recycled to the income statement: this includes debt instruments (loans, receivables and securities) with the "Hold To Collect And Sell" business model, the contractual terms of which are represented solely by payments of principal and interest (SPPI test passed);
- Financial assets measured at fair value through profit and loss: this includes trading activities and, regardless of the business model, assets that must be measured at fair value through profit and loss as they have not passed the SPPI test. This includes all equity instruments, unless the entity chooses the irrevocable option to classify them as financial assets measured at fair value through comprehensive income, without the recycling of the valuation and realisation components to profit and loss (with the exception of dividends, which continue to be booked to profit and loss).

In addition to the above-illustrated categories, there is also an option to use the accounting category of financial assets measured at fair value through profit and loss; this option is irrevocable and is only permitted to eliminate or considerably reduce an inconsistency in the measurement or in the recognition (accounting asymmetry), which would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases.

On this basis, as regards the classification and measurement of financial instruments, project work has focused on identifying the business model for the Group, as well as establishing the manner in which the test on the contractual characteristics of cash flows (SPPI test) should be conducted.

When establishing the "business model", both at Group level and for individual legal entities, all relevant information is taken into account, including historical data of past sales, the methods used to measure and report the performance of financial assets, the management and measurement of the risks that may influence the performance of financial assets and top management remuneration policies. Specific guidelines were drawn up with a view to establishing the Group's business model and any changes to the same. For the portfolio of assets measured at

amortised cost, considering that the objective of the business model is the collection of the relative cash flows, criteria for the admissibility of sales when certain circumstances arise were defined (such as for example a significant increase of credit risk or sales close to maturity) or with regard to the non-significance of the same in terms of amount or frequency.

With regard to the SPPI test, the Group's methodological approach has been established and the target models have been implemented, in terms of procedures and processes, to conduct the test on all financial assets, both loans and receivables and debt securities.
For the portfolio of debt securities in place as at 31 December 2017, potentially to be classified in the accounting category of financial assets measured at amortised cost and financial assets measured at fair value through comprehensive income, the SPPI test has been completed. The analyses conducted showed that a limited percentage of debt instruments, in terms of both number and counter value, would not pass the test. The above-cited financial instruments will be classified in the accounting category of financial assets that must be measured at fair value through profit and loss.
With regard to financial instruments represented by loans, the approach adopted for the analyses varied depending on whether they referred to standard products classified as such on the basis of catalogues or product information sheets, common to the retail, small business and mid-corporate areas, rather than "tailor made" disbursements. For the first type of financial instruments, the analysis focused on an examination of the sheets describing the products currently for sale. For the second type of financial instruments, the analysis focused on the precise examination of the individual loan agreements. The analyses conducted led to the identification of specific types of standard products (regarding a marginal number of financial instruments with respect to the Group's total exposure) and several "tailor made" contracts which, due to specific contractual clauses, would not pass the test.
At present, tests are being conducted on loans in place as at 31 December 2017, and are almost completed, with specific reference to loans granted in the second half.
For all debt securities that show a modified time value of money and therefore for example have a mismatch between the frequency of the instalment and the level of the interest rate, a specific method has been defined to ascertain whether they pass the Benchmark Cash Flow Test. The analyses conducted have not discovered significant positions with a modified time value, which would lead to the same failing the Benchmark Cash Flow Test and the consequent obligatory classification of the financial assets as measured at fair value through profit and loss.

On this basis, it is deemed that the measurement criteria for the new accounting categories of IFRS 9 in which instruments in place on the transition date will be classified, will be substantially in line with those of the previous IAS 39 categories, with the exception of a limited number of cases, due to changes of the business model, the intrinsic characteristics of financial instruments and the adoption of the accounting choices permitted by the standard.
More specifically, on the date of first-time application, the classification of the portfolio of financial assets, based on the business model in place as at 1 January 2018, will be made according to the following guidelines:

- the IAS 39 portfolio of "Financial assets held for trading" will be entirely classified in the IFRS 9 accounting category of "Financial assets measured at fair value through profit and loss - trading". At first-time application, said classification will not have any impact on total shareholders' equity, as fair value is the measurement criterion for the financial assets in question both according to IAS 39 and to IFRS 9;
- the IAS 39 portfolio of "Financial assets measured at fair value through profit and loss" will be reclassified into the IFRS 9 accounting category of "Financial assets that must be measured at fair value", and for residual positions, into the category of "Financial assets measured at fair value through comprehensive income". At first-time application, said classification will not have any impact on total shareholders' equity, as fair value is the measurement criterion for the financial assets in question both according to IAS 39 and to IFRS 9;
- the IAS 39 portfolio of debt securities included in the category of "Financial assets available for sale" will be classified in the IFRS 9 accounting category of "Financial assets measured at fair value through comprehensive income", with the exception of some Government securities which are expected to be classified in the IFRS 9 category of "Financial assets measured at amortised cost". This choice will have an impact on shareholders' equity equal to the difference between the book value on recognition as at 31 December 2017 (fair value) and the value resulting from the application of amortised cost. In addition, we draw attention to the presence of a limited number of debt securities for a limited counter value, which under IFRS 9 must be classified as "Financial assets that must be measured at fair value through profit and loss", due to their failure to pass the SPPI test;
- the IAS 39 portfolio of equity securities included in the category of "Financial assets available for sale" will be classified in the IFRS 9 accounting categories of "Financial assets that must be measured at fair value

through profit and loss" or, by virtue of the option permitted by the standard for instruments not held for trading purposes, "Financial assets measured at fair value through comprehensive income". This classification does not have any impact on total shareholders' equity given that the above-mentioned assets will continue to be measured at fair value;
- also on the basis of the clarifications provided by the IFRIC (IFRS Interpretation Committee) in May 2017, the IAS 39 portfolio of "Financial assets available for sale" represented by UCIT units (open and closed-ended) will be classified, in the IFRS 9 portfolio of "Financial assets that must be measured at fair value through profit and loss". In accordance with the measurement criterion (fair value), said classification will also not have any impact on total shareholders' equity;
- the IAS 39 portfolio of "Financial assets held to maturity" will be almost all reclassified in the IFRS 9 accounting category of "Financial assets measured at amortised cost", with the exception of some positions in government securities, which will be reclassified in the IFRS 9 portfolio of "Financial assets measured at fair value through comprehensive income", in line with the purpose for which they are held. As regards the latter securities, at first-time application, there will be an impact on the book value of shareholders' equity equal to the book value as at 31 December 2017 (amortised cost) and the respective fair value measured as at 1 January 2018;
- the positions classified in the IAS 39 "Loans and receivables" portfolio will be almost entirely reclassified in the IFRS 9 category of "Financial assets measured at amortised cost", in accordance with the purpose for which they are held. Any exposures that do not pass the SPPI test will be an exception to the above rule, and will necessarily be reclassified in the portfolio of "Financial assets that must be measured at fair value through profit and loss". For the latter positions, based on information currently available, the impact on shareholders' equity due to the different measurement criterion is estimated to be insignificant.

As the impact on first-time application will not be significant, note that the increase of the securities measured at fair value through profit and loss, with specific reference to equity securities and to UCIT units previously classified in the portfolio of "Financial assets available for sale", with all other conditions equal, will result in a greater volatility of the economic results recorded in future years.

Impairment

In accordance with IFRS 9, the new impairment model based on expected losses will be applied to all financial assets that are not measured at fair value through profit and loss, represented by debt securities and loans, and off-balance sheet exposures.
More specifically, the impairment model introduced by accounting standard IFRS 9 is based on a "forward looking" measurement concept, namely on the notion of Expected Credit Loss, whether calculated at 12 months (Stage 1) or until the residual life of the instrument (lifetime loss for Stage 2 and Stage 3).
According to the model used to calculate Expected Credit Loss, losses must be recorded not only by making reference to objective evidence of impairment already identified on the reporting date, but also on the basis of the expected future impairment that has not yet emerged, which must reflect:
- the probability that different scenarios will emerge;
- the effect of discounting through the use of the effective interest rate;
- past experience and current and future measurements.

This means that calculating expected losses is a complex exercise that requires considerable elements of judgement and estimation, also with regard to macroeconomic forward-looking information.

To implement the above-mentioned requirements, with regard to the impairment area, which envisages specific, separate projects for loans and securities, during 2017:
- the reference framework to ascertain the existence or otherwise of a significant deterioration in credit risk ("Framework Stage Assignment") has been defined and performing loans have consequently been classified from stage 1 to stage 2;
- the models - including forward-looking information - have been developed, which will be used both for the purposes of stage assignment (PD lifetime) and to calculate one-year and lifetime expected credit loss.

Framework stage assignment

To allocate exposures to the different stages:

- performing exposures are classified as stages 1 and 2;
- non-performing exposures are classified as stage 3. The analyses conducted led to the conclusion that the relative scope is aligned to that of non-performing exposures, determined in accordance with the definitions contained in current supervisory provisions (bad loans, unlikely to pay, past due exposures), as they are deemed to be consistent with accounting regulations in terms of objective evidence of impairment.

With regard to performing exposures, the significant deterioration of creditworthiness will be determined at single relationship level, by comparing the credit risk associated with the financial instrument at the time of valuation with that at the initial time of disbursement or acquisition. This comparison will be made on the basis of both quantitative and qualitative criteria. For the staging of debt securities, characterised by a number of purchase transactions against the same ISIN, the Group has decided to use the FIFO (First In-First Out) method to determine the original creditworthiness of the quantities to be measured.

More specifically, to ascertain the existence of a significant deterioration of credit quality and the consequent re-assignment of the financial instrument from Stage 1 to Stage 2, the Group has identified the following criteria:

- relative quantitative criteria, based on statistical observations, considered an indication of a significant increase of credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or by the surpassing of absolute thresholds as part of the credit monitoring process. This covers all exposures subject to forbearance measures and which continue to indicate this attribute, regardless of the regularity or otherwise of the probation period underway;
- backstop indicators, namely credit delinquency factors, the emergence of which leads to the assumption that there has been a significant increase of credit risk, unless there is evidence to the contrary. Assumptively, apart from exceptional cases relating to specific types of counterparty, such as Public Administrations, the Group retains that the credit risk of an exposure must be deemed as have increased significantly in the presence of a past due/overdue amount for a period of more than thirty days, without prejudice to the application of the significance thresholds envisaged by supervisory regulations.

With specific reference to the relative quantitative criterion applicable to customer loans, the Banco BPM Group intends to consider the difference between the probability of default (PD) on the original date of the financial instrument and the same probability measured on the reporting date. The development of the model has entailed identifying specific internal thresholds relating to the difference between the probability of default (PD) recorded on the original loan agreement and the probability of default recorded on the valuation date, differentiated by Risk segment, Rating class and residual life. Surpassing said thresholds indicates a significant increase of credit risk. In this regard, the Banco BPM Group adopted a comparison between lifetime PD curves (origin vs. reporting), containing forward-looking information; this information regards macroeconomic factors and other elements such as the type of market, the business sector, the type of financial instrument and the residual life of the financial instrument in question.

With regard to portfolios represented by receivables due from banks and debt securities, the relative quantitative criterion is based on the change in the probability of default at twelve months, rather than for the entire residual life of the instrument. This simplified approach takes the type of counterparty/issuer into account and is justified by the non-significance of the difference in impact with respect to the more complex model used for the customer loans portfolio.

Note that the Banco BPM Group does not intend to apply the "Low Credit Risk Exemption", namely the practical expedient of not conducting the test on the significant deterioration of credit risk for transactions which, on the valuation date, show a low credit risk, with the exception of the portfolio of debt securities, which has an "Investment grade" rating.

With regard to the functioning of the model, the Banco BPM Group has decided to adopt a symmetrical model of reclassification from Stage 2 to Stage 1: in cases in which the conditions triggering the significant deterioration of credit risk cease to exist on a later valuation date, the financial instrument returns to being measured on the basis of the expected loss measured on a time horizon of twelve months. It should also be noted that, in the event of a return to performing status from Stage 3, no mandatory reclassification of the counterparty to Stage 2 is envisaged. The

classification in performing exposure stages (Stage 1 or Stage 2) will depend on the automatic application of the stage assignment framework previously illustrated.

Estimating expected credit loss

With reference to the Expected Credit Loss (ECL) calculation model used to measure the impairment of instruments classified in stage 1 or 2, it should be reiterated that it was developed based on the new internal credit risk measurement model, which is currently being validated by the Supervisory Authority. The validation process is expected to be completed by the end of the first quarter of 2018. The validation request also concerns the extension of the application of the above-mentioned new internal model to the credit exposures acquired by the former BPM Group as part of the business combination transaction from which Banco BPM originated.
Starting from this model, new IFRS 9 compliant risk parameters were developed, in terms of:

- probability of default (PD) at one year and lifetime;
- loss given default (LGD);
- exposure at default (EaD).

When defining the parameters of the model, the following were considered:

- the conditions of the current economic cycle (Point-in-Time risk measures);
- forecasting information regarding the future trends of market factors (Forward looking risk measures) on which the expected lifetime loss depends. This forecasting information refers to a specific period of time (usually the expected duration of the credit exposure under valuation).

As already indicated, the definition of default adopted is in line with the regulatory one.

In addition, in accordance with the requirements of the standard, according to which the estimated ECL must be the result of weighting a series of possible forward-looking scenarios ("probability weighted"), the Group has developed a method for generating multiple macroeconomic scenarios to which the respective probabilities of default are associated. More specifically, alongside the baseline scenario, namely the forward-looking macroeconomic scenario on the basis of which the Group develops its forecasts for income statement/balance sheet and risk data over a short and medium time horizon, retained as most likely, alternative better and worse alternative scenarios have been developed.

As already illustrated, the above parameters will most likely be fine-tuned until the first-time application process of standard IFRS 9 and the control activities on the same are completed, also with regard to developments that will be recorded on the new internal credit risk measurement model.

With reference to non-performing loans, corresponding to assets classified in stage 3, although there is substantial consistency with the scope of non-performing loans relating to the previous standard IAS 39, a specific method has been developed to include forward-looking elements relating to sales scenarios, in addition to the scenario that envisages collecting cash flows through internal management activities (known as a multi-scenario approach). As expressly envisaged by the ITG of the IASB, when calculating expected losses, cash flows that can be recovered through sales may be considered, to the extent to which expectations and assumptions based on reasonable and demonstrable information can be developed (see the following document in this regard: Meeting Summary–11 December 2015 - Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses").
In the light of NPL strategy objectives, already communicated to the market, the Group therefore deemed that the above requirements for its bad loans had been met. The measurement of the above-mentioned exposures will therefore be made by developing, for each portfolio, two estimates of the cash flows that the Group expects to receive: the first calculated on the assumption of a scenario in which the collection from the debtor is made on the basis of internal credit collection activities consistent with the measurements made pursuant to accounting standard IAS 39 (work-out scenario) and the second on the assumption of a scenario in which the collection is made by selling the exposures (sales scenario). The expected loss will correspond to the weighted average for the probabilities assigned to the two scenarios of estimated cash flows that the Group expects to receive from the same. More specifically, the portfolio of bad loans will be segmented into various clusters, considered relevant for the purpose of analysing the bad loans portfolio (for example: vintage, amount of exposures, customer segment). Probability of sale vs. workout will be assigned to the various clusters, differentiated on the basis of their reaching the target level of sales communicated to the market (euro 8.5 billion in 2018-2020). To determine the flows collected via sale, the

method used is based on a recoverable cash flow discounting process, based on the discounted cash flow technique, dependent on several parameters retained representative with a view to potential buyers.

Hedge Accounting

With regard to the acknowledgement and the recognition of hedge accounting relations, the new Hedge Accounting model introduced by IFRS 9 seeks to simplify the accounting of the same by guaranteeing greater alignment between the representation of underlying hedges in the accounts and risk management logic. Of particular interest to non-financial institutions, the new model envisages an extension of hedge accounting rules with regard to hedge instruments and the relative eligible risks.
The new standard does not explicitly cover the matter of recording macro hedges in the accounts, as this is currently being discussed by the IASB as part of a separate project with respect to IFRS 9. For this reason, IFRS 9 envisages the option of maintaining the hedge accounting rules of IAS 39 (opt out), until the new macro hedging rules have been defined.
On first-time application, the Group therefore decided to adopt the opt out option, namely hedge transactions will continue to be managed in accordance with the hedge accounting rules envisaged by IAS 39, currently endorsed (in the carve-out version).
The Group will assess whether to maintain this option or not for reporting periods after 2018.

Expected impact on regulatory capital

Regulation (EU) 2395 of 12 December 2017 has amended Regulation 577/2013 CRR by adding a new article, 473 bis "Introduction of IFRS 9" containing the transitional arrangements regarding the impact of the first-time application of accounting standard IFRS 9 on own funds, with the objective of mitigating the impact of the new impairment model for all financial instruments over time. These arrangements enable a portion of the increase recorded for provisions for expected losses to be included in CET1 for the first five financial years (respectively 95%, 85%, 70%, 50% and 25% from 2018 to 2022). From 1 January 2023, the impact resulting from the first-time application of accounting standard IFRS 9 will be fully reflected in the calculation of own funds.
In addition to the option of spreading the impact resulting from the first-time application of the accounting standard as at 1 January 2018, the cited transitional arrangements also envisage the opportunity to mitigate any impact that the application of the new impairment model will also have on the first few years following the first-time application of the standard, although limited to those resulting from the measurement of performing financial assets (Stage 1 and Stage 2).
The impact must be calculated separately for the portfolio included in the scope of internal models, from that subject to the standard method; the sterilisation will only be applied in the event that the adjusting provisions in the accounts surpass the adjusting provisions determined on the basis of regulatory expected losses at one year.
In this regard, note that Banco BPM has resolved and informed the ECB of its decision to make full use of the above-illustrated transitional arrangements. In 2018, the Group may therefore sterilise 95% of the negative impact resulting from the new impairment model in CET1. In order to guarantee a like-for-like comparison, the guidelines of the European Banking Authority (EBA) in effect from March 2018, envisage that banks that use the transitional arrangements must provide a disclosure on capital, on capital absorption and on prudential ratios, also on the basis of fully-phased rules, namely the rules that will be applicable from 1 January 2023.

Regulation no. 1905 of 22 September 2016 - IFRS 15 "Revenue from Contracts with Customers"

The standard, published by the IASB on 28 May 2014, introduces a single model for the recognition of all revenues originating from contracts with customers and replaces the previous standards/interpretations on revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, SIC 31). On the basis of this model, the entity must recognise revenues on the basis of the fee that it expects to receive for the assets or the services provided, calculated on the basis of the following five steps:

- identify the contract, defined as an agreement with commercial substance between two or more parties able to generate rights and obligations;
- identify the performance obligations in the contract;
- determine the transaction price, namely the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- allocate the transaction price to each performance obligation on the basis of the stand-alone selling price;

- recognise the revenues allocated to the single performance obligation when the same is satisfied, namely when the customer obtains control of the goods or the services. This recognition takes into account the fact that some services may be rendered at a specific point in time or over a period of time.

The mandatory application of this standard is envisaged from 1 January 2018.

Based on the Group's circumstances as regards revenue from contracts with customers, which does not regard revenue generated by the financial instruments covered by the provisions of IFRS 9, at present no significant impact is envisaged relating to the introduction of the new standard.

Regulation no. 1986 of 31 October 2017 - IFRS 16 "Leases"

This standard was published by the IASB on 13 January 2016, with a view to improving the accounting recognition of lease contracts. Mandatory application is envisaged from 1 January 2019.
More specifically, the standard introduces new rules for the accounting recognition of lease contracts for both lessors and lessees, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27). A lease is defined as a contract whose execution depends on the use of an identified asset and that conveys the right to control the use of the asset for a period of time in exchange for consideration.

IFRS 16 established the principles in terms of recognition, measurement, presentation in the financial statements and additional disclosures on leases. The objective is to ensure that lessees and lessors provide relevant information that faithfully represents those transactions. The disclosures provide financial statement users with the elements to assess the effect of leasing on the equity situation, the profit or loss and the cash flows of the entity.
The standard applies to all contracts that contain what is known as the "Right of Use" for a certain period of time in exchange for a set fee. IFRS 16 applies to all transactions that envisage a right to use the asset, regardless of the form of the contract, i.e. an operating or financial, lease or rental agreement.

The main difference regards presentation in the lessee's balance sheet with regard to the "Right of Use" and the commitment undertaken as regards operating leases, through the recognition of an asset or a liability. More specifically, the lessee must recognise a liability based on the present value of future lease payments as a balancing entry to the recognition under assets of the right to use the asset subject to the lease contract.
Following initial recognition:

- the right of use asset will be subject to depreciation for the term of the contract or the useful life of the asset (based on IAS 16) or measured using an alternative criterion - fair value - (IAS 16 or IAS 40);
- the liability will be gradually reduced by effect of the lease payments made and interest is recognised on the same, to be booked to the income statement.

Contracts with terms of under 12 months, or where the underlying asset has a low value when new are excluded from IFRS 16.

As regards the lessor, the rules for the accounting of lease contracts stated in IAS 17 are substantially confirmed, differentiated on the basis of whether it is an operating or finance lease. In the case of finance leases, the lessor will continue to recognise a receivable for future lease payments in the balance sheet.
In this regard, note that the Group has not yet started any assessment of the impact, with a view to establishing the scope and relative accounting treatment of the assets used under lease contracts; as regards assets granted under leases, no significant impacts are envisaged, insofar as the accounting rules established by the current accounting standard IAS 17 for lessors have been substantially maintained.

Regulation no. 1987 of 31 October 2017 - "Clarifications to IFRS 15 - Revenue from Contracts with Customers"
The mandatory application of the amendments is envisaged from 1 January 2018, at the same time as the adoption of the accounting standard in its entirety.
The objective of the amendments is to facilitate transition for entities that will adopt the standard.

Regulation no. 1988 of 3 November 2017 - "Joint application of IFRS 9 Financial Instruments and of IFRS 4 Insurance Contracts"
The purpose of the amendments is to solve problems linked to the application of standard IFRS 9, before the implementation of the standard which will replace IFRS 4 on insurance contracts (IFRS 17) for companies engaged in insurance activities.
The mandatory application of the amendments is envisaged from 1 January 2018, at the same time as the adoption of the accounting standard IFRS 9.

Accounting standards IAS/IFRS and SIC/IFRIC interpretations issued by IASB/IFRIC, awaiting validation

For the sake of completeness, a list of further standard or interpretations, issued by the IAS/IFRIC but not yet validated, is set out below, which, although of potential interest to the Group, are not retained as having any significant impact on the Group's equity or income situation, or on financial statement disclosures:

- Interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" issued by the IFRIC on 7 June 2017, with a view to providing clarifications on how to apply the recognition and measurement criteria laid out in IAS 12 in the case of uncertainty with respect to treatments for the determination of income tax;
- Interpretation IFRIC 22 regarding "Foreign Currency Transactions and Advance Consideration" issued by the IFRIC on 8 December 2016, with a view to clarifying the accounting treatment of transactions that involve the advance payment of considerations in a foreign currency;
- Amendments to IAS 40 "Transfers of Investment Property" issued by the IASB on 8 December 2016, to clarify time of transfer of property to, or from, investment property, identified as "change in use";
- Projects to improve several IFRS "2014-2016" (IFRS 1, IFRS 12 and IAS 28) issued by the IASB on 8 December 2016, to provide several clarifications that seek to resolve some inconsistencies or illustrate methods;
- Amendments to standard IFRS 2 "Classification and Measurement of Share-based Payment Transactions" issued by the IASB on 20 June 2016, which seeks to clarify the measurement and recognition criteria to be adopted for certain types of transactions with share-based payments;
- Amendments to standard IFRS 9 "Prepayment Features with Negative Compensation" issued by the IASB on 12 October 2017, with the following objectives:
  - for financial assets: an option has been added to measure those loans which, in the event of a prepayment, envisage a payment by the lender, also at amortised cost;
  - for financial liabilities: in the event of a modification of a financial liability that does not entail its derecognition, the effect of the modification to the amortised cost must be booked to the income statement on the date of the modification.
- Amendments to standard IAS 28 "Investments in Associates and Joint Ventures" issued by the IASB on 12 October 2017, to clarify that an entity may apply IFRS 9 to medium-long term investments in associates or joint ventures to which the equity method is not applied.
- Projects to improve several IFRS "2015-2017" (IFRS 3, IFRS 11, IAS 12 and IAS 23) issued by the IASB on 12 December 2017, to provide several clarifications that seek to resolve some inconsistencies or illustrate methods.

For the sake of completeness of information, note that on 18 May 2017, the IASB issued new accounting standard IFRS 17, which regulates contracts issued by insurance companies, the application of which is envisaged from 1 January 2021. In any event, no direct impact on the Group's operations is envisaged.

Notes for the correct comparison of financial statement schedules and disclosures

The financial statements and the tables of the notes provide not only the accounting data for 2017, but also the comparative balances for 2016.
To better understand the comparative data, note that the balance sheet balances as at 31 December 2016 and those of the income statement for 2016 refer to the former Banco Popolare Group, as the aggregating entity for accounting purposes. These balances are therefore not consistent with the corresponding balances for 2017 following the business combination transaction with the former Banca Popolare di Milano Group that was finalised on 1 January 2017, as illustrated in the introduction.
In addition, it should be noted that the income statement balances for 2016 have been restated with respect to those originally published by the former Banco Popolare Soc. Coop. with a view to retrospectively reflect the contribution

of the subsidiary company Aletti Gestielle SGR S.p.A., classified under "discontinued operations" pursuant to accounting standard IFRS 5 from the third quarter of 2017, following negotiations with Anima Holding, which were finalised with the sale of the subsidiary on 28 December 2017. By virtue of the cited standard, the positive contribution of Aletti Gestielle SGR S.p.A. of euro 43.9 million, which in the previous year's financial statements had been recorded under different income statement items due to the "line-by-line" consolidation method, was restated under the summary income statement item "310. Income/(loss) after tax from discontinued operations".

A reconciliation between the income statement for 2016, restated as illustrated, and that originally published (both the version of the official schedule envisaged by Circular no. 262 and the reclassified one).

Other significant aspects relating to the Group's accounting policies

Conclusion of inspection activities conducted in 2016 by the ECB on Banco Popolare and Banca Popolare di Milano

In 2016, the two banks which merged to become Banco BPM S.p.A. (Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l.) were subject, inter alia, to inspections by the European Central Bank (ECB) concerning their management of credit and counterparty risk and their risk control system.

On 18 May 2017, the ECB sent Banco BPM a letter containing recommendations concerning the actions that Banco BPM had to carry out in relation to the findings arising from the inspections. These findings regard, inter alia, several gaps, weaknesses and areas for improvement found in the areas of governance, internal control systems and the loan management, monitoring, classification and assessment processes of the two previous banks.

In this regard, note that the various assessments expressed by the ECB's inspection team relating to exposures subject to the credit file review (quantitative findings) had been subject to close examination starting with the preparation of the financial statements as at 31 December 2016 of the two banks that merged to form Banco BPM. The above-mentioned exposures were also closely monitored in 2017 with a view to updating valuations on the basis of information acquired and events that occurred during the year.

With regard to the qualitative recommendations on the processes adopted by the previous banks in the classification and measurement of loans, in the second half of 2017, Banco BPM revised its management, monitoring and measurement processes for credit exposures based on the above-mentioned recommendations.
The main changes introduced to loan classification and measurement processes regarded, inter alia, the following aspects:

- measurement according to statistical parameters instead of the analytical measurement of loans classified as bad loans or unlikely to pay based on the significance of the loan (relevance threshold);
- measurement of loans secured by mortgages on real estate, with specific regard to the procedures used to establish the value of the assets to be considered to the purpose of quantifying the coverage provided by the mortgage guarantee;
- discounting of expected credit collections, with specific reference to exposures classified as unlikely to pay.

Considering the gradual introduction during the year of the changes introduced to loan measurement processes and the fact that certain aspects changed are part of complex and detailed measurement processes, an accurate and reliable indication of their impact on the 2017 income statement cannot be provided as they are of a non-recurring nature.

For the sake of completeness of information, note that also the processes for the measurement of performing loans also underwent significant changes during the year. On one side, these changes regard the harmonising of criteria within the new Group and on the other they relate to the parallel revision of internal models to measure credit risk for prudential purposes, the parameters of which are used, with the exception of the relevant changes required by accounting standards, as a reference base for loan measurement models for accounting purposes. With specific reference to this last case, note that since 2016, the Banco Popolare Group has adopted a definition of default and a consequent Probability of Default (PD) at 90 days instead of a parameter at 180 days.

Accounting treatment of own creditworthiness for financial liabilities designated at fair value - Early application of IFRS 9

IFRS 9, which must be applied as of 1 January 2018, was endorsed by Regulation (EU) no. 2067 of 22 November 2016. In any event, selective early adoption is permitted of only the provisions regarding the methods for presenting changes in own creditworthiness ("own credit risk") for financial liabilities designated at fair value ("Fair Value Option - FVO"). This option was provided with the intent of overcoming the critical issues arising from the current IAS 39, based on which a worsening of own credit risk is such that it entails the recognition of a counterintuitive positive effect in the income statement, which moreover may not be actually realised, as the liabilities are not held for trading. In detail, the new accounting treatment set forth by IFRS 9 for the above-mentioned liabilities establishes that changes in fair value associated with own credit risk for liabilities designated at fair value should be recognised as a balancing entry to a specific shareholders' equity reserve ("Valuation reserves"), unless this treatment creates or amplifies an accounting mismatch in income (loss); in this last case, the entire change in fair value of the liability should be charged to the income statement.
The standard also establishes that the amount recognised in the specific shareholders' equity reserve will not be subject to subsequent "reclassification" to the income statement, even if the liability is settled or extinguished.
The effects correlated with the change in own credit risk are presented in the statement of comprehensive income, net of the relative tax effect, under other comprehensive income without reclassification to the income statement.
In relation to what is described above, as the requirements are met, the Group has opted to apply the new rules laid out in IFRS 9 early relating to the presentation of profit and loss on fair value option liabilities attributable to changes in own credit risk, without applying the other parts of the standard.
The Group has also opted not to restate the comparative figures as permitted by the transitional provisions of the same standard (IFRS 9, par. 7.2.15).
The early adoption of the provisions set forth in IFRS 9 relating to own credit risk therefore entailed:

- the formation as at 1 January 2017 of a valuation reserve (item 140 of the consolidated liabilities), in the positive amount of euro 27.5 million, as a balancing entry to a reduction in retained earnings (item 170 of the consolidated liabilities) in an equal amount. This amount corresponds to the net cumulative gains attributable to changes in credit risk of the bond issues outstanding as at 31 December 2016 from the issue date until the above-mentioned date (euro +41.1 million), net of the relative taxation (euro -13.6 million);
- the recognition of the effect connected to the change in own credit risk relating to 2017, a negative euro 18.3 million, as a balancing entry to an equity reserve, rather than in the income statement (item 110 "Profits (losses) on financial liabilities designated at fair value through profit and loss"). Likewise, the relative taxation, positive in the amount of euro 5.3 million, was recognised in the above-mentioned reserve, and this effect is presented in the statement of comprehensive income. In this regard, it should be noted that this last statement was adapted, with respect to that envisaged by the current Circular 262, by including the new item "65. Financial liabilities measured at fair value through profit and loss - changes in own creditworthiness".

As at 31 December 2017, the cumulative effect that can be ascribed to the change in own credit risk for fair value option issues is a positive euro 22.8 million (euro 14.5 million net of the relative taxation) and is attributed to the equity reserve "140. Valuation reserves".

Fee to guarantee the convertibility of DTA - legislative changes to Italian Decree Law no. 59/2016

Please recall that article 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, introduced an optional regime by virtue of which the guarantee on the convertibility into tax credits of deferred tax assets (DTA) which meet the requirements laid out in Law no. 214 of 22 December 2011 is subject to the payment of a fee, due for the years starting from 31 December 2015 until 31 December 2029, to be determined on an annual basis. The exercise of this option is considered irrevocable.
In more detail, the annual fee to be paid to ensure the convertibility of the above-mentioned deferred tax assets into tax credits must be determined on an annual basis by applying the rate of 1.5% on a "base" obtained by adding the difference between the convertible deferred tax assets recognised in the financial statements for the reference year and the corresponding deferred tax assets recognised in the 2007 financial statements, to the amount of conversions of the same deferred tax assets carried out from 2008 until the reference year, and subtracting the taxes

set forth in the Decree and paid with reference to the above-mentioned tax periods (base also referred to as "type 2 DTA"). The fees are deductible for both IRES and IRAP purposes in the year in which they are paid.
In this regard, please note that for the year 2016 the two groups participating in the merger exercised the option through the payment of the fee.
On 21 February 2017, the law (Law no. 15 of 17 February 2017) converting the "Salva Risparmio" Decree Law was published in the Official Gazette; in detail, art. 26 bis, paragraph 4, amended article 11 of Decree Law 59/2016, postponing the period for which the annual fee is due, which is now from 31 December 2016 until 31 December 2030. By virtue of these new legislative provisions, income statement item "180. b) Other administrative expenses" incorporates the income resulting from the reversal of the "extraordinary" fee attributed to 2015 and recognised in the 2016 financial statements by the former Banco Popolare Group (equal to euro 27.2 million).
The above-mentioned item also includes the fee attributed to 2017, estimated at euro 26.2 million.

TLTRO II – "Targeted Longer Term Refinancing Operations"

As at 31 December 2017, the ECB funding transactions, consisting entirely of TLTRO II loans, amount to euro 21.4 billion, of which euro 15 billion relating to the parent company Banco BPM and euro 6.4 billion relating to the subsidiary BPM S.p.A.
For each TLTRO II transaction, with a fixed maturity of four years from the time of disbursement (which took place on the basis of four quarterly auctions starting from June 2016), the reference rate is that applied to the main refinancing transactions at the date of each allotment, equal to zero. In any event, there is also the possibility to benefit from the more favourable interest rate on deposits with the ECB, to the maximum extent of 0.4%, if, between 1 February 2016 and 31 January 2018, the net eligible loans exceed a given benchmark level by at least 2.5%.

For the financial statements as at 31 December 2017, the interest accrued on the cited liabilities, which total euro 115.5 million, has been confirmed as the maximum extent of 0.4% as the target set as at 31 January 2018 has been reached. In this regard, please note that the interest thus calculated includes euro 31.7 million not recognised in last year's financial statements (of which euro 7 million relating to the former BPM Group), as at the date on which the latter financial statements were prepared there were no clear and sustainable indicators of the probability of receiving the potential benefit.
Although said intertest refers to financial liabilities, it is recognised in the income statement as "interest income".

Contributions to deposit guarantee schemes and resolution mechanisms

With Directives 2014/49/EU (Deposit Guarantee Schemes Directive – "DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive - "BRRD") of 15 May 2014 and the creation of the Single resolution Mechanism (EU Regulation no. 806/2014 of 15 July 2014), significant changes were made to European law concerning the governance of banking crises, with the strategic purpose of strengthening the single market and ensuring system-wide stability. Following the assimilation of these directives into national legislation, from 2015, credit entities must provide the financial resources needed to finance the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund, merged into the Single Resolution Fund (SRF) from 2016, by paying ordinary and, where necessary, extraordinary contributions.
In compliance with the DGSD directive, the IDGF has envisaged that Italian banks must pay ordinary annual contributions until the target level is reached, corresponding to 0.8% of total guaranteed deposits of the Italian banks that are members of the IDGF. Said level must be reached by 3 July 2024. The extent of the contribution requested of the individual bank is proportional to the amount of its guaranteed deposits as at 30 September of each year, with respect to the total guaranteed deposits of the Italian member banks of the IDGF and the degree of risk relating to the member bank with guaranteed deposits with respect to the level of risk of all of the other member banks of the IDGF.
As envisaged by the BRRD, Italian banks must make annual ordinary contributions until the SRF has acquired financial resources that are at least 1% of the total guaranteed deposits of all authorised credit entities in all participating Member States. This level must be reached by 1 January 2024. The contributions from each entity are calculated based on the ratio of the amount of their liabilities (net of guaranteed deposits and own funds, for entities belonging to a group, of intergroup liabilities) to the total liabilities (net of guaranteed deposits and own funds) of Italian banks and of the relative level of risk of each credit entity to the level of risk of all other Italian banks.
Note that if the available financial resources of the IDGF and/or of the SRF are insufficient, respectively to guarantee reimbursement to depositors or to fund the resolution, it is envisaged that the credit entities must then make extraordinary contributions.

The ordinary contribution was recognised under item "180. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy - the contributions in question have been considered the equivalent of a levy for accounting purposes - emerges from the time at which the "obligating event" arises, namely at the time of the obligation to pay the annual fee. With regard to the contributions in question, the time the "obligating event" arises has been identified in the first quarter for the SRF and in the third quarter for the IDGF.
More specifically, for 2017:

- the ordinary contribution to the SRF amounted to euro 62.4 million, entirely charged to the income statement in 2017, in accordance with the instructions received from the Bank of Italy in April 2017. In this regard, note that said contribution was fully paid "in cash" insofar as the Group did not opt to exercise the right to pay 15% through irrevocable payment commitments;
- the ordinary contribution to the IDGF amounted to euro 44.5 million, entirely charged to the income statement in 2017, and paid in December 2017, in accordance with the instructions received from the IDGF in the same month. This contribution, as well as taking protected deposits as at 30 September 2017 into account, was calculated considering the correction for risk, based on the risk measurement method approved by the Bank of Italy in a note dated 1 June 2017. The ordinary contribution requested for 2017 therefore also includes the adjustments requested of the Banco BPM Group for 2015 and 2016, which amount overall to euro 2.9 million, corresponding to the difference between that paid by the Group and that effectively due on the basis of risk.

Interbank Deposit Guarantee Fund - Voluntary Scheme

The banks of the Banco BPM Group (Banco BPM, BPM, Banca Aletti and Banca Akros) have joined the Voluntary Scheme of the IDGF, established in November 2015, with the objective of providing support to member banks in extraordinary receivership or which are collapsing or at risk of collapsing.
Based on notifications received from the Voluntary Scheme, on 21 December 2017, the measure to support three banks, Caricesena, Carim and Carismi, which were acquired by Crédit Agricole Cariparma, was finalised. More specifically, the measure was finalised according to the following terms:

- the recapitalisation of the three banks by the Voluntary Scheme, for a total amount of euro 464 million, which is summed to the payment made in 2016 for Caricesena of euro 280 million;
- the subscription of euro 12 million in mezzanine notes and euro 158 million in junior notes relating to the securitisation of a portfolio of loans comprised by bad loans and unlikely to pay exposures of the three banks.

The overall measure implemented by the Voluntary Scheme in 2017 therefore amounted to euro 634 million, euro 510 million of which was funded through resources requested from member banks on 20 September and 7 December 2017, and euro 130 million from the proceeds of the sale of the three banks to Crédit Agricole Cariparma; this amount was used by the Voluntary Scheme to finance the entire transaction. The surplus of the resources requested of the member banks (euro 510 million against the euro 504 million needed) is due to the lower payment for Caricesena following lower capital adjustments made at the time of closing with respect to that initially envisaged.
Considering the Banco BPM Group's investment in the Voluntary Scheme, on the respective payment dates, the total amount paid in 2017 was euro 42.2 million (euro 64.3 million including the payments made by the two groups participating in the merger in 2016).
As regards the valuation of the investment in the Voluntary Scheme, it should be noted that:

- the share of the investment to support the recapitalisation of the three banks was entirely charged to the income statement under item "100. Profits (losses) on the disposal of financial assets available for sale", as the sale of the three banks to Crédit Agricole Cariparma rendered the investment unrecoverable. Said expense amounted to euro 44.3 million and corresponds to the amount paid by Banco BPM Group for the recapitalisation of the three banks (euro 49.7 million) after adjustments for impairment recognised in 2016 by the banks participating in the merger (euro 5.4 million);
- the share of the investment in the junior notes of the securitisation, corresponding to euro 13.1 million, was written down for euro 11.8 million. For the purposes of said valuation, the fair value measurement conducted by PricewaterhouseCoopers Advisory S.p.A, advisor engaged by the Voluntary Scheme to value the mezzanine and senior notes, and announced by the Voluntary Scheme in a letter dated 19 January 2018.

Taking the above into account, as at 31 December 2017, the Group's residual investment in the Voluntary Scheme, recognised in the portfolio of "Financial assets available for sale" amounted therefore to euro 2.3 million.
Taking the measures implemented into account, as at 31 December 2017, the residual commitment of the banks belonging to the Voluntary Scheme was exhausted, amounting to euro 5 million (the share pertaining to the Group is euro 0.4 million).

"Bancassurance" restructuring - impacts connected to the cancellation of the distribution agreements and the exercise of options established in the shareholders' agreements

As illustrated in the report on operations, in 2017, the reorganisation of the Bancassurance segment commenced, following the termination of distribution agreements with the Unipol Group for life insurance business and with the Aviva Group for non-life insurance business, and the subsequent agreement signed with Cattolica Assicurazioni.
This reorganisation will be completed by means of the following corporate transactions:

- the purchase by Banco BPM of Aviva's investment in Avipop, corresponding to 50% of share capital;
- the purchase by Banco BPM of UnipolSAI's investment in Popolare Vita, corresponding to 50% of share capital;
- the sale to Cattolica of an investment corresponding to 65% of Avipop's share capital. More specifically, the sale would be made by Banco BPM of 9,525,001 shares, corresponding to 15.10% of Avipop's share capital and by Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. ("HPF") of 31,749,999 shares, corresponding to 49.9% of the share capital of the subsidiary;
- the sale to Cattolica of an investment corresponding to 65% of the share capital of Popolare Vita. More specifically, the sale would be made by Banco BPM of 17,836,999 shares, corresponding to 40.6% of Popolare Vita's share capital and by HPF of 10,711,002 shares, corresponding to 24.4% of the share capital of the subsidiary.

On the date of preparation of this Report, none of the above corporate transactions had been finalised, insofar as the execution of the purchase and sale agreements is subject to the condition precedent that the competent authorities issue the relative authorisations, which has not yet taken place.
As at 31 December 2017, the Banco BPM Group therefore held a 50% stake in the share capital of Popolare Vita and Avipop, both classified as participatory investments in associates, as there is a situation of significant influence pursuant to accounting standard IAS 28.
Considering the sale agreement signed with Cattolica and the fact that the sale of 65% of the investment that Banco BPM will hold following the repurchase of 50% from the current insurance partners is expected to be finalised within one year, the investments held in Avipop and UnipolSai are classified in the financial statements as at 31 December 2017:

- in balance sheet asset item "150. Non-current assets held for sale and discontinued operations" for the stake of 15% in Avipop and Popolare Vita, pursuant to the provisions of accounting standard IFRS 5. Said classification did not have any negative economic impact, as the sale price, net of the relative costs was higher than the book value;
- in balance sheet asset item "100. Investments in associates and companies subject to joint control", for the residual stake of 35% in Aviva and Popolare Vita.

With regard to the transactions in question no commitment relating to future purchases has been recorded in the "other information" section contained in "Part B - Information on the consolidated balance sheet" in these notes to the financial statements, as the relative risk exposure has been sterilised by the sale agreement to Cattolica.
Lastly, for the purposes of preparing the 2017 financial statements, it should be noted that we checked that the execution of the agreements (purchase from Aviva and UnipolSAI and simultaneous sale to Cattolica) could not be categorised as onerous contracts, which are contracts where the costs needed to fulfil the obligations are higher than the expected economic benefits. The contracts in question cannot be classified as such as the revenue that can be obtained from the sale to Cattolica is expected to be higher than the book values of the investments, which will be recorded following the finalisation of the purchase transactions. The consequent expected positive economic impact will be recognised when the purchase and sale agreements are finalised.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The accounting standards adopted to prepare the consolidated financial statements as at 31 December 2017 are described below by financial statement item, with reference to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenue and costs.

1- Financial assets held for trading

Classification criteria

This category exclusively contains debt securities and equity instruments, UCIT units and the positive value of derivative contracts held for trading, as well as derivatives related to assets and liabilities designated at fair value through profit and loss. Derivative contracts include those embedded in structured financial instruments that have been recognised separately from their host contract because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of derivative;
- the hybrid instruments to which they belong are not designated at fair value with changes in fair value through profit or loss with the related changes recorded in the income statement.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the subscription date for derivative contracts.
Upon their initial recognition, financial assets held for trading are designated at fair value, which generally corresponds to the price paid, excluding transaction costs or revenues that are directly attributable to the financial instruments, that are recognised in the income statement. Any derivatives embedded in complex contracts, which are not closely related to their host contracts and qualify as derivatives, are separated from their host contracts and designated at fair value, while the host contracts are accounted for according to their relevant accounting standard.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets held for trading are designated at fair value, with recognition of changes as a matching balance to the income statement. For derivative instruments, if the fair value of a financial asset becomes negative, that item is accounted for as a financial liability held for trading.

To determine the fair value of financial instruments listed on an active market, market listings at the reporting date are used. In the absence of an active market, estimate methods and valuation models are used that take into account all the risk factors associated with the instruments and that are based on market inputs, such as: methods based on the valuation of other listed instruments that are substantially the same, discounted cash flow analysis, option pricing models, and values recognised in recent comparable transactions. Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

In the event that no reliable estimate of the fair value is possible in keeping with the above guidelines, equity instruments and related derivatives are valued at cost and are written down in the event of impairment losses. Said impairment losses cannot be reversed.

Trading profits or losses and gains or losses as a result of the valuation of the trading portfolio are recognised in the income statement in the item "80. Profits (losses) on trading", except for income or loss on derivatives connected with the fair value option, which are classified in item "110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss".

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.

Reclassifications to other categories of financial assets (Loans, Financial assets available for sale, Investments held to maturity) are possible only in rare circumstances or if certain conditions for recognition are met. More specifically:

- for reclassification amongst Loans, to qualify for reclassification, at the reclassification date, the financial instrument must meet the prescribed requirements to be classified in the "Loans" portfolio, and the company must no longer intend to trade the financial instruments being reclassified, having decided to hold them for the foreseeable future or to maturity;
- for reclassification amongst Financial assets available for sale or Investments held to maturity, to qualify for reclassification, the instrument must no longer be held for trading in the short term; this is admissible only in rare circumstances.

The transfer value is represented by the fair value at the moment of reclassification, which represents the new cost or amortised cost. At the time of reclassification, it is verified whether there are any embedded derivative contracts to be separated.

2- Financial assets available for sale

Classification criteria

This category includes non-derivative financial assets not designated as Loans, Financial assets held for trading, Investments held to maturity or Financial assets designated at fair value through profit and loss.
Specifically, this category also includes shareholdings that are not held for trading and do not qualify as investments in subsidiaries, associates and entities under joint control, including private equity investments, as well as the portion of subscribed syndicated loans that had been designated at origin as available for sale and bonds not held for trading.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the disbursement date for other financial assets not classified as loans.
Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid, including transaction costs or revenues that are directly attributable to the instruments.
With regard to assets recognised after the reclassification from the "Investments held to maturity" portfolio, the difference between the fair value, as at the reclassification date, and the book value, is recognised in a specific shareholders' equity reserve, in the same way as subsequent changes in fair value.
Recognition following a reclassification of "Financial assets held for trading" can take place only in rare circumstances and in any event only if the asset is no longer held for trading in the short term. In this case, assets will be recognised at their fair value at the time of transfer, which shall represent the new amortised cost for debt securities.

Income item measurement and recognition criteria

Subsequent to initial recognition, assets available for sale continue to be designated at fair value with recognition of the portion of interest resulting from the application of amortised cost in the income statement, while income or losses generated by changes in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised or an impairment loss is recognised, and the entire difference between the book value and the sale price or fair value is recognised through profit or loss. Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

In the event that no reliable estimate of the fair value is possible, equity instruments and related derivatives are valued at cost and are written down in the event of impairment losses.

Impairment tests to assess if there is objective evidence of impairment are conducted at each balance sheet date or interim reporting date. For further details on events reflecting an impairment loss, please see the information set forth in the following paragraph "18- Other information, Methods for determining impairment losses on financial assets".

For equity instruments, a possible sign of impairment is represented by a significant or prolonged reduction in fair value below the purchase value. The Group's impairment policy thus establishes parametric thresholds (connected to the significant or prolonged nature of the reduction in fair value) which, once exceeded, requires the recognition of a loss to the income statement, save for exceptional circumstances. These thresholds have been established taking into account the specific features and distinctive nature of the various types of investment.
In particular, for equity instruments, surpassing one of the following thresholds is considered evidence of impairment:

- a reduction of fair value to below the purchase cost exceeding 30% with respect to the original book value; or
- a persistent decrease for an uninterrupted period exceeding 24 months.

In addition to direct investments in company equity (equity instruments in the strict sense), the Group also holds investments in private equity funds and in similar investment vehicles (UCIT units, SICAVs, investments in associates and companies subject to joint control or other similar structures) whose objective is to invest directly and/or through other private equity funds and corporate vehicles in equity instruments and similar instruments. As this type of investments have a medium-long time horizon, surpassing one of the following thresholds is considered evidence of impairment:

- a reduction of fair value exceeding 40% with respect to the original book value; or
- a persistent decrease for an uninterrupted period exceeding 60 months; or
- a reduction of fair value exceeding 30% and lasting for an uninterrupted period exceeding 36 months.

In the absence of a violation of the above automatic thresholds, qualitative analyses are carried out to check for impairment in case of:

- debt securities that show a decrease in fair value greater than 20% of the original book value, adjusted by the amortised cost;
- equity instruments that show a decrease in fair value greater than 20% of the original book value or lasting for more than 12 months.

In the latter cases, a difference between the fair value and the book value is not by itself sufficient to conclude that an impairment loss has occurred. This evidence is simply an initial sign of possible impairment, which must, nonetheless, be supplemented by a qualitative analysis to identify any negative events which could lead to the belief that the book value of the assets may not be fully recovered.

If there is evidence of an impairment loss, the amount of the write-down, measured as the difference between the original purchase cost of the asset and the current fair value, is recorded in the income statement as a cost for the year in item "130. b) Net losses/recoveries on impairment of financial assets available for sale", net of any impairment losses already previously recognised in the income statement. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was originally recognised, write-backs are recognised in the income statement if referring to debt securities or loans, or to a specific shareholders' equity reserve in case of equity instruments or similar instruments. For debt securities and loans, the write-backs, in any event, cannot result in a book value higher than the instrument's amortised cost in the absence of previous adjustments.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
Financial assets available for sale can be reclassified under "Investments held to maturity", if:

- a change occurs in the intent or ability to hold the asset to maturity;
- no reliable fair value measurement is available (rare circumstances);
- the tainting rule period has expired and the portfolio of investments held to maturity can be reinstated.

The transfer value is represented by the fair value upon reclassification; the profits and losses previously held temporarily in the shareholders' equity reserve are amortised for the residual term of the investment adopting the effective interest rate method.

It is also possible to make a reclassification to the "Loans" portfolio, if at the reclassification date the financial instrument meets the definition of "Loans" and the company now intends to and can hold the instrument for the foreseeable future or to maturity.

3- Investments held to maturity

Classification criteria

This category includes debt securities with fixed or determinable payments and fixed maturity date, which the Group has the intention and ability to hold to maturity. If as a result of a change in intention or ability it is no longer suitable to recognise an investment as held to maturity, the asset is reclassified as Financial assets available for sale.

Recognition criteria

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are designated at fair value, which generally corresponds to the price paid, including any transaction costs or revenues that are directly attributable.
If the recognition in this category follows a reclassification from Financial assets available for sale or Financial assets held for trading, the fair value of the asset at the date of reclassification is recognised as the asset's new amortised cost.

Income item measurement and recognition criteria

Subsequent to initial recognition, investments held to maturity are measured at amortised cost, using the effective interest rate method. Gains or losses from changes in fair value of investments held to maturity are recognised in the income statement at the time the assets are derecognised. Impairment tests to assess if there is objective evidence of impairment are conducted at each balance sheet or interim reporting date. In case of objective evidence, the impairment is measured as the difference between the asset's book value and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment loss is recognised in the income statement. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
The only possible reclassification out of this portfolio is to the portfolio of "Financial assets available for sale", if there is no longer any intention or it is no longer possible to hold these assets to maturity.
If a significant amount of investments held to maturity are disposed of or transferred before their maturity, the entire portfolio must be reclassified to the category of financial assets available for sale and it is then prohibited to classify any Assets as held to maturity for the current and next two full financial years (tainting rule), unless the sales and the reclassifications:

- are so close to maturity or to the exercise date of the call option of the financial asset that the fluctuations in the interest rate on the market would have no material effect on the fair value of the financial asset;
- occur after having received substantially all the original principal of the financial asset;
- are attributable to an isolated, non-recurring event, out of the company's control that could not reasonably be foreseen, for example a material downgrading of the creditworthiness of the entity which issued the financial asset.

4- Loans

Classification criteria

Loans include loans to customers and to banks, either originated or acquired from third parties, with fixed or determinable payments, that are not listed in an active market and that were not originally designated as financial assets available for sale. Loans include trade receivables and securities acquired as a result of a private placement or subscription, with fixed or determinable payments, not listed on an active market. As to loans acquired without recourse, they are classified as loans, provided there are no contract provisions that significantly alter the risk exposure of the assignee company.
Cash loans include loans originated through financial leases (which, in line with IAS 17, are recognised according to the "financial method"). These also include assets waiting to be granted under financial lease, including real estate under construction. Assets waiting to be leased are recognised on stipulation of the contract, under loans for "Other loans" and are transferred to loans for "financial leases" when the contracts begin to generate income.
This category also includes "Repurchase agreements" requiring the securities to be sold on expiry and "Securities lending" transactions backed by the deposit of a collateral in cash which the lender has full access to. Said transactions are recognised as loans and do not give rise to any changes in the portfolio of owned securities.
This category also includes operating receivables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

Loans are initially recognised on the disbursement date or, in case of debt securities, on the settlement date, based on the fair value of the financial instrument. The recognition is usually equal to the amount disbursed, or the subscription price, including costs/income directly associated to the individual loan and that can be determined from the start of the transaction, although settled later on. Costs are excluded, that, although carrying the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs.
If the date on which the contract is signed and the date on which the loan is disbursed are not the same, a commitment to disburse funds is recognised, which is closed out on the date of disbursement of the loan.
If the recognition in this category follows a reclassification from Assets available for sale or Financial assets held for trading, the book value is equal to the fair value of the asset at the date the transfer is decided, which is recognised as the asset's new amortised cost.

Income item measurement and recognition criteria

After initial recognition, loans are valued at amortised cost, equal to the initial recognition value decreased/increased by repayments of principal, net losses/recoveries and the amortisation – calculated according to the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated to the individual loan. The effective interest rate is determined by calculating the rate that is equivalent to the loan's present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the loan. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected loss on the loan. This accounting method, based on a financial logic, spreads the economic effect of costs/income throughout the loan's expected residual life. The amortised cost method is not used for short-term loans, whose limited life span makes the application of discounting immaterial. Said loans are measured at historical cost and their costs/income are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for loans without a defined maturity or demand loans.

At each balance sheet or interim report date, loans are reviewed in order to identify loans that due to events occurred after their initial recognition, show objective evidence of an impairment loss, as explained in the following paragraph "18- Other information - Methods for determining impairment losses on financial assets". This includes loans considered as non-performing (bad loans, unlikely to pay, past due) in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation" insofar as retained consistent with IAS/IFRS standards in terms of objective evidence of impairment. Based on the above-mentioned circulars, the scope of non-performing loans corresponds to the "Non-Performing Exposure" aggregate

defined by Regulation (EU) 2015/227, which incorporated the EBA's Implementing Technical Standards (ITS). In detail, the circulars referred to identify the following categories of non-performing assets:

- **Bad Loans**: these represent the set of cash and "off-balance sheet" exposures with respect to a party in a state of insolvency (even if not ascertained in court) or in substantially equivalent situations, irrespective of any loss forecasts developed by the bank;
- **Unlikely to pay**: these represent cash and off-balance sheet exposures for which the conditions are not met for the classification of the borrower under bad loans and for which it is deemed unlikely that the borrower will meet its credit obligations (for principal and/or interest) in full without recourse to actions such as the enforcement of guarantees. This assessment is carried out irrespective of the presence of any amounts (or instalments) past due and unpaid. Classification as unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as non-repayment, but it is linked to the existence of elements indicative of a situation of risk of default by the borrower (for example, a crisis in the industrial sector in which the borrower operates);
- **Past due and/or non-performing overdue exposures**: cash exposures, other than those classified as bad or unlikely to pay loans which, at the reference date, have a past due and/or overdue position for more than 90 days. For the Banco BPM Group, past due and/or non-performing overdue exposures are determined by making reference to the position of the individual borrower.

In addition, in line with EBA standards, Bank of Italy regulations have introduced the definition of "forborne exposures". In particular, these are exposures benefitting from forbearance measures, which consist of concessions, in terms of changes to and/or the refinancing of an existing loan, granted only to customers in financial difficulty, or to prevent the financial difficulty of the same, which could have a negative effect on his ability to fulfil his original contractual obligations. They are not granted to a borrower with the same risk profile but who is not in financial difficulty. These forbearance measures must be identified in terms of individual credit lines and may regard the exposures of borrowers classified both as performing and non-performing status. In any event, renegotiated exposures must not be considered forborne when the borrower is not in a situation of financial difficulty (renegotiations granted for commercial reasons).

Non-performing loans undergo an analytical assessment process which seeks to identify expected cash flows. For some similar categories of non-performing loans, the assessment processes contemplate that the loss forecasts are based on a forfeit/statistical calculation method, to be applied analytically to each individual position; this regards, for example, loans for insignificant amounts or past due loans, namely loans which show uninterrupted overdrafts or late payments, automatically identified by the Group's IT procedures, based on the cited rules of the Supervisory Authority. All adjustments made to non-performing loans are reported as "Specific value adjustments", in compliance with the provisions set forth in the Bank of Italy Circular no. 262.

The amount of the value adjustment made to each loan corresponds to the difference between the loan's book value in the financial statements or interim report at the time of measurement (amortised cost) and the present value of expected future cash flows, using the original effective interest rate. For loans with variable interest rates, the rate used for the discounting of cash flows is updated in relation to the indexation parameters, while on the other hand the originally established spread is kept constant.
Expected cash flows take into consideration the expected recovery time, the estimated realisable value of guarantees, and possible costs incurred to enforce the guarantees. The cash flows for loans that are expected to be recovered within a short period of time are not discounted.

In the case of a value adjustment, the book value of the asset is reduced by recognising a dedicated bad debt provision in the accounts to adjust the value of the asset, and the amount of that value adjustment is recognised in the income statement in item "130. a) Net losses/recoveries on impairment of loans". The original loan value is reinstated in following financial years to the extent that the reasons for their original adjustment no longer apply, provided said valuation can be objectively correlated to an event that occurred after the adjustment. Recoveries are recognised in the income statement and in any case cannot exceed the loan's amortised cost had no adjustments been carried out in the past. In addition, recoveries relating to reversals of impairment losses connected to the passing of time, corresponding to interest accrued during the year on the basis of the original effective interest rate (previously used to calculate value adjustments) are recognised at each reporting date in the income statement in item "130. a) Net losses/recoveries on impairment of loans".

Individual loans that give no objective evidence of impairment, namely performing loans, are subject to collective valuation. These valuations are carried out by categories of similar loans/receivables in terms of the credit risk and the related loss percentages can be estimated taking into account time series, based on elements observable as of the valuation date, which make it possible to estimate the value of the latent loss in each category of loans. More specifically, collective value adjustments are calculated as the product of exposure and PD (Probability of Default) and LGD (Loss Given Default) parameters, established according to the Basel 2 approach, suitably corrected in order to reflect the current conditions on the valuation date and the time that passes between the impairment of the creditworthiness of the debtor and the classification as non-performing over the year.

Derecognition criteria

Loans are derecognised if there is no longer the right to receive cash flows from the financial asset, when all risks and rewards connected to holding that specific asset have been substantially transferred or if the loan is considered definitively not recoverable, after all necessary recovery procedures have been completed.
The loan may also be derecognised if there are substantial amendments to the contractual terms, such as for example restructuring agreements or "debt-equity swaps", which envisage an exchange between debt instruments and equity instruments (such as shares, participating financial instruments). These transactions, entailing a substantial amendment of the contractual terms, result from an accounting perspective in the derecognition of the pre-existing relationship and the recognition at fair value of the new instruments received, with the resulting recognition in the income statement of the difference between the fair value of the assets received and the book value of the derecognised loan.

Loans sold are derecognised from assets in the financial statements or interim reports only if the sale entails the substantial transfer of all risks and rewards associated with the loans. On the contrary, should the risks and rewards associated with the sold loans be retained, the loans will continue to be recognised under assets in the financial statements or interim reports, although from a legal point of view the loan ownership has been effectively transferred. In the event that the substantial transfer of risks and rewards cannot be verified, loans are derecognised from the financial statements or the interim reports if control of the loans has been relinquished. Otherwise, if even partial control has been retained, the loans will continue to be recognised in the financial statements and the interim reports to the extent of the Group's residual involvement, measured based on the exposure to the changes in value of the loans sold and to their changes in cash flows. Lastly, loans sold are derecognised from the financial statements or interim reports if the contractual rights to receive the relevant cash flows are retained, with the concurrent obligation to pay said flows, and nothing more, to third parties.
Reclassifications to the other categories of financial assets set forth in IAS 39 are not permitted.

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

Classification criteria

On initial recognition, financial assets are designated at fair value through profit and loss, only if:

- they are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;
- designation at fair value through profit and loss provides more reliable disclosure, as:
  i. it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases;
  ii. a group of financial assets, financial liabilities, or both is managed and its performance designated at fair value according to a documented risk management or investment strategy, and group reporting is provided internally to executives with strategic responsibilities based on this approach.

Recognition criteria

The financial assets in question are designated at fair value from initial recognition, which is carried out based on the settlement date. Initial income and expenses are immediately charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets are measured at their current fair value. The effects of the application of this measurement approach, along with realised profits and losses, are attributed to the income statement in item "110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss".

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred.
Reclassifications to the other categories of financial assets are not permitted.

6- Hedging transactions

Classification criteria

Asset and liability items include financial hedging derivatives, which at the date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.
IAS 39 provides for the following types of hedges:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a financial statement asset or liability, attributable to a specific risk. It is also possible to activate macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk, of monetary amounts deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items or a highly likely expected transaction;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency.

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.
Derivatives can be designated as hedges provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented, and it is effective at the time of origination of the hedge and prospectively throughout its entire life. The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the company when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk. Hedging effectiveness is assessed at each balance sheet date or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;
- retrospective tests, demonstrating the hedge's actual effectiveness achieved over the period being examined. In other words, these tests measure how far the actual results deviate from perfect hedging.

Recognition criteria

Hedging derivative financial instruments are recognised at fair value, at the date on which the relative contracts are entered into (trade date).

Income item measurement and recognition criteria

Hedging derivatives are designated at fair value. In particular:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value adjustments in hedge accounting", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. The recognition of fair value changes through profit or loss referring to the hedged element, attributable to the risk being hedged, is applied even if the hedged element is a financial asset available for sale; in the absence of a hedge, said change would be recognised as a matching entry to shareholders' equity. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in the income statement;
- for cash flow hedges, the portion of changes in the fair value of the derivative that are determined to be an effective hedge is recognised directly at equity (item "140. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value adjustments in hedge accounting"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective, or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, previously recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place; in this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value adjustments in hedge accounting";
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

Derecognition criteria

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In this case, the hedging derivative contract is reclassified under instruments held for trading.
In addition, the hedging relationship stops when:

- the derivative expires, is discharged or exercised;
- the hedged item is sold, expires or is repaid;
- it is no longer highly likely that the future hedged transaction will be carried out.

7- Investments in associates and companies subject to joint control

Classification criteria

This item includes investments in associates or companies subject to joint control, which are carried at equity.
Associates are companies which are not subsidiaries, on which the Group has a significant influence. The company exercises a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial

decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions. This takes place when the voting rights and control over the economic activity of the investee are shared jointly by Banco BPM and another party. Furthermore, an equity investment is qualified as under joint control when, even though voting rights are not shared jointly, the unanimous consent of all parties sharing control is required to take decisions regarding significant activities.

Recognition criteria

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are carried at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded.

Income item measurement and recognition criteria

The book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a matching entry to the consolidated income statement item "240. Profits (Losses) on investments in associates and companies subject to joint control". Dividends received from investees are deducted from the book value of the investees.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not been recognised in the investee's income statement (e.g. as a result of the designation at fair value of financial assets available for sale, as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "140. Valuation reserves".
When applying the equity approach, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or transactions that have taken place between the last available financial statements of the investee company and the reference date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised to the income statement if the book value, including goodwill, is lower than the recoverable value. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised.

Derecognition criteria

Financial assets are derecognised when there is a disposal in which all of the associated risks and rewards have been substantially transferred.
If there is a situation resulting in the loss of significant influence or joint control, any remaining equity investment is reclassified to the portfolios of IAS 39 financial assets, normally that of "Financial assets available for sale", on the basis of the relative fair value. Derecognition from the item "Investments in associates and companies subject to joint control" may also take place if there are circumstances causing control to be obtained ("step acquisitions"). For more information please refer to paragraph 18 below entitled "Other information, Business combinations, goodwill and changes in interest holdings".

8- Property and equipment

Classification criteria

Property and equipment include land, operating property, real estate investments, technical plant, furniture, fittings and equipment of any type. This is property and equipment held to be used for the production or provision of goods and services, to be rented to third parties, or for administrative use, and are expected to be used for more than one period. Property and equipment also include assets related to finance lease contracts which returned to the company's ownership following the termination of the contracts and the concurrent closure of the original credit position. This item also includes assets used under finance lease contracts, provided that the legal ownership of the assets rests within the leasing company.
Said item also includes leasehold improvements and incremental expenses incurred on third party assets, whenever they are identifiable and distinguishable tangible assets. More specifically, these are costs to renovate rented property, sustained to render them suitable for their intended use. These costs are classified in the specific category to which they refer (e.g. technical plant, equipment).

Recognition criteria

Property and equipment are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions. Extraordinary maintenance costs entailing an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.
Property withdrawn following the closure of the original credit position ("*datio in solutum*" - transfer in lieu of payment) will be recognised at the lower of the gross loan value recognised at the time of withdrawal of the asset, and:

- the "market value" deriving from a specific appraisal, if the property is not expected to be classified under "non-current assets held for sale and discontinued operations" within a short time;
- the "immediate sale value" derived from a specific appraisal, which adjusts the "market value" with a view to sale in a quite short-term time frame, when it is known at the termination date that the property will be subsequently allocated under "non-current assets held for sale and discontinued operations";
- the price during trading, if on initial recognition concrete negotiations for sale are in course, demonstrated by commitments undertaken by the interested parties to the negotiations.

Income item measurement and recognition criteria

After initial recognition, property and equipment, including "non-operating" property, are carried at cost, less any depreciation and impairment. Property and equipment are systematically depreciated throughout their useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, in that land has an unlimited life. If its value is embedded in the value of the buildings built on it, in virtue of the application of the component approach, land is considered a separate asset from the building. At the acquisition date, the separation of the value of the land and the value of the building is based on appraisals by independent experts;
- works of art, because the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

At each balance sheet or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are charged to the income statement. Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Derecognition criteria

Property and equipment is derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Capital gains and capital losses deriving from the liquidation or disposal of property and equipment are calculated as the difference

between the net sale consideration and the book value of the asset and are recognised in the income statement on the day of derecognition.

9- Intangible assets

Classification criteria

Intangible assets are non-monetary, identifiable and non-physical assets originating from legal or contractual rights, owned to be used on a long-term basis and which are likely to generate future economic benefits. Intangible assets also include goodwill, which is the difference between the price paid for a business combination and the fair value of the net identifiable assets purchased, as illustrated in greater detail in paragraph "18 – Other information, Business combinations, goodwill and changes in interest holdings."

Recognition criteria

Intangible assets are carried at cost, adjusted to account for accessory charges, only if it is likely that the future economic benefits attributable to the asset will be realised, and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement during the year it was incurred.

Income item measurement and recognition criteria

The cost of intangible assets, with definite useful life, is amortised on a straight-line basis over their useful life. If the useful life is undefined, no amortisation is carried out, only periodic assessments of the adequacy of the book value. At each balance sheet date or interim reporting date, if there is evidence of impairment, the asset's recoverable amount is estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the asset's book value and recoverable value.
Intangible assets include software, intangible assets linked to the valuation of client relationships or the valuation of the trademark recognised during business combinations.
Goodwill is not amortised, but must be regularly tested for impairment to verify the adequacy of its book value. Specifically, goodwill must be tested any time there is evidence of impairment, and in any case at least once a year. To this end, the cash-generating unit to which the goodwill is allocated is identified. This unit represents the lowest level at which goodwill is monitored for internal management purposes and should not be larger than the operating segment determined in compliance with IFRS 8.

The amount of any impairment is determined based on the difference between the book value of the goodwill and its recoverable amount, if lower. Said recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of costs to sell, and its value in use. The value in use is the present value of future cash flows expected from cash-generating units to which goodwill was allocated. The resulting adjustments are charged to the income statement.
No subsequent recoveries can be recognised.

Derecognition criteria

Intangible assets are derecognised from the balance sheet at the time of disposal or when no future economic benefits are expected from it.

10- Non-current assets held for sale and discontinued operations and liabilities associated with non-current assets held for sale and discontinued operations

Classification criteria

Non-current assets and liabilities held for sale and discontinued operations are classified under this item. Classification under this item is possible when the sale is considered to be highly probable.

Recognition criteria

Non-current assets/liabilities and assets/liabilities associated with discontinued operations are designated at the lower of the book value and their fair value, net of costs to sell.

Income item measurement and recognition criteria

After they are classified in the above-mentioned category, these assets are designated at the lower of the book value and their fair value, net of costs to sell.
If the non-current assets held for sale can be amortised/depreciated, the amortisation/depreciation process ceases from the year the assets are classified under non-current assets held for sale and discontinued operations. The associated income and charges are recognised in the income statement in a separate item net of the tax effect when they refer to discontinued operations. In this case the same income statement information is disclosed in a separate item also for the comparative periods shown in the financial statements.

Derecognition criteria

Non-current assets held for sale and discontinued operations are derecognised from the balance sheet upon disposal.

11- Current and deferred taxation

These items include current and deferred tax assets, and current and deferred tax liabilities relating to income taxes.

Income taxes, calculated in compliance with current tax regulations, are accounted for based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Therefore, this represents the tax charge, equal to the balance of current taxes and deferred tax assets and liabilities, relating to the income for the year. Income taxes are charged to the income statement, with the exception of those relating to items charged or credited directly to shareholders' equity, as they as well are consistently recognised directly through shareholders' equity.

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the balance sheet, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.
Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as Law no. 214/2011, which permits the transformation of certain deferred tax assets that meet specific conditions, into credits. Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

12- Provisions for risks and charges

Provisions for risks and charges consist of liabilities whose amount or expiry are uncertain, and are recognised in the financial statements only if:

- there is a current obligation (legal or implicit) as a result of a past event;

- it is likely that an outflow of resources will be required to produce economic benefits to settle the obligation;
- the amount of the probable future outflow can be reliably estimated.

Provisions for risks and charges include provisions for long-term benefits and post-employment benefits covered by IAS 19 as well as provisions for risks and charges covered by IAS 37.
Provisions for risks and charges do not include write-downs due to impairment of guarantees given, equivalent credit derivatives under IAS 39 and irrevocable commitments to disburse funds, which are recognised under item "100. Other liabilities".
The sub-item "Other provisions for risks and charges" includes allocations recognised for estimated outlays for legal or implicit obligations deriving from past events. These outlays may be contractual in nature, such as allocations for early retirement incentives, indemnity required under contractual clauses when specific events take place, or for compensation and/or restitution, such as those against possible losses on lawsuits, including clawback actions, estimated outlays for customer complaints regarding securities brokerage and tax disputes.
The amount of the provision recognised represents the best estimate of the financial outlay required to meet the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the facts and circumstances under examination. Whenever the time factor is significant, provisions are discounted using current market rates. The provision and the effect of discounting are recognised in the income statement in item "190. Net provisions for risks and charges", as is the increase in provisions as a result of the passing of time.
The provisions allocated are re-examined at each date of the financial statements and adjusted to reflect the best current estimate. When the outflow of resources to produce economic benefits to settle the obligation is unlikely, the allocation is reversed.
In addition, each provision must be used to pay for outlays for which the provision itself had been originally set aside.

As explained in the paragraph below "18- Other information, Employee termination indemnities and other employee benefits", the sub-item "Company retirement plans and similar obligations" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.

13- Payables and debt securities issued

Classification criteria

Items "10. Due to banks", "20. Due to customers" and "30. Debt securities issued" include various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding, net of any repurchased amount. These also include loans recorded by lessees as part of financial leases, as well as repurchase agreements and securities lent against collateral in cash, which the lender has full access to. Payables also include operating payables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

These financial liabilities are initially recognised when the amounts collected are received or the debt securities are issued and is based on the fair value of the liabilities, generally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the amount paid spot.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. They are stated at their received value and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Moreover, funding instruments under an effective hedge are measured based on the standards envisaged for hedging transactions.

For structured instruments, provided that the requirements under IAS 39 are met, the embedded derivative is separated out from the host contract and designated at fair value as a trading asset/liability. In this case, the host contract is recognised at amortised cost.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. Derecognition also takes place in the event of repurchases of securities issued. The difference between the book value of liabilities and the purchase price paid is recorded in the income statement. The subsequent placement of own securities following their repurchase is considered, for accounting purposes, as a new issue, recognised at the new placement price, with no effects on the income statement.

14- Financial liabilities held for trading

Classification criteria

This item includes the negative amount of trading derivative contracts designated at fair value and cash financial liabilities held for trading.
It also includes the negative valuations of derivatives associated with the assets and liabilities designated at fair value through profit and loss, embedded derivatives, which were separated from the compound financial instruments under IAS 39, as well as liabilities originating from technical overdrafts generated by securities trades.

Recognition criteria

Financial liabilities held for trading are initially recognised on the settlement date in case of cash liabilities and on the subscription date for derivative contracts.
Initial recognition is based on the fair value of liabilities, that generally corresponds to the collected amount, excluding transaction costs or income directly associated with the instruments, which are directly charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Income item measurement and recognition criteria

Gains and losses from changes in fair value and/or from the sale of trading instruments are recognised in the income statement. For derivative instruments, if the fair value of a financial liability becomes positive, that item is accounted for in the assets in item "20. Financial assets held for trading".

Trading profits or losses and gains or losses as a result of the valuation of the trading portfolio are recognised in the income statement in item "80. Profits (losses) on trading", except for income or loss on derivatives connected with the fair value option, which are classified in item "110. Profits (losses) on financial assets and liabilities designated at fair value".

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the relative cash flows expire or when the financial liabilities are sold, with the substantial transfer of all risks and rewards arising from their ownership.

15- Financial liabilities designated at fair value through profit and loss

Classification criteria

On initial recognition, financial liabilities are designated at fair value through profit and loss only if:

- they are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;

- designation at fair value through profit and loss provides more reliable disclosure, as:
  i. it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases;
  ii. a group of financial assets, financial liabilities, or both is managed and its performance designated at fair value according to a documented risk management or investment strategy. Group disclosure is provided internally, on this basis, to executives with strategic responsibilities.

For more details on the scope of Group liabilities under the fair value option and the method used to determine fair value and quantify its creditworthiness, please refer to paragraph "18- Other information, Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness" and the subsequent "Part A.4 - Fair value disclosure".

Recognition criteria

The financial liabilities in question are designated at fair value from initial recognition. Initial income and expenses are immediately charged to the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets are measured at their current fair value. The change in fair value is recognised in the income statement, with the exception of the effects resulting from changes in own credit risk, which are recognised in a specific valuation reserve, unless this treatment creates or amplifies an accounting mismatch in the income statement. An accounting mismatch is created or amplified when the recognition of the effects of own credit risk in an equity reserve is such so as to entail a more significant disharmony in the income statement than that which would arise from recognising the entire change in fair value of the liability in the income statement. In this last case, the entire change in fair value of the liability, including the effect of the change in own credit risk, must be recognised in the income statement.
The effects correlated with the change in own credit risk are presented in the statement of comprehensive income, net of the relative tax effect, under other comprehensive income without reclassification to the income statement.
The amount recognised in the specific shareholders' equity reserve is not subject to subsequent "reclassification" to the income statement, even if the liability is settled or extinguished; in this case, it is possible to reclassify the cumulative income (loss) to other shareholders' equity components.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case of repurchase: the difference between the book value of the liability and the purchase price is recorded in the income statement, with the exception of profits/losses connected to the change in own credit risk, which are recorded in a shareholders' equity reserve, as described above. The subsequent placement of own securities following their repurchase is considered, for accounting purposes, as a new issue, recognised at the new placement price, with no effects on the income statement.

16- Foreign currency transactions

Classification criteria

Assets and liabilities in foreign currency include those denominated explicitly in a currency other than the euro as well as those which envisage financial indexing clauses linked to the exchange rate between the euro and a specific currency or a specific basket of currencies.

To determine the conversion procedures to be used, assets and liabilities in foreign currency are broken down between monetary and non-monetary items.

Monetary elements consist of sums in cash and assets and liabilities expressing the right to receive or the obligation to pay fixed or determinable amounts in cash (receivables, debt securities, financial liabilities). Non-monetary

elements (such as equity instruments) are assets or liabilities that do not contemplate the right to receive or the obligation to pay fixed or determinable amounts in cash.

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

Income item measurement and recognition criteria

At each balance sheet date or interim reporting date, items expressed in foreign currencies are measured as follows:

- cash items are translated at the exchange rate in effect at the closing date;
- non-cash items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-cash items designated at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of cash items, or by the translation of cash items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-cash item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss on a non-monetary element is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

17- Insurance assets and liabilities

No insurance companies are included in the scope of consolidation.

18- Other information

a) Contents of other financial statement items

Cash and cash equivalents

This item includes legal tender, including foreign banknotes and coins and demand deposits with the Central Bank of the country or countries where the Group operates through its companies or branches.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Fair value change of financial assets and financial liabilities in macro fair value hedge portfolios

These items include, respectively, changes in financial assets or liabilities subject to macro hedging of interest rate risk, based on the respective balance, whether positive or negative.

Other assets

This item includes assets not attributable to the other balance sheet asset items. For example, this item may contain:

a) gold, silver and precious metals;
b) accrued income other than that capitalised on the related financial assets;
c) any inventories of assets according to the definition of IAS 2;
d) receivables associated with providing non-financial goods or services;
e) payable tax items other than those recognised in "Tax assets".

Leasehold improvements and incremental expenses incurred on third party assets other than those attributable to the item "120. Property and equipment" are also included, insofar as they cannot be separated from the assets to which they refer and therefore cannot be used independently (e.g. building work). These costs are recognised in this item because the lease contract represents a form of control over the assets for the lessee, the use of which is expected to produce economic benefits. The above costs are recognised to the income statement in the shortest period between that in which the improvements and the additional expenses may be used and the residual duration of the rental agreement, including the renewal period, if there is evidence in this regard.
These may also include any remainders (of the "borrower's balance") of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

Other liabilities

This item records liabilities not attributable to the other balance sheet liability items.
For example, this item contains:

a) payment agreements that under IFRS 2 must be classified as payables;
b) the initial recognition of guarantees given, the equivalent credit derivatives under IAS 39 and irrevocable commitments to disburse funds, as well as the subsequent write-downs due to their impairment;
c) payables associated with the payment of non-financial goods or services received;
d) accrued liabilities other than those to be capitalised on the related financial liabilities;
e) receivable tax items other than those recognised in the item "Tax liabilities" (connected, for example, to withholding agent activities).

Employee termination indemnities and other employee benefits

According to IAS 19, employee termination indemnities represent a "post-employment benefit".
Following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for employee termination indemnities accrued beginning from 1 January 2007, recognised for accounting purposes.
In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, employee termination indemnities accrued from 1 January 2007 are considered a "defined contribution plan"; the charge is limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology.
Otherwise, the provisions for employee termination indemnities accrued up to 31 December 2006 will continue to be accounted for as a "defined benefit plan".
In general terms, the "post-employment plans" - which include, beyond the Provisions for employee severance indemnities, Pension funds - are classified into two categories, "defined benefits" and "defined contributions" on the basis of the relative characteristics.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.
In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company. The liability is calculated by an external actuary using the "Projected unit credit method". On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).
The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry of a net equity reserve. Said gains and losses are recorded in the "Statement of comprehensive income".
The change in the liability resulting from an amendment or a reduction in the plan is recognised in the income statement as a gain or loss. In detail, an amendment is made when a new plan is introduced, rather than if an existing plan is withdrawn or amended. On the other hand, there is a reduction when there is a significant decrease in the number of employees included in the plan, such as in the case of redundant headcount reduction plans (access to the Solidarity Fund).

The "Projected unit credit method" described above, is also used to measure long-term benefits, such as "seniority bonuses" awarded to employees. Unlike that described for "defined benefit plans", actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves for financial assets available for sale, foreign investment hedging, cash flow hedging, and for foreign currency translation differences, as well as for "individual assets" and discontinued operations, the portion of valuation reserves of investments carried at equity, actuarial gains (losses) on defined benefit plans and profit/loss connected to the change in own credit risk relating to fair value option liabilities. It also includes the revaluation reserves recognised in compliance with special revaluation regulations, also if subject to "tax exemption".

Share capital and treasury shares

Share capital includes common and preferred stock issued by the bank net of any capital already subscribed but not yet paid up at the balance sheet or interim reporting date. This item includes any treasury shares held by the bank. The latter are recognised in the financial statements in their own item as a negative component of shareholders' equity.
The original cost of repurchased treasury shares and the gains or losses originated by their subsequent sale are recognised as changes to shareholders' equity.
Transaction costs relating to operations on share capital, such as share capital increases, are recorded as a decrease in shareholders' equity, net of any related tax benefits.
Dividends on ordinary shares are recognised as a reduction from shareholders' equity in the year in which the Shareholders' meeting approves their distribution. Any advances on dividends disbursed to shareholders are recognised in the balance sheet liability item "Advances on dividends" with a negative sign.

Minority interests

This item shows the portion of consolidated shareholders' equity attributable to shares owned by minority shareholders, calculated based on "equity ratios". The amount is calculated net of any treasury shares repurchased by consolidated companies.

b) Illustration of other significant accounting treatments

Dividends and revenue and cost recognition

Revenues are recognised when they are received or, on any event, when it is likely that future benefits will be received and these benefits can be reliably quantified. Costs are recognised in the income statement in the periods in which the relative revenues are accounted for; costs that are not directly associated with revenues are immediately charged to the income statement. In particular:

- interest is recognised *pro-rata temporis* on the basis of the contractual interest rate or the effective interest rate if the amortised cost method is used. The item interest income (or interest expense) also includes the positive (or negative) spreads or margins accrued until the reporting date, relating to financial derivative contracts:
  - hedging financial assets and liabilities that generate interest;
  - classified in the balance sheet in the trading portfolio, but operationally connected with financial assets and/or liabilities designated at fair value (Fair Value Option);
  - operationally connected with assets and liabilities classified in the trading portfolio and which envisage the settlement of spreads or margins at multiple maturities;
- default interest, if provided for by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement when the legal right to collect them ensues, and, therefore, when their distribution is resolved;
- fees and commissions for revenues from services are recognised, on the basis of the existence of contractual agreements, in the period in which the services themselves were provided. The fees and

commissions considered in the amortised cost for the purpose of determining the effective interest rate are recognised under interest;
- profits and losses from the brokerage of trading financial instruments are recognised in the income statement at the time of recognition of the transaction, based on the difference between the price paid or collected and the fair value of the instrument, only when the fair value can be determined by making reference to current observable market transactions or using valuation techniques whose inputs are observable market parameters; otherwise, said profits and losses are distributed over time taking the nature and the term of the instrument into account;
- revenues deriving from the sale of non-financial assets are recognised at the moment of completion of the sale, unless the majority of risks and rewards connected with the asset are retained.

