



**EXPLANATORY REPORT
OF THE BOARD OF DIRECTORS OF BANCO BPM S.P.A.
ON ITEM 4 OF THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING**

(Drawn up pursuant to Art. 123-*ter* of Legislative Decree no. 58 of 24 February 1998, as amended, and pursuant to Article 84-*quater* of the Regulation adopted by Consob Resolution no. 11971 of 14 May 1999, as amended and supplemented)

Ordinary and Extraordinary Shareholders' Meeting of 15 April 2021

Explanatory Report of the Board of Directors of Banco BPM S.p.A. on item 4 on the agenda of the Ordinary Shareholders' Meeting called for 15 April 2021, on single call, regarding the "Approval, within the remuneration policy, of the criteria for calculating any amounts to be granted in the event of early termination of employment or early departure from office of all personnel, including the limits set on said amounts. Pertinent and consequent resolutions".

Dear Shareholders,

you have been called to the Shareholders' Meeting (binding vote) regarding the proposed approval of the criteria and maximum limits for determining the amounts in the event of early termination of employment, as set forth in the Supervisory Provisions issued by the Bank of Italy (Bank of Italy Circular no. 285/2013 and subsequent additions and amendments, "**Supervisory Provisions**") regarding remuneration.

In particular, the approval of the criteria for determining any amount to be agreed to personnel in case of early termination of employment, including any limits set for said amount in terms of yearly fixed remuneration and the maximum amount deriving from their application, falls under the competence of the shareholders' meeting.

The criteria for determining the compensation to be agreed in the event of early termination of employment conform to the provisions contained in the 25th update of the Supervisory Provisions issued on 23 October 2018.

The Parent Company is unilaterally entitled to agree any amounts in the event of termination of employment, in observance of the provisions that follow and the currently applicable regulations. These amounts can be awarded for a maximum of 24 months of fixed remuneration and, nonetheless, not exceeding 2.4 million euro (gross per employee); they do not include the indemnity for a lack of notice determined by the legal provisions.

Amounts for early termination of employment are recognised at the time of cessation, also if a staff member has signed an individual agreement with the Group in anticipation of the early termination of employment; it is subject to the ascertainment of conditions, with reference to the previous year and pertaining to the capital adequacy indicator at consolidated level Common Equity Tier1 (C.E.T1.) ratio "phased-in" and the liquidity adequacy indicator at consolidated level Liquidity Coverage Ratio (L.C.R.) regulatory:

- where the result of both indicators CET1 ratio and LCR regulatory is greater than the relative Risk Tolerance threshold defined in the Risk Appetite Framework, the amount

can be awarded;

- if the result of just one of the indicators, CET1 ratio or LCR regulatory, is lower than the midpoint (equidistant) between relative Risk Capacity and Risk Tolerance thresholds (midpoint), it will not be possible to proceed with the award or issuing of amounts for early termination of employment;
- in the remaining cases, if the result of one or both indicators CET1 ratio and LCR regulatory is lower or equal to the relative Risk Tolerance threshold, but equal to or higher than the midpoint (without prejudice, in the case of CET1 ratio, to the provisions governing the combined capital buffer requirements), the Parent Company Board of Directors is required to decide on the availability of economic resources for the awarding of amounts for early termination of employment.

The amount is determined by considering all elements deemed relevant and in any case:

- the positive results achieved over time;
- the circumstances which led to the termination, taking into account the company interest, also with the purpose of avoiding the threat of legal proceedings;
- the roles covered and/or offices held during employment, also in terms of risks assumed by the person;
- the duration of employment and role;
- the savings as a result of early termination of employment.

The ascertainment of any fraudulent conduct or gross negligence in the three calendar years prior to termination (assessment of the significance of such offences is carried out by the Parent Company's Board of Directors in the case of directly appointed persons, or by the Chief Executive Officer of the Parent Company for all remaining persons) precludes the payment of any amounts for indemnity for early termination of employment. The Parent Company's Board of Directors, for persons directly appointed by it, or the Chief Executive Officer of the Parent Company, for all remaining persons, reserve the right to also assess any further misconduct (other than, i.e. fraudulent or grossly negligent conduct) ascertained during the three calendar years prior to termination.

The amount awarded to identified staff at the time of the early termination of employment is calculated within the upper limit of the variable component to fixed component ratio with reference to the last year of employment, without prejudice to the specific requirements of the Supervisory Provisions.

The Supervisory Provisions also provide a predefined formula, contained in the bank's

remuneration policy, which defines the amount to be awarded for early termination of employment, within the context of an agreement between the bank and employees, at any stage of legal proceedings, for the resolution of a current or potential dispute; the amount, if defined in application of said formula, is not included in the calculation of the upper limit of the variable component to fixed component ratio.

The formula adopted by Banco BPM regards identified staff and requires the amount to be determined in the following way: (a) 24 months of fixed remuneration for persons included under "top" identified staff (Chief Executive Officer, General Manager (where appointed), the Joint General Managers and the First Line Managers of the Parent Company, Chief Executive Officer, General Manager, Joint General Manager and Deputy General Manager (where present) of Banca Aletti & C. S.p.A., Banca Akros S.p.A. and ProFamily S.p.A.); (b) 24 months of fixed remuneration for identified staff not already included in previous point (a), with service seniority in the Group of more than ten years; (c) 18 months of fixed remuneration for other identified staff not already included in previous points (a) and (b).

