



**REPORT FROM THE BOARD OF STATUTORY AUDITORS
OF BANCO BPM S.P.A. TO THE SHAREHOLDERS' MEETING
PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998**

FY 2017

Shareholders' Meeting

7 April 2018

This document is a translation into English of the document approved by Board of Directors. In case of any discrepancies or doubts between the English and the Italian version, the Italian version shall prevail.



Report from the Board of Statutory Auditors to the Shareholders' Meeting of Banco BPM S.p.A. pursuant to article 153 of Legislative Decree no. 58 of 24 February 1998 (TUF - Consolidated Finance Act)

Dear Shareholders,

On 1 January 2017, the consolidation merger between Banco Popolare Soc. Coop. (hereinafter also "ex Banco Popolare") and Banca Popolare di Milano S.c.a.r.l. (hereinafter also "ex BPM") entered into effect and consequently Banco BPM S.p.A. was established (hereinafter also "Banco BPM" or "the Bank").

The Board of Statutory Auditors of Banco BPM also took office on that date.

With this Report, drawn up pursuant to article 153 of TUF (Consolidated Finance Act) and in compliance with the guidelines provided by Consob with Communication no. 1025564 of 6 April 2001, as amended, the Board of Statutory Auditors of Banco BPM is reporting on the supervisory activity carried out in 2017, in compliance with the applicable regulations while also taking into account the Rules of Conduct set out for the Boards of Statutory Auditors of listed companies, as recommended by the Italian Board of Professional Accountants and Auditors.

In 2017, the Board of Statutory Auditors carried out the supervisory activities falling under its area of competence and fulfilled its obligations; within this scope:

- it has participated in all the Shareholders' Meetings, in the meetings of the Board of Directors and Executive Committee, as well as, through its Chairman or an Auditor appointed by the latter and according to the applicable regulations, in the meetings of the Internal Control and Risks Committee, the Remuneration Committee, the Related Parties Committee, the Nominations Committee and the Donation Committee, established within the Board of Directors and obtained, in compliance with all the laws and the provisions of the Articles of Association, comprehensive information on the activities carried out and on the most significant transactions conducted by the Bank and its subsidiaries;
- it has acquired all the necessary information on compliance with the laws and the Articles of Association, with the principles of proper management as well as on the functionality and efficiency of the organisational structure of the Bank and of its internal and administrative-accounting controls, through direct investigations, the gathering of data and information from the managers of the various corporate functions involved, as well as from the Auditing Firm in

charge of the legally-required auditing, namely PricewaterhouseCoopers S.p.A. (hereinafter also the "Auditing Firm" or "PwC");

- it has performed its auditing on the internal control system, availing itself of the constant attendance by the Manager of the Audit Function at the bodies' meetings, in which, in addition to the Compliance Manager, also the Managers of the Risk Function, the Anti-Money Laundering Function and the Internal Validation Function, have participated. This has therefore provided the necessary operational and informative details about the methods adopted in the performance of the respective institutional control tasks, as well as on the results of the pertinent activities;
- it has carried out the necessary assessments on the adequacy of the guidelines issued to the subsidiaries, also pursuant to article 114, paragraph 2 of Legislative Decree no. 58/1998;
- it has exchanged information about each other's activities with both the Boards of Statutory Auditors of the main companies of the Group and with the Supervisory Board, established according to the Organisation, Management and Control Model adopted by Banco BPM pursuant to Legislative Decree no. 231/2001;
- it has monitored the actual methods applied to the implementation of the governance provisions, as set forth in the applicable Code of Conduct for listed companies, promoted by Borsa Italiana S.p.A., to which Banco BPM has declared to have adhered;
- it has overseen compliance of the Regulations approved by the Board of Directors, regarding transactions with related parties, with the principles under Consob Resolution no. 17221 of 12 March 2010 as amended, as well as overseeing compliance with the Regulations themselves;
- it has supervised the overall appropriateness of the internal procedures for achieving the objectives of the governing provisions in terms of risk and conflicts of interest concerning related parties, in compliance with the Circular issued by the Bank of Italy no. 263/2006, Title V, Chapter 5;
- it has ensured, based on the statements issued by the individual Directors and the assessments collectively expressed by the Bank's Board of Directors, that the criteria and procedures adopted by the latter in order to assess the independence of its members have been correctly applied;
- it has verified compliance with the law and regulations concerning the process for the preparation of the financial statements.