Share-Based Payments

Share-based payments are payments made to employees, as a consideration for work performed, based on capital shares, that may, for example, consist of the assignment of:
- stock options;
- rights to receive shares when specific objectives are reached.

Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date. The fair value of payments settled through the issue of shares is recognised on the basis of the accrual principle in item "180. a) Personnel expenses", with a matching entry as an increase in item "170. Reserves".
In detail, when assigned shares cannot be immediately "used" by employee, but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.

Repurchase agreements, securities lending and forward agreements

Repurchase or forward agreements whereby the Group sells securities to third parties with the obligation to repurchase them upon maturity of the transactions at a predetermined price are recognised in payables to banks or to customers, depending on the counterparty. Likewise, repurchase or forward agreements whereby the Group acquires securities from third parties with the obligation to resell them upon maturity of the transactions at a predetermined price are recognised in receivables from banks or customers, depending on the counterparty. The difference between the spot and forward price of the above-mentioned transactions is recognised as interest (expense or income depending on the case) on an accrual basis throughout the life of the transaction. Securities lending transactions in which the guarantee is represented by cash which is fully available to the lender are recognised in the financial statements like the above-mentioned repurchase agreements.

In the case of securities lending transactions with a guarantee consisting of other securities, or with no guarantee, the lender and the borrower continue to recognise the security subject to the loan and any security provided as a guarantee, respectively, in the balance sheet assets. The remuneration of this transaction is recognised by the lender in item "40. Fee and commission income" and by the borrower in item "50. Fee and commission expense".

Offsetting financial instruments

In accordance with IAS 32, paragraph 42, financial assets and financial liabilities may be offset and the net balance may be reported in the financial statements if the entity:
- has a legally enforceable right to make said offsets, currently exercisable in all circumstances, where they refer to regular business operations or to situations of default, insolvency or bankruptcy of the parties;
- intends either to settle the transactions on a net basis, or to settle the same on a gross basis, the substantial effects of which are equivalent to a settlement on a net basis.

For derivative instruments covered by offsetting arrangements, which meet the requirements illustrated above, Circular no. 262 envisages that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of that of the imbalance of all hedging derivatives, said imbalances are to be reported on a net basis: usually, the net balance is allocated to the trading portfolio rather than as hedging

derivatives, depending on the prevailing absolute value of the imbalance of trading derivatives compared to that of hedging derivatives.
In accordance with the requirements of accounting standard IFRS 7, further information is provided in the tables contained in Part B - Other information in these notes to the financial statements.

Securitisations - derecognition from financial statements of financial assets transferred

In securitisation transactions, the transfer of financial assets to an SPE, even if with recourse, entails the derecognition of these assets from the financial statements, only if there is a substantial transfer of the risks and the benefits.
For securitisations originated by the Group, on the settlement date of the transaction, no derecognition of the receivables was made from the financial statements, even though transferred. In reality the Group maintained the risk of the receivable associated to the securitised portfolio and the relative benefits, through the subscription of the tranche of the junior securities, namely of the securities that bear the risk of the initial losses, or through the assumption of similar exposures. Consequently, the receivables continue to be recognised in the separate financial statements of the originator bank as "Assets sold and not derecognised"; the amount collected from the transfer is recognised as a balancing entry to the payable owed to the SPE, net of the securities subscribed by the bank in question. In the consolidated financial statements, the main impact of the consolidation of the SPE and of the relative capital from the securitisation, if the requirements of control envisaged by IFRS 10 are fulfilled, is that the securities issued by the SPE and subscribed by entities not belonging to the Group are recorded in the Balance Sheet.
For the purposes of the preparation for Part E of these notes to the consolidated financial statements, the receivables transferred as part of securitisation transactions are considered "Assets sold and not derecognised", unless the originator Group banks have not subscribed, from the issue date, all of the liabilities issued by the SPE (so-called self-securitisation transactions).
Tiepolo Finance is the only exception to the above-described general rule, for which on first-time adoption of the international accounting standards, the Group made use of the option not to recognise in the financial statements assets underlying securitisations performed before 1 January 2004, which had been derecognised based on the previous accounting standards. As at 31 December 2017, the junior security issued by Tiepolo Finance, subscribed for a nominal value of euro 50.5 million and classified in the portfolio of "Financial assets available for sale", was recorded with a value of zero, insofar as entirely written down.
Furthermore, for securitisations settled by the former Italease Group, the agreements made on 24 December 2009 between Banca Italease and Alba Leasing, following the finalisation of the acquisition of control of Banca Italease by the Banco BPM Group and the relative reorganisation of leasing activities, resulted in the full derecognition of the receivables originated by the banking channel, the risks and benefits of which were entirely posted to Alba Leasing based on dedicated contractual agreements.
Please refer to the disclosure contained in these Notes to the consolidated financial statements, "Part E - Section 1 - C. Securitisation Transactions".

Off-balance sheet credit exposures - guarantees given and commitments

Off-balance sheet credit exposures represented by the guarantees given and by irrevocable commitments to disburse funds, give rise to provisions, to the extent to which an outflow of economic resources to fulfil the legal obligation is considered likely. Said exposures undergo a process of analytical assessment, if there is a high probability of default of the individual position; otherwise, the provision is calculated on a collective basis, taking into account the probability of loss of a portfolio of similar securities. The procedure for making a collective estimation of performing off-balance sheet exposures is conducted by applying the same criteria used for the collective assessment of receivables, taking a conversion factor into account. As indicated in the paragraph entitled "12 - Provisions for risks and charges", the provisions relating to the write-down of guarantees given and commitments to disburse funds must be recognised under balance sheet item "100. Other liabilities" in accordance with Circular no. 262; the balancing entry is the income statement item "130. d) Net losses/recoveries on impairment of other financial transactions".

Business combinations, goodwill and changes in interest holdings

A business combination involves the union of businesses or separate business activities in a single entity obliged to draw up financial statements.
A combination may give rise to an investment relationship between the purchasing Parent Company and the subsidiary acquired. In such circumstances, the purchaser applies standard IFRS 3 in the consolidated financial

statements while in the separate financial statements the interest holding acquired as an investment in the subsidiary is recorded, applying accounting standard IAS 27 "Separate financial statements".
A combination may also envisage the purchase of the net assets of another entity, including any eventual goodwill, or the acquisition of the capital of another entity (mergers, conferrals, business segment acquisitions). A combination of this type does not translate into an investment relationship similar to that between the parent and subsidiary company and therefore in these cases accounting standard IFRS 3 applies also in the separate financial statements of the purchaser.
Business combinations are recognised using the purchase method, which requires: (i) the identification of the acquirer; (ii) the calculation of the cost of the business combination; (iii) the allocation of the purchase price.

Identification of the acquirer
For all business combinations, IFRS 3 requires the identification of an acquirer, identified as the party that obtains control over another entity, meaning the power to establish the financial and operational policies of that entity in order to obtain benefits from its business activities. For business combinations that result in the exchange of shareholdings, the identification of the acquirer must consider factors such as: (i) the number of new ordinary shares with voting rights issued with respect to the total number of ordinary shares with voting rights which will constitute the share capital of the company existing after the combination; (ii) the fair value of the entities that participate in the combination; (iii) the composition of the new corporate bodies; (iv) the entity that issues the new shares.

Calculation of the cost of the business combination
The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the purchaser in exchange for obtaining control over the entity acquired. The price which the purchaser transfers in exchange for the entity acquired includes any asset or liability emerging from an agreement on the potential price, to be recorded as of the acquisition date on the basis of the fair value. Changes to the transferred price are possible if they derive from additional information on events or circumstances which existed as of the acquisition date and are recognisable within the business combination measuring period (or rather within twelve months of the date of acquisition, as will be specified further on). Any other change which derives from events or circumstances subsequent to the acquisition, such as for example that acknowledged to the seller linked to achievement of specific income-related performances, must be recognised in the income statement.
The costs relating to the acquisition, which include brokerage commission, advisory, legal, accounting and professional costs, general administrative expenses, are recorded in the income statement at the time they are incurred, with the exception of the costs for issuing shares and debts securities which are recorded on the basis of the matters laid down by standards IAS 32 and IAS 39.

Purchase Price Allocation (PPA)
On the basis of the acquisition method, at the acquisition date, the acquirer must allocate the cost of the business combination (the "purchase price allocation" or PPA) to the identifiable assets acquired and the liabilities assumed measured at the relative fair values at that date, also recognising the value of the minority interests of the acquired entity. Therefore, it is necessary to draw up a balance sheet of the acquired company at the acquisition date, calculating at fair value the identifiable assets acquired (including any intangible assets not previously recognised by the acquired entity) and the identifiable liabilities assumed (including contingent).
With regard to each business combination, the minority interests can be recorded at fair value or in proportion to the portion held in the identifiable net assets of the company acquired.
In addition, if control is achieved by means of subsequent acquisitions (business combinations carried out in several phases), the shareholding previously held is measured at fair value as of the acquisition date and the difference with respect to the previous book value must be recorded in the income statement.
At the acquisition date, the acquirer therefore must determine the difference between:

- the sum of:
  - the cost of the business combination;
  - the amount of any minority interests as described above;
  - the fair value of any shareholdings previously held by the acquirer;
- the fair value of the net identifiable assets acquired, including contingent liabilities.

Any positive difference must be recognised as goodwill; otherwise, any negative difference must be recognised in the income statement of the entity resulting from the business combination as profit deriving from a bargain purchase

(negative goodwill or badwill), after making a new measurement to ascertain the proper process for identifying all assets acquired and liabilities assumed.
Identification of the fair value of the assets and liabilities must be finalised definitively within a maximum period of twelve months as from the acquisition date (measuring period).

Once control has been obtained and the acquisition method previously described applied, any further increase or decrease in the shareholding in a subsidiary company which continues to be controlling is recorded as a transaction between shareholders. Therefore, the book value of the group and minority shareholders' equity must be adjusted to reflect the changes in the holding in the subsidiary. Any difference between the value for which the minority interests are adjusted and the fair value of the price received or paid must be recorded directly in the group shareholders' equity.

In the presence of an event that results in a loss of control, the effect to be recognised in the income statement is equal to the difference between (i) the sum of the fair value of the price received and of the fair value of the residual interest held and (ii) the prior book value of the assets (including goodwill), of the liabilities of the subsidiary, and any minority shareholder's equity. The amounts previously recognised in the statement of comprehensive income (such as for example the revaluation reserves of financial assets available for sale) must be recorded in compliance with the matters required in the event that the parent company has directly disposed of the assets and the related liabilities (by means of reclassification in the income statement or under retained earnings).
The fair value of any shareholding held in the former controlling investment must be considered equal to the fair value at the time of initial recognition of a financial asset on the basis of IAS 39, or, if appropriate, equal to the cost at the time of initial recognition in an associated company or a jointly-controlled entity.

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Group, are not considered to be business combinations. The international accounting standards do not in fact discipline the transactions under joint control, which are recorded with continuity at the values of the entity purchased in the financial statements of the purchaser, if they do not present a significant influence on future cash flows. This is in compliance with the matters envisaged by IAS 8 paragraph 10, which requires, in the absence of a specific standard, that use of one's own judgement when applying an accounting standard be adopted for the purpose of providing relevant, reliable, prudent disclosure which reflects the economic essence of the transaction.

Methods for determining impairment losses on financial assets

At each balance sheet date, all financial assets, except those designated at fair value through profit or loss, are subject to impairment testing to verify whether there is objective evidence of impairment that may compromise the recoverability of the investment.
In detail, the objective evidence of impairment affecting an asset or a group of financial assets can be associated with the following negative events:

- significant financial difficulties experienced by the issuer or the borrower;
- breach of contract, for example a default or failure to make payment of interest or principal when due;
- giving the beneficiary an allowance, that the bank took into consideration primarily for economic or legal reasons related to the beneficiary's financial difficulties, and which otherwise would not have been granted;
- likelihood that the borrower may file for bankruptcy or other financial restructuring procedures;
- disappearance of an active market related to the financial asset in question due to the issuer's financial difficulties. However, the disappearance of an active market caused by the fact that the company's instruments are no longer publicly traded is not evidence of a reduction in fair value;
- events that point at a significant decrease in the issuer's future cash flows (which include the general local or domestic economic conditions in which the issuer operates).

Furthermore, objective evidence of impairment for an investment in an equity instrument may materialise in the event of the following additional negative events:

- significant changes negatively affecting the technological, economic or regulatory environment in which the issuer operates, indicating that the investment can no longer be recovered;
- a prolonged or significant reduction in fair value below the purchase price.

In the event that objective impairment occurs as a result of one or more events that occurred after the initial recognition of the asset, it is necessary to calculate the impairment loss, according to different rules for financial instruments measured at amortised cost or assets designated at fair value with changes carried at equity.
With regard to the determination of impairment losses, please refer to that described for items "3. Investments held to maturity", "4. Loans" for assets valued at amortised cost, and "2. Financial assets available for sale" for assets designated at fair value with a matching entry in a specific equity reserve.

Financial liabilities designated at fair value

To obtain funding, the Group issues different types of bonds, both at a fixed rate and structured types (index-linked to share components, to exchange rates, to interest rate structures, inflation rates or similar indices). The risks resulting from said issues are hedged by the Group, as part of its overall market risk management, also by means of entering into derivative contracts.

From an accounting perspective, some of these contracts are designated as hedges according to the rules of Hedge Accounting, and in particular of the "fair value hedge", as illustrated in paragraph "6. Hedging transactions".

For hedges that are not eligible for the rules of Hedge Accounting, asymmetric accounting would be created, resulting from the different measurement criteria applied to the bond issue - valued at amortised cost - and to the operational hedge derivative instrument - measured at fair value. The Group overcomes this asymmetry by designating bond issues subject to operational hedging at fair value (so-called "Fair Value Option"). In addition to simplifying the administrative and accounting management of hedges, with specific reference to structured issues, the adoption of the Fair Value Option instead of hedge accounting, is closely linked to the actual methods the Group uses to carry out its hedging policies, by managing its market exposure globally and not through a discrete relation with the issued bond.
Unlike hedge accounting, whose accounting rules require that only fair value changes attributable to the hedged risk be recognised on hedged instruments, the fair value option requires the recognition of all fair value changes, irrespective of the hedged risk factor.

For the issues in question, fair value is measured first by making recourse to prices observable in markets considered active, such as regulated markets, electronic trading networks (like Bloomberg) or organised trading systems or equivalent.
Lacking prices observable in active markets, the measurement is based on the prices of recent transactions on the same instrument in non-active markets rather than on valuation techniques based on a cash flow discounting model, which must consider all factors considered significant by market participants in determining a hypothetical trade. In particular, to determine creditworthiness, the spreads implicit in the comparable issues of the same issuer obtained on active markets are used rather than the curve of the credit default swaps in the name of Banco BPM with an equal degree of subordination as the security subject to the assessment. The impact resulting from the change in the Bank's creditworthiness, between the issue date and the valuation date, is quantified by calculating the difference between the fair value obtained, considering all risk factors to which the bond is exposed, including credit risk, and the fair value obtained considering the same factors, with the exclusion of the change in credit risk arising during the period.
For further details on how fair value is determined, please refer to what is described in detail in the specific section in "Part A.4 – Fair value disclosure".

With regard to recognition criteria for balance sheet and income statement components, note that:

- derivatives that are associated operationally with liabilities designated at fair value are classified as "Financial assets held for trading" or "Financial liabilities held for trading";
- the spreads and the margins accrued on the derivatives up until the valuation date are recorded, depending on the balance, under "interest income" or "interest expense", consistent with the accrual recorded for the bond issues subject to operational hedges;
- the profits and losses resulting from the disposal or valuation of both bond issues under the Fair Value Option, and of the related derivatives, are recognised under the income statement item "110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss", with the exception of valuation and realisation effects correlated with the change in own credit risk, which are recognised as a balancing entry to a specific equity reserve (item "140. Valuation reserve"), unless this treatment creates or amplifies a mismatch in the income (loss), as described in more detail in section "15- Financial liabilities designated at fair value through profit and loss".

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: book value, fair value and effects on the comprehensive income

On 15 October 2008, the European Commission approved Regulation no. 1004 by means of which the amendments to IAS 39 were acknowledged with reference to the reclassification of financial instruments, and to IFRS 7 with regard to the related disclosure obligations.
On the basis of this amendment, it is therefore possible to reclassify in another category - in the presence of specific conditions - financial instruments recorded, at the time of purchase, within the sphere of the category of financial assets held for trading or the category of financial assets available for sale, as described in detail in the above "Part A.2", to which reference is made for further information.

The following table shows the book value of the reclassified assets remaining as at 31 December 2017, the relative fair value, the income components recorded in the period and the economic impact that would have been recorded in the same period if the transfer had not been carried out.
As these are residual assets that were reclassified by the former Banco Popolare in the second half of 2008, when the crisis situation which characterised the financial markets, defined by the same IASB as an example of "rare circumstances", would not have enabled the objectives that had justified their recognition as "financial assets held for trading" to be reasonably pursued, forcing the same, in reality, to be held for the foreseeable future or to maturity.

In 2017, no further reclassifications of the portfolio took place.

Type of financial instrument	Source portfolio	Target portfolio	Book value as at 31/12/2017	Fair value as at 31/12/2017	Income items in absence of the transfer (before tax)		Income items registered in the year (before tax)	
					Valutational	Other	Valutational	Other
Debt securities	Financial assets held for trading (item 20)	Loans to customers (item 70)	29,753	30,512	1,452	565	-	706
Total			**29,753**	**30,512**	**1,452**	**565**	**-**	**706**

As at 31 December 2017, the portfolio reclassified from trading assets to the portfolio of loans to customers is represented by a limited number of debt securities (3), specifically:

- a subordinated issue of a leading Italian bank with a nominal value of euro 25 million (book value of euro 24.2 million);
- two Asset Backed Securities (ABS) belonging to the senior tranche, with a nominal and book value of euro 5.6 million. During 2017 there was a reduction in nominal value of euro 1 million as a result of redemptions.

As at 31 December 2017, the valuation at amortised cost rather than at fair value had a cumulative negative impact of euro 0.8 million (as emerges from the difference between the "Book value as at 31/12/2017" column and the "Fair value as at 31/12/2017"); as at 31 December 2016, the cumulative impact was a positive euro 0.6 million. More specifically, this impact is the result of:

- the failure to recognise net gains due to the adjustment to fair value of euro 1.9 million, which instead would have been recorded if the securities had stayed in the assets held for trading portfolio;
- the recognition of income items represented by additional interest income due to the application of the amortised cost to the reclassified assets of euro 1.1 million.

As regards the impact on comprehensive income for the year, the reclassification entailed the recognition of lower income items in the amount of euro 1.3 million, primarily attributable to the gain that would instead have been recorded due to the fair value measurement of financial assets held for trading subject to reclassification (equal to the difference between the column "Income items registered in the year" and the column "Income items in absence of the transfer").

A.3.2 Reclassified financial assets: effects on the comprehensive income before reclassification

Under IFRS 7, in the year of the reclassification it is required to disclose the effects on comprehensive income before reclassification. In this regard, it is noted that during 2017 no transfers of portfolios were carried out, and, therefore, there is no disclosure to be provided.

A.3.3 Transfers of financial assets held for trading

For the reasons underlying the reclassification, please refer to the previous paragraph A.3.1.
In addition, note that at the time when Banco Popolare had carried out the reclassification, the IASB had expressly considered the deterioration of the world's financial markets that had occurred during the third quarter of 2008 as an example of "rare circumstances", as stated in their press release of 13 October 2008.

A.3.4 Effective interest rate and cash flows expected from reclassified assets

There is no disclosure to make as no portfolio reclassification was made in 2017.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market operators, under current market conditions on the valuation date in the main market or in a more advantageous market (exit price). Underlying the fair value measurement is the presumption that the entity is considered a going concern, i.e., that it is in a fully operational situation and it does not therefore intend to liquidate or considerably reduce its operations or undertake transactions under unfavourable conditions. Therefore, the fair value is not the amount that the entity would receive or pay in the case of forced transactions or below-cost sales.

Fair value is a market valuation approach not specifically referring to estimates concerning possible future cash flows developed by the individual company; indeed, fair value must be determined by adopting the assumptions that market participants would use in determining the price of assets and liabilities, presuming that they are acting in their own best economic interest.
To measure the fair value of financial and non-financial assets and liabilities, IFRS 13 establishes a three-tiered fair value hierarchy, based on the source and quality of the inputs used:

- **Level 1**: the inputs are represented by listed (non-adjusted) prices in active markets for identical assets or liabilities;
- **Level 2**: the inputs are represented by:
  - listed prices in active markets for similar assets or liabilities;
  - listed prices in non-active markets for identical or similar assets or liabilities;
  - parameters observable in the market or corroborated by market data (for example, interest rates, credit spreads, implicit volatilities and exchange rates) and used in the valuation technique;
- **Level 3**: the inputs used are not observable in the market.

For financial instruments designated at fair value in the financial statements, the new Group has established a "Fair Value Policy", which assigns the maximum priority to the prices listed on active markets (level 1) and lower priority to the use of inputs which cannot be observed (level 3), in that they are more discretionary, in line with the above-described fair value hierarchy. More specifically, this policy defines:

- the rules to identify market data, the selection/hierarchy of information sources and the price configurations needed to measure the value of the financial instruments in active markets, classified as level 1 of the fair value hierarchy ("Mark to Market Policy");
- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market
To determine fair value, the Group uses information based on market data, whenever available, obtained from independent sources, insofar as this is considered the best evidence of fair value. In this case, the fair value is the

market price of the same instrument assessed, meaning without changes in or restructuring of the instrument, which can be taken from the listings expressed by an active market (and classified as level 1 in the fair value hierarchy). A market is considered active when the list prices express actual and regular market transactions and are readily and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorised entities.

Mark to Model

When the Mark to Market Policy is not applicable, because there are no prices directly observable on active markets, it is necessary to use valuation techniques that maximise the use of information available on the market, based on the following valuation approaches:

1. Comparable approach: in this case the instrument's fair value is derived from the prices observed in recent transactions on similar instruments in active markets, suitably adjusted to take into account differences in the instruments and in the market conditions, rather than from the prices of recent transactions on the same instrument as that subject to valuation not listed in active markets;
2. Valuation Model: in the absence of observable transaction prices for the instrument being measured or similar instruments, it is necessary to apply a valuation model. The model must provide proven reliability in estimating hypothetical "operational" prices and therefore must be generally accepted by market participants.

This was classified in level 2 instead of level 3 as significant inputs used for the purpose of determining the fair value were observed on the market. A financial instrument must be classified in its entirety in a single level. Therefore, when the measurement technique uses input from multiple levels, the entire measurement must be classified in the level of the hierarchy where the lowest level of input is classified, where it is deemed significant for calculating the fair value as a whole.

The following types of investment are normally considered as level 2:

- OTC financial derivatives whose fair value is obtained through pricing models, which may use both observable and non-observable input. However, the latter parameters are judged to be insignificant in calculating the overall fair value;
- equity instruments that are not listed on active markets, measured using market multiple techniques, referring to a selected sample of companies that are comparable to the company being valued, or measured based on actual transactions executed in a time frame that is reasonably near the reference date;
- third party or own debt securities that are not listed on active markets, whose input, including credit spreads, is taken from market sources;
- hedge funds featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator.

The following financial instruments are generally considered level 3:

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. The fair value is measured on the basis of the NAV. Said NAV may be suitably corrected to account for the fund's diminished liquidity, i.e., the period of time between the date of the request for redemption and that of the actual redemption, as well as for possible exit commissions relating to the investment;
- real estate funds measured on the basis of the last available NAV;
- private equity funds measured on the basis of the last available NAV, adjusted if necessary to take into account events that were not recognised in the measurement of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid stock for which no recent or comparable transactions have been observed, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures, for which sources that are not publicly available are typically used. These are non-binding quotations and moreover not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market;
- OTC derivative financial instruments for which the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

Assets and liabilities measured at fair value on a recurring basis

For the Banco BPM Group, assets and liabilities measured at fair value on a recurring basis are represented by financial assets and liabilities. For these instruments, in the absence of prices directly observable in active markets, the fair value must be determined using the "Comparable Approach" valuation approach or the "Model Valuation", as described in the previous paragraph. A description is provided below of the main valuation techniques adopted for each type of financial instrument.

Debt securities
These are measured by discounting expected cash flows (Discounted Cash Flow Method), suitably adjusted to account for issuer risk. The sources of information used to determine the spread deemed expressive of issuer risk are, in hierarchical order: i) the "cash credit spread" curve drawn from the prices of securities of the same issuer, characterised by the same seniority and currency, listed on markets considered active; (ii) the "Credit Default Swap" curve of the issuer with an equal seniority; (iii) the credit spread curve of debt securities listed in active markets relating to comparable issuers; (iv) the rating/sector cash credit spread curves; (v) the sector credit default swap curve.

Unlisted equity instruments
These are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods.

Investments in UCIT units, other than open-ended harmonised UCIT
These are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity funds, real estate funds and hedge funds.

Over The Counter (OTC) Derivatives
These are measured on the basis of multiple models, depending on the type of instrument and input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation. For future cash flow discounting purposes, the risk-free interest rate refers to the OIS ("Overnight Indexed Swap") curve.

In detail, for non-option instruments (such as interest rate swaps, forward rate agreements, overnight interest swaps and domestic currency swaps), the valuation techniques adopted belong to the category of "discount cash flow models", based on certain or trend-based cash flow discounting.

For option instruments, models generally accepted in market practice, such as Black & Scholes, Black-like and Hull & White, are used. In particular:

- for "plain vanilla" options, the methodologies most used fall within the "forward risk-neutral" framework and are based on analytical black-like formulas, in which volatility depends on maturity and the strike (volatility skew);
- for more complex options (such as exotic options, barrier options and autocallable options), the methodologies most used, again within the risk-neutral sphere, are based on Monte Carlo simulations, according to which the option pay-off is evaluated through simulations for a sufficiently high number of repetitions relating to the evolution over time of the risk factors underlying the option. Such models estimate the likelihood that a specific event will take place by incorporating assumptions such as the volatility of estimates or the price of the underlying instrument. The price of the derivative is therefore obtained as the discounted arithmetic average of the values obtained for each scenario.

For instruments that contain different option and non-option derivative components, the valuation is conducted by applying the appropriate valuation methodology to each instrument component.

In addition, in order to measure the fair value, several fair value adjustments are considered in order to best reflect the sale price of an actually possible market transaction. These adjustments are specifically model risk, liquidity risk and counterparty risk, illustrated here below.

Model risk: this adjustment is made to cover the risk that the pricing models, though validated, may generate fair values not directly observable or not immediately comparable with market prices. In general, this is the case for structured products, whose valuation is highly complex and for which the break down into elementary components which can be "summed" (host instrument and embedded derivative) may generate imprecisions in the valuation, or in the event of pricing algorithms or types of pay-offs that are particularly "exotic", which do not have a suitable degree of dissemination on the market, or in the presence of models that are highly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take account of the size of the "bid/ask spread", i.e., the actual cost of unfreezing positions in OTC derivatives in markets with low efficiency. The effect of the liquidity risk adjustment is greater the more the product is structured, due to the related hedging/unfreezing costs, where the valuation model is not sufficiently confirmed and disseminated among operators, because this makes the valuations more random.

Counterparty risk: adjustments of market value on OTC derivatives, classified as performing are made to reflect:

- the risk of the counterparty's possible default: in this case, the "adjustment" is called Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of one's own contractual obligations towards a counterparty ("own credit risk"), for the purpose of determining the Debt Valuation Adjustment (DVA).

The consideration of own credit risk, in the measurement of a financial liability at fair value, is consistent with the valuation made for an entity that holds the same instrument as a financial asset, and is expressly envisaged by IFRS 13 ("non-performance risk").

CVA and DVA are determined for each separate legal entity belonging to the Group, on the basis of the expected future exposure of the derivative instruments, the probability of default (PD) of the parties, and the loss given defaults (LGD). More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of "netting and collateral agreements", which are able to mitigate counterparty risk. More specifically, the "Credit Support Annex" (CSA) contracts negotiated with the counterparties for derivative transactions, regulate the settlement of real financial guarantees, based on the overall mark to market performance.

When estimating PD, maximum use of market observable parameters is made, referring for example to Credit Default Swap quotations, where available, against internal parameters.
The table below summarises the main types of derivatives existing in the Group, indicating the related valuation models and the main inputs.

Derivative category	Product	Valuation models	Main input of the model
Financial derivatives on interest rates	Swap	Discounted Cash Flow and Libor Convexity adjustment	Interest rate curves, interest rate volatility, interest rate correlation
	Cap - Floor	Bachelier - Analytical	
	European Swaption	Bachelier - Analytical	
	Bermuda Swaption	Hull-White one-factor mixture – Trinomial tree	
	CMS Spread Option	Bachelier - Analytical	
	CMS cap/floor/swap	Bachelier and CMS Convexity adjustment (Hagan)	
	FRA	Discounted Cash Flow - Analytical	
	Interest Rate Futures	Analytical with Hull-White one-factor convexity adjustment	
	Bond Option	Black - Analytical	
	Discounted Cash Flow - Analytical	Bond Futures and Bond Repo	
	Bond Futures option	Binomial tree	
Derivatives on inflation rates	Swap, Cap - Floor	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, interest/inflation rate volatility/correlation, calibrated on market prices
Derivatives on shares / equity indices / exchange rates	Single asset plain vanilla options	Black and Scholes - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – trinomial tree (forex)	
	Exotic options	Black and Scholes – Monte Carlo	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates, correlations
	European options on baskets	Black and Scholes /Black and Scholes Mixture - Analytical	
	American Barrier Options	Local Volatility – Monte Carlo	
	American Barrier Options on exchange rate	Trinomial tree	
	Autocallable options	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of equity indices, dividends, repo rates
	Dividend Swap and Total Return Swap	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swap	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques and parameters for determining fair value and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". In detail, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by a stage conducted by the same department, to guarantee constant reliability of the previously validated model.
In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the

validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "Model risk", as described above.

Financial assets and liabilities measured at amortised cost in the financial statements

For financial assets and liabilities recognised in the financial statements based on amortised cost, classified in the accounting portfolios of "Due from/to banks or customers", "Debt securities issued" or "Investments held to maturity", fair value is determined for reporting purposes only as required by the applicable accounting standard IFRS 7. In particular:

- for performing medium/long-term loans (mostly mortgage loans and leases), fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of PD and LGD parameters and a premium deemed to express risks and uncertainties;
- for non-performing loans (bad loans, unlikely to pay, past due), the fair value has been considered as equal to the net book value, insofar as the non-performing loans market is characterised by a significant illiquidity and by a high dispersion of prices due to the specific characteristics of these loans, which hinders observable parameters from being identified to be used as reference for the fair value measurement;
- for debt securities classified in the portfolio of "Investments held to maturity" or "Due from banks or customers" or "Outstanding securities", even following a portfolio reclassification, the fair value is measured by using prices obtained on active markets or valuation models, as described above in the previous paragraph for "Assets and liabilities measured at fair value on a recurring basis".

For demand or short-term receivables and payables, the book value is considered a good approximation of fair value, as permitted by IFRS 7.

With regard to medium-long term performing and non-performing loans, note that the methods and the assumptions used to estimate fair value are based on subjective valuations; for this reason, the fair value shown in the financial statements for disclosure purposes only, could be significantly different to the values calculated for different purposes, just as it may not be comparable to those provided by other financial institutions.

Non-financial assets – Real estate investments held for investment purposes (ex IAS 40)

These are real estate investments mainly deriving from loan recovery operations, valued at cost, for which, pursuant to accounting standards IAS 40 and IFRS 13, it is necessary to disclose the fair value and the triple hierarchy in the notes to the financial statements, based on the observability or otherwise of the inputs, regardless of the measurement techniques adopted, as illustrated below.
The fair value is mainly determined through external appraisals, which use current prices of similar assets (value per square metre, prices for similar transactions) as a benchmark. Adjustments are usually made to this value to reflect the specific characteristics of the asset subject to valuation. These can include, by way of example, its geographic and commercial position, accessibility and infrastructures present, the urban planning context, its maintenance status, size, any appurtenances and the state of external/internal plant. In the event of situations in which the asset is difficult to sell, further prudential adjustments may be made to align to the sale policies that company management intends to pursue. By way of said adjustments, the fair value obtained in this way is, as a rule, classified as level 3 in the fair value hierarchy, insofar as it significantly depends on the estimates made by the management, which are necessarily characterised by elements of judgment and subjectivity.
There may be cases, which, however are considered insignificant, where the fair value of real estate investments may be considered at level 2, as they are determined based on parameters considered observable on active markets. In these cases a sufficient volume of transactions must exist, occurring in a recent time frame with respect to the valuation date, and no significant adjustments may have been made, due to the considerable similarity between the unit to be valued and the units subject to the cited transactions. This may be the case for sales prices per square metre or rental costs for properties considered equivalent due to their intrinsic characteristics and location (ex. residential units in a building/area with a sufficient number of comparable units or an office located in a business district with several similar buildings containing comparable offices).

IFRS 13 assumes that the current use of the asset is the highest and best use of said asset, unless the market or other factors suggest that the market participants may use the asset differently in order to maximise its value. For certain real estate investments, the determination of the fair value may therefore take account of potential "redevelopment" of the current use of the property, to the extent to which there is evidence to support the fact that the market participants consider said potential future development for the purpose of determining the transaction price.

A.4.2 Processes and sensitivity of valuations

For an examination of the techniques, inputs and valuation processes adopted by the Group for the instruments classified in level 3 of the fair value hierarchy, please refer to the previous paragraph.
Level 3 exposures amount to a total of euro 778.7 million and roughly 95% are represented by equity instruments and by UCITS units; for these investments, no quantitative sensitivity analysis of the fair value was conducted, with respect to the change in non-observable inputs, insofar as the fair value was acquired from external sources without making any adjustment or was generated by a model with inputs specific to the entity under assessment (for example, the company's capital values) and for which alternative values cannot be reasonably envisaged.

A.4.3 Fair value hierarchy

For the purpose of preparing the disclosure on transfers between levels set out in the following paragraphs A.4.5.1, A.4.5.2 and A.4.5.3, it is noted that, for securities in the hierarchy as at 31 December 2017 which had a different level of fair value than as at 31 December 2016 (or as at 1 January 2017 for securities relating to the former BPM Group), it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

It must be specified that the Group used the option of measuring total net exposure, in order to fully calculate the counterparty risk associated with derivative contracts grouped in the same Netting agreement, as described in the paragraph above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used". In the presence of collateral agreements (CSA), the exposure associated with the single derivative is determined on the basis of its marginal contribution to the expected net exposure generated by all contracts stipulated with a specific counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

Given the above, the table below provides a breakdown of the financial assets and liabilities measured at fair value on a recurring basis, in the fair value hierarchy. As established by the previously cited standard IFRS 13, recurring valuations refer to those assets or liabilities measured at fair value in the balance sheet, on the basis of that envisaged or permitted by the relevant international accounting standards.
In this regard, note that for the Banco BPM Group, the only assets and liabilities measured at fair value on a recurring basis are financial assets and liabilities.

Assets/Liabilities measured at fair value	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	3,079,405	1,798,733	33,686	3,278,325	1,449,371	15,729
2. Financial assets designated at fair value through profit and loss	7,991	19,389	1,572	3,532	559	213
3. Financial assets available for sale	15,761,099	624,079	743,444	11,348,833	382,967	359,188
4. Hedging derivatives	-	243,810	-	-	443,411	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**18,848,495**	**2,686,011**	**778,702**	**14,630,690**	**2,276,308**	**375,130**
1. Financial liabilities held for trading	987,343	6,951,183	3,537	705,798	7,440,177	-
2. Financial liabilities designated at fair value through profit and loss	3,065,348	348,212	-	6,352,952	380,354	-
3. Hedging derivatives	-	765,903	-	-	1,292,087	-
Total	**4,052,691**	**8,065,298**	**3,537**	**7,058,750**	**9,112,618**	**-**

Financial assets

The financial instruments valued on the basis of prices pertaining to active markets (Level 1) or determined on the basis of observable market parameters (Level 2) represent 96.5% of total financial assets designated at fair value.
The instruments valued significantly on the basis of non-observable parameters (Level 3) represent a marginal share (of 3.5%) of total financial assets designated at fair value through profit and loss, 95.5% of which are financial assets available for sale.
More specifically, level 3 financial assets amounted to euro 778.7 million and are represented by the following types of investment:

- unlisted equity instruments of euro 494.5 million, mostly valued on the basis of internal equity models;
- UCIT units of euro 246.1 million, represented almost entirely by private equity funds (euro 140.5 million), real estate funds (euro 86.8 million) and bond funds (euro 18.8 million); these funds are characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates;
- debt securities of euro 23.4 million, euro 17.4 million of which represented by a Senior note issued in November 2017 by Superstrada Pedemontana Veneta S.p.A., euro 2.3 million by a tranche of mezzanine notes (one million) and junior notes (1.3 million) issued by the SPE Berenice SPV s.r.l. held indirectly through the investment in the Voluntary Scheme, details of which can be found in the specific paragraph entitled "Interbank Deposit Guarantee Fund - Voluntary Scheme" in "Part A.1 - General part - Significant aspects relating to accounting policies". The remaining euro 3.7 million refers to several bonds purchased as part of the restructuring of several credit exposures (euro 2.8 million), and to two structured bonds issued by a bank belonging to a leading Italian banking group (euro 0.8 million) and a leading Dutch bank (euro 0.1 million);
- OTC derivatives of euro 14.7 million for which the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value.

UCIT units include the euro 18.3 million investment in the Atlante Fund; this is an Italian alternative closed-end securities investment fund, managed by Quaestio Capital Management SGR S.p.A., launched on 29 April 2016, the

objective of which is to sustain the unopted portion of future share capital increases promoted by Italian banks, and to contribute to the disposal of the non-performing loans in the portfolios of domestic intermediaries. As at 31 December 2017, the total subscriptions called up by the Atlante Fund amount to euro 3,916.2 million (equal to 92.2% of the equity of euro 4,249 million, consisting of 4,249 shares with a unit nominal value of euro 1 million). For the Banco BPM Group, against a commitment to the Fund of euro 150 million, the total subscriptions paid as at 31 December 2017 amount to euro 138.3 million, euro 16.5 million of which in 2017; the residual commitment is therefore euro 11.7 million. The lower balance sheet value with respect to the subscriptions made, corresponding to euro 120 million, is booked to cumulative impairment, euro 61 million of which deducted in 2017 under "130. b) Net losses on impairment of financial assets available for sale". This impairment is due to the investments made by the Fund in Banca Popolare di Vicenza S.p.A. (99.33%) and in Veneto Banca S.p.A. (97.64%), totalling euro 3,426.6 million, these investments were written off in full following the administrative compulsory liquidation of the two banks as ordered by Decree Law no. 99 of 25 June 2017.

Financial assets include euro 2,149.1 million in derivative instruments held for trading and hedging, of which euro 2,134.3 million (equal to 99.3% of the instruments) classified in hierarchy levels 1 and 2. In particular:

- listed derivatives (futures and options) corresponding to euro 134 million, are measured on the basis of the prices provided by the Clearing Houses (level 1);
- Over The Counter (OTC) derivatives, which amount to euro 2,000.3 million, are measured on the basis of models, which use observable market parameters to a significant extent, or on the basis of prices originating from independent sources (level 2).

Financial liabilities

Financial liabilities held for trading classified as level 1 refer to listed derivatives amounting to euro 164.5 million and to technical overdrafts on securities listed in active markets of euro 822.9 million; the remaining financial liabilities held for trading, corresponding to euro 6,954.7 million, were almost entirely classified as level 2.

Financial liabilities designated at fair value are represented by own bond issues subject to hedging by means of derivative instruments, for which the fair value option has been activated. More specifically, the securities classified as level 1, which as at 31 December 2017 represented 89.8% of the total liabilities measured at fair value (item 50 of balance sheet liabilities), consist of issues for which it was deemed that there is an active market (regulated market, electronic trading network, organised trading systems or equivalent).

Hedging derivatives have a negative fair value of euro 765.9 million and are fully classified as level 2.

Transfers between fair value levels (Level 1 and Level 2) of financial assets/liabilities designated at fair value through profit and loss on a recurring basis

During the year, the only transfers between fair value levels (Level 1 and Level 2) regard financial instruments belonging to the portfolio of "financial assets held for trading".
More specifically, a transfer from level 1 to level 2 was recorded of euro 0.5 million (value at the beginning of the year) of a single debt security, for which, at the end of the year, the conditions envisaged by the Group Fair Value Policy for a listing expressed by an active market had not been met, unlike the situation at the beginning of the year.

During the same period, transfers were also recorded, from level 2 to level 1, of euro 0.5 million (value at the beginning of the year) relating to a limited number of bonds for which, as at 31 December 2017, it was possible to rely on prices observed in markets considered active.

Impact of the Credit Value Adjustment (CVA) and of the Debt Value Adjustment (DVA) on the fair value determination of derivative financial instruments

Based on the method illustrated in the paragraph above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used", as at 31 December 2017, cumulative adjustments made to the fair value of derivative instruments, to account for counterparty risk "Credit Value Adjustment and Debt Value Adjustment" (CVA/DVA), were negative in total by 0.5 million, and comprised by:

- CVAs, which entailed a cumulative loss, in terms of lower assets/higher liabilities, of euro 9.2 million;
- DVAs, which entailed a cumulative benefit, in terms of higher assets/lower liabilities, of euro 8.7 million.

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	**15,729**	**213**	**359,188**	**-**	**-**	**-**
2. Increases	**205,040**	**1,630**	**651,369**	**-**	**-**	**-**
2.1. Purchases	177,839	-	172,124	-	-	-
2.2. Profits charged to:						
2.2.1. Income statement	517	-	9,421	-	-	-
- of which capital gains	337	-	71	-	-	-
2.2.2. Shareholders' equity	X	X	48,318	-	-	-
2.3. Transfers from other levels	736	-	2,303	-	-	-
2.4. Other increases	25,948	1,630	419,203	-	-	-
3. Decreases	**(187,083)**	**(271)**	**(267,112)**	**-**	**-**	**-**
3.1. Sales	(159,870)	-	(102,526)	-	-	-
3.2. Redemptions	(5)	-	(5,882)	-	-	-
3.3. Losses charged to:						
3.3.1. Income statement	(11,801)	(265)	(125,461)	-	-	-
- of which capital losses	(4,058)	(258)	(79,463)	-	-	-
3.3.2. Shareholders' equity	X	X	(8,466)	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	(15,407)	(6)	(24,777)	-	-	-
4. Closing balance	**33,686**	**1,572**	**743,445**	**-**	**-**	**-**

The increase recorded in the "Financial assets available for sale" portfolio detailed in "2.4. "Other increases" refers mainly to the business combination fully illustrated in Part G "Business combinations regarding companies or divisions". Capital losses include the euro 61 million value adjustment of the investment in the "Atlante Fund" illustrated at the foot of table A.4.5.1 "Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels".

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	**-**	**-**	**-**
2. Increases	**5,515**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:			
2.2.1. Income statement	374	-	-
- of which capital losses	373	-	-
2.2.2. Shareholders' equity	X	X	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	5,141	-	-
3. Decreases	**(1,978)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	(5)	-	-
3.3. Profits charged to:			
3.3.1. Income statement	(1,967)	-	-
- of which capital gains	(559)	-	-
3.3.2. Shareholders' equity	X	X	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	(6)	-	-
4. Closing balance	**3,537**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	**31/12/2017**				**31/12/2016**			
(in thousands of euro)	**Book value**	**FV Level 1**	**FV Level 2**	**FV Level 3**	**Book value**	**FV Level 1**	**FV Level 2**	**FV Level 3**
1. Investments held to maturity	11,560,769	11,685,005	-	-	8,368,223	8,512,204	-	-
2. Due from banks	5,164,715	-	228,807	4,929,168	4,559,188	-	99,560	4,458,992
3. Loans to customers	108,176,382	24,952	125,372	109,884,747	75,840,234	23,535	142,598	77,567,881
4. Property and equipment held for investment purposes	1,257,862	-	-	1,486,960	1,343,340	-	-	1,530,963
5. Non-current assets held for sale and discontinued operations	27,288	-	25,000	2,288	76,680	-	-	76,680
Total	**126,187,016**	**11,709,957**	**379,179**	**116,303,163**	**90,187,665**	**8,535,739**	**242,158**	**83,634,516**
1. Due to banks	27,199,304	-	-	27,197,795	16,017,401	-	-	16,011,482
2. Due to customers	87,848,146	-	-	87,848,146	58,671,580	-	-	58,671,580
3. Debt securities issued	16,248,143	13,047,720	3,643,364	-	15,041,815	10,527,404	4,702,733	26,381
4. Liabilities associated with non-current assets held for sale and discontinued operations	35	-	-	35	960	-	-	960
Total	**131,295,628**	**13,047,720**	**3,643,364**	**115,045,976**	**89,731,756**	**10,527,404**	**4,702,733**	**74,710,403**

Assets and liabilities not measured at fair value

Almost all investments held to maturity, with a fair value of euro 11,685 million, refer to Italian government bonds held by the Parent Company (99.9%); the fair value disclosure only used quotations available on active markets (level 1).

For the disclosure of the fair value of financial assets and liabilities valued at cost, as well as for real estate investments, reference should be made to the content of the paragraphs above "Financial assets and liabilities measured at amortised cost in the financial statements" and "Non-financial assets – Real estate investments held for investment purposes (ex IAS 40)".

From 31 December 2017, all amount due to/from banks and customers, other than debt securities, are considered level 3, as:

- the fair value has been determined on the basis of non-observable parameters, mostly related to estimates of expected losses determined on the basis of indicators that cannot be observed on the market; or
- where a fair value has not been determined, the book value is considered a good reflection of fair value, as permitted by IFRS 7. These exposures have been classified conventionally as level 3; previously, these were considered as level 2.

In order to guarantee a like-for-like comparison, the figures from the previous year have been reclassified: this has led, for due from banks and customer loans, to a transfer from level 2 to level 3, of euro 4,456 million and euro 30,313 million respectively; for the portfolios of amounts due to banks and to customers, instead, the entire amount previously classified as level 2 has been transferred.

With regard to the cited portfolios, the rules followed for classification in the hierarchy levels, as well as the techniques and parameters used to estimate the fair value to be indicated in the financial statements for disclosure purposes only, require significant elements of judgement; it cannot therefore be ruled out that a different approach to said parameters or the use of alternative valuation techniques may lead to significantly different fair values, also depending on the purpose for which the same are being calculated.

Assets and liabilities measured at fair value on a non-recurring basis

As at 31 December 2017 the items in the financial statements measured at fair value on a non-recurring basis related to the assets and correlated liabilities held for sale under IFRS 5. These are attributable to:

- several real estate investments totalling euro 27.2 million (euro 25 million of which classified as level 2 as measured on the basis of the prices resulting from the preliminary sale agreements and euro 2.2 million considered as level 3);
- the contribution of assets and liabilities relating to the controlling interest in Mariner (fair value considered as level 3).

For the cited non-current assets held for sale and discontinued operations and related liabilities, note that the column "Book value" only shows the assets/liabilities designated at fair value through profit and loss, net of selling costs. For assets and liabilities measured at cost, please refer to the specific disclosure contained in Section 15 - "Non-current assets held for sale and discontinued operations and related liabilities" in Part B of these notes to the financial statements.

A.5 Disclosure on "day one profit/loss"

Pursuant to IFRS 7 paragraph 28, within the financial instruments of the Group, note that the impact in the year of the recognition of "Day 1 Profit", meaning the difference between the fair value measured upon initial recognition (transaction price) and the amount determined at that same date using a valuation technique, was for an insignificant amount and due to the issue of certificates by Banca Akros. The amount of suspended income as at 31 December 2017 is equal to euro 18 thousand and refers to a single issue in 2016 maturing in 2021; during the year, euro 13 thousand was recognised in the income statement.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2017	31/12/2016
a) Cash	976,686	648,255
b) Demand deposits with Central Banks	-	-
Total	**976,686**	**648,255**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Values	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	2,223,393	42,230	18,288	2,668,092	18,725	2
1.1 Structured securities	80,398	20,293	18,175	364,378	1,088	-
1.2 Other debt securities	2,142,995	21,937	113	2,303,714	17,637	2
2. Equity instruments	692,974	-	30	270,456	-	14
3 UCIT units	29,009	-	652	191,540	-	15,713
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**2,945,376**	**42,230**	**18,970**	**3,130,088**	**18,725**	**15,729**
B. Derivatives						
1. Financial derivatives:	134,029	1,756,503	14,716	148,237	1,430,646	-
1.1 trading	134,029	1,710,374	14,716	148,237	1,214,506	-
1.2 under the fair value option	-	46,121	-	-	216,140	-
1.3 other	-	8	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 under the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**134,029**	**1,756,503**	**14,716**	**148,237**	**1,430,646**	**-**
Total (A+B)	**3,079,405**	**1,798,733**	**33,686**	**3,278,325**	**1,449,371**	**15,729**

Debt securities do not include financial assets related to securitisation transactions.
Sub-item "1.2 Other debt securities" includes subordinated financial assets issued by banks, insurance companies and financial companies for a book value of euro 230.9 million classified as level 1 (last year they amounted to euro 429 million).

The table below presents the breakdown of UCIT units.

Items/Values	31/12/2017	31/12/2016
Share Funds	29,238	8,771
Balanced Funds	420	-
Bond Funds	-	22,954
Liquidity Funds	-	58,397
Flexible Funds	-	101,758
Hedge Funds	-	15,373
Real Estate Funds	3	-
Total	**29,661**	**207,253**

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Values	31/12/2017	31/12/2016
A. Cash assets		
1. Debt securities	**2,283,911**	**2,686,819**
a) Governments and Central Banks	830,711	1,241,714
b) Other public entities	322	22
c) Banks	803,510	772,494
d) Other issuers	649,368	672,589
2. Equity instruments	**693,004**	**270,470**
a) Banks	140,734	92,828
b) Other issuers:	552,270	177,642
- insurance companies	30,533	15,616
- financial companies	35,343	463
- non-financial companies	486,394	161,563
- other	-	-
3. UCIT units	**29,661**	**207,253**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	**3,006,576**	**3,164,542**
B. Derivatives		
a) Banks		
- Fair value	1,226,544	1,177,990
b) Customers		
- Fair value	678,704	400,893
Total B	**1,905,248**	**1,578,883**
Total (A + B)	**4,911,824**	**4,743,425**

Section 3 - Financial assets designated at fair value through profit and loss - Item 30

3.1 Financial assets designated at fair value through profit and loss: breakdown by product

Items/Values	Total 31/12/2017			Total 31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Debt securities	7,991	-	1,421	-	-	-
1.1 Structured securities	-	-	1,421	-	-	-
1.2 Other debt securities	7,991	-	-	-	-	-
2. Equity instruments	-	579	-	-	559	6
3. UCIT units	-	18,810	151	3,532	-	207
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**7,991**	**19,389**	**1,572**	**3,532**	**559**	**213**
Cost	**7,651**	**25,182**	**20,748**	**3,672**	**7,330**	**19,124**

Debt securities do not include financial assets related to securitisation transactions or subordinated securities.

The table below presents the breakdown of UCIT units.

Items/Values	31/12/2017	31/12/2016
Share Funds	41	3,532
Hedge Funds	18,810	55
Real Estate Funds	110	152
Total	**18,961**	**3,739**

3.2 Financial assets designated at fair value through profit and loss: breakdown by debtor/issuer

Items/Values	31/12/2017	31/12/2016
1. Debt securities	**9,412**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	9,412	-
2. Equity instruments	**579**	**565**
a) Banks	6	3
b) Other issuers:	573	562
- insurance companies	573	556
- financial companies	-	-
- non-financial companies	-	-
- other	-	6
3. UCIT units	**18,961**	**3,739**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**28,952**	**4,304**

Section 4 - Financial assets available for sale - Item 40

4.1 Financial assets available for sale: breakdown by product

Items/Values	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Debt securities	15,312,293	400,657	3,712	10,763,619	206,764	8,974
1.1 Structured securities	-	-	1,420	-	-	1,582
1.2 Other debt securities	15,312,293	400,657	2,292	10,763,619	206,764	7,392
2. Equity instruments	275,632	223,422	494,419	12,193	176,203	264,529
2.1 Designated at fair value	275,632	223,422	491,713	12,193	176,203	261,744
2.2 Valued at cost	-	-	2,706	-	-	2,785
3. UCIT units	173,174	-	245,313	573,021	-	85,685
4. Loans	-	-	-	-	-	-
Total	**15,761,099**	**624,079**	**743,444**	**11,348,833**	**382,967**	**359,188**

The exposure in debt securities totals euro 15,717 million (euro 10,979 million last year) and is represented almost entirely by bonds issued by Governments and banks. With regard to hedging interest rate risk, undertaken to obtain absolute returns on short term interest rates, please refer to the following table "4.3 Financial assets available for sale subject to micro hedging".

Sub-item "1.2 Other debt securities" includes subordinated financial assets towards banks, insurance companies and financial companies of euro 329.5 million (nominal value euro 365.7 million), euro 319.6 million classified as level 1 and euro 9.9 million as level 2.

Banco BPM holds level 2 equity instruments, which include 4,541 shares in the share capital of the Bank of Italy, corresponding to 1.5137% of total share capital. The book value is euro 113.5 million, obtained by applying a unit value of euro 25,000 to each share. More specifically, 3,668 shares for a value of around euro 91.7 million resulting from that previously held by Banco Popolare; the remaining 873 shares, with a counter value of euro 21.8 million were acquired following the merger of the former BPM Group on 1 January 2017.

Note that these shares result from the share capital increase operation made by the Bank of Italy in 2013, pursuant to Italian Decree Law no. 133 of 30 November 2013 converted with Italian Law no. 5 of 29 January 2014, which led to the issue of new shares, with a unit value of euro 25,000 per share.

Level 3 equity instruments include the stakes held in the share capital of Palladio Holding of euro 30.4 million and in Dexia Crediop of euro 110.9 million.

Level 1 UCIT units are represented exclusively by open-ended harmonised funds, for which a daily NAV is always available, while level 3 includes the book value of the shares held in the Atlante Fund of euro 18.3 million (indirect possession of tier 1 equity instruments of Banca Popolare di Vicenza and Veneto Banca).

The table below presents the breakdown of UCIT units.

Items/Values	31/12/2017	31/12/2016
Share Funds	124,746	249,693
Balanced Funds	60,217	7,557
Bond Funds	18,833	41,145
Flexible Funds	128,015	330,310
Real Estate Funds	86,676	30,001
Total	**418,487**	**658,706**

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Values	31/12/2017	31/12/2016
1. Debt securities	**15,716,662**	**10,979,357**
a) Governments and Central Banks	11,539,277	8,575,943
b) Other public entities	1,320,932	-
c) Banks	1,825,851	1,688,190
d) Other issuers	1,030,602	715,224
2. Equity instruments	**993,473**	**452,925**
a) Banks	386,134	184,498
b) Other issuers:	607,339	268,427
- insurance companies	31	7,191
- financial companies	403,478	108,658
- non-financial companies	203,830	152,578
- other	-	-
3. UCIT units	**418,487**	**658,706**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**17,128,622**	**12,090,988**

4.3 Financial assets available for sale subject to micro hedging

Items/Values	31/12/2017	31/12/2016
1. Financial assets subject to micro fair value hedging	**5,205,391**	**5,763,980**
a) interest rate risk	5,205,391	5,763,980
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Financial assets subject to micro cash flow hedging	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total	**5,205,391**	**5,763,980**

Impairment testing on financial assets available for sale

For these financial statements, the Group conducted an in-depth valuation of its portfolio of financial assets available for sale (AFS), to identify any impairment indicators, which would then lead to write-downs on the income statement corresponding to the difference between the fair value and the book value of the financial assets. The impairments recorded in 2017 on financial assets available for sale totalled euro 94.8 million (against euro 41.2 million as at 31 December 2016), booked to item 130 b) "Net losses on impairment of financial assets available for sale" of the income statement and mainly refer to the write-down of the shares held in the Atlante Fund of euro 61.0 million, of the subordinated security of Banca Popolare di Vicenza of euro 15.3 million and of the Voluntary Scheme IDGF - Securitisation of euro 11.7 million.

Equity instruments and UCIT units

In line with last year, the valuation of the equity instruments classified in the financial statements as financial assets available for sale was conducted on the basis of the provisions of the specific impairment policy adopted by the Group. This policy envisages, except in exceptional circumstances, parametric thresholds for equity instruments, which, once exceeded, lead to the consequent write-down.

These thresholds have been established taking into account the specific features of the various types of investment. In addition to direct investments in company equity in the strict sense, shares in private equity funds and in similar

investment vehicles (UCIT units, SICAVs, investments in associates and companies subject to joint control or other similar structures) whose mission is to invest directly and/or through other private equity funds and other corporate vehicles, are also considered equity instruments. Said Private Equity assets are characterised by a medium-long term time horizon: the underlying investments are actually made, on average, over a five/seven year period and the relative divestments require at least three years.
As illustrated in "Part A – Accounting policies", impairment must be recognised when any of the following conditions occur:
- for share/equity investments in the strict sense:
  - a reduction of fair value exceeding 30% with respect to the original book value; or
  - a persistent decrease for an uninterrupted period exceeding 24 months.

- for investments in private equity assets:
  - a reduction of fair value exceeding 40% with respect to the original book value; or
  - a persistent decrease for an uninterrupted period exceeding 60 months; or
  - a reduction of fair value exceeding 30% and lasting for an uninterrupted period exceeding 36 months.

This latter type of investment on the date of the financial statements, amounted to euro 224.1 million and the relative valuation reserves, before tax and after impairments recorded during the year, amounted to a positive euro 25 million.

The main adjustments recorded in 2017 on share/equity investments in the strict sense and on investments in private equity assets, as illustrated above, are listed below:
- Porto ind. Livorno for euro 1.8 million;
- Primus Capital for euro 0.3 million;
- Finpiemonte for 0.3 million.

With reference to the investment held in the Atlante Fund and the relative measurement at fair value as at 31 December 2017, please refer to Part A - Accounting Policies (Part A.4 – Fair value disclosure).

Section 5 - Investments held to maturity - Item 50

5.1 Investments held to maturity: breakdown by product

	Total 31/12/2017				Total 31/12/2016			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	11,560,769	11,685,005	-	-	8,368,223	8,512,204	-	-
- structured	-	-	-	-	-	-	-	-
- other	11,560,769	11,685,005	-	-	8,368,223	8,512,204	-	-
2. Loans	-	-	-	-	-	-	-	-
Total	**11,560,769**	**11,685,005**	**-**	**-**	**8,368,223**	**8,512,204**	**-**	**-**

The segment of investments held to maturity is mostly comprised of Italian Government securities purchased by the Parent Company following the specific resolutions of the Board of Directors. The portfolio includes BTP maturing between 2018 and 2026 with a nominal value of euro 9.8 billion. During the year, Government securities of other EU countries with a nominal value of euro 1,575 million were purchased.

5.2 Investments held to maturity: breakdown by debtor/issuer

Transaction type/Amounts	31/12/2017	31/12/2016
1. Debt securities	**11,560,769**	**8,368,223**
a) Governments and Central Banks	11,548,450	8,298,153
b) Other public entities	1,008	-
c) Banks	-	55,885
d) Other issuers	11,311	14,185
2 Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**11,560,769**	**8,368,223**
Total FV	**11,685,005**	**8,512,204**

5.3 Investments held to maturity subject to micro hedging

There were no investments held to maturity subject to micro hedging during the year in question, or at the end of the previous one.

Section 6 - Due from banks - Item 60

6.1 Due from banks: breakdown by product

Transaction type/Amounts	Total 31/12/2017				Total 31/12/2016			
	Book value	Fair Value			Book value	Fair Value (*)		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**2,001,231**	**-**	**-**	**2,001,231**	**1,977,986**	**-**	**-**	**1,977,986**
1. Time deposits	-	X	X	X	-	X	X	X
2. Mandatory reserves	1,992,298	X	X	X	1,965,732	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	8,933	X	X	X	12,254	X	X	X
B. Due from banks	**3,163,484**	**-**	**228,807**	**2,927,937**	**2,581,202**	**-**	**99,560**	**2,481,006**
1. Loans	2,937,992	-	-	2,927,937	2,481,004	-	-	2,481,006
1.1 Current accounts and demand deposits	979,528	X	X	X	595,908	X	X	X
1.2 Time deposits	208,181	X	X	X	110,941	X	X	X
1.3 Other loans:	1,750,283	X	X	X	1,774,155	X	X	X
- Repurchase agreements	94,612	X	X	X	508,004	X	X	X
- Financial leases	2,426	X	X	X	2,781	X	X	X
- Other	1,653,245	X	X	X	1,263,370	X	X	X
2. Debt securities	225,492	-	228,807	-	100,198	-	99,560	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	225,492	X	X	X	100,198	X	X	X
Total	**5,164,715**	**-**	**228,807**	**4,929,168**	**4,559,188**	**-**	**99,560**	**4,458,992**

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

Item B.1.3 "Loans - other" includes the cash collateral paid into banks to guarantee transactions in financial instruments, derivatives and repurchase agreements, totalling euro 978.0 million, as well as other loans including loans with payment plans of the subsidiary Banca Popolare di Milano of euro 465.1 million. It also includes receivables for security trading transactions not yet settled, for fee and commission income still to be received from bank counterparties and receivables for discounts on bills.

Item B.2.2 "Other debt securities" includes subordinated securities issued by Italian and foreign banks recognised in the financial statements for euro 100.4 million (nominal value euro 120 million).

For more details on impaired assets, please refer to "Part E – Information on risks and relative hedging policies, Section 1 – Credit risk".

6.2 Due from banks subject to micro hedging

There are no receivables due from banks subject to micro hedging.

6.3 Financial leases

	31/12/2017						31/12/2016					
	Non-performing loans	Minimum payments			Gross investment		Non-performing loans	Minimum payments			Gross investment	
		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value
on demand	-	15	-	2	17	-	-	10	-	3	13	-
Up to 3 months	-	88	-	9	97	-	-	78	-	11	89	-
From 3 months to 1 year	-	312	-	31	343	-	-	266	-	36	302	-
From 1 year to 5 years	-	1,899	535	75	1,974	-	-	1,761	350	110	1,866	-
Over 5 years	-	373	373	1	374	-	-	666	551	5	671	-
Undefined term	-	-	-	-	-	-	-	-	-	-	-	-
Net total	**-**	**2,687**	**908**	**118**	**2,805**	**-**	**-**	**2,781**	**901**	**165**	**2,941**	**-**

The financial lease transactions shown in the table relate to operations of the former Banca Italease and Release.
The minimum payments refer exclusively to instalments for performing loans due after the reference date of the financial statements.

7.1 Loans to customers: breakdown by product

Transaction type/Amounts	Total 31/12/2017						Total 31/12/2016					
	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	**94,715,812**	**-**	**13,026,867**	**-**	**-**	**109,600,355**	**62,929,262**	**-**	**12,568,362**	**-**	**-**	**77,392,822**
1. Current accounts	11,679,207	-	1,651,988	X	X	X	8,032,835	-	1,496,837	X	X	X
2. Repurchase agreements	6,364,149	-	-	X	X	X	6,540,186	-	-	X	X	X
3. Mortgage loans	55,589,969	-	7,073,545	X	X	X	31,749,545	-	6,378,963	X	X	X
4. Credit cards, personal loans and salary-backed loans	2,077,127	-	22,816	X	X	X	342,645	-	12,701	X	X	X
5. Financial leases	1,203,993	-	1,416,729	X	X	X	1,224,032	-	1,745,352	X	X	X
6. Factoring	87,923	-	79	X	X	X	7,597	-	-	X	X	X
7. Other loans	17,713,444	-	2,861,710	X	X	X	15,032,422	-	2,934,509	X	X	X
Debt securities	**428,203**	**-**	**5,500**	**24,952**	**125,372**	**284,392**	**342,610**	**-**	**-**	**23,535**	**142,598**	**175,059**
8. Structured securities	-	-	5,000	X	X	X	-	-	-	X	X	X
9. Other debt securities	428,203	-	500	X	X	X	342,610	-	-	X	X	X
Total	**95,144,015**	**-**	**13,032,367**	**24,952**	**125,372**	**109,884,747**	**63,271,872**	**-**	**12,568,362**	**23,535**	**142,598**	**77,567,881**

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

Net loans to customers amounted to euro 108,176.4 million, while the stock as at 31 December 2016, relating to the former Banco Popolare Group, amounted to euro 75,840.2 million.
An analysis of the portfolio by type of loan shows the largest share held by mortgage loans, which represent over 58% of the total amount (50% in 2016), followed by current accounts that amount to euro 11,679.2 million, which represent a share of around 12% of the total, stable compared to 2016.
"Repurchase agreements" include liquidity transactions with the Clearing and Guarantee House of euro 5,206.5 million (euro 5,536.1 million last year).

Over the year, assignments of gross non-performing loans was made for around euro 2.8 billion, which had an impact of euro 222.8 million on the income statement.
Note that the Group did not purchase any non-performing loans of a significant value.

"Debt securities" includes Asset Backed Securities (ABS) of euro 143.2 million relating to securitisation transactions, of which:

- euro 17.2 million (nominal value euro 95.9 million) in senior issues related to third party transactions;
- euro 52.7 million (nominal value euro 84.6 million) in junior notes (BNT Portfolio 2014-2042 TF-NV 84.6 million) issued by the SPE that manages the securitisation of the loans portfolio of Banca della Nuova Terra S.p.A.;
- euro 73.3 million (nominal value 56.3 million) in junior notes resulting from securitisations originated by the former Banco Popolare Group, against assets that have been fully eliminated from the financial statements. More specifically, said securities refer to positions relating to the former Banca Italease Group, whose recognition results from the cancellation of the underlying receivables. The risks and benefits relating to said receivables were transferred to Alba Leasing under the "Agreement on securitised loans".

For further details please refer to the information contained in Part E, Section 1, "C. Securitisation transactions".

The item also includes euro 290.5 million of other securities issued by financial companies. In particular, it includes subordinated securities amounting to euro 76.6 million: euro 50 million of which issued by Agos Ducato, euro 24.1 million by UGF Unipol and euro 2.5 million by Eurovita Assicurazioni.

7.2 Loans to customers: breakdown by debtor/issuer

Transaction type/Amounts	31/12/2017			31/12/2016		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	**428,203**	**-**	**5,500**	**342,610**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	428,203	-	5,500	342,610	-	-
- non-financial companies	128,470	-	5,500	5,051	-	-
- financial companies	273,068	-	-	311,046	-	-
- insurance companies	26,665	-	-	26,513	-	-
- other	-	-	-	-	-	-
2. Loans to:	**94,715,812**	**-**	**13,026,867**	**62,929,262**	**-**	**12,568,362**
a) Governments	848,665	-	208	255,873	-	3
b) Other public entities	735,037	-	3,381	319,773	-	13,760
c) Other parties	93,132,110	-	13,023,278	62,353,616	-	12,554,599
- non-financial companies	51,695,364	-	11,037,609	34,297,676	-	10,722,124
- financial companies	13,320,036	-	283,269	11,376,606	-	237,126
- insurance companies	105,756	-	-	25,809	-	-
- other	28,010,954	-	1,702,400	16,653,525	-	1,595,349
Total	**95,144,015**	**-**	**13,032,367**	**63,271,872**	**-**	**12,568,362**

7.3 Loans to customers subject to micro hedging

	31/12/2017	31/12/2016
1. Receivables subject to micro fair value hedging:	**31,349**	**33,540**
a) Interest rate risk	31,349	33,540
b) Exchange rate risk	-	-
c) Credit risk	-	-
d) Multiple risks	-	-
2. Receivables subject to micro cash flow hedging:	**-**	**-**
a) Interest rate risk	-	-
b) Exchange rate risk	-	-
c) Expected transactions	-	-
d) Other hedged assets	-	-
Total	**31,349**	**33,540**

7.4 Financial leases

	31/12/2017						31/12/2016					
	Non-performing loans	Minimum payments			Gross investment		Non-performing loans	Minimum payments			Gross investment	
		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value		Share capital	of which guaranteed residual value	Interest		of which non-guaranteed residual value
On demand	105,144	8,992	-	2,346	11,338	-	14,568	13,056	3,120	2,237	15,293	-
Up to 3 months	136,114	23,781	5,025	5,629	29,411	-	64,182	21,720	607	5,548	27,268	-
From 3 months to 1 year	460,998	90,624	5,129	23,013	113,635	-	763,969	100,292	13,314	22,312	122,604	-
From 1 year to 5 years	514,974	605,950	206,866	87,283	693,235	-	492,833	576,622	161,565	87,305	663,927	-
Over 5 years	199,490	499,418	278,678	40,157	539,574	-	409,800	566,576	345,909	41,449	608,025	-
Undefined term	9	-	-	-	-	-	-	91	-	-	91	-
Net total	**1,416,729**	**1,228,765**	**495,698**	**158,428**	**1,387,193**	**-**	**1,745,352**	**1,278,357**	**524,515**	**158,851**	**1,437,208**	**-**

The financial lease transactions shown in the table relate to operations of the former Banca Italease and Release.
The minimum payments refer exclusively to rent of performing loans due after the reference date of the financial statements. With regard to said loans:

- euro 2.8 million are past due;
- there are portfolio value adjustments of euro 29.7 million;
- gains for the year amount to euro 0.7 million.

Section 8 - Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by hedge type and level

	FV 31/12/2017			NV	FV 31/12/2016			NV
	L1	L2	L3	31/12/2017	L1	L2	L3	31/12/2016
A) Financial derivatives	**-**	**243,810**	**-**	**11,782,456**	**-**	**443,411**	**-**	**8,953,665**
1) Fair value	-	243,565	-	11,782,456	-	443,411	-	8,953,665
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	245	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**243,810**	**-**	**11,782,456**	**-**	**443,411**	**-**	**8,953,665**

Key:
FV = Fair Value
NV = notional value

8.2 Hedging derivatives: breakdown by portfolio hedged and hedge type (book value)

Transaction/Type of hedge	Fair Value					Cash Flows			Foreign investments
	Micro					Macro	Micro	Macro	
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale	3,989	-	-	-	-	X	-	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	182,672	X	-	X
5. Other loans	-	1	-	-	-	X	-	X	-
Total assets	**3,989**	**1**	**-**	**-**	**-**	**182,672**	**-**	**-**	**-**
1. Financial liabilities	54,374	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	2,529	X	-	X
Total liabilities	**54,374**	**-**	**-**	**-**	**-**	**2,529**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	245

Section 9 - Fair value change of financial assets in macro fair value hedge portfolios - Item 90

9.1 - Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged financial assets / Amounts	31/12/2017	31/12/2016
1. Positive change	**56,330**	**66,914**
1.1 in specific portfolios:	56,330	66,914
a) loans	56,330	66,914
b) financial assets available for sale	-	-
1.2 overall	-	-
2. Negative change	**(1,799)**	**-**
2.1 in specific portfolios:	(1,799)	-
a) loans	(1,799)	-
b) financial assets available for sale	-	-
2.2 overall	-	-
Total	**54,531**	**66,914**

The fair value change of financial assets in macro hedge portfolios refers to changes in fair value, attributable to fluctuations in interest rates relating to several specific portfolios of customer loans, the amount of which is shown in table 9.2 below.
The related hedging derivatives, which show a negative value as at 31 December 2017, are shown in the item 60 "Hedging derivatives" under liabilities.
Income and charges from the valuation of hedging derivatives and the hedged portfolio are recognised under item 90 "Fair value adjustments in hedge accounting".

9.2 Assets subject to macro interest rate risk hedging

Assets hedged	31/12/2017	31/12/2016
1. Loans	1,032,286	901,736
2. Financial assets available for sale	-	-
3. Portfolio	-	-
Total	**1,032,286**	**901,736**

The amount of loans subject to macro hedging was euro 1,032.3 million. More specifically, this regards a portfolio of fixed interest rate mortgage loans, recorded in the financial statements under "loans to customers".

Section 10 - Investments in associates and companies subject to joint control – Item 100

As at 31 December 2017, the book value of "Investments in associates and companies subject to joint control" was euro 1,349.2 million, referring to:

- significant equity investments of euro 1,090.5 million (euro 1,119.1 million as at 31 December 2016), as shown, by individual equity investment, in table 10.2 below;
- non-significant equity investments of euro 258.7 million (euro 76.1 million as at 31 December 2016), as shown, overall, in table 10.4 below.

The scope of "significant equity investments" was established on the basis of the materiality of the book value of the investment and the share in the investee's assets with respect to the same items in the consolidated financial statements.

10.1 Equity investments: information on investment relationships

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		% of available votes
				Holder	% held	
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
1. Agos Ducato S.p.A.	Milan	Milan	1	Banco BPM	39.000%	39.000%
2. Alba Leasing S.p.A.	Milan	Milan	1	Banco BPM	39.189%	39.189%
3. Aosta Factor S.p.A.	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
4. Arcene Immobili S.r.l. (in liquidation)	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
5. Arcene Infra S.r.l. (in liquidation)	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
6. AviPop Assicurazioni S.p.A. (**)	Milan	Milan	1	Holding di Partecipazioni	35.000%	35.000%
7. Bipiemme Vita S.p.A. (*)	Milan	Milan	1	Banco BPM	19.000%	19.000%
8. Bussentina S.c.a r.l. (in liquidation)	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
9. Calliope Finance S.r.l. (in liquidation)	Conegliano V. (TV)	Conegliano V. (TV)	1	Banco BPM	50.000%	50.000%
10. Etica SGR S.p.A. (*)	Milan	Milan	1	Banco BPM	19.444%	19.444%
11. Factorit S.p.A.	Milan	Milan	1	Banco BPM	39.500%	39.500%
12. GEMA Magazzini Generali BPV - BSGSP S.p.A.	Castelnovo Sotto (RE)	Castelnovo Sotto (RE)	1	Banco BPM	33.333%	33.333%
13. HI-MTF SIM S.p.A.	Milan	Milan	1	Banca Aletti	25.000%	25.000%
14. Immobiliare Centro Milano S.p.A.	Milan	Milan	1	Release	33.333%	33.333%
15. Motia Compagnia di Navigazione S.p.A.	Venice	Venice	1	Banco BPM	25.000%	25.000%
16. Popolare Vita S.p.A. (***)	Novara	Novara	1	Banco BPM	25.612%	35.000%
				Holding di Partecipazioni	9.388%	
17. Renting Italease S.r.l.	Milan	Milan	1	Bipielle Real Estate	50.000%	50.000%
18. SelmaBipiemme Leasing S.p.A.	Milan	Milan	1	Banco BPM	40.000%	40.000%
19. S.E.T.A. Società Edilizia Tavazzano S.r.l. (in liquidation)	Milan	Milan	1	Banco BPM	32.500%	32.500%

(a) Type of relationship:
1 = investment in share capital
(*) Companies subject to significant influence based on partnership agreements or shareholders' agreements with other shareholders
(**) Share of 14.999% of the company transferred to "Non-current assets held for sale and discontinued operations"
(***) Share of 15% of the company transferred to "Non-current assets held for sale and discontinued operations"

10.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair Value	Dividends received
A. Companies subject to joint control			
N/A			
B. Companies subject to significant influence			
Agos Ducato S.p.A.	767,878	-	67,080
Alba Leasing S.p.A.	162,693	-	-
Popolare Vita S.p.A.	159,952	-	75,982
Total	**1,090,523**	-	**143,062**

No disclosure has been made in the "Fair Value" column insofar as there are no listed investments (IFRS 12.20), just as there is no investee company measured at fair value, considered as an expression of the relative recovery value, after impairment (IAS 36.130).
Note also that the dividends received over the year have been used to reduce the book value of the equity investment (as illustrated in "Part A - Accounting policies" in these notes to the financial statements), insofar as the profits which they originated from were recognised in the financial statements as at 31 December 2016 due to the valuation at equity.

10.3 Significant equity investments: accounting information

The table below shows the figures extracted from the draft financial statements as at 31 December 2017 approved by the Board of Directors and provided by associated companies or, where not available, by the most recent balance sheets (related to 100% of the equity investment and not to the percentage held by the Group, as envisaged by accounting standard IFRS 12). Note that the valuation at equity was made on the basis of these figures.

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Value adjustments and 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 year (1)	Other comprehensive income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control														
N/A														
B. Companies subject to significant influence														
Agos Ducato S.p.A.	X	14,601,513	1,779,458	14,100,065	264,476	1,498,579	X	X	442,059	296,591	-	296,591	(306)	296,285
Alba Leasing S.p.A.	X	4,933,572	209,554	4,675,888	50,639	108,206	X	X	14,367	9,455	-	9,455	31	9,486
Popolare Vita S.p.A.	X	8,748,755	39734	8,305,543	43,347	869,805	X	X	66,466	47,787	-	47,787	1,307	49,094

Reconciliation between net assets and the book value of investees in the financial statements

	Net assets (*)	% investment	Net assets held	Goodwill	Other adjustments	Book value
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
Agos Ducato S.p.A.	2,016,430	39.000%	786,408	-	(18,530)	767,878
Alba Leasing S.p.A.	416,599	39.189%	163,261	506	(1,074)	162,693
Popolare Vita S.p.A.	439,599	35.000%	153,860	10,647	(4,555)	159,952

(*) corresponding to the sum of the "Financial assets, "Non-financial assets" net of "Financial liabilities", "Non-financial liabilities" indicated in table 10.3 above.

Agos Ducato is a financial company controlled by the international group Crédit Agricole through Crédit Agricole Consumer Finance. The company operates in the retail customer credit market, in which it disburses loans mostly addressed to the purchase of goods and services and personal loans.
Popolare Vita S.p.A is an insurance company operating in the life insurance sector, controlled by Unipol Gruppo Finanziario S.p.A. The company provides life insurance products to the distribution networks of the former Banco Popolare.
Alba Leasing operates in the leasing sector, and was established from the restructuring of the former Banca Italease group. The company disburses loans in the form of lease contracts, and its products are placed through the banking channel, including the Banco BPM network.

10.4 Non-significant equity investments: accounting information

The following table contains accounting information, shown cumulatively by type of investment relationship, regarding companies not subject to significant influence. The information was extracted from the latest financial statements or the latest accounting reports available and calculated with reference to the investment held by the Group, as envisaged by accounting standard IFRS 12.

		Book value of the investment	Total assets	Total liabilities	Total revenues	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) for the year (1)	Other comprehensive income components after tax (2)	Comprehensive income (3) = (1) + (2)
A.	**Companies subject to joint control**									
	N/A									
B.	**Companies subject to significant influence**	**258,668**	**3,642,107**	**3,339,238**	**238,573**	**31,839**	**-**	**31,839**	**1,035**	**32,874**

10.5 Investments in associates and companies subject to joint control: annual changes

		31/12/2017	31/12/2016
A.	**Opening balance**	**1,195,214**	**1,066,324**
B.	**Increases**	**456,620**	**129,891**
	B.1 Purchases	236,579	-
	B.2 Recoveries		-
	B.3 Revaluations		-
	B.4 Other increases	220,041	129,891
C.	**Decreases**	**(302,643)**	**(101,001)**
	C.1 Sales		(53)
	C.2 Adjustments		-
	C.3 Other decreases	(302,643)	(100,948)
D.	**Closing balance**	**1,349,191**	**1,195,214**
E.	**Total revaluations**	-	-
F.	**Total adjustments**	**(625,921)**	**(625,921)**

Purchases refer to the contribution of the former BPM Group, following the finalisation of the merger transaction, which saw the entry of the equity investments held by the Group into the scope of consolidation, as detailed in Part A of these notes to the financial statements.

Other increases include the share of the profits for the year recorded by investee companies pertaining to the Group for a total of euro 174 million (details are provided in section 16 of the income statement) and the economic effect of the transfer of Energreen and Luzzatti to the AFS portfolio for a total of euro 12.6 million. This item also includes positive changes pertaining to the Group in the reserves of the same companies and amounting to euro 15.7 million and lastly the reclassification of the share of 9.50% in Factorit, amounting to 17.7 million to the AFS portfolio.

Other decreases include the share of losses for the year recorded by the investee companies pertaining to the Group of euro 7.9 million, the impact of the distribution of dividends of euro 152.4 million; the change resulting from the transfer to the financial assets available for sale category of Energreen and Luzzatti for euro 62 million and the negative changes pertaining to the Group in the reserves of the investees amounting to 1.5 million.

In addition note that, following the overall reorganisation of the bancassurance segment, which entails the purchase of the remaining 50% stake in Avipop Assicurazioni and Popolare Vita, and the simultaneous re-sale of 65% of the two companies to Cattolica Assicurazioni, the Banco BPM Group will hold a stake of 35% in the two investees. Therefore, as at 31 December 2017, the 35% interest held in the two companies are classified under "equity investments" and the remainder (15% in Popolare Vita and 14.999% in Avipop) under item 150 "Non-current assets held for sale and discontinued operations" (euro 78.8 million, recorded under other decreases).

The impairment tests conducted with regard to the book value of investments in associates and companies subject to joint control as at 31 December 2017 did not indicate the need to make any value adjustments.

10.6 Valuations and assumptions to establish the existence of joint control or significant influence

Significant influence means having the power to participate in the operating and financial decisions of the entity, by virtue of the voting rights held, or in the event of special contractual agreements, as also illustrated in "Part A - Accounting policies" in these notes to the financial statements. As at 31 December 2017, the scope of companies subject to significant influence related to companies in which voting rights of 20% or more are held, without however having the power to exclusively direct the relevant activities of the entity, as shown in table 10.1 above.
As regards Bipiemme Vita S.p.A., although the stake in the company is less than 20%, it is deemed that significant influence over the same is held by virtue of a shareholders' agreement signed with the other partner Covéa (which holds 81% of voting rights), containing corporate governance rules as well as industrial aspects of the partnership.

As at 31 December 2017, there were no entities subject to joint control, namely entities for which the unanimous consensus of all the parties sharing the control has to be obtained to make strategic financial and operating decisions.

In this regard, it should be noted that to establish the type of control of the bancassurance companies, Popolare Vita S.p.A. and Avipop Assicurazioni S.p.A., required numerous elements of judgement, due to the complex value generation structure. More specifically, the decision relating to classification of said equity investments in the scope of companies over which the Group has "significant influence" was taken after taking the following factors into account, and giving them adequate weighting:

- relevant assets that generate the variable returns of the company. These were identified as the structuring of insurance products and the management of the relative risks by the insurance partner and the distribution of products, managed by the former Banco Popolare Group distribution network;
- the complex governance structure established by shareholders' agreements. The above agreements give specific voting rights to shareholders on certain specific topics, relating both to mere protection rights and to rights considered substantial in terms of directing the relevant activities of the company;
- way-out mechanisms, resulting from the combination of the put option held by the insurance companies and the call option held by Banco BPM. For more information on the put options exercised in 2017 by the two insurance partners UnipolSai and Aviva Italia Holding, please refer to the content of paragraph 10.8 below.

10.7 Commitments relating to investments in companies subject to joint control

There are no investments in companies subject to joint control.

10.8 Commitments relating to investments in companies subject to significant influence

Commitments deriving from consumer credit agreements with Crédit Agricole

The former Banco Popolare (now Banco BPM) signed a shareholders' agreement with Crédit Agricole Consumer Finance - CACF (Crédit Agricole Group) for a ten year term, expiring on 22 December 2018 and renewable on the express agreement of the parties for a further 5 years. Under this agreement, among other things, if, within a business combination/reorganisation project with other Banks which control a company operating in consumer credit, Banco acquires a company operating in the afore-mentioned sector, it must make best efforts to offer Agos Ducato the opportunity to purchase the new entity indirectly acquired, at market price.