The following reductions are applied to the amounts set out in previous points (a), (b), (c) if necessary: (1) elimination in respect of the ascertainment, in the three calendar years prior to termination, of fraudulent or grossly negligent conduct, whose evaluation regarding the significance of the negligence is carried out by the Parent Company's Board of Directors, for subjects directly nominated by it, or by the Parent Company's Chief Executive Officer (or his delegate) for the remaining persons; (2) reduction of 12 months of fixed remuneration in the event of non-achievement of the individual *performance* in at least one of the two calendar years prior to the termination; (3) 50% reduction if the employee has been operating in the Group for less than three calendar years at the moment of termination, or otherwise, a 25% reduction if, at the moment of termination from the role (also applies to any similar roles), the employee has covered his/her position for less than two calendar years.

Irrespective of the method used to define the amount, payment thereof occurs according to the same methods provided for by the short-term incentive plan, defined in the remuneration policy in force on the date of termination, with reference to the last position for which payment of the amount was assessed, without prejudice to specific conditions provided for in the Supervisory Provisions. Therefore, issuing occurs as follows:

- for staff other than identified staff, in cash and on a one-time basis;
- for identified staff (golden parachute)
 - in an up-front portion, amounting to 60% in the event the amount is lower

than the particularly high amount established in the remuneration policy in force on the award date, or 40% under all other circumstances;

- in five equal annual deferred portions, for senior identified staff (for the Parent Company: the Chief Executive Officer, General Manager, where appointed, the Joint General Managers and senior operational and executive managers, the First Line Managers not included in the internal control functions and reporting directly to the Chief Executive Officer or the Board of Directors; for Banca Aletti & C. S.p.A. and Banca Akros S.p.A.: the Chief Executive Officer), irrespective of the amount paid, and for identified staff included in those reporting directly to the Chief Executive Officer of Banca Aletti & C. S.p.A. and Banca Akros S.p.A., in the event in which the amount is equal to or higher than the particularly high amount established in the remuneration policy in force at the time of the award, or in three different portions in the remaining cases;
 - the *up-front portion* is vested at the termination of employment, within the time limits envisaged by individual agreements; deferred portions are vested annually, the first becoming effective at least twelve months from the payment date of the *up-front portion*, and subsequent payments at an equal amount of time from the allocation of the previous amount;
 - with regard to the up-front portion, 50% in cash and 50% in Banco BPM ordinary shares;
 - with reference to each deferred portion the part in Banco BPM ordinary shares amounts to 55% in the event deferment is spread over five years, or 50% in remaining cases;
 - there is a retention period (sale restriction) on vested shares of one year. For deferred portions, the retention period starts from the moment deferred remuneration is vested. The vesting of the share portions takes place at the same time as the respective cash portions, while actual transfer of ownership takes place at the end of the retention period.
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- both for identified staff and remaining staff, only in the absence of ascertained fraudulent conduct or gross negligence committed by the terminated person. The ascertainment of such conduct, the assessment of the significance thereof is the remit of the Parent Company's Board of Directors, in the case of directly appointed persons, of the Chief Executive Officer of the Parent Company for remaining persons, determines the zeroing of portions which have not yet been paid (*malus*)



and the return of previously paid ones (claw-back). This assessment takes into account a five years period starting from initial accrual.

Agreements stipulated for early termination of employment do not include amounts determined by a court and arbitrary judgement, severance pay and indemnity for lack of notice. In the latter two cases, when their amount is due and determined according to limits established by legislation (they do not fall under variable remuneration and are not subject to the criteria and limits set by the shareholders' meeting).

With reference to the non-competition clause and the notice period extension clause disbursed consistent with the employment, the same capital and liquidity adequacy conditions set for amounts in general for the early termination of employment are adopted, as well as the same methods of disbursement envisaged for the short-term incentive plan, and the provision of the malus and claw-back mechanisms related to fraudulent or grossly negligent conduct.

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Dear Shareholders,

In light of all of the above, we ask you to approve the following proposed resolution:

"The ordinary Shareholders' Meeting of Banco BPM S.p.A.:

- having examined and acknowledged the contents of the Report on the remuneration policy and compensation paid, in relation to the criteria for the determination of the amounts to be agreed in the event of early termination*

of employment or early cessation of office, made available to the shareholders and the public in the manner and within the terms envisaged by current legislation;

- taking account of the contents of this Explanatory Report,*

RESOLVES

the approval of the criteria for determining the amount to be awarded in the event of the early termination of employment or early cessation of office, including therein the limits set on said amount in terms of 24 months of fixed remuneration and, nonetheless, not exceeding 2.4 million euro (gross per employee), limits that do not include the indemnity for lack of notice determined according to the legal provisions

assigning a mandate to the Chairman of the Board of Directors, to the Chief Executive Officer, jointly and severally and with the right to sub-delegate, in order to correctly and promptly execute these resolutions and the formalities and acts relating and/or consequent to these, attributing them with all the necessary powers, including that of introducing changes or additions to the same that become necessary and/or appropriate in relation to the requests or recommendations of the Supervisory Authorities or the market management company".

Milan, 23 March 2021

The Board of Directors