



Regulation
Procedures and Policies of Controls in relation to
Risk Assets and Conflicts of Interest with respect to
Associated Entities

Date of approval: 17 October 2017
Latest update: 10 September 2019

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1 Introduction

1.1 Purpose

The Regulation defines the principles, roles and responsibilities intended to preserve the integrity of the decision-making processes in Transactions¹ with the Associated Entities² set out in Appendix 1 regarding the assumption of Risk assets³ or the Transfer of resources, in implementation of the Supervisory Provisions.

1.2 Scope of application and procedures for adoption

The provisions of the Regulation are applied to Banco BPM SpA (hereinafter also “Parent Company” or “Bank”) and all Italian Banks (hereinafter also generally “Bank”) and non-Bank Companies (hereinafter “Companies”) of the Banco BPM banking Group (hereinafter “Group”), by way of the methods and in accordance with the specific aspects set out in the document.

The Regulation, with the exception of the internal policies in relation to controls of conflicts of interests with associated entities (Chapter 4), is approved by each Bank, by resolution of the Board of Directors, based upon an in-depth due diligence of the relevant internal structures with regard to the suitability of the proposed solutions to the various profiles of the Supervisory Provisions and subject to the mandatory and binding prior opinion of the respective Committees of Independent directors (hereinafter “Committee”⁴) and Boards of Statutory Auditors.

The Regulation and its subsequent amendments, following approval by the Parent Company, are acknowledged by the competent Administrative Bodies of the Italian non-Bank Group Companies, which resolve, each for matters within their competence, regarding the acknowledgement of the Regulation and ensure that their own internal regulations are consistent with those of the Group and implement controls targeted at avoiding any

1 Transaction: the transaction with the Entities referred to in Appendix 1, which involves the assumption of Risk assets or Transfer of resources, services or obligations, irrespective of the provision of a fee, therein including merger and spin-off Transactions.

2 Entities: the set of Related parties, Linked entities, Relatives-in-law, Personnel and Additional entities, as defined in Appendix 1.

3 Risk assets: the clear exposures as defined, for the purposes of the regulation in relation to risk concentration, in the Supervisory Provisions as well as in the Instructions for Preparing Reports on Regulatory Capital and Prudential Ratios (Circular no. 155 dated 18 December 1991 Section 5).

4 Committee: for Banco BPM SpA it is constituted by the “Related Party Committee” appointed at the Board of Directors and consisting of four Directors who meet the requirements of independence set out in the Articles of Association. For other Banks: i) the Committee may coincide with the Internal Control Committee, or ii) a Committee may be set up composed of independent directors, or iii) in the absence of a sufficient number of Directors that meet the necessary requirements, the duties are performed on an individual basis by the sole independent director or jointly in the event there are two of them.

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circumventions of the rules. The Controls and processes established at the foreign Banks must be compatible with the regulations of the Country in which they are situated.

The internal Policies in relation to controls of conflicts of interests with associated entities, illustrated in Chapter 4, are resolved by the Parent Company and are also applied to the other Group Banks, which implement them by deed of their Board of Directors.

The Regulation, containing the procedures and policies, is published without delay on the bank's website.

1.3 Summary of updates

Progressive	Date of update	Summary content update
Initial approval	17/10/2017	
1st update	10/09/2019	Update to Annex 3 "Cumulative levels of risk appetite on related party exposures"

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2 General Principles

Each Bank identifies the procedures (Appendix 2) for the performance of transactions with Associated Entities (defined by the Parent Company in Appendix 1).

The procedures, as set out in Title V, Chapter 5, of Bank of Italy Circular 263/2006, identify:

- ☐ the criteria for identifying the Transactions (of greater or lesser significance or of small amounts);
- ☐ the rules regarding the phases of the due diligence, negotiations and resolution of the Transactions, distinguishing between greater and lesser significance and clarifying, in particular, the methods of involvement of the Committee;
- ☐ the profiles relating to the definition of roles and duties of the different members of the Group;
- ☐ the cases of derogation and exemption, therein including criteria for verifying the existence or otherwise of Significant interests of other Entities with reference to the Transactions with or between subsidiary Companies or those subject to significant influence;
- ☐ the Controls to be applied to the Transactions concluded where they give rise to losses, moves to non-performing, judicial and out-of-court settlement agreements.

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3 Roles and Responsibilities

3.1 Parent Company

In order to ensure unitary direction and governance in the assumption of Risk assets or in the Transfer of resources towards the Entities set out in Appendix 1, as part of its functions of direction, coordination and control, the Parent Company:

- provides all Companies of the Group with the text of the Regulation by way of the methods and for the purposes described in paragraph 1.2;
- determines the scope of Entities to which to apply the Regulation listed in Appendix 1, unique for the entire Group;
- provides the guidelines for the procedures, set out in Appendix 2, required to ensure the consistency of the assessments in relation to the existence or otherwise of Significant interests of other Associated Entities, for the purposes of the possibility of applying the derogation provided for Transactions with or between Subsidiary Companies.

Board of Directors

- approves the Regulation and, at least on a three-yearly basis, reviews the internal policies in relation to controls of conflicts of interests with associated entities contained therein (Chapter 4);
- as part of the approval and periodic review, at least on a three-yearly basis, assesses the effectiveness and efficiency of the Regulation in relation to the objectives of integrity and impartiality of the decision-making process, with respect to the interests of the majority of shareholders and creditors, the efficient functioning of its corporate bodies and the operations of its organisational structures. In that regard, it specifically verifies the need to proceed with a review of the Regulation.

The respective resolutions are adopted on the basis of an in-depth due diligence by the relevant internal structures (the Organisation Function for the drafting of the Regulation, the Risks function for aspects concerning risk management and the Compliance function for the compliance report) with regard to the suitability of the proposed solutions and based on the prior analytical, reasoned and binding opinion of the Committee and the Board of Statutory Auditors.

Board of Statutory Auditors

- oversees the compliance of the Regulation with the principles identified in the Supervisory provisions, along with its observance.

Related Party Committee

- exercises the powers attributed to the Independent directors by the Supervisory Regulations governing procedures concerning risk assets and conflicts of interests in relation to Associated Entities.

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3.2 (Italian) banks belonging to the Group

Board of Directors

- approves the acknowledgement of the internal Policies in relation to controls of conflicts of interests with associated entities adopted by the Parent Company and illustrated in Chapter 4 of the Regulation;
- approves the procedures contained in the Regulation proposed by the Parent Company and assesses, at least on a quarterly basis, the effectiveness and efficiency of the relevant provisions in relation to the specific company situation, presenting any needs for a review of the Regulation to the Parent Company.

The respective resolutions are adopted on the basis of an in-depth due diligence by the relevant internal structures (meaning also the structures of other Group companies to which the Bank has entrusted the respective activity by way of outsourcing) and subject to the prior analytical, reasoned and binding opinion of the Committee (or the Independent Director) and the Board of Statutory Auditors.

Board of Statutory Auditors

- oversees the compliance of the Regulation with the principles identified in the Supervisory Provisions, along with its observance.

Related Party Committee

- exercises the powers attributed to the Independent directors by the Supervisory Regulations governing procedures concerning risk assets and conflicts of interests in relation to Associated Entities.

3.3 Other Companies belonging to the Group

Group Companies other than the Banks:

- acknowledge the Regulation, in the performance of the activities of management and coordination in accordance with Article 61, Paragraph 4 of the CBL and Articles 2497 et seq. of the Italian Civil Code;
- with reference to the Transactions with the Entities set out in Appendix 1, for the purpose of pursuing the full and concrete implementation of the Group model, implement the procedures and controls aimed at avoiding possible circumventions of the rules as provided by the Regulation.

For the foreign Companies of the Group, both banking and non-banking, the provisions of this paragraph are applied. Any situations of incompatibility are reported without delay by the aforementioned Companies to the control bodies and functions of the Parent Company, via the Corporate Affairs Secretary of the Parent Company.

3.4 Corporate functions

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Secretariat functions of the Parent Company, of the Banks and Supervised Intermediaries⁵

The main responsibilities of the structures of the Parent Company and of the Subsidiary Companies involved in managing the procedures and policies of controls in relation to risk assets and conflicts of interests with respect to Associated Entities are defined below:

- ☐ liaising with the Company representatives⁶ to acquire information relating to entities involved in a potential conflict of interest, by asking the aforementioned representatives to provide a self-declaration in which they certify their status of related party and providing them with support in interpreting the corporate, supervisory and legal regulations;
- ☐ registering the Company representatives, the respective Linked entities and Relatives-in-Law. The Parent Company Secretariat also deals with coordinating the homologous functions of the other Banks and Supervised Intermediaries for the purposes of registration;
- ☐ supporting, where required, the proposing bodies for the correct implementation of the Supplementary Register (Transaction Registration section) and supplementing it for aspects that see it directly involved (opinions and resolutions of the Committee, the Board of Directors and the Executive Committee);
- ☐ verifying, where required, the Transactions said to be of “lesser significance” for the purposes of calculating the accumulation of Transactions classifiable as homogeneous or implemented in performance of a unitary plan;
- ☐ supporting, where required, the company structures in charge of the due diligence and proposal of the Transactions for issues of an interpretation and application nature;
- ☐ contributing to ensuring the correct application of the contents of the Regulation, also by way of periodic reporting produced for the administrative and supervisory Bodies.

The secretariat functions of the Banks and of the Companies, for clarifications on application of the Regulation, can contact the Parent Company Secretariat function. The latter may make use, each time, of the collaboration of the other Structures of the Parent Company and, in particular the Compliance, Legal and Risks functions, with the support of the Group's Information Technology structures, which provide the IT procedures for the periodic monitoring of limits, ensuring the updating of the analysis database.

5 Supervised intermediaries: investment companies, Italian and foreign asset management Companies, electronic money institutions (Elmi), financial intermediaries enrolled on the register provided by Article 106 of the Consolidated Banking Law, payment institutions, which form part of the Group and have individual regulatory capital exceeding 2% (two per cent) of the consolidated regulatory capital of the Group.

6 Company representatives: the Directors, Standing Auditors and General Managers of the Banks and the Supervised intermediaries of the Group or those who perform roles involving the exercise of functions equivalent to that of General Manager at the Banks and Supervised intermediaries of the Group.

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4 Internal policies in relation to controls of conflicts of interests with associated entities

In the performance of every activity, Banco BPM, also in its capacity as Parent Company, works to correctly manage actual, or even just potential, situations involving a conflict of interests.