Based on the main findings acquired while carrying out its functions, some significant events, which have characterised the year 2017, were identified. As regards these events, it was therefore deemed appropriate, although described in-depth in the Report on operations of the Group (to which

reference should be made), to address them hereinafter, given their significance within the scope of the assessments concerning the equity and financial position of Banco BPM as well as the consistency of operational decisions with the guidelines of the Group's Strategic Plan for the 2016-2019 period:

- exercise of the right of withdrawal: the merger transaction between the ex Banco Popolare and the ex BPM and the establishment of Banco BPM have involved the transformation of the two participating banks from co-ops to joint stock companies. For this reason, the shareholders who did not participate in the Shareholders' Meeting's resolution approving the merger were able to exercise their right to withdraw pursuant to article 2437 of the Italian Civil Code. Following the exercise of this right, of the option offer and pre-emption offer to the shareholders of ex Banco Popolare and ex BPM regarding the shares for which the right to withdraw was exercised and the subsequent offer on the stock exchange of the un-opted shares pursuant to the applicable laws, in the meeting of 11 May 2017 the Board of Directors resolved to limit the redemption of the residual shares, in compliance with the applicable laws and the criteria set forth in the reports related to the merger transaction, as well as with being subject to the issuance by the ECB of the authorisation for the reduction in equity. To this regard, pursuant to the applicable laws, the Board of Statutory Auditors has carried out the required review and reported, at the Board's meeting, that it didn't have any remarks to make about the partial limitation to the redemption. Following the issuance of the required authorisation by the Supervisory Authority, Banco BPM has carried out the redemption according to the terms and conditions approved and authorised;
- Wealth Management project: in line with the Group's Strategic Plan for the 2016-2019 period, during the year, some extraordinary corporate transactions were carried out concerning the integration and streamlining of Banco BPM Group's activities. More specifically: (i) the reorganisation of the activities carried out by Private Banking and Corporate & Investment Banking was initiated. This process provides for the centralisation of Private Banking activities into the subsidiary Banca Aletti & C. S.p.A. (hereinafter also Banca Aletti) and of Corporate & Investment Banking activities into the subsidiary Banca Akros S.p.A. (hereinafter also Banca Akros); (ii) the integration process was completed by transferring the business units, namely Information Technology and Back Office, of Banco BPM and Banca Akros to the subsidiary Società Gestione Servizi BP S.c.p.a. (hereinafter also SGS);
- asset disposal transactions: in 2017, Banco BPM transferred to Anima Holding 100% of the share capital of Aletti Gestielle SGR S.p.A.; in early 2018, agreements were executed for the transfer of other assets (Custodian Bank and Agreements for the management of insurance reserves). In addition, in compliance with the Strategic Plan and concurrently with the natural expiry of the partnerships of the ex Gruppo Banco Popolare respectively with the Unipol Group (life business)

and with Gruppo Aviva (protection business), Banco BPM Group started a competitive process for the selection of a new partner, thus ultimately executing an agreement with Cattolica Assicurazioni for the establishment of a 15 year strategic partnership in Bancaassicurazione, life and non-life businesses;

- transfer of credit portfolios: in pursuit of the objectives set forth in the Strategic Plan of the Group (and more specifically "NPL Operational Plan"), in 2017, Banco BPM finalised three important transfer transactions, without recourse, of non-performing receivables (in January, June and December). The above described *en bloc* transfer transactions were finalised pursuant to Law no. 130/1999 and have involved for the Group the actual and definite transfer of the credit risks with the consequent write-off of the related receivables from the financial statements.