Commitments deriving from bancassurance agreements

At the time of the natural termination of its partnership with UnipolSAI and Aviva Italia Holding with regard to the network of the former Banco Popolare, Banco BPM commenced the overall rationalisation of the product-factories in the bancassurance segment, by launching a competitive process to find a new insurance partner, which concluded with the establishment of a new partnership with Società Cattolica di Assicurazione - Società Cooperativa.
On 29 June 2017, Popolare Vita terminated the agreement (signed on 7 September 2007 by Banco Popolare, now Banco BPM, and Popolare Vita, for the distribution, through the Banco BPM network, of life insurance products) and on the same date, UnipolSai exercised its put option on the stake held in Popolare Vita.
On 29 June 2017, Banco BPM advised Avipop Assicurazioni and Avipop Vita of the termination, and therefore the decision not to renew the distribution agreement (signed on 14 December 2007 by Banco Popolare. now Banco BPM, and Avipop Assicurazioni for the distribution of non-life insurance products through the Banco BPM network).

For further details on the reorganisation of the bancassurance segment, please refer to the section in this Report on Operations that illustrates the significant events during the year.

Commitments to Covéa

The former Banca Popolare di Milano (now Banco BPM) and Covéa have signed a partnership agreement containing corporate governance rules, as well as industrial aspects of the partnership, envisaging, inter alia, that the Company has access to the distribution networks of the former BPM Group for a term of 10 years from the closing date (8 September 2011), with an option to renew on expiry.

The agreements signed on 19 April 2011 envisage reciprocal options which, in the event of exceptional circumstances pertaining to one or both parties such as, by way of example, failure to comply with and/or renew partnership agreements (termination for non-fulfilment of the partnership agreement or of distribution agreements), any changes in control of the parties, the liquidation or state of insolvency/bankruptcy of the parties, the occurrence of a decisional impasse regarding the proposal to liquidate Bipiemme Vita and/or Bipiemme Assicurazioni, the revocation of the liquidation status or the appointment or revocation of receivers (called a triggering event) - Banco BPM or Covéa may, depending on the party with regard to which the exceptional circumstances refer, exercise a call option on the investment held by the other party in the share capital of Bipiemme Vita, or a put option on its investment to the other party. The exercise price of the reciprocal options is set according to a pre-established mechanism linked to a valuation of the life and non-life insurance business.
For the first five years of the strategic partnership, a penalty in favour of the Covéa Group is envisaged in the event of the exercise of the option relating to certain types of triggering event originated by Banco BPM (termination for non-fulfilment of the partnership agreement or of distribution agreements); the amount of this penalty decreases over time starting from the date of signature of the partnership agreements.

The Sale agreement envisages an incremental mechanism in favour of Banco BPM if set commercial objectives are achieved by Bipiemme Vita and Bipiemme Assicurazioni - in the period between the financial years ending on 31 December 2011 and 31 December 2020 - respectively "*Earn Out Life*" (for a maximum of euro 11.7 million) and "*Earn Out Non-Life*" (for a maximum of euro 2.5 million). The calculation of any price adjustment will be made at the end of the above-cited period and is conditional on the renewal of the strategic partnership with the Covéa Group.

Commitments deriving from lease agreements with SelmaBipiemme Leasing S.p.A.

The former Banca Popolare di Milano (now Banco BPM) and Mediobanca have signed a partnership agreement with a term extended to 31 December 2018, which regulates the respective rights and obligations as regards governance and any divestment (with reciprocal put and call options in place).

Call options (for Mediobanca) and put options (for Banco BPM) have been agreed for the investment held by Banco BPM in Selma, which may be exercised in the event of, on one hand, the termination or failure to renew the commercial agreement by Banco BPM, the change of control of Banco BPM, the sale of over 50% of the branch network of Banco BPM and if the exclusive arrangement with Selma should no longer be valid and, on the other hand, the termination of the commercial agreement on expiry by Selma.
The above-cited options must be exercised within 180 days from the occurrence of the event that led to their exercise. The exercise price for Mediobanca will correspond to the pro-rata value of the shareholders' equity of Selma, resulting from the last balance sheet; the price will discount the restructuring charges that Selma will pay following the loss of the commercial channel of Banco BPM. The exercise price for Banco BPM will correspond to the pro-rata economic value of the investee, calculated by applying a pre-established method included in the agreement.

In addition, a call option for Banco BPM has also been established, for the investment held by Mediobanca in Selma, in the event that Mediobanca loses control over Selma, as well as if a banking or insurance group acquires control of Mediobanca. The exercise price of the option, which must always be made within 180 days of the occurrence of the event, will correspond to the pro-rata economic value of Selma calculated by applying a pre-established method included in the agreement.

10.9 Significant restrictions

For equity investments subject to significant influence, there are no significant restrictions to the transfer of funds as regards companies of the Banco BPM Group, with the exception of those related to legislation and regulations, which may require a minimum amount of own funds to be maintained, or the provisions of the Italian Civil Code on eligible profits and reserves.

10.10 Other information

Criteria used for determining the recoverable value of the investments in associates and companies subject to joint control for the purpose of drawing up the financial statements as at 31 December 2017

Based on the provisions of IAS 36, a comparison was made between the book value recognised for investments in associates and companies subject to joint control and their recoverable value, represented by the higher of fair value net of costs to sell and value in use. Based on the comparison made, the need to make adjustments for impairment did not emerge.

The associated company SelmaBipiemme Leasing closed its financial year on 30 June 2017. To make a valuation using the equity method, the economic situation was reconstructed, by using the second half of the financial year 1/7/2016 - 30/6/2017 and a situation approved by the company for the half year 1/7/2017 - 31/12/2017.

Section 11 - Technical reserves borne by reinsurers – Item 110

The Group does not hold investments in insurance companies.

Section 12 - Property and equipment - Item 120

As at 31 December 2017, property and equipment amounted to euro 2,735.2 million, compared with euro 1,977.8 million recorded in the previous year.

12.1 Property and equipment used in operations: breakdown of assets carried at cost

Assets/Amounts	Total 31/12/2017	Total 31/12/2016
1.1 Owned assets	**1,477,052**	**634,144**
a) land	469,996	213,737
b) buildings	843,225	348,140
c) furniture	51,237	32,707
d) electronic equipment	53,460	34,181
e) other	59,134	5,379
1.2 Assets acquired under financial lease	**268**	**282**
a) land	-	-
b) buildings	268	282
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
Total	**1,477,320**	**634,426**

12.2 Property and equipment held for investment purposes: breakdown of assets carried at cost

Assets/Amounts	31/12/2017				31/12/2016			
	Book value	Fair Value			Book value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**1,257,862**	**-**	**-**	**1,486,960**	**1,335,350**	**-**	**-**	**1,522,973**
a) land	565,261	-	-	613,107	631,929	-	-	653,691
b) buildings	692,601	-	-	873,853	703,421	-	-	869,282
2. Assets acquired under financial lease	**-**	**-**	**-**	**-**	**7,990**	**-**	**-**	**7,990**
a) land	-	-	-	-	5,720	-	-	5,720
b) buildings	-	-	-	-	2,270	-	-	2,270
Total	**1,257,862**	**-**	**-**	**1,486,960**	**1,343,340**	**-**	**-**	**1,530,963**

12.3 Property and equipment used in operations: breakdown of revalued assets

The Group does not hold property and equipment designated at fair value through profit and loss.

12.4 Property and equipment held for investment purposes: breakdown of assets designated at fair value through profit and loss

The Group does not hold property and equipment designated at fair value through profit and loss.

12.5 Property and equipment used in operations: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**214,255**	**698,674**	**299,372**	**529,934**	**82,896**	**1,825,131**
A.1 Total net impairment	(518)	(350,252)	(266,665)	(495,753)	(77,517)	(1,190,705)
A.2 Net opening balance	**213,737**	**348,422**	**32,707**	**34,181**	**5,379**	**634,426**
B. Increases	**299,162**	**587,070**	**33,456**	**55,847**	**72,939**	**1,048,474**
B.1 Purchases	298,698	581,879	31,139	45,063	72,798	1,029,577
B.2 Capitalised leasehold improvement costs	-	-	15	2	8	25
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	-	-	-	-
B.7 Other increases	464	5,191	2,302	10,782	133	18,872
C. Decreases	**(42,903)**	**(91,999)**	**(14,926)**	**(36,568)**	**(19,184)**	**(205,580)**
C.1 Sales	(41,185)	(52,967)	(7)	(16)	(16)	(94,191)
C.2 Depreciation	-	(37,797)	(12,509)	(22,657)	(15,697)	(88,660)
C.3 Losses on impairment charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	(7)	(7)
C.6 Transfers to:	-	-	-	-	-	-
- a) property and equipment held for investment purposes	-	-	-	-	-	-
- b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other decreases	(1,718)	(1,235)	(2,410)	(13,895)	(3,464)	(22,722)
D. Net closing balance	**469,996**	**843,493**	**51,237**	**53,460**	**59,134**	**1,477,320**
D.1 Total net impairment	(518)	(357,468)	(392,778)	(592,933)	(225,105)	(1,568,802)
D.2 Gross closing balances	**470,514**	**1,200,961**	**444,015**	**646,393**	**284,239**	**3,046,122**
E. Valuation at cost	-	-	-	-	-	-

12.6 Property and equipment held for investment purposes: annual changes

	Land	Buildings	Total
A. Opening balance	**637,649**	**705,691**	**1,343,340**
B. Increases	**35,812**	**100,399**	**136,211**
B.1 Purchases	10,251	56,097	66,348
- of which business combinations	2,181	41,584	43,765
B.2 Capitalised leasehold improvement costs	528	837	1,365
B.3 Increases in fair value	-	-	-
B.4 Recoveries	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from properties used in operations	-	-	-
B.7 Other increases	25,033	43,465	68,498
C. Decreases	**(108,200)**	**(113,489)**	**(221,689)**
C.1 Sales	(80,749)	(74,340)	(155,089)
- of which business combinations	-	-	-
C.2 Depreciation	-	(26,022)	(26,022)
C.3 Decreases in fair value	-	-	-
C.4 Losses on impairment	(8,703)	(890)	(9,593)
C.5 Exchange losses	-	-	-
C.6 Transfers to other portfolios of assets	(14,972)	(12,218)	(27,190)
a) properties used in operations	-	-	-
b) non-current assets held for sale	(14,972)	(12,218)	(27,190)
C.7 Other decreases	(3,776)	(19)	(3,795)
D. Closing balances	**565,261**	**692,601**	**1,257,862**
E. Designation at fair value through profit and loss	613,107	873,853	1,486,960

Losses on impairment were generated by the adjustment of the book value of several properties to a lower recoverable value, which emerged from the most recent property appraisals made.

12.7 Commitments to purchase property and equipment

There are no commitments to purchase property and equipment.

Section 13 - Intangible assets - Item 130

13.1 Intangible assets: breakdown by type of asset

Assets/Amounts	31/12/2017		31/12/2016	
	Defined term	Undefined term	Defined term	Undefined term
A.1 Goodwill	**X**	**76,389**	**X**	**1,109,895**
A.1.1 Pertaining to the Group	X	76,389	X	1,109,895
A.1.2 Attributable to minority interests	X	-	X	-
A.2 Other intangible assets	**716,499**	**504,272**	**419,800**	**222,200**
A.2.1 Assets carried at cost:	**716,499**	**504,272**	**419,800**	**222,200**
a) Internally generated intangible assets	-	-	-	-
b) Other assets	716,499	504,272	419,800	222,200
A.2.2 Assets designated at fair value through profit and loss:	**-**	**-**	**-**	**-**
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**716,499**	**580,661**	**419,800**	**1,332,095**

Intangible assets with undefined term are represented by goodwill and trademarks, for which impairment tests were conducted as illustrated in paragraph 13.1.1 below.
Intangible assets with defined term include the valuation of Client Relationships, acquired as part of the Banco BPM Group and the Banca Popolare Italiana Group business combination transactions and amount to a total of euro 457.1 million; the remainder mainly relates to software.

13.1.1 Undefined term intangible assets: impairment testing

Pursuant to IAS 36, all undefined term intangible assets must undergo impairment testing at least once a year to verify the recoverability of their value. The Group has decided to conduct impairment testing as at 31 December of each year, and in any event in the presence of loss indicators.

If it is not possible to directly determine the recoverable value of the specific intangible asset recognised in the financial statements, the recoverable value of the cash generating unit to which the asset belongs must be estimated. With specific reference to goodwill, paragraph 80 of the aforementioned accounting standard specifies that for impairment testing, at the acquisition date, goodwill acquired through a business combination must be allocated to each of the acquirer's cash generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.
Each unit or group of units to which the goodwill is so allocated shall:

(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes;
(b) not be larger than an operating segment determined in accordance with IFRS 8 "Operating Segments".

To identify cash generating units (CGU) to which assets subject to impairment testing are to be allocated, the potential units identified must generate significant cash flows that are independent from those deriving from other potential units identified.

On the basis of these definitions, as at 31 December 2017, the CGU identified with undefined term intangible assets that must undergo impairment testing were as follows:

- **Commercial Network CGU** - Represented by the Commercial network of the former Banco Popolare, according to the perimeter in place at the end of 2017 and, more specifically, by the Network Divisions, by the Large Corporate Department and by the Institutional Customers, entities and third sector Department.
- **BPM CGU** - Represented by the subsidiary BPM S.p.A. according to the perimeter in place at the end of 2017;
- **Private & Investment Banking CGU** - Represented by Banca Aletti & C., according to the perimeter in place at the end of 2017, and by its subsidiaries Aletti Fiduciaria S.p.A. and Banca Aletti & C. (Suisse) S.p.A., whose activities are complementary to its own;
- **Akros CGU** - Represented by Banca Akros S.p.A. according to the perimeter in place at the end of 2017;
- **Bancassurance Life CGU** - Represented by the investee company Popolare Vita S.p.A.;
- **Bancassurance Protection CGU** - Represented by the investee company Avipop Assicurazioni S.p.A.

The following paragraphs illustrate the methods and the assumptions used for impairment testing which was conducted on the basis of:

- the instructions of international accounting standard IAS 36;
- the recommendations issued in a joint letter signed by the Bank of Italy, Consob and Ivass dated 3 March 2010;
- the main suggestions contained in a document issued by the Italian Valuation Body (I.V.B.) entitled "impairment tests on goodwill at times of financial and real crises" dated 14 June 2012;
- the recommendations issued by Consob in communication no. 3907 of 19 January 2015.

Also note that, as required by the aforementioned Supervisory Authorities, the procedure and the valuation parameters for the impairment testing of goodwill and the other intangible assets with undefined useful lives were approved autonomously by the Board of Directors in advance of approval of the draft financial statements for 2017.

A. Method to calculate the book value of individual CGUs

The book value of the CGUs has only been calculated for those to which goodwill is associated.

In line with the 2011-2016 financial statements of the Banco Popolare Group, a method based on operational measurements was used for the Commercial Network CGU. To this end, the book value was calculated as the sum of the following:

- Common Equity Tier 1 capital (CET1), namely the required capital against weighted risk assets relating to the CGU, in line with Basel 3 regulations, which will come into force in the reference cash flow period;
- goodwill and other intangible assets both defined and undefined term associated to the CGU;
- other assets representing elements to deduct for the purpose of calculating the above-mentioned Common Equity Tier 1 capital.

For the remaining CGUs, which correspond to one or more legal entities, the reference value has been specifically established as the sum of the book values of the company's balance sheet assets and liabilities and of goodwill.

The following table shows the reference values of the CGUs, which, on the date of the financial statements, show intangible assets with an indefinite useful life, subject to impairment testing. The allocation criteria are the same as those used at the time of preparation of the financial statements for last year:

C.G.U.	Reference value	of which: goodwill	of which: trademarks
Commercial Network	3,421	616	222
Private & Investment Banking	1,309	418	-
Bancassurance Life	254	25	-
Bancassurance Protection	85	51	-
Total	**5,069**	**1,110**	**222**

Management believes that these reference values for the CGUs are consistent with the calculation methodologies of the respective recoverable values described below.

For the CGUs, to which only intangible assets with an indefinite useful life other than goodwill are associated, no total book value has been calculated, only the book value of the intangible assets represented by trademarks has.

C.G.U.	Book value of trademarks
BPM	263
Akros	19
Total	**282**

B. Criteria used to determine the recoverable value of CGUs

Based on international accounting standards, the amount of any impairment is determined by the difference between the book value of the CGU, calculated on the basis of the above-described criteria, and its recoverable value, if lower. Recoverable value is defined as the higher between:

- Value in Use, namely the present value of future cash flows that are envisaged to result from the continuous use of a specific asset or from a CGU;
- Fair Value, less selling costs, namely the amount that could be obtained from the sale of an asset, in an arm's length transaction between informed and willing parties.

Impairment testing was conducted for the CGUs to which goodwill is associated, using the Value in Use obtained through the application of the Dividend Discount Model (DDM).
According to the Dividend Discount Model, the value of a company is based on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected time period of planning, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual

capitalisation of the normalised dividend for the last year of the forecast, based on a payout ratio depending on profitability at full operation. The application of the DDM entails the use of the following formula:

$$W = \sum_{k=0}^{n} \frac{D_k}{(1+i)^k} + TV + SA$$

where:
W = General value of economic capital
i = Cost of own capital (Ke)
Dk = Dividends that can be distributed in an explicit period with a level of capitalisation in line with current regulations
n = Number of years of the explicit period
TV = Residual value or Terminal value calculated as the present value of a perpetual yield represented by the average sustainable Dividend for the years subsequent to the explicit planning period
SA = Value of any surplus assets

In analytical terms, the Terminal Value is calculated as follows:

$$TV = \frac{D_{n+1}}{i-g}(1+i)^{-n}$$

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate of the dividend after the explicit planning period. This growth rate should refer to the nominal long-term growth rate of the economy. In fact, it is prudentially assumed that in the long term, each sector and each company in the sector will converge towards a growth rate equal to that of the economy as a whole
i = Cost of own capital (Ke).

B.1 - Estimated cash flows

The cash flows that may be distributed in the explicit period (Dk) were calculated based on the 2018-2020 balance sheet-income statement figures of the CGUs, taking into account a minimum level of capital estimated on the basis of a Common Equity Tier 1 (CET1) target of 9.75%, representing the best estimate of the minimum capital level that the ECB has asked the Banco BPM Group to meet on an ongoing basis to complete the latest Capital Decision requested by the ECB as part of the Supervisory Review and Evaluation Process (SREP) conducted.

More specifically, the income statement and balance sheet forecasts of the Commercial Network and Private & Investment Banking CGUs, prepared only for the purposes of the test, were calculated, for 2018, based on the progress of budgeting activities, representing the best possible estimate at the present date; the estimates for future years (2019-2020) were calculated with reference to those of 2018, the trends indicated in the Strategic Plan and the trends predicted by Prometeia for the banking industry.

To estimate the terminal value, the average sustainable dividend after the explicit period was calculated as a function of expected profitability in the long term. The latter was estimated in reference to a long-term growth rate equivalent to the nominal growth rate of the economy, namely at 2%, in line with the target inflation established by the monetary stability policy of the ECB for the long term.

The estimations incorporate the impact of the introduction of standard IFRS 9 to the balance sheet.

B.2 - Cash flow discounting rates

To discount the dividends that may be distributed to shareholders, a Cost of Capital was used, consistent with the return required of investments with characteristics similar to those of the asset under analysis. The Cost of Capital (Ke) was calculated on the basis of the Capital Asset Pricing Model (CAPM), according to which the returns on a high-risk business must be equal to the sum of a no-risk rate (R_f) and a risk premium (MRP), as a function of the specific level of risk of the business:

$$K_e = R_f + \beta \times (MRP)$$

More specifically, the no-risk component (R_f), which encompasses in any event the so-called "Country Risk" is calculated, in line with the 2016 Test, using the 1-year average yield of 10-year Italian government bonds (BTP).
The beta (ß) coefficient measures the risk of the specific business or of the operating sector in terms of the correlation between the effective yield of a share and the overall yield of the reference market.
More specifically, in line with the 2016 Test, the following were used:
a) for the Commercial Network CGU: an indicator relating to a sample of comparable companies (listed Italian banks) recorded by Bloomberg;
b) for the Private & Investment Banking CGU: an average indicator of a sample of companies operating in the Private Banking segment and in the Investment Banking segment recorded by Bloomberg.
The coefficient was measured on a weekly basis for a time horizon of 5 years.
A market risk premium (MRP) of 5.4% was calculated on the basis of the sources used by measurement practices.

C. Overview of the methods used and the main valuation parameters

The following table summarises the methods used to calculate the recoverable value and the main parameters:

C.G.U.	Criteria to calculate the recoverable value	Discounting rate "Ke"	Growth rate of terminal value "g"
Commercial Network	Value in use – Dividend Discount Model	9.22%	2.00%
Private & Investment Banking	Value in use – Dividend Discount Model	8.38%	2.00%

With regard to the Commercial Network CGU and the Private & Investment Banking CGU, as the Value in Use is lower than the respective reference values of the CGU, the Fair Value was calculated by using market multiples such as Price/Earning (P/E) and Price/Net Asset Value (P/NAV) calculated using the same sample of comparable companies used to establish the Beta coefficient. The Fair Values calculated are considerably lower than the Value in Use.

With regard to the Bancassurance Life CGU and Bancassurance Protection CGU, to calculate the recoverable value, reference was made to the price recognised by Cattolica Assicurazioni for the purchase of a stake of 65% of the share capital of the investee companies Popolare Vita S.p.A. and Avipop Assicurazioni S.p.A. These prices were considered to be the best expression of the fair value of the CGUs in question.

With regard to the BPM CGU and the Akros CGU, which have no goodwill associated to them, the stability of the values of individual intangible assets with an indefinite useful life, represented specifically by trademarks, was checked.
The methodological approach used envisaged measuring the intangible asset on the basis of the royalties that the owner of the trademark would receive if the use of the asset was sold to third parties; the value of the trademark is therefore recognised starting from the present value of future royalties, estimated with reference to specific parameters (royalty rate, percentage of revenues) after tax.
More specifically, reference was made to the royalty rate implicit in the valuations of trademarks used as reference at the time of the Purchase Price Allocation of Banco BPM (2.41% for BPM and 4.47% for Banca Akros), applied to expected net interest and other banking income deduced from the forecasts relating to the CGU in question.

The discounting rate applied was 9.22% and 8.38% for the intangible assets relating respectively to the Commercial Network and BPM CGUs and to the Private & Investment Banking and Banca Akros CGUs, namely the same cost of capital used for impairment testing on the goodwill of the CGUs.
The long-term growth rate used to conduct impairment testing on intangible assets with an indefinite life was 2%.

D. Summary of results

On the basis of the guidelines illustrated, the impairment test as at 31 December 2017, also in the light of the sensitivity analyses conducted, resulted in the need to recognise a full write-down of the goodwill relating to the Commercial Network CGU of euro 616 million. The outcome of the test was mostly justified by the negative impact of the application of the new accounting standard IFRS 9 on the estimation of the CGU's recoverable value. As illustrated in Part A, section 5 of these notes to the financial statements and in the Report on Operations, the application of the new impairment model for financial assets envisaged by the new accounting standard will result in a significant immediate increase of adjustment entries for loans and the consequent reduction of the Group's equity from 1 January 2018. As the loans portfolio is the main balance sheet asset of the CGU in question, the majority of the effects resulting from the application of the new accounting standard will fall on the equity allocated to the same CGU, leading to such a reduction in its estimated recoverable value that the full write-down of goodwill was necessary.

The outcome of the impairment test, also in the light of the sensitivity analyses conducted, resulted in the need to also recognise a full write-down of the goodwill relating to the Private & Investment Banking CGU of euro 418 million. The outcome of the test conducted is mainly justified by the income statement and balance sheet forecasts of the CGU in question. The future profitability of the CGU, estimated on the basis of its current configuration [1], was negatively influenced by the significant fall in revenues from the structuring of financial products for customers, including issues of certificates.

No recognition of any adjustment for goodwill or trademarks was deemed necessary for the other CGUs.
As stated in Part A of these notes, given the particularly uncertain market and regulatory situation, it cannot be excluded that the assumptions made, however reasonable and prudent, may not be confirmed by future scenarios in which the Group finds itself operating.

E. Sensitivity analysis

In compliance with IAS 36, with regard to the intangible assets associated with the BPM CGU and the Akros CGU and represented just by trademarks, which are not written down, a sensitivity analysis was conducted on the parameters used for the valuation, in order to verify changes in the recoverable values.
More specifically, the gap between the recoverable value and the reference book value was analysed in the event that the growth rate (g) and/or the cost of capital (Ke) rose or fell with respect to the rates actually used;

BPM CGU (Trademarks)
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage of recoverable value)

		(Ke)			
		9.22%		11.72%	
(g)	1.50%	81	23.5%	(11)	(4.3%)
	2.00%	102	27.8%	0	0.0%
	2.50%	125	32.2%	12	4.4%

[1] As envisaged by the reference accounting standards, when conducting impairment testing, the positive effects expected from the reorganisation of investment and private banking activities currently in progress were not taken into account.

Akros CGU (Trademarks)
Growth rate of terminal value "g"/Discounting rate "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage of recoverable value)

		(Ke)			
		8.38%		15.12%	
(g)	1.50%	20	51.6%	(1)	(2.8%)
	2.00%	22	54.6%	0	0.0%
	2.50%	26	57.7%	1	3.1%

F. Intrinsic signs of impairment

As at 31 December 2017, consolidated shareholders' equity was euro 11.9 billion, against a market capitalisation of euro 4 billion. A significant misalignment remains, even if the tangible shareholders' equity as at 31 December 2017 of euro 10.6 billion is used as a reference. This is certainly not a new situation, as it was also recorded in previous years. Listing for all Italian banks show significant discounts also with respect to tangible shareholders' equity. The impairment test was conducted taking the existence of external impairment indicated above into due account. The reasons for this misalignment should essentially be sought in the heavy heritage of the global economic crisis which hit the banking sector quite vigorously, penalised by low interest rates and by a considerable increase in the cost of credit resulting from the financial difficulties suffered by corporate and retail customers due to the economic crisis. This situation is compounded by the significant negative influence of the weight of the stock of bad loans. Generally speaking, the market attributes a recoverable value aligned to the fair value to this category of non-performing loans. This valuation is naturally misaligned for the Italian banking system by the value at which the above-mentioned loans are recognised in the financial statements, as the latter valuation, in accordance with the provisions of the reference accounting standards, does not consider and cannot consider the rates of return requested by investors that specialise in the purchase of distressed assets, or the up-front costs of credit collection activities that in Italy continue to require very long timeframes.
In this regard, note that market values are the result of assessments of the financial community, assessments which, by their very nature, remain focused on short-term targets and estimates, which are therefore not able to fully reflect the company's medium/long term growth potential. Instead, valuations expressed for the purpose of drawing up these financial statements are the result of extrapolating the economic value of the CGUs based on their specific income generation capacity, which is not fully recognised by the financial markets. This assessment expresses itself over a wider period than that adopted by the financial community and leaves aside the singular nature of the current economic-financial context, even if taken into due account.

Lastly, note that, as an additional guarantee, an independent expert (KPMG Corporate Finance) issued a fairness opinion on both the adequacy of the valuation methods adopted by the Group, that were judged to be reasonable and not arbitrary, as well as on the correct application of the same.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets:		Total
		Defined	Undefined	Defined	Undefined	
A. Gross opening balance	**4,603,497**	**-**	**-**	**1,508,627**	**222,200**	**6,334,324**
A.1 Total net impairment	(3,493,602)	-	-	(1,088,827)	-	(4,582,429)
A.2 Net opening balance	**1,109,895**	**-**	**-**	**419,800**	**222,200**	**1,751,895**
B. Increases	**-**	**-**	**-**	**590,156**	**282,072**	**872,228**
B.1 Purchases	-	-	-	590,152	282,072	872,224
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- at equity	X	-	-	-	-	-
- through profit and loss	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	4	-	4
C. Decreases	**(1,033,506)**	**-**	**-**	**(293,457)**	**-**	**(1,326,963)**
C.1 Sales	-	-	-	(45,213)	-	(45,213)
C.2 Adjustments	(1,033,506)	-	-	(169,983)	-	(1,203,489)
- Amortisation	X	-	-	(132,047)	-	(132,047)
- Write-downs	(1,033,506)	-	-	(37,936)	-	(1,071,442)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	(1,033,506)	-	-	(37,936)	-	(1,071,442)
C.3 Decreases in fair value	-	-	-	-	-	-
- at equity	X	-	-	-	-	-
- through profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	(8)	-	(8)
C.6 Other decreases	-	-	-	(78,253)	-	(78,253)
D. Net closing balance	**76,389**	**-**	**-**	**716,499**	**504,272**	**1,297,160**
D.1 Total net adjustments	(4,527,614)	-	-	(1,736,492)	-	(6,264,106)
E. Gross closing balance	4,604,003	-	-	2,452,991	504,272	7,561,266
F. Valuation at cost	-	-	-	-	-	-

Purchases of other intangible assets include the value of "Client Relationships" and of trademarks acquired as part of the business combination transaction with the BPM Group for a total value of euro 581.4 million; the remainder relates to new applications developments to improve organisational efficiency, sales initiatives and legislative changes.
Item C.2 Adjustments - Amortisation, includes the share of amortisation relating to the Client Relationships acquired through business combinations amounting to euro 46.3 million, while the remainder refers to the process of amortisation of applications software.
Item C.2 Adjustments - Write-downs, includes the income statement adjustments made on goodwill of euro 1,033.5 million, following the results of the impairment test illustrated above. In addition, value adjustments were made to Client Relationships of euro 7.4 million.

13.3 Other information

As at 31 December 2017 there were no commitments relating to intangible assets.

Section 14 - Tax assets and liabilities – Item 140 under assets and Item 80 under liabilities

Information on deferred tax assets (DTA), on transformable DTA and on assessments of recoverability

The Banco BPM Group recognised Deferred Tax Assets (DTA), after checking that the values recognised were sustained by a judgement of probability as to the recoverability of the same, in compliance with the provisions of accounting standard IAS 12. In order to reach said judgement, current tax legislation was taken into consideration, with specific reference to the rules for the transformability of said deferred tax assets into tax credit, and the Group's ability to generate future taxable income, also on the basis of the "tax consolidation scheme".

The following paragraphs illustrate the main categories of DTA recognised in the financial statements as at 31 December 2017 and the tests conducted to sustain their recoverability.

Deferred tax assets - breakdown

As at 31 December 2017, total DTA amounted to euro 4,200.7 million (euro 3,465.9 million as at 31 December 2016), of which euro 4,143 million had an impact on the income statement, while euro 57.7 million were recorded as a matching balance to shareholders' equity, in accordance with the entries they referred to. For an analysis of the breakdown of these DTA, please refer to the table entitled "14.1 Deferred tax assets: breakdown".
As at 31 December 2017, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for transformation into tax credit corresponded to euro 2,695 million (against euro 2,448 million as at 31 December 2016). The increase against 2016 is mainly due to the business combination transaction with the former BPM Group and the consequent extension of the scope of consolidation. The provisions of the cited Law and later, the regulations introduced by Law 147/2013 (so-called 2014 Stability Law), envisage the transformation of DTA into tax credit in the event that a "statutory loss", a "tax loss" for IRES purposes or a "net negative value of production" for IRAP purposes is recorded. This provision includes write-downs of receivables not yet deducted in accordance with the time limits in force at the time under art. 106, paragraph 3 of the Italian Consolidated Income Tax Law (TUIR), and the negative components of goodwill and of other intangible assets, not yet deducted according to the time limits in force at the time (so-called "eligible DTA").
More specifically, as at 31 December 2017, the eligible DTA of the Group originated from:

- deductible temporary differences relating to write-downs of receivables exceeding the immediate deductibility threshold envisaged by tax legislation with reference to credit and financial entities only of euro 1,992.7 million (1,731.4 million as at 31 December 2016);
- deductible temporary differences relating to goodwill and other intangible assets recorded in previous years of euro 702.3 million (euro 716.6 million as at 31 December 2016).

For further details on the breakdown and on changes in eligible DTA, please refer to the tables contained in the paragraph below entitled "14.3.1 Changes in deferred tax assets pursuant to Italian Law 214/2011 (as a matching balance to the income statement)".
It is important to note that, with specific reference to the above-mentioned DTA, the maintenance of their convertibility into tax credit is conditional to the payment of a fee set forth in Italian Decree Law no. 59 of 3 May 2016, amended and converted into law by Italian Law no. 15 of 17 February 2017, which envisaged its validity between 2016 and 2030. In order to guarantee the transformability of the DTA into tax credit and to avoid the negative impacts which would have otherwise affected Own Funds, the Banco BPM Group exercised the option by paying the cited fee.

As at 31 December 2017, residual non transformable DTAs amounted to euro 1,505.7 million (euro 1,018 million as at 31 December 2016), of which euro 811.1 million resulted from IRES tax losses carried forward (euro 615.1 million as at 31 December 2016) and euro 694.6 million resulted from costs and losses deductible in subsequent years with respect to that recognised in the financial statements (euro 402.9 million as at 31 December 2016).

Deferred tax assets - tests of recoverability

With regard to DTA that are eligible for transformation into tax credit (euro 2,695 million, corresponding to 64.2% of total DTA recognition in the financial statements as at 31 December 2017), the tax regulation introduced by Italian Law 214/2011, together with the exercise of the option of the annual fee, illustrated above, by providing certainty as to their recovery, impacted the test of recoverability envisaged by IAS 12, implying that all of the above-

mentioned DTA had passed the same. This treatment is in line with the provisions contained in the Bank of Italy/CONSOB/Isvap Document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets resulting from Law 214/2011".
With regard to the remaining non transformable DTA, in line with the provisions of accounting standard IAS 12, their recognition and subsequent maintenance in the financial statements are strictly dependent on the ability of the Group and/or of the individual companies to generate future taxable income (so-called "tax capability"). To this end, the Group's non transformable DTA underwent a recoverability test based on a forecasting model of future taxable income, which distinguished IRES DTA from IRAP DTA.
The recoverability test was conducted on the basis of the following assumptions:

- the estimates of future taxable income were made on the basis of forecasts of income flows prepared from the "2017-2019 Strategic Plan" of the Banco BPM Group, and relative updates;
- Deferred Tax Liabilities (DTL) were offset against DTA if they both related to the same tax year;
- tax legislation does not set time limits for the recovery of the IRES tax loss (art. 84, paragraph 1, of Italian Presidential Decree 917 of 22 December 1986).

The tests conducted in this way identified non transformable DTA as recoverable in a reasonably defined time horizon that was longer than the specific period referred to by the strategic plan.

14.1 Deferred tax assets: breakdown

		IRES	IRAP	Other taxes	31/12/2017	31/12/2016
A)	**Matching balance to the Income Statement**					
	Loan write-downs deductible in coming years	1,820,119	175,341	-	1,995,460	1,734,410
	Allocations and adjustments deductible in coming years	121,371	1,192	-	122,563	94,302
	Book values lower than the tax values recognised following the fair value designation of financial assets through profit and loss	13,656	48	-	13,704	16,209
	Personnel expenses and allocations to employee termination indemnities deductible in coming years	219,397	-	-	219,397	155,773
	Value adjustments on real estate deductible in coming years	46,066	281	-	46,347	53,040
	Costs deductible in coming years resulting from exemptions for goodwill and other intangible assets	578,621	123,630	-	702,251	716,599
	Tax losses carried forward	811,160	-	-	811,160	615,068
	Other cases of misalignment between book and tax values	196,895	35,185	-	232,080	9,838
	Total A	**3,807,285**	**335,677**	**-**	**4,142,962**	**3,395,239**
B)	**Matching balance to Shareholders' Equity**					
	Book values lower than the tax values recognised from the fair value designation of financial assets available for sale through profit and loss	23,318	6,905	-	30,223	40,414
	Other cases of misalignment between book and tax values	24,174	3,368	-	27,542	30,299
	Total B	**47,492**	**10,273**	**-**	**57,765**	**70,713**
	Total (A+B)	**3,854,777**	**345,950**	**-**	**4,200,727**	**3,465,952**

14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Other taxes	31/12/2017	31/12/2016
A) Matching balance to the Income Statement					
Book values exceeding tax values recognised following the fair value designation of financial instruments through profit and loss	3,068	153	-	3,221	3,710
Book values exceeding tax values recognised following the process of tax amortisation of goodwill and other intangible assets	518	104	-	622	20,254
Book values exceeding tax values recognised following value adjustments calculated solely for tax purposes	3,242	522	-	3,764	5,941
Deferred taxes on income of subsidiaries taxable in coming years	-	-	-	-	3,719
Book values exceeding tax values recognised following the Purchase Price Allocation carried out for business combination transactions	20,590	3,400	-	23,990	25,096
Adjustments on other intangible asset taxable in coming years	252,035	51,010	-	303,045	143,405
Other cases of misalignment between book and tax values	93,079	16,701	-	109,780	14,596
Total A	**372,532**	**71,890**	**-**	**444,422**	**216,721**
B) Matching balance to Shareholders' Equity					
Book values lower than the tax values recognised from the fair value designation of financial assets available for sale through profit and loss	78,784	29,179	-	107,963	48,452
Other cases of misalignment between book and tax values	85,579	17,037	-	102,616	419
Total B	**164,363**	**46,216**	**-**	**210,579**	**48,871**
Total (A+B)	**536,895**	**118,106**	**-**	**655,001**	**265,592**

14.3 Changes in deferred tax assets (as a matching balance to the income statement)

	31/12/2017	31/12/2016
1. Opening amount	**3,395,239**	**2,792,835**
2. Increases	**1,526,790**	**713,417**
2.1 Deferred tax assets recorded during the year	287,711	711,507
a) referring to previous years	32,248	19,281
b) due to changes in accounting criteria	-	-
c) recoveries	-	-
d) other	255,463	692,226
2.2 New taxes or increases in tax rates	451	1,006
2.3 Other increases	1,238,628	1,311
3. Decreases	**(779,067)**	**(111,013)**
3.1 Deferred tax assets cancelled during the year	(304,547)	(103,254)
a) reversals	(248,193)	(86,130)
b) write-downs due to unrecoverability	(31,685)	(8,171)
c) changes in accounting criteria	-	-
d) other	(24,669)	(8,953)
3.2 Decreases in tax rates	(137)	(946)
3.3 Other decreases	(474,383)	(6,813)
a) transformation into tax credit pursuant to Italian Law 214/2011	(456,516)	(6,029)
b) other	(17,867)	(784)
4. Closing amount	**4,142,962**	**3,395,239**

14.3.1 Changes in deferred tax assets pursuant to Italian Law 214/2011 (as a matching balance to the income statement)

	Total 31/12/2017	Total 31/12/2016
1. Opening amount	**2,447,962**	**2,445,112**
2. Increases	**705,870**	**10,769**
- of which business combinations	682,708	406
3. Decreases	**(458,823)**	**(7,919)**
3.1 Reversals	(843)	(1,349)
3.2 Transformation into tax credit	(456,516)	(6,029)
a) resulting from losses for the year	(431,422)	(6,029)
b) resulting from tax losses	(25,094)	-
3.3 Other decreases	(1,464)	(541)
- of which business combinations	-	-
4. Closing amount	**2,695,009**	**2,447,962**

The table below summarises the "Transformable DTA" recognised in the financial statements, referring to the different tax provisions that generated them:

Type of asset underlying the transformable DTA	31/12/2017		31/12/2016	
	Total Transformable DTA	of which relating to the Parent Company	Total Transformable DTA	of which relating to the Parent Company
Write-downs of receivables under paragraph 3, art. 106 TUIR (Italian Consolidated Income Tax Law)	1,992,758	1,959,805	1,731,364	1,703,692
Amortisation of "goodwill" under paragraphs 3 and 3-bis of art. 103 TUIR (Italian Consolidated Income Tax Law)	621,055	620,745	615,103	613,811
Amortisation of "other intangible assets" under paragraphs 1 and 3-bis of art. 103 TUIR (Italian Consolidated Income Tax Law)	81,196	81,196	101,495	101,495
Total	**2,695,009**	**2,661,746**	**2,447,962**	**2,418,998**

14.4 Changes in deferred tax liabilities (as a matching balance to the income statement)

	31/12/2017	31/12/2016
1. Opening amount	**216,721**	**237,861**
2. Increases	**374,680**	**11,505**
2.1 Deferred tax liabilities recorded during the year	8,354	11,312
a) referring to previous years	137	7
b) due to changes in accounting criteria	-	-
c) other	8,217	11,305
2.2 New taxes or increases in tax rates	-	32
2.3 Other increases	366,326	161
3. Decreases	**(146,979)**	**(32,645)**
3.1 Deferred tax liabilities cancelled during the year	(124,711)	(32,555)
a) reversals	(117,906)	(12,662)
b) due to changes in accounting criteria	-	-
c) other	(6,805)	(19,893)
3.2 Decreases in tax rates	-	(89)
3.3 Other decreases	(22,268)	(1)
4. Closing amount	**444,422**	**216,721**

14.5 Changes in deferred tax assets (as a matching balance to shareholders' equity)

	31/12/2017	31/12/2016
1. Opening amount	**70,713**	**34,884**
2. Increases	**64,281**	**50,846**
2.1 Deferred tax assets recorded during the year	260	50,846
a) referring to previous years	-	3
b) due to changes in accounting criteria	-	-
c) other	260	50,843
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	64,021	-
3. Decreases	**(77,229)**	**(15,017)**
3.1 Deferred tax assets cancelled during the year	(34,939)	(14,807)
a) reversals	(13,784)	(14,807)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	(21,155)	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(42,290)	(210)
4. Closing amount	**57,765**	**70,713**

14.6 Changes in deferred tax liabilities (as a matching balance to shareholders' equity)

	31/12/2017	31/12/2016
1. Opening amount	**48,871**	**96,603**
2. Increases	**209,563**	**47,997**
2.1 Deferred tax liabilities recorded during the year	39,222	47,997
a) referring to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	39,222	47,997
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	170,341	-
3. Decreases	**(47,855)**	**(95,729)**
3.1 Deferred tax liabilities cancelled during the year	(17,388)	(95,619)
a) reversals	(17,388)	(95,615)
b) due to changes in accounting criteria	-	-
c) other	-	(4)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(30,467)	(110)
4. Closing amount	**210,579**	**48,871**

14.7 Other information

Group tax situation

For an assessment of the risks relating to litigation in progress with the Tax Authority and relative developments in 2017 (new disputes that have emerged or disputes concluded and/or settled), please refer to the content of Section 12 - Provisions for risks and charges – Item 120 of liabilities, where the allocations made to liabilities judged to be likely are made, pursuant to the provisions of accounting standard IAS 37.

The National Tax Consolidation Scheme

Banco Popolare Soc. Coop. and Banca Popolare di Milano Soc. Coop. a.r.l. had adopted the Group taxation option (pursuant to articles 117 and foll. of Italian Presidential Decree 917/1986 - Consolidated Income Tax Law), as consolidating companies, which was continued following the merger of the Banco BPM Group. For the sake of equal accounting treatment, Banco BPM and the companies that participate in the tax consolidation scheme, listed below, have adopted a single contractual standard:

1. Aletti Fiduciaria S.p.A.;
2. Banca Aletti & C. S.p.A.;
3. Banca Popolare di Milano S.p.A,;
4. Banca Akros S.p.A;
5. Bipielle Real Estate S.p.A.;
6. BP Property Management S.c.r.l.;
7. BP Trading Immobiliare S.r.l.;
8. BRF Property S.r.l.;
9. Holding di Partecipazioni Finanziarie BP S.p.A.;
10. Ge.Se.So. S.r.l;
11. Lido dei Coralli S.r.l.;
12. Mariner S.r.l.;
13. P.M.G. S.r.l;
14. Profamily S.p.A.;
15. Release S.p.A.;
16. Sirio Immobiliare S.r.l.;
17. Società Gestione Servizi BP S.c.p.A.r.l.;
18. Sviluppo Comparto 6 S.r.l.;
19. Sviluppo Comparto 8 S.r.l.;
20. Tecmarket Servizi S.p.A.;
21. Terme Ioniche S.r.l;
22. Manzoni 65 S.r.l.;
23. Terme Ioniche Società Agricola S.r.l.

There are no associates for which we opted for the fiscal transparency regime under articles 115 and following of Italian Presidential Decree 917-1986.

Section 15 - Non-current assets held for sale and discontinued operations and related liabilities – Item 150 under assets and Item 90 under liabilities

15.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

	31/12/2017	31/12/2016
A. Individual assets		
A.1 Financial assets	-	-
A.2 Investments in associates and companies subject to joint control	78,833	-
A.3 Property and equipment	27,223	77,023
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**106,056**	**77,023**
of which valued at cost	78,833	689
of which designated at fair value 1	-	-
of which designated at fair value 2	25,000	-
of which designated at fair value 3	2,223	76,334
B. Discontinued operations		
B.1 Financial assets held for trading	-	-
B.2 Financial assets designated at fair value through profit and loss	-	-
B.3 Financial assets available for sale	-	-
B.4 Investments held to maturity	-	-
B.5 Due from banks	-	-
B.6 Loans to customers	-	-
B.7 Investments in associates and companies subject to joint control	-	-
B.8 Property and equipment	-	-
B.9 Intangible assets	-	-
B.10 Other assets	65	346
Total B	**65**	**346**
of which valued at cost	-	-
of which designated at fair value 1	-	-
of which designated at fair value 2	-	-
of which designated at fair value 3	65	346
C. Liabilities related to individual assets held for sale	**-**	**-**
C.1 Debts	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	-	-
of which valued at cost	-	-
of which designated at fair value 1	-	-
of which designated at fair value 2	-	-
of which designated at fair value 3	-	-
D. Liabilities related to discontinued operations		
D.1 Due to banks	-	-
D.2 Due to customers	-	-
D.3 Debt securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities designated at fair value through profit and loss	-	-
D.6 Provisions	-	-
D.7 Other liabilities	(35)	(960)
Total D	**(35)**	**(960)**
of which valued at cost	-	-
of which designated at fair value 1	-	-
of which designated at fair value 2	-	-
of which designated at fair value 3	(35)	(960)

Non-current assets held for sale - investments in associates and companies subject to joint control refers to the stakes of 15% in Popolare Vita and of 14.999% in Avipop (euro 78.8 million).
As regards non-current assets held for sale - property and equipment, corresponding to euro 27.2 million (euro 77.0 million as at 31 December 2016), includes a property worth euro 25.0 million of the subsidiary company Release, for which advanced sale negotiations were in place as at 31 December 2017, which concluded with the definitive sale in January 2018.

The assets and liabilities associated with discontinued operations refer to the assets and liabilities of the subsidiary company Mariner classified as undergoing disposal pursuant to IFRS 5. More specifically, the balances indicated represent the contribution to the Group's consolidated financial statements as at 31 December 2017 and are therefore shown net of any intergroup relations.

As regards the assets and liabilities indicated under sub-items "of which designated at fair value 1/2/3" please refer to the content of "Part A.4 - Fair value disclosure".

15.2 Other information

There is no other information to report.

15.3 Information on investments in companies subject to significant influence, not carried at equity

There are no investments in companies subject to significant influence which are not carried at equity classified as held for sale.

Section 16 - Other assets – Item 160

16.1 Other assets: breakdown

	31/12/2017	31/12/2016
Due from Tax Authority (not classifiable under tax assets)	1,083,542	955,622
Receivables for the disposal of assets and the provision of services	105,113	18,004
Other income to be received	43,493	5,768
Cash and other values on hand	73,541	48,729
Items being processed	914,190	569,055
Items in transit between branches	205,374	63,146
Securities and coupons to be settled	42,160	4,879
Other operations to be settled	436	79
Leasehold improvements	83,165	56,929
Accrued income and prepayments not attributable to a specific item	14,671	18,086
Other items	386,946	225,579
Total	**2,952,631**	**1,965,876**

"Due from Tax Authority" mainly includes:

- tax credits for petitions for the refund of direct, indirect taxes and VAT submitted by Banco Popolare and by incorporated companies for a total of euro 446.9 million, euro 327.1 million of which as principal and euro 119.8 million as interest. The most important tax credits include those for IRPEG/ILOR taxes, which are the subject of a dispute for 1995 with the former Banca Popolare di Novara s.c.a r.l. (euro 89.2 million) and VAT credit for various years, for which a refund has been requested by the former Banca Italease S.p.A. (231 million);
- the tax credits resulting from higher payments on account of stamp duty, of substitute tax under former Italian Presidential Decree 601/73, of substitute tax applied to customers performed over the year and that will be recovered in netting in 2018 for a total of euro 246.8 million;
- tax credits due from the Tax Authority, following payments made provisionally pending a ruling of the court, for a total of euro 210.5 million. These include the payment associated with the proceedings

regarding the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana in 2005 for euro 201.9 million;

- tax credits on foreign dividends of euro 32.9 million, the refund of which has been requested of the Swiss Tax Authority by the subsidiary Banca Aletti for tax years 2008, 2009, 2015 and 2017 in application of the provisions envisaged in Agreements against double taxation. The requests for refunds relating to 2015 and 2017 are being examined by the Swiss Tax Authority, as per standard practice. The requests for refunds submitted by the Bank with regard to the tax credits accrued in tax years 2008 and 2009, instead, have not received a definitive response from the Swiss Tax Authority, even though during the cross-examination, informally mentioned that it had some reservations as the existence of this right, and regardless of this, at the end of 2014, the Bank requested the afore-mentioned Authority to make a formal statement in this regard, as this is fundamental to filing a dispute before the competent Swiss judge, after having attempted mediation. After not having received a response for the whole of 2017, at the beginning of 2018, the Bank files an appeal to the competent Swiss judge, protesting against the unjustified silence of the Swiss Tax Authority and requesting an order for this tax refund relating to 2008 and 2009.

"Items being processed" mainly includes amounts waiting to be recorded and various suspended amounts, as well as debits received by external companies, relating to the domiciliation of bills to be charged to customer current accounts.

The item "Leasehold improvements" includes the costs capitalised relating to work carried out in branches which are located in third party properties, net of the depreciation charge calculated on the basis of the duration of the rental agreement.

LIABILITIES

Section 1 - Due to banks – Item 10

1.1 Due to banks: breakdown by product

Transaction type/Amounts	31/12/2017	31/12/2016
1. Due to central banks	**21,383,001**	**12,020,001**
2. Due to banks	**5,816,303**	**3,997,400**
2.1 Current accounts and demand deposits	594,482	611,703
2.2 Time deposits	187,645	75,759
2.3 Loans	4,746,234	3,042,587
2.3.1 Repurchase agreements	3,534,794	1,328,609
2.3.2 Other	1,211,440	1,713,978
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	287,942	267,351
Total	**27,199,304**	**16,017,401**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3 (*)	27,197,795	16,011,482
Total Fair value	**27,197,795**	**16,011,482**

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

As at the date of the financial statements, euro 21,346.4 million of item "Due to central banks" refers to Targeted Long Term Refinancing Operations (TLTRO II) with the European Central Bank.

1.2 Breakdown of item 10 "Due to banks": subordinated loans

At the reporting date, similarly to the end of the previous year, there are no subordinated loans payable to banks.

1.3 Breakdown of item 10 "Due to banks": structured debts

As at 31 December 2017, like the previous year, there are no payables that required the separation of embedded derivatives in accordance with IAS 39 (so-called "structured debts").

1.4 Due to banks subject to micro hedging

At the reporting date, in line with last year, there are no amounts due to banks subject to micro hedging.

1.5 Financial lease payables

	31/12/2017			31/12/2016		
	Minimum payments		Gross investment	Minimum payments		Gross investment
	Principal	Interest		Principal	Interest	
Up to 3 months	-	-	-	84	33	117
From 3 months to 1 year	-	-	-	255	95	350
From 1 year to 5 years	-	-	-	3,875	475	4,350
Over 5 years	-	-	-	-	-	-
Undefined term	-	-	-	-	-	-
Total	**-**	**-**	**-**	**4,214**	**603**	**4,817**

Section 2 - Due to customers – Item 20

2.1 Due to customers: breakdown by product

Transaction type/Amounts	31/12/2017	31/12/2016
1. Current accounts and demand deposits	77,390,766	46,332,101
2. Time deposits	3,598,192	2,214,149
3. Loans	5,296,507	8,591,913
3.1 Repurchase agreements	4,180,122	7,704,649
3.2 Other	1,116,385	887,264
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	1,562,681	1,533,417
Total	**87,848,146**	**58,671,580**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3 (*)	87,848,146	58,671,580
Total Fair Value	**87,848,146**	**58,671,580**

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

Sub-item 3.1 "Repurchase agreements" includes transactions with the Clearing and Guarantee House of euro 3,733.1 million (last year, they amounted to euro 7,432.6 million).

2.2 Breakdown of item 20 "Due to customers": subordinated loans

At the reporting date there are no subordinated loans payable to customers.

2.3 Breakdown of item 20 "Due to customers": structured debts

As at 31 December 2017, like the previous year, there are no payables that required the separation of embedded derivatives in accordance with IAS 39 (so-called "structured debts").

2.4 Due to customers subject to micro hedging

At the reporting date, in line with last year, there are no amounts due to customers subject to micro hedging.

2.5 Financial lease payables

At the reporting date the amounts payable to customers for financial leases were insignificant.

Section 3 - Debt securities issued – Item 30

3.1 Debt securities issued: breakdown by product

Type of security / Amounts	Total 31/12/2017				Total 31/12/2016			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	15,481,103	13,047,720	2,876,324	-	13,414,494	10,527,404	3,075,412	26,381
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	15,481,103	13,047,720	2,876,324	-	13,414,494	10,527,404	3,075,412	26,381
2. Other securities	767,040	-	767,040	-	1,627,321	-	1,627,321	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	767,040	-	767,040	-	1,627,321	-	1,627,321	-
Total	**16,248,143**	**13,047,720**	**3,643,364**	**-**	**15,041,815**	**10,527,404**	**4,702,733**	**26,381**

Securities issued includes the Covered Bonds issued by Banco Popolare, the book value of which amounts to euro 4,027.8 million (against 2,442.7 million as at 31 December 2016). In line with the instructions of the Supervisory Authority, this category includes funding repurchase agreements, amounting to euro 213.2 million, carried out with leading institutional counterparties, whose underlying assets are represented by the Covered Bonds.

3.2 Breakdown of item 30 "Debt securities issued": subordinated securities

As at the date of the financial statements, subordinated securities issued were represented by 11 issues with a book value of euro 3,905.9 million (last year there were 7 issues with a book value of euro 2,537.3 million) of which two issues are represented by preference shares for the amount of euro 234.3 million (last year there was one issue with a book value of euro 26.7 million).

In 2017, by virtue of the merger with the BPM Group, subordinated securities represented by 5 issues with a book value of euro 1,447.4 million were added to this item, of which one issue is represented by preference shares for the amount of euro 205.7 million.

In the year, two subordinated loans issued by the Parent Company, for a nominal amount of euro 181.6 million, were wholly redeemed as they had reached their contractual maturity.

In April 2017, through a voluntary public offer, 31.2% of the "Banco BPM S.p.A. Series 359 Subordinated Lower Tier II Bonds at Fixed Rate with periodic amortisation, 18.11.2013-18.11.2020" (ISIN IT0004966823) not eligible for regulatory Tier 2 capital, was repurchased.

Trading in subordinated instruments issued by the Bank fell to zero, due to the provisions introduced by Delegated Regulation 241/2014 of the European Commission and the new authorisation granted by the ECB to the newly-incorporated Banco BPM Group.

During the year, an issue of subordinated instruments, with Tier 2 eligibility pursuant to Regulation EU/575/2013 (CRR), was made for a nominal amount of euro 500 million, with a ten year term, repayable in a bullet payment.

The characteristics of the subordinated loans included in calculations for regulatory purposes are set forth in Part F – "Information on consolidated shareholders' equity".

3.3 Breakdown of item 30 "Debt securities issued": securities subject to micro hedging

	31/12/2017	31/12/2016
1. Securities subject to micro fair value hedging:	**7,617,998**	**9,938,394**
a) interest rate risk	7,617,998	9,938,394
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Securities subject to micro cash flow hedging:	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total	**7,617,998**	**9,938,394**

Section 4 - Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	31/12/2017					31/12/2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	2,126	6,176	-	-	6,176	118	795	-	-	795
2. Due to customers	775,890	816,729	-	-	816,729	416,138	449,344	-	-	449,344
3. Debt securities	4,002,847	-	3,951,586	1,646	3,953,232	4,643,470	-	4,555,286	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	4,002,847	-	3,951,586	1,646	3,953,232	4,643,470	-	4,555,286	-	-
3.2.1 Structured	4,002,847	-	3,951,586	1,646	X	4,643,470	-	4,555,286	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**4,780,863**	**822,905**	**3,951,586**	**1,646**	**4,776,137**	**5,059,726**	**450,139**	**4,555,286**	**-**	**450,139**
B. Derivatives										
1. Financial derivatives	X	164,438	2,996,770	1,891	X	X	255,659	2,883,462	-	X
1.1 Trading	X	164,438	2,942,754	1,891	X	X	255,659	2,821,679	-	X
1.2 Under the fair value option	X	-	53,728	-	X	X	-	60,724	-	X
1.3 Other	X	-	288	-	X	X	-	1,059	-	X
2. Credit derivatives	X	-	2,827	-	X	X	-	1,429	-	X
2.1 Trading	X	-	2,827	-	X	X	-	1,429	-	X
2.2 Under the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**164,438**	**2,999,597**	**1,891**	**X**	**X**	**255,659**	**2,884,891**	**-**	**X**
Total (A+B)	**X**	**987,343**	**6,951,183**	**3,537**	**X**	**X**	**705,798**	**7,440,177**	**-**	**X**

FV = Fair Value
FV= Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness with respect to the issue date*
NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Items "Cash liabilities – 1. Due to banks and 2. Due to customers" only include technical overdrafts on listed securities in active markets.

"Other structured securities", which as at 31 December 2017 was euro 3,953.2 million, is represented by certificates issued by Banca Aletti for euro 3,951.6 million and by Banca Akros to a residual extent for euro 1.6 million, which envisage the protection of the premium paid in by the customer, or a share of the same, regardless of

the trend of the financial parameters to which the same are index-linked. As at 31 December 2016, the balance of the cited issues, regarding Banca Aletti alone, was euro 4,555.3 million.

Derivatives under fair value option are represented by derivatives that are operationally linked to issues of bonds where the Group implemented the fair value option, in compliance with IAS 39, paragraph 9.

4.2 Breakdown of item 40 "Financial liabilities held for trading": subordinated liabilities

As at 31 December 2017, financial liabilities held for trading amounted to euro 0.4 million, relating to technical overdrafts on subordinated bonds of the subsidiary company Banca Akros. At the end of the previous year, this item had no value.

4.3 Breakdown of item 40 "Financial liabilities held for trading": structured debts

As at 31 December 2017, like the previous year, there are no payables that required the separation of embedded derivatives in accordance with IAS 39 (so-called "structured debts").

Section 5 - Financial liabilities designated at fair value through profit and loss – Item 50

5.1 Financial liabilities designated at fair value through profit and loss: breakdown by product

Transaction type/Amounts	31/12/2017					31/12/2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
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	**3,454,501**	**3,065,348**	**348,212**	**-**	**3,435,418**	**6,786,185**	**6,352,952**	**380,354**	**-**	**6,774,408**
3.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2 Other	3,454,501	3,065,348	348,212	-	x	6,786,185	6,352,952	380,354	-	x
Total	**3,454,501**	**3,065,348**	**348,212**	**-**	**3,435,418**	**6,786,185**	**6,352,952**	**380,354**	**-**	**6,774,408**

FV = Fair Value
FV= Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness with respect to the issue date*
NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial liabilities designated at fair value through profit and loss refer to bond issues for which the Fair Value Option was used to eliminate or significantly reduce an accounting asymmetry with respect to the valuation criteria of operational hedge derivatives, as an alternative to the designation of a hedging relationship based on Hedge Accounting rules. Said accounting asymmetry depends on the fact that the derivatives would be valued at fair value in any event, while the bond loans would be recognised at amortised cost, in the absence of the fair value option.
For the scope of securities under the fair value option and the method used to determine fair value and quantify changes in creditworthiness, please refer to "Part A – Accounting policies – A.2 Key financial statement items, 18 – Other information, Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness".

Effect of the change in the Bank's creditworthiness on financial liabilities designated at fair value through profit and loss

The change in own credit risk with respect to the issue date led to a lower liability value of euro 22.8 million, which by virtue of the new accounting treatment of own credit risk envisaged by accounting standard IFRS 9, applied selectively by the Group in 2017, is shown in a specific shareholders' equity reserve ("Valuation reserve").

The impact for the year of own credit risk, recognised in the statement of comprehensive income, was a negative euro 18.3 million.
For more details on the accounting treatment and on the impact of changes in fair value following a change in own credit risk, please refer to the content of the specific paragraph in Part A - Accounting policies, A.1 General part, Section 5 - Other aspects, Accounting treatment of own creditworthiness for financial liabilities designated at fair value - Early application of IFRS 9".

Creditworthiness effect	31/12/2017(*)	31/12/2016
Cumulative gains / (losses)	22,807	41,101
Gains/losses recognised in the year	(18,294)	5,853

(*) Impact recognised as a matching balance to shareholders' equity ("Valuation reserve")

5.2 Breakdown of item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

Financial liabilities designated at fair value through profit and loss are represented by an issue of preference shares for the amount of euro 89.7 million (last year there were two issues with a book value of euro 147.8 million).

During the period, an early redemption option was exercised for an eligible instrument of additional Tier 1 capital (Preferred Securities), previously guaranteed by the former Banco Popolare S.C., with a nominal residual value of euro 51.45 million, eligible for "grandfathering".

The characteristics of the subordinated loans included in calculations for regulatory purposes are set forth in Part F – "Information on consolidated shareholders' equity".

Section 6 - Hedging derivatives – Item 60

6.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2017			NV 31/12/2017	Fair Value 31/12/2016			NV 31/12/2016
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**765,903**	**-**	**9,049,878**	**-**	**1,292,087**	**-**	**8,632,498**
1) Fair value	-	664,069	-	8,574,878	-	1,291,814	-	8,599,348
2) Cash flows	-	101,834	-	475,000	-	-	-	-
3) Foreign investments	-	-	-	-	-	273	-	33,150
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**765,903**	**-**	**9,049,878**	**-**	**1,292,087**	**-**	**8,632,498**

NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

6.2 Hedging derivatives: breakdown by portfolio hedged and hedge type

Transaction/Type of hedge	Fair Value					Cash Flows			Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	484,937	-	-	-	-	X	-	X	X
2. Loans	3,690	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	1	X	-	X
5. Other loans	-	-	-	-	-	X	-	X	-
Total assets	**488,627**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	175,440	X	101,835	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**175,440**	**-**	**101,835**	**-**
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

Section 7 - Fair value change of financial liabilities in macro fair value hedge portfolios – Item 70

7.1 Fair value change of hedged financial liabilities

Fair value change of hedged liabilities/Group components	31/12/2017	31/12/2016
1. Positive change in financial liabilities	13,101	-
2. Negative change in financial liabilities	(4,566)	-
Total	**8,535**	**-**

7.2 Liabilities subject to macro interest rate risk hedging: breakdown

	31/12/2017	31/12/2016
1. Debts	410,000	-
2. Debt securities issued	-	-
3. Portfolio	3,000,000	-
Total	**3,410,000**	**-**

Section 8 - Tax liabilities – Item 80

This section was commented on in Section 14 of balance sheet assets in Part B – Information on the balance sheet, of these notes to the financial statements.

Section 9 - Liabilities associated with non-current assets held for sale and discontinued operations – Item 90

The information in this section was shown in Section 15 of balance sheet assets in Part B – Information on the balance sheet, of these notes to the financial statements.

Section 10 - Other liabilities – Item 100

10.1 Other liabilities: breakdown

	31/12/2017	31/12/2016
Due to Tax Authority (not classifiable under tax liabilities)	134,633	114,144
Due to personnel	12,764	8,574
Due to Social Security	63,565	44,414
Trade payables	205,751	106,075
Items in transit between branches not yet allocated to destination accounts	20,753	16,376
Amounts available to be paid to third parties	437,844	369,686
Bank transfers to be cleared	946,254	496,982
Items relating to securities transactions	308,151	226,407
Other items being processed	721,216	227,567
Adjustments for illiquid items in portfolio	47,891	20,484
Accrued liabilities and deferred income not attributable to a specific item	34,921	20,979
Other items	753,310	803,763
Total	**3,687,053**	**2,455,451**

The item "Due to Tax Authority (not classifiable under tax liabilities)" includes net tax liabilities such as VAT payable, withholdings on interest expense and income from employed work and similar, withholdings and other tax items not recognised under item 80 "Tax liabilities".
The item "Due to personnel" mainly comprises charges relating to holidays accrued and not taken, to hours banked and not used and relative mandatory social security contributions.
The item "Bank transfers to be cleared" mainly regards UNIPAY bank transfers to be credited.
"Items relating to securities transactions" is comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next.
"Adjustments for illiquid items in portfolio" includes mismatches of bills in the portfolio ("Portfolio of minority interests" and "Own portfolio").
"Other items" is mainly comprised of the following sub-items: "Hedging of risks for guarantees given and commitments" for euro 119.5 million and "Other items".
This latter category includes liabilities for payments relating to the Direct Debit SEPA circuit of euro 312.9 million and collections from F24 proxies and former S.A.C. of euro 109.2 million, mainly relating to the Parent Company.

Section 11 - Employee termination indemnities – Item 110

11.1 Employee termination indemnities: annual changes

	31/12/2017	31/12/2016
A. Opening balance	**325,339**	**334,613**
B. Increases	**142,340**	**14,433**
B.1 Provisions for the year	1,985	4,364
B.2 Other increases	140,355	10,069
C. Decreases	**(59,519)**	**(23,707)**
C.1 Benefits paid	(52,571)	(20,703)
C.2 Other decreases	(6,948)	(3,004)
D. Closing balance	**408,160**	**325,339**

Sub-item B.1 "Provisions for the year" includes charges recorded under item 180 a) "administrative expenses: for personnel, sub-item 1.e)provision to employee termination indemnities" on the income statement. The above-cited amount is net of the recovery of euro 3.8 million relating to the curtailment of the provision following the redundant headcount reduction plan, with access to the Solidarity Fund.

Sub-item B.2 "Other increases" includes (i) euro 132.4 million relating to the increase of employee termination indemnities following the merger between Banco Popolare and Banca Popolare di Milano and (ii) net actuarial losses of euro 3.5 million, recognised, after tax, as a balancing entry to the relative valuation reserve in shareholders' equity "Actuarial profits (losses) relating to defined benefit plans" and recognised in the statement of comprehensive income. As at 31 December 2016, net actuarial losses were euro 8.0 million.

11.2 Other information

As described in "Part A – Accounting policies", following the reform of supplementary pension plans, employee termination indemnities in this financial statement item (for companies with an average of at least 50 employees during 2006, which represents almost all Group companies) refers only to the portion accrued up to 31 December 2006.
For these companies, therefore, the provisions do not include the portions which, as a result of the reform, have been paid to supplementary pension plans or to the Italian Social Security Institution (INPS) Treasury Fund. The portions of employee termination indemnities accrued from 1 January 2007 are classified as "defined-contribution plans" and are recognised under personnel expenses in the sub-item "employee termination indemnities", based on the contributions due, without applying actuarial calculation methods, as an offset to the recognition of "Other liabilities" on the balance sheet, or to an outflow of cash or cash equivalents.

Main actuarial assumptions

The actuarial valuation of employee termination indemnities was carried out by independent external actuaries, based on the "accrued benefits" method, using the "Projected Unit Credit" criterion as per IAS 19. The following table shows the main demographic, economic and financial assumptions used for the valuation as at 31 December 2017 compared to that as at 31 December 2016.

Main actuarial assumptions for the valuation of employee termination indemnities	
Demographic assumptions (2017-2016):	
Employee mortality rate	IPS55 Demographic basis for annuity insurance
Frequency and amount of advances on employee termination indemnities	up to 1.5%
Frequency of turnover	1.0%-3.5%
Probability of retiring	On reaching the first retirement requirement according to the provisions of General Mandatory Insurance
Financial assumptions (2017-2016):	
Yearly discounting rate (*)	Iboxx Euro Corporate AA index, with the time reference corresponding to the average duration of the plans
Annual inflation rate	1.50%

(*) As at 31 December 2017, the Iboxx Euro Corporate AA 7-10 years index is equal to 0.88% (0.99% as at 31 December 2016) and the Iboxx Euro Corporate AA10+ index is equal to 1.30% (1.31% as at December 2016).

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 11.1 above, the changes to certain actuarial assumptions for the valuation of employee termination indemnities as at 31 December 2017, with respect to the previous year, led to an overall increase in the fund of euro 3.5 million, due to:

- net actuarial losses of euro 3.1 million, attributed to changes in financial assumptions, essential due to the change in the discounting rate;
- net actuarial losses of euro 0.4 million, attributed to other actuarial assumptions.

As regards the discounting rate, which is one of the most important assumptions used in measuring obligations related to defined benefit plans, we referred to the yields of companies with "AA" ratings, considered the best indication of yields of high quality companies. In fact, the reference accounting standard, IAS 19, states that this rate must reflect the value over time of cash, but not the entity's specific credit risk, nor actuarial risk or investment risk, or even the risk that, in the future, the real figures may differ to the actuarial assumptions made. The standard also establishes that this rate must be calculated with reference to market returns as at the closing date of the year, of stock of leading companies in the country in which the entity operates (so-called "High Quality Corporate Bond

Yield") and, alternatively, in the absence of a market for said securities, with reference to the returns of the government bonds market. More specifically, we referred to the "Iboxx Corporate AA" index, provided by info provider Markit, with a reference time horizon corresponding to the average duration of defined benefit plans (social security, employee termination indemnities and seniority bonuses). The indices used as reference were the Iboxx Euro Corporate AA 7-10 years index, corresponding to 0.88% and the Iboxx Euro Corporate AA10+ index, corresponding to 1.30%. The decrease of the rate by 11 basis points (0.88% as at 31 December 2017 against 0.99% as at 31 December 2016) and -1 basis point (1.30% as at 31 December 2017 against 1.31% as at 31 December 2016) respectively is solely due to market changes, insofar as the reference parameter as at 31 December 2016, for the same plan, is the same as that used in the previous year.

Sensitivity analysis

As required by IAS 19, we conducted a sensitivity analysis of the obligation to the employee termination indemnity, on the assumption of increasing or decreasing the discounting rate by 50 basis points, considered to be the most significant actuarial assumption. The aim of the analysis is to show how the financial statement liability would change as a result of reasonably possible fluctuations of this actuarial assumption.

	Change in TFR (employee termination indemnities) in absolute terms (*)	Change in TFR (employee termination indemnities) in percentage terms
Change in actuarial assumptions:		
- Discounting rate:		
+0.5%	(18,803)	(4.60%)
-0.5%	20,130	4.93%

(*) the amounts in brackets indicate a decrease of the fund.

Section 12 - Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Item/Component	31/12/2017	31/12/2016
1. Company retirement plans	166,847	94,180
2. Other provisions for risks and charges	885,982	713,915
2.1 legal disputes	166,207	119,303
2.2 personnel expenses	611,208	450,841
2.3 Other	108,567	143,771
Total	**1,052,829**	**808,095**

Company retirement plans

The retirement plans shown in the financial statements refer almost exclusively to the liabilities relating to defined benefit plans, with a value of euro 166.8 million, euro 2.1 million of which refers to external plans.

In compliance with the provisions of Circular no. 262, the financial statement attachments show the statement of "internal plans".

Provisions for risks and charges - legal disputes

Other provisions for risks and charges include sub-item 2.1 "legal disputes" which refers to provisions for clawback actions of euro 25.1 million and those for other pending proceedings for the remainder. This item also includes the provision against potential liabilities resulting from the PPA process relating to the merger between Banco Popolare and BPM (corresponding to euro 4.0 million).

Risks associated with pending legal proceedings

The Group operates in a legal and regulatory scenario, which exposes it to a wide variety of legal proceedings, relating, for example, to the conditions applied to its customers, to the nature and characteristics of the products and financial services it sells, to administrative irregularities, to clawback actions for bankruptcies, and to labour law disputes. The relative risks undergo a specific analysis by the Group, with a view to make specific allocations to provisions for risks and charges, if the disbursement is retained likely, on the basis of the information available on each occasion. As indicated in "Part A – Accounting policies" of these notes to the financial statements, the complexity of the situations and of corporate operations which are behind disputes imply considerable elements of subjective judgment, which may regard both what may be due and whether it is due and how much time will elapse before liabilities materialise.
The following paragraphs illustrate the main legal disputes in progress at the end date of the financial statements, characterised by highly complex profiles and/or significant potential outlay, merely for the purpose of illustrating the maximum risk exposure, regardless of the Group's opinion as the likelihood of losing the dispute. For many of these proceedings, the Group actually believes that the risk profiles of the same are limited and therefore, as they regard possible liabilities, it has not made any allocation to provisions; with regard to liabilities considered probable, a disclosure of said judgment and on the amount of the allocation made is provided only if this will not prejudice the outcome of the dispute with the counterparty, in court or as regards the settlement. In this regard, we must emphasise that, although the estimates made by the Group are retained reliable and compliant with the dictates of the reference accounting standards, we cannot however exclude that the costs to settle disputes may be significantly higher than the allocations made.

Raffaele Viscardi S.r.l.
The law suit, notified on 30 April 2009 and which has a petitum of around euro 46 million, concerns the operations of a branch in Salerno relating to the granting of agricultural loans to the plaintiff company, which alleges that it was led to subscribe bank bonds to guarantee the sums disbursed and claims damages to its image due to reporting in the Italian Central Credit Register. On 5 May 2015, the Court of Salerno issued a ruling in favour of the bank, in response to which the opponent submitted an appeal.

Maflow S.p.A. in Extraordinary Receivership
In a notice dated 14 April 2014, Maflow S.p.A., in extraordinary receivership, summoned the former Banco Popolare before the court, requesting: (i) a court order, together with others, to pay compensation for damages of euro 199 million, corresponding to the financial difficulties of Maflow, as calculated by the counterparty; (ii) a court order to return the amount allegedly received by the bank unlawfully from loans granted to Maflow from establishment to default. The above is all based on the assumption that the bank played a dominant role by influencing the financial management of Maflow.
In a ruling dated 14 December 2016, which was then appealed against, the Court of Milan totally rejected the claims of the petitioner in these Proceedings, also ordering the same to pay legal expenses.

Administrative Proceedings
On 17 July 2014, the former Banco Popolare received a formal written notice, insofar as jointly and severally obliged with those potentially responsible for the infringement, regarding the alleged infringement of anti-money laundering legislation (Italian Legislative Decree no. 231/2007). The accusation regards the failure to report a transaction retained as suspicious, following inspections conducted by the Finance Police; the matter in question dates back to 2009 and regards the paying in of 41 non-transferrable banker's drafts for a total amount of euro 10.1 million.

Porta Vittoria Bankruptcy
This company, part of the Coppola Group, was declared bankrupt by the Court of Milan on 29/09/2016. The receivable claimed from the company derives almost entirely from a mortgage loan (euro 219.4 million) and on a residual basis from a current account overdraft (euro 5.6 million). The Bank submitted a petition to be admitted as a creditor within legal terms. By measure of 22/03/2017, the Bankruptcy Judge, in line with the proposal of the Receiver, admitted the mortgage credit of euro 219.5 million, but made it subordinated pursuant to art. 2497 quinquies of the Italian Civil Code with respect to all other creditors and with a mortgage privilege that will be relevant only with respect to other subordinated creditors. On the other hand, the Bankruptcy Judge admitted the unsecured overdraft receivable in the requested amount of euro 5.6 million. The measure of the Bankruptcy Judge was handed down on the basis of a presumed management and coordination activity that the former Banco

Popolare allegedly exercised with respect to Porta Vittoria on the basis of the loan agreement granted, resulting in significant influence on the company's operational decisions. Deeming the measure groundless, the Bank challenged the statement of liabilities after it was declared enforceable, requesting the admission of its receivable from the mortgage loan without subordination, deemed undue, as the bank exercised no management and coordination activity whatsoever.

Bankruptcy of Tikal S.r.l. in liquidation/Release S.p.A.
On 5 April 2017, the Bankruptcy of Tikal S.r.l. in liquidation, former tenant of the property in which the activities of Hotel Cicerone in Rome were carried out, summoned Release and Cicerone S.a.r.l. (a company incorporated under the laws of Luxembourg belonging to the Coppola Group) before the court to obtain compensation for damages for tortious liability for a total of euro 19.9 million due to the non-recognition of goodwill indemnity and for the alleged loss in value of the company, as it was required to return the leased property before the expiry of the rental agreement. The early return resulted from the expiry of the lease agreement in place between Release S.p.A. and Cicerone S.a.r.l.
The summons followed a request by Release S.p.a. for admission as a creditor due to its occupancy compensation receivable; the demand was accepted by the Court, which recognised the receivable, in part also with preferential status.

Cicerone S.a r.l.
On 21 November 2017, Cicerone S.a.r.l. summoned Release and Banco BPM, disputing the invalidity of the debt restructuring agreement entered into with Release on 19 October 2010, which originates from the lease agreement for the "Hotel Cicerone" hotel complex in Rome. The opposing party is asking the court to declare the effectiveness of the original lease agreement dated 29 November 2004, as well as compensation for damages, quantified as approximately euro 45 million.
This case is similar to the legal action taken in August 2015 by Cicerone S.a.r.l. and by Porta Vittoria S.p.A. against the same parties summoned, which was closed in March 2017, due to lack of grounds to continue the same following the bankruptcy of Porta Vittoria.

Bankruptcy of Trafileria del Lario S.p.A. (in liquidation)
On 12 October 2017, the Bankruptcy of Trafileria del Lario S.p.A. in liquidation (formerly Trafilerie Brambilla S.p.A.) submitted a petition with an independent request for compensation from both the former statutory auditors and directors, including de facto ones, of the company, to both Banco BPM and other banks. The grievances relating to the group of banks involved regard the alleged deterioration of the company's difficulties, in collaboration with the same directors and statutory auditors, resulting from the continuation of the company's business activities in a situation of insolvency and in the unlawful access to credit through false billing. Based in the reconstruction of the receivership proceedings, said conduct is claimed to have caused damages to the company of euro 25 million.

Civil and criminal proceedings relating to the Bankruptcies of the Dimafin Group
The Banco BPM Group has been involved in a number of civil proceedings instituted by bankruptcy receivers, filed by the former member of the Board of Directors and the owner of the Dimafin Group, as well as in a criminal proceeding relating to the default of the same business group.

On 22 November 2017, a settlement was reached, which entails the closure of 9 civil proceedings instituted by the Bankruptcy receivers of the Di Mario Group and by the former management of the bankrupt companies, as well as the waiver to file civil action in the criminal proceeding filed following the default of the Di Mario group, releasing the amounts previously seized from the Bank on an order of the Rome Prosecutor's Office.

The scope of the settlement does not include the action filed by the owners of the Dimafin Group, represented by Mr. Raffaele Di Mario, against 23 parties, including numerous credit institutions, requesting that the same be found jointly liable for the alleged fraudulent and negligent conduct of the parties summoned, retained responsible for the greater financial difficulties of the Dimafin Group companies and the consequent bankruptcy of the same. According to the claimant, said conduct is alleged to have brought the value of the shareholdings held by the claimant to zero. Mr. Di Mario is therefore claiming compensation of euro 700 million.

In addition, in December 2017, the Bankruptcy of Mr. Raffaele Di Mario, in his capacity as owner and financial backer of the parent company Dimafin S.p.A., summoned Banco BPM and Release, as well as other banks, with a view to acknowledge the liability of the banks for the deterioration of the state of insolvency of Mr. Raffaele Di

Mario. The greater deterioration, according to the claimant, is alleged to have been caused by the disbursement of credit to the company for which Di Mario made guarantees. The grievances therefore regard the damages, quantified as euro 8.9 million, allegedly incurred by the group of creditors of the bankrupt company due to the lesser amounts received by the same. The summons also seeks to obtain a declaration of invalidity of the guarantees issued by the businessman and related to the recovery plan drawn up for the Dimafin Group.

Ittierre S.p.A. former Banco Popolare
The company was placed under extraordinary receivership. By means of a summons, both the former Banca Popolare di Lodi (BPL) and the former Banca Popolare di Novara S.p.A. (BPN) were requested to return, pursuant to art. 67 of the Italian Bankruptcy Law, the total sum of euro 16.6 million for the principal creditor and euro 4.9 million for the secondary creditor. An objection was raised as to the erroneous duplication of the request, which in reality referred to the same current account migrated from BPL to BPN following the swap of branches. Furthermore, the grounds of the request were challenged, due to the imprecision of the same insofar as the counterparty had not specified which remittances were being disputed. As regards the former BPN dispute, the judge is still currently being replaced and for the other, a court-appointed expert witness excluded the existence of revocable remittances to return the amounts, which was a positive development for the outcome of the case. Pending the negotiations, the hearing for the conclusions has been postponed.

Ittierre S.p.A former Banca Popolare di Milano
The company was placed under extraordinary receivership. The extraordinary receivership submitted a petition requesting the return of euro 30.9 million pursuant to art. 67 of the Italian Bankruptcy Law. The court-appointed expert witness in accounting deemed remittances of only euro 35 thousand revocable, a positive development for the outcome of the case. Pending the negotiations, the hearing for the conclusions has been postponed.

Impresa S.p.A former Banca Popolare di Milano
Company in Extraordinary Receivership. The extraordinary receivership procedure called the pool of banks, in which BPM participated to an extent of only 8%, as well as the directors of the company, before the Court of Rome for compensation for damages quantified jointly and severally at euro 166.9 million. The hearing for the admission of pre-trial evidence is scheduled for the end of October 2018.

Send S.r.l.
The company went bankrupt in 2009. The receivable results from a pool operation of euro 49.5 million with the Unicredit head office, addressed to the construction of a shopping centre in Vicenza and secured by a mortgage at the same level on the property complex funded. Ex Banco's share was 28.80%. The pool receivables (and therefore also ex Banco's) have been regularly admitted to the bankruptcy proceedings due to the mortgage privilege.
The bankruptcy receiver filed a claim for damages against the Pool Banks for the amount of the loan. In 2015, the Court assigned to the receivership stated its lack of jurisdiction. The receivership proceedings resumed before the Court of Venice, business section, conclusions were reached and a decision on the case is pending.

Classification and valuation of potential liabilities in accordance with the provisions of accounting standard IAS 37

The petitum of potential liabilities associated with legal disputes in general, including claims with remote risk, amounts to a total of euro 2,276.8 million.

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made, also considering the specific opinions issued by authoritative external firms, the petitum of potential liabilities classified as remote or possible but unlikely amounts to a total of euro 1,943.6 million.

The petitum of potential liabilities classified as likely amounts in total to euro 333.2 million and is covered by provisions allocated partly to "other provisions for risks and charges - legal disputes" and partly to "other provisions for risks and charges - other" for a total amount of euro 157.7 million.

Provisions for risks and charges – personnel expenses

Sub-item "2.2 personnel expenses" amounts to a total of euro 611.2 million and is mostly comprised of Solidarity Funds of euro 515.2 million and euro 47.4 million in expenses of the incentive system for the year and other minor expenses.

Provisions for risks and charges – other

Sub-item "2.3 Other" totalled euro 108.6 million.
As at 31 December 2017, this item was mostly comprised of provisions for the probable payment of:

- tax disputes with the Tax Authority;
- the expenses resulting from procedures to wind up equity investments;
- the foreseeable expenses relating to several transactions linked to customer operations and to possible interpretation developments of certain regulations for banking activities.

Given that a precise indication of said allocations to provisions could seriously prejudice the company's position in terms of the management of disputes relating to potential liabilities to be measured, in accordance with paragraph 92 of international accounting standard IAS 37, for some cases, no indication of the entity of the allocations made to the provisions for risks and charges or of the allocations charged to the income statement for the year has been provided in the notes to the financial statements.