Cases of “conflict of interest”, in addition to those defined by Law, are understood to include the case where a Representative, Employee or Collaborator is the bearer, in a certain situation/Transaction, of an interest that differs from that of the company and its shareholders.

Without prejudice to what is prescribed further by external regulations and by the other Group regulations, situations of conflict of interest should always be identified and adequately managed, and – where required by Law – adequately manifested with the aim of avoiding prejudices for Customers and counterparties in general.

The organisational structures and internal control system must ensure constant compliance with the prudential limits and the decision-making procedures established by the Bank of Italy Regulation.

To this end, the “Internal policies in relation to controls on risk assets and on conflicts of interest towards associated entities” (hereinafter also just “Policies”) are resolved upon by the Parent Company and acknowledged by the other Banks and Group companies.

4.1 Development and approval

The Parent Company defines, approves and reviews, at least on a three-yearly basis, the Policies at Group level.

In particular, the Policies:

1. identify, in relation to the operational characteristics and strategies of the Bank and the **Group, the sectors of activity and types of relationships of an economic nature**, even differing from those involving the assumption of Risk assets, in relation to which conflicts of interest may arise (see para. 4.2);
2. establish, also by way of reference to other corporate sources, **levels of propensity to risk** consistent with the strategic profile and organisational characteristics of the Bank or Group (see para. 4.4);
3. establish and regulate organisational processes aimed at comprehensively **identifying and registering** the Entities set out in Appendix 1 and identifying and quantifying the respective transactions at every stage of the relationship (see para. 4.5);
4. establish and regulate **processes of control** aimed at ensuring the correct measurement and management of risks assumed towards the aforementioned Entities and at verifying the correct development and actual application of the Policies (see paragraphs 4.6 and 4.7).

Owing to the importance they assume, the Policies are subject to a specific process of development and approval so as to ensure the validity of the chosen solutions. In that regard, the obligations required for the procedures set out in paragraph 1.2 above (Scope of

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application and procedures for adoption) are observed, and, in particular, the entities that take part are:

- the Risk management function of the Parent Company, which drafts a report for the Committee, the Board of Statutory Auditors and the Board of Directors dedicated specifically to the system of limits and levels of propensity to risk on the exposures to associated entities;
- the Parent Company's Compliance function, which issues the relevant compliance opinion;
- the Committee and the Board of Statutory Auditors of the Parent Company which issue to the Board of Directors an analytical and reasoned binding opinion;
- the Board of Directors of the Parent Company which:
 - approves the policies, based on a prior examination by the Internal Control and Risks Committee and on the analytical, reasoned and binding opinion of the Board of Statutory Auditors and the Committee;
 - approves and reviews the Policies at least on a three-yearly basis and with the methods set out in the previous paragraph;
- the Shareholders' Meeting of the Parent Company, which is informed of the Policies adopted;
- the Administrative bodies of the Banks and Group companies which implement the contents of the Policies.

The Policies, independently from the company document that illustrates them, are communicated to the Shareholders' Meeting and the respective documents are kept available for any Bank of Italy requests. The Regulation (containing the policies and procedures) is still published on the websites of the Parent Company and the Banks, in accordance with paragraph 1.2.

4.2 Sectors of activity and types of relationships of an economic nature

The following sectors of activity and types of relationships of an economic nature are identified even if not involving the assumption of Risk assets, in relation to which conflicts of interest might arise:

- (a) **Loans as Lender:** these include, in the phase of provision and review of credit facilities, the following types of transactions:
- Cash loans (e.g. mortgages, opening of bank credit, bank advance, credit card with established risk, consumer credit);
 - Credit commitments (e.g. guarantees and credit commitments, bank guarantees, endorsements);
 - Finance leases;
 - Repurchase agreements.

In addition, included in the phase of non-performing credit management are transactions such as the move to non-performing, move to loss and in court and out-of-court settlement agreements.

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(b) Collection⁷: these include, by way of example, the following types of transactions:

- collection of deposits or other funds with obligation of return (bonds, deposit certificates, interest-bearing delivery orders, repurchase agreement liabilities, deposits also in current account form);
- services ancillary to the forms of collection set out in the point above.

Note: conflicts of interest are not identified when they are rendered at standard conditions in use for customers and employees (the standard in place for employees is only applied when the Entity is an employee).

(c) Payment services⁸: the following types of services/transactions, by way of example, are included:

- services that allow for the **deposit** and withdrawal of cash on a payment account along with all transactions required for the management of a payment account;
- **execution of payment orders**, including fund transfers, on a payment account with the user's payment services provider or another payment services provider:
 - execution of direct debits, including one-off direct debits;
 - execution of payment transactions by payment card or similar methods;
 - execution of bank transfers, including permanent orders;
- **execution of payment transactions when the funds form part of a credit line granted to a user of payment services:**
 - execution of direct debits, including one-off direct debits;
 - execution of payment transactions by payment card or similar methods;
 - execution of bank transfers, including permanent orders;
- **issue and/or acquisition of payment instruments;**
- **cash remittance;**
- **execution of payment transactions** where the consent of the payer to carry out the payment transaction is provided by way of a digital or electronic telecommunication device and the payment is made to the operator of the system or telecommunications or digital or electronic network which acts exclusively as intermediary between the user of the payment services and the provider of goods or services;
- **issue of electronic money** as defined by Article 1, Letter h-ter) of the Consolidated Law.

Note: conflicts of interest are not identified when they are rendered at standard conditions in use for customers and employees (the standard in place for employees is only applied when the Entity is an employee).

⁷The cases identified are taken from the Supervisory Instructions for the Banks (Circular 229) issued by the Bank of Italy, Title II, Chapter 3, Section II in relation to criteria of application of Art. 136 of the CBL)

⁸ The cases identified are taken from the Supervisory Provisions of the Bank of Italy in relation to transparency of transactions and banking and financial services - Section VI, Paragraph 2 (June 2012)

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(d) Transactions on financial instruments on own portfolios / passive financial transactions: these include, by way of example, the following types of transactions:

- ☐ negotiation on own account of trading portfolio;
- ☐ treasury and funding management on own account (Asset & Liability Management, etc.);
- ☐ securitisations on own account;
- ☐ opening of loans (or other forms that establish a liability).

(e) Extraordinary transactions: these include, by way of example, merger and spin-off transactions along with acquisitions or sales of investments or legal relationships in block form.

(f) Investment services: these include, by way of example, the following types of transactions with retail, corporate and professional customers:

- ☐ receipt or transmission and execution of orders for customers
- ☐ consultancy activity;
- ☐ bought deal;
- ☐ securities and fund management;
- ☐ placement of financial instruments and insurance products (bancassurance, funds, securities management, fund management, equity, bonds, derivatives, etc.);
- ☐ accessory services (for example: safe custody and administration of securities).

Note: the provision of services gives rise to conflicts of interest if a component (banking or non-banking) of the Group or of an Entity set out in Appendix 1: (i) can achieve a financial benefit or avoid a financial loss, to the detriment of the customer or (ii) are bearers of an interest in the result of the service provided to the customer, distinct from that of the customer itself; (iii) have an interest in favouring the interests of customers other than the customer to whom the service is provided; (iv) perform the same activity as the customer (v) receive or may receive from a person other than the customer, in relation to the service provided to the latter, an incentive, in the form of cash, goods or services, other than the fees or commissions normally received for that service.

(g) Purchasing cycle: this includes, by way of example, the acquisition and management of payment of goods and services (e.g. contracts, administrations, contracts of intellectual work, acquisitions, supplies, consultancy⁹, advisory mandates).

(h) Corporate Finance: these include, by way of example, the following types of transactions:

- ☐ Activities in equity investments;
- ☐ Investment Banking in equity and debt capital (IPO, privatisations, syndications, secondary private placements, subscriptions, etc.);

⁹ Representatives of Banks (and also of Group Companies) cannot be assigned appointments for the performance of professional services (as approved by Banco BPM's Board of Directors).

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- ☐ Valuations of companies;
 - ☐ Securitisations on behalf of third parties;
 - ☐ Increases of capital (only as lead manager);
 - ☐ Consultancy and research services (capital structure, business strategy, undertakings, restructuring, etc.).
- (i) **Real estate transactions:** these include, by way of example, deeds of disposition of real rights on property not connected to credit transactions and property leases (as lessor and lessee)¹⁰.
- (j) **Transactions involving intangible assets:** these include, by way of example, trademark and patent management.
- (k) **Agreements of a commercial nature:** these include, by way of example, agreements for the distribution of products and services and other agreements.
- (l) **Marketing operations:** these include, by way of example, sponsorships and, in general, contracts relating to the use of distinctive marks, the sale and purchase of commercial/advertising spaces and other marketing/publishing initiatives.
- (m) **Donations:** these include, by way of example, the following donations and non-donative transactions.
- (n) **Custody and related services:** these include, by way of example, the following types of transactions:
- ☐ custodian bank;
 - ☐ management of cash and real guarantees (e.g. pledge notes and warrants);
 - ☐ fiduciary activity/Trust Company.

The Group regulatory system establishes controls of organisational separation with a view to preventing situations of conflict of interest as well as rules of conduct appropriate for managing those situations, dealing in particular with Regulations intended to implement the different relevant rules, with particular regard to equity management, provision of investment services, relationships between the Parent Company and the subsidiaries and the management of potential conflicts of interest in addition to those concerning the Entities referred to in Appendix 1.

¹⁰ As approved by Banco BPM's Board of Directors, except in the case of justified exemptions authorised by the Parent Company's Board of Directors, the following entities cannot constitute the counterparty of Group companies cannot in the disposals of movable and immovable properties or in leases or sub-leases (as lessor and lessee):

- a. company representatives (Directors and Statutory Auditors) of Group Companies;
- b. the employees of Group companies as well as collaborators not connected through employment relations;
- c. the former employees of Group Companies, retirees or those who, nonetheless, have left less than 5 years ago;
- d. close family members (spouse, cohabiting partner, children of the spouse and of the cohabiting partner and relatives up to the 2nd degree) and Relatives-in-law up to 2nd degree of the entities referred to in previous points a), b) and c);
- e. the Companies and the Subsidiary Companies, i.e. subject to joint control or a significant influence by the subjects referred to in previous letters a), b), c) and d).