During the year, the Board of Statutory Auditors has also found that:

- Banco BPM has called up the share capital of the Atlante Fund for a total amount of Euro 16.5 million. The overall initial commitment undertaken in 2016 by the Group in the investment fund amounted to Euro 150 million; following the payments made, the residual commitment amounts to Euro 11.7 million. It should be noted that this investment (amounting to a total of Euro 138.3 million) was subject to a Euro 120 million write-down (of which Euro 61 million charged to the 2017 FY) with the consequent recognition in the financial statements of Euro 18.3 million (book value);
- the banks of Banco BPM Group (Banco BPM, BPM, Banca Aletti, and Banca Akros) participate in the Voluntary Scheme managed by the Interbank Deposit Guarantee Fund, established in November 2015. Taking into account this participation and the support measures promoted by the Voluntary Scheme which were finalised in 2017 in favour of Caricesena, Carim and Carismi, the total contribution paid to this Scheme by the Group in 2017 amounted to Euro 42.2 million;
- deferred tax assets, referring to losses recorded in 2017, were recognised after verifying the probability of recovery of such deferred tax assets other than those convertible into tax credits under the Law no. 214/2011. Regarding the process for verifying recoverability, the Board of Statutory Auditors has consulted the Executive in charge of financial reporting and the Auditing Firm, and has agreed on the adoption of a specific self-regulation policy for this matter;
- specific Provisions for risks and charges were set up, the amount of which was determined by keeping into account the overall risks to which the Bank is exposed, also in light of the provisions set forth by the Supervisory Authority and communicated to the Bank in 2017;
- Banco BPM has received, at the end of December 2017, notification, from the European Central Bank (hereinafter also "ECB") about the prudential "SREP decision" containing the

results of the annual prudential Supervisory Review and Evaluation Process – SREP. In consideration of the analyses and the evaluations carried out by the Supervisory Authority based on the data available at 31 March 2017 from Banco BPM, the ECB has set forth, for 2018, the following prudential requirements on a consolidated basis: (i) 8.875% Common Equity Tier 1 ratio, (ii) 10.375% Tier 1 ratio and (iii) 12.375% Total Capital ratio.

The Board of Statutory Auditors has monitored, to the extent of its competence, the allocation of fair value figures, within the Purchase Price Allocation (PPA) process referring to the aggregation of the ex Banco Popolare and the ex BPM, through consultations carried out with the Administration and Budget Function and with the Auditing Firm. It has also reviewed the results of the verifications carried out by the Audit Function, without finding any critical issues and/or anomalies.

Given the above, and taking into account the gradual finalisation process of a complete integration of the two Banking Groups, represented by the Banks participating in the merger, the Board of Statutory Auditors has also focused its attention, including through specific monitoring activities, on some transactions and plans carried out and/or started during the period on the basis of their relevance in reference to the organisational, risk control and risk management structure set up by the Bank:

- IT migration: the IT migration process of the subsidiary BPM S.p.A. to the target systems of Banco BPM was completed, thus enabling Banco BPM Group to use only one integrated technological platform and consequently to adopt uniform processes and procedures. As regards this operation, the Board of Statutory Auditors has monitored the activities performed by a work group that was specifically established, both during the set up and preparation phases of the operation, and after its successful completion, with reference to the actions already undertaken (or to be undertaken) in order to address the identified anomalies and areas needing improvement, as outlined in a specific Plan, and considering their evolving nature;
- actions aimed at strengthening the credit management and monitoring process: keeping also into account the recommendations regarding Credit and Counterparty Risk Management, formulated by the ECB as a result of the inspections carried out on the ex Gruppo Banco Popolare and ex Gruppo BPM in 2016, the Board of Statutory Auditors has carefully monitored – undertaking independent assessment initiatives – the implementation of the action plan approved by the Board of Directors (Credit Action Plan), thus verifying the outline of a regulatory and organisational framework which, as reported on over time, appears to be complete and adequate. However, the Board is reserving the right to conduct, in 2018 – also through the Bank's Control Functions – the necessary specific investigations on the efficacy of the entire system;