Risks associated with current disputes with the Tax Authority

Banco BPM, the companies that merged to form the Group, the incorporated subsidiary companies and the subsidiary companies underwent various inspections by the Tax Authority in 2017 and in previous years. These activities concerned the taxable income declared for the purpose of income tax, VAT, registration tax, and more generally the manner in which the tax legislation in force at the time was applied. As a consequence of said inspections, the Banco BPM Group is involved in numerous legal proceedings.

The potential liabilities relating to tax disputes underway that involve Banco BPM and its subsidiaries amounted to euro 332.7 million as at 31 December 2017 (euro 470.9 million as at 31 December 2016), of which euro 306.8 million relate to notices of assessment, tax demands and payment notices and euro 25.9 million relate to formal reports on findings served or to be served (based on the daily reports on findings for the inspection currently underway). In this regard, note that the estimate of said potential liabilities relating to the notices of assessment does not consider any interest (with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and for liabilities classified as likely), while the estimate of potential liabilities relating to formal reports on findings served or to be served does not include interest or fines, insofar as they are not indicated in the latter document (with the exception of liabilities classified as likely).

Developments during the year

New disputes that emerged in the year and/or developments of existing disputes following formal reports on findings served and tax demands

During the year, a rise in outstanding disputes totalling euro 1.7 million was recorded, due to the delivery on 7 August 2017 of the formal report on findings, closing the inspection of the former Banco Popolare s.c. as regards IRES, IRAP and VAT for 2012, 2013, 2014, 2015 and 2016.
The inspection had been initiated on 16 September 2015 by the Verona Tax Police Branch of the Finance Police.

The findings were mostly represented by:

- the already-known allegations relating to the failure to apply the withholding tax set forth in art. 26, paragraph 5 of Italian Presidential Decree no. 600/1973, to interest due on deposits made by foreign subsidiaries resident in the US State of Delaware totalling euro 23.9 million. As regards these findings, in line with the assessments already made as regards similar liabilities relating to assessment notices already received, the relative potential likely liabilities are covered by specific provisions already made;
- the allegations relating to the failure to pay IRES and IRAP with regard to several economic transactions between Banca Italease S.p.A. (now Banco BPM) and the subsidiary Banca Italease Funding LLC pertaining to transactions to strengthen capital implemented by issuing innovative equity instruments (so-called "preference shares"). The findings cited above amount in total to euro 1.7 million.

Disputes concluded and/or settled during the year

During the year, outstanding disputes decreased by a total of euro 140.7 million.
The main reduction of euro 82.5 million relates to the out-of-court settlement on 26 May 2017 of the dispute initiating from the assessment notices relating to the year 2011 of the companies Banca Italease, Mercantile Leasing and Italease Gestione Beni. The settlement entailed an immediate cost of euro 27.8 million, without application of any fine, rather than maintaining a much larger risk connected to the possibility that the proceedings would have a negative outcome.

The other significant reduction resulted from the out-of-court settlement agreements reached by Banco BPM with the Tax Authority at the end of last April for a total euro 45.1 million, in relation to disputes regarding notices of assessment relating to the failure to apply withholding tax to interest paid by the incorporated Banca Popolare Italiana and by the former subsidiary Banca Italease S.p.A. (in FY 2009 to 2012) to subsidiary companies resident in Delaware. As regards this settlement, the Tax Authority acknowledged the existence of an objective legislative uncertainty and did not apply any fine.
The additional reductions in potential liabilities originate:

- for euro 11.2 million, from the settlement pursuant to art. 11 of Italian Decree Law no. 50 of 24 April 2017 of the notices of assessment regarding VAT and IRAP taxes for tax year 2005 served to Basileus S.r.l., (a subsidiary company sold in 2008, for which Bipielle Real Estate is fiscally liable for the years prior to the disposal). The allegation of evasion/unlawful conduct referred to a series of transactions through which Basileus, on 30 December 2004, transferred a real estate business division to the newly-established Basileus 1 S.r.l., wholly owned by the former and, subsequently, on 12 October 2005, as part of a more complex real estate transaction between the Bipielle Group and the Zunino Group, assigned all of the quotas held in Basileus 1. The dispute had been pending in the Supreme Court. Having assessed the convenience of closing the pending disputes rather than pursuing the proceedings, the company decided to take advantage of the opportunity envisaged by Italian Decree Law no. 50/2017 regarding the subsidised settlement of tax disputes. The gross cost of closing the disputes, which amounted to euro 5.7 million, was covered by a specific risk provision that had been established in previous years;
- for euro 1.5 million, from the closing of the dispute concerning the tax demand relating to the 2011 tax year, whereby payment of that amount was requested from the former Banco Popolare s.c. for IRAP, interest and fines, following the transmission of the tax return beyond the deadline set by art. 2, paragraph 8 of Italian Presidential Decree no. 322/1988. The tax demand was dismissed following internal review by the Authority;
- for euro 0.2 million, from the closing of the dispute concerning the settlement notices for registration tax relating to the loan granted by the former Banca Popolare di Lodi S.p.A. and by the former Banca Italease S.p.A. to the Pininfarina group in 2011, which were cancelled by the Tax Authority following an internal review;
- for euro 0.2 million, from the closing of the dispute concerning the tax demand regarding IRAP tax paid to the Regional headquarters for Veneto for 2003 of the former Credito Bergamasco. The Supreme Court, in partial acceptance of the Authority's appeal, confirmed the legitimacy of the regional addition to IRAP limited to the extent of 4.75%.

For the sake of completeness, note that the settlement notice for registration tax regarding the reclassification of a business segment conferral involving Reti Bancarie Holding (later incorporated into Banca Popolare Italiana Soc. Coop.) sent to Bipielle Real Estate in February 2007, already cancelled at the end of 2015 from the list of potential liabilities following the ruling of the Supreme Court which, overturning the rulings of the previous courts, both in favour of the subsidiary company, had upheld the appeal file by the Tax Authority, has also been finalised.
The Supreme Court, quashing the ruling of the Regional Tax Commission, had assigned the examination of the reasons for the appeal, which had not been discussed at the time (as they were absorbed in the quashed decision) and the determination of legal fees to another section of said Commission.
Following the decision of the Supreme Court illustrated above, a specific allocation of euro 17.7 million was made to provisions for risks and charges.
At the hearing held on 21 February 2017, the Chairman of the Regional Tax Commission had invited the parties to reach an agreement and postponed the hearing. Following said invitation, the Tax Authority - Provincial Headquarters of Milan was contacted to obtain a review of the notice of settlement and to reduce the tax claim with a view to a possible agreement.
The Tax Authority demonstrated its willingness to reach a settlement for the disputes by means of an internal review,

agreeing to a partial reduction of the tax claim of euro 1.9 million.
Following the approval of the internal review submitted, the regulations on the settlement of pending tax disputes was applied (under art. 11 of Italian Decree Law no. 50/2017 converted into Italian Law no. 96 of 21 June 2017), which envisages the payment (in addition to the taxes) of the interest accrued up to the sixtieth day from the date the notice was served. In the case in hand, this measure enabled the amount already allocated to provisions for risks and charges to be further reduced to euro 12.4 million. The lesser expense of euro 5.3 million was booked to the income statement.

Details of disputes unresolved as at 31 December 2017

Due to the developments illustrated in the paragraph above, the main tax disputes unresolved as at 31 December 2017 (potential liability equal to or exceeding euro 1 million) are as follows:

Disputes relating to Banco BPM

- Banco BPM (former Banca Popolare di Verona e Novara Soc. Coop.) - tax demand regarding IRAP tax paid to the Regional headquarters for Veneto for 2006. The claim refers to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto and in Tuscany, instead of the higher rate of 5.25% and amounts to a total of euro 7.1 million. An appeal has been submitted for this tax demand. The Provincial Tax Commission partially admitted the appeal and declared that the fines requested were not due. The Regional Tax Commission confirmed the ruling of the court of first instance, therefore cancelling the tax claim relating to higher IRAP regarding the Tuscany Regional Authority. An appeal submitted to the Supreme Court is still pending.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notice of settlement regarding registration tax relating to the reclassification of the disposal of a portfolio of securities made in 2002 between Cassa di Risparmio di Pisa and Banca Popolare Italiana as a business segment disposal. The claims amount to euro 14.5 million. In a ruling dated 18 October 2011, the Regional Tax Commission of Florence fully upheld the appeal submitted by the former Banco Popolare. An appeal submitted to the Supreme Court is still pending.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (it regards offence of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to euro 199.8 million (including interest and collection commission). In separate rulings filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Provincial Tax Commission of Milan, Section 22, fully rejected the appeals submitted by the Bank, although providing no reasons underlying its confirmation of the tax claim. We have appealed against the above ruling to the Regional Tax Commission of Lombardy. On 6 May 2015, the appeals lodged on 3 February 2015 were heard before the Milan Regional Tax Commission, section 2. By ruling no. 670 handed down on 19 May 2015, the Commission rejected the combined appeals submitted and confirmed the challenged rulings. An appeal has been submitted to the Supreme Court.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. These notices also regard the claimed non-deductibility for IRES and IRAP purposes of costs retained as relating to facts or actions classified as offences. More specifically, they regard value adjustments on loans already disputed with reference to tax year 2005. Said value adjustments, although recognised by Banca Popolare Italiana in its financial statements for 2005, were deductible on a straight line basis over the following 18 financial years pursuant to the version in effect at the time of art. 106, paragraph three, of Italian Presidential Decree no. 917 of 22 December 1986. The notices of assessment serviced therefore dispute the claimed non-deductibility of the quotas of the above-cited adjustments on loans deducted in 2006, 2007, 2008 and 2009. The claims amount in total to euro 15.8 million. An appeal was presented to the Provincial Tax Commission. The Provincial Tax Commission suspended the proceeding until such time as the Supreme Court issues a ruling regarding the dispute relating to 2005.
- Banco BPM - notices of assessment and formal written notices of the fines relating to the finding regarding the failure to apply the withholding tax set forth in art. 26, paragraph 5 of Italian Presidential Decree no. 600/1973, to interest due on deposits made by foreign subsidiaries resident in the US State of Delaware relating to 2013, 2014 and 2015. The claims amount to euro 24.3 million. These disputes are included in

the out-of-court settlement made with the Tax Authority, which in 2016 and in 2017 resulted in the closure of similar disputes relating to other years and other incorporated companies without the application of any fine.

- Banco BPM - notices of assessment served on 23 December 2014 regarding 2009 for the former subsidiaries Banca Popolare di Lodi, Credito Bergamasco and Efibanca. The total claim amounts to euro 58.4 million. The Provincial Tax Commission has upheld all of the appeals submitted, cancelling the notices of assessment. The Tax Authority has appealed. A hearing was held before the Regional Tax Commission on 5 October 2017. The Commission confirmed the ruling of the court of first instance.
- Banco BPM - formal report on findings delivered on 7 August 2017 regarding 2012, 2013, 2014 and 2015 containing findings relating to the failure to pay IRES and IRAP with regard to several economic transactions between Banca Italease and the subsidiary Banca Italease Funding LLC pertaining to transactions to strengthen capital implemented by issuing so-called "preference shares". The total claim amounts to euro 1.7 million.
- Banco BPM (former Banca Italease) – Settlement notices to recover the mortgage and cadastral taxes on a loan stipulated in 2006. The claim amounts to a total of euro 3.2 million. The appeal submitted by Banca Italease was upheld in the first and second instance. An appeal submitted to the Supreme Court is still pending.

Disputes relating to other subsidiary companies

- Aletti Fiduciaria - notice to recover taxes due by the fiduciary company pursuant to the personal liability of the shareholder under art. 36, paragraph 3, of Italian Presidential Decree no. 602/1973. The claim amounts to euro 7.9 million. The company's appeal was fully upheld in the first and second instance. The appeal to the Supreme Court filed by the Tax Authority is pending.

In addition to the above-mentioned disputes, note that, with reference to 2 refund rejection notices issued by the Tax Authority - Provincial Headquarters of Novara regarding IRPEG and ILOR credit for which Banca Popolare di Novara s.c.a r.l. had requested a refund for 1995 for the sum of euro 86.5 million, the Regional Tax Commission of Turin upheld the combined appeals, also ordering the Tax Authority to pay legal expenses. Following said ruling, the Tax Authority appealed to the Supreme Court.

Classification and valuation of potential liabilities in accordance with the provisions of accounting standard IAS 37

Potential liabilities associated with the proceedings regarding the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana

The potential liability regarding only the year 2005 amounts to euro 199.8 million, in addition to the potential liability relating to the associated notices of assessment for the years 2006, 2007, 2008 and 2009, estimated at euro 15.8 million, excluding interest and collection commissions.
With regard to the dispute, as at 31 December 2017, tax credits amounting to euro 201.9 million were due from the Tax Authority, following payments made provisionally. The amount paid is recognised in the financial statements under "Other assets". In this regard, we must emphasise that said payments are not retained such as to impact the risk of losing the dispute, which have been valued on the basis of the provisions of IAS 37: in fact, these amounts are paid as part of an automatic mechanism, which is unrelated to the groundlessness or otherwise of the related tax claims, and which will be known only after the ruling of the highest court.

The afore-mentioned potential liabilities were carefully assessed in light of the negative rulings made in the courts of the first two instances.

We believe that the rulings made by the courts of the first two instances are illegitimate.
Firstly, it should be notes that, in parallel criminal proceedings files against the signatories of income tax returns for the offence of inaccurate tax returns (offence based on the same claims made in the notices of assessment in question), the judge issued a ruling acquitting the defendants because "there is no case to answer". Even though criminal proceedings are separate from administrative disputes, attention should be drawn to the fact that, in making his ruling, the criminal judge justified his decision with the same arguments made by the Bank in its defence in the appeals submitted in the administrative proceedings in question.

Moreover, an analysis of the order and the content of the ruling of the Regional Tax Commission shows that the Commission's decision on the merits of the case contains no specific justification and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare s.c. in support of its appeal.
On this basis, it is believed that there are grounds to challenge the ruling before the Supreme Court, as it is possible to re-submit to the court all defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances.
On 18 December 2015, the appeal was submitted to the Supreme Court.
The detailed analyses carried out on this situation with the support of the advisors engaged to prepare the appeal, as well as the additional opinion requested from another authoritative expert on the topic, have confirmed the conviction that the Tax Authority's claim is illegitimate and that it is still possible for the defensive arguments to be considered and accepted in the case before the Supreme Court. These same analyses led the Board of Directors to confirm the classification of the potential liability as possible but not probable.
In light of the evaluations carried out, no provision has been recognised for the potential liabilities in question in the financial statements as at 31 December 2017.

Potential liabilities associated with other outstanding proceedings

The remaining potential liabilities associated with tax disputes amount to a total of euro 117.1 million.
With regard to all of the afore-mentioned disputes, as at 31 December 2017, tax credits amounting to euro 8.6 million were due from the Tax Authority, following payments made provisionally. This amount is also recognised in the financial statements under "Other assets".

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the Tax Authority with regard to proceedings underway and also considering the specific opinions issued by authoritative external firms, the potential liabilities classified as possible but unlikely amount to a total of euro 87.9 million.
The potential liabilities classified as probable amount in total to euro 29.2 million and were fully debited from the income statement when the tax demands received were paid or are entirely covered by provisions allocated to the item "other provisions for risks and charges - other."

Inspections underway as at 31 December 2017

As at 31 December 2017, a new inspection for direct taxation purposes is underway against Banco BPM (former Banco Popolare s.c.) for tax year 2013, which in actual fact is a continuation of an inspection concluded on 7 August 2017 by the Verona Tax Police Branch of the Finance Police. The inspection was initiated on 29 November 2017 and was extended on 27 December 2017 to tax years 2014, 2015 and 2016. With regard to the new inspection, with regard to the dispute regarding Controlled Foreign Companies under article 167 of TUIR, regarding tax years 2012, 2013, 2014 and 2015, on the subsidiary companies Banca Popolare di Lodi Capital Company III LLC and Banca Italease Funding LLC resident in the state of Delaware, it should be noted that the same has been abandoned. The new inspection will focus on examining the tax treatment of the subordinate fiduciary guarantees issued by the former Banca Popolare di Lodi Società Cooperativa a r.l. and by the former Banca Italease S.p.A. On the date of preparation of this Report, no findings have been recorded in the daily inspection reports.

12.2 Provisions for risks and charges: annual changes

	Retirement plans	Other provisions	Total
A. Opening balance	**94,180**	**713,915**	**808,095**
B. Increases	**93,733**	**532,432**	**626,165**
B.1 Provisions for the year	2,373	169,473	171,846
B.2 Changes over time	2,015	222	2,237
B.3 Changes due to changes in the discounting rate	946	108	1,054
B.4 Other increases	88,399	362,629	451,028
C. Decreases	**(21,066)**	**(360,365)**	**(381,431)**
C.1 Uses during the year	(15,149)	(197,103)	(212,252)
C.2 Changes due to changes in the discounting rate	-	(16)	(16)
C.3 Other decreases	(5,917)	(163,246)	(169,163)
D. Closing balance	**166,847**	**885,982**	**1,052,829**

Provisions mostly regard those relating to employees that cannot be considered certain (and therefore payable), recognised as a balancing entry to the income statement item "Personnel expenses", including the revision of the estimate for commitments made with regard to the use of the Solidarity Fund for the industry and the provision for the incentive system relating to the year.
Provisions against expenses estimated for legal disputes and other charges were also included.

Item B.4 "Increases - Other increases" is mainly due to the opening balances of the former BPM Group (for the amounts of euro 86.6 million to "Retirement plans" and euro 357.7 million to "Other provisions").

Item C.1 "Uses during the year" includes the amounts used as a balancing entry to the payment of the personnel expenses and following the closure of revocatories and other disputes for which specific allocations had been made.

Item C.3 "Decreases - Other decreases" is mainly due to the release of provisions made in previous years.

12.3 Defined benefit company retirement plans

1. Illustration of the characteristics of plans and related risks

With regard to the defined benefit supplementary pension plans, the calculation of the actuarial values, as required by IAS 19 "Employee benefits" is carried out by independent actuaries as illustrated in "Part A - Accounting policies, 18 Other information - Employee severance indemnities and other employee benefits".

As at the date of the financial statements, these plans amounted to euro 166.8 million (euro 94.2 million as at 31 December 2016). Euro 2.4 million of the expenses for the year were recognised under the income statement item 180 a) - "Personnel expenses", while euro 2.0 million was recognised under the valuation reserve of shareholders' equity item "Actuarial profits (losses) relating to defined benefit plans".

By virtue of the merger between the Banco Popolare Group and the Banca Popolare di Milano Group, four internal pension plans are now included in the consolidated financial statements of Banco BPM, with an initial contribution of euro 84.9 million.

In addition, during the year, with regard to the plans of the former Banco Popolare Group, in implementation of the agreements dated 22 December 2015, 28 September 2016, 22 November and 13 December 2016, the former "Pension plan for employees of Banca Popolare di Lodi", now "Defined benefit pension plan of the Banco Popolare Group" has been identified as the container of the defined benefit pension plans present in the former Banco Popolare Group, guaranteed by the Bank from 1 April 2017. The regulation of the plans added, will continue to be based on the specific nature of the same.
The above-cited operation entailed the external and internal reclassification of the commitments made to the former employees of the former Banca S. Geminiano e S. Prospero and the former employees of Credito Bergamasco for a total of euro 19.5 million.

The internal and external pension plans are listed below, distinguishing between the plans of the former Banco Popolare Group and the former Banca Popolare di Milano Group.

Internal plans, amounting to euro 163.4 million, refer to:

a) Plans included in the "Defined benefit pension plans of the Banco Popolare Group"
- commitments relating to the former Banca Popolare Italiana Plan (BPI), now the Pension Plan of the Banco Popolare Group;
- commitments relating to the former Chiavari Plan;
- commitments relating to the former Banca Industriale Gallaratese (BIG) Plan;
- commitments relating to the former Bipielle Adriatico Plan;
- commitments relating to the former Bpl Regulation 1961 and 1973 Plan;
- commitments relating to the former Banca Popolare Cremona Plan;
- commitments relating to the former Cassa di Risparmio di Lucca Plan;
- commitments relating to the former Cassa di Risparmio di Pisa Plan;
- commitments relating to the former Cassa di Risparmio di Livorno Plan;
- commitments to former executives relating to the Plan of the former Banca Popolare di Verona;
- commitments relating to equalising cheques issued to retired personnel of the former Banca Popolare di Verona and Novara and to a former executive;
- commitments relating to the Plan for retired personnel of the former Banca Eurosistemi;
- commitments made to employees and retired personnel of the former Credito Bergamasco;
- commitments relating to the Plan of the former Banca Italease;
- commitments relating to the Plan of the former Banca S. Geminiano e S. Prospero;
- commitments relating to the Plan of the former Banca Popolare di Verona – Banco S. Geminiano e S. Prospero;
- commitments relating to the S.C.P. (Supplementary Corporate Plan) of the former Credito Bergamasco;

b) Plans of the former Banca Popolare di Milano
- Pension plans of the former Banca Popolare di Bologna e Ferrara;
- Pension plans of the former Banca Agricola Milanese;
- Supplementary pension scheme of Banca Popolare di Milano;
- Pension plans of the former Cassa di Risparmio di Alessandria.

In addition, internal plans also include the liabilities of the supplementary pension scheme for the chairman amounting to euro 0.3 million and the liability relating to S.I.PRE of euro 0.3 million.

The external plan, amounting to euro 2.1 million, refers to commitments to former employees of the former London branch.

For further details of defined benefit plans, please refer to the same section of the separate financial statements.

The statement of Banco BPM's internal plans is shown as an attachment to the Parent Company's separate financial statements.

2. Changes during the year in net liabilities (assets) relating to defined benefit plans and repayment rights

	31/12/2017
A. Opening balance	**94,166**
B. Increases	**91,858**
B.1. Pension cost associated with service	2,123
B.2 Financial charges due to the passage of time	2,007
B.3 Other actuarial losses	1,838
B.4 Losses due to changes in the discounting rate	946
B.5 Other increases	84,944
C. Decreases	**(19,956)**
C.1 Uses during the year	(15,081)
C.2 Profits due to changes in the discounting rate	-
C.3 Other actuarial profits	(4,771)
C.4 Other decreases	(104)
D. Closing balance	**166,068**

Net actuarial profits totalled euro 2.0 million and were attributable to the following:

- the change in the discounting rate, which led to an actuarial loss of euro 0.9 million, corresponding to sub-item "B.4 Losses due to changes in the discounting rate";
- other actuarial assumptions, which led to a net gain of euro 2.9 million, euro 1.8 million of which recognised under sub-item B.3 "Other actuarial losses" and euro 4.8 million under sub-item C.3 Other actuarial profits".

3. Information on the fair value of plan assets

According to IAS 19, plan assets are those held by an entity (a plan) that is legally separate from the entity that draws up the financial statements (external plan) and that may be used exclusively to pay or allocate benefits for employees and which are not available to the creditors of the entity that draws up the financial statements. Based on this definition, as at 31 December 2017, there were no plan assets, while as at 31 December 2016, said assets had been equal to euro 0.2 million.
For the sake of completeness, note that there are several insurance plans, classified under item "30 Financial assets designated at fair value through profit and loss", the objective of which is to provide the funds needed to pay the indemnities of the plans set in place for several executives (called the "S.I.PRE. plan") and for the chairman, the fair value of which, as at 31 December 2017, totalled euro 0.6 million (around euro 0.5 million last year).

4. Description of the main actuarial assumptions

The actuarial assumptions (demographic, financial and economic) used for the main plans are illustrated below.

a) Defined benefit pension plans of the Banco Popolare Group

Technical demographic bases: demographic tables IPS55 were used to estimate mortality as well as invalidity tables drawn up by INPS in 2010.

Technical financial bases: the valuations were made considering the Iboxx Corporate AA 7-10 index, consistent to the average duration of defined benefit plans (social security, employee severance indemnities and seniority bonuses), 0.88% as at 31 December 2017 (0.99% as at 31 December 2016).

Technical economic bases: inflation was set at 1.5%, in line with last year. The annual pay increase rate was set at 2.0% (unchanged with respect to last year).

b) Plan of the former Banca Popolare di Bologna e Ferrara

Technical demographic bases: demographic tables IPS55 were used to estimate mortality.

Technical financial bases: the valuations were made considering the Iboxx Corporate AA 10+ index, 1.30% as at 31 December 2017 (1.31% as at 31 December 2016).

Technical economic bases: a future pension increase rate of zero was assumed, in line with last year.

c) Supplementary pension scheme of Banca Popolare di Milano

Technical demographic bases: demographic tables IPS55 were used to estimate mortality as well as invalidity tables drawn up by INPS in 2000.

Technical financial bases: the valuations were made considering the Iboxx Corporate AA 10+ index, consistent with the average duration of the Plan, 1.30% as at 31 December 2017 (1.31% as at 31 December 2016).

Technical economic bases: the rate of increase was assumed to be equal to inflation, set at 1.5% (last year the increase of pensions was set at 1.5%, corresponding to 75% of inflation, estimated as 2%). The annual pay increase rate was set at 2.5% (unchanged with respect to last year).

d) Pension plans of the former Cassa di Risparmio di Alessandria

Technical demographic bases: demographic tables ISTAT 2014 were used to estimate mortality.

Technical financial bases: the valuations were made considering the Iboxx Corporate AA 10+ index, 1.30% as at 31 December 2017 (1.31% as at 31 December 2016).

Technical economic bases: inflation was set at 0.9% for 2018, 1.5% for 2019 and 1.6% for 2020. Starting from 2021, the target envisaged by the ECB of 2.00% per year has been used as a reference value. As at 31 December 2017, the rate of inflation used was 2%.

5. Information on the amount, timing and uncertainty of cash flows

As required by IAS 19, we conducted a sensitivity analysis of the obligation to the employee termination indemnity, on the assumption of increasing or decreasing the discounting rate by 50 basis points, considered to be the most significant actuarial assumption. The aim of the analysis is to show how the financial statement liability would change as a result of reasonably possible fluctuations of this actuarial assumption.

	Change in defined benefit plans in absolute terms (*)	Change in defined benefit plans in percentage terms
discounting rate +0.5%	(6,674)	(4.09%)
discounting rate -0.5%	7,210	4.41%

(*) the amounts in brackets indicate a decrease of the fund.

6. Plan relating to several employers

There are no plans of this nature.

7. Defined benefit plans that share the risk between jointly-controlled entities

There are no plans of this nature.

12.4 Provisions for risks and charges – other provisions

For the disclosure relating to provisions for risks and charges - other provisions, please refer to the content of the paragraph above 12.1 "Provisions for risks and charges: breakdown".

Section 13 - Technical reserves – Item 130

The Group does not hold investments in insurance companies included in the scope of consolidation.

Section 14 - Redeemable shares – Item 150

14.1 Redeemable shares: breakdown

The Group did not hold redeemable shares at the date of the financial statements or as at 31 December 2016.

Section 15 - Group Shareholders' Equity - Items 140, 160, 170, 180, 190, 200 and 220

15.1 Share capital and treasury shares: breakdown

The share capital as at 31 December 2017 was 7,100 million and consisted of 1,515,182,126 ordinary shares, fully subscribed and paid up.

The item "treasury shares" is represented by no. 4,492,254 shares of the Parent Company, with a book value of 14.1 million.

15.2 Share capital – Number of Parent Company shares: annual changes

	Ordinary	Other
A. Shares issued at the beginning of the year	**827,760,910**	**-**
- fully paid-in	827,760,910	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(60,808)	-
A.2 Shares issued: opening balance	**827,700,102**	**-**
B. Increases	**687,678,038**	**-**
B.1 New issues	687,482,024	-
against payment:	687,482,024	-
- business combinations	687,482,024	-
- conversion of bonds	-	-
- exercised warrants	-	-
- other	-	-
scrip issue:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	196,014	-
B.3 Other increases	-	-
C. Decreases	**4,688,268**	**-**
C.1 Cancellation	60,808	-
C.2 Purchase of treasury shares	4,627,460	-
C.3 Business transfers	-	-
C.4 Other decreases	-	-
D. Shares issued: closing balance	**1,510,689,872**	**-**
D.1 Treasury shares (+)	4,492,254	-
D.2 Shares issued at the end of the year	1,515,182,126	-
- fully paid-in	1,515,182,126	-
- not fully paid-in	-	-

15.3 Share capital: other information

There is no information to report with respect to that illustrated in the previous points of this section.

15.4 Retained earnings: other information

	31/12/2017	31/12/2016
a) Legal reserve	-	133,402
b) Statutory reserve	3	18,884
c) Other retained earnings	1,449,893	1,943,360
Total	**1,449,896**	**2,095,646**

15.5 Other information

There is no other information to report with respect to that illustrated in the previous sections.

Section 16 - Minority interests – Item 210

16.1 Breakdown of item 210 "minority interests"

Company name	31/12/2017	31/12/2016
Investments in companies consolidated with significant minority interests	-	-
Other investments	63,310	69,568
Total	**63,310**	**69,568**

Minority interests amount to euro 63.3 million, against euro 69.6 million recorded as at 31 December 2016.

16.2 Equity instruments: breakdown and annual changes

There are no financial instruments issued by Group companies which are not fully owned.

Other information

1. Guarantees given and commitments

Transactions	Amount 31/12/2017	Amount 31/12/2016
1) Financial guarantees given	872,992	956,230
a) Banks	175,072	215,006
b) Customers	697,920	741,224
2) Commercial guarantees given	5,947,847	3,534,658
a) Banks	308,533	266,348
b) Customers	5,639,314	3,268,310
3) Irrevocable commitments to disburse funds	9,879,318	5,292,842
a) Banks	412,805	18,978
i) certain to be utilised	227,802	18,965
ii) uncertain to be utilised	185,003	13
b) Customers	9,466,513	5,273,864
i) certain to be utilised	370,429	1,933,504
ii) uncertain to be utilised	9,096,084	3,340,360
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged to secure third party obligations	518	633
6) Other commitments	520,069	241,458
Total	**17,220,744**	**10,025,821**

2. Assets pledged to secure own liabilities and commitments

Portfolios	Amount 31/12/2017	Amount 31/12/2016
1. Financial assets held for trading	417,096	511,624
2. Financial assets designated at fair value through profit and loss	7,991	49,578
3. Financial assets available for sale	10,786,546	4,623,473
4. Investments held to maturity	2,928,989	5,637,184
5. Due from banks	1,235,928	1,089,123
6. Loans to customers	29,630,812	18,188,378
7. Property and equipment	-	-
Total	**45,007,362**	**30,099,360**

The amount of assets pledged to secure own liabilities and commitments recognised in the balance sheet was euro 45,007.4 million, mostly relating to the activities of the Parent Company. The main assets pledged include the loans shown in item 70 - "Loans to customers" of which:

- euro 17,567.1 million relate to mortgages transferred to SPEs to guarantee the holders of covered bonds issued by the Parent Company, as described in detail in paragraph E.4 Banking group - Covered bond transactions contained in Part E - Section 1 of these Notes to the financial statements;
- euro 11,488.4 million pledged for loan transactions with central banks (Abaco).

The other assets shown in the table, broken down by accounting portfolio, mostly regard securities committed to repurchase funding agreements of euro 6,715.5 million, and pledged to other transactions, mostly relating to refinancing transactions with central banks, of euro 7,643 million.

As regards the assets pledged to secure the funding obtained from the ECB, in addition to that illustrated above, note the use of the following assets, which from an accounting perspective are not shown in Balance sheet assets:

- Securities resulting from securitisation transactions on own assets of euro 5,035.8 million;
- own covered bond issues repurchased for a nominal value of euro 6,977 million;
- securities received as a pledge for a nominal value of euro 436.4 million.

3. Information on operating leases

There were no assets or liabilities under operating leases as at 31 December 2017.

4. Breakdown of investments associated with unit-linked and index-linked policies

As at 31 December 2017, the Group did not hold any investments associated with unit or index-linked policies.

5. Management and brokerage on behalf of third parties

Type of service	Amount 31/12/2017
1. Order execution on behalf of customers	
a) purchases	61,408,257
1. settled	61,220,800
2. not settled	187,457
b) sales	61,400,809
1. settled	61,223,972
2. not settled	176,837
2. Portfolio management	
a) Individual	15,280,929
b) Collective	-
3. Custody and safekeeping of securities	
a) third party securities in custody: associated with custodian bank services (excluding portfolio management)	12,486,814
1. securities issued by consolidated companies	100,788
2. other securities	12,386,026
b) third party securities in custody (excluding portfolio management): other	62,429,329
1. securities issued by consolidated companies	11,357,240
2. other securities	51,072,089
c) third party securities deposited with third parties	73,531,234
d) proprietary securities deposited with third parties	36,387,176
4. Other loans	-

The item "portfolio management" represents the total amount, at market value, of assets managed on behalf of other parties, excluding the liquidity component.
The securities under item "custody and safekeeping of securities" are recognised at their nominal value. These exclude the securities under portfolio management pursuant to point 2.

Financial assets and liabilities netted in the balance sheet or subject to master netting arrangements or similar agreements

This section contains the disclosure required by accounting standard IFRS 7 regarding the "netting of financial assets and liabilities" for financial instruments:

- which have been netted in the balance sheet according to IAS 32;
- which could potentially be netted, in the event of certain conditions, but are shown as open balances on the balance sheet insofar as regulated by "master netting arrangements or similar agreements" which however do not meet the criteria established by IAS 32 for balance sheet netting.

When providing disclosure of said arrangements, the standard also requires the effect of real financial collateral (including cash collateral) received and pledged to be considered.

More specifically, the instruments that have been netted in the balance sheet according to IAS 32 refer to several OTC derivatives stipulated by individual Group companies with the counterparty London Clearing House (LCH). Considering the netting applied at individual Group company level with the counterparty LCH, the fair value amount netted, illustrated in tables 6. and 7. below, in the columns entitled " Amount of financial liabilities netted in the balance sheet (b)" and "Amount of financial assets netted in the balance sheet (b)" totalled euro 194.9 million and results:

- from the netting of derivatives with a negative fair value of euro 4.6 million with respect to derivatives with a positive fair value of euro 12.3 million. The net positive mismatch, which amounts therefore to euro 7.7 million, is recognised under asset item "20. Financial assets held for trading" of euro 0.8 million and under asset item "80. Hedging derivatives" of euro 6.9 million;
- from the netting of derivatives with a positive fair value of euro 190.3 million respect to derivatives with a negative fair value of euro 244.8 million. The net negative mismatch, represented under balance sheet item "40. Financial liabilities held for trading", therefore amounts to euro 54.5 million.

As regards instruments that could potentially be netted, in the event of certain conditions, and that should be included in tables 6 and 7 below in the columns "Related amounts not netted in the balance sheet", the Group has the following arrangements in place:

- for derivative instruments: "ISDA Master Agreement" and netting arrangements with clearing houses;
- for repurchase agreements: "Global Master Repurchase Agreements (GMRA)" and netting arrangements with the "Clearing and Guarantee House (CC&G);
- for securities lending transactions: "Global Master Securities Lending Agreements (GMSLA)".

As regards derivatives, both used for trading and hedging, note that:

- those with a positive fair value total euro 2,149.1 million (shown under items 20 and 80 of assets in the balance sheet), of which, after offsetting, euro 1,897.3 million of which (euro 2,092.2 gross), are assisted by netting agreements (88.3% in percentage terms) as indicated in table 6 (columns c) and a));
- those with a negative fair value total euro 3,931.8 million (shown under items 40 and 60 of liabilities in the balance sheet), of which, after offsetting, euro 2,546.6 million (euro 2,741.5 million gross) are assisted by netting agreements (64.8% in percentage terms) as indicated in table 7 (columns c) and a)). Positions that are not subject to netting arrangements refer mainly to certificates contracts subscribed by customers issued by the subsidiary company Banca Aletti, which as at 31 December 2017, reported a fair value of euro 1,346.2 million.

With regard to securities lending transactions, note that in the following tables 6 and 7 are indicated the transactions that envisage the payment of cash collateral for which the lender has full access to, insofar as these are the only transactions that are shown on the balance sheet. In order to reconcile the balance sheet balances of securities lending transactions and repurchase agreements covered by netting arrangements or similar, note that the cited transactions are shown under "Repurchase agreements" shown in correspondence with the tables containing the breakdown of amounts due from and due to banks and customers, depending on the type of counterparty, contained in Part B – Information on the Consolidated Balance Sheet. The relative measurement criterion is amortised cost.

For the purpose of completing tables 6. and 7. below, in line with IFRS 7 and with the instructions contained in Circular no. 262, note that:

- the effects of the potential netting of balance sheet values of financial assets and liabilities are indicated in column (d) "Financial instruments", together with the fair value of the real financial collateral represented by securities;
- the effects of the potential netting of the exposure with the relative cash collateral are shown in column (e) "Cash deposits received/pledged as collateral".

These effects are calculated for each individual counterpart assisted by a master netting arrangement to the extent of the net exposure indicated in column (c).

Based on the above completion instructions, netting arrangements between financial instruments and the relative financial collateral enable the credit/debt exposure towards the counterparty to be significantly reduced, as indicated in column (f) "Net amount" indicated in tables 6. and 7. below.

6. Financial assets netted in the balance sheet or subject to master netting arrangements or similar agreements

Type	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net amount of financial assets shown on the balance sheet (c=a-b)	Related amounts not netted in the balance sheet		Net amount 31/12/2017 (f=c-d-e)	Net amount 31/12/2016
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	2,092,194	194,898	1,897,296	1,363,480	449,877	83,939	6,183
2. Repurchase agreements	5,233,337	-	5,233,337	5,233,337	-	-	162
3. Securities lending	1,289,578	-	1,289,578	1,222,265	-	67,313	63,841
4. Other	-	-	-	-	-	-	-
Total 31/12/2017	**8,615,109**	**194,898**	**8,420,211**	**7,819,082**	**449,877**	**151,252**	**X**
Total 31/12/2016	**3,104,814**	**207,360**	**2,897,454**	**2,480,995**	**346,273**	**X**	**70,186**

7. Financial liabilities netted in the balance sheet or subject to master netting arrangements or similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets netted in the balance sheet (b)	Net amount of financial liabilities shown on the balance sheet (c=a-b)	Related amounts not netted in the balance sheet		Net amount 31/12/2017 (f=c-d-e)	Net amount 31/12/2016
				Financial instruments (d)	Cash deposits used as collateral (e)		
1. Derivatives	2,741,498	194,898	2,546,600	1,356,527	1,103,705	86,368	117,338
2. Repurchase agreements	11,322,203	-	11,322,203	11,305,582	-	16,621	-
3. Securities lending	738,522	-	738,522	701,168	-	37,354	26,547
4. Other loans	-	-	-	-	-	-	-
Total 31/12/2017	**14,802,223**	**194,898**	**14,607,325**	**13,363,277**	**1,103,705**	**140,343**	**X**
Total 31/12/2016	**2,550,953**	**207,360**	**2,343,593**	**1,896,584**	**303,124**	**X**	**143,885**

8. Securities lending transactions

The following table shows the Group's securities lending transactions (active and passive), broken down by type of security (government securities, bank securities, other), by market counterparty (banks, financial intermediaries, customers), by the relative category (loan guaranteed by cash or by other securities).
These transactions are mostly performed by the Group company Banca Aletti: the securities borrowed, are usually used in mirror securities lending transactions (where the Group acts as lender) or as the underlying instruments of repurchase funding agreements.
Note that securities lending transactions that envisage the payment of cash collateral for which the lender has full access to, are recognised in the balance sheet under due to/from banks or customers, in correspondence with the

"repurchase agreement" category. Securities lending transactions whose collateral is represented by other securities or by cash which is not fully available to the lender, are not stated in the balance sheet, but are shown under off-balance sheet exposures, for the relative counterparty risk.

The following table provides an indication of the loans and debts recognised in the financial statements as at 31 December 2017 against securities received and given as loans with collateral in the form of cash; the transactions that are not represented in the balance sheet, as illustrated in the paragraph above, are shown at the fair value of the securities received or lent.

Type of securities lending transaction	Type of security		
	Government securities	Bank securities	Other securities
Securities received as a loan with collateral in the form of cash - Due from:			
a) Banks	-	13,926	42,153
b) Financial intermediaries	766,004	165,498	204,832
c) Customers	-	11,927	7,793
Total amount receivable for securities lending	**766,004**	**191,351**	**254,778**
Securities received as a loan with collateral in the form of securities or cash that is not available to the lender from:			
b) Financial intermediaries	-	-	-
c) Customers	82,062	50,995	194,463
Total fair value	**82,062**	**50,995**	**194,463**
Securities loaned with collateral in the form of cash - Due to:			
a) Banks	188,199	197,425	208,789
b) Financial intermediaries	-	24,846	105,532
c) Customers	-	148	2,469
Total amount payable for securities lending	**188,199**	**222,419**	**316,790**
Securities loaned with collateral in the form of securities to:			
a) Banks	494,102	8,365	22,656
b) Financial intermediaries	9,070	-	29,579
c) Customers	-	-	-
Total fair value	**503,172**	**8,365**	**52,235**

9. Disclosure on jointly controlled operations

As at the date of the financial statements, like last year, there are no arrangements in force that can be classified as "joint operations" under accounting standard IFRS 11, on the basis of which the parties which have joint control have rights to the assets and obligations on the liabilities relating to the arrangement.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Item/Type	Debt securities	Loans	Other loans	Total 2017	Total 2016
1. Financial assets held for trading	38,586	-	17,495	56,081	122,536
2. Financial assets designated at fair value through profit and loss	225	-	-	225	(717)
3. Financial assets available for sale	364,401	-	-	364,401	326,480
4. Investments held to maturity	185,948	15	-	185,963	170,324
5. Due from banks	2,335	26,886	590	29,811	30,226
6. Loans to customers	5,339	2,078,980	2,879	2,087,198	1,636,612
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	174,703	174,703	39,575
Total	**596,834**	**2,105,881**	**195,667**	**2,898,382**	**2,325,036**

The item "Financial assets held for trading - other loans" includes the spreads or the positive margins on derivative contracts operationally related to financial assets and liabilities designated at fair value through profit and loss (fair value option), as well as those operationally related to financial assets and liabilities held in the trading portfolio.

1.1.1 Interest income on performing loans and on assets classified as "non-performing"

	Total 2017	Total 2016
Interest on performing loans	2,675,640	2,064,890
Interest on loans classified as "non-performing"	222,742	260,146
Total	**2,898,382**	**2,325,036**

1.2 Interest and similar income: differences relating to hedging transactions

Items	2017	2016
A. Positive differences relating to hedging transactions	2,323	59,624
B. Negative differences relating to hedging transactions	(2,323)	(59,624)
C. Balance (A-B)	**-**	**-**

In 2017, like in 2016, the balance of differences is negative; therefore please refer to the table provided in point 1.5.

1.3 Interest and similar income: other information

1.3.1 Interest income on currency financial assets

Items	2017	2016
Interest income on currency financial assets	61,179	26,688

1.3.2 Interest income on financial lease transactions

Items	2017	2016
Interest income on financial lease transactions	35,384	39,952

1.4 Interest and similar expense: breakdown

Item/Type	Debts	Securities	Other transactions	Total 2017	Total 2016
1. Due to central banks	(1)	X	-	(1)	(4,865)
2. Due to banks	(37,299)	X	(26,482)	(63,781)	(63,596)
3. Due to customers	(100,646)	X	(473)	(101,119)	(112,142)
4. Debt securities issued	X	(528,399)	-	(528,399)	(583,846)
5. Financial liabilities held for trading	(16,209)	-	(722)	(16,931)	(28,115)
6. Financial liabilities designated at fair value through profit and loss	-	(116,573)	-	(116,573)	(154,577)
7. Other liabilities and funds	X	X	(44,250)	(44,250)	(31,284)
8. Hedging derivatives	X	X	(52,206)	(52,206)	(28,277)
Total	**(154,155)**	**(644,972)**	**(124,133)**	**(923,260)**	**(1,006,702)**

1.5 Interest and similar expense: differences relating to hedging transactions

Items	2017	2016
A. Positive differences relating to hedging transactions	156,545	131,931
B. Negative differences relating to hedging transactions	(208,751)	(160,208)
C. Balance (A-B)	**(52,206)**	**(28,277)**

1.6 Interest and similar expense: other information

1.6.1 Interest expense on currency liabilities

Items	2017	2016
Interest expense on financial currency liabilities	(13,993)	(5,476)

1.6.2 Interest expense on currency liabilities for financial lease transactions

The case in point is not present for the Group, in 2017 or in 2016; therefore, this table is omitted.

Section 2 - Net fee and commission income and expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 2017	Total 2016
a) guarantees given	80,906	53,426
b) credit derivatives	-	-
c) management, brokerage and advisory services	1,021,905	537,298
1. financial instrument trading	29,533	11,113
2. currency trading	5,678	3,022
3. portfolio management	37,462	30,046
3.1 individual	37,462	30,046
3.2 collective	-	-
4. custody and safekeeping of securities	12,984	4,877
5. custodian bank	18,861	18,187
6. placement of securities	680,550	252,749
7. receiving and sending orders	50,834	38,623
8. advisory activities	3,579	1,382
8.1 on investments	1,037	1,382
8.2 on financial structure	2,542	-
9. distribution of third party services	182,424	177,299
9.1 portfolio management	3,514	-
9.1.1 individual	3,514	-
9.1.2 collective	-	-
9.2 insurance products	115,783	95,152
9.3 other products	63,127	82,147
d) collection and payment services	174,695	119,908
e) servicing for securitisation transactions	75	50
f) services for factoring transactions	-	-
g) tax office services	-	-
h) activities for the management of multilateral exchange systems	-	-
i) maintenance and management of current accounts	230,047	218,161
j) other services	567,435	368,014
Total	**2,075,063**	**1,296,857**

Euro 661.8 million of sub-item c) 6. "placement of securities" refers to commission income for the placement of UCIT units (euro 224.1 million in 2016), mostly related to products managed by the Group company.

The sub-item j) "other services" includes commissions relating to cashpoint and credit card services of euro 118.5 million (euro 44.2 million as at 31 December 2016), the consideration for making funds available (Consideration for Credit Availability) of euro 309.3 million (euro 247.4 million in the previous year) and fee and commission income on loans to customers of euro 91.5 million (euro 42.9 million in 2016).

2.2 Fee and commission expense: breakdown

Service/Amounts	Total 2017	Total 2016
a) guarantees received	(4,777)	(2,658)
b) credit derivatives	-	-
c) management and brokerage services:	(39,476)	(24,088)
1. financial instrument trading	(19,017)	(8,141)
2. currency trading	-	(42)
3. portfolio management:	(1,109)	-
3.1 own	(1,109)	-
3.2 delegated by third parties	-	-
4. custody and safekeeping of securities	(7,236)	(5,711)
5. placement of financial instruments	(4,284)	(8,246)
6. door-to-door sales of financial instruments, products and services	(7,830)	(1,948)
d) collection and payment services	(12,635)	(7,206)
e) other services	(67,765)	(23,466)
Total	**(124,653)**	**(57,418)**

The sub-item e) "other services" includes commissions relating to cashpoint and credit card services of euro 48.3 million (euro 14.8 million as at 31 December 2016).

Section 3 - Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Item/Income	Total 2017		Total 2016	
	Dividends	Income from UCIT units	Dividends	Income from UCIT units
A. Financial assets held for trading	24,135	-	11,688	88
B. Financial assets available for sale	24,962	4,756	11,297	518
C. Financial assets designated at fair value through profit and loss	-	56	-	62
D. Investments in associates and companies subject to joint control	-	X	-	X
Total	**49,097**	**4,812**	**22,985**	**668**

Section 4 - Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transactions/Income item	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Net income (loss) [(A+B) - (C+D)] 2017
1. Financial assets held for trading	**78,850**	**141,462**	**(26,701)**	**(78,980)**	**114,631**
1.1 Debt securities	13,887	54,364	(9,458)	(39,364)	19,429
1.2 Equity instruments	64,324	78,311	(17,086)	(36,492)	89,057
1.3 UCIT units	639	3,513	(157)	(118)	3,877
1.4 Loans	-	-	-	-	-
1.5 Other	-	5,274	-	(3,006)	2,268
2. Financial liabilities held for trading	**15,757**	**30,459**	**(49,784)**	**(94,503)**	**(98,071)**
2.1 Debt securities	-	-	(4)	-	(4)
2.2 Payables	5,405	26,115	(1,649)	(8,699)	21,172
2.3 Other	10,352	4,344	(48,131)	(85,804)	(119,239)
3. Other financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**(101,575)**
4. Derivatives	**1,520,383**	**3,760,753**	**(1,762,274)**	**(3,518,159)**	**111,495**
4.1 Financial derivatives:	1,519,269	3,755,326	(1,759,813)	(3,512,595)	112,979
- On debt securities and interest rates	1,119,314	2,551,147	(1,373,345)	(2,259,163)	37,953
- On equity instruments and share indices	398,813	1,200,333	(385,267)	(1,249,544)	(35,665)
- On currencies and gold	X	X	X	X	110,792
- Other	1,142	3,846	(1,201)	(3,888)	(101)
4.2 Credit derivatives	1,114	5,427	(2,461)	(5,564)	(1,484)
Total	**1,614,990**	**3,932,674**	**(1,838,759)**	**(3,691,642)**	**26,480**

Section 5 - Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income item/Amounts	Total 2017	Total 2016
A. Revenues relating to:		
A.1 Fair value hedging derivatives	721,465	78,392
A.2 Hedged financial assets (fair value)	598,908	539,105
A.3 Hedged financial liabilities (fair value)	126,485	151,685
A.4 Financial hedging derivatives of the financial flows	-	337
A.5 Assets and liabilities in foreign currency	135	508
Total revenues of hedging activities (A)	**1,446,993**	**770,027**
B. Expenses relating to:		
B.1 Fair value hedging derivatives	(637,058)	(509,290)
B.2 Hedged financial assets (fair value)	(787,901)	(167,714)
B.3 Hedged financial liabilities (fair value)	(17,946)	(91,729)
B.4 Financial hedging derivatives of the financial flows	-	-
B.5 Assets and liabilities in foreign currency	(3,169)	(507)
Total hedging expense (B)	**(1,446,074)**	**(769,240)**
C. Fair value adjustments in hedge accounting (A-B)	**919**	**787**

Section 6 - Profits (losses) on disposal/repurchase – Item 100

6.1 Profits (losses) on disposal/repurchase: breakdown

Item/Income item	Total 2017			Total 2016		
	Profits	Losses	Net income (loss)	Profits	Losses	Net income (loss)
Financial assets						
1. Due from banks	33	-	33	8	-	8
2. Loans to customers	222,251	(444,193)	(221,942)	48,275	(140,723)	(92,448)
3. Financial assets available for sale	79,317	(52,289)	27,028	131,873	(709)	131,164
3.1 Debt securities	57,533	(3,246)	54,287	87,931	(703)	87,228
3.2 Equity instruments	8,909	(44,950)	(36,041)	26,368	(6)	26,362
3.3 UCIT units	12,875	(4,093)	8,782	17,574	-	17,574
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	2,458	-	2,458	-	-	-
Total assets	**304,059**	**(496,482)**	**(192,423)**	**180,156**	**(141,432)**	**38,724**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	(5,347)	(5,347)
3. Debt securities issued	497	(9,693)	(9,196)	23,441	(20,512)	2,929
Total liabilities	**497**	**(9,693)**	**(9,196)**	**23,441**	**(25,859)**	**(2,418)**

Item 2. Loans to customers refers to the impact of the assignment without recourse of portfolios of non-performing loans to third parties completed during the year.
Profits on disposal of financial assets available for sale deriving from debt securities mainly refer to Italian Government bonds. The part relating to equity instruments includes a loss of euro 44.3 million, which represents the expense incurred by the Group for the recapitalisation of Caricesena, Carim and Carismi banks, acquired in 2017 by Crédit Agricole Cariparma, by virtue of its participation in the Voluntary Scheme.

Section 7 - Profits (losses) on financial assets and liabilities designated at fair value through profit and loss – Item 110

7.1 Net change in value of financial assets/liabilities designated at fair value through profit and loss: breakdown

Transactions/Income item	Capital gains	Profits on disposal	Capital losses	Losses on disposal	Net income (loss) [(A+B) – (C+D)]
	(A)	(B)	(C)	(D)	2017
1. Financial assets	**1,159**	**1,288**	**(260)**	**(122)**	**2,065**
1.1 Debt securities	333	-	(210)	-	123
1.2 Equity instruments	45	-	(1)	(2)	42
1.3 UCIT units	781	1,288	(49)	(120)	1,900
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**19,771**	**14,903**	**(1,413)**	**(10,900)**	**22,361**
2.1 Debt securities	19,771	14,903	(1,413)	(10,900)	22,361
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**14,931**	**993**	**(26,369)**	**(5,770)**	**(16,215)**
Total	**35,861**	**17,184**	**(28,042)**	**(16,792)**	**8,211**

Section 8 - Net losses/recoveries on impairment – Item 130

8.1 Net losses on impairment of loans: breakdown

Transactions/Income item	Value adjustments			Recoveries				Total	
	Specific		Collective	Specific		Collective		2017	2016
	Write-offs	Other		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**82**	**-**	**2,014**	**2,096**	**51**
- Loans	-	-	-	-	82	-	2,014	2,096	51
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(181,195)**	**(2,433,068)**	**(23,634)**	**594,419**	**656,612**	**-**	**85,722**	**(1,301,144)**	**(2,441,850)**
Non-performing loans purchased	-	-		-	-			-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other loans	(181,195)	(2,433,068)	(23,634)	594,419	656,612	-	85,722	(1,301,144)	(2,441,850)
- Loans	(181,195)	(2,420,036)	(20,408)	594,419	656,612	-	85,426	(1,285,182)	(2,437,462)
- Debt securities	-	(13,032)	(3,226)	-	-	-	296	(15,962)	(4,388)
C. Total	**(181,195)**	**(2,433,068)**	**(23,634)**	**594,419**	**656,694**	**-**	**87,736**	**(1,299,048)**	**(2,441,799)**

Key:
A = From interest
B = Other recoveries

Net losses/recoveries on impairment of loans include net adjustments mainly relating to the following companies: euro 1,074 million to the Parent Company Banco BPM, euro 453 million to BPM and euro 60 million to Release. The impact resulting from the recovery of the IFRS 3 adjustments applied to assets relating to the merger (euro 162.7 million relating to bad loans and euro 132.2 million relating to loans classified as unlikely to pay) is represented in specific recoveries on loans to customers "from interest" (sub-item A).

8.2 Net losses on impairment of financial assets available for sale: breakdown

Transactions/Income item	Value adjustments		Recoveries		Total 2017	Total 2016
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	(27,318)	-	-	(27,318)	(395)
B. Equity instruments	-	(3,004)	-	-	(3,004)	(17,589)
C. UCIT units	-	(64,454)	x	x	(64,454)	(23,174)
D. Loans to banks	-	-	x	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(94,776)**	**-**	**-**	**(94,776)**	**(41,158)**

Key:
A = From interest
B = Other recoveries

For details of financial assets subject to impairment, please refer to "Section 4 - Financial assets available for sale" in Part B of these notes to the consolidated financial statements.

8.3 Net losses on impairment of investments held to maturity: breakdown

In 2017 and in the previous year, there were no value adjustments to investments held to maturity.

8.4 Net losses on impairment of other financial transactions: breakdown

Transactions/Income item	Value adjustments			Recoveries				Total	
	Specific		Collective	Specific		Collective		2017	2016
	Write-offs	Other		A	B	A	B		
A) guarantees given	-	(42,299)	-	-	49,626	-	3,147	10,474	(5,032)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	(9,145)	-	-	-	-	(9,145)	-
D. Other transactions	(11,493)	(1,607)	-	-	1,178	-	-	(11,922)	308
E. Total	**(11,493)**	**(43,906)**	**(9,145)**	**-**	**50,804**	**-**	**3,147**	**(10,593)**	**(4,724)**

Key:
A = From interest
B = Other recoveries

Item A. Guarantees given mainly refers to net adjustments made against the aggregate of non-performing unsecured loans. Unsecured loans and irrevocable commitments to disburse funds to performing counterparties were subject to valuation on a collective basis in order to reflect the probability of an outlay of financial resources based on similar portfolios, in line with the calculation methodology for collective value adjustments on cash exposures.

Section 9 - Net premiums – Item 150

This item is not considered relevant for the Group.

Section 10 - Net other income and expense from insurance activities – Item 160

This item is not considered relevant for the Group.

Section 11 - Administrative expenses – Item 180

11.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 2017	Total 2016
1) Employees	**(1,763,134)**	**(1,439,385)**
a) wages and salaries	(1,238,605)	(882,560)
b) social security contributions	(326,181)	(226,854)
c) employee termination indemnities	(71,939)	(49,312)
d) social security expenditure	(333)	(368)
e) provision to employee termination indemnities	(1,985)	(4,355)
f) provision to pension fund and similar commitments:	(6,291)	(8,332)
- defined contribution	(2,168)	(7,344)
- defined benefit	(4,123)	(988)
g) payments to external supplementary pension plans:	(44,371)	(24,367)
- defined contribution	(44,371)	(24,359)
- defined benefit	-	(8)
h) costs deriving from payment agreements based on own equity instruments	(2,972)	-
i) other employee benefits	(70,457)	(243,237)
2) Other personnel in service	**(2,342)**	**(6,474)**
3) Directors and auditors	**(9,575)**	**(10,117)**
4) Retired personnel	**-**	**-**
Total	**(1,775,051)**	**(1,455,976)**

11.2 Average number of employees by category

	2017	2016
Employees	23,179	16,504
a) executives	377	259
b) total middle managers	9,205	6,790
of which: 3rd and 4th level	4,824	3,606
c) other employees	13,597	9,455
Other personnel	48	122
Average number of personnel	**23,227**	**16,626**

The average number of employees does not include directors and auditors. In the case of part-time employees, it is conventionally considered to be 70%.

11.3 Defined benefit company retirement plans: costs and revenues

	Total 2017	Total 2016
- Pension cost associated with current service	(2,131)	(45)
- Financial charges	(2,007)	(958)
- Expected rate of return on plan assets	-	-
- Actuarial gains and losses	-	-
- Pension cost associated with past service	-	-
- Gains and losses from impairments or settlements	15	15
Total	**(4,123)**	**(988)**

11.4 Other employee benefits

Other employee benefits, the expenses of which are indicated in the previous table 11.1, point under "i) other employee benefits" amount to euro 70.4 million, (euro 243.4 million in 2016). This amount refers to contributions for luncheon vouchers, costs for insurance policies taken out in favour of employees, costs for employee professional refresher courses and loyalty bonuses, as well as costs relating to the solidarity fund activated during the year, corresponding to euro 7.4 million for the Parent Company (euro 181.5 million last year also including leaving incentives).

11.5 Other administrative expenses: breakdown

Type of service/Amounts	Total 2017	Total 2016
a) Expenses relating to real estate	(217,903)	(171,203)
- rentals and maintenance of premises	(171,135)	(138,421)
- cleaning expenses	(13,488)	(9,446)
- energy, water and heating	(33,280)	(23,336)
b) Indirect taxes and duties	(339,457)	(240,217)
c) Postal charges, telephone charges, printed materials and other office expenses	(37,173)	(27,618)
d) Maintenance and rentals for furniture, machines and plants	(63,560)	(33,725)
e) Professional and consulting services	(139,946)	(108,148)
f) Fees for surveys and information	(13,379)	(11,344)
g) Value supervision and escorting	(21,047)	(12,945)
h) Services from third parties	(259,426)	(144,792)
i) Advertising, representation and gifts	(22,138)	(22,282)
l) Insurance premiums	(15,469)	(12,819)
m) Transport, hiring and travel	(19,248)	(19,723)
n) Other costs and sundry expenses	(134,895)	(255,455)
Total	**(1,283,641)**	**(1,060,271)**

Item n) "Other costs and expenses" as at 31 December 2017 includes: the expenses incurred for the Interbank Deposit Guarantee Fund (euro 44.5 million), and for the National Resolution Fund (euro 62.4 million) as well as the out-of-period expenses for maintaining the deductibility of DTA for 2015, allocated to provisions in 2016, following the amendment of Italian Decree Law no. 237 of 23 December 2016, converted into Italian Law no. 15 of 17 February 2017, corresponding to euro 27.2 million.

Section 12 - Net provisions for risks and charges – Item 190

12.1 Net provisions for risks and charges: breakdown

	Provisions	Reallocation of surpluses	Total 2017	Total 2016
Risks and charges for legal disputes	(42,827)	26,325	(16,502)	(9,616)
Personnel risks and charges	-	-	-	-
Other risks and charges	(48,715)	51,460	2,745	(23,652)
Total	**(91,542)**	**77,785**	**(13,757)**	**(33,268)**

For details of allocations to provisions, please refer to "Section 12 - Provisions for risks and charges" in Part B of these notes to the consolidated financial statements.

Section 13 - Net value adjustments to/recoveries on property and equipment – Item 200

13.1 Net value adjustments to property and equipment: breakdown

Asset/Income item	Depreciation	Losses on impairment	Recoveries	Net income (loss) (a + b + c)
	(a)	(b)	(c)	2017
A. Property and equipment				
A.1 Owned	(111,235)	(10,799)	-	(122,034)
- Used in operations	(88,660)	-	-	(88,660)
- For investment	(22,575)	(10,799)	-	(33,374)
A.2 Acquired under financial lease	(2,241)	-	-	(2,241)
- Used in operations	-	-	-	-
- For investment	(2,241)	-	-	(2,241)
Total	**(113,476)**	**(10,799)**	**-**	**(124,275)**

Section 14 - Net value adjustments to/recoveries on intangible assets – Item 210

14.1 Net value adjustments to intangible assets: breakdown

Asset/Income item	Amortisation	Losses on impairment	Recoveries	Net income (loss) (a + b + c)
	(a)	(b)	(c)	2017
A. Intangible assets				
A.1 Owned	(132,047)	(37,936)	-	(169,983)
- Internally generated	-	-	-	-
- Other	(132,047)	(37,936)	-	(169,983)
A.2 Acquired under financial lease	-	-	-	-
Total	**(132,047)**	**(37,936)**	**-**	**(169,983)**

Losses on impairment include write-downs of around euro 25 million, made following the review of the useful life of some software of the former BPM Group, due to the IT migration of the systems made during the year, as well as the impairment of Client Relationships of euro 7.4 million.

Section 15 - Other operating expenses and income – Item 220

15.1 Other operating expenses: breakdown

	Total 2017	Total 2016
Expenses on leased assets	(11,713)	(10,957)
Depreciation of expenses for leasehold improvements	(13,751)	(8,016)
Other	(49,448)	(45,175)
Total	**(74,912)**	**(64,148)**

The item "other" includes the costs of legal settlements that exceed the provisions for risks allocated of euro 25.5 million, (euro 26.3 million last year), operating losses relating to branch operations (theft, fraud, robberies and other damages) of euro 11.4 million (euro 5.2 million in 2016), as well as out-of-period expenses and other amounts not receivable.

15.2 Other operating income: breakdown

	Total 2017	Total 2016
Income on current accounts and loans	48,958	45,813
Tax recovery	256,970	170,634
Recovery of expenses	37,602	40,708
Rents receivable on real estate	65,994	56,724
Other	3,163,574	76,451
Total	**3,573,098**	**390,330**

The sub-item "income on current accounts and loans" refers to the "commissione di istruttoria veloce" (fast track fees) introduced by Italian Decree Law no. 201 of 6 December 2011, converted by Italian Law no. 214/2011.
Recovery of expenses mainly includes the recovery of legal expenses of euro 27.9 million (euro 24.6 million in the previous year).
The sub-item "other" mainly refers to "badwill" of euro 3,076.1 million, recognised in the income statement following the completion of the PPA process as at 1 January 2017, the date on which the merger between the Banco Popolare and BPM Groups became effective, as detailed in Part G of these notes to the financial statements.

Section 16 - Profits (losses) on investments in associates and companies subject to joint control – Item 240

16.1 Profits (losses) on investments in associates and companies subject to joint control: breakdown

Income item/Sector	Total 2017	Total 2016
1) Jointly controlled companies		
A. Income	**-**	**-**
1. Revaluations	-	-
2. Profits on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Expenses	**-**	**-**
1. Write-downs	-	-
2. Losses on impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Income (Loss)	-	-
2) Companies subject to significant influence		
A. Income	**186,623**	**124,620**
1. Revaluations	173,995	124,620
2. Profits on disposal	-	-
3. Recoveries	-	-
4. Other income	12,628	-
B. Expenses	**(7,959)**	**(374)**
1. Write-downs	(7,959)	(73)
2. Losses on impairment	-	-
3. Losses on disposal	-	(301)
4. Other expenses	-	-
Net Income (Loss)	**178,664**	**124,246**
Total	**178,664**	**124,246**

The items Revaluations and Write-downs include profits and losses deriving from the measurement at equity of investments subject to joint control and significant influence. More specifically, the profits refer to Agos Ducato for euro 116.2 million, to companies belonging to the insurance segment for euro 44.7 million, to Factorit for euro 6.0 million and to Alba Leasing for euro 5.4 million; losses are mainly represented by SelmaBipiemme (euro 7.9 million). Other income includes the impact on the income statement of the deconsolidation of the associated companies Energreen and Luigi Luzzatti, which have been transferred to financial assets held for sale on the basis of the fair value measured on the transfer date.

Section 17 - Profit (loss) designated at fair value on property and equipment and intangible assets – Item 250

17.1 Profit (loss) designated at fair value (or revalued value) on property and equipment and intangible assets: breakdown

The Group does not hold property and equipment or intangible assets designated at fair value through profit and loss or revalued.

Section 18 – Value adjustments on goodwill – Item 260

18.1 Value adjustments on goodwill: breakdown

The results of tests on the recoverability of the goodwill recorded in the financial statements did not result in value adjustments of euro 1,033.5 million.

For a description of how impairment testing on goodwill is conducted, please refer to the content of Section 13 – Intangible assets, in part B of these notes to the consolidated financial statements.
Please refer to the content of Part A – Accounting policies for a description of the way in which losses on impairment of goodwill is calculated.

Section 19 - Profits (losses) on disposal of investments – Item 270

19.1 Profits (losses) on disposal of investments: breakdown

Income item/Amounts	Total 2017	Total 2016
A. Properties	**10,189**	**15,667**
- Profits on disposal	24,459	16,987
- Losses on disposal	(14,270)	(1,320)
B. Other assets	**2,881**	**1,665**
- Profits on disposal	3,084	2,195
- Losses on disposal	(203)	(530)
Net income (loss)	**13,070**	**17,332**

The gains on disposal of "Other assets" refer mainly to the disposals during the year of assets deriving from financial lease, relating to the sub-group Italease.

Section 20 - Taxes on income from continuing operations – Item 290

20.1 Taxes on income from continuing operations: breakdown

Income item/Sector	2017	2016
1. Current taxes (-)	(28,542)	(5,225)
2. Change in current taxes of prior periods (+/-)	21,055	(9,652)
3. Decreases in current taxes for the year (+)	53,809	-
3.bis Decreases in current taxes for the year due to tax credit pursuant to Law 214/2011 (+)	456,516	6,029
4. Change in deferred tax assets (+/-)	(473,475)	603,268
5. Change in deferred tax liabilities (+/-)	116,357	14,998
6. Income taxes for the period (-) (-1 +/- 2 + 3 + 3bis +/- 4 +/- 5)	**145,720**	**609,418**

Taxes for the year mostly refer to deferred tax assets on the tax loss of the Parent Group, which will be offset against expected future taxable income.

20.2 Reconciliation between theoretical tax expense and actual tax expense of the financial statements

IRES	2017		2016	
Income (loss) before tax from continuing operations		**1,698,722**		**(2,295,875)**
Negative components of gross profit definitively not relevant (+)		**1,419,248**		**505,891**
Non-deductible interest expense	1,716		50,203	
Losses on disposal/measurement of investments/AFS	155,881		31,731	
Non-deductible taxes other than income taxes	30,151		21,863	
Losses on non-deductible receivables	3,644		3,380	
Administrative expenses with limited deductibility	11,829		6,245	
Other non-deductible expenses	48,217		41,157	
Impairment of goodwill	1,014,494		279,000	
Losses of companies abroad	1,560		2,347	
Impact of consolidation of infragroup investments in associates and companies subject to joint control	135,198		21,878	
Provisions	4,676		21,650	
Other	11,882		26,437	
Positive components of gross profit definitively not relevant (-)		**(3,536,791)**		**(155,182)**
Not relevant portion of gains on disposal/measurement of investments/AFS	(302,007)		(163,800)	
Non-relevant portion of dividends before consolidation entries	(342,826)		(335,319)	
Cancellation of infragroup dividends	341,502		346,452	
Impact of consolidation of infragroup investments in associates and companies subject to joint control	(386)		-	
Other	(3,233,074)		(2,515)	
Final increases not related to gross profit components (+)		**-**		**1,033**
Other	-		1,033	
Final decreases not related to gross profit components (-)		**(122,988)**		**(226,951)**
Recovery of infragroup interest expense deductibility for tax consolidation scheme	-		(9,005)	
Lump-sum deduction of 10% IRAP and IRAP deduction on employee costs	(130)		(1,437)	
Share of income subsidisable for ACE (Aid for Economic Growth)	(93,975)		(192,886)	
Tax losses of previous years	-		-	
Other	(28,883)		(23,623)	
IRES calculation base to income statement		**(541,809)**		**(2,171,084)**
IRES nominal rate	24%		27.50%	
Actual IRES		**(130,034)**		**597,048**
IRES tax rate		**(7.65%)**		**(26.01%)**

IRAP	2017	2016
Income (loss) before tax from continuing operations	**1,698,722**	**(2,295,875)**
Negative components of gross profit definitively not relevant (+)	**2,603,363**	**822,615**
Non-deductible interest expense	2,882	56,630
Non-deductible portion of depreciation on assets used in operations	35,234	34,227
Other non-deductible administrative expenses	205,337	157,950
Personnel expenses net of allowed deductions (decrease in tax wedge, the disabled, etc.)	6,208	150,227
Other value adjustments pursuant to item 130 Income Statement	90,168	20,242
Net provisions for risks and charges	35,975	60,705
Other operating expenses	3,517	7,811
Losses on investments in associates and companies subject to joint control	934,453	-
Non-relevant losses on the disposal of investments	-	-
Impairment of goodwill	1,033,506	279,000
Losses of companies abroad	-	2,347
Impact of consolidation of infragroup investments in associates and companies subject to joint control	111,970	45,711
Other	144,113	7,765
Positive components of gross profit definitively not relevant (-)	**(4,329,749)**	**(56,989)**
Profits on investments in associates and companies subject to joint control	(414,326)	(144,093)
Non-relevant portion of dividends before consolidation entries	(195,880)	(184,437)
Cancellation of infragroup dividends	341,502	346,452
Other operating income	(3,288,322)	(48,066)
Non-relevant profits on disposal of investments	(698,913)	-
Impact of consolidation of infragroup investments in associates and companies subject to joint control	(386)	-
Other	(73,424)	(26,845)
Final increases not related to gross profit components (+)	**670,073**	**1,802,059**
Adjustments to neutralise negative value of production	670,073	1,802,059
Final decreases not related to gross profit components (-)	**(373,622)**	**(399)**
Other	(373,622)	(399)
IRAP calculation base to income statement	**268,787**	**271,411**
IRAP weighted average nominal rate	5.251%	5.19%
Actual IRAP	**14,114**	**(14,086)**
IRAP tax rate	**0.83%**	**(0.61%)**

Non-relevant IRES and IRAP and other taxes	2017	2016
Total impact	**(29,800)**	**5,881**
IRES - Current, pre-paid and deferred taxation of prior periods	4,005	7,167
IRES - additional rate 3.5%	(18,562)	-
IRAP - Current, pre-paid and deferred taxation of prior periods	(13,612)	(855)
Foreign taxes - other	(1,631)	(431)
Non-relevant IRES and IRAP tax rate and other taxes	**(1.75%)**	**(0.26%)**

Total taxes on gross profit	2017	2016
Total IRES + IRAP + Other taxes	**(145,720)**	**588,843**
Overall tax rate	**(8.58%)**	**(25.65%)**

Section 21 - Income (loss) after tax from discontinued operations – Item 310

21.1 Income (loss) after tax from discontinued operations: breakdown

Income item/Sector	Total 2017	Total 2016
1. Income	456,856	282,579
2. Expenses	(332,474)	(216,627)
3. Result of measurements of group of assets and related liabilities	1,586	-
4. Profit (loss) on disposal	682,638	(2,956)
5. Taxes and duties	(46,344)	(16,558)
Income (loss)	**762,262**	**46,438**

This item includes the contribution to the income statement for the year of the subsidiary company Aletti Gestielle SGR, sold in December, as well as the contribution generated by the net assets of the subsidiary company Mariner classified as undergoing disposal.
More specifically, the profits on disposal refer to the gain, before tax, recorded following the above-mentioned sale of Aletti Gestielle SGR.
The amount relating to last year referred to the contribution of the subsidiary company BP Luxembourg, sold in 2016, and to the contribution generated by the net assets classified as undergoing disposal of Mariner and of Aletti Gestielle SGR, restated for the purpose of a like-for-like comparison pursuant to IFRS 5.

21.2 Breakdown of income taxes relating to discontinued operations

	Total 2017	Total 2016
1. Current taxation (-)	(36,662)	(2,279)
2. Change in deferred tax assets (+/-)	(176)	-
3. Change in deferred tax liabilities (-/+)	-	6,296
4. Income taxes for the year (-1+/-2+/-3)	**(36,838)**	**4,017**

Section 22 - Net income (loss) attributable to minority interests – Item 330

22.1 Breakdown of item 330 "Net income (loss) attributable to minority interests"

Company name	2017	2016
Investments consolidated with significant minority interests	-	-
Other investments	(9,658)	(22,848)
Total	**(9,658)**	**(22,848)**

Section 23 - Other information

There is no other important information to report in addition to what was already indicated in the previous sections.

Section 24 - Earnings per share

	31/12/2017	
	Basic EPS	**Diluted EPS**
Weighted average of ordinary shares (number)	1,514,538,059	1,514,538,059
Attributable result (thousands of euro)	2,616,362	2,616,362
EPS (euro)	1.727	1.727
Attributable result without badwill and impairment (thousands of euro)	557,841	557,841
EPS (euro)	0.368	0.368

24.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2017, Basic EPS coincides with Diluted EPS as there were no financial instruments with potential dilutive effects.

24.2 Other information

There is no other important information to report in addition to what was already indicated in the previous sections.

PART D – CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Analytical consolidated statement of comprehensive income

Items	Gross amount	Income tax	Net amount
10. Net income (loss)	**X**	**X**	**2,606,704**
Other comprehensive income without reclassification to profit or loss			
20. Property and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	(1,461)	384	(1,077)
50. Non-current assets held for sale	-	-	-
60. Share of valuation reserves related to investments in associates carried at equity	(201)	55	(146)
65. Financial liabilities designated at fair value through profit and loss - changes in own creditworthiness (*)	(17,857)	4,861	(12,996)
Other comprehensive income with reclassification to profit or loss			
70. Foreign investment hedges:	**2,031**	**-**	**2,031**
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	2,031	-	2,031
80. Exchange rate differences:	**(6,583)**	**-**	**(6,583)**
a) changes in value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	(6,583)	-	(6,583)
90. Cash flow hedges:	**(11,776)**	**3,783**	**(7,993)**
a) changes in fair value	(11,776)	3,783	(7,993)
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
100. Financial assets available for sale:	**249,087**	**(67,606)**	**181,481**
a) changes in fair value	231,964	(59,073)	172,891
b) reclassification to profit or loss	17,720	(8,533)	9,187
- losses on impairment	(108)	8	(100)
- profit (loss) on disposal	17,828	(8,541)	9,287
c) other changes	(597)	-	(597)
110. Non-current assets held for sale:	**-**	**-**	**-**
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
120. Share of valuation reserves related to investments in associates carried at equity:	**19,658**	**(5,298)**	**14,360**
a) changes in fair value	3,457	(1,099)	2,358
b) reclassification to profit or loss	-	-	-
- losses on impairment	-	-	-
- profit (loss) on disposal	-	-	-
c) other changes	16,201	(4,199)	12,002
130. Total other comprehensive income	**232,898**	**(63,821)**	**169,077**
140. Comprehensive Income (Items 10+130)			**2,775,781**
150. Consolidated comprehensive income attributable to minority interests			9,649
160. Consolidated comprehensive income attributable to the parent company			**2,785,430**

(*) early application of the new rules envisaged by IFRS 9; for the reasons and details, please refer to "Part A - Section 4 Other aspects" in the Notes to the consolidated financial statements.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

The document that regards the obligations relating to the Third Pillar (or Pillar 3) containing information to provide disclosure on the monitoring and management of the risks relating to the Banco BPM Group (capital adequacy, exposure to risk and the general characteristics of the systems set in place to manage and control the same), in compliance with the circular of the Bank of Italy no. 285 of 17 December 2013 and specifically Part Eight of CRR EU Regulation no. 575/2013, is made available under the provisions of the regulations in the Investor Relations section of the web site www.bancobpm.it.

Section 1 refers exclusively to the Banking Group, unless otherwise expressly indicated. The tables show figures gross of relations with other consolidated companies.

Section 1 - Risks of the Banking Group

In the wake of the merger between Banco Popolare and Banca Popolare di Milano, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework ("RAF") whereby the Body with Strategic Supervision Functions establishes the level of risk that the Group is willing to accept in pursuing its strategic objectives.
The new framework consists of the following basic elements:

1. Governance, which defines the roles and responsibilities of the players involved and the information flows between them;
2. the "system of metrics", which summarise risk exposure;
3. the "system of thresholds", through which the risk appetite is defined;
4. the escalation process, which is activated with a range of different intensities and players when the various thresholds are reached;
5. the "instruments and procedures" which support the representation and operational management of the RAF, including the "Significant Transactions (ST)";
6. the "Risk Appetite Statement (RAS)" document, in which the methods for calculating the thresholds and metrics are analytically explained.

The RAF is the instrument which makes it possible to establish, formalise, communicate and monitor in a unitary and synergistic manner the consistency of the risk profile (of the Group and of the individual relevant companies) with the risk appetite approved by the Board of Directors and constitutes a policy for the development of the main company processes.
The "system of metrics" takes into account the recent regulatory instructions on Risk Governance and leverages the internal Risk Identification process, conducted annually, which enabled 5 risk areas as relevant for the Group for RAF purposes to be identified: First and Second Pillar Capital Adequacy, Liquidity Adequacy, Credit Quality, Profitability, Operational/Conduct.
The indicators selected for monitoring the Group's exposure in the risk areas noted above were broken down into 2 levels, i.e., "strategic" - as they enable the Board of Directors to guide the Group's strategic policies - and "operational", as they supplement the strategic indicators and, when possible, anticipate their trends through greater monitoring frequency.
The "system of thresholds" for the strategic indicators envisages the definition of 4 levels: i) Risk Target (Medium/Long-Term Objective); ii) Risk Trigger, the surpassing of which activates the escalation processes laid out in the Framework; iii) Risk Tolerance (tolerance threshold); and iv) Risk Capacity (maximum risk that can be assumed). For the Operational indicators, on the other hand, only the Risk Trigger threshold is used, distinguishing the area of stress from that of business as usual.
The Risk Function develops the RAF to support the Body with Management Functions, in collaboration with the Planning Function and the other competent Functions, revising the framework at least annually based on changes in the internal and external conditions in which the Group operates.
Risk prevention activities are also carried out in the process of managing Significant Transactions (relating to credit, finance, bad loan assignment etc. transactions) which involves in the first place the Risk Function, which is required to express a prior, non-binding opinion on all transactions categorised as significant.

In addition, the Group organises specific training and extensive dedicated training, also for the purpose of disseminating and promoting a solid and robust risk culture throughout the bank. In recent years, we would like to mention, in particular, several schemes, targeted to all Group personnel, carried out through specific courses (both classroom-based and online) on subjects such as operating risks, compliance, security, administrative liability of banks, MiFID regulations, anti-money laundering, occupational health and safety and relating to work-related stress.

Group Risk Appetite Framework (RAF)

The RAF is a tool that enables the risk objectives that the Group and the significant individual Legal Entities intend to assume to be established, formalised, communicated, approved and monitoring in a harmonised manner. To this end, it is broken down into thresholds and risk area, which enable the levels and the types of risk that the Group intends to assume, then specifying the roles and responsibilities of the Company Bodies and Functions involved in the risk management process. The Group must guarantee that the RAF and the operational version of the same is used and acknowledged internally, and represents a starting point for the preparation of processes such as, by way of example, the Strategic Plan and the Budget, as well as the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). The framework is also used as an operational tool within the Recovery Plan.
The general principles that guide the Group's risk assumption strategy can be summarised as follows:

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

The RAF's set of indicators leverages the internal Risk Identification process and takes into account recent regulatory instructions on Risk Governance. All significant risks identified during this process are considered when the Risk Appetite Framework is drawn up and specific indicators to monitor them are identified. More specifically, the scope of the Group's RAF has established different indicators divided into the main risk areas: First and Second Pillar Capital Adequacy, Liquidity Adequacy, Credit Quality, Profitability, Operational/Conduct.
The indicators that summarise the Group's risk profile in these areas have been broken down into 2 levels, differentiating between strategic indicators, which enable the Board of Directors to guide the Group's strategic policies, and operational indicators, with a view to integrating and anticipating the trends of the strategic indicators, where possible. More specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be established and monitored; it covers a limited and exhaustive number of indicators, through which the risk appetite approved by the Board of Directors is expressed, and provides an indication of the trend of the overall risk profile.
- The Operational RAF is a set of metrics that supplement and provide more detail on the strategic indicators and anticipate the trend of the risk profile. These metrics enable specific aspects of the main company processes to be captured, which can then usually be monitored more frequently to enable any potential critical situations to be anticipated.

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

- Risk Target (Medium-Long term objective): usually a risk objective defined by the Group Business Plan. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives.
- Risk Trigger: this is the threshold, differentiated by indicator, which, if surpassed, triggers the various escalation processes envisaged by the Framework. The Risk Trigger is also determined through the use of stress tests. The system of limits (Risk Limits) used for operational purposes is defined in accordance with the Trigger values.
- Risk Tolerance: this is the maximum permitted variance from the Risk Appetite; the risk tolerance is set so as to ensure that the Group has sufficient margins to operate in any event, also in conditions of stress, within the risk capacity.
- Risk Capacity: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other constraints imposed by shareholders or by the Supervisory Authority.

For the Operational indicators, on the other hand, only the Risk Trigger threshold is used. Surpassing risk limits promptly triggers specific escalation processes.
The Risk Function, in collaboration with Planning and other relevant Functions, develops the RAF, to support the Body with Management Functions (BMF), in regulatory and operational terms, consistent with the strategy, the business plans and capital allocation under base and stressed conditions. The RAF is updated at least annually, also based on changes in the internal and external conditions in which the Group operates.
Risk prevention activities are also carried out in the process of managing Significant Transactions (relating to credit, finance, loan assignment etc. transactions) which involves the Risk Function in the front line, which is required to express a prior, non-binding opinion on all transactions that fall into this category on the basis of the requirements established and regulated internally.

Monitoring and reporting activities

Risk monitoring and control activities carried out by the Risk Function are meant to ensure, at Group and individual company level, unitary oversight over the applicable risks, guaranteeing appropriate and timely information to the Corporate Bodies and the Organisational Units involved in risk management, ensuring the development and continuous improvement of risk measurement methodologies and models.
To this end, the Parent Company prepares monthly reporting for the Corporate Bodies in line with the Group's internal policies. Within integrated risk reporting, the Risk Function analyses the main risks to which the Group is exposed, and conducts a periodic assessment of the risk profile of the RAF indicators, comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas of improvement.
Benchmarking analyses on the main Italian and European banks enable the Corporate Bodies and top management to gain a more integrated vision of the Group's risks.