The provisions relating to the management of transactions contained in this document establish that the organisational structures in charge of dealing with the Transactions forming part of the aforementioned types of activities are obliged to verify, from the due diligence phase, if an Entity is part of the Transaction, in the sense that this is suitable, where implemented, to determine a transfer of resources, services or obligations between a member of the Group and an Entity referred to in Appendix 1, and if any Risk assets potentially deriving from the same comply with the supervisory limits.

4.3 Prudential limits on risk assets

The Group is required to respect the “Limits (consolidated and individual) on Risk assets” vis-a-vis said set of Associated Entities at Group level, established by the Bank of Italy in the Supervisory provisions and described in Appendix 2 (para. 1.2).

The Parent Company also establishes, for prudential purposes, an alert threshold for each individual related party and the relevant linked entities, calculated using a management method which considers the risk-weighted assets (net of doubtful outcomes) relating to the amount drawn in the assumption of the full use of margins (100% weighting in place of regulatory weighting) in relation to the consolidated regulatory capital at Group and individual level for the monitoring of the individual banks.

4.4 Levels of propensity to risk

In addition to compliance with the prudential limits, the Parent Company is required to establish, as part of the Policies, “Levels of propensity to risk” consistent with the strategic profile and the organisational characteristics of the Group relating to all exposures to all Associated Entities..

The determination, implementation, monitoring and control of the system of internal limits on the propensity to risk is determined with reference to the total exposures to Associated Entities, in relation to the regulatory capital of the Group and the individual Banks.

The propensity to risk of the Group on the exposure to Associated Entities is reported in detail in Appendix 3.

4.4.1 Methods of calculating the levels of propensity to risk

The risk assets of the Banking Group vis-a-vis Associated Entities, to be subjected to the quantitative limits indicated Appendix 3, are represented by the “net exposures” as defined by the provisions of prudential supervision regarding the concentration of risks (so-called “large risks”). Therefore, they represent a collection of cash risk assets and off-balance sheet transactions vis-a-vis the aforementioned entities.

The following are not included in risk assets:

- ✂ investments and other assets deducted from regulatory capital;
- ✂ temporary exposures connected with the provision of services involving the transfer of funds and offsetting, settlement and custody of financial instruments, in the cases and

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under the conditions set forth in the regulation governing the concentration of risks (“large risks”).

For the purposes of verifying observance of the propensity to risk (see Appendix 3), risk assets are weighted according to factors that take account of the risk connected with the nature of the counterparty and any forms of credit protection, by applying weighting factors and the conditions for eligibility of risk mitigation techniques according to the provisions of the reference regulations. Excluded from the exposures are assets fully deducted from regulatory capital.

4.5 Identification of Associated Entities and relevant Transactions

The Parent Company has established a Group Register (Supplementary Register IT Application) in which the Entities as well as the transactions are registered, with evidence of those constituting Risk assets, contentious transactions and transactions with Personnel. The overall set of Entities referred to in Appendix 1 is unique for the whole Group.

The Register is kept by the Parent Company; it is unique for the whole Group and is made accessible to all functions of the Group Companies potentially interested in the Transactions.

The organisational process of registration of the Entities identifies the functions and respective duties. In particular:

- (a) the Parent Company’s secretariat function: as the body responsible for the coordination of the overall registration of the Entities referred to in Appendix 1, with particular regard to the Representatives and respective Linked entities and Relatives-in-law, and the dissemination of their list to all Group Banks and Companies through updating of the register;
- (b) the competent Secretariat functions of the Banks and Supervised intermediaries of the Group (including that of the Parent Company), as bodies responsible (under the coordination of the Parent Company Secretariat) for the relationship with the Company representatives and their registration, together with the respective Linked entities and Relatives-in-law, as set out Appendix 1;
- (c) the Investments function of the Parent Company, instructed, principally, to supplement the registration of the Entities referred to in Appendix 1 with information relating to the Related parties (financial and non-financial) and, in particular, the Investor and companies over which the Bank or a Group Company is able to exercise control or significant influence;
- (d) the Human resources function of the Parent Company appointed to identify and communicate the list of “most significant” personnel of the entire Group to the Parent Company’s secretariat.
- (e) the Parent Company structure tasked with monitoring the risk groups of the Parent Company, in particular, to perform the final identification of the relationships from which the qualification of a counterparty as an Entity derives and the verification that the relationships between members of the “risk groups” are not qualified in a contradictory manner with respect to the criteria used to define the set of Entities.

Regulation (see Appendix 2 para. 1.2) also sets out that, in proceeding with the due diligence of the transaction, the Investigator, should, inter alia, first verify, with the support of IT procedures and as soon as possible based upon the concrete characteristics and type of the

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transaction, whether the counterparty falls within the Entities identified in the Register and, if it falls under the Entities referred to in Appendix 1, make it aware of its duties, informing it of the possible profiles of responsibility (for example: pursuant to Article 137 of the CBL), by way of specific approval of clauses contained in the forms prepared.

Using the values allowed by the computer procedures adopted by the Group, the operator who is proceeding to open a new relationship or to renew a credit facility or to review the contracts, obtains from the Counterparty (notifying it in relation to possible profiles of responsibility) the information required to verify any qualification of the same as an Entity in accordance with Appendix 1 of the Regulation. Where, from the information, it emerges that the Counterparty may be ascribed among the Entities and the operator ascertains its lack of registration in the Register, he informs without delay the Parent Company Secretariat so that it may make the necessary verifications regarding the completeness of the Register.

4.6 Control processes

The internal control model established by the Parent Company on operations with Associated Entities is constituted by the set of rules, procedures and organisational structures that aim to ensure the compliance of the Transactions with the supervisory regulations and the internal Group provisions along with the effectiveness and efficiency of the business processes.

The Board of Directors and Chief Executive Officer of the Parent Company, making use of the various relevant corporate structures, oversee the implementation of controls and the organisational structures aimed at preventing and managing potential situations of conflict of interest in relation to Associated Entities and ensuring at Group level constant control of risks and proper and prudent management.

To this end, the Group, in line with the legal regulations and supervisory rules and in accordance with the guidelines of the Code of Self-Regulation for Listed Companies, has equipped itself with an internal control system appropriate for identifying, measuring and verifying, on a constant basis, the typical risks of the company activity and, more specifically, implemented the following measures:

- (a) definition of measures of guidance and coordination of Subsidiary Companies;
- (b) definition of roles and responsibilities of the entities involved;
- (c) implementation of organisational procedures and information systems:
 - which regulate the process of identification, registration and update of the scope of Associated Entities of the Group and the relationships with the same,
 - suitable to register the transactions with Associated Entities and to monitor the total amount of the related Risk assets, in order to respect the Supervisory limits and the overall levels of propensity to risk;
 - which regulate the process of the due diligence and resolution on Transactions,
 - which ensure supervisory reports are made to the Bank of Italy, at a consolidated and individual level,
- (d) preparation of appropriate information flows to the Corporate Bodies, to the Supervisory Authority and in between the functions;
- (e) activation of specific training plans,

The internal control system is divided into:

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- ☐ line controls (or first level), aimed at ensuring the correct execution of the transactions. These are performed by said operating structures (e.g. hierarchical type controls) or incorporated in the procedures (e.g. verification, during the due diligence of the transactions with Associated Entities, of compliance with the limits established by the regulations and by the maximum limits of Exposure of the Group determined by the Corporate Bodies);
- ☐ risk controls (or second level), which have the objective of contributing to the definition of methodologies of measuring the risk, verifying compliance with the limits assigned to the various operational functions and checking the consistency of the operations of the individual production areas with the assigned risk-return objectives. They are entrusted to structures other than the production structures. In the specific case, they are performed by the Risk management function;
- ☐ compliance controls (or second level), constituted by policies, procedures and systems capable of identifying and managing the risk resulting from non-compliance with laws, measures of the supervisory authority and rules of self-regulation. In the specific case they are implemented by the Compliance function;
- ☐ internal audit activities (or third level), aimed at identifying anomalous trends, breaches of procedures and regulations, along with assessing the functioning of the overall system of internal controls (with specific reference to risks underlying the Transactions with Associated Entities). It is conducted periodically or by exceptions, by the Audit function;
- ☐ assessment, support and proposal role in relation to the organisation and performance of internal controls on the overall activity of assumption and management of risks towards Associated Entities as well as for the general verification of the consistency of the activities with the strategic and managerial guidelines. This role is performed by the Committee of each Bank and by the Internal Control and Risks Committee of the Parent Company.

The Regulation also requires that:

- ☐ also Companies of the banking Group other than the Banks comply with the same provisions in the due diligence phase (see Appendix 2, para. 4.5.3);
- ☐ the Parent Company must, beforehand, approve the transactions to be carried out by the non-Bank Companies when the transaction is performed with a counterparty belonging to the banking Group other than a Bank or, nonetheless, with a company subject to the control or significant influence of the Parent Company.

4.6.1 Control of compliance with the prudential limits and the levels of propensity to risk

Control of the compliance with the prudential limits and the propensity to risk vis-a-vis the associated entities is entrusted to the Parent Company's Risk Management Function, which promptly reports whenever these limits have been exceeded.

The Risk Management Function monitors the prudential limits and the levels of propensity to risk vis-a-vis Associated Entities, by providing details, at least on a quarterly basis to:

- ☐ Risks Committee (management committee);
- ☐ Related Party Committee;
- ☐ Internal Control and Risks Committee;

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□ Board of Directors,

as well as the corresponding bodies in the Banks concerned.

The Risk Management Function promptly reports to the bodies listed above and to the Board of Statutory Auditors any situations where the alert thresholds have been reached, both those envisaged for the prudential limits of each individual related party and for the overall levels of propensity to risk, regarding any subsequent assessments and corrective measures.

4.6.2 Management of situations where prudential limits are exceeded

If, due to causes unconnected with the will or fault of the Bank or a Group Bank (e.g. increase in the level of risk of existing transactions, change in regulatory capital, the Related party has assumed said role after the opening of the relationship), one or more limits are exceeded, the necessary initiatives are implemented immediately in order to bring risk assets back within the permitted limits in the quickest time possible.

The Parent Company's Risk Management Function reports any situations where limits have been exceeded to the competent operating function based on the type of transaction.

This competent operating function of the Parent Company prepares, within 45 days of the situation where the limit has been exceeded, a corrective plan, approved by the Board of Directors, having consulted the Board of Statutory Auditors.