- processes for the update and extension of the internal models for risk measurement (in particular regarding credit and market): in consideration of the capital impact potentially deriving from the finalisation of the validation processes currently carried out by the Supervisory Authority, the Board of Statutory Auditors has maintained constant information flows with the structures of the Bank (and, in particular) with the Risk and Audit Functions) concerning the activities that were progressively carried out, also upon request from the Supervisory Authority;
- IFRS 9 project: with reference to the entry into effect of the new international accounting standards IFRS 9, replacing IAS 39, Banco BPM has launched – starting with the planning already under way at the ex Banco Popolare and ex BPM – a project aimed at adjusting all processes and procedures in order to conform to the new accounting standard. The Board of Statutory Auditors has supervised the progressive development of these activities, also in consideration of the information received on the impacts resulting from First Time Application (FTA) of IFRS 9 to the 2017 Yearly Financial Report (and actually provided by Banco BPM) in compliance with the guidelines issued in this regard by ESMA in November 2016;
- projects for alignment with specific laws such as MiFID 2 and Anti-Money Laundering Directive IV: in 2017, Banco BPM Group: (i) launched a specific action plan aimed at transposing the new regulations within the Group with reference to the provision of investment services. The Board of Statutory Auditors, while overseeing the progress of the Project, shared and promoted an additional initiative aimed at extending to the entire sales network a portfolio consulting model, while improving and strengthening the control systems applied to the provision of investment services; (ii) structured a new anti-money laundering operational model for the Group and implemented measures aimed at aligning it with the new legislative provisions following the transposition of the afore-mentioned European directive in terms of anti-money laundering risk and financing of terrorism. The Board has been constantly updated on the activities carried out;
- new Business Model: within the scope of the streamlining of the organisational structure of the Bank, starting on 1 January 2018, the new business model was applied to the entire sales network of the Group. The Board of Statutory Auditors has approved of this action that provides for the strengthening of first level controls, and will carry out monitoring activities on its efficacy.

Taking into account the effective date of the afore-mentioned merger as well as the significant commitment required from the Functions of the Bank as regards the numerous operations and planned activities here summarised (which have, in some cases, generated a slowdown in the processes), the Board of Statutory Auditors has supervised the progressive adoption by the Board of Directors of some appropriate measures to ensure an internal legislative framework that is adequate to maintain the correct application of the operational processes. To this regard, although

acknowledging that this organisational and legislative structure requires further adjustments, the Board has concluded that it is substantially adequate.

Within its own institutional activities, the Board of Statutory Auditors has also established a productive information relationship with the Joint Supervisory Team (JST), an operating unit of the Single Supervisory Mechanism (SSM), which is responsible for carrying out prudent supervision of the Group within the scope of the SSM.

Without prejudice to the contents of this Report, in light of the activities carried out, the acquired information and the documentation reviewed by the Board, no significant issues were identified in 2017 such as to require their being reported to the Supervisory Authority, nor was it deemed necessary to formulate any remarks on compliance with the principles of a correct management.

The only communications sent to the Supervisory Authorities regarded disclosure activities concerning the customers interested in the purchase of diamonds by the ex Group Banco Popolare from the company IDB (Intermarket Diamond Business) company – in particular with reference to periods prior to 2017 – carried out also in consideration of the in-depth analyses promoted by the bodies of the Bank as well as of the provisions set forth by the Antitrust Authority, dated 30 October 2017, which has determined the presence of inappropriate business practices pursuant to articles 20 and 21, paragraph 1, letters b), c), d), and f), 22 and 23, paragraph 1, letter t) of the Consumer Code (this provision has been appealed by the Bank before the Regional Administrative Court (TAR)).

The Board of Statutory Auditors has verified and analysed in-depth the process for the preparation and the set up of the 2017 separate and consolidated financial statements of Banco BPM, as well as their compliance with the applicable laws and regulations and with the resolutions adopted by the Board of Directors.

Within the scope of these activities, the Board of Statutory Auditors, *inter alia*, (i) has verified the adequacy, under a methodological profile, of the impairment test process to which the financial statements assets were subject, thus acknowledging the results therefrom as well as the fairness opinions issued by the consulting company appointed for this task; (ii) has acquired the results obtained from the verification activities carried out by the Auditing Firm on the regular management of the corporate accounting process and the correct recognition of the operational performance in the accounting records.