First and second pillar capital adequacy

In order to provide its management and the Supervisory Authority with a complete and knowledgeable disclosure that bears witness to the adequacy of own funds, the first line of defence for covering the risks assumed, the Banco BPM Group evaluates its capital position on a current and prospective basis, from a First and Second Pillar perspective, on the basis of the rules of Basel 3 (which are applied through the CRR/CRD IV) and the specific guidelines communicated to banks by the Supervisory Authority.
As concerns Pillar 1, the Group's capital adequacy is substantiated in the continuous monitoring and management of capital ratios, calculated on the basis of the information provided by the Accounting and Budget Function by applying the rules established by Supervisory Regulations so as to verify compliance with regulatory limits and ensure the maintenance of the minimum levels of capitalisation required by Supervisory Regulations. These ratios are also estimated during the Budget or Strategic Plan preparation process and their consistency with the thresholds established in the Risk Appetite Framework and the estimates made in the Capital Plan is verified.
With regard to Pillar 2, the Risk Function has the task of coordinating the Group's internal capital adequacy assessment process, in line with the regulatory provisions, and conducting the current and prospective estimates summarised in the yearly ICAAP report.
The ICAAP capital adequacy assessment takes place by monitoring specific capital indicators which take into account the economic capital originating from pillar 2 risks, activating the escalation processes if limits are surpassed.
The outcome of the capital adequacy self-assessment, conducted on a long-term basis, takes into consideration the simulations carried out from a regulatory perspective and through the application of internal operating methods. The simulations are carried out under ordinary course of business conditions and also take into account the results deriving from the application of stress scenarios.
The capital adequacy self-assessment from the operating perspective hinges on the comparison between the AFR (available financial resources of the Group) and the capital requirements calculated through advanced methodologies developed internally and validated by the competent corporate Function.

First and second pillar liquidity adequacy

The Banco BPM Group manages the adequacy of the liquidity profile both from a current and future perspective, with regard to the First and Second Pillar, on the basis of the regulatory framework of Basel 3 and the guidelines of the Supervisory Authority.

As regards the First Pillar, the Group's liquidity adequacy is continuously monitored by two indicators: the Liquidity Coverage Ratio (LCR), which seeks to enhance the short-term resilience of the bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to overcome an acute situation of stress that lasts for one month; and the Net Stable Funding Ratio (NSFR), which seeks to improve longer term resilience by providing the bank with greater incentives to fund its own activities by drawing from more stable sources of funding on a structural basis. This structural indicator has a timeline of one year and has been drawn up to guarantee that assets and liabilities have a sustainable structure by maturity. As part of the Second Pillar, these indicators are supplemented by metrics developed internally, complementary to the regulatory liquidity indicators, and by stress tests.
The Group has also set in place an Internal Liquidity Adequacy Assessment Process (ILAAP) and strategy. In fact, the ILAAP is the internal process through which the Banco BPM Group manages and monitors liquidity risk at Group level, and assesses liquidity adequacy in both the short and medium-long term. The ILAAP also envisages an annual internal self-assessment of the overall liquidity risk management framework, with a view to the continuous improvement of this process.

Risks considered significant for the Group

The Risk Identification process represents the starting point for all of the Group's risk-based strategic processes. The output of the process is a map of risks that comprises a list of the risks considered significant for the Banco BPM Group. The process is conducted annually by the Risk Function and envisages two steps:

- interviews with senior management to identify specific or emerging risks, in addition to those listed by the reference legislation or already identified by the Risk Function;
- definition of the map of risks by assessing the materiality of the risks identified in the first step, at Group and significant Group company level, based on qualitative and quantitative criteria.

The map of risks represents the basis for the definition of the RAF indicators and the risks contained in it must be considered with relation to the ICAAP, both in terms of their quantification, where possible, and in terms of the description and assessment of the measures in place to prevent and mitigate risk.
The Parent Company, Banco BPM, guarantees the measurement, monitoring and management of the capital requirements for each type of risk and guarantees the supervision and quantification of the capital resources available to the Group to cover risk exposure, in order to fulfil the regulatory obligations of the First and Second Pillar of Basel 2. More specifically, the centralised supervision of the Group's capital adequacy, which entails comparing the amount of capital resources available with the capital requirements relating to the risks to which the Group is exposed, from a current and future perspective, under normal and stressed conditions, is carried out through the implementation of the ICAAP, as required by "Supervisory Provisions for banks" (Circular 285/2013).
In addition to the First Pillar risks (credit risk, counterparty risk, market risk, operating risk) the risks considered significant by the Banco BPM Group following implementation of the Risk Identification process are listed below:

Reputational risk

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

Residual risk

This is the risk that the generally accepted techniques to mitigate credit risk used by the Group may be less effective than expected. To quantify it, the significance of the various types of Credit Risk Mitigation (CRM) tools is assessed in terms of reducing the capital requirement resulting from their use.

Business risk

This is the current and future risk associated with a potential fluctuation of the interest margin with respect to the objectives established due to low customer satisfaction with the products and services offered by the Group due to adverse market conditions.

Strategic risk

This is the current and future risk associated with a potential fluctuation of profits or of capital due to an inadequate market positioning or flawed managerial decision making.

Compliance risk

The risk of non-conformity, which includes the risk of money laundering and terrorism funding, is the risk of incurring legal or regulatory sanctions, significant financial losses or reputational damage due to the infringement of binding rules (laws, regulations) or of self-regulation (e.g. articles of association, code of conduct).

Risk of financial leverage

This is the risk that a particularly high level of indebtedness with respect to own funds makes the Bank vulnerable, meaning that corrective measures need to be adopted as regards the business plan, including the sale of assets, recognising losses, which could result in value adjustments to the remaining assets as well.

Equity investment risk

This is the risk resulting from changes in the value of the equity investments held in the bank's portfolio, due to market volatility or the status of the issuer.

Market risk in the banking book

This is the risk of losses generated by trading the financial assets classified in the banking book on the market.

Model risk

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

ICT risk

This is the risk of incurring financial losses, reputational damage and the loss of market share related to the use of Information and Communication Technology (ICT).

Real estate risk

This is the current and future risk resulting from changes in the value of the owned real estate held.

Securitisation risk

This is the risk that the economic substance of a securitisation transaction performed by Group companies is not fully reflected in risk assessment and management decisions; this risk does not include self-securitisation transactions and the assets sold but not derecognised for accounting purposes, which are already included in credit risk.

Country risk

Country risk is the risk of losses caused by events that occur in a country other than Italy. The concept of country risk is wider than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, which may be natural persons, enterprises, banks or the public administration.

Transfer risk

Transfer risk is the risk that a bank, with exposure towards a party with funding in a currency different to that of its main source of income, incurs losses due to the difficulty of the debtor to convert its currency into the currency of the exposure.

Execution risk

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

Settlement risk

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

Concentration risk

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

Stress testing

The Banco BPM Group has implemented a detailed stress testing framework, meaning the set of quantitative and qualitative techniques used by the bank to assess its vulnerability to exceptional, but plausible events. As part of the framework, guidelines have also been established regarding the application of stress scenarios as well as the roles and responsibilities of the company functions and the Corporate Bodies. The framework for long-term forecasting and for stress testing adopted by Banco BPM therefore represents a coordinated set of methods, processes, controls and procedures that establish the main variables to use for forecasting purposes for estimates in ordinary and adverse conditions, with a view to planning and risk management purposes as well as for regulatory and operational purposes.
Stress tests aim to assess the effects on the bank's risks of specific events (sensitivity analysis) or of joint movements in a set of economic-financial variables in the event of adverse scenarios (scenario analysis), or with reference to individual risks (specific stress tests) or several risks together (joint stress test).
The process of analysis is based on quantifying the impacts relating to form-wide stress tests, which enables a global assessment of the Bank's risk profile to be made.
These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow implementation of loss-limiting strategies when these scenarios occur.
The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a forward-looking vision of risk, of the relative economic and financial impacts, evaluating the overall solidity of the bank in the event that adverse scenarios or alternative ones with respect to those of reference occur, therefore providing support to the preparation of the budget and of the business plan;
- overcoming the limits of the risk management models based on historical data (i.e., the Historical VaR model with reading of the last 250 observations);
- contributing to the most important planning and risk management processes, as well as to the definition of the RAF thresholds and to establishing the risk/return objectives of the Group;
- assessing the development of risk mitigation and recovery plans in certain stress situations. In fact, the stress tests are used to establish specific internal trigger thresholds, which once reached trigger the resolution plans as envisaged by the BRRD (Bank Recovery and Resolution Directive) regarding the prevention and management of banking and investment company crises.

The stress testing methods described above are applied as part of the Group ICAAP and ILAAP process, for the purpose of a more comprehensive, accurate assessment of future capital and liquidity adequacy.

The internal risk control system

The following paragraphs illustrate the structures and the tasks allocated to the corporate control functions of the new Banco BPM Group. The main corporate functions of the Parent Company, Banco BPM, responsible for controlling risk, are as follows:

- Audit Function;
- Risk Function;
- Compliance Function.

The Audit Function reports directly to the Board of Directors, it performs the Internal Auditing activities envisaged by Supervisory Provisions by conducting auditing and monitoring exercises - in loco and remotely - at the Group Banks and Product Companies, under a specific outsourcing agreement, namely as Parent Company. The head of the Audit Function has direct access to the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
The job of the Audit Function, on one hand, in terms of third level control, including on-site audits, is to oversee the regular performance of operations and the evolution of risk and, on the other hand, to assess the completeness, the adequacy, the functioning and the reliability of the organisational structure and of the other components of the internal control system. The Function brings possible improvements, with specific reference to the RAF, the risk management process and the tools to measure and control the same, to the attention of the Corporate Bodies. Based on the results of its analyses, it makes recommendations to the Corporate Bodies.
In accordance with the Group's Governance Model, the Parent Company carries out internal auditing activities in a centralised manner also on behalf of Subsidiary companies.
In performing its tasks, the Audit Function takes the provisions of widely-accepted professional standards into account. The Audit Function directly communicates the results of assessments and evaluations to the Corporate Bodies. To adequately carry out its duties, the Audit Function has access to all of the activities of the Parent Company and of Group companies, including outsourced ones, performed both in central offices and in peripheral structures. The Audit Function liaises with the Supervisory Authorities in accordance with internal regulations.

The Risk Function reports directly to the Managing Director of Banco BPM S.p.A.; the head of the Function has direct access to the Body in charge of strategic supervision and the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
The Parent Company's Risk Function is assigned the role of control function pursuant to Circular 285/2013 of the Bank of Italy, guarantees the functional coordination of risk control measures of Group Companies and oversees - at Group level and in an integrated manner - the governance and control (Enterprise Risk Management), development and risk management (Risk Models) processes and the validation process of internal risk measurement models (Internal Validation).
The Risk Function and its internal structures are independent from operational functions and activities. In particular, they are responsible for:

- proposing and developing guidelines and policies regarding the management of the relevant risks, in accordance with the company's strategies and objectives;
- coordinating the implementation of the guidelines and the policies regarding the management of the relevant risks by the units assigned by the Group, also in different corporate areas;
- guaranteeing the measurement and control of the Group's exposure to the different types of risk and of the relative capital absorption, verifying the implementation of the guidelines and the policies established for the management of the relevant risks and the compliance with the thresholds established within the Group's Risk Appetite Framework;
- guaranteeing the development and continuous improvement of the models and metrics for the measurement of risk - of the First and Second Pillar in base and stressed conditions - also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls.
- overseeing the validation process of the internal models used to calculate capital requirements;
- overseeing the process to verify, through second level controls, that the trends of individual exposures are being correctly monitored, as well as to assess the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process;

The head of the Risk Function is also responsible for assisting the Corporate Bodies in performing their respective duties in terms of the Internal Control System, by:

- intercepting all the relevant information required to quantify and manage risk promptly and in a coordinated manner;
- a more integrated ability to process, organise and contextualise the information acquired and to make assessments (both in terms of risk and asset value) separately from other cases;
- drawing up a summarised (integrated) report on company risks and, therefore, enabling the Corporate Bodies to gain a better understanding of the main problems identified by the second-level internal control system;
- promptly implementing corrective measures, in accordance with the problems and the relative priorities indicated by the second-level Internal Control Functions.

The Internal Validation Function, which reports directly to the Risk Function, is tasked with independently overseeing the internal validation processes of the risk measurement and management systems, assessing the model risk implicit in the methods used to measure risk, conducting controls to validate the calculation of capital requirements and validating pricing models.

The Compliance Function of the Parent Company reports to the Managing Director and oversees compliance risk management with regard to all company activities, adopting a risk-based approach, verifying that internal procedures are adequate to prevent said risk. To this end, the Compliance Function usually has access to all of the activities of the Parent Company and of central and peripheral Group Companies, and to any information needed, also by directly talking to personnel. It has direct access to the Body in charge of strategic supervision and the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
The Compliance Function is directly responsible for managing compliance risk in terms of the most important regulations and laws that regard the banking and brokerage business, the management of conflicts of interest, transparency towards customers, and more generally, regulations set in place to safeguard consumers, and with regard to all laws and regulations for which no specific specialised structure is in place within the Parent Company or Group Companies. With regard to other laws and regulations for which a specific specialised structure has been envisaged to oversee the same, the tasks of the Compliance Function - based on an assessment of the adequacy of the specific control to manage compliance risk profiles - are graded and the Compliance Function is in any event responsible (in collaboration with the specialised functions assigned) for:

- establishing the compliance risk assessment methods;
- identifying the relative procedures;
- verifying the adequacy of said procedures to prevent compliance risk.

The Compliance Function also undertakes the responsibilities established in the joint Regulation of the Bank of Italy and Consob dated 29 October 2007 and subsequent amendments and additions in terms of compliance control and relative reporting in terms of investment and collective asset management services (art. 16).
The Parent Company's Anti-money laundering Function is organised within the Compliance Function and reports directly to the Corporate bodies within its scope of responsibility. It is fully independent and oversees the risk of money laundering and terrorism financing, as well as reports of suspicious transactions. It performs the activities envisaged by the regulation through the head of the Anti-money laundering Function and the party Delegated to manage Reports of Suspicious Transactions (RST).

The Internal Basel Project

Over time, the Banco BPM Group has launched numerous projects to improve its risk management and control system. Specifically, to date the Group has been authorised to use its internal models to calculate regulatory capital absorption with regard to the following Pillar I risks:

- credit risk (starting from the recording of 30 June 2012): the scope regards the advanced internal rating models (PD, for both monitoring and acceptance, and LGD) regarding loans to corporate and retail customers of Banco BPM S.p.A. The standard regulatory approach will continue to be adopted, for prudential reasons, for loans portfolios that are not included in the scope of first validation AIRB. In 2017, the Banco BPM Group submitted a request to the European Central Bank to extend the advanced internal models (AIRB) to the Corporate and Retail portfolio of BPM S.p.A. for the relative calculation of the capital

requirement to cover credit risk, at the same time changing the model to define default and to update time series, (the Group expects to receive the relative authorisation to use said models for reporting purposes during the first half of 2018);

- market risk (starting from the recording of 30 June 2007 for Banca Akros and from 30 June 2012 for Banco BPM S.p.A. and Banca Aletti): the scope is the generic and specific risk of equity instruments, the generic risk of debt securities for the trading portfolio. The remaining market risks will continue to be measured using the "standard" approach. On 2017, efforts were also made towards submitting the request to extend the Parent Company's internal model to Banca Akros, sent in September, the results of which have not been received yet;
- operating risk: the former Banco Popolare Group adopted the AMA (Advanced Measurement Approach) on the first validation perimeter (for Banco Popolare companies, Banca Aletti, SGS BP and BP Property Management, with first reporting in June 2014) and on the roll-out perimeter shared with the Regulator (relating to the business segments of Aletti Gestielle SGR and the BP Leasing Division - formerly Banca Italease, first reporting as at 30 June 2016). The former BPM Group adopted the Traditional Standardised Approach from 2008 for the Group's important companies (Parent Company and all of the companies which over time have been incorporated into the same, Banca Akros and ProFamily). The other residual companies of the two former-Groups have adopted the BIA (Basic Indicator Approach) since 2008. From the date of the merger, the Banco BPM Group was authorised by the European Supervisors to use for regulatory purposes a combination of the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company, Banca Aletti, SGS BP and BP Property Management), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (former BPM segments of the Parent Company, BPM SpA, ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up the Banco BPM Group. In 2017, the Banco BPM Group launched a project to extend the advanced methods to the former BPM component, for operational purposes.

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The Banco BPM Group pursues lending policy objectives that seek to:

- support the growth of the business activities operating in its market territories, with the goal of overseeing and governing the evolution of the Group's positioning, in line with the policies of the RAF and budget and business plan objectives, focusing on the support and development of customer relationships;
- diversify its portfolio, limiting loan concentration on single counterparties/groups, on single sectors of economic activity or geographical areas;
- adopt a uniform and unique credit management model based on rules, methods, processes, IT procedures and internal regulations harmonised and standardised for all Group banks and companies.

With the aim of optimising credit quality and minimising the global credit risk cost for both the Group and the single companies, under the organisational model the Parent Company's Loans Function is in charge of loan policy guidelines for both the banks and companies of the Group.
Guidelines have also been set at Group level, defining how to behave with respect to credit risk-taking, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.
The credit portfolio monitoring, carried out by the afore-mentioned Function, is focused on the performance analysis of risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level.
The role of the Parent Company's Risk Function is to provide support to Top Management in the planning and control of risk exposure and capital absorption, with a view to maintaining the stability of the Group, checking capital adequacy forecasts and in stress conditions and compliance with the RAF thresholds, the Group's risk limits and its propensity to risk. In particular, the Function's task is to develop, manage and optimise internal rating models (First

Pillar), the loans portfolio model (Second Pillar) over time, and to supervise - as part of second level controls - the calculation of weighted risk assets using Advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis mainly to credit exposures of the Banco BPM Group, with regard to performing loans, cash loans and endorsement credits, of resident customers.

2. Credit risk management policies

2.1 Organisational aspects

The Group manages credit risk by allocating specific responsibilities to Bodies, functions and to the Committees of the Parent Company and of the Subsidiary companies, in line with its Internal Control System, and based on an organisational model that envisages the centralised supervision of the Parent Company with a view to providing harmonised guidelines and governance in the management of said risk.
The credit risk management policies represent the reference framework for the operations of the structures allocated with risk management, they are updated annually as part of the RAF and they guide credit policies in terms of the evolution of the company's activities, the expected risk profile and the external scenario.
As required by supervisory regulations, the Group has drawn up an internal ex-ante management process for Significant Transactions (ST) and for the supervision of large exposures, controlled by specific company regulations in this regard.
The Parent Company draws up Group credit policies, in parallel with the budget process and in line with the strategies, the risk appetite and the economic objectives approved by the Board of Directors.

To measure the different aspects and components of credit risk, the Group adopts models and metrics developed in accordance with supervisory regulations, with a view to guaranteeing the sound and prudent management of the risk positions assumed and to comply with regulatory requirements, also assessing the effect of changes in the scenario to which the credit portfolio is exposed.
These models must periodically undergo backtesting and stress testing in order to guarantee their statistical and prudential robustness, validated by an operational unit that is independent to the function responsible for developing them, reviewed at least annually by the Audit Function.

From a regulatory perspective, risk-weighted assets (RWA) are calculated by a method based on internal ratings (AIRB Approach), risk segments/parameters validated by the Supervisory Bodies and using the Standard Approach for the other exposures, in accordance with the Group's roll-out plan.
The risk parameters of the models are periodically calibrated.
The development and updating/"model change" process for the rating models entails a series of activities and procedures, the aim of which is to define, initially or when updated, the rating models applicable to credit exposures, namely statistical or empirical models to confirm the credit assessments made by the Companies of the Banking Group and to enable the capital requirements of the same against the risk of unexpected losses to be calculated.
With regard to the segments validated, these include:

- five rating models (4 for Corporate customers, 1 for Private Individuals), which use financial statement, performance and qualitative information (Corporate) and sociological/performance (Private), calibrated adopting a long-term approach (Through-the-Cycle), in order to neutralise the possible impacts of an expansive or recessive phase of the economic cycle;
- two LGD performing models (1 for Corporate, 1 for Private customers).

From an operational perspective, the unexpected loss on credit risk is measured by quantifying the economic capital through the application of a Credit VaR portfolio model.
Other operational models are also envisaged, used within the portfolio model, such as, for example the EAD on the Corporate segment, the PD and LGD models on the Banking and Leasing segments, etc.

The key component of the credit risk measurement models is the Rating System, namely a structured and documented set of methods, organisational and control processes and procedures to organise databases, which enables the relevant information to be collected and processed, to reach summary assessments of the risk level of a counterparty and of individual credit transactions.

The rating system is incorporated in the decision-making processes and in the management of the company's operations, playing an important role in the following Group processes:

- Lending Policies;
- Business planning;
- Capital planning;
- Risk Appetite Framework;
- Product pricing;
- Granting Loans;
- Monitoring and managing loans;
- Provisioning;
- Risk measurement and control;
- ICAAP and ILAAP;
- Management of the bonus system;
- A.Ba.Co. (other funding instruments).

The procedures for the operational use of the rating system in the various company processes are regulated by regulations issued from time to time in the above-mentioned areas. The regulatory framework set in place to oversee credit risk, developed in accordance with company standards, is based on specific Regulations and Process Rules, specifically the Regulations on counterparty credit risk and the Regulations for Limits of Autonomy and powers in the granting and management of loans.
The principles established in the Regulations issued have been applied and included in the wording of the regulations, for the processes included in company taxonomy.
The processes for the granting of loans guarantee an adequate, objective and harmonised assessment of creditworthiness and of risk, through the use of the rating system to guide the decision-making steps.
More specifically, the ratings are used to define the scope of decision-making, by means of a weighting method based on an assessment of the creditworthiness of each counterparty, summarised by the rating, as well as on the measures to mitigate the risk assumed.
An assessment of the risks already assumed or to be assumed is conducted for each individual customer and Risk Group, namely the set of parties related through the ties considered for the registration of Economic Groups, as well as joint accountholders and those with a joint-obligation, as regards the entire Banking Group.
The criteria for the allocation of responsibilities to the various parties/organisational units that take part in the loan granting process are based on principles of separation in order to guarantee independence of judgement and prudence in the assumption of risk.
To this end, with regard to the activities envisaged in the loan granting process, the roles of "Proponent", of "Decision-maker" and of any "Intermediate body that gives and opinion" are clearly separated.
In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
The "Authorisation, monitoring and management of overdrafts and/or past due loans" Rules establish the continuous monitoring activities that the Manager must perform when managing the account, with regard to overdrafts, past due instalments not paid and drawdowns on expired or reduced loans.
The management of overdrafts is accompanied by a specific procedure that has made access to data regarding positions classified as "becoming past due" more efficient, enabling the both current and historical information available to be consulted, right down to the details of an individual account, as well as obtaining lists based on selection criteria entered by the user.
Forborne exposures are identified as part of the loan granting process and, therefore, through the Electronic Loan Application (ELA) function.
The identification of forborne exposures is carried out for both performing loan positions included in the watchlist, and for those classified as non-performing loans, for which a status of financial difficulty has been found (said status is objective for the positions classified as non-performing) and the granting of a tolerance.
The Account manager, in the role of "Proponent", is responsible for:

- assessing the customer's situation of financial difficulty. To reach an opinion, all of the information from the preliminary check used to analyse creditworthiness in ELA, including a specific additional checklist that differentiates between Corporate and Private Individuals;
- assessing the proposed award of forbearance measures;
- entering his/her assessment of the customer's situation of financial difficulty or otherwise in the information system and identifying award or otherwise of the proposed forbearance measures.

The assessments of the proponent are shared with the Intermediate Body expressing an opinion.
The Decision-making Bodies are responsible for ascertaining the consistency or otherwise of the assessment made by the Proponent.

The evidence expressed at the time of the decision on the individual line of credit automatically identifies all accounts related to it as "forborne".
Once classified as forborne, the exposures are managed in accordance with the relevant processes ("Monitoring and managing non-performing loans" for "Forborne exposures" and "Monitoring and managing loans: watch list" for "Other forborne exposures").
Decisions regarding situations in which the exposure is no longer forborne, or the reclassification of "Forborne Exposures" as "performing" are assisted by the information system.
In this regard, all positions that surpass the objective parameters established by EBA regulations are automatically highlighted and the proposals are subject to a structured process which enables all of the available assessment elements to be examined and historicised.
The reclassification of a "performing" exposure, already the subject of forbearance measures, to a higher risk category, is automatic if the events established by EBA regulations occur.

Country Risk, which identified the risk factors relating to the political, macroeconomic, institutional and legal situation of a foreign country, is considered, with regard to all business and financial transactions, if the counterparty is resident or has registered offices in a foreign country. Country risk is based on two main elements:

- *political risk*, namely the set of factors regarding the political and institutional system that may influence the country's willingness to honour its commitments;
- *transfer risk*, namely the set of economic factors that can influence the possibility that a certain country may establish, as an element of its economic policy, limits to the transfer of capital, dividends, interest, commission or royalties to foreign creditors and/or investors.

In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
With regard to Transfer Risk, note that this risk is included in the credit portfolios that used ECAI ratings (exposures towards Governments and Central Administrations, Supervised Intermediaries and non-resident Corporate customers). The residual limited scope (non-resident customers without ECAI), is monitored periodically by the Parent Company's Risk Function.
The organisational structures of the Loans Function and of Divisional Loans are established in accordance with the loans granting, monitoring and management processes.
In addition, the Head of the Divisional Loans office reports functionally to the Head of the Loans Function and the Head of the Business Loans Area, in turn, reports to the Head of the Divisional Loans office.
In terms of procedures and tools to support the processes, attention is drawn to the following:

- in "Loan Granting" processes, the Electronic Loan Application (ELA) procedure provides support to the Network in the preliminary examination, proposal, approval and finalisation stages and automatically calculates decision-making scope;
- the web-based Electronic Loan Application provides support to the loan granting process through a specific work flow based on parameters and enables each step of the process of preliminary examination - proposal - forwarding to higher Bodies and approval to be traced, as well as automatically checking the documents required and the validity of the assessment elements;
- as regards measures to assist "Private", "Small Business" and "Small Business Operator" customers, decision-making engines are used (ScoPri, Transact), to establish the financial feasibility of the proposed transaction, which make a summary assessment of the increasing risk;
- the process to monitor and manage "performing" loans, is assisted by a specific procedure, on the web platform, equipped with functions which automatically intercept positions and watchlist classifications, as well as following the management of the same and ensuring that the decisions made are adhered to; positions are intercepted both when they surpass thresholds relating to specific parameters and through the use of an automatic indicator, calculated on a monthly basis, able to make a summary assessment of the performance of the account; this indicator can be interrogated both with regard to a single month of processing, and as an average indicator for a certain period (last six months) and is integrated in the loan processes as a parameter of evidence,

- to support the monitoring and management processes of non-performing loans, broken down by status (Pas Due and Substandard; Restructured; Bad Loans) a new procedure "Electronic Management Procedure - EMP" has been created;
- the loan assessment processes are implemented through the IT procedure called "WIN IAS".

On a quarterly basis, at the same time as the publication of the quarterly financial statement figures, the Loans Function prepares a management report which includes a series of summary illustrations regarding the main loan dimensions; in particular, the report focuses on: the domestic scenario; a breakdown of Group loans; a breakdown of loans by segment; a breakdown by rating class; the trend of loans; a focus on mortgage loans to Private Individuals - Consumer Households.
On a monthly basis, the Risk Function produces the "Credit Risk - portfolio model" report, which contains Group figures, broken down by company, economic sector and geographic area.
In addition, on a monthly basis, a summary document has been introduced relating to the overall first and second pillar risk trend, to support the periodic integrated Group risk report, with a view to monitoring the evolution of economic capital and to report the appropriate figures to the Corporate Bodies.

2.2 Management, measurement and control systems

The Banco BPM Group makes use of an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and management processes. In particular, it plays a role in deciding which the competent bodies to approve loans are, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process (Watchlist).
The Internal rating system, structured on the basis of PD (probability of default), LGD (loss given default), EAD (exposure at default) risk parameters, is used to assess the counterparty at the time of granting, monitoring and renewal of the loan as well as also being used in the collective write-down process of loans in the financial statements.
The classifications of non-performing exposures is conducted in line with the criteria established by the EBA.
The management of non-performing loans in the Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. In particular, at the start of the year the Group established a unit dedicated to the management of non-performing positions, including through the assignment of portfolios, named NPL Unit, in keeping with what is set forth in the 2016-2019 Strategic Plan guidelines. The NPL function, reporting to the Managing Director, primarily aims to manage non-performing loans with a view to optimising recovery efficiency and speed and creating opportunities for the maximisation of value.
The credit assessment made to establish the amount of expected loss relating to non-performing loans envisages different procedures depending on the status and the size of the exposure. Expected losses valued analytically by the manager are periodically reviewed.
The situation of the Group's non-performing loans as at 31 December 2017 has already been illustrated in the previous section, which commented on the Results for the period.

Portfolio risk monitoring is also based on a default model that is applied on a monthly basis to credit exposures of the Banco BPM Group, with regard to performing loans, cash loans and endorsement credits, of resident customers. For further details on the general features of this model, refer to paragraph "D. Banking Group - Credit risk measurement models".
For exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

2.3 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer's creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.

The system for the recording of collateral property used to guarantee lending transactions enables an automatic periodic assessment of the property's value and identifies which properties require updated appraisals, in line with the criteria established by current legislation.
The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, so as to obtain a significant credit risk mitigation.

2.4 Non-performing financial assets

The classification of non-performing exposures is conducted in line with the criteria established by the EBA. More specifically, the classification as non-performing is made:

- automatically, for exposures that reach the thresholds envisaged by the provisions of the Supervisory Authority as regards Past Due;
- by means of a decisions taken by an authorised Body (i) on a proposal generated automatically by the IT system, for exposures that reach the envisaged thresholds, on each occasion, by internal credit monitoring and management processes, or (ii) on the proposal of a proponent Body, for exposures that indicate the occurrence of events that may prejudice the "performing" status of the same.

The management of non-performing loans in the Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources.
Management responsibility changes depending on the classification status of the exposure:

- the management of exposures classified as Past Due and Unlikely to Pay is assigned, with the exception of exposures under a certain threshold, to specialist managers, who may work, depending on the importance of the exposure, for the Loans Function or for the Loans offices of the Network (Divisions and Business Areas). For these exposures, the managers of non-performing loans are responsible for the operating decisions relating to the loans assigned to the respective portfolios, in accordance with their decision making authority, and are assisted, as regards the administrative part, by (business) managers from the Network, where the portfolio containing the exposure is placed, as well as the related economic results;
- the management of exposures classified as Bad Loans is entirely assigned to specialist managers who report directly to the new NPL Unit or, as regards Release SpA, to managers of the same.

The model to manage bad loans merits special attention, designed to make the recovery and derisking process of this portfolio more effective and more efficient. More specifically, the rules for allocating individual positions to managers with specialist skills envisage the application of dimensional and qualitative criteria, which enable portfolios managed by dedicated specialist teams to be identified.

The allocation of files to the various portfolios and the relative processing is monitored with a high level of granularity in order to highlight to effectiveness of the measures set in place to direct portfolio interventions or relating to special deals that enable operating strategies to be better implemented in line with the overall objectives of the Derisking Plan established.

In addition to the recovery process, the managers are responsible for assessing bad loans with a view to calculating the amount of expected losses for individual positions that have an overall exposure exceeding euro 300,000. When making said assessment, the manager must take the following into account:

- overall risk of the customer and of related accounts, as well as any Economic Group it belongs to;
- situation in the Italian Central Credit Register, with specific attention to any loans guaranteeing third parties;
- equity standing of the borrower and of any guarantors;
- value of the asset used as collateral;
- time needed to recover the debt.

To support the activities relating to the last two points, the bank has estimated Haircut parameters on an empirical basis, defined as the difference to apply to the value of the assets used as collateral, to align them to the amount that the bank is likely to collect after their sale, and the timeframe that the manager has to consider in order to make an analytical assessment of the bad loan. The expected losses obtained in this way are periodically reviewed and continuously monitored.
The above-illustrated process is not applied to bad loans that have a total exposure equal to or below the threshold of euro 300,000, for which a statistical evaluation is applied resulting from the application of the corresponding ELBE (Expected Loss Best Estimate) grid estimated by the Risk Function.

With regard to Past Due and Unlikely To Pay (UTP) positions, the credit assessment made to establish the amount of expected loss envisages different procedures depending on the status and the size of the exposure:

- for Past Due exposures, regardless of the amount, as well as for Unlikely To Pay exposures within specific amounts, the ELBE is applied on a forfeit basis;
- for Unlikely To Pay for amounts exceeding specific pre-established thresholds, expected losses are assessed analytically by the manager, according to a similar process to that illustrated above for the bad loans portfolio.

Expected losses valued analytically by the manager are periodically reviewed.

2.5 Control system relating to credit processes

The structure of the control system relating to credit processes is based on:

- I level controls (or line controls), addressed to ensuring that the processes are correctly carried out. First level controls include so-called "automatic" controls, namely performed directly by applications procedures, controls performed directly by operating structures and hierarchical controls, performed within the same chain of responsibility. II instance controls are performed through the credit structures of the Business Areas, in particular through "Credit Quality Managers", the credit monitoring structures located in the Divisions, the Credit Quality and Control Service within the Loans Department, the NPL Performance Management unit with regard to the bad loans portfolio, as well as through specific structures for specific cases;
- II level controls (or controls on risks and compliance), performed by the "Second Level Controls" office, placed within the Risks - Enterprise Risk Management function. The controls, performed continuously and independent to the functions in charge of carrying out the activities being checked, are addressed to ensuring that the risk management process is correctly implemented (by operating structures), verifying that the trend of individual exposures is being monitored, in particular non-performing ones, and to assessing the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process.

2.6 Supervisory, control and support activities

The establishment of the Banco BPM Group has seen the creation of the new NPL Unit, which reports directly to the CEO, dedicated to the management and the collection of bad loans, with a view to achieving the challenging objectives set out by the Business Plan in terms of reducing the bad loans portfolio and optimising collection performance. More specifically, the main responsibilities of the new function are:

- to oversee, coordinate and control credit collection activities at Group level with regard to positions classified as bad loans;
- to guarantee the maximisation of economic returns resulting from the effective and efficient management of bad loan exposures, also in the case of assignments to third parties, in accordance with the strategic guidelines established at Group level and internal regulations;
- to define guidelines and collection strategies in accordance with internal regulations;
- to manage relations with external credit collection agencies as regards bad loan exposures and the relative litigation;
- to guarantee the systematic monitoring of the NPL portfolio;
- to oversee the process of administration and assessment of allocations for bad loan exposures;
- to define guidelines for the management of assigned portfolios and handle its implementation in accordance with internal regulations.

To meet its responsibilities, the new Unit is organised as follows:

- *NPL Performance Management,* whose mission is to provide support to define and implement strategies for the management of bad loans, by establishing business intelligence systems, monitoring collection performance from an operational perspective and first level/second instance controls;
- *NPL Administration,* whose mission is the administrative management of bad loans by maintaining accounting records of bad loans, providing operational support to credit collection activities and managing conventions with third parties;
- *Enhancing the Assigned Portfolios*, whose mission is to ensure the harmonious management of the assignment papers and to maximise economic returns by overseeing, monitoring, coordinating and improving the process of assigning the NPL portfolio;
- *Credit Collection*, whose mission is the management of the internal credit collection process of positions classified as bad loans;
- *NPL Enhancing the Real Estate Portfolio,* whose mission is to enhance the real estate portfolio relating to bad loan positions by developing dedicated strategies.

The monitoring and the continuous control of the objectives to reduce the bad loans indicated in the Business Plan, as well as credit collection performance, is reported on a monthly basis to the NPL Committee, the main purpose of which is:

- to approve the levels of provisions and/or the closure of specific bad loan positions;
- to define the main strategies for credit collection activities;
- to monitor the performance of workout activities;
- to monitor the performance of the operational plan, with specific focus on reducing stock and the levels of coverage recorded.

QUANTITATIVE INFORMATION

A. Credit quality

Introduction

Bank of Italy Circular 262 and accounting standard IFRS 3 both envisage that, in the event of business combinations, the assets and liabilities acquired must be recognised at their relative fair value on the acquisition date; this means that for the non-performing assets acquired, their gross value does not include the positive difference between the nominal value of the exposures and their purchase price.

This provision is theoretically also applicable to the merger transaction that gave rise, as of 1 January 2017, to the Banco BPM Group. Therefore, the non-performing assets belonging to the former BPM Group which, from a purely accounting perspective, is the entity acquired, must be recognised at their net purchase value (which in the transaction in question corresponds to the net value of the non-performing exposures calculated on 1 January 2017 following the Purchase Price Allocation process) without taking adjusting provisions made over the years into account.

From a substantial perspective, in the case in question, certain aspects of this form of representation appear less significant than a representation of the value of the gross exposures and of the relative allocations to provisions made, resulting specifically in a clear underestimation of the level of coverage of the non-performing exposures.
In particular, with regard to the assumption stated in the Strategic Plan and to the discussions with the ECB with a view to authorising the merger transaction, the non-performing exposures of the former BPM Group and the relative coverage targets were always represented showing the gross value of the loans and the relative allocations to provisions. The same approach was adopted in communications to the market (press releases, presentations to analysts) as well as in the comments in the Group report on operations in these Financial Statements. Lastly, note that also in the ordinary management of non-performing exposures, the nominal value of the exposures and of the adjustments made is considered.

Consequently, in this section, in addition to the tables envisaged by law, which show the exposures of the former BPM Group at the fair value of the amounts acquired and therefore net of adjusting provisions as at 1 January 2017 ("closed balances"), other tables have been included in which the non-performing exposures relating to the former BPM Group are shown considering their gross value and the value adjustments made over the years ("open balances").

With regard to quantitative information on credit quality, the term "credit exposures" excludes equity instruments and UCIT units, while the term "exposures" includes the abovementioned items.

A.1 Non-performing and performing loans: amounts, value adjustments, trends, economic and geographical breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio/Quality	Bad loans	Unlikely to pay	Past due - non-performing	Past due - performing	Other performing loans	Total
1. Financial assets available for sale	-	2,204	-	-	15,714,458	15,716,662
2. Investments held to maturity	-	-	-	-	11,560,769	11,560,769
3. Due from banks	68	-	-	-	5,164,647	5,164,715
4. Loans to customers	6,487,624	6,464,318	80,425	2,585,437	92,558,578	108,176,382
5. Financial assets designated at fair value through profit and loss	-	1,420	-	-	7,992	9,412
6. Financial assets held for disposal	-	-	-	-	-	-
Total 31/12/2017	**6,487,692**	**6,467,942**	**80,425**	**2,585,437**	**125,006,444**	**140,627,940**
Total 31/12/2016	**6,238,929**	**6,236,147**	**95,265**	**1,311,324**	**85,865,337**	**99,747,002**

Note that the figures contained in tables A.1.1 and A.1.2 refer to the values of the consolidated financial statements and are therefore net of any intercompany transactions between companies belonging to the scope of consolidation (regardless of whether they belong to the Banking Group or not); the following tables (A.1.3 to A.1.8) refer only to exposures held by companies of the Banking Group.

In accordance with the details required for exposures held by the Banking Group in the following tables A.1.3 and A.1.6, the disclosure on performing loans has been broken down into "Past due - performing" and "Other performing loans". Also note that non-performing financial assets (bad loans, unlikely to pay and past due) refer exclusively to exposures held by companies belonging to the "Banking Group"; in fact, there are no assets of this nature relating to "Other companies".

Analysis of the age of total financial assets that are past due but performing

As at 31 December 2017, performing loans, which also include "Financial assets held for trading" and "Hedging derivatives", totalled euro 132,013.7 million. An analysis of the age of past due loans is provided in line with that envisaged by IFRS 7 "Financial Instruments: Disclosure", paragraph 37, letter a).

Exposures / Length of time Past Due	Performing loan by length of time past due					Total (Net Exposure)
	Past due up to 3 months	Past due between 3 and 6 months	Past due between 6 months and 1 year	Past due over 1 year	Not past due	
1. Financial assets held for trading	-	-	-	-	4,178,014	4,178,014
2. Financial assets available for sale	-	-	-	-	15,714,458	15,714,458
3. Investments held to maturity	-	-	-	-	11,560,769	11,560,769
4. Due from banks	-	-	-	-	5,164,647	5,164,647
5. Loans to customers	2,119,456	265,644	174,058	26,416	92,558,441	95,144,015
6. Financial assets designated at fair value through profit and loss	-	-	-	-	7,992	7,992
7. Financial assets held for disposal	-	-	-	-	-	-
8. Hedging derivatives	1	-	-	11,303	232,506	243,810
Total 31/12/2017	**2,119,457**	**265,644**	**174,058**	**37,719**	**129,416,827**	**132,013,705**

Disclosure of the portfolio to which forbearance exposures belong

As at 31 December 2017, forbearance exposures amounted to euro 7,088.7 million (of which euro 4,688.9 million non-performing and euro 2,399.8 million performing) and were entirely allocated to the "Loans to customers" portfolio; for further information on said exposures, please refer to table A.1.6. below.

A.1.2 Breakdown of exposures by portfolio and credit quality (gross and net values)

Exposure with "closed balances"

Portfolio / Quality	Non-performing assets			Performing assets			Total (Net Exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets available for sale	41,455	(39,251)	2,204	15,714,458	-	15,714,458	15,716,662
2. Investments held to maturity	-	-	-	11,560,769	-	11,560,769	11,560,769
3. Due from banks	1,598	(1,530)	68	5,164,647	-	5,164,647	5,164,715
4. Loans to customers	22,993,729	(9,961,362)	13,032,367	95,362,640	(218,625)	95,144,015	108,176,382
5. Financial assets designated at fair value through profit and loss	1,420	-	1,420	X	X	7,992	9,412
6. Financial assets held for disposal	-	-	-	-	-	-	-
Total 31/12/2017	**23,038,202**	**(10,002,143)**	**13,036,059**	**127,802,514**	**(218,625)**	**127,591,881**	**140,627,940**
Total 31/12/2016	**19,668,176**	**(7,097,835)**	**12,570,341**	**87,432,613**	**(255,952)**	**87,176,661**	**99,747,002**

Exposure with "open balances"

Portfolio / Quality	Non-performing assets			Performing assets			Total (Net Exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets available for sale	41,455	(39,251)	2,204	15,714,458	-	15,714,458	15,716,662
2. Investments held to maturity	-	-	-	11,560,769	-	11,560,769	11,560,769
3. Due from banks	1,598	(1,530)	68	5,165,984	(1,337)	5,164,647	5,164,715
4. Loans to customers	25,455,320	(12,422,953)	13,032,367	95,462,928	(318,913)	95,144,015	108,176,382
5. Financial assets designated at fair value through profit and loss	1,420	-	1,420	X	X	7,992	9,412
6. Financial assets held for disposal	-	-	-	-	-	-	-
Total 31/12/2017	**25,499,793**	**(12,463,734)**	**13,036,059**	**127,904,139**	**(320,250)**	**127,591,881**	**140,627,940**
Total 31/12/2016	**19,668,176**	**(7,097,835)**	**12,570,341**	**87,432,613**	**(255,952)**	**87,176,661**	**99,747,002**

Portfolio held for trading and derivatives

The following table provides information on credit quality as regards credit exposures classified in the portfolio of financial assets held for trading (securities and derivatives) and hedging derivatives (not included in the previous table):

Portfolio / Quality	Assets with obvious poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	(63,598)	11,145	4,178,014
2. Hedging derivatives	-	-	243,810
Total 31/12/2017	**(63,598)**	**11,145**	**4,421,824**
Total 31/12/2016	**(67,514)**	**18,269**	**4,690,844**

Exposures with poor credit quality, whose book value is euro 11.1 million, refer exclusively to derivatives with customers.

A.1.3 Banking Group – Cash and off-balance sheet exposures to banks: gross values, net values and past due bracket

Cash exposures include all cash financial assets due from banks, regardless of the accounting portfolio to which they are allocated (trading, available for sale, held to maturity, loans, assets designated at fair value, financial assets held for disposal).

"Off-balance sheet" exposures include all financial transactions other than cash ones, which entail assuming a credit risk, regardless of the purpose of said transactions, including therein exposures in derivatives.

Exposure with "closed balances"

Type of exposure/amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	-	-	-	1,598	X	(1,530)	X	68
- of which: forbearance exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	15,294	-	-	-	X	(15,294)	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
c) Past due - non-performing	-	-	-	-	X	-	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
d) Past due - performing	X	X	X	X	-	X	-	-
- of which: forbearance exposures	X	X	X	X	-	X	-	-
e) Other performing loans	X	X	X	X	7,436,532	X	-	7,436,532
- of which: forbearance exposures	X	X	X	X	-	X	-	-
TOTAL A	**15,294**	**-**	**-**	**1,598**	**7,436,532**	**(16,824)**	**-**	**7,436,600**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	2,884,434	X	(145)	2,884,289
TOTAL B	**-**	**-**	**-**	**-**	**2,884,434**	**-**	**(145)**	**2,884,289**
TOTAL (A+B)	**15,294**	**-**	**-**	**1,598**	**10,320,966**	**(16,824)**	**(145)**	**10,320,889**

Exposure with "open balances"

Type of exposure/amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	-	-	-	1,598	X	(1,530)	X	68
- of which: forbearance exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	15,294	-	-	-	X	(15,294)	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
c) Past due - non-performing	-	-	-	-	X	-	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
d) Past due - performing	X	X	X	X	-	X	-	-
- of which: forbearance exposures	X	X	X	X	-	X	-	-
e) Other performing loans	X	X	X	X	7,437,864	X	(1,332)	7,436,532
- of which: forbearance exposures	X	X	X	X	-	X	-	-
TOTAL A	**15,294**	**-**	**-**	**1,598**	**7,437,864**	**(16,824)**	**(1,332)**	**7,436,600**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	2,884,434	X	(145)	2,884,289
TOTAL B	**-**	**-**	**-**	**-**	**2,884,434**	**-**	**(145)**	**2,884,289**
TOTAL (A+B)	**15,294**	**-**	**-**	**1,598**	**10,322,298**	**(16,824)**	**(1,477)**	**10,320,889**

A.1.4 Banking Group – Cash exposures to banks: changes in gross non-performing loans

In this table, the exposure with "closed balances" and "open balances" coincides.

Type/Category	Bad loans	Unlikely to pay	Past due - non-performing
A. Gross exposure: opening balance	**345**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**1,389**	**15,294**	**-**
B.1 inflows from performing loans	-	15,294	-
B.2 transfers from other categories of non-performing loans	-	-	-
B.3 other increases	1,389	-	-
C. Decreases	**(136)**	**-**	**-**
C.1 outflows to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 repayments	(80)	-	-
C.4 gains on disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing loans	-	-	-
C.7 other decreases	(56)	-	-
D. Gross exposure: closing balance	**1,598**	**15,294**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.4 bis Banking group - Cash exposures to banks: changes in gross forbearance exposures broken down by credit quality

As at 31 December 2017, as in the previous year, there were no forbearance exposures to banks; therefore the relative table is omitted.

A.1.5 Banking Group – Non-performing cash exposures to banks: changes in total value adjustments

In this table, the exposure with "closed balances" and "open balances" coincides.

Type/Category	Bad loans		Unlikely to pay		Past due - non-performing	
	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures
A. Total adjustments: opening balance	**276**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**1,389**	**-**	**15,294**	**-**	**-**	**-**
B.1 value adjustments	-	-	15,294	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of non-performing loans	-	-	-	-	-	-
B.4 other increases	1,389	-	-	-	-	-
C. Decreases	**(135)**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries from valuation	(1)	-	-	-	-	-
C.2 recoveries from repayment	(80)	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing loans	-	-	-	-	-	-
C.6 other decreases	(54)	-	-	-	-	-
D. Total adjustments: closing balance	**1,530**	**-**	**15,294**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.6 Banking Group – Cash and off-balance sheet exposures to customers: gross values, net values and past due bracket

Cash exposures include all cash financial assets due from customers, regardless of the accounting portfolio to which they are allocated (trading, available for sale, held to maturity, loans, assets designated at fair value, financial assets held for disposal).

"Off-balance sheet" exposures include all financial transactions other than cash ones, which entail assuming a credit risk, regardless of the purpose of said transactions, including therein exposures in derivatives.

Exposure with "closed balances"

Type of exposure/amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	4,610	443	4,554	14,029,198	X	(7,551,181)	X	6,487,624
- of which: forbearance exposures	226	88	165	1,224,132	X	(555,497)	X	669,114
b) Unlikely to pay	3,700,474	514,143	1,401,444	3,369,150	X	(2,451,981)	X	6,533,230
- of which: forbearance exposures	2,595,009	353,028	807,140	1,552,968	X	(1,311,729)	X	3,996,416
c) Past due - non-performing	8,520	42,503	41,486	2,885	X	(14,969)	X	80,425
- of which: forbearance exposures	1,818	13,114	11,387	355	X	(3,351)	X	23,323
d) Past due - performing	X	X	X	X	2,609,900	X	(24,244)	2,585,656
- of which: forbearance exposures	X	X	X	X	353,500	X	(6,017)	347,483
e) Other performing loans	X	X	X	X	120,030,200	X	(194,380)	119,835,820
- of which: forbearance exposures	X	X	X	X	2,068,404	X	(16,057)	2,052,347
TOTAL A	**3,713,604**	**557,089**	**1,447,484**	**17,401,233**	**122,640,100**	**(10,018,131)**	**(218,624)**	**135,522,755**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	746,636	-	-	-	X	(83,087)	X	663,549
b) Performing	X	X	X	X	16,088,275	X	(36,192)	16,052,083
TOTAL B	**746,636**	**-**	**-**	**-**	**16,088,275**	**(83,087)**	**(36,192)**	**16,715,632**
TOTAL (A+B)	**4,460,240**	**557,089**	**1,447,484**	**17,401,233**	**138,728,375**	**(10,101,218)**	**(254,816)**	**152,238,387**

Exposure with "open balances"

Type of exposure/amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	4,610	443	4,554	15,784,025	X	(9,306,008)	X	6,487,624
- of which: forbearance exposures	226	88	165	1,382,760	X	(714,125)	X	669,114
b) Unlikely to pay	4,046,705	558,137	1,496,564	3,590,567	X	(3,158,743)	X	6,533,230
- of which: forbearance exposures	2,874,153	382,798	878,447	1,682,241	X	(1,821,223)	X	3,996,416
c) Past due - non-performing	8,520	42,503	41,486	2,885	X	(14,969)	X	80,425
- of which: forbearance exposures	1,818	13,114	11,387	355	X	(3,351)	X	23,323
d) Past due - performing	X	X	X	X	2,624,614	X	(38,958)	2,585,656
- of which: forbearance exposures	X	X	X	X	355,084	X	(7,601)	347,483
e) Other performing loans	X	X	X	X	120,115,774	X	(279,954)	119,835,820
- of which: forbearance exposures	X	X	X	X	2,075,461	X	(23,114)	2,052,347
TOTAL A	**4,059,835**	**601,083**	**1,542,604**	**19,377,477**	**122,740,388**	**(12,479,720)**	**(318,912)**	**135,522,755**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	746,636	-	-	-	X	(83,087)	X	663,549
b) Performing	X	X	X	X	16,088,275	X	(36,192)	16,052,083
TOTAL B	**746,636**	**-**	**-**	**-**	**16,088,275**	**(83,087)**	**(36,192)**	**16,715,632**
TOTAL (A+B)	**4,806,471**	**601,083**	**1,542,604**	**19,377,477**	**138,828,663**	**(12,562,807)**	**(355,104)**	**152,238,387**

Note that off-balance sheet performing exposures include exposures generated by derivative contracts with poor credit quality with a gross value of euro 11.1 million. For further details on the credit quality of derivatives and of assets held for trading, refer to the disclosure shown in table A.1.2. The value adjustments (specific and portfolio) relating to off-balance sheet exposures were generated by valuations of guarantees given and irrevocable commitments to disburse funds.

New methods for presenting bad loans relating due from debtors subject to insolvency proceedings in the financial statements

Following the completion of the merger between the former Banco Popolare Group and the former BPM Group, which gave rise to Banco BPM S.p.A., it was necessary to identify a uniform accounting policy at Group level for the recognition of value adjustments on loans to borrowers subject to insolvency proceedings (for example, bankruptcy, administrative compulsory liquidation, arrangement with creditors, extraordinary receivership of large companies in difficulty).
In this regard, it must indeed be specified that the two groups participating in the merger adopted different accounting methods.
In detail, as described in the financial statements as at 31 December 2016 of the former Banco Popolare Group, the accounting policy adopted by that group envisaged that, as of the launch of insolvency proceedings, the portion of the bad loan corresponding to the adjusting entries recognised in the accounts would be written off. The practice of writing off bad loans originated from the need to guarantee an immediate recognition in the accounts of losses relating to receivables subject to insolvency proceedings, based on the different tax treatment of losses on loans with respect to write-downs on loans laid out in the regulations in force prior to the entry into force of Law no. 132 of 6 August 2015. Therefore, the above-mentioned practice was to be considered the exact alternative to maintaining the loan in the financial statements and recognising corresponding adjusting entries, without intending to express any different likelihood of exposure recovery.
The former BPM Group adopted a different accounting practice in this area.
Due to the need to harmonise the accounting policies of the two groups participating in the merger, Banco BPM therefore decided to adopt an accounting presentation based on which bad loans are shown gross of write-offs as at 31 December 2016 referring to the former Banco Popolare, as a balancing entry to a corresponding increase in the adjusting entries (the "new presentation method"). This decision had no impact on the equity or income situation of Banco BPM as the choice between derecognising the portion of the loan deemed not likely to be recoverable and the maintenance of the same loan in the financial statements, against adjusting entries in an amount equal to the portion deemed not recoverable, is absolutely neutral.

In relation to what is described above, for the purpose of the disclosure on credit quality contained in this financial report, the value of the gross exposure and that of the value adjustments as at 31 December 2017 are those resulting from the accounts following the adoption of the "new presentation method" described.

A.1.7 Banking Group – Cash exposures to customers: changes in gross non-performing loans

Exposure with "closed balances"

Type/Category	Bad loans	Unlikely to pay	Past due - non-performing
A. Gross exposure: opening balance	**10,915,992**	**8,735,422**	**119,175**
- of which: exposures sold not derecognised	119,208	42,492	1,552
B. Increases	**7,793,302**	**3,938,140**	**165,447**
B.1 inflows from performing loans	241,041	1,458,259	99,066
B.2 transfers from other categories of non-performing loans	1,373,776	91,429	7,068
B.3 other increases	6,178,485	2,388,452	59,313
C. Decreases	**(4,670,489)**	**(3,688,351)**	**(189,228)**
C.1 outflows to performing loans	(4,162)	(528,012)	(31,662)
C.2 write-offs	(3,122,016)	(299,119)	(1,136)
C.3 repayments	(678,207)	(1,148,410)	(30,364)
C.4 gains on disposals	(492,973)	(87,581)	-
C.5 losses on disposal	(348,093)	(7,570)	-
C.6 transfers to other categories of non-performing loans	(327)	(1,354,761)	(117,185)
C.7 other decreases	(24,711)	(262,898)	(8,881)
D. Gross exposure: closing balance	**14,038,805**	**8,985,211**	**95,394**
- of which: exposures sold not derecognised	163,995	34,035	3,564

Exposure with "open balances"

Type/Category	Bad loans	Unlikely to pay	Past due - non-performing
A. Gross exposure: opening balance	**10,915,992**	**8,735,422**	**119,175**
- of which: exposures sold not derecognised	119,208	42,492	1,552
B. Increases	**10,128,053**	**5,226,201**	**167,913**
B.1 inflows from performing loans	241,041	1,458,259	99,066
B.2 transfers from other categories of non-performing loans	1,510,018	92,338	7,068
B.3 other increases (*)	8,376,994	3,675,604	61,779
C. Decreases	**(5,250,413)**	**(4,269,650)**	**(191,694)**
C.1 outflows to performing loans	(7,933)	(622,156)	(32,792)
C.2 write-offs	(3,611,062)	(375,574)	(1,136)
C.3 repayments	(689,662)	(1,408,135)	(30,364)
C.4 gains on disposals	(493,103)	(100,034)	-
C.5 losses on disposal	(434,195)	(9,967)	-
C.6 transfers to other categories of non-performing loans	(17)	(1,490,886)	(118,521)
C.7 other decreases	(14,441)	(262,898)	(8,881)
D. Gross exposure: closing balance	**15,793,632**	**9,691,973**	**95,394**
- of which: exposures sold not derecognised	163,995	34,035	3,564

(*) The other increases include the balances relating to the former BPM Group as at 1 January 2017, resulting from the merger of Banco Popolare and BPM, as well as the recognition of the write-off previously recorded for the following amounts:

Type/Category	Bad loans	Unlikely to pay	Past due - non-performing
Business Combinations	3,496,633	2,730,202	33,613
Recognition of write-off	4,682,253	-	-
Total	**8,178,886**	**2,730,202**	**33,613**

A.1.7 bis Banking group - Cash exposures to customers: changes in gross forbearance exposures broken down by credit quality

Exposure with "closed balances"

Type/Category	Forbearance exposures: non-performing	Forbearance exposures: performing
A. Gross exposure: opening balance	**5,185,528**	**2,549,974**
- of which: exposures sold not derecognised	16,081	43,267
B. Increases	**3,103,516**	**1,667,691**
B.1 inflows from performing loans not subject to forbearance measures	404,559	323,125
B.2 inflows from performing loans subject to forbearance measures	424,843	X
B.3 inflows from non-performing forbearance exposures	X	498,402
B.4 other increases	2,274,114	846,164
C. Decreases	**(1,729,614)**	**(1,795,761)**
C.1 outflows to performing loans not subject to forbearance measures	X	(1,081,834)
C.2 outflows to performing loans subject to forbearance measures	(498,925)	X
C.3 outflows to non-performing forbearance exposures	X	(424,659)
C.4 write-offs	(251,485)	-
C.5 repayments	(635,918)	(274,439)
C.6 gains on disposals	(125,103)	-
C.7 losses on disposal	(22,113)	-
C.8 other decreases	(196,070)	(14,829)
D. Gross exposure: closing balance	**6,559,430**	**2,421,904**
- of which: exposures sold not derecognised	17,470	27,557

Exposure with "open balances"

Type/Category	Forbearance exposures: non-performing	Forbearance exposures: performing
A. Gross exposure: opening balance	**5,185,528**	**2,549,974**
- of which: exposures sold not derecognised	16,081	43,267
B. Increases	**4,113,082**	**1,676,332**
B.1 inflows from performing loans not subject to forbearance measures	404,559	323,125
B.2 inflows from performing loans subject to forbearance measures	424,843	X
B.3 inflows from non-performing forbearance exposures	X	498,402
B.4 other increases	3,283,680	854,805
C. Decreases	**(2,071,058)**	**(1,795,761)**
C.1 outflows to performing loans not subject to forbearance measures	X	(1,081,834)
C.2 outflows to performing loans subject to forbearance measures	(498,925)	X
C.3 outflows to non-performing forbearance exposures	X	(424,659)
C.4 write-offs	(346,889)	-
C.5 repayments	(846,887)	(274,439)
C.6 gains on disposals	(151,718)	-
C.7 losses on disposal	(30,569)	-
C.8 other decreases	(196,070)	(14,829)
D. Gross exposure: closing balance	**7,227,552**	**2,430,545**
- of which: exposures sold not derecognised	17,470	27,557

A.1.8 Banking Group – Non-performing cash exposures to customers: changes in total value adjustments

Exposure with "closed balances"

Type/Category	Bad loans		Unlikely to pay		Past due - non-performing	
	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures
A. Total adjustments: opening balance	**4,677,132**	**210,121**	**2,425,770**	**1,174,273**	**23,910**	**6,136**
- of which: exposures sold not derecognised	48,033	202	4,365	925	156	26
B. Increases	**6,874,514**	**538,168**	**1,009,407**	**726,820**	**16,815**	**6,489**
B.1 value adjustments	1,404,766	164,914	973,385	490,662	13,624	3,303
B.2 losses on disposal	348,121	22,113	7,570	-	-	-
B.3 transfers from other categories of non-performing loans	331,923	109,306	14,180	6,773	1,470	1,397
B.4 other increases	4,789,704	241,835	14,272	229,385	1,721	1,789
C. Decreases	**(4,000,465)**	**(192,792)**	**(983,196)**	**(589,364)**	**(25,756)**	**(9,274)**
C.1 recoveries from valuation	(327,396)	(22,906)	(272,209)	(168,677)	(5,095)	(1,771)
C.2 recoveries from repayment	(84,300)	(1,793)	(54,066)	(27,404)	(226)	(27)
C.3 profits on disposal	(150,578)	(37,212)	(12,643)	(100)	-	-
C.4 write-offs	(3,086,747)	(108,763)	(299,108)	(142,279)	(839)	(443)
C.5 transfers to other categories of non-performing loans	(6)	-	(328,300)	(101,555)	(19,267)	(6,776)
C.6 other decreases	(351,438)	(22,118)	(16,870)	(149,349)	(329)	(257)
D. Total adjustments: closing balance	**7,551,181**	**555,497**	**2,451,981**	**1,311,729**	**14,969**	**3,351**
- of which: exposures sold not derecognised	77,520	481	4,726	1,416	786	14

Exposure with "open balances"

Type/Category	Bad loans		Unlikely to pay		Past due - non-performing	
	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures
A. Total adjustments: opening balance	**4,677,132**	**210,121**	**2,425,770**	**1,174,273**	**23,910**	**6,136**
- of which: exposures sold not derecognised	48,033	202	4,365	925	156	26
B. Increases	**9,550,556**	**748,124**	**2,190,617**	**1,362,914**	**19,579**	**6,802**
B.1 value adjustments	1,524,284	210,934	1,092,819	560,836	13,818	3,297
B.2 losses on disposal	434,223	28,621	9,967	1,948	-	-
B.3 transfers from other categories of non-performing loans	465,654	139,587	15,090	6,942	1,554	1,398
B.4 other increases (*)	7,126,395	368,982	1,072,741	793,188	4,207	2,107
C. Decreases	**(4,921,680)**	**(244,120)**	**(1,457,644)**	**(715,964)**	**(28,520)**	**(9,587)**
C.1 recoveries from valuation	(571,005)	(28,389)	(508,615)	(204,436)	(6,192)	(1,896)
C.2 recoveries from repayment	(99,445)	(2,129)	(72,848)	(28,883)	(259)	(28)
C.3 profits on disposal	(201,697)	(37,757)	(19,672)	(302)	-	-
C.4 write-offs	(3,611,062)	(147,219)	(375,574)	(199,227)	(1,136)	(443)
C.5 transfers to other categories of non-performing loans	(26)	-	(461,668)	(131,819)	(20,604)	(6,963)
C.6 other decreases	(438,445)	(28,626)	(19,267)	(151,297)	(329)	(257)
D. Total adjustments: closing balance	**9,306,008**	**714,125**	**3,158,743**	**1,821,223**	**14,969**	**3,351**
- of which: exposures sold not derecognised	77,520	481	4,726	1,416	786	14

(*) The other increases include the balances relating to the former BPM Group as at 1 January 2017, resulting from the merger of Banco Popolare and BPM, as well as the recognition of the write-off previously recorded for the following amounts:

Type/Category	Bad loans	Unlikely to pay	Past due - non-performing
Business combinations (*)	2,395,085	1,065,110	3,909
Recognition of write-off	4,682,253	-	-
Total	**7,077,338**	**1,065,110**	**3,909**

(*) Includes the impact resulting from the purchase price allocation (PPA).

A.2 Classification of exposures based on internal and external ratings

A.2.1 Banking Group - Breakdown of cash and "off-balance sheet" exposures by external rating classes

Exposure	External rating classes							
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower B-	Unrated	Total
A. Cash exposures	4,464,856	5,683,990	29,580,971	4,012,814	966,430	466,419	98,250,984	**143,426,464**
B. Derivatives	69,011	213,766	100,006	30,928	1,244	700	446,920	**862,575**
B.1 Financial derivatives	69,011	213,766	100,006	30,928	1,244	700	446,920	**862,575**
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	103,697	649,262	951,771	593,808	126,800	40,841	4,336,543	**6,802,722**
D. Commitments to disburse funds	26,606	767,128	1,452,730	1,379,393	132,775	41,946	6,356,936	**10,157,514**
E. Other	72	994,898	100,146	487,932	3,247	-	190,815	**1,777,110**
Overall total	**4,664,242**	**8,309,044**	**32,185,624**	**6,504,875**	**1,230,496**	**549,906**	**109,582,198**	**163,026,385**

As indicated in Bank of Italy Circular no. 262, this table matches the exposures indicated in the above tables A.1.3 and A.1.6, with the exception of UCIT units.
The Banco BPM Group adopts the creditworthiness assessments issued by the following External Credit Assessment Institutions (ECAI): Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings and Cerved Rating Agency S.p.A..
The aforesaid agencies are valid for all the banks belonging to the Group with the exception of Cerved Rating Agency S.p.A. only used by the legal entity Banca Popolare di Milano S.p.A.. It should be noted that, if there are two assessments of the same customer, the more prudential assessment is adopted; in the case of three assessments, the intermediate one is adopted.

The table connecting the classes of risk with the ratings of the agencies used is shown below.

CLASS	Fitch Ratings	Moody's	Standard & Poor's	Cerved Rating Agency SpA
AAA/AA-	*from AAA to AA-*	*from Aaa to Aa3*	*from AAA to AA-*	*from A1.1 to A1.3*
A+/A-	*from A+ to A-*	*from A1 to A3*	*from A+ to A-*	*from A2.1 to A3.1*
BBB+/BBB-	*from BBB+ to BBB-*	*from Baa1 to Baa3*	*from BBB+ to BBB-*	*from B1.1 to B1.2*
BB+/BB-	*from BB+ to BB-*	*from Ba1 to Ba3*	*from BB+ to BB-*	*from B2.1 to B2.2*
B+/B-	*from B+ to B-*	*from B1 to B3*	*from B+ to B-*	*C1.1*
Lower B-	*CCC+ and lower*	*Caa1 and lower*	*CCC+ and lower*	*C1.2 and lower*

A.2.2 Banking Group - Breakdown of cash and "off-balance sheet" exposures by internal rating classes

The ratings associated to the exposures shown in tables A.2.2 are used for operating purposes.
Specifically with regard to business customers, four distinct rating models have been developed, based on the following customer segments: Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business – and one for private customers. The counterparty rating system includes twelve rating classes for each single segment (eleven performing classes and one default). These are organised below by risk level.

Due from banks	Internal rating classes									
	AAA	AA	A	BBB	BB	B	CCC	Default	Unrated	Total
A. Cash exposures	-	1,238,179	601,869	1,513,718	201,518	160,191	-	69	3,721,058	**7,436,602**
B. Derivatives	-	124,004	15,568	26,768	20,978	1,803	-	-	277,532	**466,653**
B.1 Financial derivatives	-	124,004	15,568	26,768	20,978	1,803	-	-	277,532	**466,653**
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	**-**
C. Guarantees given	186	66,383	48,978	85,743	220,488	2,059	-	-	41,097	**464,934**
D. Commitments to disburse funds	-	187,343	5,078	152	164	-	-	-	23	**192,760**
E. Other	-	1,117,036	42,590	30,181	-	-	-	-	570,135	**1,759,942**
Overall total	**186**	**2,732,945**	**714,083**	**1,656,562**	**443,148**	**164,053**	**-**	**69**	**4,609,845**	**10,320,891**

Loans to customers	Internal rating classes							
	Low	Medium-low	Medium	Medium-high	High	Default	Unrated	Total
A. Cash exposures	26,948,288	22,873,991	16,052,973	8,507,971	1,682,392	11,724,318	2,246,751	**90,036,684**
B. Derivatives	30,545	24,764	42,491	41,169	3,576	395	41,005	**183,945**
B.1 Financial derivatives	30,545	24,764	42,491	41,169	3,576	395	41,005	**183,945**
B.2 Credit derivatives	-	-	-	-	-	-	-	**-**
C. Guarantees given	2,081,343	1,462,331	1,221,140	748,909	30,948	337,085	69,227	**5,950,983**
D. Commitments to disburse funds	2,772,593	2,232,061	1,730,263	1,172,861	75,609	321,154	370,590	**8,675,131**
E. Other	-	-	-	-	-	-	-	**-**
Total segmented exposures	**31,832,769**	**26,593,147**	**19,046,867**	**10,470,910**	**1,792,525**	**12,382,952**	**2,727,573**	**104,846,743**
Total unsegmented exposures	**-**	**-**	**-**	**-**	**-**	**1,382,647**	**46,008,996**	**47,391,643**
Total	**31,832,769**	**26,593,147**	**19,046,867**	**10,470,910**	**1,792,525**	**13,765,599**	**48,736,569**	**152,238,386**

Exposure	Internal rating classes							
	Low	Medium-low	Medium	Medium-high	High	Default	Unrated	Total
Large Corporate	3,939,917	3,034,122	2,304,847	1,892,203	1,754	316,288	153,591	**11,642,722**
Mid Corporate Plus	2,396,821	4,698,579	4,214,610	2,214,833	186,206	2,186,315	990,156	**16,887,520**
Mid Corporate	4,785,937	3,149,706	6,365,015	3,462,791	344,861	3,330,633	840,250	**22,279,193**
Small Business	9,283,491	3,440,411	4,746,105	1,543,862	583,755	4,755,488	554,832	**24,907,944**
Private	11,426,603	12,270,329	1,416,290	1,357,221	675,949	1,794,228	188,744	**29,129,364**
Overall total	**31,832,769**	**26,593,147**	**19,046,867**	**10,470,910**	**1,792,525**	**12,382,952**	**2,727,573**	**104,846,743**

A.3 Breakdown of guaranteed exposures by type of guarantee

A.3.1 Banking Group - Guaranteed exposures to banks

	Value of net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Real estate mortgages\	Real estate financial leases	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures	**92,512**	**-**	**2,426**	**82,335**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84,761**
1.1. fully guaranteed	92,512	-	2,426	82,335	-	-	-	-	-	-	-	-	-	-	84,761
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed "off-balance sheet" exposures	**377,512**	**-**	**-**	**21,718**	**323,274**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,223**	**357,215**
2.1. fully guaranteed	207,778	-	-	21,718	185,104	-	-	-	-	-	-	-	-	873	207,695
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially guaranteed	169,734	-	-	-	138,170	-	-	-	-	-	-	-	-	11,350	149,520
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**470,024**	**-**	**2,426**	**104,053**	**323,274**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,223**	**441,976**

A.3.2 Banking group - Guaranteed exposures to customers

	Value of net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Real estate mortgages	Real estate financial leases	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	
1. Guaranteed cash exposures:	**71,257,171**	**47,882,171**	**2,103,843**	**7,664,908**	**947,717**	**-**	**-**	**-**	**-**	**-**	**18,883**	**37,435**	**10,786**	**10,975,716**	**69,641,459**
1.1. fully guaranteed	68,934,866	47,813,052	2,103,843	7,434,509	872,025	-	-	-	-	-	13,943	31,205	10,770	9,983,914	68,263,261
- of which non-performing loans	10,898,880	8,346,862	899,144	61,318	452,513	-	-	-	-	-	13,943	4,426	796	984,909	10,763,911
1.2. partially guaranteed	2,322,305	69,119	-	230,399	75,692	-	-	-	-	-	4,940	6,230	16	991,802	1,378,198
- of which non-performing loans	376,838	45,265	-	37,510	3,709	-	-	-	-	-	4,940	6,138	16	174,027	271,605
2. Guaranteed "off-balance sheet" exposures:	**3,676,073**	**1,462,914**	**-**	**167,854**	**275,583**	**-**	**-**	**-**	**-**	**-**	**-**	**826**	**1,253**	**1,309,829**	**3,218,259**
2.1. fully guaranteed	2,984,971	1,439,321	-	114,348	189,467	-	-	-	-	-	-	372	156	1,172,689	2,916,353
- of which non-performing loans	245,032	173,845	-	15,091	19,535	-	-	-	-	-	-	-	-	35,468	243,939
2.2. partially guaranteed	691,102	23,593	-	53,506	86,116	-	-	-	-	-	-	454	1,097	137,140	301,906
- of which non-performing loans	41,348	1,521	-	3,877	465	-	-	-	-	-	-	-	-	14,942	20,805
Total	**74,933,244**	**49,345,085**	**2,103,843**	**7,832,762**	**1,223,300**	**-**	**-**	**-**	**-**	**-**	**18,883**	**38,261**	**12,039**	**12,285,545**	**72,859,718**

B. Breakdown and concentration of exposures

In this section, the balances are shown considering the gross values and the value adjustments on loans relating to the former BPM Group ("open balances")

B.1 Banking Group - Breakdown by sector of cash and "off-balance sheet" exposures to customers (book value)

Exposure/Counterparty	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures																		
A.1 Bad loans	191	(126)	X	13	(253)	X	88,105	(202,566)	X	-	-	X	5,323,616	(7,884,134)	X	1,075,699	(1,218,929)	X
- of which: forbearance exposures	-	-	X	-	-	X	13,266	(16,530)	X	-	-	X	583,449	(649,251)	X	72,399	(48,344)	X
A.2 Unlikely to pay	17	(4)	X	3,366	(2,343)	X	195,870	(216,347)	X	-	-	X	5,730,662	(2,802,525)	X	603,315	(137,524)	X
- of which: forbearance exposures	-	-	X	-	-	X	140,007	(139,059)	X	-	-	X	3,572,283	(1,626,466)	X	284,126	(55,698)	X
A.3 Past due - non-performing	-	-	X	1	-	X	65	(20)	X	-	-	X	64,036	(11,148)	X	16,323	(3,801)	X
- of which: forbearance exposures	-	-	X	-	-	X	-	-	X	-	-	X	22,083	(3,208)	X	1,240	(143)	X
A.4 Performing loans	26,088,034	X	(1,332)	736,367	X	(1,727)	15,095,726	X	(34,351)	343,142	X	(261)	52,163,378	X	(249,994)	27,994,829	X	(31,247)
- of which: forbearance exposures	1	X	-	6,990	X	(17)	47,371	X	(855)	-	X	-	1,718,625	X	(27,299)	626,843	X	(2,544)
Total A	**26,088,242**	**(130)**	**(1,332)**	**739,747**	**(2,596)**	**(1,727)**	**15,379,766**	**(418,933)**	**(34,351)**	**343,142**	**-**	**(261)**	**63,281,692**	**(10,697,807)**	**(249,994)**	**29,690,166**	**(1,360,254)**	**(31,247)**
B. Off-balance sheet exposures																		
B.1 Bad loans	-	-	X	-	-	X	1,735	(513)	X	-	-	X	44,694	(35,037)	X	1,112	(1,004)	X
B.2 Unlikely to pay	-	-	X	980	(12)	X	45,043	(471)	X	-	-	X	552,497	(44,655)	X	7,205	(137)	X
B.3 Other non-performing assets	-	-	X	10	(6)	X	-	-	X	-	-	X	8,791	(1,252)	X	1,482	-	X
B.4 Performing loans	388,386	X	(141)	189,872	X	(173)	1,114,885	X	(2,968)	41,232	X	(109)	13,110,367	X	(29,464)	1,190,174	X	(3,337)
Total B	**388,386**	**-**	**(141)**	**190,862**	**(18)**	**(173)**	**1,161,663**	**(984)**	**(2,968)**	**41,232**	**-**	**(109)**	**13,716,349**	**(80,944)**	**(29,464)**	**1,199,973**	**(1,141)**	**(3,337)**
Total (A+B) 31/12/2017	**26,476,628**	**(130)**	**(1,473)**	**930,609**	**(2,614)**	**(1,900)**	**16,541,429**	**(419,917)**	**(37,319)**	**384,374**	**-**	**(370)**	**76,998,041**	**(10,778,751)**	**(279,458)**	**30,890,139**	**(1,361,395)**	**(34,584)**
Total (A+B) 31/12/2016	**18,582,251**	**(7)**	**(217)**	**352,353**	**(3,691)**	**(971)**	**16,047,230**	**(202,059)**	**(19,406)**	**351,653**	**(4,175)**	**(52)**	**51,695,796**	**(5,970,076)**	**(196,773)**	**19,012,347**	**(1,018,492)**	**(53,718)**

B.2 Banking Group - Geographical breakdown of cash and "off-balance sheet" exposures to customers (book values)

Exposure/Geographic Area	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Bad loans	6,468,660	(9,164,994)	16,873	(131,781)	543	(4,309)	1,302	(4,734)	246	(190)
A.2 Unlikely to pay	6,495,664	(3,111,325)	37,258	(28,708)	308	(18,418)	-	(292)	-	-
A.3 Past due - non-performing	80,414	(14,957)	8	(9)	-	(1)	-	-	3	(2)
A.4 Performing loans	115,900,372	(312,846)	4,302,074	(1,346)	2,043,306	(207)	163,963	(4,483)	11,761	(30)
Total A	**128,945,110**	**(12,604,122)**	**4,356,213**	**(161,844)**	**2,044,157**	**(22,935)**	**165,265**	**(9,509)**	**12,010**	**(222)**
B. Off-balance sheet exposures										
B.1 Bad loans	47,541	(36,554)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	605,720	(45,275)	5	-	-	-	-	-	-	-
B.3 Other non-performing assets	10,283	(1,258)	-	-	-	-	-	-	-	-
B.4 Performing loans	15,352,703	(35,741)	650,181	(409)	4,733	(5)	26,581	(37)	718	-
Total B	**16,016,247**	**(118,828)**	**650,186**	**(409)**	**4,733**	**(5)**	**26,581**	**(37)**	**718**	**-**
Total A+B 31/12/2017	**144,961,357**	**(12,722,950)**	**5,006,399**	**(162,253)**	**2,048,890**	**(22,940)**	**191,846**	**(9,546)**	**12,728**	**(222)**
Total A+B 31/12/2016	**104,065,160**	**(7,371,239)**	**1,475,343**	**(69,227)**	**446,697**	**(18,910)**	**45,217**	**(10,034)**	**9,213**	**(227)**

In greater detail, Italian exposures are broken down by geographic area as shown in the table below:

Exposure/Geographic Area	North West Italy		North East Italy		Central Italy		South Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures								
A.1 Bad loans	3,086,636	(4,467,512)	1,327,503	(1,895,423)	1,393,909	(1,964,214)	660,612	(837,845)
A.2 Unlikely to pay	3,412,180	(1,704,383)	1,284,638	(561,865)	1,358,520	(626,222)	440,326	(218,855)
A.3 Past due - non-performing	26,297	(5,418)	13,790	(2,451)	27,955	(4,566)	12,372	(2,522)
A.4 Performing loans	47,719,956	(149,906)	19,811,468	(74,993)	43,246,033	(61,964)	5,122,915	(25,983)
Total A	**54,245,069**	**(6,327,219)**	**22,437,399**	**(2,534,732)**	**46,026,417**	**(2,656,966)**	**6,236,225**	**(1,085,205)**
B. Off-balance sheet exposures								
B.1 Bad loans	22,349	(16,460)	15,756	(14,229)	6,330	(3,540)	3,106	(2,325)
B.2 Unlikely to pay	436,737	(30,144)	75,657	(7,906)	88,277	(6,394)	5,049	(831)
B.3 Other non-performing assets	1,941	(656)	4,039	(40)	4,234	(554)	69	(8)
B.4 Performing loans	8,265,460	(14,533)	3,352,961	(5,300)	3,212,250	(14,320)	522,032	(1,588)
Total B	**8,726,487**	**(61,793)**	**3,448,413**	**(27,475)**	**3,311,091**	**(24,808)**	**530,256**	**(4,752)**
Total (A+B) 31/12/2017	**62,971,556**	**(6,389,012)**	**25,885,812**	**(2,562,207)**	**49,337,508**	**(2,681,774)**	**6,766,481**	**(1,089,957)**
Total (A+B) 31/12/2016	**36,365,733**	**(3,292,049)**	**39,637,907**	**(1,507,413)**	**23,300,078**	**(1,776,163)**	**4,761,442**	**(795,614)**

B.3 Banking Group - Geographical breakdown of cash and "off-balance sheet" exposures to banks (book values)

Exposure/Geographic Area	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Bad loans	-	-	68	(309)	-	(1,221)	-	-	-	-
A.2 Unlikely to pay	-	(15,294)	-	-	-	-	-	-	-	-
A.3 Past due - non-performing	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	5,248,096	(1,313)	1,736,984	(8)	250,887	-	22,670	(11)	177,895	-
Total A	**5,248,096**	**(16,607)**	**1,737,052**	**(317)**	**250,887**	**(1,221)**	**22,670**	**(11)**	**177,895**	**-**
B. Off-balance sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Performing loans	588,863	(19)	347,174	(99)	42,315	(4)	83,329	(19)	62,663	(4)
Total B	**588,863**	**(19)**	**347,174**	**(99)**	**42,315**	**(4)**	**83,329**	**(19)**	**62,663**	**(4)**
Total A+B 31/12/2017	**5,836,959**	**(16,626)**	**2,084,226**	**(416)**	**293,202**	**(1,225)**	**105,999**	**(30)**	**240,558**	**(4)**
Total A+B 31/12/2016	**5,317,972**	**-**	**1,800,203**	**(276)**	**232,809**	**-**	**94,165**	**-**	**71,571**	**(5)**

B.4 Large exposures

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.
As regards this item, recognition will be made of the amount (unweighted and weighted values) and the number of "risk positions" which represent a "large exposure" according to the provisions of Circular no. 286 of 17 December 2013 "Instructions for the preparation of prudential reports for banks and securities brokerage companies" issued by the Bank of Italy.
The exposure of an entity towards a customer or a group of related customers is considered a large exposure when its value is equal to or exceeds 10% of the eligible capital of the entity ("CRR", article 392).
Considering the effect of exemptions and of credit risk mitigation, large exposures must in any event respect the threshold of 25% of the entity's eligible capital.
As at 31 December 2017, eligible capital coincides with the amount of Own Funds.
On the basis of the new regulations, on the same date, 11 risk positions classified as "large exposures" were recognised with a total amount ("unweighted" exposure) of euro 52,410 million, corresponding to a weighted exposure of 6,362 million.
The main Groups indicated as "Large exposures" are:

- London Stock Exchange Group plc for euro 10,150 million (euro 331 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of repurchase agreements with the Clearing and Guarantee House;
- the Ministry of Economy and Finance for euro 22,742 million (euro 0.6 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of Government securities in the portfolio;
- the Tax Authority for euro 5,117 million (euro 17 million considering the weighting factors and the exemptions under art. 400 CRR) mostly comprised of tax-related entries.

The remaining 8 positions regard banking groups, central banks and central administrations of Foreign governments. Each of the positions reported is within the threshold of 25% of eligible capital.

	31/12/2017	31/12/2016 (**)
a) Amount (book value) (*)	52,409,986	64,728,484
b) Amount (weighted value) (*)	6,361,839	7,599,243
c) Number	11	14

(*) in thousands of euro
(**) figures resulting from the aggregation of the original groups.

C. Securitisation transactions

This section illustrates the Group's exposure in terms of securitisations, both those in which the Group acts as the Originator of the receivables, and those in which the Group acts as an investor.
More specifically, with regard to third-party securitisations, illustrated in table C.2 below, the book value amounts to euro 72.3 million and represents the Group's only exposure in structured credit securities issued by third parties (in percentage terms equal to around 0.2% of the total investment held by the Group in debt securities). Part of these exposures were reclassified as at 30 September 2008 from the "Financial assets held for trading" to the "Loans to customers" portfolio, as described in Part A – Accounting policies, "A.3 - Disclosure of transfers between portfolios of financial assets"; as at 31 December 2017, the book value of securities of this type, subject to reclassification, amounted to euro 5.6 million.