The corrective plan is sent to the Bank of Italy within 20 days of approval, together with the reports containing the resolutions of the corporate bodies.

If the situation whereby limits have been exceeded involves a related party based on an investment held in the Bank or in another banking Group company, the administrative rights connected with the investment are suspended.

In relation to legal and reputational risk or conflicts of interest, the Parent Company, if relevant for company operations, assesses said specific risk as part of the ICAAP process. In special cases where the prudential limits are exceeded for the above reasons, in order to supplement the initiatives set out in the corrective plan, account may be taken of it in the process of determining total internal capital.

4.7 Employees and company collaborators

Consistent with the Supervisory regulations, which require the supervision of transactions in which those types of entities might have, even indirectly, a personal and other interest, the Regulation provides for the registration of Employees or Collaborators not constituting Associated Entities along with the companies attributable to them, the registration of the respective transactions and the compliance with specific decision-making procedures. In particular:

- (a) the concept of Personnel is defined as the group of Employees or Collaborators of the Group Companies who are not Associated Entities and who are ascribable to the "most significant personnel" identified by the Banks in accordance with the provisions of the Bank of Italy on the policies and practices of remuneration and incentives, together with the subsidiary companies (see Appendix 1, letter B) point 4);
- (b) the notion of Entities also includes members of Personnel, given that that notion identifies the set of related parties, the Linked entities, the relatives-in-law, personnel

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and the additional entities; therefore, unless specified otherwise, the requirements of the Regulation concerning Entities are also applied to Personnel;

- (c) provision is also made for the registration of Transactions with Personnel in the Register;
- (d) Controls for Transactions with Personnel are also established;

The Regulation specifically regulates the decision-making phase of Transactions of the most significant Personnel with the Banks of the Group, it being established that:

- (a) the Employee or Collaborator is required to provide notice to his/her hierarchical superior of every interest that, on his/her own behalf or that of third parties, he/she has in a certain Transaction under the remit of the structure to which he/she belongs, specifying the nature, terms, origin and scope of the interest and also subject to the obligation to refrain from instructing or approving, or implementing the Transaction itself;
- (b) Transactions whose value does not exceed EUR 1,000,000, albeit excluded from the application of the regulation, are resolved upon by the Body or by the organisational Structure hierarchically immediately superior to the competent one based upon the current system of delegations and powers (resolutions that fall within the remit – based upon the aforementioned system of delegations and powers – of the Board of Directors are not subject to the provision in question).
- (c) Transactions whose value exceeds EUR 1,000,000 are resolved by applying the provisions of the Regulation regarding general Transactions with Associated Entities, notwithstanding that they do not benefit from exemptions and derogations.

In addition, for Employees and Collaborators belonging to Personnel, in line with the provisions of the Code of Ethics of the Group, it is established that:

- (d) Employees who are also Representatives of Group Companies prevent, insofar as is possible, situations characterised by a conflict (even only potential) between their interests and the interests of the Company and/or the Group, being in any case obliged to provide notification, in the forms of law and complying with any internal regulations applicable in that regard within each Company, of any interest that, on their own behalf or that of third parties, they have in certain Transactions of the Company and/or the Group even in committees or commissions instituted within the Body;
- (e) Employees and Collaborators of the company operating in any area of the Group avoid all situations and all activities that place them in situations of conflict of interests, even only potential, on their own behalf or on behalf of third parties, with the obligation of refraining – where the conflict of interest exists – from participating in the Transaction to which the conflict relates, providing communication thereof to his/her hierarchical Manager.

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Appendix 1: Subjective Scope of Application

ENTITIES

falling within the regulations that govern the “risk assets and conflicts of interest towards associated entities” (referred to in Title V, Chapter 5 of Circular 263/2006 of the “New Provisions of Prudential Supervision” of the Bank of Italy).

A) **ASSOCIATED ENTITIES**¹¹

1. Related Party (Non-financial¹² or Other), this term defines the subjects, indicated hereunder, identified by virtue of the relationships held with a Bank or Supervised intermediary of the Group:

1.1. Company representative¹³ of the Bank/Supervised intermediary

1.2. Investor¹⁴

1.3. Entity other than the Investor able to appoint Directors of the Bank/Supervised intermediary

¹¹ Associated Entities: refers to the group comprising a related party and all entities connected to it.

¹² Non-financial related party: a related party that exercises prevalently, directly or by way of subsidiary companies, non-financial business activities as defined under the regulations of investments held by banks and banking groups (Circular 285 of the Bank of Italy Part three “Other Provisions of Prudential Supervision”, Chapter 1). A non-financial related party is present when activities other than banking, finance and insurance exceed 50% of the total of overall activities. The notion also includes the investor and one of the related parties referred to in numbers 1.3), 1.4), 1.5), and 1.6) of the respective definition which is a holding company that can be qualified as a non-financial business in accordance with the cited regulation of possible shareholdings (C.f. “non-financial Related Party” definition Title V, Chapter 5, New provisions of prudential supervision for banks).

¹³ Company representatives: the Directors, Statutory Auditors and General Managers of the Banks and the Supervised intermediaries of the Group or those who perform roles involving the exercise of functions equivalent to that of General Manager at the Banks and Supervised intermediaries of the Group.

¹⁴ Investor: the entity obliged to request the authorisations referred to in Articles 19 et seq of the CBL, acknowledging that, at the date of issue of this Regulation:

- (i) Article 19 CBL is also applied to the financial intermediaries referred to in Article 106 CBL;
- (ii) in accordance with Article 19, Paragraphs 1 and 2 of the CBL, the acquisition under any guise in a Bank of investments that involves control or the possibility of exercising a significant influence over the Bank itself or that attributes a share of the voting rights or capital at least amounting to 10% is subject to the prior authorisation of the Bank of Italy, taking account of the stocks of shares already owned along with the acquisition of control of a company that holds the aforementioned investments;
- (iii) in accordance with Article 19, Paragraph 2 of the CBL, changes to investments when the share of voting rights or capital reaches or exceeds 20 per cent, 30 per cent or 50 per cent are also subject to the prior authorisation of the Bank of Italy and, in any case, when the changes involve control over the Bank itself;
- (iv) in accordance with Article 19, Paragraph 8-bis of the CBL, the acquisition, direct or indirect, of control resulting from a contract with the Bank or from a clause of the articles of association is subject to the prior authorisation of the Bank of Italy;
- (v) pursuant to Article 22 of the CBL, for the purposes of application of the articles 19 et seq, also covered are the investments acquired or in any case owned by way of subsidiary companies, fiduciary companies or by third parties and the acquisition of investments by a number of entities that, based upon agreements concluded in any form, intend to exercise, in agreement, the respective rights, when those investments, considered on a cumulative basis, reach or exceed the aforementioned thresholds, are also considered.

For the purposes of this Regulation, investors are those who, at the date of entry into force of the same, already hold investments whose acquisition would be subject to prior authorisation of the Bank of Italy,

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- 1.4. Subsidiary company (in totalitarian manner) by a Company of the banking Group
- 1.5. Subsidiary company¹⁵ (in a non-totalitarian manner) by a Company of the banking Group
- 1.6. **Companies subject to significant influence¹⁶ of a Company of the banking Group**
- 1.7. Enterprise also incorporated in non-corporate form over which a Bank or Company of the Group exercises control or a significant influence.

2. Linked entities

- 2.1. Companies and businesses controlled by a Related party (see point 1)
- 2.2. Parent companies or those subject to common control by Related parties set out solely in points 1.2) and 1.3)
- 2.3. Close family members of a related party (set out solely in points 1.1, 1.2 and 1.3):
 - 2.3.1. Spouse
 - 2.3.2. Cohabiting partner
 - 2.3.3. Children of spouse or cohabiting partner
 - 2.3.4. Parents
 - 2.3.5. Children
 - 2.3.6. Sisters/brothers
 - 2.3.7. Grandparents
 - 2.3.8. Grandchildren (in straight line)

¹⁵ Control in accordance with Article 23 of the CBL: the cases provided by Article 2359, First and Second Paragraphs of the Italian Civil Code; control by contracts or by statutory clauses dealing with or by virtue of the power to exercise the activity of management and coordination; cases of control in the form of dominating influence. Also identified as control are situations of joint control, meaning the contractually-established sharing of control over an economic activity. In that case, controlling entities are considered to be: a) entities that have the possibility of exercising a determining influence over financial and operations decisions of a strategic nature of the business; b) the other entities able to affect the management of the business based upon the investments held, on agreements in whatever form entered into, on statutory clauses, dealing with and by virtue of the possibility of exercising control. Control is also present when it is exercised indirectly, by way of subsidiary companies, fiduciary companies, organisations or intermediary individuals. Companies and businesses controlled by entities in turn subject to joint control are not considered to be indirectly controlled.

¹⁶ Significant influence: the power to participate in the determination of financial and operational policies of an invested company, without having control over it. The significant influence is deemed to be in place in the case of possession of an investment, direct or indirect, equal to or greater than 20 per cent of the share capital or voting rights in the ordinary shareholders' meeting or in another equivalent body of the invested company, or 10 per cent in the case of companies with shares traded on regulated markets. In the case of ownership less than the aforementioned threshold, specific investigations must be conducted to ascertain the existence of significant influence at least using the following indicators and taking account of any other relevant circumstance: (i) being represented in the body with function of management or in the body with function of strategic supervision of the invested company; the sole fact of expressing the component in representation of the minority in accordance with the provisions of the regulations of issuers of shares traded on regulated markets does not constitute in itself an indicator of significant influence; (ii) participating in decisions of a strategic nature of a company, in particular where voting rights are available that are determining of the decisions in the shareholders' meeting in relation to financial statements, allocation of profits, distribution of reserves, without a situation of joint control being in place; (iii) the existence of significant transactions – meaning as such the "Transactions of greater significance", the exchange of managerial Personnel, the provision of essential technical information. The significant influence is also in place when exercised indirectly by way of subsidiary companies, fiduciary companies, organisations or intermediary individuals. Companies invested in by entities in turn subject to joint control are not considered to be indirectly subject to significant influence.