Within the assessment activities falling under the area of its competence, the Board of Statutory Auditors has met on several occasions with the Executive in charge of financial reporting and the Auditing Firm, PwC, for the purpose of ensuring the exchange of information that is necessary, *inter*

alia, for carrying out the supervisory activities for which the Board of Statutory Auditors is responsible (in its role of "Internal Control and Accounting Audit Committee") pursuant to article 19 of Legislative Decree no. 39/2010, as well as for the purpose of analysing the most relevant issues for the preparation of the 2017 financial statements.

Keeping into account the fact that the documentation concerning the auditing activities was substantially impacted by the amendments made to Legislative Decree no. 39/2010 by Legislative Decree no. 135/2016 as well as by the European provisions in the area of legally-required auditing, in early 2018, the meetings of the Board of Statutory Auditors and the Auditing Firm have intensified in order to ensure the appropriate information flow in compliance with the respective control obligations, and also in consideration of the time frame set out for the preparation of the respective reports.

In light of the current provisions, the Accounting Firm has issued:

1. to the Bank, pursuant to article 14 of Legislative Decree no. 39/2010, the Independent Auditing Report on the separate and consolidated financial statements for the year ended 31 December 2017. The format and contents of the Auditing Report were thoroughly reviewed in compliance with the applicable legislative provisions.

Given the above, as regards conclusions and certifications, PwC has issued its Independent Auditing Reports on the separate and consolidated financial statements without any exceptions or matters to be noted and (i) has issued a judgement stating that the Reports on operations accompanying the separate and consolidated financial statements – in addition to some specific information contained in the "Report on Corporate Governance and Ownership Structure" as provided for in article 123 bis, paragraph 4, of Legislative Decree no. 58/1998 (the responsibility of which is assigned to the Bank's Directors) – are consistent with the financial statements and were prepared in observance of the applicable legislative provisions; (ii) has declared, with regard to potential significant errors in the Reports on operations, based on the knowledge and understanding of the company and its related context, acquired during the auditing activities, to have nothing to report. For details on the key aspects of the auditing, please see the Independent Reports issued by PwC, published along with the separate and consolidated financial statements;

2. to the Board of Statutory Auditors, pursuant to article 11 of the EU Regulation no. 537/2014, the Report for the Internal Control and Accounting Audit Committee (so-called Additional Report), which did not identify any significant deficiencies in the internal control system concerning the financial reporting process that were considered worthy of being brought to the attention of the Board itself. However, some deficiencies and/or areas needing improvement were pointed out to

the Board of Statutory Auditors regarding the internal control system applied to the financial reporting process, although they were assessed by the auditor as “non-significant”.

These issues have been subject to discussion and consultation with the Board of Statutory Auditors which will keep them into consideration in formulating the remarks to be provided to the Board of Directors – in compliance with the provisions of article 19, paragraph 1, letter a of Legislative Decree no. 39/2010 – along with the Additional Report as regards in-depth analyses and the adoption of the measures falling under the area of competence of the Board of Directors.

On 12 March 2018, the Auditing Firm has submitted its annual confirmation of independence pursuant to article 6 of the EU Regulation no. 537/2014, based on which no situations were identified such as to compromise its independence.

To this regard, the Board of Statutory Auditors, during the period and in compliance with the referenced provisions in the area of the legally-required audit has approved beforehand – after assessing the potential risks for independence and the protective measures adopted – the assignments, other than the legally-required auditing, conferred to PwC and to the companies that are part of its network. The Board has also acknowledged the Transparency Report prepared by the Auditing Firm, published on its web site pursuant to article 13 of the EU Regulation no. 537/2014.