Note that the instrument of securitisation has been gradually replaced by the issue of Covered Bonds, as illustrated in the paragraph below entitled "E.4 Banking Group – Covered Bond Transactions". Nevertheless, the Group is engaged in originated securitisation transactions with a view to refinancing assets in monetary policy operations with the Eurosystem. The Group set up a dedicated structure in the Parent Company's Finance Department that is able to organise the securitisations and Covered Bond issues. The collateralised portfolios of the transactions performed are constantly monitored by way of monthly and quarterly reports detailing the performance of principal and interest collections and the status of receivables.

Securitisations characterised by the full subscription by the Group of the debt securities issued by the SPE are called "originated securitisations" and their exclusive purpose is funding. In fact, Banco BPM steps in by subscribing senior and mezzanine funds that are used to draw liquidity from the market through monetary policy operations with the Eurosystem or through repurchase agreements with market counterparts. These transactions are illustrated in Part E – Section 1 - Risks of the Banking Group. 1.3 Liquidity risk.

C.1 Securitisation transactions

QUALITATIVE INFORMATION

The following table shows securitisation transactions in place as at 31 December 2017, as well as originated securitisations derecognised from the financial statements as illustrated in more detail in the notes below the table.

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Securitisations not derecognised from the financial statements				
Former Banco Popolare Group				
BP Mortgages S.r.l.	Banco BPM (former Banco Popolare)	June 2007	BP Mortgages 2	Performing residential mortgage loans
BP Mortgages S.r.l.	Banco BPM (former Banco Popolare)	March 2007	BP Mortgages 1	Performing residential mortgage loans
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco BPM (former Banca Italease)	March 2007	ITA 9	Performing leases
Italfinance Securitization Vehicle S.r.l	Banco BPM (former Banca Italease)	December 2005	ITA 8	Performing leases
Erice Finance S.r.l	Banco BPM (former Banca Italease)	December 2005	ITA BEI	Performing leases
Former BPM Group				
BPM Securitisation 2 S.r.l.	Banco BPM (former BPM)	July 2006	CMBS 2006	Performing residential mortgage loans
Securitisations fully derecognised from the financial statements				
Former Banco Popolare Group				
Tiepolo Finance S.r.l.	Banco BPM (former Banco Popolare)	June 2001	Tiepolo	Bad mortgage and ordinary loans
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco BPM (former Banca Italease)	March 2007	ITA 9	Performing leases
Italfinance Securitization Vehicle S.r.l	Banco BPM (former Banca Italease)	December 2005	ITA 8	Performing leases
Erice Finance S.r.l	Banco BPM (former Banca Italease)	December 2005	ITA BEI	Performing leases
Originated securitisations derecognised from the financial statements				
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco BPM (former Banca Italease)	January 2009	ITA 11	Performing leases

As illustrated in "Part A - Accounting policies", securitisations not derecognised from the financial statements refer to transactions performed by the Group for which the risks and benefits were maintained.

The only securitisation transactions that are "fully derecognised from the financial statements" refer to:

- the "Tiepolo" transaction for which the option under IFRS 1 not to "recognise" the assets based on international accounting standards was applied, insofar as the transaction was finalised before 2004. As a result, the financial statements show the subscribed securities and any guarantees and commitments to disburse funds, adequately measured to reflect the P&L performance of the underlying assets;
- the transactions relating to the former Banca Italease Group, for which the portion of receivables in the banking sub-portfolio was derecognised and under a specific arrangement drawn up in 2009 with Alba Leasing, which substantially envisages the transfer of the risks and the benefits of the banking sub-portfolio. Said derecognition was also made for a single originated securitisation ITA 11. Therefore, in the table above, the securitisation transactions as at 31 December 2017 (ITA8, ITA9 and ITABEI) appear both as "Securitisations not derecognised from the financial statements" as regards the portion of receivables of the non-banking sub-portfolio whose risks and benefits are maintained by the Group, and as "Securitisations fully derecognised from the financial statements" as regards the portion of receivables of the banking sub-portfolio. For details of the cited arrangement with Alba Leasing, refer to the paragraph below entitled "Agreement on securitised loans between Banca Italease and Alba Leasing".

Transactions closed during the year

Leasimpresa Finance S.r.l. (LSMP2)

In December 2017, the securitisation transaction Leasimpresa Finance S.r.l. (LSMP2) was unwound and the existing securities were redeemed.
More specifically, on 12 December, Banco BPM and the SPE Leasimpresa Finance S.r.l. signed an agreement to repurchase the portfolio of residual loans resulting from lease agreements.
On 22 December 2017, the SPE redeemed the securities still outstanding, where specifically the Senior securities had been subscribed by institutional investors, while the Junior securities had been entirely subscribed by Banco BPM.

Securitisation transactions in place and significant events during 2017

Transactions relating to the former Banco Popolare Group

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara and Credito Bergamasco, both now Banco BPM sold landed residential mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BP Mortgages S.r.l. The portfolio sold amounted to euro 1,610 million; on 29 June 2007, the SPE issued four classes of rated securities that were placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all of the classes of securities were listed on the "Irish Stock Exchange". The Originator Banks, now only Banco BPM, acted as Servicers and managed the loan collection.

Loans portfolio

Bank	Value 31/12/2017	Value 31/12/2016 (*)
Banco BPM	353,308	416,479

(*) former Banco Popolare
The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Value issue	Value as at 31/12/2017	Interest rate	Maturity	Rating Moody's/ S&P/Fitch (4)
A1	Senior	147,300	-	Euribor 3 months + 0.07%		
A2	Senior (1)	1,382,000	219,174	Euribor 3 months + 0.13%	July 2044	Aa2/AA-/AA
B	Mezzanine	28,200	28,200	Euribor 3 months + 0.25%	July 2044	Aa2/A+/AA
C	Mezzanine (1)	36,200	36,200	Euribor 3 months + 0.66%	July 2044	Aa2/AB+/BBB
M1	Junior (2)	8,639	8,639	Euribor 3 months + 2% + Additional return	July 2044	unrated
M2	Junior (3)	7,479	7,479	Euribor 3 months + 2% + Additional return	July 2044	unrated
	Total	**1,609,818**	**299,692**			

(1) Following their placement on the market, Banco BPM (former Banco Popolare) purchased Senior securities amounting to a nominal value of euro 685.8 million and mezzanine securities for a nominal value of euro 11.4 million.
(2) The class M1 junior security was subscribed by the former Banca Popolare di Novara, now Banco BPM.
(3) The class M2 junior security was subscribed by the former Credito Bergamasco, now Banco BPM.
(4) Rating as at 31 December 2017.

Significant events during 2017

In May 2017, Fitch downgraded the rating of the Class A2 Notes of the transaction from "AA+" to "AA", and upgraded the rating of the Class C Notes from "BBB" to "AA". Furthermore, in November 2017, Standard & Poor's upgraded all of the Notes of the transaction, in particular the Class A2 Note from "A+" to "AA-", the Class B Note from "A" to "A+" and the Class C Note from "BBB+" to "A+".

Accessory financial transactions

To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Banks, now only Banco BPM, entered an Interest Rate Swap agreement with the SPE, with Banca Aletti as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)

In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", the former Banco Popolare set up a collateral account, segregated with respect to the Company's separate assets, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned; as at 31 December 2017, the amount of collateral paid in was euro 11.5 million.

Financial support provided to the entity (IFRS 12, par. 15)

During the year no financial support other than that envisaged under the agreement was given.

BP Mortgages 1 (March 2007)

On 16 March 2007, Banca Popolare di Verona, now Banco BPM, acting as Originator Bank, sold landed and residential mortgage loans to the SPE BP Mortgages S.r.l. for euro 1,476 million; on 11 April 2007, the SPE issued four classes of rated securities that were placed with institutional investors and one class of unrated junior securities subscribed by the Originator; all classes of securities were listed on the Luxembourg Stock Exchange. As regards the transaction, the Originator Bank acted as Servicer and managed the collection of receivables.

Loans portfolio

Bank	Value 31/12/2017	Value 31/12/2016 (*)
Banco BPM	208,940	258,366

(*) Former Banco Popolare
The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2017	Interest rate	Maturity	Rating Moody's/ S&P/Fitch (3)
A1	Senior	202,700	-	Euribor 3 months + 0.06%		
A2	Senior (1)	1,172,650	113,030	Euribor 3 months + 0.13%	April 2043	Aa2/A+/AA+
B	Mezzanine	25,300	25,300	Euribor 3 months + 0.19%	April 2043	Aa2/A+/AA
C	Mezzanine	32,600	32,600	Euribor 3 months + 0.48%	April 2043	Aa2/BBB+/BBB-
M	Junior (2)	14,500	14,500	Euribor 3 months + 2.5% plus Additional return	April 2043	unrated
	Total	**1,447,750**	**185,430**			

(1) Following their placement on the market, Banco BPM (former Banco Popolare) purchased Senior notes amounting to a nominal value of euro 429.6 million and mezzanine notes for euro 8.3 million.
(2) The junior notes were subscribed by the former Banca Popolare di Verona now Banco BPM.
(3) Rating as at 31 December 2017.

Significant events during 2017

In May 2017, Fitch downgraded the rating of the Class A2 Notes of the transaction from "AA+" to "AA", and upgraded the rating of the Class C Notes from "BBB-" to "AA". Furthermore, in November 2017, Standard & Poor's upgraded the Class B Notes from "A" to "A+".

Accessory financial transactions
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Bank entered an Interest Rate Swap agreement with the SPE, with Banca Aletti as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)
In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", the former Banco Popolare set up a collateral account, segregated with respect to the Company's separate assets, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned; as at 31 December 2017, the amount of collateral paid in was euro 8.4 million.

Financial support provided to the entity (IFRS 12, par. 15)
During the year no financial support other than that envisaged under the agreement was given.

Tiepolo

In 2000, several network banks, Banca Popolare di Lodi and Cassa di Risparmio Lucca Pisa Livorno, now Banco BPM, carried out the securitisation of bad mortgage and ordinary loans; more specifically, on 30 December 2000, the bad loans were sold to the SPE Tiepolo Finance S.r.l, which funded the purchase of the same by issuing bonds on 29 June 2001. As part of the transaction, the Originator Banks, now Banco BPM, acted as Servicers, managing the loan collection as well as acting as Cash Manager. The loans that at the time of the sale amounted to euro 153.5 million, as at 31 December 2017, amounted to euro 1.7 million (euro 3.7 million as at 31 December 2016). Banco BPM holds the junior notes (class C), the value of which is euro 50.5 million, fully written down in previous years. As regards the performance of the transaction, the coupons due were written down by around euro 0.1 million over the year. As at 31 December 2017, the receivable due to Banco BPM from the SPE Tiepolo Finance, which at the end of the previous year had amounted to euro 1.9 million, had been entirely repaid by the SPE.

Transactions relating to the former Banca Italease Group

The following paragraphs illustrate the financial support provided to transactions finalised by the former Italease Group and a description of the characteristics of each transaction.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)

Agreement on securitised loans between Banca Italease and Alba Leasing (referred to as "Agreement on securitised loans")
On 24 December 2009, Alba Leasing and the former Banca Italease signed an agreement regarding the transfer to Alba Leasing of securitised loans originating from the banking channel.
The Agreement on securitised loans was structured to enable Alba Leasing to enjoy the economic-financial effects that would have been generated if the portfolio of securitised loans originating from the banking channel in place as at 31 December 2009 had been transferred to Alba Leasing on 31 March 2009. In this regard, it is envisaged that the risks relating to any failure to repay the loans included in the securitisations, originating from the banking channel, are assumed by Alba Leasing and that, similarly, Alba Leasing received the cash flows relating to the junior notes of the securitisations and any further rights to receive subsequent amounts, until the junior notes are fully covered.
Alba Leasing, in turn, has undertaken to pay the former Banca Italease the principal and interest amounts due with relation to the instalments and/or payments or portions of loans originating from the banking channel which, after 31 December 2009, were in default, plus, where due, any expense, cost and/or amount envisaged by the financial documentation of each securitisation with respect to the failure to pay - by the debtors on the relative contractual due dates - the instalments and/or payments or portions of loans originating from the banking channel. The former Banca Italease undertook an obligation vis-à-vis Alba Leasing to transfer these amounts to SPEs. The former Banca Italease undertook a similar obligation vis-à-vis Alba with regard to the loans in the non-banking sub-portfolio.
In execution of the above, Alba Leasing undertook to repay the principal amount of the junior notes relating to securitised loans originating from the banking channel to the former Banca Italease, after individual adjustments, in accordance with the rules and the priorities envisaged for each securitisation. The other payments that will be made

by the SPEs to the former Banca Italease - related to the loans originating from the banking channel - will, as regards the portion related to the junior note and all other amounts subordinated to the same in the order of payments, pertain to Alba Leasing. With the exception of payments that will be made by the SPEs as remuneration for the junior notes, for the portion related to the securitised loans originating from the banking channel, all of the above refer to the period up to 31 March 2009.
By virtue of said agreement, in 2017 support was provided for the ITA 9 securitisation, through the repurchase of loans in default, corresponding to euro 1.6 million.

Repurchase of loans relating to contracts in default
In September 2010, following the cited "Agreement on Securitised loans between Banca Italease and Alba Leasing", an agreement amending the servicing contract signed by the former Banca Italease (now Banco Popolare) and the SPEs of the securitisation was signed. By virtue of the cited agreement amending the contract, the former Banca Italease, in the event that the conditions are met, is committed to providing credit support through the disbursement of the receivables classified as in default to the SPE (agreement no longer valid) and/or to repurchase the same for an amount corresponding to at least the "Minimum Collateralisation Amount".

During the year, the receivables in default against the ITA 9 securitisations were repurchased for euro 3.5 million.

Financial support provided to the entity (IFRS 12, par. 15)

During the year no financial support other than that envisaged under the agreement was given.

Description of transactions

ITA 8

In October 2005, Mercantile Leasing (which then merged into Banca Italease) and Banca Italease (now Banco BPM) sold a portfolio of loans resulting from lease contracts to the SPE Italfinance Securitisation Vehicle S.r.l. for euro 1,128 million; on 7 December 2005 the SPE issued four classes of rated notes placed with institutional investors and one class of junior unrated notes subscribed by the Originators. The notes are listed on the Luxembourg Stock Exchange. As regards this transaction, the Originator Banks (now only Banco BPM) acted as Servicer and managed the loans.

Loans portfolio

Bank	Value 31/12/2017	Value 31/12/2016 (*)
Banco BPM	20,611	30,537

(*) former Banca Italease
The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2017	Interest rate	Maturity	Rating Moody's/S&P(*)
A	Senior	959,000	1,434	Euribor 3 months + 0.15%	March 2023	Aa2/AA
B	Mezzanine	83,000	262	Euribor 3 months + 0.38%	March 2023	A1/A
C	Mezzanine	56,000	177	Euribor 3 months + 0.65%	March 2023	A3/A
D	Mezzanine	18,500	58	Euribor 3 months + 2.15%	March 2023	A3/BBB+
E	Junior	11,320	11,320	Euribor 3 months + 1% + Additional return	March 2023	unrated
	Total	**1,127,820**	**13,251**			

(*) rating as at 31 December 2017

Euro 4.3 million of the notes refers to the non-banking sub-portfolio belonging to Banco BPM and euro 9.0 million (euro 1.4 million in Senior Notes, euro 0.5 million in Mezzanine notes held by third parties and euro 7.0 million in

Junior notes held by Banco BPM) refers to the banking sub-portfolio, to which the provisions contained in the "Agreement on securitised loans" illustrated in the previous paragraph "Agreement on securitised loans between Banca Italease and Alba Leasing" apply. The junior notes are entirely held by Banco BPM.

Significant events during 2017

In August 2017, Standard & Poor's upgraded the Senior and Mezzanine Notes, in particular:

- Series 1-A Notes rose from "AA-" to "AA";
- Series 1-B Notes rose from "A" to "A+";
- Series 1-C Notes rose from "BBB+" to "A-";
- Series 1-D Notes rose from "BBB" to "BBB+".

Accessory financial transactions

The SPE signed an "Interest Rate Swap" agreement with BNP Paribas to hedge against the interest rate risk of the former.

ITABEI

Significant events during 2017

As at 31 December 2017, the receivables of the SPE Erice Finance amounted to euro 82.6 million.
In 2016, the notes were fully redeemed.

ITA 9

In January 2007, Mercantile Leasing (merged into Banca Italease) and Banca Italease, (now Banco BPM) sold a portfolio of loans resulting from lease contracts to the SPE Italfinance Securitisation Vehicle 2 S.r.l. for euro 1,696 million. On 1 March 2007, the SPE issued four classes of rated notes that were placed with institutional investors and one class of unrated junior notes subscribed by the Originators. The notes are listed on the Luxembourg Stock Exchange. As regards this transaction, the Originator Banks (now only Banco BPM) acted as Servicer and managed the loans.

Loans portfolio

Bank	Value 31/12/2017	Value 31/12/2016 (*)
Banco Popolare	98,240	129,111

(*) former Banca Italease.
The amounts indicated represent performing, unlikely to pay and non-performing past due loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2017	Interest rate	Maturity	Rating Moody's/S&P(*)
A	Senior	1,442,400	55,555	Euribor 3 months + 0.12%	January 2026	A2/AA
B	Mezzanine	125,000	10,940	Euribor 3 months + 0.28%	January 2026	Baa3/A+
C	Mezzanine	84,300	7,377	Euribor 3 months + 0.55%	January 2026	Ba2/BBB+
D	Mezzanine	27,900	2,446	Euribor 3 months + 0.75%	January 2026	B1/BBB-
E	Junior	16,272	16,272	Euribor 3 months + 10% + Additional return	January 2026	unrated
	Total	**1,695,872**	**92,590**			

(*) rating as at 31 December 2017

Euro 43.7 million of the notes refers to the non-banking sub-portfolio belonging to Banco BPM and euro 48.9 million (euro 24.7 million in Senior notes, euro 15.2 million in Mezzanine notes held by third parties and euro 9.0 million in Junior notes held by Banco BPM) refers to the banking sub-portfolio, to which the provisions contained in the "Agreement on securitised loans" illustrated in the previous paragraph "Agreement on securitised loans between Banca Italease and Alba Leasing" apply. The Junior notes are entirely held by Banco BPM.

Significant events during 2017
In May 2017, Fitch upgraded the rating on the Senior Notes (Series 1-B Notes) from "A-" to "A+".

Accessory financial transactions
The SPE signed an "Interest Rate Swap" agreement with BNP Paribas to hedge against the interest rate risk of the former.

ITA 11

For information on the ITA 11 transaction, please refer to the content of the section entitled "Liquidity risk" in these Notes to the Financial Statements.

Transactions relating to the former BPM Group

BPM Securitisation 2 (July 2006)

On 30 May 2006, Banca Popolare di Milano S.c. a r.l. sold landed residential mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BPM Securitisation 2 S.r.l. The portfolio sold amounted to euro 2,011.3 million; on 4 July 2006, the SPE issued three classes of rated securities that were placed with institutional investors and one class of rated junior securities subscribed by the Originator; all of the classes of securities were listed on the Luxembourg Stock Exchange. The Originator Bank acted as Servicer and managed the collection of receivables. Following the merger between Banca Popolare di Milano S.c. a r.l. and Banco Popolare Soc. Coop., the deed for which was signed on 13 December 2016, effective in statutory, accounting and fiscal terms from 1 January 2017, the collection and management of performing loans is carried out by Banca Popolare di Milano S.p.A., while Banco BPM S.p.A. performs the remaining activities envisaged for the Servicer.

Loans portfolio

Bank	Value 31/12/2017
Banca Popolare di Milano S.p.A.	211,346

The amounts indicated represent performing, unlikely to pay and non-performing past due loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Value issue	Value as at 31/12/2017	Interest rate	Maturity	Rating Fitch/Moody's/ S&P (2)
A1	Senior	350,000	-		Fully paid-in	
A2	Senior (1)	1,574,600	142,874	Euribor 3 months + 0.14%	15.01.2043	AA/Aa2/AA
B	Mezzanine	40,300	7,698	Euribor 3 months + 0.20%	15.01.2043	AA/Aa2/A+
C	Mezzanine	50,400	50,400	Euribor 3 months + 0.70%	15.01.2043	BBB/A3/A+
	Total	**2,015,300**	**200,972**			

(1) Following their placement on the market, the former Banca Popolare di Milano S.c. a r.l., now Banco BPM purchased Senior A2 notes amounting to a nominal value of euro 42.5 million. The securities were transferred to BPM S.p.A..
(2) Rating as at 31 December 2017.

Significant events during 2017

In May 2017, Fitch downgraded the (Senior) Class A2 Notes and the Class B Notes from "AA+" to "AA". Furthermore, Moody's upgraded the Class C Notes of the transaction from "Baa2" to "Baa1" in May 2017, and from "Baa1" to "A3" in July. In November 2017, S&P upgraded the rating of the Class A2 Notes from "AA-" to "AA" and Class B and C Notes from "A" to "A+".

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of euro 26.6 million to guarantee contractual commitments, constituted - at the date of issue of the securities - mainly through the disbursement of a subordinated loan totalling for the same amount by the former Banca Popolare di Milano S.c. a r.l., now Banca Popolare di Milano S.p.A. This loan will be periodically repaid, taking into account the effective excess spread generated by the loans sold.
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Arranger of the transaction (Citibank) entered into an Interest Rate Swap agreement with the SPE.

Financial support provided to the entity (IFRS 12, par. 15)

During the year no financial support other than that envisaged under the agreement was given.

QUANTITATIVE INFORMATION

C.1 Banking group - Exposures resulting from main "proprietary" securitisations broken down by type of securitised asset and by type of exposure

Type of securitised asset/Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments /Recoveries	Book value	Adjustments /Recoveries	Book value	Adjustments /Recoveries
A. Fully derecognised	**-**	**-**	**-**	**-**	**85,838**	**(77)**
Non-performing assets:						
A.1 Bad loans	-	-	-	-	1,109	(77)
Performing assets						
A.2 Leasing	-	-	-	-	84,729	-
B. Partially derecognised	**-**	-	-	-	-	-
C. Not derecognised	**204,891**	**-**	**101,569**	**-**	**306,103**	-
Performing assets:						
C.1 Residential mortgage loans	204,891	-	101,569	-	143,292	-
C.2 Non-residential mortgage loans	-	-	-	-	-	-
C.3 Leasing	-	-	-	-	162,811	-

Guarantees given and credit lines are omitted as not present.

The exposures that are fully derecognised relate to the junior notes held by the group and classified under "Loans to customers", following the cited "Agreement on securitised loans" signed in 2009 between the former Banca Italease and Alba Leasing.

C.2 Banking group - Exposures resulting from main "third-party" securitisations broken down by type of securitised asset and by type of exposure

Type of securitised asset/Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ Recoveries	Book value	Adjustments/ Recoveries	Book value	Adjustments/ Recoveries
A.1 BANCAJA 6 A2 EUR /36	3,516					
- residential mortgages						
A.2 TDA IBERCAJA 35 TV	2,077					
- residential mortgages						
A.3 PHARMA FINANCE 3 CL. A TV 28	6,633					
- other						
A.4 PHARMA FINANCE 3 CL. B TV 28			57			
- other						
A.5 PHARMA FINANCE 3 CL. C TV 28			4,404			
- other						
A.6 BNT PORT 14-42 TV					52,793	(3,226)
- agricultural and livestock loans						
A.7 MULTISELLER 16-36 CL. A1 2%	516					
- bad loans						
A.8 BERENICE 17-33 CL. B 6% (*)			994			
- non-performing loans						
A.9 BERENICE 17-33 CL. C TV (*)					1,285	(11,813)
- non-performing loans						

(*) debt securities held indirectly through subscription to the Voluntary Scheme of the IDGF

Total exposure to these products amounts to euro 72.3 million, euro 70 million of which classified under "Loans to customers" and the remaining euro 2.3 million in the "Financial assets available for sale" portfolio, the latter exposure refers to the securities issued by the SPE Berenice SPV S.r.l. held indirectly through subscription to the Voluntary Scheme as illustrated in "Part A.1 - General part, Section 5 - Other aspects, Other significant aspects relating to the Group's accounting policies, Interbank Deposit Guarantee Fund - Voluntary Scheme" to which the reader should refer for more details.
For the exposure in "BNT Port 14-42 TV", classified under "Loans to customers", please refer to the content of the paragraph below.

Guarantees given and credit lines are omitted as not present.

C.3 Banking group - Shareholdings in special purpose entities for securitisation

The following paragraphs indicate which special purpose entities have been involved with companies of the Banking Group in structuring activities and in which the Group holds a shareholding.
More specifically, as regards the SPE created to conclude its own securitisation transactions; as described in "Part A – Accounting policies", "3. Scope of consolidation and methods", the separate equity of the same is consolidated insofar as the Group holds the contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same, regardless of voting rights (with the exception of the securitisations made through the SPE Tiepolo Finance).
In addition, a shareholding is also held in "BNT Portfolio SPV". As this SPE was established in 2014 in order to finalise the securitisation of agrarian loans belonging to Banca della Nuova Terra, funded through the issue of a single tranche of notes for a nominal value of euro 397.8 million, subscribed by the Shareholder Banks of Banca della Nuova Terra, which include the former Banco Popolare. Based on the agreements reached, the former Banco Popolare had subscribed the above-cited note for a nominal value of euro 84.6 million, recognised in the financial statements in the portfolio of "Loans to customers" for the amount of euro 52.8 million as at 31 December 2017, net of total adjustments of euro 16.4 million (euro 3.2 million of which related to 2017) and of collections made.
The following table illustrates the overall assets and liabilities, as shown in the separate equity of the SPE.

Name of Securitisation/ Name of SPE	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Tiepolo Finance S.r.l.	Lodi	Supervisory (*)	1,741		1,062			50,531
BNT Portfolio SPV S.r.l.	Milan	no	235,992		13,797			326,090
BP Mortgages Mar 2007	Milan	Accounting	209,085		38,497	113,030	57,910	14,563
BP Mortgages Jun 2007	Milan	Accounting	354,028		46,878	219,174	64,424	16,172
ITA 8 / Italease Securitisation vehicle	Treviso	Accounting (**)	20,611			1,434	497	11,320
ITA 9 / Italease Securitisation vehicle 2	Treviso	Accounting (**)	98,240			55,555	20,762	16,272
ITA 11 / Italease Securitisation vehicle 2	Treviso	Accounting (**)	154,484					158,254
ITA 9 BEI / Erice Finance	Treviso	Accounting (**)	82,629					
Bpm Securitisation 2	Rome	Accounting	232,420		6	150,612	50,400	8,915

(*) The supervisory consolidation of the SPE relates only to the financial statements of the SPE and not to the separate equity of the securitisation
(**) The consolidation only regards the share of receivables and securities for which the risks and benefits are maintained, as illustrated in the paragraph above entitled "Agreement on securitised loans between Banca Italease and Alba Leasing".

C.4 Banking group - Special purpose entities for securitisations not consolidated

No disclosure is provided as all of the SPEs for securitisation are consolidated in the accounts. As regards the Tieopolo transaction, for which the exemption of not recognising the loans sold was applied in accordance with IFRS 1, please refer to the information on separate equity shown in table C.6 below.

C.5 Banking group - Servicer activities – originated securitisations: collection of securitised loans and redemption of securities issued by the special purpose entity for securitisations

SPE	Securitised assets (end-of-period)		Loan collections in the year		Percentage of redeemed securities (end-of-period)					
					senior		mezzanine		junior	
	Non-performing	Performing	Non-performing	Performing	non-performing assets	performing assets	non-performing assets	performing assets	non-performing assets	performing assets
Tiepolo Finance	1,632		1,583		100.00%		100.00%			
ITA 8 / Italease Securitisation vehicle	4,390	1,769	699	2,205		100.00%		100.00%		
ITA 9 / Italease Securitisation vehicle 2	13,217	37,389	1,670	12,155		94.00%		95.00%		
ITA 11 / Italease Securitisation vehicle 2	10,249	34,725	1,694	8,719		100.00%				59.00%
ITA 9 BEI / Erice Finance	13,883	23,953	3,866	16,224		100.00%		100.00%		100.00%

In accordance with the provisions of Circular no. 262, the amounts shown in the previous table relate to the role of Servicer in originated securitisation transactions in which the assets transferred are derecognised from the financial statements; as regards the transactions of the former Banca Italease, the amounts must be considered to refer to the banking sub-portfolio (see the paragraph above regarding the "Agreement on securitised loans").

C.6 Banking group - Special purpose entities for securitisations consolidated

The following information refers to the single SPE of the Banking Group and provide a summary of the figures relating to the separate equity of the securitisation transaction.
The figures relating to securitisation transactions that are consolidated in the accounts are provided in table C.3 above.

Company name	Registered office
Tiepolo Finance S.r.l.	Lodi – Via Polenghi Lombardo no. 13

Summary table of securitised assets and issued securities (by single SPE owned by the Banking Group)

Tiepolo transaction (SPE: Tiepolo Finance S.r.l.)

	31/12/2017	31/12/2016
A. Securitised assets	**1,741**	**3,731**
1) Loans	1,741	3,731
- bad loans	1,741	3,731
- other loans		
2) Securities		
3) Other assets		
B. Use of available funds from loan management	**1,062**	**756**
1) Available funds on current account	807	595
2) Other loans		
3) Repurchase agreements		
4) Other assets	255	161
C. Issued securities	**50,500**	**50,500**
1) "Class A" securities		
2) "Class B" securities		
3) "Class C" securities	50,500	50,500
D. Loans received		
1) Securities lending		
2) Subordinated loan		
E. Other liabilities	**19,300**	**20,249**
1) Accrued liabilities	31	62
2) Other liabilities	19,269	20,187
F. Interest expense on issued securities	**77**	**147**
G. Fees and commissions borne by the transaction	**226**	**195**
1) Servicing fees	92	61
2) Other services	134	134
H. Other expenses	**1,318**	**662**
1) Other interest expense	11	47
2) Other expenses	14	71
3) Adjustments on loans	1,293	544
I. Interest generated by securitised assets		
L. Other revenues	**885**	**539**
1) Interest income	-	-
2) Recoveries on loans	885	532
3) Out-of-period income	-	7

D. Disclosure on structured entities (other than companies for securitisations)

D.1 Structured entities consolidated

As at 31 December 2017, there are no "consolidated structured entities" in the Group, following the sale, illustrated in Part A - Section 3 – "Scope of consolidation and consolidation methods", of Aletti Gestielle SGR S.p.A, which means that the requirements for the consolidation of the Gestielle Hedge Low Volatility Fund were no longer fulfilled. Following the sale of the former investee company, the conditions that permitted the Group, which acted as fund manager, to influence returns through the management of core activities were no longer met.

D.2 Structured entities not consolidated in the accounts

D.2.1 Structured entities consolidated for supervisory purposes

As at 31 December 2017 there is no disclosure to make.

D.2.2 Other structured entities

The Group holds an interest in investment funds (funds and SICAV), primarily in order to meet its own investment needs. The total exposure of the cited investments amounts to euro 467.1 million. For further details, refer to the disclosure provided in the tables showing the breakdown of items 20, 30 and 40 of balance sheet assets, contained in Part B of these Notes to the financial statements.
Following the sale of Aletti Gestielle SGR S.p.A., as illustrated in point D.1 above, the only involvement in structured entities, which goes beyond merely holding the investment, is represented by the placement of UCIT units.
The net income of the Group resulting from the placement of Investment funds in 2017 amounted to euro 661.7 million.

E Sale transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

As at 31 December 2017, transfers that did not result in the derecognition from the financial statements of the underlying financial assets were represented by:

- securitisations of loans to customers (euro 881.7 million);
- repurchase agreements on own securities, mostly classified in the portfolios of "Financial assets available for sale" and "Investments held to maturity".

With regard to repurchase agreements, the reason why the security underlying the same was not "derecognised" is due to the fact that the bank substantially retains all of the risks and benefits associated to the security, as it has an obligation to repurchase it at term at a price established contractually. The securities transferred continue therefore to be recognised in the relative accounting portfolios; the consideration of the transfer is recognised under due to banks or to customers, depending on who the counterparty is. In this regard, note that the following tables do not show the repurchase agreements performed on securities that are not recognised in the financial statements, when the availability of the same relates to reverse repurchase agreements (refer to the content of the paragraph entitled "Other information" contained in Part B of these notes to the financial statements).
As regards the securitisation transactions illustrated in paragraph "C. Securitisation transactions", the reason why the same are not "derecognised" is due to the subscription, by the Group, of the tranche of junior securities or of similar exposures, which entail a risk of initial losses for the same and, equally, the benefit associated to the return on the portfolio of assets transferred. Following the transfer, the consideration received is recognised as a balancing entry to the recognition of a payable to the SPE, net of the tranche of securities subscribed or of uses in the form of liquid funds provided to the SPE as payments of the principal. The payable due to the SPE, recognised in this way, will decrease by virtue of the amounts collected by the originator acting as "servicer", and transferred to the same SPE.
Due to the consolidation of the SPE's assets, the latter liability is not shown in the consolidated financial statements; otherwise, the outstanding securities issued by the SPE and not subscribed by Group companies would be recorded under liabilities.

E.1 Banking group - Financial assets sold and not derecognised: book value and full value

Type/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 31/12/2017	Total 31/12/2016
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. Cash assets	**268,703**	**-**	**-**	**7,992**	**-**	**-**	**3,732,354**	**-**	**-**	**2,676,812**	**-**	**-**	**5,443**	**-**	**-**	**905,843**	**-**	**-**	**7,597,147**	**7,683,726**
1. Debt securities	167,359	-	-	7,992	-	-	3,732,354	-	-	2,676,812	-	-	5,443	-	-	24,161	-	-	6,614,121	6,802,255
2. Equity instruments	101,344	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	101,344	48,533
3. UCIT units	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	881,682	-	-	881,682	832,938
B. Derivatives	**-**	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total 31/12/2017	**268,703**	**-**	**-**	**7,992**	**-**	**-**	**3,732,354**	**-**	**-**	**2,676,812**	**-**	**-**	**5,443**	**-**	**-**	**905,843**	**-**	**-**	**7,597,147**	**X**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	112,133	-	-	112,133	X
Total 31/12/2016	**375,044**	**-**	**-**	**-**	**-**	**-**	**943,225**	**-**	**-**	**5,508,510**	**-**	**-**	**-**	**-**	**-**	**856,947**	**-**	**-**	**X**	**7,683,726**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	110,697	-	-	X	110,697

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)

E.2 Banking group - Financial liabilities associated with financial assets sold and not derecognised: book value

This table shows the liabilities recognised under "Due to customers" or "Due to banks" relating to transfers of financial assets recognised in the financial statements that have not entailed a full derecognition, while guaranteed funding transactions represented by repurchase agreements with underlying securities acquired as part of reverse repurchase agreements are not included.
With regard to the assets transferred for securitisation transactions, note that the associated liabilities are included in "Due to customers", insofar as they are transactions performed through SPEs, subject to consolidation, but not part of the Banking Group (in the consolidated financial statements, said liabilities are instead recognised under "Debt securities issued").

Liability/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	**71,729**	**-**	**1,581,420**	**1,858,788**	**-**	**331,503**	**3,843,440**
a) relating to fully recognised assets	71,729	-	1,581,420	1,858,788	-	331,503	**3,843,440**
b) relating to partially recognised assets	-	-	-	-	-	-	**-**
2. Due to banks	**165,120**	**142**	**1,973,438**	**859,027**	**-**	**14,991**	**3,012,718**
a) relating to fully recognised assets	165,120	142	1,973,438	859,027	-	14,991	**3,012,718**
b) relating to partially recognised assets	-	-	-	-	-	-	**-**
3. Debt securities issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) relating to fully recognised assets	-	-	-	-	-	-	**-**
b) relating to partially recognised assets	-	-	-	-	-	-	**-**
Total 31/12/2017	**236,849**	**142**	**3,554,858**	**2,717,815**	**-**	**346,494**	**6,856,158**
Total 31/12/2016	**275,988**	**-**	**801,974**	**5,651,523**	**-**	**350,859**	**7,080,344**

E.3 Banking group - Sale transactions associated with liabilities with exclusive recourse to the assets sold: fair value

This table shows the fair value of the assets and associated liabilities relating exclusively to securitisation transactions insofar as they are considered the only cases that the Group possesses in which the transferee, namely the SPE, has exclusive recourse to the assets transferred, as in reality they represent the only cash flows available for the payment of the securities issued.

Type/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 31/12/2017	Total 31/12/2016
	A	B	A	B	A	B	A	B	A	B	A	B		
A. Cash assets	-	-	-	-	-	-	-	-	-	-	**902,855**	-	**902,855**	**886,652**
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCIT units	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	902,855	-	902,855	886,652
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total Assets	-	-	-	-	-	-	-	-	-	-	**902,855**	-	**902,855**	**886,652**
C. Liabilities related to	-	-	-	-	-	-	-	-	-	-	**331,503**	-	**X**	**X**
1. Due to customers	-	-	-	-	-	-	-	-	-	-	331,503	-	X	X
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
3. Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total Liabilities	-	-	-	-	-	-	-	-	-	-	**331,503**	-	**331,503**	**335,868**
Net Value 31/12/2017	-	-	-	-	-	-	-	-	-	-	**571,352**	-	**571,352**	**X**
Net Value 31/12/2016	-	-	-	-	-	-	-	-	-	-	**550,784**	-	**X**	**550,784**

Key:
A = Financial assets sold and fully recognised
B = Financial assets sold and partially recognised

B. Financial assets sold and fully derecognised with recognition of continuous involvement

The case in point is not present for the Group at the date of the financial statements.

E.4 Banking Group - Covered bond transactions

Covered bond issue programmes

QUALITATIVE INFORMATION

Strategic goals

The Covered Bonds ("CB") issue is part of the Banco BPM Group's strategic plan, and represents a tool to diversify sources of funding, to reduce the relative cost and to extend the maturities of liabilities.

As regards the former Banco Popolare Group, in 2010, the first programme for the issue of CB was launched, relating to residential mortgage loans ("Residential CB" or "BP CB1"). The maximum amount of CB that may be issued under the programme was extended from the initial euro 5 billion to 10 billion in February 2011. Subsequently, on 13 December 2011, the former Banco Popolare's Board of Directors approved the implementation of a CB programme relating to residential and commercial mortgage loans ("Commercial CB" or "BP CB2"), the total nominal value of which is euro 5 billion.

As regards the former BPM Group, on 13 November 2007, the Board of Directors of the Parent Company authorised a CB programme ("BPM CB1") for a maximum amount of euro 10 billion, in which only landed mortgage loans and residential mortgage loans were assigned, although it was structured in order to include commercial mortgage loans as well. Subsequently, on 10 March 2015, the Board of Directors of the former BPM Group approved a second CB programme ("BPM CB2") structured to only include the assignment of landed mortgage loans and residential mortgage loans for a maximum amount of euro 10 billion.

Structure of the Programmes

Following the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l., from 1 January 2017, Banco BPM S.p.A. took over (i) as regards the CB programmes of the former Banco Popolare Group, from Banca Popolare Soc. Coop. inter alia, to act as the Issuing Bank of the CB and as Assigning Bank of the assets pursuant o art. 7-bis of Italian Law no. 130 of 30 April 1999, and as Lending Bank and (ii) as regards the CB Programmes of the former BPM Group, from Banca Popolare di Milano S.c. a r.l. as, inter alia, the Issuing Bank of the CB, while Banca Popolare di Milano S.p.A.. was assigned the roles of Assigning Bank of the assets and Lending Bank. Furthermore, as part of the BPM CB2 programme, Banco BPM S.p.A. acted as Assigning Bank and Lending Bank following the finalisation of the first assignment of assets disbursed by Banco BPM.

More specifically, with regard to the BPM CB1 and BPM CB2 programmes, following the above-mentioned merger and spin-off transactions, in May 2017 amendments were made to some contracts so as to reflect the reallocation of roles, originally covered by BPM S.c.a r.l., between Banco BPM S.p.A. and BPM S.p.A. In particular, Banca Popolare di Milano S.p.A. was assigned the roles relating to the management, collection and encashment of the receivables assigned by the same.

With regard to the BP CB1 and BP CB2 programmes, the former Banco Popolare made non-recourse assignments to the SPE BP Covered Bond S.r.l. (the "SPE" 60% of which is owned by Banco BPM, former Banco Popolare) of the relative monetary receivables relating (i) to mortgage loans with the characteristics set forth in art. 2, paragraph 1, letter a) of Italian MEF (Mortgage Loans) Decree for the BP CB1 programme and (ii) to landed mortgage loans and/or residential and commercial mortgage loans with the characteristics set forth in art. 2, paragraph 1, letters a) and b) of the MEF Decree, for the BP CB2 programme.

With regard to the BPM CB1 and BPM CB2 programmes, the monetary receivables resulting from the landed mortgage loans and the residential mortgage loans with the characteristics set forth in art. 2 of the Italian MEF Decree, were assigned to the SPE BPM Covered Bond S.r.l. (80% of which is held by Banco BPM) under the "BPM CB1" programme and to the SPE BPM Covered Bond 2 S.r.l. (80% held by Banco BPM) under the "BPM CB2" programme.

Subordinated loan

For all of the Banco BPM Group's CB programmes, in connection with the sale of the assets, the Originator Banks granted a Subordinated Loan to the SPE in order to provide it with the necessary financial resources to acquire the relevant loans (except in the case in which the SPE pays directly for the assets purchased); the SPE must repay the subordinated loans on the last date of final repayment taking into account the extended redemption date should the Issuer default, in compliance with the applicable payment priority and within the limits of the funds available. In any event, at each interest payment date, there is an option to repay the subordinate loans in advance provided that the residual principal amount of the loans is equal or higher than the residual debt of the Covered Bonds in circulation and that the tests contemplated by the regulations and by contract are observed. Interest is paid on subordinated loans at a fixed rate or at a rate equal to the average interest rate of the CB Series issued, plus any excess spread generated by the structure.

Derivative Contracts

The BP CB1 and BPM CB2 programmes have two and three derivative contracts respectively called "Covered Bond Swaps" subscribed by the SPE and by the market counterparties. These swaps, which belong to the interest rate swap category, enable the interest rate risk resulting from a misalignment between the interest income flows of the asset portfolio assigned to the respective SPEs and the interest income flows on the CB issued to be covered, at consolidated level, even if the Issuer should default. Furthermore, under the BP CB1 programme, there are also three derivative contracts called "Mortgage Pool Swaps" subscribed by the SPE Covered Bond S.r.l. and a market counterparty. These swaps enable the "base" interest rate risk of the SPE resulting from the various types of interest rate in the balance sheet assets of the same and the Euribor rate, which must be exchanged in order to collect the fixed rate coupons accrued on the CB in place to be mitigated.

Guarantees

In order to guarantee the repayment of the Covered Bonds should the Issuer not fulfil its obligations to pay, the SPEs have issued an unconditional and irrevocable primary guarantee valid for separate assets for the benefit of the investors that will subscribe the Covered Bonds. The guaranteed amount is equal to total interest and principal that must be paid to the investors on each class of Covered Bond. The regulations require that the integrity of the guarantee should be ensured during the life of the Covered Bonds and to this end, specific tests are envisaged that take the amount and the characteristics of both the assets assigned and the CB issued into account. The tests are carried out quarterly by the Group Finance Service, while the Risk Management Service verifies the same at least every six months. The accuracy of the tests is also verified, at the time of issue of the separate series of CB and subsequently on a quarterly basis, by an external party, the Asset Monitor which, in accordance with Supervisory Regulations, must be an Independent Auditor, other than that engaged to audit the financial statements. The Asset Monitor also verifies the quality and integrity of the assets assigned and prepares a specific annual report. The control system also used the Internal Audit function, which verifies the adequacy of the controls conducted internally, also based on the annual report prepared by the Asset Monitor.

Regulatory and contractual tests

Regulatory tests, conducted quarterly on the portfolios of each of the issue programmes, are as follows:

- the Nominal Value Test, which verifies that the nominal value of the residual loans in the portfolio sold is higher than the nominal value of the outstanding CB;
- the NPV Test, which verifies that the present value of the residual loans in the portfolio sold is higher than the present value of the outstanding CB;
- the Interest Coverage Test, which verifies that the interest collected and to be collected, net of the costs of the SPE, is higher than the interest to be paid to the holders of CB.

If the requirements of all of the tests are met, payments may be made in accordance with the "order of payment". In accordance with the contractual documentation of the programmes, the Asset Coverage Test on the portfolio should also be respected, which checks that the nominal value of the loans, weighted on the basis of any delays in the payment of the latter and the level of over-collateralisation envisaged by the contracts, is higher than the nominal value of the outstanding CB. The infringement of the regulatory and contractual tests leads to an obligation for the assigning banks to add to the portfolio.

Collection and administrative management services

For the BP CB1 and BP CB2 programmes, the collection and management of the loans sold is carried out by Banco BPM S.p.A. (former Banco Popolare), which acts as Servicer; the amounts collected are paid into accounts in the name of the SPE opened with Banco BPM S.p.A. (Interim Account Bank), and transferred on a daily basis to the accounts of the SPE opened with Banco BPM S.p.A. (Transaction Account Bank). Banco BPM S.p.A. also acts as Administrative Servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of the SPE BP Covered Bond S.r.l.

For the BPM CB1 programme, the collection and management of the loans sold is carried out by Banca Popolare di Milano S.p.A., as Servicer, given that the loans sold under this programme were exclusively originated by the network belonging to the former BPM Group. The amounts collected are paid into a current account in the name of BPM Covered Bond S.r.l. opened with Banca Popolare di Milano S.p.A. and on a daily basis, transferred to accounts in the name of the SPE held at Banco BPM.

For the BPM CB2 programme, the collection and management of the loans sold (servicing) is carried out by Banca Popolare di Milano S.p.A. for the loans disbursed by the latter and by Banco BPM S.p.A. for the loans disbursed by the same. The amounts collected are paid into accounts in the name of BPM Covered Bond 2 S.r.l. opened with the respective Originator banks. On a daily basis, the amounts collected are transferred to accounts in the name of the SPE held with BNP Paribas.

QUANTITATIVE INFORMATION

Banco Residential CB Programme ("BP CB1")

Over the course of previous years, the assigning banks (right now Banco BPM) have assigned a total of twelve mortgage loan portfolios to the SPE BP Covered Bond S.r.l.; to pay the purchase price of the various portfolios, the SPE utilised a Subordinated revolving Loan granted by the assigning banks and the available liquidity originating from the amortisation of the portfolio of loans deposited in current accounts opened with Banco BPM.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2017:

Bank	Value as at 31/12/2017	Value as at 31/12/2016 (*)
Banco BPM	8,671,024	9,801,064

(*) Former Banco Popolare
The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2017	Value as at 31/12/2016 (*)
Banco BPM	316,498	277,624

(*) Former Banco Popolare

In 2017, the mortgage loans portfolio generated collections totalling euro 1,292.4 million, of which euro 1,127.4 million represented principal and euro 165 million represented interest.

Bonds issued by Banco BPM

As part of the BP CB1 programme, Banco BPM, formerly Banco Popolare, issued ten Series of CB, listed on the Luxembourg Stock Exchange, and one unlisted Registered Covered Bond; these bonds were subscribed by institutional investors or by Banco BPM itself.

Overall, the bonds issued by Banco BPM, former Banco Popolare, amounted to euro 12,450 million, of which euro 1,750 million refer to the Fifth Series fully redeemed on maturity as at 31 December 2013, euro 1,250 million refer

to the Third Series fully redeemed on maturity as at 31 March 2014, euro 1,250 million refer to the Second Series fully redeemed on maturity as at 30 September 2015, euro 1,550 million refer to the Fourth Series fully redeemed on maturity as at 31 March 2016, euro 1,400 million refer to the First Series fully redeemed on maturity as at 31 March 2017 and euro 1,500 million refer to the Eighth Series fully redeemed on maturity as at 30 September 2017.

Therefore, as at 31 December 2017, the securities issued and outstanding amounted to euro 3,750 million, and break down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's/ DBRS Rating
24/01/2011	Registered CB [1]	100,000	5.250%	03/04/2029	96.590	A1/A
05/04/2013	6th Series 1st tranche [2]	150,000	4.000%	31/03/2023	99.482	A1/A
08/01/2014	7th Series 1st tranche [3]	1,500,000	Eur 3M + 100 bps	31/03/2019[*]	100.000	A1/A
05/03/2015	9th Series 1st tranche [4]	1,000,000	0.75%	31/03/2022	99.917	A1/A
22/02/2016	10th Series 1st Tranche [3]	1,000,000	Eur 1M + 100 bps	31/03/2018	100.000	A1/A
		3,750,000				

(1) The securities were placed in the form of a private placement with market investors.
(2) The securities were subscribed by Banca Generali S.p.A.
(3) The securities were entirely subscribed by Banco BPM and used as collateral in monetary policy operations with the Eurosystem.
(4) The securities were subscribed by institutional investors.
(*) In March 2016, the Maturity Date was extended from 31 March 2016 to 31 March 2019.

Other information

During 2017, certain contractual amendments were formalised in order to assign the role of Cash Manager to Banco BPM S.p.A. to replace BNP Paribas. In September 2017, the prospectus for the programme underwent its annual renewal.

Events occurring after the end of the year

Under the BP CB1 programme, on 25 January 2018, Banco BPM issued the Eleventh Series of CB for a nominal value of euro 1.5 billion, a floating rate coupon corresponding to the 1m Euribor plus a spread of 100 bps, with maturity 30 June 2020; the bond was entirely subscribed by Banco BPM and used as collateral for monetary policy operations.

Banco Commercial CB Programme ("BP CB2")

In previous years, the assigning banks (right now Banco BPM) sold a total of seven portfolios of commercial, residential and landed mortgage loans to the SPE BP Covered Bond S.r.l. To pay the purchase price of the various portfolios, the SPE utilised a Subordinated revolving Loan granted by the assigning banks and the available liquidity originating from the amortisation of the portfolio of receivables deposited in current accounts opened with Banco BPM.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2017:

Bank	Value as at 31/12/2017	Value as at 31/12/2016 (*)
Banco BPM	1,400,597	1,679,426

(*) Former Banco Popolare
The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2017	Value as at 31/12/2016 (*)
Banco BPM	49,431	50,226

(*) Former Banco Popolare

In 2017, the mortgage loans portfolio generated collections totalling euro 295.2 million, of which euro 276.2 million represented principal and euro 19 million represented interest.

Bonds issued by Banco BPM

Banco BPM, formerly Banco Popolare, issued four Series of CB under the BP CB2 programme, listed on the Luxemburg Stock Exchange; these bonds were entirely subscribed by Banco BPM and used as collateral in monetary policy operations with the Eurosystem. Overall, the bonds issued correspond to euro 3,400 million, of which euro 900 million refer to the First Series and euro 800 million to the Second Series, both redeemed on maturity as at 31 March 2014, euro 200 million refer to the Third Series fully redeemed on maturity on 2 October 2015 and euro 250 million refer to the Fourth Series for which, on 3 October 2016, Banco BPM exercised the partial early redemption option. Therefore, as at 31 December 2017, the securities issued and outstanding amounted to euro 1,250 million, and break down as follows:

Date of issue	Series	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating
04/04/2014	4th Series	1,250,000	Eur 3M + 30 bps	02/07/2019 (*)	100.00	A2
		1,250,000				

(*) In June 2016, the Maturity Date was extended from 2 July 2016 to 2 July 2019.

Other information

During the year, certain contractual amendments were formalised in order to assign the role of Cash Manager to Banco BPM S.p.A. to replace BNP Paribas.

BPM Covered Bond Programme ("BPM CB1")

In previous years, the assigning banks sold a total of seven portfolios of mortgage loans to the SPE BPM Covered Bond S.r.l. worth euro 7.5 billion. To pay the purchase price of the various portfolios, the SPE utilised Subordinated Loans granted by the assigning banks and the available liquidity originating from the amortisation of the portfolio of loans deposited in current accounts opened with BPM S.p.A..

The table below shows the overall value of the loans sold to the SPE as at 31 December 2017:

Bank	Value as at 31/12/2017
Banca Popolare di Milano S.p.A.	3,345,531

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2017
Banca Popolare di Milano S.p.A.	44,998

In 2017, the mortgage loans portfolio generated collections totalling euro 499 million, of which euro 435 million represented principal and euro 64 million represented interest.

Bonds issued by Banco BPM

As part of the BPM CB1 programme, Banco BPM, formerly Banca Popolare di Milano S.c.a r.l. issued eight Series of CB, listed on the Luxembourg Stock Exchange, for a total of euro 7.4 billion, subscribed originally by institutional investors or by the former BPM itself. In 2011, the First Series was redeemed for a nominal value of euro 1 billion on the date of maturity of 15 July 2011; in 2015, a partial reduction of the Fourth Series issued in 2011 of euro 500 million was made and the Third Series was redeemed on the date of maturity of 16 November 2015 at a nominal value of euro 1.1 billion. In 2016, a reduction of the Fifth Series issued in 2015 of euro 275 million was made and the Second Series was redeemed on the date of maturity of 17 October 2016 at a nominal value of euro 1 billion.

Therefore, as at 31 December 2017, there were five Series of covered bonds in circulation, entirely repurchased by the former Banca Popolare di Milano S.c.a r.l., now Banco BPM S.p.A., and the relative bonds used for refinancing operations with the ECB, for a total of euro 3.5 billion, broken down as follows:

Issue date	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating
18/07/2011	4th Series (1)	500,000	Euribor 3 months + 100 bps	18/01/2019 (*)	100.00	A1
28/11/2013	5th Series (3)	375,000	Euribor 3 months + 135 bps	29/05/2021 (**)	100.00	A1
16/03/2015	6th Series (2)	750,000	Euribor 3 months + 30 bps	16/03/2020	100.00	A1
19/11/2015	7th Series	900,000	Euribor 3 months + 60 bps	19/11/2022	100.00	A1
07/11/2016	8th Series	1,000,000	Euribor 3 months + 30 bps	07/11/2021	100.00	A1
Total		**3,525,000**				

(1) Original nominal value of the issue euro 1 billion; in 2015, a nominal figure of euro 500 million was redeemed
(2) Issue of euro 600 million on 16 March 2015, increased by tap (additional) issues of euro 150 million on 26 June 2015
(3) Original nominal value of the issue euro 650 million; on 11 May 2013, the nominal issue value was reduced by euro 275 million
(*) In 2013, the original Maturity Date was extended from 18 January 2014 to 18 January 2019
(*) In May 2016, the original Maturity Date was extended from 28 May 2016 to 29 May 2021

Other information

In May 2017, all accounts of the SPE BPM Covered Bond S.r.l. were transferred to Banco BPM (with the exception of the Collection Account which will continue to be held at BPM S.p.A.), which therefore took on the role of Account Bank, while the role of Back-Up Account Bank was assigned to Bank of New York Mellon.

Events occurring after the end of the year

On 10 January 2018, the Fifth Series of the BPM CB1 programme was redeemed in advance for a residual nominal amount of euro 375 million. On the Payment Date of 15 January 2018, the subordinated loan granted to the SPE was also repaid for euro 350 million.

BPM Covered Bond 2 Programme ("BPM CB2")

In previous years, the assigning bank Banca Popolare di Milano S.c.a r.l. assigned a total of four mortgage loan portfolios to the SPE "BPM Covered Bond 2 S.r.l." for euro 3,4 billion. Following the above-cited merger and spin-off transactions, the role of Assigning Bank was taken over by Banca Popolare di Milano S.p.A. On 28 April 2017, BPM S.p.A. sold a new portfolio of eligible assets (fifth assignment) to the SPE BPM Covered Bond 2 S.r.l. with a residual debt of around euro 560 million, comprised of residential landed and mortgage loans originated by BPM S.p.A. To pay the entire purchase price of the portfolio, the SPE utilised a subordinated credit facility made available by BPM S.p.A. In October 2017, Banco BPM (as Additional Seller) sold the SPE a new portfolio of residential mortgage loans (sixth series, but the first Banco BPM portfolio) with a residual debt of around euro 1.1 billion. To honour the purchase price of the portfolio, the SPE utilised a subordinated credit facility granted by Banco BPM.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2017:

Bank	Value as at 31/12/2017
Banca Popolare di Milano S.p.A.	3,064,456
Banco BPM	1,085,471

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2017
Banca Popolare di Milano S.p.A.	7,869

In 2017, the mortgage loans portfolio generated collections totalling euro 524 million, of which euro 457 million represented principal and euro 67 million represented interest.

Bonds issued by Banco BPM

As part of the BPM CB2 programme, Banco BPM, formerly Banca Popolare di Milano S.c.a r.l., issued three Series of CB, listed on the Luxembourg Stock Exchange, for a total nominal value of euro 2,500 million. All of the bonds issued by the programme have been placed on the capital market.

Therefore, as at 31 December 2017, the bonds issued and outstanding break down as follows:

Issue date	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating
14/09/2015	1st Series	1,000,000	0.875%	14/09/2022 (1)	99.872	A1
02/12/2015	2nd Series	750,000	1.500%	02/12/2025 (2)	98.946	A1
08/06/2016	3rd Series	750,000	0.625%	08/06/2023 (3)	99.761	A1
Total		**2,500,000**				

(1) May be extended to 17 September 2023
(2) May be extended to 2 December 2026
(3) May be extended to 8 June 2024

Events occurring after the end of the year

Under the BPM CB2 programme, on 23 January 2018, Banco BPM issued a Fourth Series of CB for a nominal value of euro 750 million, placed with institutional investors, fixed rate coupon of 1%, maturing 23 January 2025. On the Payment Date of 18 January 2018, the subordinated loan granted to the SPE was also repaid for euro 200 million.

Accounting representation

In the consolidated financial statements Banco BPM S.p.A. (the Issuing Parent Company and assigning bank), BPM S.p.A. (the assigning bank) and the SPE are part of the Group and are consolidated line-by-line.
The accounting representation of the main asset items related to the issue of Covered Bonds is provided below:

- the mortgage loans sold by the assigning banks to the SPE continue to be recognised in the assets of the Balance Sheet under item 70 "Loans to customers" and the relative interest income is booked to the Income Statement under item 10 "Interest and similar income". As at 31 December 2017, the book value of mortgage was (i) euro 8,671 million for the BP CB1 programme (ii) euro 1,400.6 million for the BP CB2 programme (iii) euro 3,345.5 million for the BPM CB1 programme and (iv) euro 4,149.9 million for the BPM CB2 programme. This amount is subject to specific evidence among "Assets pledged to secure own liabilities and commitments" among "Other information" section contained in "Part B – Information on the Balance sheet of these notes to the financial statements";

- the CB issued are recorded under debt securities issued (item 30 of Liabilities) and valued according to fair value hedge accounting rules with the hedging derivative of the interest-rate risk signed by the SPE ("Covered Bond Swap"). The bonds issued also comprise loan transactions through repurchase agreements on the series of repurchased Covered Bonds, in line with the clarifications provided in this regard by the Supervisory Body. The book value of the CB as at 31 December 2017 amounts to (i) euro 1,505.7 million related to the BP CB1 programme and (ii) euro 2,522.1 million related to the BPM CB2 programme. Note that the issues of the BP CB2, BPM CB1 programmes and part of those of the BP CB1 programme are not shown in the accounts insofar as they have been fully repurchased and used as collateral for monetary policy operations with the Eurosystem, as illustrated previously;
- the Covered Bond Swap contracts, between the SPEs and the market counterparties external to the Group, are classified under item 80 "Hedging derivatives" in assets and/or item 60 "Hedging derivatives" in liabilities.

The consolidated income statement includes the following components:

- "Interest and similar income" includes the interest on the mortgages sold (cover pool), as already mentioned above;
- "Interest and similar expense" includes the interest in the Covered Bonds issued;
- "Interest and similar income" or "Interest and similar expense", depending on the balance, includes the spreads relating to the heading derivative (which transform the interest rate of the Covered Bond from fixed to variable);
- item 90 "fair value adjustments in hedge accounting" includes the fair value difference of the hedge contracts of the items hedged.

F. Banking Group - Credit risk measurement models

To measure the portfolio credit risk, the bank uses an econometric model fed by an extensive set of data and risk variables.
By resorting to Credit-VaR metrics, the model defines the distribution probability of losses in the loan portfolio for performing loans, cash loans and endorsement credits to resident retail and financial customers. The distribution is used for measuring the maximum potential loss along an annual timeframe and with a specific level of confidence.
In particular, to calculate the distribution, the model's processing engine uses a "MonteCarlo" simulation approach, which simulates a sufficiently high number of scenarios to produce a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down in the classical Expected Loss and Unexpected Loss (Economic Capital), is affected by the concentration risk (generated by large exposures to single counterparts – name concentration – or types of peer counterparts in terms of geographical areas and/or industries, whose creditworthiness depends on one or more systematic factors – industry concentration) and by the systematic risk (generated by the impact of unexpected changes in macroeconomic factors on the probability of default of the single counterparts).
In addition to the loan portfolio concentration level, the impact of the above components on credit risk depends also on the structure of the correlation matrix of the probabilities of default, which is estimated by using a quantitative stress testing model (developed and updated in-house), which can link the decay rates of peer counterparts in terms of industry and geographical areas to a set of "first level" (international and national) economic and financial factors.
Finally, the portfolio model is periodically stress tested to verify how sensitive the credit risk of the Group portfolio is to extreme changes (albeit plausible) of one (so called sensitivity analysis) or more (so called scenario analysis) economic and financial factors.

As at 31 December 2017, the expected operating loss, calculated on the scope of validation of Basel 3 (for which Banco BPM has been authorised by the Bank of Italy to use internal rating systems to calculate capital requirements on credit risk) corresponded to 0.33% of the exposure in default, while total loss (expected and unexpected loss measured using the C-Var method with a confidence level of 99.9%) amounted to 1.97% of the exposure in default.

Internal models to estimate PD and LGD have undergone a process of internal validation by the Risk Function and a third level control by the Audit Function: the outcome of these processes is illustrated in specific reports, submitted to the Corporate Bodies and to the European Central Bank/Bank of Italy.

Outcome of backtesting of rating systems

In order to calculate capital requirements against Credit Risk and only on the scope of the Parent Company, the Banco BPM Group adopts internal estimates of PD and of LGD for Corporate and Private Customer portfolios.
The comparison between estimates and empirical data is made separately for PD on a six-monthly basis at least, for LGD on an annual basis, by means of backtesting conducted by the Internal Validation service. The last backtesting exercise regarded the PD and LGD models currently in production.
With regard to PD models, the Banco BPM Group adopts performance measures to verify the discriminatory range of the estimates (accuracy ratio-AR) and calibration tests ("classic" binomial, multi-period and single-period tests and "adjusted" binomial tests, including those adjusted to take into account the cyclical nature of the macroeconomic scenario in question) to compare default rates (DR) over an annual time horizon with estimated PD values.
Regarding the Corporate segment, the latest backtesting exercise showed a good discriminatory range of models, both in terms of single modules and final integrating ratings, which produced values comparable and at times superior to those obtained during the development phase.
With regard to the calibration, satisfactory values were found for the Large Corporate model. With regard to the classic multi-period binomial test, the Mid Corporate Plus, Mid Corporate and Small Business segments show, instead, a higher number of non-calibrated classes; these values are due to a general under-estimation of counterparty risk, which could be resolved by adopting new internal models with a re-estimated definition of default at 90 days. In any event, with relation to the yearly figure for the reference backtesting group, an improvement in the percentages of default by rating class is being recorded, supported by the single-period binomial test, the number of non-calibrated classes of which is essentially in line with that of the previous period).
Regarding the Private customer segment, the model performed well overall. In a number of modules, performance is better than that obtained during development was recorded. On the contrary, there was a deterioration in performance for the sociological module which, however, is applied to a small number of counterparties out of the total portfolio. In terms of the calibration, the results of the "multi-period" and "single-period" binomial test were satisfactory, while those of the "adjusted" test confirm the outcome of the Corporate segment.
In general, over the course of 2017, the models were fine tuned, mainly with a view to making the definition of default compliant with legislative requirements. The results of the activities conducted confirm that the calibration tests were passed with flying colours. These improvement aspects have been discussed with the Supervisory Authority.

Following the update of the time series, analyses were conducted on the LGD model in production, by comparing, for both the Corporate and private Segments, for the parameters considered the most significant (Probability of Non-Performance, Performing/Closure Loss Given Default, Loss Given Non-Performance), the estimated values obtained with those deriving from said update, to highlight any deviations.
The updated values of the parameter "Probability of Non-Performance" were lower than those calculated in the development phase (model in production) for both the Corporate and Private segment, showing prudence in estimates.
The "LGD Performing/Closure", for the Corporate and Private segment, recorded declines for "Performing" and "Past Due" statuses; on the other hand, there were increases for the "Unlikely to Pay" status.
Lastly, as regards the "Loss Given Non-Performance" relating to the Corporate segment, there was a general increase for mortgage loans; on the other hand, the values relating to the residual products decreased. For current accounts, there were increases in cases in which there was a personal guarantee. In the Private segment, all drivers rose with the exception of instalment products lacking a personal guarantee. The drivers of the LGN estimate remained substantially stable in the backtesting sample.
Also as regards LGD, the models have been developed in order to bring those used more in line with regulations on the calculation of weighted assets for non-performing exposures. These improvement aspects have been discussed with the Supervisory Authority.

1.2 BANKING GROUP - MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Group may generate less revenues than expected, or suffer from the impairment of balance sheet items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (default risk) or which in any event result in a change in the solvency of the issuer (credit spread risk). Market risks can materialize both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes all financial assets and liabilities other than those included in the trading book.
The organisational model adopted by the Banco BPM Group for the trading portfolios exposed to interest rate risk and price risk requires:

- the centralisation of the management of Treasury and of Proprietary Portfolio positions in the Parent Company;
- the centralisation in the subsidiary Banca Aletti of the risk positions and the operating flows associated with trading of securities, currency, OTC derivatives and other financial assets. In addition to this, there are the main interest rate risk exposures from the trading portfolio of Banca Aletti relating to operations both on money markets, and the associated listed or plain vanilla derivatives, on the markets of listed and OTC derivatives, and structured products;
- the management at Banca Akros of its trading portfolio, the exposures of which come from the activities carried out by the Bank as market maker on regulated markets and OTC for the various investment segments, in addition to the assumption of market risk on own account.

Within the integration plan of the Banco BPM Group, Banca Akros has been identified as the Group's Corporate & Investment Bank. Following this decision, in 2018, it is envisaged that the corporate and investment banking activities performed by Banca Aletti are centralised into Banca Akros by transferring the business division. Again, with a view to rationalising and standardising the methods, processes and information systems, a request has been sent to the Supervisory Authority to extend the Parent Company's internal model for market risk to Banca Akros, to replace the internal model currently adopted by the same.

Proprietary portfolio of the Parent Company

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

- the investment portfolio, which represents the major source of generic interest-rate risk and credit spread risk, that are recorded in the accounting category Held-For-Trading, and it is almost completely a bond portfolio. At the end of 2017, the bond portfolio of the Parent Company had a nominal value of around euro 1 billion, made up by about 80% of Financial securities and the remainder primarily by Italian Government and Corporate bonds. The total interest rate risk sensitivity (delta) at year-end, calculated assuming a parallel change in the interest-rate curve of 1 basis point, is about euro -135,000, and derives from a prevalence of exposures on the different nodes of the Euro interest rate curve.
- This portfolio also presents an overall exposure to credit spread risk of about euro -393 thousand, considering a 1 basis point shock. Around 80% of this exposure relates to Financial securities and the remainder primarily to Italian Government and Corporate bonds; the bond portfolio is also exposed to the price risk of the share portfolio, whose equivalent exposure is less than euro 5 million.
- the Treasury portfolio contained no securities at the date of the financial statements.

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

Trading portfolio of Banca Akros, held as part of its investment banking activities

The subsidiary company, Banca Akros, manages a trading portfolio, the content of which reflects the various market-making and purchase and sale activities performed on its own behalf in the different asset classes it operates in. The main exposures of the trading portfolio in 2017 refer to: issuer risk (41% of the average management VaR), due to the credit spread component implicit in the bond securities held, to volatility risk (28%), mainly share-related, due to market-making activities in regulatory or OTC markets, and interest rate risk (16%), due both to the risk-free rate component implicit in bond securities - traded on the primary and secondary markets - and the component relating to the portfolio of OTC derivatives, listed at the interest rate. A part of these risks also results from the market making activities on bond securities issued by the Parent Company and placed with retail customers, performed by Banca Akros mainly through its own Systematic Internaliser. Exposures to share prices (10%) and to foreign exchange risk (5%) are less relevant, also related to market making and proprietary trading activities. The structure of the portfolio reflects this breakdown by asset class, as it is organised into three macro-areas of risk (Equity, Fixed Income and FX), in turn broken down into specific sub-portfolios for individual business sectors.
Exposure to market risk resulting from trading activities are managed using dynamic hedging techniques, with a view to keeping the same within the operating limits established by the Parent Company and set for each business unit. These limits, monitored on a daily basis by Risk Management, are expressed in terms of regulatory Var, management VaR, sensitivity and level. With regard to the latter, the bond securities portfolio of the trading book, at year end, amounted to around euro 278 million, 53% of which were securities issued by banks (excluding intercompany ones), 23% of which were securities issued by the Parent Company, and 12% of which were split equally between Government and Corporate securities. On the same date, the sensitivity to credit spread risk amounted to a total of around euro -70 thousand for 1 basis point of parallel movement of the credit spread curves, while the sensitivity to interest rate risk considered as a whole was euro -22 thousand. As regards shares, the "delta equivalent" directional position is overall short and corresponds to around euro -3.5 million.

Trading portfolio of Banca Aletti, held as part of its investment banking activities

The subsidiary Banca Aletti holds a trading portfolio whose main exposures to the interest-rate risk are linked both to trading on the money market, the associated hedging derivatives, and that on the markets of derivatives and OTC structured product and listed derivatives, both covered by the Fixed Income Service.
Transactions in both plain vanilla and structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices of the Bank's Global Markets Department, which use sophisticated position keeping systems.
More specifically, the securities portfolio, net of Banco BPM issues, is less than euro 200 million, 42% of which is represented by Government bonds, 49% by Financial securities and 9% by Corporate bonds.
The overall exposure to credit spread risk is around euro -17,000 considering a 1 basis point shock, resulting mainly from Government bonds.
The total interest rate risk sensitivity (delta) at year-end, net of long and short exposures on different currencies and yield curve nodes, is less than euro 10,000, assuming a parallel 1 basis point yield curve movement.

The main exposures to the equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives on the derivatives and OTC structured products market and the listed derivatives market covered by the Equity Currency and Commodity Service.
In particular, the scope includes equity portfolios with their listed derivatives, held for trading, for market making transactions on single Stock Futures and for transactions relating to specialist services (continuous exposure to purchase/sale proposals) as well as transactions in structured instruments and listed and unlisted derivatives. The destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific Offices, which use a sophisticated position keeping system specialised in interest rate, exchange rate and price risks. The system is integrated with pricing models and risk measurement (Greeks) developed in-house by the Financial Engineering function and validated by the Parent Company's Risk Function. At year-end, the total price risk exposure of the derivative portfolio of the Equity Currency and Commodity Service is equivalent to a short position of less than euro 2 million, net of hedges with derivatives and cash financial assets.

Banca Aletti's risk positions are monitored on a daily basis to verify their compliance with the operating thresholds, on the entire portfolio and on the single underlying assets, set by the Board of Directors.

B. Interest-rate risk and price risk management process and measurement methods

The function in charge of controlling the financial risk management with the aim of identifying the type of risks, define the methods to measure risks, control limits at strategic level and verify the consistency between trade limits and the risk/return targets assigned is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.
In particular, for the identification, measurement, management and operating control of the risk positions of Group Banks, the Parent Company's Finance Department, Banca Aletti and Banca Akros use sophisticated position keeping and risk control systems that provide a constant control over exposure levels and over the compliance with the operating limits defined by the Parent Company's Board of Directors and the Boards of Directors of Group Banks.
Risk analyses of the Trading portfolio are carried out by means of indicators, both deterministic, such as the sensitivity to market risk factors, and probabilistic, such as VaR (Value at Risk), which measures the maximum potential loss of the portfolio over a certain time horizon and with a specific level of confidence.
With respect to the scope of Banco BPM and Banca Aletti, management risk capital estimates under the VaR approach are made using the historical simulation method and considering a time horizon of one working day and a statistical confidence interval of 99%. A VaR is calculated both by applying a Lambda coefficient (decay factor) of 0.99, so as to render the estimate more reactive to the most recent changes in market parameters, and by equi-weighting historic observations. If the latter is higher than the VaR calculated with the above decay factor, it is used for risk estimates.
Risk depends specifically on the generic component and in particular on positions on government securities existing in the proprietary portfolio of Banco BPM which generate interest rate risk as well as specific risk on debt securities.
For the measurement of the market risks of the trading portfolio and the quantification of the relative capital requirements, with reference to generic risks (interest rate, price, volatility, exchange rate) Banca Akros uses its own internal model based on the metric of VaR and recognised for regulatory purposes. The methodology for generating scenarios is based on the Montecarlo simulation, and the parameters of the VaR model adopted are: lookback period: 1 year; confidence interval: 99%: holding period: 1 day; decay factor: 0,992. The capital requirement relating to the specific risk component is calculated using the standardised method. Operationally, trading portfolio risks are measured using the VaR credit spread metric, which is also extended to issuer risk, as well as a set of deterministic and level-based risk measures, on which operating limits are placed.

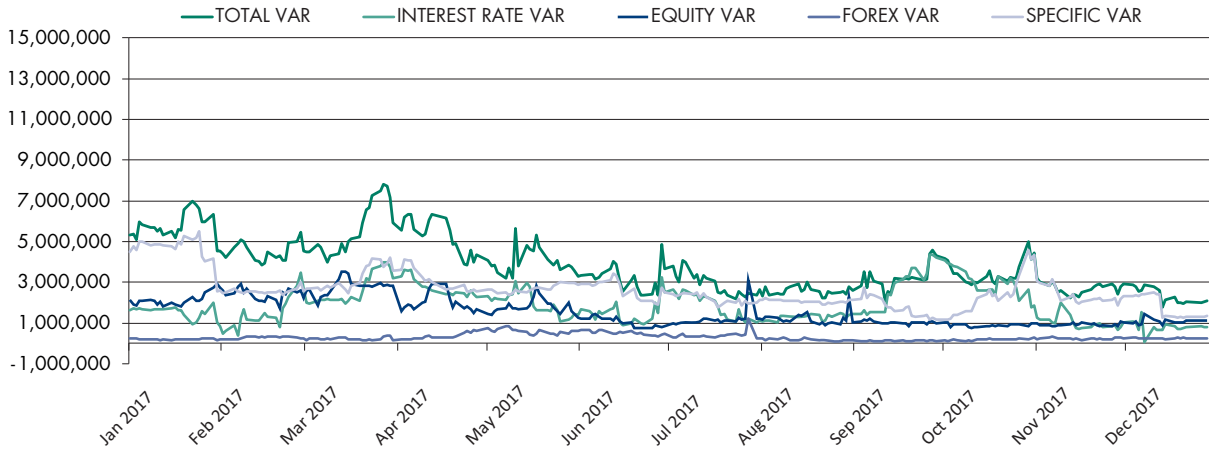
QUANTITATIVE INFORMATION

Regulatory trading portfolio: internal models and other sensitivity analysis methods

The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation and dividend risks are also included.
The graph and table below show the trend of management VaR data for 2017, referring to the regulatory trading portfolio of the Banco BPM Group.

Regulatory trading portfolio *(in millions of euro)*				**2017**
	29 December	**average**	**maximum**	**minimum**
Interest rate risk	1.073	1.884	4.346	0.041
Exchange rate risk	0.214	0.294	1.200	0.104
Equity risk	1.188	1.536	3.530	0.739
Dividends and Correlations	0.424	0.211	0.719	0.005
Total uncorrelated	**2.899**			
Diversification effect	-1.159			
Total Generic Risk	**1.740**	**2.583**	**6.277**	**0.995**
Specific Risk Debt Securities	**1.106**	**2.620**	**5.515**	**1.152**
Combined Risk	**1.871**	**3.797**	**7.808**	**1.777**

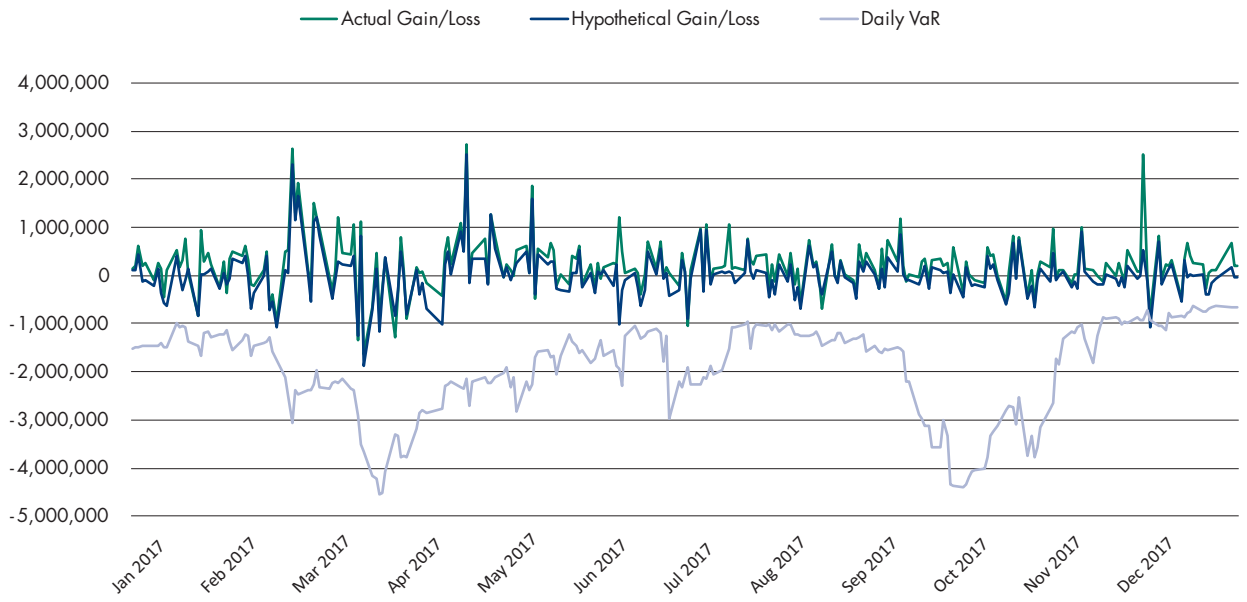
Daily VaR and VaR by risk factor
GRUPPO BANCO BPM: Trading Portfolio

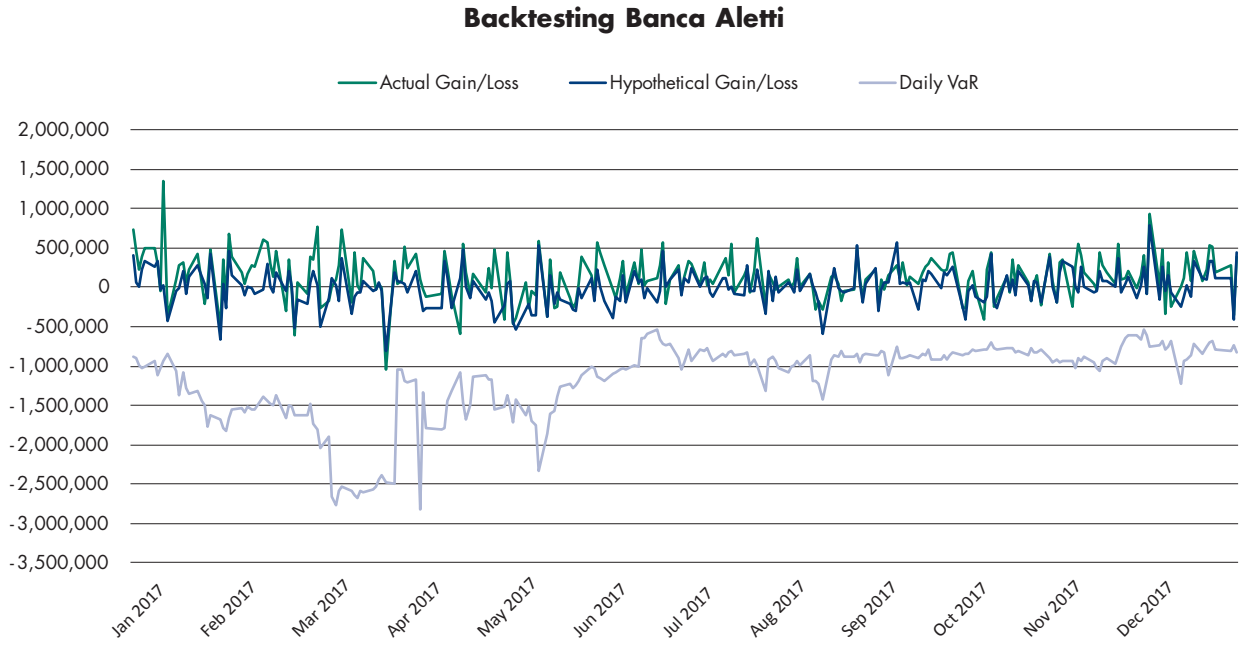


The VaR figures as at 29/12/2017 are calculated using the target model of Banco BPM, also including the positions of Banca Akros, but summing the risk measures according to the respective models.

It can be seen that the most important risk component is the specific risk of debt securities and the generic and specific component of shares, due to the presence of positions in financial securities, Italian Government bonds and position in shares. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, the portfolio showed a higher level of risk in the first half of the year, due both to the exposures and the market volatility of Italian Government securities. In the second half of the year, the risk started to fall, settling at values that were below the average values for the period; any increases in risk were due to the greater volatility of the interest rates market, as well as to a higher level of trading of Government securities.
Following the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading portfolio of Banco BPM and of Banca Aletti.
The graphs below show the backtesting relating to the VaR method, calculated on the generic risk of debt securities, generic and specific equity risk, interest rate risk and exchange rate risk.
For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches.

Backtesting BancoBPM





Note that in the period in question, the number of exceptions (losses exceeding the VaR estimate) was lower than that which would have been recorded with the level of confidence used (the estimate at 99% implies in 1% of remaining cases one exception is verified over a period of 250 working days: this result is therefore expected on 2-3 working days). More specifically, only one exception was recorded on the Hypothetical P&L Backtesting of the Banco BPM Trading portfolio due to the volatility of interest rates.

1.2.2 Interest rate and price risk – Banking portfolio

QUALITATIVE INFORMATION

A. General issues, management procedures and interest rate risk and price risk measurement methods

The interest rate risk relating to the banking portfolio is mainly associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed rate bonds, the granting of fixed rate commercial loans and mortgages and funding from demand current accounts represent a fair value interest rate risk, while floating rate financial assets and liabilities represent a cash flow interest rate risk.
The Asset & Liability Management unit of the Parent Company's Finance Function, is tasked with managing interest rate risk and operates in compliance with the set interest rate risk exposure limits defined within the Risk Appetite Framework (RAF) and the recommendations of the Finance Committee.
The Parent Company's Risk Function is in charge of monitoring and controlling the interest rate risk of the banking portfolio, also for the financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in interest margin or equity or the economic value of the banking portfolio are complied with.
In the first half of 2017, the Board of Directors approved the "Interest rate risk regulation" which establishes the roles and responsibilities of the corporate Bodies and functions with respect to banking book interest rate risk and the models and metrics used for measuring the risk. During the year, activities to re-estimate the behavioural models used for the measurement of interest rate risk were launched, extending them to all Group banks and aligning the entities originating from the two former groups that came together to form the Banco BPM Group with the same methods.
As regards monitoring interest rate risk, in particular, the risk measures used internally, subject to RAF thresholds are:

- the change in the expected interest margin following a parallel shock of the spot rate curves of +/- 40 basis points (income perspective) over a time horizon of twelve months;
- the change in economic value following a parallel shock of the spot rate curves of +/- 200 basis points (capital perspective) with regard to own funds;

- the value at risk of the banking portfolio based on the VaR (Value at Risk) methodology over a time horizon of 12 months and with a confidence interval of 99.9%.