- 2.4. Companies and Enterprises controlled by close family members of a related party (set out solely in points 1.1, 1.2 and 1.3)

B) OTHER ENTITIES

- 3. Relatives-in-law** up to 2nd degree of a related party (set out solely in points 1.1, 1.2 and 1.3)
 - 3.1. Parents of the spouse
 - 3.2. Sisters/brothers of the spouse
 - 3.3. Grandparents of the spouse
 - 3.4. Grandchildren (in straight line) of the spouse
- 4. Personnel**
 - 4.1. "Most important" Personnel¹⁷
 - 4.2. Companies controlled by "most important" Personnel
- 5. Additional Entities:** entities other than those above in relation to which the Bank of Italy requires the provisions to be applied, based upon concretely identified conflicts of interest.

The provisions of this Appendix are applied to the Group's foreign banks and intermediaries (with capital exceeding 2% of the consolidated regulatory capital). Any situations of incompatibility are reported without delay by the aforementioned Companies to the control bodies and functions of the Parent company, via the Corporate Affairs Secretariat of the Parent Company.

¹⁷ "Most important" personnel: the Employees or Collaborators of the Group companies who are not Associated entities and who are ascribable to "most significant personnel" identified by the Parent Company in accordance with the provisions of the Bank of Italy on the policies and practices of remuneration and incentives.
"significant influence.

Appendix 2: Procedures for the performance of transactions with Associated Entities

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1 Procedures

The procedures targeted at preserving the integrity of the decision-making processes in transactions with associated entities are approved by the Board of Directors through a specific approval and resolution process set out in the supervisory provisions (Circular 263/2006 New provisions of prudential supervision for banks, Title V, Chapter 5).

This Appendix regulates the procedures that the Banks and Group Companies must adhere to in transactions involving the assumption of risk assets or the transfer of resources with the entities set out in Appendix 1 of the Regulation, including the assumption in which the Parent Company examines or approves the transactions of the individual members of the banking Group.

The provisions set out in this Appendix do not apply to transactions with the Relatives-in-law of Associated Entities.

1.1 Type of Transactions

For the purposes of the Regulation, the transactions are classified as follows:

- a) transactions of greater significance;
- b) transactions of lesser significance;
- c) transactions of a small amount.

Transactions of greater significance: these are transactions whose value is greater than the threshold of 5% of the regulatory capital taken from the most recently published consolidated statement of financial position (Value relevance indicator)¹⁸. In the case of acquisitions, mergers and demergers: if the total assets of the entity involved in the transaction is greater than the threshold of 5% of the total assets taken from the most recently published consolidated statement of financial position (Value relevance indicator)¹⁹.

Also included in transactions of greater significance, and thus also subject to the provisions of the Regulation regarding that category of Transactions, are the Transactions concluded during the company financial year with the same Entity as referred to in Appendix 1 of the Regulation, which are homogeneous between them and put into place in implementation of a

18 If the economic conditions of the transaction are determined, the value of the transaction is: i) for components in cash, the amount paid to/by the contractual counterpart;

ii) for components comprised of financial instruments, the fair value determined, at the date of the transaction, in compliance with the international accounting standards adopted by means of Regulation (EC) no. 1606/2002;

iii) for financing operations or granting of guarantees, the maximum amount that can be disbursed.

If the economic conditions of the transaction depend wholly or partly on amounts still not known, the value of the transaction is the maximum value receivable or payable pursuant to the agreement. In the case of multi-year services remunerated with commissions/fees, the value is represented by their present value.

19 For acquisitions or transfers of investments in companies that have effects on the scope of consolidation, the value of the numerator is the total assets of the investee, regardless of the percentage of capital subject to disposal.

single plan which, albeit possible to qualify individually as a Transaction of lesser significance, exceed, when considered together, the threshold established by the Supervisory provisions and by the Regulation for the Transactions of greater significance.

Transactions of lesser significance: these are the transactions involving amounts between:

- the threshold exceeding the Transactions of a small amount (EUR 1,000,000);
- the threshold of significance of the Transactions of greater significance.

Transactions of a small amount: transactions whose value does not exceed EUR 1,000,000, and are excluded from application of the Regulation.

The specific provisions set forth in paragraphs 1.5.1 and 1.5.2. apply to the Contentious Transactions²⁰ and to transactions with Personnel²¹, even if they involve a small amount.

1.2 Due diligence phase and any negotiations

The Transactions require additional due diligence procedures parallel to the ordinary phase in order to identify the decision-making process in line with the provisions of the Regulation.

The Transactions that fall under the procedures governed in this paragraph are those of lesser significance and those of greater significance.

The Investigator²²:

- verifies whether the counterparty falls within the Entities identified in the Register (Supplementary Register Application);
- if yes, verifies, based on the actual characteristics and the type of transaction, whether the same falls within the cases of “total exclusion” from the Regulation. In that case, the Transaction will follow the due diligence process normally established for this type of Transaction.

²⁰ Contentious transaction: the Transaction that is represented by:

- a) a court or out-of-court settlement agreement or settlement or prevention of a dispute;
- b) a decision to classify loans to the Entities set out in Appendix 1 of the Regulation as non-performing or loss-generating.

²¹ Transaction with Personnel: transaction with Employees or Collaborators of the Group Companies who are not Associated Entities and who are ascribable to the “most significant personnel” identified by the Banks in accordance with the provisions of the Bank of Italy on the policies and practices of remuneration and incentives, together with the close relatives and subsidiary companies (see Appendix 1 of the Regulation).

²² The Investigator: this is the person who implements the preliminary procedures before the decision-making process. He/she verifies the characteristics and type of Transaction and the counterpart and activates the procedure preliminary to the preparation of information for the persons, structures and Bodies taking part in the decision-making process. The preparation of this information is formalised by the Investigator completing the Register insofar as is under his/her remit.

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Where the counterparty falls within the Entities set out in Appendix 1 of the Regulation and the transaction does not fall under the cases of exclusion, the Investigator proceeds as follows:

- a) informs the Counterparty of his duties and notifies him of the possible profiles of responsibility (for example: pursuant to Article 137 of the CBL), through the specific approval of clauses contained in the forms prepared.
- b) identifies to which type – among the following – the Transaction belongs: Transactions of greater significance or Transactions of lesser significance.

The Transactions of greater significance and those of lesser significance may be further classified into additional types (ref. next para. 1.3.1). In addition, for some Transactions there may be multiple sub-types (for example, a “Transaction subject to framework resolution” may also be a “Transaction pursuant to Article 136 of the Consolidated Banking Law”, etc.).

The classification thus combined determines the procedural process that should be followed for the correct resolution on the Transaction. The Investigator also verifies if the Transaction may fall within the cases of exclusion, exemption or derogation from the procedures provided by the Regulation and in that case to adopt the following processes.

In the case of Transactions of greater significance, the Investigator sends the Procedure Manager²³, for transmission to the Members of the Committee, a written communication containing at least the results of the checks set out in the previous paragraphs, specifying that the communication constitutes only the start of the information flow required by the Regulation for the negotiation phase.

- c) through access to the Register (Supplementary Register Application), verifies, in the presence of a Transaction that involves the assumption of Risk assets, compliance with the quantitative limits imposed by the Supervisory provisions, in relation to both the consolidated regulatory capital and to the individual regulatory capital of the individual Bank, along with compliance with the levels of propensity to risk established by the Parent Company as part of the Policies.

In relation to the consolidated regulatory capital, the assumption of Risk assets vis-a-vis Associated Entities must be contained within the limits set out below:

With respect to a non-financial related party and relevant linked Entities		With respect to a related party and relevant linked Entities	
5%	Company representative	5%	Company representative
	Controlling investor or able to exercise significant influence	7.50%	Controlling investor or able to exercise significant influence
7.50%	Investor other than that above	10%	Investor other than that above

²³ Procedure Manager: the manager of the function or the structure of the Bank/Company of the Group responsible for formulating the proposal relating to a TRANSACTION. Therefore, where the Head of procedure coincides, based upon the internal rules, with the Decision-making body, the functions of Head of procedure are performed by the Head of the immediately subordinate structure equally responsible for the matter.

With respect to a non-financial related party and relevant linked Entities		With respect to a related party and relevant linked Entities	
	Entity, other than the investor, able, alone, to appoint one or more members of the corporate bodies		Entity, other than the investor, able, alone, to appoint one or more members of the corporate bodies
15%	Other cases	20%	Other cases

In relation to individual regulatory capital, in compliance with the consolidated limits, the Bank may assume Risk assets from the same set of Entities within the limit of 20% of the individual regulatory capital.

Excluded from the aforementioned limits, relating to both consolidated regulatory capital and individual regulatory capital, are risk assets connected to Transactions between Group Companies.

The levels of propensity to risk relating to all exposures to all associated entities are defined in the appropriate Appendix 3 at group and individual bank level.

Conversely, included in the aforementioned limits are Transactions of a small amount albeit that they are excluded from the decision-making process.

In order to ensure compliance with the prudential limits and the levels of propensity to risk, in addition to the second level controls performed by the Parent Company's Risk Management Function (Para. 4.6.1 of the Regulation) - the following are established:

- (i) line controls (1st level) at "first instance" inherent in the electronic procedures used by the structure responsible for the due diligence of the Transaction and based upon a criterion of "maximum prudence";
- (ii) line controls (1st level) of "second instance", entrusted to the respective central credit structures responsible for Group Banks, regarding compliance with the risk limits set out by the Supervisory provisions and the levels of propensity to risk defined by the Parent Company. Those functions operate using the calculation methods set out in Section II, Paragraph 2 of the Supervisory provisions and they verify, in line with those methods, the reliability of any prospective doubts that might be reported by the "first instance" line controls.

The determinations of the "second instance" line control are tracked in the procedure and made available to the Risk management function as well as to the Procedure manager, to the Committee (where required by the decision-making process) and to the Decision-making body²⁴.

²⁴**Decision-Making Body:** each of the following Corporate Bodies/Structures:

- a) the Shareholders' Meeting;
- b) the Board of Directors;
- c) the Executive Committee, where present;
- d) the Chief Executive Officer, where present;
- e) the Sole Director (only for non-banking companies);
- f) the Directors other than the Chief Executive Officer to whom management powers are attributed by the Board of Directors;
- g) the decision-making organisational Structures, meaning as such the Representatives of General Management along with those who – as a single member or collegial board – are entitled to resolve upon Transactions in compliance with internal corporate rules.

Those functions also verify the existence of the conditions in which the acceptance of new risk assets (in implementation of the provisions of the internal Regulation) must be accompanied by adequate risk mitigation techniques to be provided by entities independent from the Associated Entities and whose value is not positively related to the credit rating of the borrower.