The Board of Statutory Auditors, within the scope of the functions attributed thereto, has monitored the compliance with the provisions set forth in Legislative Decree no. 254 of 30 December 2016, in particular with reference to both the preparation process and the contents of the Declaration of a non-financial nature drawn up by Banco BPM. To this regard, after reviewing both the certification issued by the Auditing Firm pursuant to article 3, paragraph 10, of Legislative Decree no. 254/2016 and the declaration provided thereby together with the Report on the consolidated financial statements pursuant to article 4 of the Consob regulation implementing the afore-mentioned Decree, the Board has not formulated any remarks.

To complete this report for the Shareholders' Meeting, following is the specific information required by the Consob Communication no. 1025564 of 6 April 2001, as amended, and provided on the basis of the activities carried out in 2017 by the Board of Statutory Auditors of Banco BPM:

1. The Board of Statutory Auditors of Banco BPM has acquired all appropriate information regarding the most significant economic, financial and equity transactions carried out by the Bank and by its subsidiaries. In light of this information, it has found that these transactions have been conducted in compliance with the law and the Articles of Association, that they were not manifestly imprudent or risky, they were not in any conflict of interest or incompatible with the

resolutions issued by the Shareholders' Meeting or such as to compromise, in any way, the integrity of the corporate assets.

In addition to the contents of this Report, for a thorough analysis of the most relevant transactions carried out during the period, please see the Director's Report and the Notes to the consolidated financial statements at 31 December 2017;

2. no transactions that may be defined as atypical or unusual, carried out by the Bank with third parties, with companies of the Group or with related parties, have emerged, without prejudice to the contents of this Report. The intergroup transactions and transactions with related parties carried out in 2017 were considered as fair, in compliance with the applicable legislation and in line with the interests of the Bank and the Group. Transactions with a potential conflict of interest were found to be compliant with all relevant internal and external legislative provisions and were subject to specific attention, to monitoring and, where required, to a special review by the Related Parties Committee. Based on the information available, the Board of Statutory Auditors reasonably believes that the transactions are fair and in line with the interests of the Bank and/or the Group;
3. in the Director's Report and in the Notes to the separate and consolidated financial statements, the Board of Directors has properly reported and described, while providing details about their characteristics, all the main transactions with third parties, intergroup and related parties, of which the Board of Statutory Auditors has verified, under its area of competence, their compliance with the law, the Articles of Association and the applicable internal regulations;
4. as already reported, the firm in charge of the legally-required accounting audit, ProcewaterhouseCoopers S.p.A., has issued, on 15 March 2018, its Independent Reports about the separate and consolidated financial statements without any exceptions or findings to be noted and (i) has issued a judgement stating that the Reports on operations accompanying the separate and consolidated financial statements – in addition to some specific information contained in the "Report on Corporate Governance and Ownership Structure" as provided for in article 123 bis, paragraph 4, of Legislative Decree no. 58/1998 (the responsibility of which is assigned to the Bank's Directors) – are compliant with the financial statements and prepared pursuant to the applicable legislative provisions; (ii) has declared, as regards the presence of any significant errors in the Reports on operations, based on the knowledge and understanding of the company and of its context acquired during the auditing process, to have nothing to report. For details on the key aspects of the auditing, please see the Independent Reports issued by PwC, published along with the separate and consolidated financial statements;

PwC has also issued, on 15 March 2018, pursuant to article 11 of the EU Regulation no. 537/2014, a Report for the Internal Control and Accounting Audit Committee (so-called Additional Report), which did not identify any significant deficiencies in the internal control system concerning the financial reporting process that were considered worthy of being brought to the attention of the Board itself. However, some deficiencies and/or areas needing improvement were pointed out to the Board of Statutory Auditors regarding the internal control system applied to the financial reporting process, although they were assessed by the auditor as "non-significant".

These issues have been subject to discussion and consultation with the Board of Statutory Auditors which will keep them into consideration in formulating the remarks to be provided to the Board of Directors – in compliance with the provisions of article 19, paragraph 1, letter a of Legislative Decree no. 39/2010 – along with the Additional Report as regards in-depth analyses and the adoption of the measures falling under the area of competence of the Board of Directors.

On 12 March 2018, the Auditing Firm has submitted its annual confirmation of independence pursuant to article 6 of the EU Regulation no. 537/2014, based on which no situations were identified such as to compromise its independence.