According to normal operating procedures and internal regulations, the Banco BPM Group conducts periodic stress tests, applying instant or variable and parallel or non parallel shocks to the interest rate curves for the currencies of the items in the banking portfolio. Furthermore, on implementation of the ICAAP, the impact of extreme, but plausible, changes in risk factors on VaR is assessed, from the prospective of capital adequacy.

B. Fair value hedging

The risk management policy adopted by the Banco BPM Group to comply with the requirements of the reference Regulations, seeks to stabilise net interest income and economic value in the event of interest rate changes. Over time, this has entailed hedging both fixed-rate and structured bond issues, transferring the risk to the market through specific hedges set up with OTC contracts (mainly IRS and interest rate options). Similarly, the Group has set in place, at different times, but for the same purpose, several macro hedges by means of OTC contracts to transform a part of fixed-rate loans disbursed to customers into floating rate transactions. All of these hedging transactions are performed through Banca Aletti.

As regards the accounting treatment of these hedging relations, the Group has adopted the fair value option for bond issues placed with ordinary customers, and the accounting rule of fair value hedges for bond issues placed with institutional investors and for loans to customers; both procedures seek to ensure a consistent accounting treatment with hedging derivatives, that are necessarily measured at fair value. For further details, reference is made to “Section A – Accounting policies” and to the comment to table “50. Financial liabilities measured at fair value” - “Section B – Information on the Balance Sheet” of these notes to the consolidated financial statements.
The price risk of the alternative assets portfolio is monitored on a daily basis and is not hedged.

C. Cash flow hedging

In order to stabilise the cost of its floating rate deposits and reduce the asset mismatches, the Banco BPM Group resorted to swap hedges called macro cash flow hedges.
The existing hedges have a total capacity in the notional amount of floating rate loans.

QUANTITATIVE INFORMATION

1. Banking portfolio: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency of denomination: Euro

Type/Residual term	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Undefined term
1. Cash assets	**32,534,235**	**53,609,779**	**6,809,800**	**6,260,060**	**19,436,640**	**13,925,426**	**4,826,566**	**-**
1.1 Debt securities	162,293	4,028,766	804,436	2,539,156	8,514,799	9,822,293	235,092	-
- with early redemption option	3,478	93,969	50,098	24,167	154,533	99,398	86,111	-
- others	158,815	3,934,797	754,338	2,514,989	8,360,266	9,722,895	148,981	-
1.2 Loans to banks	1,668,310	2,304,681	74,541	74,303	216,077	56,079	-	-
1.3 Loans to customers	30,703,632	47,276,332	5,930,823	3,646,601	10,705,764	4,047,054	4,591,474	-
- current accounts	12,657,190	65,974	66,710	194,012	267,100	31,081	-	-
- other loans	18,046,442	47,210,358	5,864,113	3,452,589	10,438,664	4,015,973	4,591,474	-
- with early redemption option	3,846,133	41,500,395	4,254,431	1,599,253	6,944,026	3,499,765	4,567,418	-
- others	14,200,309	5,709,963	1,609,682	1,853,336	3,494,638	516,208	24,056	-
2. Cash liabilities	**80,351,214**	**14,950,562**	**2,862,654**	**2,651,605**	**30,439,942**	**3,141,773**	**270,772**	**-**
2.1 Due to customers	78,038,224	6,376,085	622,235	584,553	265,574	140,504	168,429	-
- current accounts	74,031,872	1,436,741	114,586	95,415	-	-	-	-
- other payables	4,006,352	4,939,344	507,649	489,138	265,574	140,504	168,429	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	4,006,352	4,939,344	507,649	489,138	265,574	140,504	168,429	-
2.2 Due to banks	2,054,304	1,305,774	266,025	11,224	21,376,568	419,048	4,362	-
- current accounts	419,461	-	-	-	-	-	-	-
- other payables	1,634,843	1,305,774	266,025	11,224	21,376,568	419,048	4,362	-
2.3 Debt securities	258,649	7,268,703	1,974,394	2,055,828	8,797,800	2,582,221	97,981	-
- with early redemption option	21,696	1,148,324	198,534	89,738	207,294	498,619	469	-
- others	236,953	6,120,379	1,775,860	1,966,090	8,590,506	2,083,602	97,512	-
2.4 Other liabilities	37	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	37	-	-	-	-	-	-	-
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	1,809	65,008	8,380	393	120	99	4,083	-
+ Short positions	-	6,521	6,401	8,886	40,289	9,138	8,657	-
- Other derivatives								
+ Long positions	558,039	2,076,371	612,387	3,921,822	2,560,525	805,000	1,000,000	-
+ Short positions	906,115	6,115,581	10,189	100,382	3,703,204	688,250	3,374	-
4. Other "off-balance sheet" transactions								
+ Long positions	-	19,998	-	-	-	-	-	210
+ Short positions	20,208	-	-	-	-	-	-	-

Currency of denomination: currencies other than the euro

Type/Residual term	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Undefined term
1. Cash assets	**668,891**	**801,894**	**77,635**	**3,659**	**536,705**	**1,078,323**	**-**	**-**
1.1 Debt securities	7,946	239,256	8,443	-	505,538	1,078,022	-	-
- with early redemption option	982	154,129	8,443	-	16,589	32,795	-	-
- others	6,964	85,127	-	-	488,949	1,045,227	-	-
1.2 Loans to banks	162,988	20,038	-	592	-	69	-	-
1.3 Loans to customers	497,957	542,600	69,192	3,067	31,167	232	-	-
- current accounts	109,039	-	-	-	-	1	-	-
- other loans	388,918	542,600	69,192	3,067	31,167	231	-	-
- with early redemption option	10	1,737	1,266	-	-	-	-	-
- others	388,908	540,863	67,926	3,067	31,167	231	-	-
2. Cash liabilities	**1,668,983**	**1,584,986**	**7,870**	**6,325**	**-**	**-**	**-**	**-**
2.1 Due to customers	1,642,790	20,693	7,870	6,325	-	-	-	-
- current accounts	1,640,254	20,693	7,870	6,325	-	-	-	-
- other payables	2,536	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	2,536	-	-	-	-	-	-	-
2.2 Due to banks	26,193	1,564,293	-	-	-	-	-	-
- current accounts	11,877	-	-	-	-	-	-	-
- other payables	14,316	1,564,293	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
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	14,925	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	177	3,461	11,287	-
- Other derivatives								
+ Long positions	1,131,466	1,698,355	7,162	714,129	5,882,736	395,000	69,385	-
+ Short positions	1,499,998	7,001,891	40,052	138,366	1,036,190	49,278	132,457	-
4. Other "off-balance sheet" transactions								
+ Long positions	-	41,876	15,365	-	-	-	-	-
+ Short positions	-	57,241	-	-	-	-	-	-

2. Banking portfolio: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure to measure on a monthly basis the impact ("sensitivity") from changes in the interest rate structure on the expected net interest, dividend and similar income and on the economic value of capital related to the banking portfolio.
With regard to the expected net interest, dividend and similar income, the ALM system estimates its changes on a one year horizon in the assumption of deterministic shocks of the interest rate curves (bps increases/decreases applied to all the interest rate curves as if it were a sudden, single and parallel change), and shocks to adjust to the forward rates implied in money market rates, and again shocks from projections that reflect alternative scenarios. Estimates are based on the assumption that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).
With regard to the economic value of capital, the same assumptions on the interest rate curve changes are applied, measuring the change in present value of all transactions and comparing it with the value of own funds.
In light of a market scenario characterised by the persistence of rates close to zero and negative on short-term maturities, for the purpose of the sensitivity analyses the risk measurement metrics are monitored by applying a floor to the development of the future rates used for the calculation.

The table below shows exposure to interest rate risk at the end of 2017 in accordance with operational risk measurements.

Risk ratios (%)	2017			
	31 December	average	maximum	minimum
For shift of + 100 bp				
Financial margin at risk / Financial margin	17.4%	15.4%	17.4%	14.3%
Economic value at risk / Economic value of capital	-1.9%	-1.4%	-1.1%	-1.9%
For shift of - 100 bp				
Financial margin at risk / Financial margin	-17.8%	-9.1%	-6.3%	-17.8%
Economic value at risk / Economic value of capital	1.9%	1.7%	2.2%	1.2%

To enable a correct interpretation of the above-illustrated figures, it is important to clarify that the values referring to "average", "maximum" and "minimum" figures only relate to the second half of 2017, due to the IT harmonisation on target systems of the risk measurements made in July; moreover, these figures are only partially comparable to the end-of-year ones, affecting mostly the measurement of the financial margin at risk in the scenario of lower market rates, following the restructuring of the floor applied, corresponding to -75 basis points up to November and recalibrated on the basis of the provisions of the new EBA Guidelines (corresponding to -150 basis points on the overnight node of the curve and increasingly linearly to 0 basis points on the 30-year node) starting from December.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General issues, management procedures and exchange rate risk measurement methods

Exchange rate risk management is centralised at the Treasury for Group Finance operations and at the Equity Currency and Commodity Service for Banca Aletti and at the Forex desk of Banca Akros. Exposures for Banco BPM's Treasury had a value of around euro 10 million, while with respect to Banca Aletti's forex derivative trading, positions of under euro 1 million in value were recorded, while the exposures of Banca Akros were within the maximum value of euro 15 million.
As regards the methods used to measure and control the exchange rate risk generated by the trading portfolio, reference is made to the section "Interest rate risk and price risk – Regulatory trading portfolio". As with the other risks, the adopted methods are not used to calculate capital requirements.

B. Exchange rate risk hedging

Exchange rate risk positions are monitored on a daily basis and are hedged so as to meet the Risk limits provided for each function.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets and liabilities and of derivatives

Items	Currencies					
	US DOLLAR	GB POUND	JAPANESE YEN	SWISS FRANC	AUSTRALIAN DOLLAR	OTHER CURRENCIES
A. Financial assets	**3,974,538**	**51,185**	**33,401**	**154,448**	**58,525**	**43,202**
A.1 Debt securities	2,573,393	241	184	-	50,818	59
A.2 Equity instruments	254,959	20,041	20,261	15,332	3,872	27,158
A.3 Loans to banks	57,916	9,816	9,834	114,132	2,198	12,181
A.4 Loans to customers	1,088,270	21,087	3,122	24,984	1,637	3,804
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**25,830**	**11,541**	**5,062**	**48,671**	**2,549**	**6,473**
C. Financial liabilities	**2,875,787**	**110,879**	**43,871**	**80,578**	**13,527**	**168,101**
C.1 Due to banks	1,583,365	11,167	5	313	3,524	13,914
C.2 Due to customers	1,292,422	99,712	43,866	80,265	10,003	154,187
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**19,608**	**4,578**	**388**	**1,246**	**73**	**2,448**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	375,550	21,083	2,168	-	1,023	-
+ Short positions	682,310	21,291	2,504	4,754	13	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	5,968,139	900,210	687,013	142,118	101,770	373,702
+ Short positions	6,762,009	848,120	641,062	188,974	144,791	228,738
Total Assets	**10,344,057**	**984,019**	**727,644**	**345,237**	**163,867**	**423,377**
Total Liabilities	**10,339,714**	**984,868**	**687,825**	**275,552**	**158,404**	**399,287**
Mismatch (+/-)	**4,343**	**(849)**	**39,819**	**69,685**	**5,463**	**24,090**

2. Internal models and other sensitivity analysis methods

The exchange rate risks generated by the trading portfolio and the banking portfolio are monitored through an internal VaR model extensively described in section "Interest rate risk and price risk – Regulatory trading portfolio", where the values assumed by this indicator are shown.

1.2.4 Derivative instruments

QUALITATIVE INFORMATION

Given the operations in derivatives, the Banco BPM Group introduced specific and robust validation and control processes of the pricing models and the related market parameters.

Validation and control process of Market Parameters

The Banco BPM Group adopted a Fair Value Policy defining the accounting rules to be used to value market parameters. To comply with this Policy, a strict process was put in place to count, validate and control the market parameters used to measure the market value and to estimate the risk of derivative positions. This process is implemented by the Parent Company's Risk Function and envisages, in particular:

- the constant update of the Parameter Manual, containing the main parameters used and their most significant features, and the definition of the source;
- the constant update of parameter control methods;
- the daily validation and control of the listed parameters, automatically fed by external info-providers;
- the daily validation and control of illiquid parameters, from an accounting and management viewpoint.

In order to support control activities, the Group introduced an advanced application system (fed by the front office system and, for benchmarking purposes, by alternative and highly specialised info-providers) to monitor over time the performance of the parameters, featuring the statistical analysis of variations and operating warnings.

Validation and control process of Pricing Models of OTC derivative products

The Banco BPM Group deals with OTC derivative instruments, and in order to measure them, it uses quantitative pricing models in line with market best practices already available in the Front Office application, or, for particular structures, models developed by Banca Aletti's financial engineering.
In order to ensure a precise and strict control over the adoption of new pricing models - be they market or in-house developed models - a validation process is in place, with the following features:

- model validation conducted by a specific validation organisational unit within the Risk Function;
- model validation based on strict consistency and robustness tests, conducted with the support of academic experts;
- official validation of new models by the Product Innovation Committee, with the collaboration of key corporate managers.

Note that, based on the current prudential policy pursued by the Group, innovative financial instruments can be entered only after a thorough analysis of the reliability and accuracy of their pricing models.
A limited number of OTC derivatives associated with matched trading, for which the related fair values are hardly reproducible by in-house developed theoretical models, due to their high complexity.
However, it is important to note that the Banco BPM Group is not exposed to market risk in connection with these products, as matched trading does not ever entail the operator being exposed to risk positions. In order to correctly quantify the counterparty risk and give a correct accounting measurement, for these contracts the valuation is based upon information obtained from external contributors, through non-public sources. The percentage represented by these instruments will gradually decrease over time as contracts expire and due to the prudential policy cited above.

QUANTITATIVE INFORMATION

The tables below illustrate the fair value of derivative positions of Banca Aletti and Banca Akros (excluding forex futures transactions), with the corresponding pricing model in use.

Banca Aletti	Number of Contracts/lots	Fair Value	Positive Fair Value	Negative Fair Value
Total	**322,364**	**(5,299,344)**	**1,677,524**	**(6,976,868)**
of which: Listed derivatives	312,718	(38,511)	122,751	(161,262)
of which: Certificates measured with proprietary models of the Front Office system	101	(3,166,217)	-	(3,166,217)
of which: Certificates measured with internal models developed by Banca Aletti's finance engineering	74	(2,131,545)	-	(2,131,545)
of which: OTC derivatives measured with proprietary models of the Front Office system	3,733	(194,860)	858,623	(1,053,483)
of which: OTC derivatives measured with internal models developed by Banca Aletti's finance engineering	5,732	231,530	694,272	(462,742)
of which: OTC derivatives measured by external contributors	6	259	1,878	(1,619)

Banca Akros	Number of Contracts/lots	Fair Value	Positive Fair Value	Negative Fair Value
Total	**322,364**	**(5,299,344)**	**1,677,524**	**(6,976,868)**
of which: Listed derivatives	**32,924**	**79,517**	**789,499**	**(709,982)**
of which: Certificates measured with proprietary models of the Front Office system	28,240	478	3,598	(3,120)
of which: Certificates measured with internal models developed by Banca Akros' finance engineering	1	(1,646)	-	(1,646)
of which: OTC derivatives measured with internal models developed by Banca Akros' finance engineering	4,683	80,685	785,901	(705,216)

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: year-end notional values

Underlying assets/Type of derivative	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**99,249,009**	**5,000**	**91,590,043**	**-**
a) Options	20,690,366	5,000	31,782,715	-
b) Swap	76,170,162	-	57,077,443	-
c) Forward	2,004	-	38,092	-
d) Futures	2,386,477	-	2,691,793	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**12,070,131**	**1,071,275**	**12,901,769**	**1,261,411**
a) Options	11,669,588	1,053,505	12,425,431	1,210,918
b) Swap	50,375	-	279,475	-
c) Forward	-	-	-	-
d) Futures	350,168	17,770	196,863	50,493
e) Other	-	-	-	-
3. Currencies and gold	**15,112,108**	**-**	**3,797,571**	**-**
a) Options	1,803,775	-	1,692,932	-
b) Swap	6,448,792	-	-	-
c) Forward	6,859,541	-	2,104,639	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**42,569**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**126,473,817**	**1,076,275**	**108,289,383**	**1,261,411**

A.2 Banking portfolio: year-end notional values

A.2.1 Hedging

Underlying assets/Type of derivative	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**19,572,083**	**-**	**17,552,762**	**-**
a) Options	14,925	-	-	-
b) Swap	19,557,158	-	17,552,762	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**30,803**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	30,803	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**19,602,886**	**-**	**17,552,762**	**-**

A.2.2 Other derivatives

Underlying assets/Type of derivative	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**3,866,509**	**-**	**7,511,670**	**-**
a) Options	-	-	-	-
b) Swap	3,866,509	-	7,511,670	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**3,866,509**	**-**	**7,511,670**	**-**

A.3 Financial derivatives: gross positive fair value – breakdown by products

Portfolios/Types of derivatives	Positive fair value			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Regulatory trading portfolio	**1,965,199**	**50,572**	**1,493,264**	**64,380**
a) Options	645,028	50,572	692,309	64,380
b) Interest rate swap	1,221,530	-	771,998	-
c) Cross currency swap	41,562	-	-	-
d) Equity swap	235	-	1,980	-
e) Forward	55,415	-	26,977	-
f) Futures	-	-	-	-
g) Other	1,429	-	-	-
B. Banking portfolio - hedging derivatives	**282,298**	**-**	**415,842**	**-**
a) Options	-	-	-	-
b) Interest rate swap	282,053	-	415,842	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**70,167**	**-**	**240,186**	**-**
a) Options	-	-	-	-
b) Interest rate swap	70,167	-	240,186	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**2,317,664**	**50,572**	**2,149,292**	**64,380**

A.4 Financial derivatives: gross negative fair value - breakdown by products

Underlying assets / Type of derivative	Negative fair value			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Regulatory trading portfolio	**3,249,835**	**45,730**	**3,177,462**	**100,221**
a) Options	1,865,924	45,730	2,301,191	100,221
b) Interest rate swap	1,299,605	-	833,835	-
c) Cross currency swap	35,969	-	-	-
d) Equity swap	700	-	2,268	-
e) Forward	45,095	-	40,168	-
f) Futures	-	-	-	-
g) Other	2,542	-	-	-
B. Banking portfolio - hedging derivatives	**771,140**	**-**	**1,291,814**	**-**
a) Options	630	-	-	-
b) Interest rate swap	770,510	-	1,291,814	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**53,727**	**-**	**60,724**	**-**
a) Options	-	-	-	-
b) Interest rate swap	53,727	-	60,724	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**4,074,702**	**45,730**	**4,530,000**	**100,221**

A.5 OTC financial derivatives: regulatory trading portfolio – notional values, positive and negative gross fair values by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	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	-	2,943	5,453,601	563,813	-	6,904,828	1,522,464
- positive fair value	-	21	4	18,983	-	145,330	3,815
- negative fair value	-	-	183	234	-	6,297	4,924
- future exposure	-	7	141	7,431	-	36,973	255
2. Equity instruments and share indices							
- notional value	-	-	320,276	193,071	-	2,304	1,516,302
- positive fair value	-	-	-	27	-	68	8,429
- negative fair value	-	-	-	4,554	-	-	1,361,251
- future exposure	-	-	-	523	-	184	2,399
3. Currencies and gold							
- notional value	296,512	-	3,596	139,960	-	926,337	18,298
- positive fair value	-	-	-	2,619	-	18,688	554
- negative fair value	3,176	-	-	6	-	6,025	85
- future exposure	2,965	-	-	1,423	-	9,805	148
4. Other securities							
- notional value	-	-	-	-	-	3,667	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	317	-

A.6 OTC financial derivatives: regulatory trading portfolio – notional values, positive and negative gross fair values by counterparty - contracts included in netting agreements

Contracts included in netting agreements	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	-	120,880	42,483,044	41,966,124	-	231,313	-
- positive fair value	-	647	739,270	458,404	-	4,950	-
- negative fair value	-	19,966	830,370	533,535	-	557	-
2. Equity instruments and share indices							
- notional value	-	-	8,233,921	1,601,610	-	-	202,647
- positive fair value	-	-	365,822	67,499	-	-	10,622
- negative fair value	-	-	289,642	83,803	-	-	4,886
3. Currencies and gold							
- notional value	-	-	9,807,847	3,165,220	-	632,542	121,796
- positive fair value	-	-	87,599	22,327	-	8,170	433
- negative fair value	-	-	65,310	27,415	-	5,336	1,368
4. Other securities							
- notional value	-	-	6,843	13,458	-	18,601	-
- positive fair value	-	-	-	837	-	81	-
- negative fair value	-	-	80	-	-	832	-

A.7 OTC financial derivatives: banking portfolio – notional values, positive and negative gross fair values by counterparty – contracts not included in netting agreements

Contracts not included in netting agreements	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	-	-	2,198,340	-	-	-	-
- positive fair value	-	-	59,732	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2. Equity instruments and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	30,803	-	-	-	-
- positive fair value	-	-	245	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	308	-	-	-	-
4. Other securities							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking portfolio – notional values, positive and negative gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreements	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	-	-	12,249,457	8,990,794	-	-	-
- positive fair value	-	-	150,801	141,687	-	-	-
- negative fair value	-	-	656,759	168,109	-	-	-
2. Equity instruments and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4. Other securities							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional values

Underlying assets/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**44,083,684**	**56,764,517**	**25,625,615**	**126,473,816**
A.1 Financial derivatives on debt securities and interest rates	26,515,283	48,573,369	24,160,356	99,249,008
A.2 Financial derivatives on equity instruments and share indices	3,413,097	7,197,111	1,459,923	12,070,131
A.3 Financial derivatives on exchange rates and gold	14,112,735	994,037	5,336	15,112,108
A.4 Financial derivatives on other securities	42,569	-	-	42,569
B. Banking portfolio	**5,614,567**	**15,582,041**	**2,272,787**	**23,469,395**
B.1 Financial derivatives on debt securities and interest rates	5,583,764	15,582,041	2,272,787	23,438,592
B.2 Financial derivatives on equity instruments and share indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	30,803	-	-	30,803
B.4 Financial derivatives on other securities	-	-	-	-
Total 31/12/2017	**49,698,251**	**72,346,558**	**27,898,402**	**149,943,211**
Total 31/12/2016	**47,825,844**	**68,125,942**	**17,402,028**	**133,353,814**

A.10 OTC financial derivatives: counterparty risk/financial risk - Internal models

Counterparty risk is defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (*EU Regulation no. 575/2013*). As regards this type of risk, for operating purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Aletti use internal methods to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions.

These methods are mostly based on statistical-quantitative approaches, partially linked to the techniques used for VaR (Value at Risk) estimates, which assess the impact that market risk factors may have on the positive future market value of the overall portfolio of positions in derivatives.

For the Parent Company and Banca Aletti, the estimate of exposure to counterparty risk, with regard to existing positions with counterparties with whom a "collateral agreement" has been signed (Credit Support Annex – CSA) is carried out using the Shortcut Method. The expected exposure is assessed on the basis of possible changes of the Mark to Market of the individual contracts underlying the same reference CSA, on a time horizon given by the "risk margin period" that characterises each contract. Remaining exposures are measured with an EPE model and analytical formula or using the standard regulatory measurements.

The measurement is implemented also in the Parent Company and Banca Aletti lending process chain, with a daily monitoring and reporting system.

For the operational monitoring of counterparty risk arising from its operations not backed by CSA agreements, Banca Akros uses a measurement based on the net mark-to-market plus an add-on differentiated by maturity and asset class. To calculate the CVA/DVA adjustment, a simulated estimation model is adopted, based on the forward evolution of market variables (Montecarlo simulation)

The indirect membership (through Clearing Brokers) of a Clearing House for operations in OTC derivatives enabled the following objectives to be achieved:

- the mitigation of counterparty risk through netting mechanisms, leading to a reduction of credit facilities to market counterparties with regard to the plain vanilla swaps transferred into LCH;
- the reduction of capital requirements;
- compliance with the European Directive - European Market Infrastructure Regulation (EMIR);
- mitigation of operating risk.

In accordance with the Basel 3 Framework Regulation, additional capital requirements regarding the following are to be calculated:

- own funds for the Credit Valuation Adjustment (CVA) through the adoption of the standardised method, as envisaged by (EU) Regulation no. 575/13 for banks that are not authorised to use the IMM method for counterparty risk and the internal model method for Incremental Risk Charge (IRC);
- exposures relating to operations with Qualified Central Counterparties (QCCP) by adopting the methods envisaged by arts. 306-308 of *EU Regulation no. 575/2013*.

In calculating exposure to counterparty risk, for Supervisory Reporting, the Group uses the standardised approach on the entire scope of reference (derivatives, repurchase agreements, securities lending and medium and long term loans).

B. CREDIT DERIVATIVES

B.1 Credit derivatives: year-end notional values

Types of transactions	Regulatory trading portfolio		Banking portfolio	
	on a single subject	on several subjects (basket)	on a single subject	on several subjects (basket)
1. Protection purchases				
a) Credit default products	35,000	15,000	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2017	**35,000**	**15,000**	**-**	**-**
Total 31/12/2016	**95,000**	**-**	**-**	**-**
2. Protection sales				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2017	**-**	**-**	**-**	**-**
Total 31/12/2016	**-**	**-**	**-**	**-**

B.2 OTC credit derivatives: positive gross fair value – breakdown by products

Portfolios/Types of derivatives	Positive Fair Value	
	31/12/2017	31/12/2016
A. Regulatory trading portfolio	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
B. Banking portfolio	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total	**-**	**-**

B.3 OTC credit derivatives: negative gross fair value – breakdown by products

Portfolios/Types of derivatives	Negative Fair Value	
	31/12/2017	31/12/2016
A. Regulatory trading portfolio	**2,827**	**1,429**
a) Credit default products	2,827	1,429
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
B. Banking portfolio	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total	**2,827**	**1,429**

B.4 OTC credit derivatives: (positive and negative) gross fair values by counterparty – contracts not included in netting agreements

The case in point is not present for the Group; therefore, this table is omitted.

B.5 OTC credit derivatives: (positive and negative) gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading							
1. Protection bought							
- notional value	-	-	45,000	5,000	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	2,686	141	-	-	-
2. Protection sales							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
Banking portfolio							
1. Protection purchases							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.6 Residual life of OTC credit derivatives: notional values

Underlying assets/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**-**	**50,000**	**-**	**50,000**
A.1 Credit derivatives with "qualified reference obligation"	-	35,000	-	35,000
A.2 Credit derivatives with "unqualified reference obligation"	-	15,000	-	15,000
B. Banking portfolio	**-**	**-**	**-**	**-**
B.1 Credit derivatives with "qualified reference obligation"	-	-	-	-
B.2 Credit derivatives with "unqualified reference obligation"	-	-	-	-
Total 31/12/2017	**-**	**50,000**	**-**	**50,000**
Total 31/12/2016	**60,000**	**35,000**	**-**	**95,000**

B.7 Credit derivatives: counterparty risk/financial risk – Internal models

The internal model used for estimating the counterparty risk of derivative instruments for management purposes is also applied to the credit derivatives in the portfolio.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparties

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Financial Derivatives - Bilateral agreements	**-**	**20,457**	**1,723,898**	**926,836**	**-**	**36,288**	**19,374**
- positive fair value	-	-	259,967	171,035	-	10,974	5,535
- negative fair value	-	19,319	856,135	290,611	-	4,498	733
- future exposure	-	569	301,982	212,100	-	4,921	3,785
- net counterparty risk	-	569	305,814	253,090	-	15,895	9,321
2) Credit Derivatives - Bilateral agreements	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) "Cross product" agreements	**-**	**-**	**261,379**	**10,764**	**-**	**-**	**-**
- positive fair value	-	-	97,752	-	-	-	-
- negative fair value	-	-	2,977	2,674	-	-	-
- future exposure	-	-	81,249	4,045	-	-	-
- net counterparty risk	-	-	79,401	4,045	-	-	-

In line with the provisions contained in Circular no. 262, the item "Net counterparty risk" must be considered to refer to the balance of the positive fair value, plus future exposure, and any current value of real guarantee received.

1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of liquidity risk

Liquidity risk refers to the risk that the Group may be unable to meet its certain or expected payment commitments with reasonable certainty. There are usually two types of liquidity risk: Funding and Liquidity Risk, or the risk that the Group may not be able, in the short (liquidity) and long (funding) term, to meet its payment commitments and its obligations in an efficient manner due to its inability to obtain funds without harming its ordinary activities and/or its financial position; and Market Liquidity Risk, i.e., the risk that the Group may be unable to liquidate an asset without incurring capital losses as a result of little depth in the reference market and/or due to the timing with which it is necessary to carry out the transaction.
In the Banco BPM Group, liquidity and funding risk is governed by the "Liquidity, funding and ILAAP risk regulation" which was approved in the first half of 2017 and establishes: the roles and responsibilities of the corporate bodies and the corporate functions, the models and metrics used for risk measurement, the guidelines for the execution of stress testing and the Liquidity Contingency Plan.
Liquidity risk is managed and monitored within the internal liquidity adequacy assessment process (ILAAP), which is the process used by the Group to identify, measure, monitor, mitigate and report on the Group's liquidity risk profile. Within this process, the Group proceeds with an annual self-assessment of the adequacy of the overall framework for the management and measurement of liquidity risk, which also includes governance, methodologies, IT systems, measurement instruments and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate bodies and submitted for the attention of the Supervisory Authority.
Liquidity governance is centralised within the Parent Company. Operational liquidity management is coordinated by the Parent Company and takes place in a centralised manner although, within the scope of the appropriate exceptions, some management can take place in a decentralised manner at individual entity level, although in any event within the risk appetite defined by the Group.
Liquidity risk monitoring and control activities are carried out on a daily basis (short-term liquidity) and a monthly basis (structural liquidity) and aim to monitor the evolution of the risk profile, verifying its adequacy with respect to the Risk Appetite Framework and the established operating limits. On a quarterly basis, stress testing is conducted in order to test the Group's capacity to resist unfavourable scenarios, and the estimates of liquidity that can be generated with countermeasures (the "action plan", an integral part of the Liquidity Contingency Plan) that may be activated in the presence of a stress scenario are updated.
In particular, the Group uses a monitoring system that includes short-term (time horizon from infra-day up to twelve months) and long-term (more than twelve months) liquidity indicators. To that end, both regulatory metrics (LCR, NSFR, ALMM) and metrics developed internally and which include the use of models for estimating behavioural and/or optional parameters are used.
In 2017, the liquidity profile of the new Banco BPM Group showed adequacy in the short and longer term, complying with the risk limits set forth internally and, when present, at regulatory level.

QUANTITATIVE INFORMATION

1. Time distribution of financial assets and liabilities by residual contract maturity. Currency of denomination: Euro

Item/Time bracket	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term
Cash assets	**32,503,865**	**387,873**	**282,871**	**1,195,666**	**4,293,050**	**5,258,423**	**10,921,021**	**43,679,969**	**39,480,109**	**1,992,310**
A.1 Government securities	112,128	-	-	-	100,021	570,530	2,243,574	9,798,062	10,348,786	-
A.2 Other debt securities	53,377	-	1,584	11,643	130,695	175,702	223,539	2,155,026	981,797	12
A.3 UCIT units	450,752	-	-	-	-	-	-	-	-	-
A.4 Loans	31,887,608	387,873	281,287	1,184,023	4,062,334	4,512,191	8,453,908	31,726,881	28,149,526	1,992,298
- Banks	1,644,518	22,554	21,293	6,008	155,812	45,974	75,077	356,818	56,452	1,992,298
- Customers	30,243,090	365,319	259,994	1,178,015	3,906,522	4,466,217	8,378,831	31,370,063	28,093,074	-
Cash liabilities	**79,295,028**	**3,048,064**	**2,799,481**	**1,517,016**	**2,687,452**	**2,146,287**	**4,545,195**	**35,888,726**	**4,180,071**	**104,900**
B.1 Deposits and current accounts	76,386,043	30,522	1,243,716	218,386	547,324	797,494	568,682	153,526	-	-
- Banks	575,064	-	-	-	-	-	6,508	-	-	-
- Customers	75,810,979	30,522	1,243,716	218,386	547,324	797,494	562,174	153,526	-	-
B.2 Debt securities	255,545	78,338	36,258	849,765	1,492,562	746,155	3,636,275	13,059,787	2,937,951	104,900
B.3 Other liabilities	2,653,440	2,939,204	1,519,507	448,865	647,566	602,638	340,238	22,675,413	1,242,120	-
"Off-balance sheet" transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	7,292	2,308,297	958,304	871,260	2,164,481	979,008	879,722	207,440	245,895	-
- Short positions	12,500	2,085,224	794,690	735,862	1,808,280	1,077,826	640,289	612,553	71,969	-
C.2 Financial derivatives without exchange of capital										
- Long positions	2,076,417	-	-	-	-	-	-	5,250	7,500	-
- Short positions	3,236,092	-	-	-	2,696	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	19,998	-	-	-	-	-	-	-	210
- Short positions	20,208	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	107,251	642	1,213	4,548	21,751	76,713	99,402	247,998	306,848	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	15,000	-	-
- Short positions	-	-	-	-	-	-	-	15,000	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	2,404	-	-	-	-	-	-	-	-	-

2. Time distribution of financial assets and liabilities by residual contract maturity. Currency of denomination: other currencies

Item/Time bracket	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 month and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Over 5 years	Undefined term
Cash assets	**687,612**	**21,119**	**40,592**	**78,068**	**200,754**	**61,406**	**20,849**	**1,424,494**	**1,473,709**	**-**
A.1 Government securities	4,874	-	-	-	-	-	-	375,221	967,567	-
A.2 Other debt securities	6,108	-	-	1,321	51,853	2,724	419	794,847	450,729	-
A.3 UCIT units	16,356	-	-	-	-	-	-	-	-	-
A.4 Loans	660,274	21,119	40,592	76,747	148,901	58,682	20,430	254,426	55,413	-
- Banks	162,985	4,973	9,176	1,894	4,006	-	592	-	69	-
- Customers	497,289	16,146	31,416	74,853	144,895	58,682	19,838	254,426	55,344	-
Cash liabilities	**1,668,915**	**141,060**	**53,037**	**842,507**	**570,652**	**7,930**	**6,394**	**-**	**2,523**	**-**
B.1 Deposits and current accounts	1,659,555	141,060	53,037	28,878	37,568	7,930	6,394	-	-	-
- Banks	19,395	140,844	50,088	24,233	24,559	-	-	-	-	-
- Customers	1,640,160	216	2,949	4,645	13,009	7,930	6,394	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	9,360	-	-	813,629	533,084	-	-	-	2,523	-
"Off-balance sheet" transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	2,905,782	873,136	749,612	1,791,450	1,015,744	634,400	583,242	624	-
- Short positions	234	3,353,027	943,288	855,664	2,062,011	889,595	845,468	499,582	4,183	-
C.2 Financial derivatives without exchange of capital										
- Long positions	90,639	-	-	-	-	-	-	-	-	-
- Short positions	113,208	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	3,335	-	-	-	-	-	-	-	-
- Short positions	-	3,335	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	2	152	164	15,611	22,614	15,365	-	-	-	-
- Short positions	2	53,906	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	568	-	-	5,770	-	7	177	655	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

As described in Part E – Section 1 – Risks of the Banking Group – 1.1 Credit Risk - C. Securitisation transactions, as a result of "originated securitisations" generated by Banks or Group Companies, Banco BPM subscribed securities eligible for refinancing with the ECB or for repurchase agreements with market counterparties. The originated securitisations outstanding as at 31 December 2017 are shown below.

Originated securitisations

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Originated securitisations not derecognised from the financial statements				
Former Banco Popolare Group				
BPL Mortgages S.r.l.	Banco BPM (former Banco Popolare)	June 2014	BPL Mortgages 7	Performing residential and commercial mortgages
BPL Mortgages S.r.l.	Banco BPM (former Banco Popolare)	December 2012	BPL Mortgages 5	Performing residential mortgage loans
Former Italease Group				
Italfinance Securitization Vehicle 2 S.r.l	Banco BPM (former Banca Italease)	January 2009	ITA 11	Performing leases
Former BPM Group				
BPM Securitisation 3 S.r.l.	Banco BPM (former BPM)	September 2014	CMBS 2014	Performing commercial mortgage loans
ProFamily Securitisation S.r.l.	ProFamily S.p.A.	November 2015	ProFamily Securitisation	Performing consumer loans

Transactions closed during the year

None of the outstanding operations as of 31 December 2017 was closed during the year.

Originated Securitisation transactions in place and significant events during 2017

Securitisation of mortgage, landed, agricultural and other loans disbursed to small and medium enterprises (SME) - BPL Mortgages 7 (June 2014)

The securitisation transaction was originated by Banco Popolare and by Credito Bergamasco, now Banco BPM and entailed two stages: on 10 May 2014, the Originator Banks sold mortgage, landed, agricultural and other loans disbursed to small and medium enterprises (Small Business Enterprises - SME) to the SPE BPL Mortgages S.r.l. for a value of euro 1,801.3 million and on 30 June 2014, the SPE issued three classes of bonds. Under the plan to restructure the transaction, in February 2016, the former Banco Popolare (i) sold a further portfolio of mortgage loans disbursed to small and medium enterprise, partly represented by performing loans resulting from the unwinding of the BPL Mortgages 6 transaction, for a value of euro 2,574 million, and (ii) repurchased the receivables initially sold to the SPE that were classified as "non-performing". To fund the purchase of the subsequent portfolio, on 26 February 2016, the SPE issued a Second Series of asset-backed securities with three classes. The Senior and Mezzanine Notes are listed on the Irish Stock Exchange. The Senior Notes were used by Banco BPM as collateral for monetary policy operations with the Eurosystem.
In the transaction, the Originator Banks, now Banco BPM, acted as Servicers, managing the collection of the receivables; Banco BPM also acted as Interim Account Bank and Cash Account Bank.

Loans portfolio

Bank	Value 31/12/2017	Value 31/12/2016 (*)
Banco BPM	2,017,322	2,600,793

(*) Former Banco Popolare
The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2017	Interest rate	Maturity	Rating Moody's/DBRS (5)
A1	Senior (1)	1,077,400	122,205	Euribor 3 months + 0.3%	November 2054	A1/A high
B1	Mezzanine (1)	269,300	269,300	Euribor 3 months + 0.8%	November 2054	Baa1/A Low
C1	Junior (2)	448,898	448,898	Additional Return	November 2054	unrated
A2	Senior (3)	1,936,000	760,915	Euribor 3 months + 0.3%	November 2054	A1/A high
B2	Mezzanine (3)	1,000	1,000	Euribor 3 months + 0.8%	November 2054	Baa1/A Low
C2	Junior (4)	448,072	448,072	Additional Return	November 2054	unrated
	Total	**4,180,670**	**2,050,390**			

(1) Notes issued on 30 June 2014, listed on the Irish Stock Exchange and fully subscribed by Banco BPM.
(2) Junior Note issued on 30 June 2014, unlisted and subscribed by Banco BPM.
(3) Notes issued on 26 February 2016, listed on the Irish Stock Exchange and fully subscribed by Banco BPM.
(4) Junior Note issued on 26 February 2016, unlisted and subscribed by Banco BPM.
(5) Rating as at 31 December 2017.

Significant events during 2017

In July 2017, DBRS upgraded the rating of the Class A1 and Class A2 Notes from "A (high)" to "AA (high)", and upgraded the rating of Class B1 and Class B2 Notes from "A (low)" to "A (high)". In October 2017, Moody's downgraded the rating of the Class A1 and Class A2 Notes from "A1" to "A2".

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of euro 80.8 million, constituted - at the initial date of issue of the securities - mainly through the disbursement of a subordinated loan totalling euro 76.9 million by Banco BPM. As part of the restructuring of the transaction, on the issue date of the subsequent notes, the initial cash reserve was increased through the disbursement of a further mortgage with limited repayment by Banco BPM, formerly Banco Popolare, for an amount of around euro 85.6 million.

Securitisation of residential landed and mortgage loans- BPL Mortgages 5 (December 2012)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, now Banco BPM. On 17 November 2012, the Originator Banks sold an initial portfolio of performing residential landed and mortgage loans to the SPE BPL Mortgages S.r.l. for a value of euro 2,505.2 million and on 21 December 2012, the SPE issued two classes of bonds. On 9 March 2013 the Originator Banks assigned a second portfolio of residential mortgage loans for a value of euro 1,088 million, funded on 28 March 2013 ("Notes Increase Date") through the increase in the amount of principal of partly paid notes issued by the Company in December 2012. Under the plan to restructure the transaction, in October 2016, the former Banco Popolare sold a further portfolio of receivables originating from residential landed and mortgage loans to the SPE BPL Mortgages S.r.l., with a value of euro 1,079 million and, at the same time, repurchased both the receivables initially sold to the SPE classified as "non-performing" and those eligible for the BP CB1 programme. On 28 October 2016, the restructuring of the transaction was completed with the issue of a Second Series of asset-backed securities by the SPE. The Senior Notes were listed on the Irish Stock Exchange and were used by Banco BPM for monetary policy operations with the Eurosystem.

In the transaction, the Originator Banks, now Banco BPM, acted as Servicers, managing the collection of the receivables; Banco BPM also acted as Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2017	Value 31/12/2016 (*)
Banco BPM	2,407,511	2,670,766

(*) Former Banco Popolare
The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2017	Interest rate	Maturity	Rating Moody's/DBRS (4)
A1	Senior (1)	2,440,400	973,254	Euribor 1 month + 0.3%	October 2058	A1/A high
B1	Junior (2)	1,148,455	392,765	Additional Return	October 2058	unrated
A2	Senior (3)	995,100	845,007	Euribor 1 month + 0.25%	October 2058	A1/A high
	Total	**4,583,955**	**2,211,026**			

(1) Note issued on 21 December 2012 for a nominal value of euro 1,701.3 million, increased by a nominal amount of euro 739.1 million on 28 March 2013, listed on the Irish Stock Exchange and fully subscribed by Banco BPM.
(2) Junior Note issued on 21 December 2012 for a nominal value of euro 800.7 million, increased by a nominal amount of euro 347.8 million on 28 March 2013, unlisted and subscribed by Banco BPM.
(3) Note issued on 28 October 2016, listed on the Irish Stock Exchange and fully subscribed by Banco BPM.
(4) Rating as at 31 December 2017.

Accessory financial transactions

The structure of the transaction envisages the establishment of a Cash Reserve of euro 64 million, constituted mainly through the disbursement, which took place on 21 December 2012, of a subordinated loan totalling euro 60 million by the Originator Banks.

ITA 11

In January 2009, Italease Network (merged into Banca Italease), Mercantile Leasing (merged into Banca Italease) and Banca Italease, (now Banco BPM) sold a portfolio of loans resulting from lease contracts to the SPE Italfinance Securitisation Vehicle 2 S.r.l. for euro 1,375 million.
On 21 January 2009, the SPE issued a class of senior rated notes for euro 1,031.6 million and a class of junior unrated notes for euro 343.9 million; both series were subscribed by the Originator Banks of the loans. In April 2013, the senior notes were fully redeemed. As at 31 December 2017, Banco BPM holds junior notes with a nominal value of euro 158 million, 54.3 of which pertain to Alba Leasing by virtue of the "Securitised loan agreement".
As regards this transaction, the Originator Banks (incorporated into Banco BPM) acted as Servicer and managed the loans.

Securitisation of mortgage and other loans disbursed to small and medium enterprises - BPM Securitisation 3 (September 2014)

The securitisation transaction was originated by Banca Popolare di Milano S.c. a r.l. and entailed two stages: on 1 August 2014, the Originator Bank sold performing commercial mortgage loans and commercial unsecured loans to the SPE BPM Securitisation 3 S.r.l. for a value of euro 865.5 million and on 30 September 2014, the SPE issued two classes of bonds, both subscribed by the Originator. On 29 June 2016, as part of the restructuring of the transaction, the Originator Bank sold a further portfolio of mortgage loans and loans disbursed to small and medium enterprises, with the same characteristics as the original portfolio, for a value of euro 638 million. To fund the purchase of the subsequent portfolio, on 20 July 2016, the SPE increased the nominal value of the outstanding Notes issued in September 2014. The Senior Notes were listed on the Luxembourg Stock Exchange and were used by the Originator, now Banca Popolare di Milano S.p.A., as collateral for monetary policy operations with the Eurosystem.

The Originator Bank acted as Servicer and managed the collection of receivables. Following the business combinations at the beginning of 2017, the collection and management of performing loans sold is carried out by Banca Popolare di Milano S.p.A., while Banco BPM S.p.A. performs the remaining activities envisaged for the Servicer as well as Cash Manager.

Loans portfolio

Bank	Value 31/12/2017
Banca Popolare di Milano S.p.A.	585,781

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2017	Interest rate	Maturity	Rating Moody's/DBRS (3)
A	Senior (1)	3,109,600	181,053	Euribor 3 months + 0.6%	20.01.2057	Aa2/AAA
Z	Junior (2)	418,700	418,700	Additional Return	20.01.2057	unrated
	Total	**3,528,300**	**599,753**			

(1) Notes issued on 30 September 2014 for a nominal value of euro 573 million, increased by a nominal amount of euro 2,536.6 million on 20 July 2016, listed on the Luxembourg Stock Exchange and fully subscribed by the former Banco Popolare di Milano S.c. a r.l., transferred in Banca Popolare di Milano S.p.A.

(2) Junior notes issued on 30 September 2014 for a nominal value of euro 304 million, increased by a nominal amount of euro 114.7 million on 20 July 2016, unlisted and subscribed by the former Banco Popolare di Milano S.c. a r.l., transferred in Banca Popolare di Milano S.p.A.

(3) Rating as at 31 December 2017.

Accessory financial transactions

On the initial issue date of the notes, a part of the proceeds resulting from the issue of the notes was allocated to establishing a Cash Reserve of euro 11.5 million, which may be used at each payment date to pay the Company's expenses, the commission of the agents and the interest on the Senior Notes if available funds are insufficient. As part of the restructuring of the transaction during 2016, the cash reserve was increased on the payment date of July 2016 and as at 31 December 2017, it amounted to euro 5.1 million.

The structure of the transaction envisaged a call option, by virtue of which, the Originator has the right to repurchase all of the loans sold to the SPE, issuer of the ABS, not yet collected at each payment date.

Securitisation of consumer loans - ProFamily Securitisation (November 2015)

The securitisation transaction was originated by ProFamily S.p.A. (a company of the former BPM Group) and took place through the sale, on 3 November 2015, without recourse, of a portfolio of performing consumer loans for a total of euro 712.6 million originating from targeted loans and personal loans (with the exclusion of salary-backed loans) to the SPE ProFamily Securitisation S.r.l., a company specifically established for this purpose. On 27 November 2015, the SPE issued two classes of bonds. The transaction featured a revolving structure for the first 18 months and, in accordance with the procedures envisaged by the Framework Agreement of sale, for the entire revolving period, which ended in May 2017, integrations of the portfolio of performing loans regularly took place, which the SPE funded entirely with the collections, so as to leave the total initial amount unchanged.
The Notes issued by the SPE were fully subscribed by ProFamily S.p.A and the Senior Note was sold by the latter, through a Pledge Agreement over Securities, to the former Parent Company Banca Popolare di Milano S.c.a r.l., and transferred to Banca Popolare di Milano S.p.A., which may therefore hold Senior Bonds (listed on the Luxembourg Stock Exchange) and may be used as collateral for monetary policy operations with the Eurosystem.

As regards the transaction, the Originator, ProFamily S.p.A. acted as Servicer, managing the collection of loans, and the Parent Company Banco BPM S.p.A. acted as Cash Manager.

Loans portfolio

Bank	Value 31/12/2017
ProFamily S.p.A.	542,169

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2017	Interest rate	Maturity	Rating Moody's/DBRS (3)
A	Senior (1)	584,300	436,430	Euribor 1 month + 1.0%	21.12.2039	Aa3/AAA
J	Junior (2)	140,040	140,040	Euribor 1 month + 2.0% plus Additional return	21.12.2039	unrated
	Total	**724,340**	**576,470**			

(1) Notes issued on 27 November 2015 for a nominal value of euro 584.3 million and transferred to Banca Popolare di Milano S.p.A.
(2) Junior Note issued on 27 November 2015 for a nominal value of euro 104.0 million, unlisted and subscribed by ProFamily S.p.A.
(3) Rating as at 31 December 2017.

Significant events during 2017

In October 2017, Moody's downgraded the rating of Class A Notes to "Aa3"; furthermore in November 2017, DBRS upgraded the rating of Class A Notes to "AAA".

Accessory financial transactions

The structure of the transaction envisaged establishing a Cash Reserve of euro 11.7 million, which may be used at each payment date to pay the company's expenses, the commission of the agents and the interest on the Senior Notes if available funds are insufficient. As at 31 December 2017, the Cash Reserve amounted to euro 11.7 million.

1.4 BANKING GROUP - OPERATING RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of operating risk

Type of risk

Operating risk is the risk of suffering losses caused by inadequacy or failure attributable to procedures, human resources and internal systems, or caused by external events. Losses resulting from fraud, human error, interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk. Operating risk also encompasses legal risk, while strategic and reputational risk are not included.

Risk sources

The main sources of operating risk are: the low reliability of operational processes - in terms of effectiveness/efficiency - internal and external frauds, operational mistakes, the qualitative level of physical and logical security, inadequate IT structure compared to the size of operations, the growing recourse to automation, the outsourcing of corporate functions, a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

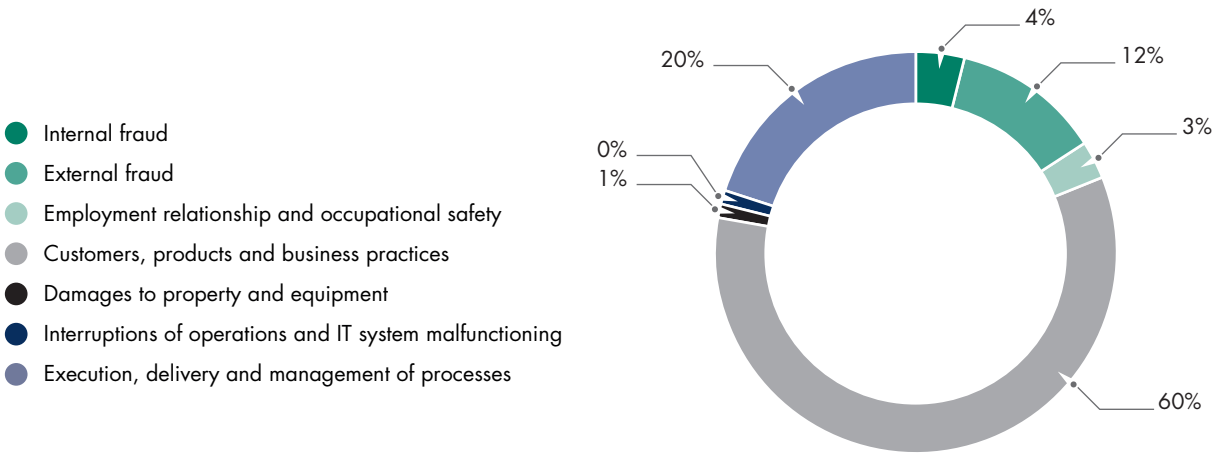
Risk management model and organisational structure

The Banco BPM Group was authorised by the European Supervisors to use for regulatory purposes a combination of the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company, Banca Aletti, SGS BP and BP Property Management), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (former BPM segments of the Parent Company, BPM SpA, ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up the Banco BPM Group.
Also in compliance with the relevant regulations, the Group adopted an operating risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by specific Group Regulations approved by the Corporate Bodies.
The capital requirement according to the AMA method is determined by combining the risk measurement obtained by the model based on previous operating losses, both internal and external, with that obtained on the basis of the model that uses elements of scenario analyses. Both of the models adopt an approach known as the Loss Distribution Approach, which is based on the modelling of aggregate annual loss, defined as the sum of loss amounts (severity) associated to each loss event that occurs over one year (frequency). The risk is estimated by measuring the Value at Risk with a confidence interval of 99.9% and a time horizon of one year. The capital requirement relating to the AMA scope takes into account any benefits from diversifying exposure to the different types of operating risk and envisages the deduction of provisions transferred to the income statement to the extent of the expected loss.
The Banco Popolare Group adopts a reporting model, organised in a management information system, addressed to Corporate Bodies and Top Management (significant losses and relative recoveries, overall risk assessment, capital absorption and risk management policies adopted and/or planned), and in an operating reporting system, with a view to adequately managing risk in the relative areas.

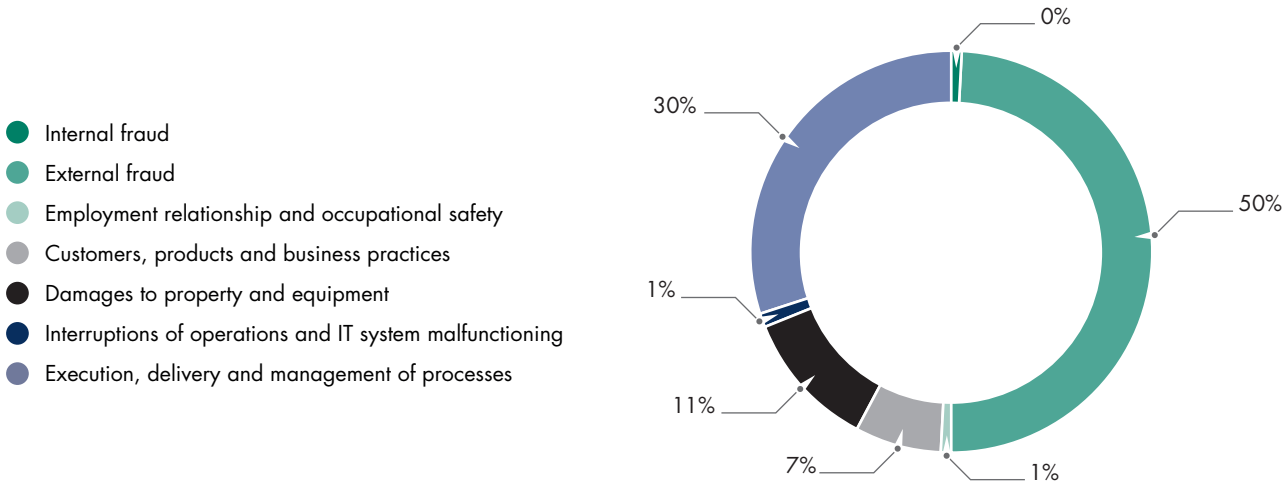
QUANTITATIVE INFORMATION

With regard to sources of operating risk, an analysis was conducted covering operating risk events, with gross losses greater than or equal to euro 200 (minimum reporting threshold), with a recording date on or before 1 January 2008.
The loss data in question, recorded in the Group's Loss Collection operational archive, is broken down by type of event, and can be filtered by impact and number of events, in line with the event classification scheme prescribed by the Regulator.

a) Breakdown by impact



b) Breakdown by number of events



Looking at the diagrams, we can see that the dominant categories in terms of impact regard:

- commercial practices, with losses resulting from the non-fulfilment of professional obligations towards customers, or due to the nature or features of a product or service rendered;
- processes, with losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers;
- external unlawful acts, with losses due to fraud, misappropriation or infringement of laws by parties external to the bank.

Section 2 - Insurance company risks

The Group holds a stake in the share capital of insurance companies AviPop Assicurazioni, Popolare Vita and Bipiemme Vita; these investments are included in the scope of consolidation of the companies measured at equity and are shown in consolidated assets under item 100 "Investments in associates and companies subject to joint control" with the exception of the investments in AviPop Assicurazioni and Popolare Vita, to be disposed of, which, following agreements signed during the year relating to the overall reorganisation of the bancassurance segment, have been recognised under item 150 "Non-current assets held for sale and discontinued operations".

With regard to the risks of the segment in question, note that the weight of the above companies on total consolidated assets is of little significance.

Section 3 - Other company risks

No significant additional risks are reported for the remaining companies falling within the consolidation scope that are neither part of the Banking Group nor of insurance companies. As regards the Group's real estate companies, including those acquired following credit restructuring arrangements, note that the book value at which said real estate is recognised is consistent with the value stated in specific surveys and valuations.
The risk of impairment of real estate is in any event covered by a specific capital requirement - in terms of credit risk - which the Group calculates in accordance with regulatory methods. Furthermore, Risk Management uses internal operational methods to periodically check the adequacy of the regulatory capital requirement vis-à-vis real estate risk.

PART F - INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity is made up of the sum of the balances of the following balance sheet liabilities:

- Capital net of repurchased treasury shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Treasury shares
- Net income (loss).

The information concerning the methods followed by the Group to pursue its asset management objectives is provided in the following sub-section 2.3.

B. QUANTITATIVE INFORMATION

The consolidated shareholders' equity as at 31 December 2017 totalled euro 11,963.5 million (of which euro 11,900.2 million pertaining to the Group and euro 63.3 million pertaining to minority interests) and shows a net increase of euro 4,318.7 million compared to euro 7,644.8 million (of which euro 7,575.3 million pertaining to the Group and euro 69.5 million pertaining to minority interests) representing consolidated shareholders' equity as at 31 December 2016.

B.1 Consolidated shareholders' equity: breakdown by type of company

Shareholders' equity items	Banking Group	Insurance companies	Other companies	Netting and adjustments on consolidation	31/12/2017
Share Capital	7,163,557	-	6,616	(5,612)	7,164,561
Share premium reserve	1,216	-	761	(761)	1,216
Reserves	1,945,745	-	51,918	(44,307)	1,953,356
Equity instruments	-	-	-	-	-
(Treasury shares)	(14,146)	-	-	-	(14,146)
Valuation reserves:	251,461	-	396	(8)	251,849
- Financial assets available for sale	297,874	-	-	-	297,874
- Property and equipment	-	-	378	-	378
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	1,805	-	-	-	1,805
- Cash flow hedges	(8,182)	-	-	-	(8,182)
- Exchange rate differences	18,278	-	-	-	18,278
- Non-current assets held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit and loss - changes in own creditworthiness	14,517	-	-	-	14,517
- Actuarial gains (losses) on defined benefit pension plans	(79,476)	-	18	5	(79,453)
- Share of valuation reserves related to investments in associates carried at equity	4,331	-	-	(13)	4,318
- Special revaluation laws	2,314	-	-	-	2,314
Income (loss) for the year (+/-) attributable to the Group and to minority interests	2,605,727	-	(1,569)	2,546	2,606,704
Shareholders' equity	**11,953,560**	**-**	**58,122**	**(48,142)**	**11,963,540**

B.2 Valuation reserves of financial assets available for sale: breakdown

Assets/amounts	Banking Group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	135,283	(17,277)	-	-	-	-	-	-	135,283	(17,277)
2. Equity instruments	176,871	(7,480)	-	-	-	-	-	-	176,871	(7,480)
3. UCIT units	18,186	(7,709)	-	-	-	-	-	-	18,186	(7,709)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2017	**330,340**	**(32,466)**	**-**	**-**	**-**	**-**	**-**	**-**	**330,340**	**(32,466)**
Total 31/12/2016	**199,557**	**(83,163)**	**-**	**-**	**-**	**-**	**-**	**-**	**199,557**	**(83,163)**

B.3 Valuation reserves of financial assets available for sale: annual changes

	Debt securities	Equity instruments	UCIT units	Loans
1. Opening balance	**636**	**116,074**	**(316)**	**-**
2. Positive changes	**263,646**	**75,769**	**31,696**	**-**
2.1 Fair value increases	181,306	74,397	24,573	-
2.2 Transfer of negative reserves to the income statement	57,352	166	3,242	-
- due to impairment	-	127	5	-
- on disposal	57,352	39	3,237	-
2.3 Other changes	24,988	1,206	3,881	-
3. Negative changes	**(146,276)**	**(22,452)**	**(20,903)**	**-**
3.1 Fair value decreases	(37,169)	(6,986)	(4,157)	-
3.2 Losses on impairment	-	(240)	-	-
3.3 Transfer of positive reserves to the income statement: on disposal	(25,205)	(10,044)	(7,551)	-
3.4 Other changes	(83,902)	(5,182)	(9,195)	-
4. Closing balance	**118,006**	**169,391**	**10,477**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2017
1. Opening balance	**(78,377)**
2. Positive changes	**8,569**
2.1 Profits due to changes in financial assumptions	70
2.2 Other actuarial profits	6,275
2.3 Other changes	2,224
3. Negative changes	**(9,645)**
3.1 Losses due to changes in the financial assumptions	(4,115)
3.2 Other actuarial losses	(3,788)
3.3 Other changes	(1,742)
4. Closing balance	**(79,453)**

Section 2 - Own funds and capital adequacy ratios

2.1 Scope of application of regulations

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.
The Regulations and the relative technical standards are directly applicable to national legislation and constitute the so-called "Single Rulebook".

Note that the regulations contained in the Single Rulebook envisage a period of transition for the gradual introduction of several new rules (so-called "phase-in").
In other words, during the Basel 3 transition period, several items will be calculated or deducted at different percentages for each year. Generally, a share is attributed to Common Equity Tier 1 (CET1), while the remainder of the aggregate is split between Additional Tier 1 (AT1) and Tier 2 (T2) capital, or attributed to Risk-Weighted Assets (RWA).

A gradual process of elimination (phase-out over a period of time extended to 2021 under the "grandfathering" system) is also envisaged for equity instruments that do not fully meet the calculation requirements of the new regulations.

The estimates of capital ratios that the Group is assumed to have at the end of the transition period are called "Basel 3 Fully Phased".

With regard to the measurement of risk-weighted assets, note that the Banco BPM Group is authorised to use the following methods based on its own internal models:

- internal system to measure credit risk relating to corporate and retail customers, according to the advanced approach (Advanced IRB), to calculate the relative consolidated and separate capital requirements.
  The model applies at individual level to Banco BPM S.p.A.;
- internal model to measure market risk (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco BPM S.p.A. and to Banca Aletti S.p.A.;
- internal model to measure market risk, applicable only at individual level to Banca Akros S.p.A from 30 June 2014 (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units, exchange rate risk on all assets/liabilities of the entire individual financial statements) to calculate the relative separate and capital requirement.
- internal model to measure operating risk (AMA) to calculate the relative separate and consolidated capital requirements.
  The model applies at individual level to Banco BPM S.p.A., to Banca Aletti S.p.A., to SGS Soc. Cons., and to BP Property Management Scarl and has been extended, from the reference date of 30 June 2016, to Aletti Gestielle SGR S.p.A and to the Leasing Division of the Parent Company[1].

As envisaged by regulations, in the provisions of its authorisation, the Supervisory Authority indicated the minimum consolidated level of capital requirement against credit, market, counterparty and operating risks as 85% (floor) of the capital requirement calculated according to the provisions of the Supervisory Instructions for banks in force up until 2006 (so-called "Basel 1").

As required by Circular no. 285, the prudential scope of consolidation includes banking and financial companies and special purpose entities belonging to the Banking group. These companies are consolidated on a line-by-line basis.

There are no restrictions or constraints to the transfer of equity resources between companies of a Banking group.

[1] Decision of the European Central Bank notified on 15 June 2016.

2.2 Own funds of the bank

A. QUALITATIVE INFORMATION

In accordance with the CRR and Circular no. 285, the amount of own funds held by a bank breaks down as follows: (i) common equity Tier 1; (ii) additional Tier 1; (iii) Tier 2.

Innovative and non-innovative equity instruments, hybrid capitalisation instruments and subordinated assets, held in other banking and financial companies not belonging to the Group, are deducted from said aggregates according to set percentages.
Equity investments, held in other banking and financial companies not belonging to the Group, and deferred tax assets (DTA) which are based on future profits and originate from temporary differences, are deducted to the extent of the percentage that exceeds specific exemption thresholds. The exempted percentage is weighted at 250% in RWA. The full amount of deferred tax assets (DTA) resulting from tax losses carried forward are deducted from CET1.

Also equity investments in insurance companies and subordinated liabilities issued by the same companies are deducted, if calculated by the issuer for regulatory capital purposes, as well as other elements linked to the calculation of capital requirements.
Specifically referring to portfolios for which credit risk is measured using internal models, the amount of expected losses exceeding total value adjustments (so-called shortfall) resulting from the comparison carried out separately with regard to "exposures in default status" and "other exposure" is also deducted.
Any surplus between value adjustments and expected losses is instead included in Tier 2, up to a percentage of 0.6% of RWA on the credit risks calculated according to internal models.

Specific prudential filters are applied to safeguard the quality of the Own Funds and to reduce their potential volatility as a result of the adoption of international accounting standards IFRS/IAS.

Minority interests are admissible only to the extent of the amount covering third party risk. Up until 31 December 2017, the remaining percentage may be partially included in the calculation.

Communication regarding the prudential filters of the "Financial assets available for sale" portfolio

The option to neutralise unrealised profits and losses for the securities issued by the central government authorities of countries belonging to the European Union was revoked from 1 October 2016, due to the entry into force of (EU) Regulation no. 445 of 14 March 2016, which introduced new rules for the exercise of these options and of the discretionary powers envisaged by right of the Union, including those relating to articles 467 and 468 of the CRR.
More specifically, art. 14 of the cited Regulation no. 445 envisages that:

- 60% of the unrealised losses pursuant to art. 467, par. 1, of the CRR, must be included in common equity tier 1 in 2016, and 80% in 2017, "including therein losses relating to exposures towards central government authorities in the category of Financial assets available for sale". In any event, national legislation in place before the entry into force of Regulation no. 445 is applicable if it envisages higher percentages than those illustrated above.

Vice versa, art. 15 of the same Regulation establishes that:

- 40% of the unrealised profits, pursuant to art. 468, par. 3, of the CRR, must be included in common equity tier 1 in 2016, and 20% in 2017, "including therein profits relating to exposures towards central government authorities in the category of Financial assets available for sale". In any event, national legislation in place before the entry into force of Regulation no. 445 is applicable if said legislation envisages higher applicable percentages than those illustrated above.

In a note dated 23 January 2017[2], the Bank of Italy clarified that, following the entry into force of the ECB regulation, from October 2016, significant banks must include in or deduct from CET1 respectively, the unrealised

[2] Clarification on the prudential treatment of unrealised profits and losses resulting from exposures towards central government authorities in the category of "Financial assets available for sale".

profits or losses resulting from exposures towards central government authorities in the AFS portfolio in accordance with the following percentages: 60% for 2016; 80% for 2017.
The residual amounts following the application of these percentages (i.e. 40% for 2016; 20% for 2017) must not be included in the calculation of own funds, as they continue to be classified as sterilised. In implementation of the transition regime envisaged by the CRR, the national regime in force as at 31 December 2013 is applied.

As at 31 December 2017, the valuation reserve of the securities issued by Central Government authorities of countries belonging to the European Union, after tax, was around a positive euro 76.7 million; in the absence of "sterilisation", the residual amount (20% corresponding to around euro 15.3 million) would have led to an increase of the same amount of CET1.

In a communication dated 22 September 2017, the Bank of Italy stated that the countercyclical capital buffer for the fourth quarter of 2017 was set at zero percent.

1. Common Equity Tier 1 capital (CET1)

CET1 is primarily made up of paid-up capital, share premium reserves, net of prudential filters and regulatory deductions.

The following main aggregates are deducted from CET1:

- goodwill and other intangible fixed assets,
- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial / insurance sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).
- deferred tax assets which are based on future profits and do not depend on temporary differences (for the entire amount).

2. Additional Tier 1 capital (AT1)

AT1 is primarily made up of innovative and non-innovative equity instruments, net of regulatory deductions.
Among the positive elements, it includes the eligible share of 3 innovative and non-innovative "preference share" equity instruments.
An early redemption option is present in all 3 equity instruments, after 10 years of the issuance, subject to the prior authorisation of the European Central Bank.

As at 31 December 2017, there are no longer any capital instruments placed through foreign subsidiaries set-up "ad hoc" (Special Purpose Entities).

All the innovative and non-innovative instruments of the Banco BPM Group, existing as at 31 December 2017, are subject to transitional regulations (grandfathering clause) which means that they can continue to be calculated, reducing them by 10% each year, reaching zero as at 31 December 2021, or until the first early maturity.

The following main aggregates are deducted from AT1 (for the remaining shares attributed to Tier 1 during the transition period and up to the full extent of AT1):

- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial / insurance sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).

3. Tier 2 capital (T2)

Tier 2 capital is primarily made up of subordinated liabilities issued, to the extent of the eligible percentage according to the legislation referred to above, net of regulatory deductions.

For all eligible liabilities, subordination requires that, in the event of liquidation or receivership, the holders of these securities be repaid only after all other creditors with higher claim have been repaid.
Early repayments, for all subordinated liabilities are subject to the prior authorisation of the European Central Bank.
The main contractual characteristics of the above mentioned instruments are described in the following tables:

Financial instruments included in calculation of Additional Tier 1 capital (AT1): main contractual conditions

ISIN	Issuer	type	issue date	maturity date	currency	interest rate	special clauses	issued amount	contribution to regulatory capital	Method of repayment	coupon
XS0304963373	BancoBPM S.p.A..	pref	21/06/2007	perpetual	euro	6.756% fixed yearly until June 2017 then 3m Euribor + 188 bp	no step up	104,950,000	104,900,000	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
IT0004596109	BancoBPM S.p.A..	pref	29/03/2010	perpetual	euro	9% fixed yearly until March 2020 then 3m Euribor + 665 bp	step up	25,000,000	25,000,000	After prior approval of the Bank of Italy, bullet repayment upon maturity or early redemption option after 10 years from issuance	Yearly
XS0372300227	BancoBPM S.p.A..	pref	25/06/2008	perpetual	euro	9% fixed yearly until June 2018 then 3m Euribor + 618 bp	step up	300,000,000	192,115,000	After prior approval of the competent authority, bullet repayment on the statutory end of duration of the Company, or early redemption option after 10 years from issuance	Yearly

Financial instruments included in calculation of Tier 2 capital (T2): main contractual conditions

ISIN	Issuer	type	issue date	maturity date	currency	interest rate	special clauses	issued amount	contribution to regulatory capital	Method of repayment	coupon
XS0555834984	BancoBPM S.p.A..	sub	05/11/2010	05/11/2020	euro	6% fixed on a yearly basis	-	710,027,000	401,066,069	Bullet repayment upon maturity	yearly
XS0632503412	BancoBPM S.p.A.	sub	31/05/2011	31/05/2021	euro	6.375% fixed on a yearly basis	-	318,472,000	215,877,227	Bullet repayment upon maturity	yearly
IT0005120313	BancoBPM S.p.A..	sub	30/07/2015	30/07/2022	euro	3m Euribor + 4.375%	-	499,930,000	457,767,229	Bullet repayment upon maturity subject to regulatory events	Quarterly
IT0004966823	BancoBPM S.p.A..	sub	18/11/2013	18/11/2020	euro	5.5% fixed on a yearly basis	-	799,893,000	0	In 5 equal yearly instalments from 18 November 2016	yearly
IT0004347107	BancoBPM S.p.A..	sub	18/04/2008	18/04/2018	euro	4.5% fixed on a yearly basis	-	252,750,000	14,608,272	Bullet repayment upon maturity	yearly
IT0004396492	BancoBPM S.p.A..	sub	20/10/2008	20/10/2018	euro	3m Euribor 365 + 60 bp until 20 October 2013 then 3m Euribor + spread 150 bp	step up	502,050,000	71,533,078	early redemption option from 20 October 2013. The Issuer did not exercise this option.	yearly
XS0597182665	BancoBPM S.p.A..	sub	01/03/2011	01/03/2021	euro	7.125% fixed on a yearly basis		475,000,000	282,651,021	Bullet repayment upon maturity	yearly
IT0004370992	BancoBPM S.p.A..	sub	18/06/2008	18/06/2018	euro	EONIA rate + spread 75 bp		17,850,000	0	Bullet repayment upon maturity	yearly
XS1686880599	BancoBPM S.p.A..	sub	21/09/2017	21/09/2027	euro	4.375% until 21/09/2022 then 5 years EUR mid swap rate + 4.179% (fixed/reset)		500,000,000	500,000,000	Bullet repayment upon maturity subject to regulatory events. Unique option for the issuer to fully and not partially repay the loan on 21/09/2022 subject to the authorisation of the competent authority.	yearly

The following aggregates are deducted from Tier 2 capital (for the residual amounts attributed to Tier 2 during the transition period):

- the surplus between expected losses and value adjustments (so-called shortfall),
- significant investments in the CET1 instruments of other parties in the financial / insurance sector (for the part exceeding the exemption threshold),
- deferred tax assets which are based on future profits and originate from temporary differences (for the part exceeding the exemption threshold).

Significant investments in the Tier 2 instruments of other parties in the financial / insurance sector are also deducted from Tier 2 capital.

B. QUANTITATIVE INFORMATION

BREAKDOWN OF OWN FUNDS		Total	
		31/12/2017	31/12/2016 aggregate
A.	Common Equity Tier 1 capital (CET1) before the application of prudential filters	11,868,333	11,926,965
	of which CET1 instruments subject to transitional provisions	-	-
B.	CET1 prudential filters (+/-)	(15,523)	(31,471)
C.	CET1 before items to be deducted and before the effects of the transitional regime (A +/- B)	11,852,810	11,895,494
D.	Items to be deducted from CET1	(2,821,609)	(3,426,651)
E.	Transitional regime - Impact on CET1 (+/-), including minority interest subject to transitional provisions	347,481	716,035
F.	Total Common Equity Tier 1 capital (CET1) (C - D +/- E)	9,378,682	9,184,878
G.	Additional Tier 1 capital (AT1) before items to be deducted and before the effects of the transitional regime	326,664	345,724
	of which AT1 instruments subject to transitional provisions	322,015	337,855
H.	Items to be deducted from AT1	-	-
I.	Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 by virtue of transitional provisions	(97,004)	(184,174)
L.	Total Additional Tier 1 capital (AT1) (G - H +/- I)	229,660	161,551
M.	Tier 2 capital (T2) before items to be deducted and before the effects of the transitional regime	2,113,716	2,009,896
	of which T2 instruments subject to transitional provisions	71,533	163,276
N.	Items to be deducted from T2	(102,737)	(55,802)
O.	Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 by virtue of transitional provisions	(75,053)	(144,110)
P.	Total Tier 2 capital (T2) (M - N +/- O)	1,935,926	1,809,984
Q.	**Total own funds (F + L + P)**	**11,544,268**	**11,156,413**

Common Equity Tier 1 Capital as at 31 December 2017, amounted to euro 9,379 million, up compared to euro 9,184.9 million at the end of 2016 (This figure originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation).

CET1 before the elements to be deducted and the impact of the transition period was slightly lower than the aggregate figure for last year, and reflected both the impact of the impairment of goodwill as at 31 December 2016 of the former Banco Popolare amounting to euro 1,017.6 million, partly offset by the positive impact to the income statement of the revaluation of the net assets and liabilities recognised by virtue of the PPA process relating to the merger, corresponding to around euro 259.9 million before tax, and by the result for the period before total income relating to the PPA process in question (of euro 3,076.1 million) corresponding to euro 557.2 million.
The increase in net CET1 of around euro 0.2 billion is due, on one hand to lesser elements to deduct by around euro 0.6 billion compared to last year's figure due to the impairment of goodwill of one billion, after intangible assets recognised by virtue of the PPA process, partially offset by the lower positive impact of the transition period.

Additional Tier 1 capital was higher due to the lower negative impact of the transition period.

Tier 2 Capital as at 31 December 2017 amounted to euro 1,936 million, up against euro 1,810.0 million as at 31 December 2016. (This figure originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation).

The increase is due to new subordinated liabilities issue during the year net of loans that reached maturity and regulatory amortisation.

Own funds therefore amounted to euro 11,544.3 million compared to euro 11,156.4 million at the end of 2016 (This figure originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation).

2.3 Capital adequacy

A. QUALITATIVE INFORMATION

Under the prudential regulatory provisions, the total capital requirement is the sum of the capital requirements required as a result of the credit, counterparty, market and operating risks.
These requirements in turn are the result of the sum of the individual requirements of the companies belonging to the Supervisory Group, stripped of the intercompany relations.

Following prudential regulatory instructions referring to 30 June 2012, the Banco BPM Group was authorised by the Bank of Italy to use internal systems (Advanced IRB) to calculate capital requirements for credit and market risks, as better illustrated in paragraph 2.1 above.
With regard to exposures other than measured by the new internal models, which originate from credit and counterparty and market risk, the Group continues to adopt the respective "standard approaches".

With regard to operating risk, the Group adopted the "combined approach", as most Group companies had obtained, as of 30 June 2014, authorisation to use advanced internal models (AMA), while the remaining minor companies used the "base approach". Several companies originating from the former Banca Popolare di Milano Group maintain the use of the "standard method".

The capital management policies of the Banco BPM Group aim, on the one side, at guaranteeing that the capital base be consistent with the total risk measure, with regulatory constraints, with the target rating and with corporate development plans, and, on the other side, at optimising the capital makeup, namely the set of elements making up regulatory capital, by selecting a mix of suited financial instruments to minimise the cost of capital.

B. QUANTITATIVE INFORMATION

	CATEGORIES/AMOUNTS	Unweighted amounts		Weighted amounts/requirements	
		31/12/2017	31/12/2016 aggregate	31/12/2017	31/12/2016 aggregate
A	**Risk assets**				
A.1	Credit and counterparty risk				
	1. Standardised method	96,058,742	100,485,749	48,917,787	51,940,855
	2. Method based on internal ratings				
	2.1 Basic	-	-	-	-
	2.2 Advanced	74,440,541	71,170,452	18,381,207	14,913,071
	3. Securitisations	72,471	92,793	82,814	95,644
B.	**Regulatory capital requirements**				
B.1	**Credit and counterparty risk**			5,390,544	5,355,966
B.2	Credit valuation adjustment risk			25,563	30,122
B.3	Settlement risk			1,708	90
B.4	**Market risk**				
	1. Standardised method			40,094	39,022
	2. Internal models			165,755	105,628
	3. Concentration risk			-	-
B.5	**Operating risk**				
	1. Basic method			13,244	14,359
	2. Standardised method			214,577	211,673
	3. Advanced method			220,230	217,495
B.6	**Other calculation items**				-
B.7	**Total prudential requirements**			**6,071,715**	**5,974,354**
C.	**Risk assets and capital ratios**				
C.1	Risk-weighted assets			75,896,441	74,679,429
C.2	Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			12.36%	12.30%
C.3	Total Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			12.66%	12.52%
C.4	Total own funds/Risk-weighted assets (Total capital ratio)			15.21%	14.94%

Categories/amounts		Unweighted amounts		Unweighted amounts/requirements	
		31/12/2016	31/12/2015	31/12/2016	31/12/2015
A	**Risk assets**				
A.1	**Credit and counterparty risk**				
	1. Standardised method	46,799,903	46,576,056	19,687,290	20,948,605
	2. Method based on internal ratings				
	2.1 Basic	-	-	-	-
	2.2 Advanced	71,170,452	72,570,694	14,913,071	16,500,118
	3. Securitisations	74,911	102,381	64,729	80,290
B.	**Regulatory capital requirements**				
B.1	**Credit and counterparty risk**			**2,773,207**	**3,002,321**
B.2	Credit valuation adjustment risk			20,947	27,239
B.3	Settlement risk			-	-
B.4	**Market risk**				
	1. Standardised method			30,469	51,920
	2. Internal models			76,149	140,406
	3. Concentration risk			-	-
B.5	**Operating risk**				
	1. Basic method			12,702	30,444
	2. Standardised method			-	-
	3. Advanced method			217,495	327,200
B.6	**Other calculation elements**				
B.7	**Total prudential requirements**			**3,130,969**	**3,579,530**
C.	**Risk assets and capital ratios**				
C.1	Risk-weighted assets			39,137,113	44,744,125
C.2	Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			12.97%	13.15%
C.3	Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			13.08%	13.15%
C.4	Total own funds/Risk-weighted assets (Total capital ratio)			16.17%	15.91%

In accordance with Chapter 2, paragraph 7 (Part F of the Notes to the Separate Financial Statements, also applicable to the consolidated financial statements), of Circular no. 262 of the Bank of Italy ("Bank financial statements: layout and compilation rules"), in standardised methods, the "unweighted amounts" correspond to the value of the exposure including prudential filters, risk mitigation techniques and credit conversion factors.
As regards the method based on internal ratings, the "unweighted amounts" correspond to the value of the exposure "at the time of default" (EAD "Exposure At Default") and, in the case of guarantees given and commitments to disburse funds, they also take Credit Conversion Factors (CCF) into account.

The unweighted exposure to securitisations (A.1, point 3 in the table) is the sum of the nominal amounts of all junior, mezzanine and senior securities held in the portfolios of Group companies, net of the securities held relating to so-called originated securitisations.

As at 31 December 2017, risk-weighted assets amounted to euro 75.9 billion, showing an increase against euro 74.7 billion recorded at the end of 2016. (This figure originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation)
This change is mainly due to the rise in market, credit and counterparty risks. The latter show a significant fall in exposures measured using the standardised method (euro -3.0 billion less RWA), more than offset by the rise of those whose risk is measured using internal models (euro +3.4 billion).
Risk-weighted assets relating to operating risks were substantially stable.

The minimum capital requirements for 2017 are as follows:

- a minimum Common Equity Tier 1 capital ratio (CET1 ratio) of: 4.5% + 2.5% Capital Conservation Buffer: "CCB"; [3]
- a minimum Tier 1 capital ratio of: 6.0% + 2.5% of CCB;
- minimum total capital ratio of: 8% + 2.5% of CCB.

On 27 December 2017, the European Central Bank (ECB) notified Banco BPM of the minimum capital ratios to be complied with by Banco on an ongoing basis from 1 January 2018. The decision is based on Article 16 of EU Regulation no. 1024 of 15 October 2013, which confers on the ECB the power to require any supervised bank to hold own funds in excess of the minimum capital requirements laid down by current regulations.
The minimum level required by the Regulator is a Common Equity Tier 1 ratio (CET1 ratio) of 8.875% and a Total Capital Ratio of 12.375%.

In addition, on 30 November 2017, the Bank of Italy identified the Banco BPM Banking group as an "Other Systemically Important Institution" (O-SII).
The Group must maintain, on an ongoing basis, an O-SII capital reserve corresponding to 0.25% of its total risk-weighted exposures, reaching said level gradually: 0% for 2018, 0.06% from 1/1/2019, 0.13% from 1/1/2020, 0.19% from 1/1/2021, 0.25% from 1/1/2022.

Applying the transition rules in force as at 31 December 2017, the capital ratios are as follows:
Common Equity Tier 1 (CET1) ratio was 12.36%, up against the end of December 2016, amounting to 12.30%(This figure originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation);
Tier 1 Capital Ratio was 12.66%; up against the end of December 2016, amounting to 12.52% (This figure originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation)
Total Capital Ratio was 15.21%; up against the end of December 2016, amounting to 14.94%(This figure originates from the aggregation of the two Groups to which several corrections have been applied following the recalculation)

The current level of own funds enables Banco Popolare to fully comply with the Regulators' requirements, both with respect to the calculation rules currently applicable in the transition period, as well as when the new capital requirements shall apply in full.