Having defined the type and verified (in the case of a Transaction that involves the acceptance of Risk assets) compliance with the quantitative limits imposed by the supervisory provisions, the Investigator completes the case file with the information relating to the specific aspects of the Transaction. In particular, in addition to the subject and value, he should indicate briefly, but comprehensively:

- the characteristics of the Transaction;
- the methods of implementing the same;
- the timing and economic conditions set forth for completion of the transaction (for transactions implemented continuously and periodically, where the total value of the same is not determined, the Investigator proceeds to make an estimate of the unit value of the performances based upon the duration of the contract or, where it is open-ended, on an annual basis).

To supplement the foregoing, the due diligence should highlight the motivations regarding the interest of the Company in completing the Transaction along with the benefit and essential correctness of the respective conditions.

With reference to the latter, the Investigator should illustrate the methods of determination and assessments of consistency with respect to market values. If the conditions are defined as equivalent to those of the market or standard conditions, the Investigator should provide:

- objective evidence;
- the assessment process followed;
- the underlying interests and reasons.

Transactions concluded under market conditions or standard conditions are deemed to be those that are:

- concluded under conditions similar to those normally applied to non-associated entities for transactions of similar nature, amount and risk,
- or
- based on regulated rates or prices set;
- or
- applied to entities with which the Bank is obligated by law to contract at a certain fee,

- d) The Investigator provides a written communication to the procedure Manager, for transmission to the Members of the Committee, regarding the development of the negotiations on the gradual definition of the elements of the transaction which must be subject to negotiation during the course of the due diligence.

1.3 Decision-making process for the Banks

The case file thus completed, its decision-making process commences which involves it being sent:

- to the Committee (if required for the transaction);
- and to the Decision-making body.

For Transactions of greater and lesser significance, the Committee – prior to approval of the transaction – expresses a reasoned opinion on the interests of the Bank in completing the same along with the benefit and substantive correctness of the respective conditions.

For Transactions of greater and lesser significance that are also subject to the decision-making procedures set out in Article 136 of the CBL (see para. 1.3.1), the Committee does not express opinions, but its Members are provided – with appropriate prior notice with respect to the decision - with complete and adequate information on that Transaction.

For other types of Transactions (e.g. those “with or between Subsidiaries”), the Committee does not have to issue opinions and is not the recipient of information flows prior to the decisions (see para. 1.3.1 and 1.4).

Due to the above, the Investigator – upon concluding his activities – must specify the process of the case by identifying it from the following:

- transmission to the Committee for the issue of the opinion (in the case of Transactions of greater significance subject to negotiations, the conclusion of the same must be specified);
- transmission to the Members of the Committee as prior information to the decision;
- non-transmission to Committee. In this case, he must specify the reason.

The procedure to be followed, therefore, is diversified, based on the type and case of the Transaction (the tables reported in para. 1.5.5 summarise the cases of the most frequent transactions and their process).

The transmission, where required, is carried out under the signature of the procedure Manager. The result is that the Investigator, upon the conclusion of the activities under his remit, sends the case file to his hierarchical Manager who, having checked its completeness, transfers it to the aforementioned procedure Manager.

The procedure Manager, where required, sends the Members of the Committee, with the appropriate prior notice, by way of the competent secretariat function of the Parent Company and of the Group Banks, as well as to the Decision-making body, the information on the transaction prepared during the course of the due diligence, together with any reports issued during the negotiations. Similarly, he must proceed to send any supplementary information.

The Committee, having received adequate written information from the procedure Manager, accompanied by the relevant necessary supporting documentation, carries out its functions set out in the Regulation of the Committee and, if required, issues its opinion on the transaction to the Decision-making body in the time necessary for the appropriate analysis.

In the case of a negative opinion or an opinion conditional on remarks on a Transaction of greater significance by the Committee, the Board of Directors must also request a prior opinion from the Board of Statutory Auditors to which the procedure Manager must provide appropriate information – as regards timescales and content – on the transaction.

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The opinion provided by the Board of Auditors is subject to the same provisions applied to the opinion of the Committee (reasoned opinion on the interests of the Company in completing the Transaction along with the benefit and substantive correctness of the respective conditions).

The Decision-making body that has already received from the Head of the procedure appropriate written information, accompanied by the respective necessary supporting documentation, receives from the Committee – where required (Transactions of greater and lesser significance other than “ordinary” Transactions, or those “with or between Subsidiaries” and “pursuant to Article 136 of the Consolidated Banking Law”) - the opinion on the Transaction, accompanied by any opinions provided by the Experts.

The reports on the decisions (with the exception of those relating to Transactions subject to exemptions or derogations, for which the specific provisions of the Regulation apply) must provide adequate justification in relation to the opportunity and economic benefit of the Transaction for the Bank, along with the reasons for any deviations, in terms of economic-contractual conditions and other typical profiles of the transaction, with respect to standard or market conditions.

The outcome of the resolution and respective motivation should be recorded in the Register and communicated to the Head of the procedure by the secretariat function of the Decision-making body.

1.3.1 Other cases of transactions

The Transactions of greater significance and those of lesser significance may be further attributed to one of the following cases indicated below.

Transactions under the remit of the Shareholders’ Meeting

These include Transactions which must be resolved upon by the Shareholders’ Meeting on the basis of legal provisions (legislation and regulatory) or the Articles of Association of the Bank. The same are subject to the provisions of the Regulation regarding that category of Transactions, except in cases of derogation and exemption set out by that Regulation.

For Transactions falling under the remit of the Shareholders’ meeting, based on the regulatory and legislative provisions and the Articles of Association, the respective resolution proposals to be submitted to the shareholders are approved by the Board of Directors by applying the provisions of the Regulation, with the specification that:

- where the Parent Company directly holds the majority of capital in the Company, the Board of Directors of the latter approves the proposal and convenes the Shareholders’ Meeting, providing notice to the Parent Company of the Board resolution, immediately after its adoption;
- in other cases, the proposal to be submitted to the Shareholders’ Meeting must be examined in advance by the Parent Company as provided in the Regulation.

Those provisions also apply to Transactions upon which the Shareholders’ Meeting is asked to resolve following the negative opinion expressed by the Committee, in accordance with the regulation issued by Consob pursuant to Article 2391-bis of the Italian Civil Code, if and when the respective Regulation in accordance with the aforementioned article allows it.

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Transactions that fall within the scope of application of the regulations on the obligations of banking representatives pursuant to Art. 136 of the Consolidated Banking Law:

The specific provision governed in the “Regulation on the obligations of bank representatives pursuant to Article 136 of the CBL” applies to said transactions, in addition to the following provisions of the Regulation pursuant to the following phase:

- ☐ pre-approval: provide to the members of the Committee, with appropriate prior notice, complete and sufficient information on the different profiles of the Transaction subject to the resolution (counterparty, type of Transaction, terms, benefit for the company, impact on the interests of the entities involved etc.). The Committee is not required to issue an opinion;
- ☐ approval: the approval must contain suitable justification of the company’s interest in carrying out the Transaction, as well as the benefit and substantive correctness of the relative conditions.

If the provision governing Consob related parties also applies to the transaction, the resolution must also contain the elements required by the aforementioned regulation.

Transactions subject to framework resolutions

Framework resolutions are accepted which provide for the completion by the Bank/Group company that adopts that resolution, of homogeneous Transactions attributable to the following categories provided that they are concluded with Entities other than the Company Representatives, the “most significant” personnel and the individuals who are Close relatives or Relatives-in-law of the aforementioned Representatives:

- a) Transactions involving the granting of credit which are not attributable to (i) agricultural credit, public works, land, fishing and on pledge, along with (ii) transactions related to insolvency proceedings (for example: transactions connected to the plans pursuant to Article 67, Paragraph 3, Letter d) of the Bankruptcy Law; Composition pursuant to Articles 124 et seq of the Bankruptcy Law; Arrangement with creditors pursuant to Articles 160 et seq of the Bankruptcy Law; Debt restructuring agreements pursuant to Article 182-bis of the Bankruptcy Law);
- b) Transactions involving direct deposit in one of the following forms: (i) savings deposits, (ii) current account, including correspondence, (iii) interest-bearing bonds, (iv) certificates of deposit, (v) repurchase agreements, (vi) debenture loans;
- c) Transactions involving the placement of own and third parties’ financial products and/or services.

²⁵Transactions involving the acquisition of goods and performances of services (by way of a non-exhaustive example) may also be subject to framework resolutions, more precisely:

- ☐ contracts involving the supply of goods and services (manpower supply agreements, tender or service contracts, intellectual property contracts, etc.) to be used in the activities of Group Companies;

²⁵ Without prejudice to the prohibitions and limitations as regards given counterparties of the Group Companies arranged by the Parent Company’s Board of Directors, specified in the Regulation

- contracts for the purchase or disposal of moveable or immovable property or active or passive leases or sub-leases of moveable or immovable property to be used in the activities of Group Companies;
- finance lease deeds or contracts to be used in the activities of Group Companies
- contracts dealing with the granting or acquisition of rights of access to a software product or the execution or distribution of the same;

Framework resolutions may not cover a period of time greater than one year and must report all foreseeable information relating to the transactions to which they refer. In particular, they should identify:

- an indication of the Entity set out in Appendix 1 of the Regulation and the composition of the respective “set”;
- types of Transactions showing the criterion used to define the type itself. When the Transaction involves the assumption of Risk assets, the types provided for by the internal regulations of the respective activity should be used;
- for each type, the maximum limit of Risk assets that may be assumed or, in any case, the value of the transactions being authorised;
- criteria relating to the economic terms of the Transaction;
- where possible, limits relating to the economic terms;
- indication of the bodies or structures or identification criteria of the bodies or structures responsible for resolving upon the individual Transactions.

Where a Transaction, albeit abstractly attributable to one of the types involved, does not fully satisfy the other conditions intended to identify in accordance with criteria of specificity, homogeneity and certainty, the categories of Transactions authorised by the “framework resolution”, the Transaction may not be carried out in implementation of the latter. That Transaction is therefore subject to the rules established generally for each Transaction with the Entities set out in Appendix 1 of the Regulation.

For the purposes of distinguishing between the applicable procedures (Transactions of greater or lesser significance), the Banks take account of the foreseeable maximum amount of the Transactions subject to the framework resolution, considered as a whole.

The individual application transactions carried out in relation to these framework resolutions are not subject to the decision-making procedures set out in the Regulation, notwithstanding that comprehensive information (quarterly) must be provided to the Board of Directors of the Bank and of the Parent Company on the implementation of these transactions.

1.4 Exclusions, exemptions and derogations

Exclusions

The following shall not be considered transactions with the Entities set out in Appendix 1 of the Regulation:

- those made between members of the Group when there is a relationship of totalitarian control between them, even jointly;
- the fees paid to Company representatives, if compliant with the supervisory provisions in relation to incentive and remuneration systems of the Banks;

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- c) intragroup transfer transactions of funds or “collateral” implemented as part of the liquidity risk management system at consolidated level;
- d) transactions to be implemented on the basis of instructions for stability purposes handed down by the Supervisory Authorities, or based on provisions issued by the Parent Company to implement instructions handed down by the Supervisory Authorities in the interests of the stability of the Group.

Transactions with Group Companies are excluded from the application of the limits on the risk assets. Therefore, even when the cited Risk assets are excluded from application of the aforementioned limits, the Transactions to which they relate should be investigated and resolved upon in compliance with the Regulation.

Exemptions and Derogations

Furthermore, the following cases are identified to which the provisions of the Regulation are not applied, in whole or in part:

Transactions of a small amount: are excluded from application of the Regulation. For Contentious Transactions or Transactions with Personnel, the specific provisions of the Regulation are applied.

Ordinary Transactions

Only Transactions of lesser significance may be considered ordinary transactions. These are Transactions falling within the ordinary operations of the Bank and concluded under conditions equivalent to those of the market or standard conditions. Transactions which fall within the ordinary performance of the business activity of the Company that carries out the Transaction or that are accessory to the operational activity or that fall within the financial activity connected to that activity are considered as such.

In any case, ordinary transactions also include the Transactions of lesser significance which the company or Group regulations forward to the peripheral structures of the Banks and which are implemented by way of the preparation and signature of forms or in any case by reproducing standard outlines established by the Group regulations or those of the Bank which completes the Transaction. For those Transactions the “obligations of motivation” are considered to be fulfilled by the provisions of this paragraph.

Only the provisions which relate to the resolution and information flows are applied. In particular:

- ☐ the resolution should contain elements that prove the “ordinary” nature of the Transaction;
- ☐ provision is made for information flows of the Transactions registered, at least of an aggregate nature, appropriate to allow, on a quarterly basis, appropriate monitoring of the Transactions, also by the Committee, for the purposes of any corrective actions.

Transactions with or between Subsidiaries

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These are transactions with or between Subsidiaries and those with Companies subject to significant influence in which there are no significant interests of other Associated Entities.²⁶

In relation to the management, by the Banks, of Transactions with or between Subsidiaries and on the premise that the Parent Company is itself Bank, the resolution of a Bank that intends to complete and must therefore approve a transaction with the following can benefit from the exemption set forth for Transactions “with or between Subsidiaries”:

- with a Bank or company or enterprise established in non-corporate form subject to its control or significant influence (including therein the companies controlled by the latter)
- with a Bank or company or enterprise established in non-corporate form subject to common control (of the banking or non-banking Group).

The Parent Company must, nonetheless, approve the transaction beforehand.

Provision is made solely for information flows, at least of an aggregate nature, appropriate to allow, on a quarterly basis, adequate monitoring of the Transactions, also by the Committee, for the purposes of any corrective actions.

It is, in any case, necessary for:

- the Investigator to verify whether the Transaction belongs to the category of Transactions “with or between Subsidiaries”;
- the Decision-making bodies of the Bank record, in their respective resolutions, evidence that proves the absence of Significant interests of other Associated Entities with reference to each specific Transaction. Verification of the existence or not of Significant interests of other Associated Entities is requested from the Investments Administration and Reporting structure of the Parent Company which issues the appropriate opinion.

²⁶ Significant Interests: any interest of a capital nature in relation to a transaction from which a benefit of a capital nature might be derived for an Entity as set out in Appendix 1 by virtue of a Transaction concluded with or between Subsidiaries or with Companies subject to significant influence and which, in the absence of that benefit, would not have been concluded or would have been concluded under different terms. The mere sharing of one of more representatives between the Bank and subsidiary Companies (and, moreover, with Companies subject to significant influence) does not give rise, in itself, to the onset of Significant interests.

Significant interests may, for example, exist where, in addition to mere sharing of one or more directors or other executives with strategic responsibilities, those entities benefit from incentive plans based upon financial instruments (or in any case variable remuneration) depending upon results achieved by the subsidiary or associated companies with which the transaction is performed. The assessment of significance is performed in light of the weight of the remuneration depending upon the performance of the subsidiary (therein including the aforementioned incentive plans) compared to the total remuneration of the director or executive with strategic responsibilities.

The assessment of significance is also left to the Companies in the case where the subsidiary or associated company is invested by the entity that controls the Company. In that case, the investment held in the Related party by the entity that exercises control or significant influence over the Company gives rise to a significant interest if the actual weight of that investment exceeds the actual weight of the investment held by the same entity in the issuer. In order to assess that effective weight, direct shareholdings are completely weighted, while indirect shareholdings are weighted in accordance with the percentage of the share capital held in the Subsidiary companies through which the investment in the Related party is held. Where the investment in the Related party is accompanied by other economic interests, those interests are considered together with those resulting from the investment calculated according to its actual weight.

On the other hand, the simple holding of an investment, in the subsidiary or associated Company, by other Companies controlled by the listed Company or connected to it does not represent, in itself, a significant interest.

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Urgent Transactions

These are Transactions to be carried out in urgent cases and are subject to resolution by a delegated Body/individual, if set out in the Articles of Association of the Bank. These transactions are excluded from application of the resolution procedures set out in the Regulation, on the condition that the urgent nature is specifically proven in the resolution based upon objective circumstances and not exclusively attributable to the decisions of the Decision-making body.

In the case of transactions that fall within the decision-making powers - also not exclusive - of the Board of Directors or the decision-making powers of the Executive Committee, the Board of Directors or, respectively, the Executive Committee, and in any case the Board of Statutory Auditors, must be informed of the reasons for the urgency before the transaction is carried out. If one or more of the bodies receiving the prior disclosure or the Committee made up of independent directors do not believe that the transaction is urgent in nature, they must promptly notify the other bodies and, as soon as possible, the shareholders' meeting. If the urgent transaction is under the responsibility of Decision-making bodies other than the Board of Directors or the Executive Committee, it will be subject to the periodic information obligations established for ordinary transactions. Urgent Transactions should also be registered in the appropriate Supplementary Register Application.

1.5 Control processes

1.5.1 Resolutions on Contentious Transactions

The responsibility for making the decision is regulated as follows:

- Contentious Transactions whose current value does not exceed EUR 1,000,000, even if excluded from the application of the Regulation, are resolved by the relevant Body or organisational Structure based upon the current system of delegations and powers, but each resolution must be communicated to the Members of the Committee on a quarterly basis;
- Contentious Transactions whose current value exceeds EUR 1,000,000 are resolved upon by applying the provision of the Regulation regarding Transactions with the Entities set out in Appendix 1, notwithstanding that they do not benefit from the exemptions and derogations set forth for "ordinary" Transactions and those "with and between subsidiaries".

The specific provision governed in the "Regulation on the obligations of banking representatives pursuant to Article 136 of the CBL" applies to Transactions that also fall within the scope of application of the regulations on the obligations of banking representatives pursuant to Art. 136 of the Consolidated Banking Law.

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1.5.2 Resolution of Transactions with “Most important personnel”²⁷

The Employee or Collaborator is required to provide notice to his/her hierarchical superior of every interest that, on his/her own behalf or that of third parties, he/she has in a certain Transaction under the remit of the structure to which he/she belongs, specifying the nature, terms, origin and scope of the interest and must also refrain from instructing or approving, or implementing the Transaction itself²⁸.

Transactions with Personnel and with companies controlled by the latter (pursuant to points 4.1 and 4.2 of Appendix no. 1) are subject to the following provisions:

- Transactions whose value does not exceed EUR 1,000,000, albeit excluded from the application of the regulation, are resolved upon by the Body or by the organisational Structure hierarchically immediately superior to the competent one based upon the current system of delegations and powers (resolutions that fall within the remit – based upon the aforementioned system of delegations and powers – of the Board of Directors are not subject to the provision in question).
- Contentious Transactions whose current value exceeds EUR 1,000,000 are resolved upon by applying the provision of the Regulation regarding Transactions with the Entities set out in Appendix 1, notwithstanding that they do not benefit from exemptions and derogations.

The documentation relating to the due diligence of the Transaction must make mention of the declaration of the Employee or Collaborator referred to in the first sentence of this paragraph.

Excluded from the application of those rules are resolutions relating to the conclusion or amendment of contracts of employment, collaboration not constituting subordinate employment, remuneration and fees based upon the exercise of functions of administration or control.

1.5.3 Controls for other Group Companies

Banking Group Companies other than the Banks proceed with the due diligence in compliance with paragraph 1.2.

Once the preliminary stage is complete, the case begins its decision-making process, which involves two separate decision-making processes depending upon whether or not, in application of the rules provided for Banks by the Regulation, the Transaction is ascribable to those for which the mandatory opinion of the Committee is required.

In particular:

²⁷ The definition of Transactions with Personnel does not include the signature or variation of the employment contract where this is formalised as part of the “remuneration policies” adopted by the Banks of the Group.

²⁸ This is without prejudice to the compliance required of all employees and collaborators of Banco BPM not belonging to the most significant personnel regarding conflicts of interest (see Banco Code of Ethics).