The CET1 fully loaded ratio calculated as at 31/12/2017 on the basis of rules that will take effect at the end of the transition period (so-called CET1 Ratio fully phased) is estimated at 11.92%.

[3] On 4 October 2016, the Bank of Italy, in update 18 of Circular Letter 285, reduced the CCB to 1.25% for 2017 and to 1.875% for 2018.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions achieved during the year

1.1 Business combinations

Merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l.

As illustrated in the section of the report on operations focused on significant events during the year, on 1 January 2017, the merger between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l. (hereinafter "BPM") was finalised, creating a new banking company, with the legal status of a joint stock company, called Banco BPM S.p.A.

The results of accounting for the business combination in question, illustrated in this section, were approved by the Board of Directors of Banco BPM S.p.A. on 8 June 2017.

Illustration of the effects deriving from the application of IFRS 3

Based on the content of Part A - Accounting policies of these Notes to the consolidated financial statements, accounting standard IFRS 3 requires any business combination to be accounted for using the acquisition method, which entails the following steps:

a) Identification of the acquirer;
b) Determination of the date of acquisition;
c) Determination of the cost of the acquisition;
d) Recognition and assessment of the identifiable assets acquired and the liabilities assumed - purchase price allocation (PPA);
e) Recognition of goodwill or of profit deriving from a bargain purchase.

This method applies to the business combination between Banco Popolare and BPM, even though the same was finalised as an actual merger, which gives rise to a new company, owned by the shareholders of the merged companies.

(a) Identification of the acquirer

Pursuant to IFRS 3, the acquirer is the entity that obtains control, meaning the power to establish the financial and operational policies of the entity acquired in order to obtain benefits from its business activities. In the specific case of a merger, the main indicators of said power are represented by (i) the number of new ordinary shares with voting rights issued with respect to the total number of ordinary shares with voting rights which will constitute the share capital of the acquiring company after the merger, (ii) the fair value of the entities that participate in the merger, (iii) the composition of the new corporate bodies of the acquiring company, (iv) the entity that issues the new shares.
With reference to the business combination in question, from an accounting perspective, the acquirer has been identified as Banco Popolare based on quantitative aspects regarding the number of new shares issued (54.626% held by the shareholders of the former Banco Popolare and 45.374% held by the shareholders of the former BPM) and the equity aggregates of the two groups participating in the merger.

(b) Determination of the date of acquisition

The date of the business combination was identified as 1 January 2017, as the transaction's legal, accounting and tax effects began as of that date. Indeed, the shares of the new entity were attributed to the shareholders of the two merged banks effective as of that date and could be traded on the stock market as of 2 January 2017 (first subsequent business day). There are no agreements that guarantee control to a category of shareholders before that date.

(c) Determination of the cost of the acquisition

IFRS 3 requires that the cost of a business combination is determined as the sum of the fair value, on the date of exchange: (i) of the assets transferred, (ii) the liabilities incurred and (iii) the equity instruments issued by the acquirer in exchange for obtaining control over the entity acquired.
In the transaction in question, the consideration transferred is represented by the fair value of the shares issued by the new entity and assigned to the shareholders of the former Banca Popolare di Milano (acquired entity). The amount in question totalled euro 1,548.2 million and is equal to the number of new Banco BPM shares assigned to the former shareholders of Banca Popolare di Milano (687,482,024 shares) multiplied by the opening price of the Banco BPM share recorded on 2 January 2017 (euro 2.252).
As a result of the specific nature of the merger, there were no price adjustment mechanisms or potential consideration.
In addition, the cost of the combination did not take into account costs correlated with the acquisition, which were recognised by the acquirer as operating expenses to the extent to which the costs were incurred and/or the services were received, as established by IFRS 3.

(d) Recognition and assessment of the identifiable assets acquired and the liabilities assumed - purchase price allocation (PPA)

On the basis of what is set forth in IFRS 3, the cost of the business combination must be allocated to the identifiable assets acquired and to the liabilities assumed, including potential ones, which must be measured on the basis of the fair value on the date of the business combination, and the value of the minority stake in the acquired entity must also be recognised which for this transaction has been recognised in proportion to the stake held in the net identifiable assets of the company acquired.
In detail, the fair value measurement of the identifiable assets acquired and the liabilities assumed (including the contingent liabilities identified) relating to the BPM Group entailed the identification of consolidated shareholders' equity acquired of euro 4,624.3 million and therefore higher by euro 259.9 million, net of the relative tax effects, than the consolidated shareholders' equity set forth in the BPM Group's consolidated financial statements as at 31 December 2016 (euro 4,364.4 million), as summarised in the table below:

Book Value of BPM Group Shareholders' Equity as at 31/12/2016 ***(in thousands of euro)***			**4,364,450**
Increase in value of assets			
Property and equipment (item 120 A)	311,149		
Intangible assets (item 130 A)	581,374		
Hedging derivatives (item 80 A)	817		
Decrease in value of liabilities			
Due to customers (item 20 L)	34		
Debt securities issued (item 30 L)	32,559		
Financial liabilities held for trading (item 40 L)	1,989		
Hedging derivatives (item 60 L)	95		
Minority interests (item 210 L)	64		
Decrease in value of assets			
Financial assets held for trading (item 20 A)	(2,385)		
Financial assets available for sale (item 40 A)	(713)		
Due from banks (item 60 A)	7,063		
Loans to customers (item 70 A)	(489,552)		
Investments in associates and companies subject to joint control (item 100 A)	(31,763)		
Other assets (item 160 A)	(1,271)		
Increase in value of liabilities			
Provisions for risks and charges – other provisions (item 120 L)	(4,000)		
Total fair value difference (before tax effect)		**405,460**	
Tax effect			
Deferred tax assets (item 140 A)	285,896		
Deferred tax liabilities (item 80 L)	(431,459)		
Net tax effect		**(145,563)**	
Total fair value difference (after tax effect)			**259,897**
Fair value of BPM Group shareholders' equity as at 31/12/2016			**4,624,347**

Key: A = Balance Sheet Assets; L = Balance Sheet Liabilities

On the basis of the effects relating to the fair value measurement of the net identifiable assets, including contingent liabilities, specified above, the balance sheet of the former BPM Group is provided below as accounted for at the date of the business combination by the Banco BPM Group.

In detail, the balance sheet highlights the following figures:

- Values in the "**31/12/2016**" column: these are the balance sheet data of the BPM Group set forth in the consolidated financial statements as at 31 December 2016 drawn up according to the IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) issued by the International Accounting Standard Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), validated by the European Commission, as defined in EC Regulation no. 1606 of 19 July 2002. These financial statements were audited by the independent auditor PricewaterhouseCoopers S.p.A., which issued its report with no objections on 15 March 2017;
- Values in the "**PPA**" column: these are the higher or lower values of the assets acquired and the liabilities assumed (including the contingent liabilities identified) of the BPM Group based on their fair value measurement at the effective date of the business combination;
- Values in the "**31/12/2016 Post PPA**" column: these are values calculated by adding the respective amounts specified in the two previous columns for each balance sheet item. These values represent the identifiable assets acquired and the liabilities assumed expressed on the basis of their respective fair values, determined in application of IFRS 3.

Asset items ***(in thousands of euro)***	**31/12/2016**	**PPA**	**31/12/2016 Post PPA**
10. Cash and cash equivalents	249,449		249,449
20. Financial assets held for trading	1,562,491	(2,385)	1,560,106
30. Financial assets designated at fair value through profit and loss	19,240		19,240
40. Financial assets available for sale	9,633,116	(713)	9,632,403
60. Due from banks	2,185,297	7,063	2,192,360
70. Loans to customers	34,771,008	(489,552)	34,281,456
80. Hedging derivatives	44,835	817	45,652
90. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	10,514		10,514
100. Investments in associates and companies subject to joint control	231,677	(31,763)	199,914
120. Property and equipment	718,015	311,149	1,029,164
130. Intangible assets	81,614	581,374	662,988
of which:			
- goodwill	-		-
140. Tax assets	1,064,350	285,896	1,350,246
a) current	135,558		135,558
b) deferred	928,792	285,896	1,214,688
of which pursuant to Italian Law 214/11	695,899		695,899
160. Other assets	559,433	(1,271)	558,162
Total assets	**51,131,039**	**660,615**	**51,791,654**

Liability and shareholders' equity items *(in thousands of euro)*	31/12/2016	PPA	31/12/2016 Post PPA
10. Due to banks	7,385,667		7,385,667
20. Due to customers	30,688,439	(34)	30,688,405
30. Debt securities issued	5,687,758	(32,559)	5,655,199
40. Financial liabilities held for trading	1,215,764	(1,989)	1,213,775
50. Financial liabilities designated at fair value through profit and loss	94,899		94,899
60. Hedging derivatives	32,894	(95)	32,799
70. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	19,941		19,941
80. Tax liabilities	68,114	431,459	499,573
a) current	141		141
b) deferred	67,973	431,459	499,432
100. Other liabilities	999,152		999,152
110. Employee termination indemnities	132,398		132,398
120. Provisions for risks and charges:	440,257	4,000	444,257
a) retirement benefits and similar commitments	86,555		86,555
b) other provisions	353,702	4,000	357,702
140. Valuation reserves	20,809		20,809
170. Reserves	906,099		906,099
190. Share capital	3,365,439		3,365,439
200. Treasury shares (-)	(621)		(621)
210. Minority interests (+/-)	1,306	(64)	1,242
220. Net income (loss) for the year (+/-)	72,724		72,724
Total fair value effect on shareholders' equity		**259,897**	**259,897**
Total liabilities and shareholders' equity	**51,131,039**	**660,615**	**51,791,654**

A brief illustration is provided below of the valuation methodology and the relative results for the financial statement items most impacted.

Due from banks (asset item 60)

On the basis of the methodology illustrated in the following paragraph for the item 70 "loans to customers", the fair value measurement of amounts due from banks entailed an increase of euro 7.1 million, associated with performing exposures.

Loans to customers (asset item 70)

The fair value of the total receivables in question is lower than the relative book value by euro 489.6 million. This overall difference is the result of the combination of two opposite phenomena:

- the fair value measurement of performing exposures was a total of euro 356.0 million higher than the book value, which came to euro 31.1 billion;
- the fair value measurement of non-performing exposures was a total of euro 845.6 million lower than the book value. In detail, the fair value of bad loans is euro 481.2 million lower than the book value (equal to euro 1.6 billion); that of unlikely to pay loans is also lower, by euro 364.4 million, than the book value (equal to euro 2 billion).

The fair value was calculated by discounting the gross expected cash flows, adjusted appropriately to take into account expected losses and the relative operating costs (recovery costs for bad loans), based on a discounting rate determined using the "Weighted Average Cost of Capital (WACC)" model. This model makes it possible to determine a rate representative of the weighted average cost of capital considered expressive of the return requested by investors for an acquisition transaction, under normal contractual and market conditions, for a portfolio of loans similar to the one being assessed.
For non-performing loans, the discounting also took into consideration the recovery times relating to the expected cash flows.
Lastly, please note that in determining the parameters mentioned above, parameters observed in the market were used for the most part.

Investments in associates and companies subject to joint control (asset item 100)

The shareholdings in associates held by the BPM Group as at 31 December 2016 refer to: i) Selma Bipiemme Leasing S.p.A. ii) Factorit S.p.A. iii) Bipiemme Vita S.p.A. iv) Etica SGR S.p.A. and v) Calliope Finance S.r.l. in liquidation.

For each shareholding in associated companies, the table below indicates the book value in the consolidated financial statements of BPM as at 31 December 2016, the corresponding fair value measurement as well as the methodologies for determining the fair value aligned with the most well-established valuation techniques employed by financial companies:

(in millions of euro)			**(A)**	**(B)**	**(A)-(B)**
Company	**%**	**Methodology**	**Fair value (pro-rata)**	**Value in the consolidated financial statements 31/12/2016**	**Fair value delta**
SelmaBipiemme Leasing	40%	Dividend Discount Model	72.1	91.8	-19.7
Factorit	30%	Dividend Discount Model	56.0	68.8	-12.8
Bipiemme Vita	19%	Appraisal Value	66.4	69	-2.6
Etica SGR	19.44%	Capital transactions	5.4	1.9	3.5
Calliope Finance - in liquidation	50%	Estimated recovery from liquidation	0.0	0.2	-0.2
Total					**-31.8**

The fair value measurement of the shareholdings in associates is therefore lower than the book values recognised in the consolidated financial statements as at 31 December 2016 by a total of euro 31.8 million.

Property and equipment (asset item 120)

The fair value measurement regarded solely real estate, which had a book value of euro 608.0 million as at 31 December 2016, and was carried out with the support of the company Nomisma.
The majority of the properties were valued using a parametric system based on a synthetic-comparative method using the Nomisma database and data from OMI (the Tax Authority's Real Estate Market Observatory) in order to identify comparable prices for recent transactions. For higher value real estate, a detailed analysis was carried out based on a "full" appraisal. These were conducted through an internal and external inspection of the assets to be appraised to identify their degree of functionality and efficiency, as well as through an in-depth analysis of the local economic programme. For these appraisals, the methodology deemed most suitable for the individual case was used, depending on the type of asset to be appraised. The methodology most used was that based on the financial method; this method includes an analysis of the net cash flows that may be generated by a property within a given period of time, in that it was deemed most suitable to adequately represent the real value of the assets in question, which could be acquired as real estate assets for direct use (for operations) or for investment purposes, as a lasting source of income provided through lease payments.
On this basis, the fair value of the real estate assets recognised in item 120 "property and equipment" was estimated as euro 919.1 million. This value is euro 311.1 million higher than the book value.

Intangible assets (asset item 130)

In a business combination between entities carrying out banking activities, the following identifiable intangible assets are considered significant:

- marketing-related assets, such as the group brands, product trademarks, service trademarks and internet domain names;
- customer relationship related assets, such as customer relationships relating to asset management activities and direct funding or demand deposit activities (core deposits).

The valuation of the intangible assets relating to marketing and customer relationship related assets of the BPM Group entailed the recognition by the Banco BPM Group of new assets for a total of euro 581.4 million, as summarised in the table below.

(in thousands of euro)	
Trademarks	282,073
Client Relationship	299,303
Total	**581,376**

As regards trademarks (BPM, WeBank and Akros), the relative fair value was determined by capitalising the estimate of the economic contribution attributable to them, net of the relative tax effect, on the basis of a cost of capital and assuming an indefinite useful life. The cost of capital was calculated on the basis of the Capital Asset Pricing Model (CAPM) approach, according to which the cost of capital is equal to the sum of a nominal rate of return on risk-free assets and a specific risk premium capable of reflecting the riskiness of the reference sector context and the specific risks linked to the operation of the asset in question.

With reference to "Client Relationships", the valuation regarded the intangible asset represented by the management of asset management and asset custody relationships and was conducted by discounting the net future income flows referring to such relationships, based on the CAPM methodology illustrated previously. In line with the guidelines laid out by IFRS 3, the reference customers regarded only those relationships initiated prior to the acquisition date; the generation capacity of the new relationships was not valued at all.

Debt securities issued (liability item 30)

The fair value of the financial liabilities was estimated on the basis of the Group's fair value policy in line with the fair value hierarchy established by IFRS 13. Therefore, market prices observable in active markets were considered as a priority and, lacking these, recourse was made to a valuation technique using parameters observable in the market as input factors, in terms of interest rates and the spread deemed expressive of the issuer's creditworthiness.
This estimation process resulted in the determination of a fair value euro 32.6 million lower than the relative book value of the liabilities in question, which amounted to euro 5.7 billion as at 31 December 2016.

Deferred tax assets (asset item 140) - Deferred tax liabilities (liability item 80)

The fair value measurement of assets and liabilities entailed the recognition of higher or lower values which, due to the tax neutrality of the merger, did not entail a corresponding change in the value recognised for tax purposes of such assets and liabilities. Therefore, it was necessary to recognise deferred taxation on the temporary differences between the new book value determined and the tax values. This taxation was determined on the basis of the rates currently in force and taking into account the tax treatment of the specific items subject to revaluation/write-down.
In particular:

- due to asset value reductions and liability value increases resulting from the fair value measurement, it was necessary to recognise the corresponding deferred tax assets amounting to euro 285.9 million;
- due to liability value reductions and asset value increases resulting from the fair value measurement, it was necessary to recognise the corresponding deferred tax liabilities amounting to euro 431.5 million.

(e) Recognition of goodwill or of profit deriving from a bargain purchase

The difference between the cost of the business combination and the value, measured at fair value, of the identifiable assets acquired and the liabilities assumed, including contingent liabilities, must be recognised:

- as goodwill, if positive;
- as income statement income ("bargain purchase"), if negative.

With reference to the business combination in question, as set forth in detail in the table shown below, the difference between the cost of the combination (euro 1,548.2 million) and the fair value of the assets acquired and the liabilities assumed (euro 4,624.3 million) was a negative euro 3,076.1 million. This difference was credited to the income statement for the period as profit from a bargain purchase (income statement item "220. Other operating income/expense").

Book Value of BPM Group Shareholders' Equity as at 31/12/2016 ***(in thousands of euro)***	**4,364,450**	**A**
Total fair value difference (after tax effect)	259,897	B
Fair value of assets and liabilities acquired	4,624,347	C=A+B
Consideration transferred	1,548,210	D
Bargain purchase (badwill)	**3,076,137**	E=C-D

Please note that the business combination was carried out through a merger which did not entail any cash transfer. As a result, strictly from the accounting perspective, in accordance with what is set forth in IFRS 3, a "bargain purchase" entails a mere reclassification under equity reserves of the BPM Group and an income statement item.

The arising amount of the bargain purchase depends to a great extent on the valuation of Italian banks implicit in market listings; indeed, the main Italian banks have stock exchange listings well below their tangible net equity, while the main competitors at European level are listed at above equity.
In particular, at the moment of the transaction, BPM and Banco Popolare had a price/tangible book value ratio of roughly 33% (substantially aligned with that of the main listed Italian banks). This circumstance is indeed the crucial element which resulted in the emergence of a bargain purchase.
Therefore, it is reasonable to deem that the application of an analytical methodology, based on economic projections, would not have entailed the emergence of any bargain purchase and instead would have confirmed the book value of shareholders' equity.

Summary of the valuation process conducted

The application of IFRS 3 requires the performance of a number of complex valuation activities.

In this context, Banco BPM asked KPMG Corporate Finance, a division of KPMG Advisory S.p.A. ("KPMG"), to support it in several PPA process phases. Specifically, KPMG carried out the following activities:

- Analysis of the transaction and the consistency of the accounting method adopted with IFRS 3 (identification of the acquirer, determination of the acquisition date, quantification of the consideration transferred, treatment of the correlated costs, treatment of bargain purchase, etc.);
- Determination of the spread between the transaction cost and the fair value of the net assets acquired and definition of the relative accounting method;
- Identification of the scope of the assets and liabilities of the BPM Group at the acquisition date, 1 January 2017 ("Acquisition Date"), subject to fair value measurement;
- Identification and valuation of specific intangible assets through fair value measurement models;
- Determination of the fair value of loans to customers (performing portfolio, unlikely to pay and bad loans);
- Determination of the fair value of the companies subject to significant influence;
- Analysis of the impacts deriving from the determinations pursuant to the previous point on the separate financial statements of Banco BPM;
- Determination of the fair value of the BPM subsidiaries at the Acquisition Date;
- Analysis of the tax treatment of the spreads between the fair value and the book value of the assets and liabilities acquired.

To complete its work, on 10 May 2017 KPMG issued its report summarising the activities carried out and the conclusions reached.

The KPMG engagement entailed no appraisal of the fair value of the real estate, which was instead carried out with the support of Nomisma S.p.A. ("Nomisma"). Nomisma appraised the real estate assets owned by the former BPM Group (BPM, BP Mantova and Akros) consisting of 358 properties in order to determine their market value or fair value at the reference date.

The overall outcome of the appraisal process conducted with the support of the advisors indicated above was subject to the approval of the Board of Directors of Banco BPM S.p.A. on 11 May 2017. This appraisal process resulted in the identification of a negative difference ("bargain purchase") between the cost of the business combination and the fair value of the net identifiable assets acquired.

The results of this appraisal process at that date were in any event approved on a provisional basis as IFRS 3 establishes a maximum period of twelve months from the date of the acquisition for the completion of the recognition of the business combination.

In this regard, please note that paragraph 36 of IFRS 3 establishes that in order to guarantee that the valuations properly reflect all information at the acquisition date, the acquirer, before recognising a "bargain purchase" in the income statement, must conduct a "reassessment" of the valuation process already conducted so as to verify the comprehensiveness and accuracy of the process of identifying and valuing all assets acquired and liabilities assumed.
In this regard, Banco BPM directly and with the support of its advisors noted above reviewed the main valuations, refining inter alia the base of information and the databases supporting the valuations themselves. After these activities, both KPMG and Nomisma updated their reports. The difference between the cost of the business combination and the fair value of the identifiable assets acquired and the liabilities assumed was therefore recalculated, and was confirmed as negative although marginally different from the result of the provisional allocation cited above. In detail, with respect to the results of the PPA determined on a provisional basis and taken as a reference for the preparation of the income statement and balance sheet as at 31 March 2017, the "bargain purchase" was reduced by euro 47.7 million following the recalculation of the fair value of the assets relating to performing loans and real estate.

To further verify the accuracy and reasonableness of the conclusions reached and the emerging "bargain purchase" to be credited to the 2017 income statement, the Bank asked a different independent expert, the company Deloitte Financial Advisory S.r.l. (Deloitte), to critically examine the valuation methods adopted, verifying in particular the reasonableness and non-arbitrary nature of the methodologies and valuation parameters adopted.

After the process mentioned above, as already mentioned, the results of accounting for the business combination in question, illustrated in the previous section, were approved by the Board of Directors of Banco BPM S.p.A. on 8 June 2017.

Business combinations between entities under common control

With the establishment of the Banco BPM Group, work commenced on defining its corporate and organisational structure, with regard to which the following intragroup transactions were carried out.

These transactions do not fall under the scope of IFRS 3 and, in accordance with the Provisions of Circular 262/2005 of the Bank of Italy, they are conventionally reported in this section. Given the lack of a reference accounting standard, transactions "under common control" are recognised on the basis of the principle of continuity of book values; more specifically, the values adopted are those reported in the consolidated financial statements of the Group on the transfer date of the business activities.

Reorganisation of the Group's Private Banking and Corporate & Investment Banking activities

In the first half of the year, the restructuring of the Group's Private Banking and Corporate & Investment Banking activities set forth in the 2016-2019 Strategic Plan was launched. This restructuring calls for the centralisation of Private Banking activities within Banca Aletti and Corporate & Investment Banking activities within Banca Akros.

In 2017, with regard to said reorganisation, two specific transactions took place.

In June, the subsidiaries BPM S.p.A. and Banca Aletti signed, effective 1 July, the deed for the sale of BPM's Private Banking division to Banca Aletti.
The business complex sold by BPM to Aletti consists of the set of assets and relationships functional to the exercise of Private Banking activities, with the related customers, as well as all relationships correlated with Private Banking activities.

The price paid for the sale was set at euro 150.1 million, based on the equity situation of the business division on the effective date of the transaction.

With regard to said transaction, indirect funding assets relating to the Private customers of BPM S.p.A. amounting to around euro 5.2 billion were transferred (of which euro 4.1 billion relating to asset management contracts and euro 1.1 billion relating to asset custody and administration contracts).

The centralisation within Banca Aletti of the Group's Private Banking activities continued in the second half of the year with the deed of transfer from Banco BPM to Banca Aletti of the "private credited" division, to increase the shareholders' equity of the assignee, effective 1 December 2017, and for an amount corresponding to the mismatch of the business division corresponding to euro 4.6 million.
With regard to said transaction, indirect funding assets relating to the Private customers of Banco BPM amounting to around euro 3.7 billion were transferred (of which euro 1.8 billion relating to asset management contracts and euro 1.9 billion relating to asset custody and administration contracts).

Furthermore, on 11 May 2017, the Parent Company's Board of Directors also approved a corporate restructuring transaction, to be implemented by means of two partial spin-offs, which envisage, on one hand, the assignment of the business division represented by the series of goods and resources organised to conduct Private Banking activities by Banca Akros to Banca Aletti; on the other hand, the assignment of the business division represented by the series of goods and assets organised to conduct Corporate & Investment Banking activities by Banca Aletti to Banca Akros. These transactions will be legally effective in the first few months of 2018.

The Reorganisation of Group Information Technology and Back Office activities

The model of the new Group envisages the centralisation of all Information Technology and Back Office functions at SGS BP, therefore - by means of deeds dated 29 November 2017 - two transfer transactions took place from the Parent Company and Banca Akros to SGS BP regarding the Information Technology and Back Office divisions respectively.

Banco BPM transferred the business division represented by the assets, the liabilities and by the contractual relations relating to the performance of the Information Technology, Safety and Business Continuity, Security and Physical Prevention, Unified Group Support, Smart Centre, General and Support Services functions, including all of the contracts, debts, provisions and liabilities relating to the employment contracts with the employees that carry out the above-described activities, for a total of 716 operational resources. The business division also includes all tangible and intangible assets needed to conduct the activities of the division as well as all of the contracts required for the operations of the division.

Banca Akros has transferred SGS BP the business division represented by the assets, the liabilities and the contractual relations relating to the performance of the Organisation and Information Technology, Middle Office Capital Markets, Middle Office Brokerage, Back Office Forex and OTC Derivatives functions and Operations and Banking Services Management, including all of the contracts, debts, provisions and liabilities relating to the employment contracts with the employees that carry out the above-described activities, for a total of 51 operational resources, as well as all of the tangible and intangible assets used to operate the division in question and all of the contracts relating to the operations of the same.

Both transactions took effect as of 1 December 2017.

By virtue of the above transactions, the transferor company, SGS BP, increased its own share capital by an amount corresponding to the book value of the divisions transferred (euro 10.1 million for the Banco BPM division and euro 5 million for the Banca Akros one).

Lastly, it should be noted that, as a result of the completion of separate mergers, the subsidiaries Italease Gestione Beni, Sviluppo Comparto 2, TT Toscana Tissue, Essegibi Promozioni Immobiliari, Nadir Immobiliare (incorporated into Bipielle Real Estate) and HCS (incorporated into Terme Ioniche) are no longer consolidated line-by-line.
These transactions were finalised during the year, with accounting and tax effects backdated to 1 January 2017; they did not entail any share capital increase for the incorporating companies and took place with no exchange ratio or adjustment in cash.

Section 2 - Business combinations after the reporting period

No business combination transactions were carried out outside the Group after the end of the year.

Section 3 – Retrospective adjustments

It was not necessary to make any retrospective adjustment.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and executives with strategic responsibilities

This information relates to those who, directly or indirectly, have the power and the responsibility to plan, manage and control the business activities of Group companies.

The table below summarises the compensation paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives meeting the above characteristics).
In total, 269 assignments were entrusted to 184 people (including 37 executives).

(in thousands of euro)	**2017**
Total gross compensation	**20,409**
of which:	
Non-executive directors and Statutory auditors	5,403
Non-employee executive directors	3,072
Employees	11,934
Short term benefits (e.g., car, lodging, accident insurance policy, medical assistance) (*)	**223**
Post-employment benefits (e.g., pension fund, supplementary pension scheme) (*)	**237**

(*) *The figure represents the taxable amount of the benefits.*

2. Information on transactions with related parties

Banco BPM adopted "Process rules for the management of related parties IAS 24". These "Process rules", which are valid for Banco BPM and for all Group companies, establish the following operating criteria to identify related parties:

a) companies subject to significant influence and joint control: i.e., the entities in which the Parent Company Banco BPM or the subsidiary entities exercise significant influence pursuant to IAS 28 or joint control pursuant to IFRS 11. In particular, these are the "Investments in companies subject to joint control and subject to significant influence" specified in Part B - Section 10 "Investments in associated and companies subject to joint control" in these Notes to the consolidated financial statements;

b) executives with strategic responsibilities: the members of the Board of Directors, the acting members of the Board of Statutory Auditors, the General Manager and the Joint General Managers of the Parent Company and the Group companies are classified as such, as well as the top operations and management executives of Banco BPM, identified by a dedicated board resolution, the Manager responsible for preparing the Company's financial reports, the Head of the Compliance function, the Head of the Internal Audit function of Banco BPM, any additional structure heads identified by the Board of Directors of Banco BPM and any extraordinary liquidators;

c) close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the party concerned in the relationship between the latter and Banco BPM or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not revealed in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual which the party believes may influence them (or be influenced by them) in their dealings with Banco BPM or the other Group companies is also a related party;

d) participative relations attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to Article 2359, paragraph 1 of the Italian Civil Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;

e) group pension funds: the pension funds for Group employees and any other related body;
f) holders of a significant equity investment: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the ordinary shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;
g) parties in a position, in themselves, to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

Financial and commercial transactions between subsidiary companies and those subject to significant influence and joint control.

Financial and commercial transactions with related parties fall within the sphere of ordinary operations and have been conducted as arm's length transactions.

The tables below indicate the balance sheet and income statement transactions as at 31 December 2017 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	6,551	-	-	297	6,848	0.14%
Loans to customers	-	2,482,988	-	8,193	124,521	2,615,702	2.42%
Other assets	-	6,714	-	-	-	6,714	0.05%
Due to banks	-	-	-	1,047	234,990	236,037	0.87%
Due to customers	-	286,939	-	12,150	505,023	804,112	0.92%
Debt securities issued	-	-	-	130,441	3,323	133,764	0.82%
Financial liabilities held for trading	-	12	-	-	14	26	0.00%
Financial liabilities designated at fair value through profit and loss	-	-	-	69,372	1,866	71,238	2.09%
Other liabilities	-	3,392	-	191	493	4,076	0.07%
Guarantees given and commitments	-	248,047	-	59	51,447	299,553	1.79%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 10% of the share capital

	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Interest margin	-	20,202		58	(2,122)	18,138	0.92%
Net fee and commission income	-	154,128	-	59	5,865	160,052	8.21%
Administrative expenses/recoveries of expenses	-	2,206	-	(16,143)	(320)	(14,257)	0.47%
Other costs / revenues	-	642	-	(8)	(500)	134	0.01%

1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 10% of the share capital

Other transactions with other related parties

The table below discloses other transactions (supplies of goods and services and transactions on real estate) entered into with related parties, shown in the above table under "executives with strategic responsibilities" and "other related parties".

	Purchases and sales of goods and services	Rentals receivable	Rentals payable
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	20	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	2,655	2,741	46

Other information

With reference to paragraph 8 of art. 5 "Disclosures to the public on related party transactions" of the Consob Regulation containing provisions for related party transactions (adopted by Consob with resolution no. 17221 of 12 March 2010 and then amended with resolution no. 17389 of 23 June 2010), the following paragraphs illustrate the most important transactions conducted in 2017, as well as those of lesser importance of particular significance.

Issue by Banco BPM S.p.A. of Bonds subscribed by Banca Aletti

The operation in question regards the issue of bonds of Banco BPM, subscribed by Banca Aletti, using liquidity resulting from funding collected from the issue of Certificates.
The Banco BPM bonds are issued at same spread as the funding of the Certificates issued by Banca Aletti, whose economic conditions, on each occasion, are in line with those applied to retail products for so-called "fresh" funding.
For the Banco BPM Group, this transaction is part of a strategy to diversify sources of funding and to stabilise the liquidity profile, which makes it possible to meet customer requirements by extending the range of products.
As at 31 December 2017, Banco BPM made 18 bond issues for a total of euro 213.7 million, against a ceiling of euro 1 billion, established by the framework resolution of 28 March 2017 and valid for the period between April and December 2017.
Subsequently, on 19 December 2017, the Board of Directors resolved to renew the transaction in question by setting a new annual ceiling of euro 600 million for the period between January and December 2018.

Covered Bond Issue Programme of the Banco BPM Group - sale of two new portfolios of residential mortgage loans to BPM Covered Bond 2 srl

This transaction, approved by the Board of Directors on 20 April 2017, consists of the sale of the fifth portfolio of receivables deriving from residential mortgage loans disbursed to private individuals by Banca Popolare di Milano S.p.A. to the SPE BPM Covered Bond 2 S.r.l. (the "Fifth Portfolio") as part of the CB Issue Programme carried out in 2015 by the former BPM ("BPM CB2").

In this context, on 28 April 2017, BPM S.p.A. sold the Fifth Portfolio to BPM Covered Bond 2 S.r.l. (the "SPE") for around euro 558 million.

The sale price of the Fifth Portfolio was calculated in accordance with the Supervisory Instructions of the Bank of Italy and the relative acquisition price was paid through the disbursement of a subordinated credit line by BPM S.p.A. to BPM Covered Bond 2 S.r.l. The new sale enabled BPM Covered Bond 2 S.r.l. to repay part of the subordinated loans received over time from BPM S.p.A. for the acquisition of previous portfolios, resulting in an increase in the Group's liquidity position.

On 17 October 2017, Banco BPM S.p.A.'s Board of Directors approved, inter alia:

- Banco BPM's access to the BPM CB2 Programme (the "Programme") in its capacity of new assigning Bank and lender, to act as additional seller and additional lender;
- the sale, by Banco BPM to BPM Covered Bond 2 S.r.l (the "SPE") of the First Banco BPM Portfolio for up to a maximum amount of euro 1.5 billion;

- the disbursement, by Banco BPM of a subordinated credit line for up to a maximum of euro 1.5 billion to the SPE for the purchase of the First Banco BPM Portfolio and the signature of the Loan Documents.

In this regard, in October 2017, Banco BPM (as Additional Seller) sold the SPE BPM Covered Bond 2 S.r.l, a new portfolio of residential mortgage loans (sixth series, but the first Banco BPM portfolio) with a residual debt of around euro 1.1 billion. The sale price of the Portfolio was calculated in accordance with the Supervisory Instructions of the Bank of Italy. The payment of the relative purchase price was made through the use of a subordinated credit line disbursed by Banco BPM to the SPE for euro 1.1 billion following the signature by the same of the Loan Documents.

Implementation of the 2016-2019 Strategic Plan

In the first half of 2017, in line with the objectives of the Strategic Plan, the plan to reorganise the Private Banking and Corporate & Investment Banking activities of the Group was launched, with regard to which, it should be noted that with a view to implementing the measures required to centralise all private customers of the Banco BPM Group into Banca Aletti and, at the same time, to centralise all of the activities relating to Corporate & Investment Banking into Banca Akros S.p.A:

(i) on 23 and 24 May 2017, the Boards of Directors of Banca Aletti and Banca Akros approved two separate partial spin-off proposals, already approved by the Parent Company's Board of Directors on 11 May 2017, which envisage the assignment: of the business division represented by the series of goods and resources organised to conduct Private Banking activities by Banca Akros to Banca Aletti; the assignment of the business division represented by the series of goods and assets organised to conduct Corporate & Investment Banking activities by Banca Aletti to Banca Akros. These transactions will be legally effective in the first few months of 2018;

(ii) on 3 August 2017, the Parent Company's Board of Directors approved a transfer transaction in kind of the "BP accredited" business division owned by Banco BPM to Banca Aletti, which took effect from 1 December 2017 through the increase of Banca Aletti's shareholders' equity; and

(iii) from 1 July 2017, the transfer of the Private Banking division by BPM S.p.A. to Banca Aletti took effect.

The Reorganisation of Group Information Technology and Back Office activities

In 2017, in line with the business model of the new Banco BPM Group, the process of centralising the Information Technology and Back Office services in the subsidiary company Società Gestione Servizi BP S.c.p.A (hereinafter also "SGS BP") commenced, to more effectively manage risk at Group level.

In this regard, on 25 July 2017, the Board of Directors of Banco BPM and on 28 July 2017, the Board of Directors of Banca Akros, approved the commencement of the transfer of the respective business divisions relating to Information Technology and Back Office activities, to SGS BP, as part of the measures to centralise IT and BO services in SGS BP.

On 29 November 2017, the Parent Company and Banca Akros signed a deed transferring SGS BP the Information Technology and Back Office business divisions. These transactions took effect as of 1 December 2017.

BPM S.p.A. - revision of credit lines

This transaction, finalised in April 2017, regards the revision and restructuring of the credit lines by Banco BPM in favour of BPM S.p.A., which went from euro 598.3 million to euro 3,955.2 million.

Alba Leasing S.p.A. - revision of credit lines

This transaction, finalised in March 2017, regards the revision and restructuring of the credit lines by the Banco BPM Group in favour of Alba Leasing S.p.A, which went from euro 878.3 million to euro 976.3 million.

Report on the funding rules of Banca Aletti currently in force and proposal for renewal of the framework resolution

The Board of Directors of Banco BPM S.p.A., in accordance with the structure adopted by the former Banco Popolare approved, at a meeting held on 4 July 2017, the liquidity management model of Banca Aletti, the impact on the liquidity position of the same following the application of said rules, as well as the renewal of the framework

resolution relating to the stipulation of deposits between the Parent Company and Banca Aletti, for the period between 1 July 2017 and 30 June 2018, for a maximum exposure of euro 1 billion and for a total amount of transactions not exceeding euro 2 billion per year.

Agos Ducato S.p.A. - revision of credit lines

The transaction, finalised in July 2017, regarded (i) the revision of the credit lines of the risk group Credit Agricole S.A., increasing the total facility from euro 1,903.2 million to euro 1,967.2 million, alongside evident risks of euro 750 million and indirect risks of euro 1 million and (ii) the increase of the ceiling for direct risks, from euro 2 billion to euro 2.2 billion, alongside a ceiling for evident risks of euro 800 million, with a new revision deadline of 31 July 2018.

Agreement between Anima Holding S.p.A. and Banco BPM S.p.A. for the acquisition of Aletti Gestielle SGR

On 4 August 2017, as resolved by the Board of Directors of Banco BPM S.p.A., on the same date, Banco BPM S.p.A. and ANIMA Holding S.p.A. signed a binding Memorandum of Understanding regarding the sale of 100% of the share capital of Aletti Gestielle SGR to Anima Holding.
The sale agreement, signed on 9 November 2017, was finalised on 28 December 2017, following the issue of the relative authorisations and once all of the conditions precedent included in the contract had been met, including the approval of the extraordinary shareholders' meeting of Anima Holding, which took place on 15 December 2017, of a share capital increase to a maximum of euro 300 million and the signature of new distribution agreements with the Anima Group.
For further details regarding this transaction, refer to the section entitled "Significant events during the year" as well as to the press releases circulated on 4 August 2017 and 28 December 2017.

Banca Popolare di Milano S.p.A. - revision of credit lines

The transaction, finalised in October 2017, regards the increase of the total credit facility from euro 4,205.2 million to euro 6,705.2, and at the same time, the adjustment of the reliability ceiling by Banco BPM S.p.A. in favour of Banca Popolare di Milano S.p.A., which rose from euro 4.5 billion to euro 7 billion. In addition, Banca Popolare di Milano S.p.A. increased the total credit facility of Banco BPM S.p.A. from euro 630 million to 5,100 million, with an adjustment of the ceiling for direct risks from euro 1 billion to euro 5.5 billion.

PART I – SHARE-BASED PAYMENT AGREEMENTS

1. Description of share-based payment agreements

A. QUALITATIVE INFORMATION

1. Remuneration linked to incentive systems: compensation plans based on shares

As the Parent Company, Banco BPM prepares the annual Report on Pay pursuant to the provisions in force on remuneration policies and practices of the Bank of Italy (Circular no. 285/2013, 7th update of 18 November 2014, Part I, Title IV, Chapter 2 "Pay and incentive policies and practices"), of art. 123-ter of Italian Legislative Decree no. 58/1998 ("Consolidated Finance Law" or "CFL") and of art. 84-quater of Consob resolution no. 11971/1999 as amended ("Issuers' Regulations").

The remuneration policies ("Policy") define - in the interests of all stakeholders - the guidelines of the Group's personnel remuneration and incentive systems with a view to favouring the pursuit of long-term strategies, targets and results in line with the general framework of governance and risk management policies and with liquidity and capital levels, while also attracting to and retaining in the Group parties with adequate professional skills and abilities to meet business requirements, for the benefit of competition and good governance, by pursuing fairness internally and with respect to the external labour market.
The Group's pay policies also aim to guarantee adequate remuneration for long-term performance, making it possible to leverage personnel, recognise individual contributions to the achievement of results and discourage unfair conduct in relationships with customers and in terms of compliance with regulations, or conduct which tends towards excessive risk exposure or results in regulatory violations.

The pay system includes a variable component linked to annual incentive systems (bonus) correlated with the activation of an incentive system by the Group Company in which the employee works; the receipt of a bonus is subject to meeting all predefined access conditions in full ("access gateways").

The bonus for key personnel (or parties whose professional activity has or may have a significant impact on the Group's risk profile, identified on the basis of Delegated Regulation (EU) 604/2014) is broken down into:

- an up-front portion, equal to 60% of the bonus;
- three annual instalments of equal amounts, totalling 40% of the bonus, deferred over the three-year period subsequent to the year in which the up-front portion is accrued.

When the bonus recognised exceeds euro 300 thousand, the portion subject to the deferral period is equal to 60% of the bonus, paid in five annual instalments of equal amounts, deferred over the five-year period subsequent to the year in which the up-front portion is accrued.

50% of the up-front portion and 50% of the deferred instalments of the bonus are paid in Banco BPM ordinary shares.

In addition, in line with national banking system practices and in keeping with the spirit of provisions in force, if the bonus recognised is lower than or equal to the relevant threshold of euro 50 thousand and at the same time lower than or equal to one-third of the individual gross fixed annual remuneration, it is paid in a lump sum in cash; this provision does not regard high-end key personnel [1], to whom therefore the regulations regarding the deferral and allocation of shares continue to apply in full.

Starting from 2017, a three-year long-term incentive (LTI) system was introduced in the Group (the "LTI bonus") correlated with the targets of the 2016-2019 Strategic Plan; this decision was made to link part of the remuneration

[1] High-end key personnel - for 2017 - are: the Managing Director, General Manager, Joint General Managers and Managers in the first line of management of the Parent Company, the Managing Director, General Manager, Joint General Manager and Deputy General Manager (when present) of Banca Popolare di Milano, Aletti & C. Banca d'Investimento Mobiliare, Aletti Gestielle SGR, Banca Akros, ProFamily and Società Gestione Servizi BP.

of top company managers to the interests of shareholders which demand the creation of value for the company over time.

The receipt of the LTI bonus is also subject to meeting all predefined access conditions in full ("access gateways").

The LTI bonus is paid entirely in Banco BPM ordinary shares ("performance shares"), broken down into:

- an up-front portion, equal to 40% of the LTI bonus;
- three annual instalments of equal amounts, totalling 60%, deferred over the three-year period subsequent to the year in which the up-front portion is accrued.

In both systems (annual and three-year), there is a retention period (sale restriction) on the shares accrued of two years for the up-front shares and of one year for the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is accrued. The assignment of shares to the respective recipients (and therefore actual transfer of ownership) takes place at the end of the retention period.
Both the up-front share and the deferred shares are subject to malus and claw-back mechanisms, as set forth in the Policy.

On 8 April 2017, the Banco BPM Ordinary Shareholders' Meeting approved, pursuant to article 114-bis of the CFL and article 84-bis of the Issuers' Regulations, the compensation plans based on shares of Banco BPM, as defined in the respective Disclosure Documents prepared for this reason by the Board of Directors on 28 February 2017, on the basis of the 2017 Remuneration Policies:

- an Annual Plan that calls for the valuation of a share of the variable component of the pay of the Group's key personnel, to be paid through the free assignment of ordinary shares of Banco BPM S.p.A. under the 2017 annual incentive system;
- a Three-Year Plan that calls for the valuation of this variable component of the pay of the executive members of the Board of Directors and employees and collaborators of the Banco BPM Banking Group in the category of top Group managers, to be paid through the free assignment of ordinary shares of Banco BPM S.p.A. under the 2017-2019 long-term incentive system.

The Ordinary Shareholders' Meeting approved the Annual Plan, with a maximum theoretical share requirement of roughly euro 12 million (including euro 5 million for the payment of any *golden parachutes*), and the Three-Year Plan, with a maximum total theoretical cost that cannot exceed 1% of the consolidated profit from current operations gross of taxes (net of non-recurring components) expected at the end of the Strategic Plan, equal to roughly euro 14 million.

The 2017 Report on Pay, the 2017 Annual Plan and the 2017-2019 Three-Year Plan are available on the website www.bancobpm.it (Corporate Governance - Remuneration Policies section).

2. Share-based compensation plans of previous years

On 28 February 2017, the Banco BPM Board of Directors resolved the opening of the access gateways for the 2016 Incentive System of the former BPM Banking Group, as well as:

- the implementation of the 2016 Plan already approved by the Ordinary Shareholders' Meeting of the former Banca Popolare di Milano Scarl on 30 April 2016, for a total value of euro 1.45 million (estimated total amount that can be disbursed) against a maximum requirement approved at the shareholders' meeting of euro 1.6 million;
- access to the deferred bonus instalments attributable to previous years, relating to the 2014 (2nd deferred share) and 2015 (1st deferred share) Incentive Systems, defined as part of the annual remuneration policies approved by the Ordinary Shareholders' Meetings of the former Banca Popolare di Milano Scarl on 12 April 2014 and 11 April 2015, respectively.

In this regard, please note that the conditions for access to the 2016 Incentive System of the former Banco Popolare Banking Group were not met.

As regards the 2015 Incentive System of the former Banco Popolare Banking Group, the Shareholders' Meeting held on 19 March 2016 approved the compensation plan and the implementation of the 2015 Remuneration Policies,

containing the information relating to the opening of the gateways, the award of bonuses to key personnel and the assignment of the relative shares.
As set forth in the 2015 Incentive System regulation, the equity portion of the short-term bonus accrued by key personnel in 2016 is subject to a retention period of two years, while the deferred equity portion will accrue in 2019 and will be subject to a retention period of one year.

In relation to the equity instalments attributable to previous years, the number of ordinary shares of the former Banca Popolare di Milano Scarl recognised was converted into Banco BPM shares - due to the merger with the former Banco Popolare Soc. Coop. - on the basis of the value established for the share swap equal to 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano Scarl; also, the ordinary shares of the former Banco Popolare Soc. Coop recognised were converted into Banco BPM shares - due to the merger with Banca Popolare di Milano Scarl - on the basis of the value established for the share swap equal to one Banco BPM share for every share of the former Banco Popolare Soc. Coop.

For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective disclosure documents drawn up in accordance with art. 84-bis of the Issuers' Regulations, deposited at the registered office of Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website www.bancobpm.it (Document Archive - Shareholders' Meetings section).

3. Employee termination compensation

For some parties categorised as key personnel, in specific cases of termination of the employment relationship, they are entitled to agree - in accordance with the methods defined in the Policy - on *golden parachutes* to the maximum extent of two years of gross fixed annual pay up to the maximum limit of euro 2.4 million (employee gross amount).

Without prejudice to the exceptions set forth in the Bank of Italy Supervisory Instructions, the disbursement takes place in compliance with the following criteria:

- one up-front instalment equal to 60%, and three annual instalments of equal amounts, totalling 40%, for parties for whom the amount of the golden parachute is less than or equal to euro 600 thousand;
- one up-front instalment equal to 40%, and five annual instalments of equal amounts, totalling 60%, for parties for whom the amount exceeds euro 600 thousand;
- 50% of each instalment in cash and 50% in Banco BPM ordinary shares.

There is a retention period on the shares accrued of two years for the up-front shares and of one year for the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is accrued.

Both the up-front share and the deferred shares are subject to malus and claw-back mechanisms, as set forth in the remuneration policies in force.

The incentive plans for key personnel illustrated above, which envisage payment based on the shares of the Parent Company, are considered "equity settled" plans in accordance with the provisions of IFRS 2. These share-based payments are recognised in the income statement under "Personnel expenses", with a balancing entry in the form of an increase in "Reserves" of consolidated shareholders' equity and Parent Company shareholders' equity.

Instead, subsidiary companies record the cost relating to the period in their separate financial statements, under the income statement item "Administrative expenses: Personnel expenses" with a balancing entry in the form of an increase of the balance sheet liability item "Provisions for risks and charges" as the incentive plans for key personnel envisage a payment based on shares of the Parent Company, which will be regulated by individual subsidiaries and, therefore, are considered "cash settled" transactions.

B. QUANTITATIVE INFORMATION

4. Annual changes

As a result of the merger, all shares outstanding of the former Banca Popolare di Milano Scarl and the former Banco Popolare Soc. Coop. were cancelled.

On 8 April 2017, the Banco BPM Ordinary Shareholders' Meeting resolved to authorise the acquisition of ordinary shares of the Bank for a total maximum amount of 1% of the share capital in order, inter alia, to implement - also through the establishment of a "share warehouse", in compliance with permitted market practices pursuant to article 180, paragraph 1, letter c) of the CFL (the "Market Practices") - the remuneration policies adopted by the Bank (including, when necessary, the remuneration policies adopted in previous years by Banco Popolare Soc. Coop. and/or Banca Popolare di Milano Scarl).

On 20 November 2017 - in accordance with the remuneration and incentive policies of the former BPM Group, a total of 135,206 ordinary Banco BPM shares were allocated, of which (i) 104,879 shares to 19 beneficiaries of the bonus acknowledged as part of the 2014 Incentive System, relating to the up-front instalment and the first deferred instalment, accrued in 2015 and 2016 respectively; (ii) 30,327 shares to an employee that left the company for the golden parachute paid in 2015, relating to the up-front and the first deferred instalments, accrued in 2015 and 2016 respectively.

5. Other information

With respect to the 2017 Incentive System for key personnel, the surpassing of the "access gateways" relating to the 2017 performance year, led to the award of an equity component of remuneration corresponding to a total of euro 2,843,400 (employee gross amount)[(2)]; the surpassing of the same "access gateways" also led to the accrual of the following equity portions (amounts refer to consolidated figures):

- 2017 Incentive System - up-front portion - euro 1,609,440 (employee gross amount)[(2)];
- 2016 Incentive System former BPM Banking Group - 1st deferred equity portion - euro 142,739 (employee gross amount); this amount does not include euro 8,487 (employee gross amount) relating to employees that left the company in 2017, the shares of which do not accrue under the Policy;
- 2015 Incentive System former BPM Banking Group - 2nd deferred equity portion - euro 150,379 (employee gross amount); this amount does not include euro 9,200 (employee gross amount) relating to employees that left the company in 2017, the shares of which do not accrue under the Policy;
- 2015 Incentive System former Banco Popolare Group - no equity portion was accrued; in any event euro 128,412 (employee gross amount) was cancelled, relating to employees that left the company in 2016-2017, the shares of which do not accrue under the Policy;
- 2014 Incentive System former BPM Banking Group - 3rd deferred equity portion - euro 113,676 (employee gross amount); this amount does not include euro 8,724 (employee gross amount) relating to employees that left the company in 2017, the shares of which do not accrue under the Policy.

As regards the 2017-2019 long-term Incentive System, in application of international accounting standards, which require the accrual period of the rights to be considered, an amount of euro 912 thousand has been allocated to provisions, corresponding to one third of the up-front portion of the ILT bonus, which could accrue in 2020.

In relation to a *golden parachute* recognised in 2015 to one person classified as key personnel of the former BPM Banking Group, the 2nd deferred equity instalment equal to euro 33 thousand (employee gross amount) accrued in 2017.

Furthermore, in 2017, following a court settlement, a *golden parachute* was awarded to an employee that left the company, previously classified as key personnel of the former BPM Banking Group, corresponding to a total equity component of euro 90 thousand (employee gross amount), of which an up-front instalment accrued in 2017 corresponding to euro 54 thousand (employee gross amount).

[(2)] Estimated maximum amount that may be awarded.

PART L – SEGMENT REPORTING

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various "operating segments" to the formation of the Group's income.

The identification of the operating segments in this Section is consistent with the approach adopted by Top Management to take operating decisions and is based on the internal reporting used to allocate resources to the different segments and assess their performance.

For this reason and with a view to improving the representation of the Group's profitability, operating segments that are under the quantitative thresholds envisaged by paragraph 13 of IFRS 8 are also shown.

Due to the business combination, it was necessary to partially modify the operating segments previously identified by Banco Popolare (defined as the buyer from the accounting perspective).
The new operating segments were identified taking into due consideration the current status of the Group business model evolution process laid out in the 2017-2019 Strategic Plan. In particular, for the year 2017 the operating segments taken as a reference to provide the disclosure in question are as follows:

- Commercial Network;
- Private & Investment Banking;
- Wealth Management;
- Leasing;
- Corporate Centre.

Please note that Leasing is identified as an operating segment as it is necessary to separately highlight the economic contribution of an activity that was abandoned some time ago by the Group as it was not strategic. The economic contribution indicated is therefore represented solely by the result deriving from the management of the progressive reduction in assets and liabilities of the former Banca Italease (today incorporated within Banco BPM) and the subsidiary Release.

More specifically, note that in 2016, the "Private & Investment Banking" and "Wealth Management" segments were recorded together in the "Investment & Private Banking, Asset Management segment".
Consequently, to take the new organisation of the operating segments and other reclassifications (mainly regarding the application of IFRS 5 to the components of Aletti Gestielle SGR) into account, the figures relating to 2016 have been restated.

Segment results – income statement figures

2017	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Interest margin	2,113,447	1,552,325	113,682	(4,736)	34,373	417,803
Profits (losses) on investments in associates and companies subject to joint control carried at equity	166,036	-	-	45,473	(2,507)	123,070
Financial margin	**2,279,483**	**1,552,325**	**113,682**	**40,737**	**31,866**	**540,873**
Net fee and commission income	1,950,410	1,838,845	109,136	-	6	2,423
Other net operating income	98,817	4,931	(905)	-	21,452	73,339
Net financial result	155,049	25,218	(1,901)	10,992	-	120,740
Other operating income	**2,204,276**	**1,868,994**	**106,330**	**10,992**	**21,458**	**196,502**
Operating income	**4,483,759**	**3,421,319**	**220,012**	**51,729**	**53,324**	**737,375**
Personnel expenses	(1,784,854)	(1,240,158)	(76,719)	-	(7,739)	(460,238)
Other administrative expenses	(979,266)	(1,145,782)	(76,740)	-	(38,815)	282,071
Net value adjustments on property and equipment and intangible assets	(266,915)	(46,395)	(7,302)	-	(24,204)	(189,014)
Operating expenses	**(3,031,035)**	**(2,432,335)**	**(160,761)**	**-**	**(70,758)**	**(367,181)**
Income (loss) from operations	**1,452,724**	**988,984**	**59,251**	**51,729**	**(17,434)**	**370,194**
Net adjustments on loans to customers	(1,660,963)	(1,510,248)	2,649	-	(103,016)	(50,348)
Net adjustments on receivables due from banks and other assets	(140,217)	-	1,099	-	-	(141,316)
Net provisions for risks and charges	(13,757)	-	(1,304)	-	(46)	(12,407)
Recoveries (Losses) on investments in associates and companies subject to joint control	-	-	(1,571)	-	-	1,571
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	25,698	-	(1)	-	1,825	23,874
Income (loss) before tax from continuing operations	**(336,515)**	**(521,264)**	**60,123**	**51,729**	**(118,671)**	**191,568**
Taxes on income from continuing operations	122,436	143,347	(17,810)	1,109	20,799	(25,009)
Income (loss) after tax from discontinued operations	762,262	-	-	88,710	-	673,552
Income (loss) attributable to minority interests	9,658	-	-	-	11,505	(1,847)
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**557,841**	**(377,917)**	**42,313**	**141,548**	**(86,367)**	**838,264**
Impairment on goodwill and client relationship after tax	(1,017,616)	**-**	(14,299)	**-**	**-**	(1,003,317)
Merger difference (Badwill)	3,076,137	-	-	-	-	3,076,137
Parent Company's net income (loss)	**2,616,362**	**(377,917)**	**28,014**	**141,548**	**(86,367)**	**2,911,084**

2016 (*)	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Interest margin	1,317,138	1,041,486	148,585	(3,349)	42,930	87,486
Profits (losses) on investments in associates and companies subject to joint control carried at equity	124,547	-	-	30,835	1,853	91,859
Financial margin	**1,441,685**	**1,041,486**	**148,585**	**27,486**	**44,783**	**179,345**
Net fee and commission income	1,239,439	1,187,116	31,424	-	29	20,870
Other net operating income	100,904	44,664	271	-	21,697	34,272
Net financial result	195,752	14,094	21,243	-	(97)	160,512
Other operating income	**1,536,095**	**1,245,874**	**52,938**	**-**	**21,629**	**215,654**
Operating income	**2,977,780**	**2,287,360**	**201,523**	**27,486**	**66,412**	**394,999**
Personnel expenses	(1,462,223)	(1,033,195)	(53,373)	-	(8,674)	(366,981)
Other administrative expenses	(842,682)	(783,125)	(59,320)	-	(41,645)	41,408
Net value adjustments on property and equipment and intangible assets	(164,921)	(18,419)	(140)	-	(30,789)	(115,573)
Operating expenses	**(2,469,826)**	**(1,834,739)**	**(112,833)**	**-**	**(81,108)**	**(441,146)**
Income (loss) from operations	**507,954**	**452,621**	**88,690**	**27,486**	**(14,696)**	**(46,147)**
Net adjustments on loans to customers	(2,539,331)	(2,193,849)	(85)	-	(253,182)	(92,215)
Net adjustments on receivables due from banks and other assets	(40,799)	-	(21)	-	-	(40,778)
Net provisions for risks and charges	(24,737)	-	310	-	431	(25,478)
Recoveries (Losses) on investments in associates and companies subject to joint control	-	-	(1,605)	-	-	1,605
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	17,031	-	-	-	(803)	17,834
Income (loss) before tax from continuing operations	**(2,079,882)**	**(1,741,228)**	**87,289**	**27,486**	**(268,250)**	**(185,179)**
Taxes on income from continuing operations	603,692	478,838	(25,529)	1,108	76,766	72,509
Income (loss) after tax from discontinued operations	46,438	-	-	43,909	-	2,529
Income (loss) attributable to minority interests	22,848	-	-	-	20,003	2,845
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship	**(1,406,904)**	**(1,262,390)**	**61,760**	**72,503**	**(171,481)**	**(107,296)**
Impairment on goodwill and client relationship after tax	(279,000)	-	-	-	-	(279,000)
Parent Company's net income (loss)	**(1,685,904)**	**(1,262,390)**	**61,760**	**72,503**	**(171,481)**	**(386,296)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Segment results – balance sheet figures

31/12/2017	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Loans to customers	108,176,382	92,537,167	1,626,746	-	3,244,333	10,768,136

31/12/2016 (*)	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Loans to customers	75,840,234	61,115,109	1,387,484	37,702	3,709,461	9,590,478

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

31/12/2017	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	107,509,849	88,651,858	2,996,716	-	9,047	15,852,228

31/12/2016 (*)	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	80,446,701	62,721,705	1,192,833	2,554	18,835	16,510,774

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

31/12/2017	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Investments in associates and companies subject to joint control	1,349,191	-	-	261,474	227,888	859,829

31/12/2016 (*)	Total	Commercial Network	Private & Investment Banking	Wealth Management	Leasing	Corporate Centre
Investments in associates and companies subject to joint control	1,195,214	-	-	307,069	120,623	767,522

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Note that the majority of the assets and operating income were generated in Italy, confirming the deep-seated presence in the national territory, considered to be the Group's primary sphere of operations. The weight of activities and operating income earned abroad is significantly below the threshold of 5%.

Attachments

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2017

FY 2017	Income statement	Reclassifications		Reclassified income statement
Interest margin				**2,113,447**
10 Interest and similar income	2,898,382			
20 Interest and similar expense	(923,260)			
100 a) Profits (losses) on disposal of loans		6,181	(a)	
130 a) Net losses on impairment of loans		132,144	(b)	
Profits (losses) on investments in associates and companies subject to joint control carried at equity				**166,036**
240 Profits (losses) on investments in associates and companies subject to joint control		166,036	(c)	
Financial margin				**2,279,483**
Net fee and commission income				**1,950,410**
40 Fee and commission income	2,075,063			
50 Fee and commission expense	(124,653)			
Other net operating income				**98,817**
220 Other operating income and expense	3,498,186	(3,076,137)	(t)	
		(872)	(g)	
		(293,700)	(h)	
		(46,349)	(m)	
		13,751	(p)	
		3,938	(q)	
Net financial result				**155,049**
70 Dividends and similar income	53,909			
80 Profits (losses) on trading	26,480			
90 Fair value adjustments in hedge accounting	919			
100 a) Profits (losses) on disposal of loans	(221,909)	222,823	(d)	
100 b) Profits (Losses) on disposal of financial assets available for sale	27,028	44,326	(e)	
100 c) Profits (Losses) on disposal of investments held to maturity	2,458			
100 d) Profits (Losses) from repurchase of financial liabilities	(9,196)			
110 Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	8,211			
Other operating income				**2,204,276**
Operating income				**4,483,759**
Personnel expenses				**(1,784,854)**
180 a) Personnel expenses	(1,775,051)	(10,675)	(f)	
220 Other operating income (expenses)		872	(g)	
Other administrative expenses				**(979,266)**
180 b) Other administrative expenses	(1,283,641)	10,675	(f)	
220 Other operating income (expenses)		293,700	(h)	
Net value adjustments on property and equipment and intangible assets				**(266,915)**
200 Net value adjustments on property and equipment	(124,275)	(8,711)	(i)	
210 Net value adjustments to intangible assets	(169,983)	46,349	(m)	
		7,394	(n)	
220 Other operating income (expenses)		(13,751)	(p)	
		(3,938)	(q)	
Operating expenses				**(3,031,035)**
Income (loss) from operations				**1,452,724**
Net value adjustments on loans to customers				**(1,660,963)**
130 a) Net losses on impairment of loans	(1,299,048)	(132,144)	(b)	
		(2,096)	(l)	

FY 2017	Income statement	Reclassifications		Reclassified income statement
100 a) Profits (losses) on disposal of loans		(6,181)	(a)	
		(222,823)	(d)	
130 d) Net losses on impairment of other financial transactions		1,329	(r)	
Net value adjustments on receivables due from banks and other assets				**(140,217)**
100 b) Profits (Losses) on disposal of financial assets available for sale		(44,326)	(e)	
130 a) Net losses on impairment of loans		2,096	(l)	
130 b) Net losses on impairment of financial assets available for sale	(94,776)			
130 d) Net losses on impairment of other financial transactions	(10,593)	(1,329)	(r)	
200 Net value adjustments on property and equipment		8,711	(i)	
Net provisions for risks and charges				**(13,757)**
190 Net provisions for risks and charges	(13,757)			
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments				**25,698**
240 Profits (losses) on investments in associates and companies subject to joint control	178,664	(166,036)	(c)	
270 Profits (losses) on disposal of investments	13,070			
Income (loss) before tax from continuing operations				**(336,515)**
Taxes on income from continuing operations				**122,436**
290 Taxes on income from continuing operations	145,720	(23,284)	(s)	
Income (loss) after tax from discontinued operations				**762,262**
310 Income (loss) after tax from discontinued operations	762,262			
Income (loss) attributable to minority interests				**9,658**
330 Income (loss) attributable to minority interests	9,658			
Net income (loss) for the year without Badwill and Impairment on goodwill and client relationship				**557,841**
Impairment on goodwill and client relationship after tax				**(1,017,616)**
220 Other operating income (expenses)		(7,394)	(n)	
260 Value adjustments on goodwill	(1,033,506)			
290 Taxes on income from continuing operations		23,284	(s)	
Merger difference (Badwill)				**3,076,137**
220 Other operating income (expenses)		3,076,137	(t)	
Parent Company's net income (loss)	**2,616,362**	**-**		**2,616,362**

The letters shown beside the column "Reclassifications" have been included for the purpose of better understanding of the reclassifications carried out.
With reference to the reconciliation provided above, please note that:

- the item **"Interest margin"** includes the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20) as well as the positive impact of the "reversal effect" in the income statement totalling euro 138.3 million, relating to the lower value recognised during the PPA on the unlikely to pay positions of the BPM Group acquired as part of the business combination, and reclassified from item 130 a) Net losses/recoveries on impairment of euro 132.1 million (b) and from item 100 a) Profits (losses) on disposal or repurchase of loans of euro 6.2 million (a);
- the item **"Profits (losses) on investments in associates and companies subject to joint control carried at equity"** shows the portion of the economic results pertaining to investee companies carried at equity (included in item 240) totalling euro 166.0 million (c), and together with the interest margin, the aggregate is defined as the **"Financial margin"**;
- the item **"Other net operating income"** is represented by the financial statement item "220 Other operating expense/income", with the recoveries on indirect taxes, legal fees and other expenses, totalling euro 293.7 million (h), separated out, which, for reclassification purposes are shown in the item "Other administrative expenses" and separated out from the recovery of training costs of euro 0.9 million (g) classified in "Personnel expenses". The aggregate of "Other net operating income" does not include the amortisation charges on costs for improvements to third party assets of euro 13.8 million (p) (recognised in the reclassified item "Net value adjustments on property and equipment and intangible assets") and does include value adjustments to intangible assets with a definite useful life (client relationship) of euro 46.3

million (m) (taken from item 210 of the official schedule). The aggregate was also cleared of the amount recognised as the merger difference (badwill in the income statement), equal to euro 3,076.1 million (t), shown in a separate item of the reclassified income statement, as well as of the write-down of the software of the former BPM not yet capitalised, of euro 3.9 million (q) shown under "Net value adjustments on property and equipment and intangible assets" in the reclassified income statement;

- the income statement item "**Net financial result**" includes dividends on shares classified under financial assets available for sale and financial assets held for trading (item 70), the "Profits (losses) on trading" (item 80), the "Fair value adjustments in hedge accounting" (item 90), and the "Profits (losses) on financial assets and liabilities designated at fair value through profit and loss" (item 110). It also includes "Profits and losses on disposal or repurchase" (item 100), with the exception of the loss of euro 222.8 million (d) relating to the disposal of loans not represented by debt securities, classified in the operational aggregate "Net value adjustments on loans to customers", and the expense, corresponding to euro 44.3 million (e), incurred by the Group for the recapitalisation of Caricesena, Carim and Carismi banks, acquired by Crédit Agricole Cariparma, reclassified to "Net value adjustments on receivables due from banks and other assets";
- the item **"Personnel expenses"** is represented by the financial statement item "180 a) Personnel expenses" and by several charges functionally related to personnel, amounting to euro 10.7 million (f), recognised in the balance sheet under item 180 b) "Other administrative expenses" and by the recovery of training costs of euro 0.9 million (g), recorded under item "220 Other operating expense/income", as described above;
- the item **"Other administrative expenses"** is represented by the financial statement item 180 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling euro 293.7 million (h), included in the item "220 Other operating expense/income", as described above, and of several charges functionally related to personnel, amounting to euro 10.7 million (f), recognised in the reclassified item "Personnel expenses";
- the item **"Net value adjustments on property and equipment and intangible assets"** equals the financial statement items 200 and 210, plus the portion of amortisation on costs for improvements to third party assets, for euro 13.8 million (p), recognised in the item "220 Other operating expense/income" and net of the adjustments to intangible assets with definite useful lives (client relationship), grouped in the reclassified aggregate "Other net operating income", for euro 46.3 million (m). The aggregate was also cleared of the amount of a recovery on property and equipment of euro 8.7 million (i), shown in the reclassified item "Net value adjustments on receivables due from banks and other assets", as well as of the write-down of the client relationship following impairment testing, of euro 7.4 million (n), shown in a separate item of the reclassified income statement "Impairment on goodwill and client relationship after tax";
- the item "**Net adjustments on loans to customers**" includes income statement item 130 a) "Net losses/recoveries on impairment of loans" and the negative result of disposals of loans, corresponding to euro 222.8 million (d) (recognised under financial statement item 100). The aggregate is net of the impact of the "reversal effect" of the PPA, illustrated above, amounting to euro 132.1 million (b) and euro 6.2 million (a), which in the reclassified income statement was recognised in the interest margin. The portion of item 130 a) relating to exposures to banks, corresponding to euro 2.1 million of net recoveries (l), shown in the reclassified item "Net value adjustments on receivables due from banks and other assets" was also excluded; instead, the net recoveries on guarantees and commitments of euro 1.3 million (r) taken from item 130 d) of the official income statement were included;
- the aggregate "**Net adjustments on receivables due from banks and other assets**" includes the net adjustments on financial assets available for sale and on other transactions set forth in the income statement item 130 b) and 130 d), as well as the net adjustments for impairment of exposures classified in the portfolio "due from banks" of euro 2.1 million (l). The aggregate does not include the net recoveries on guarantees and commitments of euro 1.3 million (r), shown under value adjustments on loans to customers. Instead, the expenses of euro 44.3 million (e) incurred by the Group for the recapitalisation of Caricesena, Carim and Carismi banks, acquired by Crédit Agricole Cariparma, taken from item 100 b) Profits (losses) on disposal of financial assets available for sale are included, as well as the amount of a recovery on property and equipment of euro 8.7 million (i), taken from the net value adjustments on property and equipment of item 200;
- the **"Net provisions for risks and charges"** corresponds to item 190 of the official income statement;

- **"Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments"** correspond to item 270 of the official income statement and to the net income on the disposal of investments carried at equity (item 240 of the official income statement), net of the portion of profits (losses) of the investees valued at equity, overall a positive euro 166.0 million (c) included in the reclassified aggregate "Profits (losses) on investments in associates and companies subject to joint control carried at equity";
- the item **"Taxes on income from continuing operations"** corresponds to item 290 of the official income statement, cleared of taxes, corresponding to euro 23.3 million (s), relating to the value adjustments on impairment and client relationship, shown in a separate item of the reclassified income statement;
- the item **"Income (Loss) after tax from discontinued operations"** corresponds to item 310 of the official income statement;
- the item **"Income (loss) attributable to minority interests"** corresponds to item 330 of the official income statement;
- the aggregate **"Impairment on goodwill and client relationship after tax"** includes item 260 of the official income statement and the write-down of the client relationship of euro 7.4 million (n), recognised under net value adjustments to intangible assets, after tax of euro 23.3 million (s), taken from item 290 of the official income statement;
- the item **"Merger difference (Badwill)"** shows the amount of badwill, corresponding to euro 3,076.1 million (t), recognised under item 220 of the official income statement.

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2017

Asset items *(in thousands of euro)*		**31/12/2017**
10.	Cash and cash equivalents	976,686
	Cash and cash equivalents	**976,686**
20.	Financial assets held for trading	4,911,824
30.	Financial assets designated at fair value through profit and loss	28,952
40.	Financial assets available for sale	17,128,622
50.	Investments held to maturity	11,560,769
80.	Hedging derivatives	243,810
	Financial assets and hedging derivatives	**33,873,977**
60.	Due from banks	5,164,715
	Due from banks	**5,164,715**
70.	Loans to customers	108,176,382
	Loans to customers	**108,176,382**
100.	Investments in associates and companies subject to joint control	1,349,191
	Investments in associates and companies subject to joint control	**1,349,191**
120.	Property and equipment	2,735,182
	Property and equipment	**2,735,182**
130.	Intangible assets	1,297,160
	Intangible assets	**1,297,160**
150.	Non-current assets held for sale and discontinued operations	106,121
	Non-current assets held for sale and discontinued operations	**106,121**
90.	Fair value change of financial assets in macro fair value hedge portfolios	54,531
140.	Tax assets	4,520,189
160.	Other assets	2,952,631
	Other assets	**7,527,351**
	Total assets	**161,206,765**

Liability and shareholders' equity items (in thousands of euro)		31/12/2017
10.	Due to banks	27,199,304
	Due to banks	**27,199,304**
20.	Due to customers	87,848,146
30.	Debt securities issued	16,248,143
50.	Financial liabilities designated at fair value through profit and loss	3,413,560
	Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	**107,509,849**
40.	Financial liabilities held for trading	7,942,063
60.	Hedging derivatives	765,903
	Financial liabilities and hedging derivatives	**8,707,966**
110.	Employee termination indemnities	408,160
120.	Provisions for risks and charges	1,052,829
	Liability provisions	**1,460,989**
90.	Liabilities associated with non-current assets held for sale and discontinued operations	35
	Liabilities associated with non-current assets held for sale and discontinued operations	**35**
70.	Fair value change of financial liabilities in macro fair value hedge portfolios	8,535
80.	Tax liabilities	669,494
100.	Other liabilities	3,687,053
	Other liabilities	**4,365,082**
210.	Minority interests	63,310
	Minority interests	**63,310**
	Shareholders' equity	
140.	Valuation reserves	251,706
170.	Reserves	1,946,308
190.	Share capital	7,100,000
200.	Treasury shares (-)	(14,146)
	Capital and reserves	**9,283,868**
220.	Net income (loss)	2,616,362
	Net income (loss) for the year	**2,616,362**
	Total liabilities and shareholders' equity	**161,206,765**

Reconciliation between the consolidated income statement for 2016 and the same restated for comparative purposes

Income statement items ***(in thousands of euro)***	**2016**	**IFRS 5 reclassifications**	**2016 restated**
10. Interest and similar income	2,325,419	(383)	2,325,036
20. Interest and similar expense	(1,006,162)	(540)	(1,006,702)
30. Interest margin	**1,319,257**	**(923)**	**1,318,334**
40. Fee and commission income	1,402,795	(105,938)	1,296,857
50. Fee and commission expense	(84,637)	27,219	(57,418)
60. Net fee and commission income	**1,318,158**	**(78,719)**	**1,239,439**
70. Dividends and similar income	23,653	-	23,653
80. Profits (losses) on trading	60,435	(1,782)	58,653
90. Fair value adjustments in hedge accounting	787	-	787
100. Profits (losses) on disposal or repurchase of:	36,306	-	36,306
a) loans	(92,440)	-	(92,440)
b) financial assets available for sale	131,164	-	131,164
d) financial liabilities	(2,418)	-	(2,418)
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	(10,260)	17	(10,243)
120. Net interest and other banking income	**2,748,336**	**(81,407)**	**2,666,929**
130. Net losses / recoveries on impairment of:	(2,487,681)	-	(2,487,681)
a) loans	(2,441,799)	-	(2,441,799)
b) financial assets available for sale	(41,158)	-	(41,158)
d) other financial transactions	(4,724)	-	(4,724)
140. Net income from banking activities	**260,655**	**(81,407)**	**179,248**
170. Net income from banking and insurance activities	**260,655**	**(81,407)**	**179,248**
180. Administrative expenses:	(2,531,759)	15,512	(2,516,247)
a) personnel expenses	(1,463,926)	7,950	(1,455,976)
b) other administrative expenses	(1,067,833)	7,562	(1,060,271)
190. Net provisions for risks and charges	(33,268)	-	(33,268)
200. Net adjustments to/recoveries on property and equipment	(102,620)	243	(102,377)
210. Net adjustments to/recoveries on intangible assets	(76,596)	116	(76,480)
220. Other operating income (expenses)	325,135	1,047	326,182
230. Operating expenses	**(2,419,108)**	**16,918**	**(2,402,190)**
240. Profits (losses) on investments in associates and companies subject to joint control	124,246	-	124,246
260. Value adjustments on goodwill	(279,000)	-	(279,000)
270. Profits (losses) on disposal of investments	17,332	-	17,332
280. Income (loss) before tax from continuing operations	**(2,295,875)**	**(64,489)**	**(2,360,364)**
290. Taxes on income from continuing operations	588,843	20,575	609,418
300. Income (loss) after tax from continuing operations	**(1,707,032)**	**(43,914)**	**(1,750,946)**
310. Income (loss) after tax from discontinued operations	2,524	43,914	46,438
320. Net income (loss)	**(1,704,508)**	**-**	**(1,704,508)**
330. Net income (loss) attributable to minority interests	22,848	-	22,848
340. Parent Company's net income (loss)	**(1,681,660)**	**-**	**(1,681,660)**

Reconciliation between the consolidated reclassified income statement for 2016 and the same restated for comparative purposes

Reclassified income statement items ***(in thousands of euro)***	**2016**	**IFRS 5 reclassifications**	**2016 restated**
Interest margin	1,318,061	(923)	1,317,138
Profits (losses) on investments in associates and companies subject to joint control carried at equity	124,547	-	124,547
Financial margin	**1,442,608**	**(923)**	**1,441,685**
Net fee and commission income	1,318,158	(78,719)	1,239,439
Other net operating income	101,861	(957)	100,904
Net financial result	197,517	(1,765)	195,752
Other operating income	**1,617,536**	**(81,441)**	**1,536,095**
Operating income	**3,060,144**	**(82,364)**	**2,977,780**
Personnel expenses	(1,470,173)	7,950	(1,462,223)
Other administrative expenses	(852,244)	9,562	(842,682)
Net value adjustments on property and equipment and intangible assets	(165,284)	363	(164,921)
Operating expenses	**(2,487,701)**	**17,875**	**(2,469,826)**
Income (loss) from operations	**572,443**	**(64,489)**	**507,954**
Net adjustments on loans to customers	(2,539,331)	-	(2,539,331)
Net adjustments on receivables due from banks and other assets	(40,799)	-	(40,799)
Net provisions for risks and charges	(24,737)	-	(24,737)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	17,031	-	17,031
Income (loss) before tax from continuing operations	**(2,015,393)**	**(64,489)**	**(2,079,882)**
Taxes on income from continuing operations	583,117	20,575	603,692
Income (loss) after tax from discontinued operations	2,524	43,914	46,438
Income (loss) attributable to minority interests	22,848	-	22,848
Net income (loss) without FVO	**(1,406,904)**	**-**	**(1,406,904)**
Impact of the change in creditworthiness (FVO)	-	-	-
Recoveries (Losses) on investments in associates and companies subject to joint control, goodwill and other intangible assets	(279,000)	-	(279,000)
Parent Company's net income (loss)	**(1,685,904)**	**-**	**(1,685,904)**

Country by Country reporting

The country by country reporting, introduced with art. 89 of Directive 2013/36/EU ("CRD IV"), assimilated into Italian law with the 4th update of the Bank of Italy Circular no. 285 of 17 December 2013 (Part One, Heading III, chapter 2), envisages an annual obligation to provide information with reference to letters a), b), c), d), e) and f) of art. 89 of the CRD IV.
To this end, the information required is reported, broken down by each letter.

(A) Name of companies established and nature of activities

The activities performed by the Banco BPM Group are illustrated in the table below, which refers to that indicated in art. 317 of EU Regulation no. 575/2013 of the European Parliament and Council (CRR), supplemented with further specific activities.
These activities are grouped according to prevalence criteria, with the "business segments" which, in brief, refer to the internal operating structure of the Group and are referred to in the Report on Operations (paragraph "Results by business segment" and also in "Part L - Segment reporting" of the Notes to the Consolidated Financial Statements as at 31 December 2017).

Taken from CRR: par 4, art. 317, Table 2		**Banco BPM Group business segments**				
Business line	**List of activities**	**Commercial Network**	**Private & Investment Banking**	**Leasing**	**Wealth Management**	**Corporate Centre**
Financial business services (corporate finance)	Underwriting commitment for financial instruments or placement of financial instruments based on an irrevocable commitment	✔	✔			
	Services related to the underwriting commitment	✔	✔			
	Advice on investments	✔	✔			
	Research on investments and financial analysis and other forms of general advice regarding transactions in financial instruments	✔	✔			
Trading and sales	Trading on own behalf		✔			✔
	Receiving and sending orders regarding one or more financial instruments	✔	✔			
	Order execution on behalf of customers		✔			
	Placement of financial instruments without an irrevocable commitment	✔	✔			
	Management of multilateral trading systems					
Retail brokerage (Activities with natural persons or with SMEs that meet the criteria set forth in article 123 for the class of retail exposure)	Receiving and sending orders regarding one or more financial instruments	✔	✔			
	Order execution on behalf of customers	✔	✔			
	Placement of financial instruments without an irrevocable commitment	✔	✔			
Commercial banking services	Collection of deposits or other redeemable funds	✔				✔
	Securities lending transactions	✔				✔
	Financial leases	✔		✔		
	Issue of guarantees and unsecured guarantees	✔				✔
Retail banking (Activities with natural persons or with SMEs that meet the criteria set forth in article 123 for the class of retail exposure)	Collection of deposits or other redeemable funds	✔				
	Securities lending transactions	✔				
	Financial leases	✔		✔		
	Issue of guarantees and unsecured guarantees	✔				
Payments and settlements	Payment services	✔				
	Issue and management of payment instruments	✔				
Agency services	Custody and administration of financial instruments on behalf of customers, including custody and related services such as the management of cash/real guarantees		✔			✔
Asset management	Portfolio management		✔			
	Management of UCITS				✔	
	Other forms of portfolio management		✔			
Other support services and activities	Management of treasury and funding on own account					✔
	Portfolio management for investments in associates and companies subject to joint control			✔	✔	✔
	Management of IT activities					✔
	Management and maintenance of real estate assets					✔

With regard to the main content, the business segment:

- "**Commercial Network**", includes the management and sale of banking and financial products and services and loan brokerage activities addressed to both retail (private individuals and small businesses) and corporate customers. These activities are mostly conducted by the Parent Company's Commercial Network and by Banca Popolare di Milano;
- "**Private & Investment Banking**" includes the structuring of financial products, access to regulated markets, the support and development of specialist financial services for private customers (e.g. individual portfolios). These activities are conducted by specialist Group companies, such as Banca Aletti and Banca Akros;
- "**Wealth management**" includes the management of funds and SICAV, through Aletti Gestielle (sold on 28 December 2017 and IFRS 5 classified), as well as interests in several companies (Popolare Vita, Avipop Assicurazioni, Bipiemme Vita, Etica SGR, Anima Holding);
- "**Leasing**", includes the management and administration of financial lease agreements set in place by the Parent Company Banco BPM and by the subsidiary company Release, as well as interests in several associated companies (Alba Leasing and SelmaBipiemme Leasing);
- "**Corporate Centre and Other**", includes activities relating to the operational sphere, the governance processes of the various Group entities and business support. These activities are mostly conducted by the central structures of the Parent Company, by Società Gestione Servizi BP and by the Group's real estate companies.

To a marginal extent with respect to the Group's total volumes, certain retail activities included in the above classifications are also conducted by the foreign subsidiary Bank Aletti & C. (Suisse) S.A. (specialist financial services for private customers). With reference to 31 December 2017, the weight of foreign activities, both in terms of total consolidated assets, and total consolidated income, was negligible.

(B) Turnover

The turnover refers to Net interest and other banking income, set forth in item 120 of the consolidated income statement, which as at 31 December 2017 amounted to euro 3,813.4 million (euro 2,666.9 million as at 31 December 2016). See in this regard the Consolidated Income Statement for 2017.

(C) Number of employees on a full time equivalent basis

In terms of full time equivalent employees, the figure as at 31 December 2017 also including CoCoPro contracts and Placements was 22,
289 (16,382 as at 31 December 2016, relating to the former Banco Popolare Group only).

(D) Profit or loss before tax

The Group's profit before tax corresponds to the sum of items 280 and 310 of the consolidated income statement, which is euro 2,461 million (euro -2,313.9 million as at 31 December 2016). See in this regard the Consolidated Income Statement for 2017.

(E) Tax on profit or loss

The tax on the Group's profit for 2017 corresponds to the amount shown in item 290 of the consolidated income statement, which is a positive figure of euro 145.7 million (euro +609.4 million as at 31 December 2016). See in this regard the Consolidated Income Statement for 2017.

(F) Public subsidies received

In 2017, the Banco BPM Group did not receive public subsidies for personnel training courses (euro 7.7 million last year).

In this regard, note that, as regards the subsidies in question, in compliance with the provisions envisaged for the preparation of this report, the operations undertaken with the central banks for the purpose of financial stability or operations whose objective is to facilitate the transmission mechanism of monetary policy are excluded.

Address
Banco BPM S.p.A.
Piazza F. Meda, 4 - 20121 Milano - Italia
Piazza Nogara, 2 - 37121 Verona - Italia

Investor Relations
tel. +39-02.77002057 | +39-045.8675537
investor.relations@bancobpm.it
www.bancobpm.it

Layout