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- a) in the case in which the transaction must be completed with a Bank, the resolution of the non-bank Company is adopted according to the applicable system of delegations and powers, regardless of the relevance of the Transaction;
- b) if the transaction is performed with a counterparty belonging to the banking Group other than a Bank or, nonetheless, with a company subject to the control or significant influence of the Parent Company;
 - the decision of the Decision-making body must contain a clause that expressly suspends its enforcement until an approval decision by the Parent Company has been received and is therefore sent to the competent Decision-making body of the Parent Company in terms of issue or value, in accordance with the Regulation, as well as to the Members of the Committee of the Parent Company;
 - the transaction cannot be completed until the favourable resolution of the Parent Company has been received, which the latter adopts by observing the provisions of the Regulation which would be applicable if the Transaction was to be concluded by the Parent Company itself;
- c) in the other cases:
 - if the Transaction is attributable, based on the Regulation laid down for banks not subject to the opinion of the Committee, the decision-making process is completed at the non-banking Company, except for the information obligations set out below in paragraph 1.5.4;
 - if the Transaction, based upon the results of the due diligence, falls within one of the types for which the provisions dictated by the Regulation for the Banks require the opinion of the Committee, the following provisions are observed:
 - the decision of the Decision-making body must contain a clause that expressly suspends its enforcement until an approval decision by the Parent Company has been received and is therefore sent to the relevant Decision-making body of the Parent Company by issue or value, in accordance with the Regulation, as well as to the Members of the Committee of the Parent (where required)
 - the transaction cannot be completed until the favourable resolution of the Parent Company has been received, which the latter adopts by observing the provisions of the Regulation which would be applicable if the Transaction was to be concluded by the Parent Company itself;

By virtue of the foregoing, the procedure Manager sends, with appropriate prior notice, to the Decision-making body and to the Board of Auditors (or to the Sole Auditor), information on the Transaction prepared during the due diligence process, together with any reports issued during the course of the negotiations.

Where the Board of Directors is asked to resolve upon the Transactions or where the Board is asked to approve the proposal to be submitted to the Shareholders' Meeting, the information must be provided with appropriate prior notice and, in any case, in compliance with the timescales imposed for fulfilling the provisions contained in the regulations – in force each time – in relation to information flows and the functioning of the aforementioned corporate Body.

Any additional information must be submitted both to the Decision-making body and to the Board of Auditors (or the Sole Auditor).

Where the Company has legitimately omitted to institute the Supervisory Body, the aforementioned communications are made to the Decision-making body and to the Board of Directors or Sole Director, where the same do not coincide with the Decision-making body.

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The Decision-making body and the Board of Auditors (or Sole Auditor) receive from the procedure Manager, relating to completion of the Transaction, appropriate written information, accompanied by the respective necessary supporting documentation.

The aforementioned documentation must be received by the Decision-making body with appropriate prior notice, except in the case of specific reasons or justified urgency.

The Decision-making body approves the Transaction and, where appropriate, expressly subjects its enforcement to the similar decision by the competent Decision-making body of the Parent Company.

The resolutions must formalise, clearly and comprehensively, the reasons upon which the resolution is based, with regard to the interest in completing the Transaction, along with the benefit and essential correctness of the conditions of the same.

The report is sent to the secretariat of the Decision-making body of the Parent Company and to the Members of the Committee of the Parent Company. The bodies of the Parent Company examine the Transaction, applying the Parent Company procedure.

The resolution of the Parent Company is communicated to the chairman of the Board of Directors of the Subsidiary and the procedure Manager.

Where the Transaction has already been examined by the Parent Company in the exercise of its powers of management and coordination provided by Article 61 CBL or by Articles 2497 et seq of the Italian Civil Code, the resolution of the Company referred to in this paragraph does not contain any condition precedent and may be implemented without further resolutions by the Parent Company.

In the case of Transactions with Personnel, the obligation of the employee or collaborator to give notice to his hierarchical superior of any interest that, for himself or third parties, he has in a certain Transaction under the remit of the structure to which he belongs also applies to the Companies referred to in this paragraph, specifying the nature, terms, origin and scope of the interest and also subject to the obligation to refrain from contributing to establishing or resolving, or implementing that Transaction.

The provisions of this paragraph apply to foreign Companies (banking or non-banking) of the Group in line with the regulations in the country in which they are situated.

1.5.4 Information flows

The Heads of the procedures of the Banks must produce – with the frequency set out below and by way of the respective Secretariat functions – information flows towards the Members of the Committee, the Board of Directors and the Shareholders' Meeting of the Bank itself.

The Banks other than the Parent Company and the other Group Companies must produce information flows to the Members of the Committee and the Board of Directors of the Parent Company, where particular aspects have been identified within the scope of approval of the transactions for which said specific reporting has been deemed appropriate.

In particular:

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Recipient	Type of flow	Frequency
Committee	Transactions of greater significance	At the negotiation phase

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Recipient	Type of flow	Frequency
Committee	Contentious Transactions whose current amount does not exceed EUR 1.000.000 (one million)	quarterly
Committee	Ordinary transactions: information flows of aggregate nature appropriate to allow for adequate monitoring of the Transactions, for the purposes of any corrective actions	quarterly
Committee	Transactions "with or between Subsidiaries" and those with Companies subject to significant influence in which there are no significant interests of other Associated Entities: information flows of aggregate nature appropriate to allow for adequate monitoring of the Transactions, for the purposes of any corrective actions	quarterly
Committee	Transactions concluded and their main characteristics: information appropriate to allow for adequate monitoring of the Transactions with respect both to the limits of Risk assets and to compliance with the decision-making procedures	quarterly
Committee	Urgent transactions (subject to the provisions of the Articles of Association)	After the approval and before completion of the transaction
Board of Directors	Urgent transactions (subject to the provisions of the Articles of Association)	After the approval and before completion of the transaction
Board of Directors	Transactions concluded and their main characteristics: information appropriate to allow for adequate monitoring of the Transactions with respect to the limits of Risk assets and to compliance with the decision-making procedures	quarterly
Board of Directors	Transactions upon which the Committee has expressed a contrary or conditional opinion	as soon as resolved
Board of Directors	Complete information on implementation of the framework resolutions	quarterly
Board of Directors	Transactions "with or between Subsidiaries" and those with Companies subject to significant influence in which there are no significant interests of other Associated Entities: information flows of aggregate nature appropriate to allow for adequate monitoring of the Transactions, for the purposes of any corrective actions	quarterly
Shareholders' Meeting	Transactions of greater significance concluded with a negative or conditioned opinion of the Independent Directors or supervisory body	at least annually

Those information flows are also respected for Transactions with Additional entities.²⁹

The provisions of this paragraph apply to foreign Companies (banking or non-banking) of the Group in line with the regulations in the country in which they are situated.

²⁹ Additional Entities: the entities other than the Entities set out in Appendix 1 of the Regulation towards whom the Bank of Italy requires the provisions to be applied, based upon concretely identified conflicts of interests. The respective Transactions will be subject to the decision-making process which will be identified by the Bank of Italy. In the absence of indications (even though the Bank of Italy has defined them), they will be subject to the provisions of the Regulation for the Entities referred to in Appendix 1 of the Regulation.

1.5.5 Summary Table of decision-making/informative process

Summary Table of decision-making/informative process (Banks)

Transaction Type	Committee (or its Members)	Board of Statutory Auditors	Decision-Making Body
Transaction of greater significance	It must be involved in the negotiation phase and in the due diligence at least by way of receipt of a complete and prompt information flow on the transaction. Reports to the Board of Directors: - any gaps and inadequacies identified in the pre-resolution phase; - a prior and reasoned favourable opinion on the interests of the Bank in	It issues a prior opinion to the Board of Directors where the latter has received from the Committee a prior negative opinion or an opinion conditional on remarks made (these transactions, once completed, are brought to the attention of the shareholders' meeting)	It is always the Board of Directors
Transactions of lesser significance	It must receive, with appropriate prior notice, complete and adequate information on the different profiles of the Transaction subject to the decision. Reports to the Decision-making body: - any gaps and inadequacies identified in the pre-resolution phase; - a prior and reasoned non-binding opinion on the interests of the Bank in completing the Transaction.		In accordance with the current system of delegations and powers or the regulation pursuant to Article 2391-bis of the Italian Civil Code;
Transactions pursuant to Article 136 CBL	It must receive, with appropriate prior notice, complete and adequate information on the different profiles of the Transaction subject to the decision	It votes in accordance with Article 136 CBL	It is the Board of Directors and the Executive Committee (if permitted by the Articles of Association and if delegated).
Ordinary transactions	It must receive information flows of the Transactions registered, of an aggregate nature, appropriate to allow, on a quarterly basis, for monitoring of the Transactions		In accordance with the current system of delegations and powers
Transactions with or between Subsidiaries or subject to significant influence	It must receive information flows, of an aggregate nature, appropriate to allow, on a quarterly basis, for monitoring of the Transactions		In the case of transactions between Subsidiaries, the decision of the Bank that completes the Transaction must subject the same to the enforcement of the resolution by the Parent Company
Contentious Transactions (of a small amount)	It must receive information flows, appropriate to allow, on a quarterly basis, for monitoring of the Transactions		They are resolved by the Body or organisational structure responsible on the basis of the current system of delegations and powers

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Transaction Type	Committee (or its Members)	Board of Statutory Auditors	Decision-Making Body
Transactions with Personnel (of small amounts)			They are resolved by the Body or organisational Structure hierarchically and immediately superior to the one responsible based upon the current system of delegations and powers

Summary table of decision-making/information process (other Group Companies other than Banks

Transaction Type	Committee	Board of Statutory Auditors	Decision-Making Body
Transactions with Banks and Transactions of lesser significance not ascribable (in accordance with the procedures adopted by the Banks) to those to be submitted for the opinion of the Committee			The decision-making process is completed within the Company
In cases other than those set out in the line above and thus Transactions of greater significance, Transactions with companies controlled by the Parent Company other than Banks; Transactions of lesser significance with other Entities and for which the provisions of the Banks require the opinion of the Committee			<p>The decision of the Decision-making body must contain a clause that expressly subjects its implementation to the approval decision of the Parent Company and is therefore sent to:</p> <ul style="list-style-type: none"> - the relevant Decision-making body of the parent company by issue or value in accordance with the Regulation; - to the members of the Committee of the Parent Company, <p>and may not be completed until the favourable resolution of the Parent Company has been received</p>

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Date of approval: 17/10/2017

Latest update: 10/09/2019

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Annex 3: Cumulative levels of risk appetite on related party exposures

The Parent Company's Risk Function (Enterprise Risk Management) is responsible for monitoring the levels of risk appetite on all related parties (as well as on individual counterparties), measured in terms of risk-weighted assets (net of dubious outcomes) as a ratio of consolidated own funds at Group level and at individual level to monitor the individual banks.

The limits are summarised in the following table.

	Cumulative risk appetite levels on related party exposures
Banco BPM Group	55%
Banco BPM S.p.A (Holding)	60%
Banca Akros S.p.A.	40%
Banca Aletti & C. S.p.A.	10%

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Date of approval: 17/10/2017

Latest update: 10/09/2019

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