The Independent Auditing Firm has also issued a certification, pursuant to article 3, paragraph 10, of Legislative Decree no. 254/2016, as well as a declaration, along with the Report on the consolidated financial statements, pursuant to article 4 of the Consob Regulations transposing the afore-mentioned Decree;

5. the Board of Statutory Auditors has not received any claims pursuant to article 2408, Italian Civil Code;
6. the Board of Statutory Auditors has received, through its Chairman, two communications that were potentially qualifiable as claims reporting some alleged misconduct displayed, according to the claimants, by some employees while performing their activities. These claims were thoroughly reviewed by the Board of Statutory Auditors with the involvement of the competent corporate structures, and the conclusions were communicated to the claimants (as well as, if required, to the competent Supervisory Authority);
7. in 2017, PricewaterhouseCoopers S.p.A., in compliance with the applicable laws, was paid the fees due for the legally-required audit in the amount of Euro 1,909,805 by the Parent Company Banco BPM S.p.A, and Euro 2,904,235 by the other companies of the Group.

To this end, in order to provide complete information, the following should be noted: (i) the decision made by the Board of Directors of the Parent Company regarding the selection of

PwC as the main independent auditing firm for Banco BPM Group; (ii) the grounded proposal made to the Shareholders' Meeting, formulated by the undersigned Board of Statutory Auditors (made available pursuant to the law prior to the Shareholders' Meeting, convened for 7 April 2018) about the payment of the supplemental fees to the Auditing Firm for the period from 2017 to 2025, deemed as necessary in order to carry out the additional activities related to the entry into effect of the new accounting standards IFRS 9 and the new provisions applicable to legally-required auditing.

The Auditing Firm was also conferred additional responsibilities for certification services by the Parent Company, for Euro 404, 695, as well as by the other companies of the Group for Euro 11,000.

The details of these fees are included in the annex to the Separate and Consolidated financial statements of Banco BPM, as required by article 149-duodecies of the Consob Issuer Regulations;

8. the companies that are part of the network to which PwC belongs were paid the following fees for the year 2017:
 - other services provided to the Parent Company for Euro 24,000;
 - other services provided to the subsidiaries for Euro 1,228,200.

The details of these fees are included in the annex to the Separate and Consolidated financial statements of Banco BPM, as required by article 149-duodecies of the Consob Issuer Regulations.

During the period, no critical issues were identified in terms of the Auditing Firm's independence, also pursuant to the provisions of Legislative Decree no. 39/2010 and EU Regulation no. 537/2014. To this regard, the Board of Statutory Auditors, during the period and in compliance with the referenced provisions, has approved beforehand – after assessing the potential risks for independence and the protective measures adopted – the assignments, other than the legally-required auditing, conferred to PwC and to the companies that are part of its network.

9. the Board of Statutory Auditors has issued the opinions required by the law and the Articles of Association. To this end, the Board of Statutory Auditors has issued, inter alia, its opinion (i) on the Governance Plan of Banco BPM, (ii) on the fees to be paid to the Directors vested with specific assignments or powers pursuant to article 2389 of the Italian Civil Code, (iii) on the appointment of the Executive in charge of financial reporting and the Managers of the Corporate Control Functions; it has also formulated observations, assessments and opinions as required by the Supervisory laws as well as all those requested from time to time by the ECB and

the national Supervisory Authorities through appropriate communications (related primarily to the different profiles of risk management and risk control to which the Bank has shown to be exposed in the performance of its activities);

10. in 2017, the Board of Statutory Auditors met 56 times, participated in the only Ordinary Shareholders' Meeting, in 22 meetings of the Board of Directors and in 16 meetings of the Executive Committee and, through its own representative (or, in exceptional cases, in a joint session) in the meetings of the Internal Control and Risks Committee (24 sessions out of 25), in the meetings of the Remuneration Committee (12 sessions out of 13, including meetings where the issue of the fees due to the Managers of the Corporate Control Functions was discussed), in the meetings of the Nominations Committee (5 sessions out of 11) as well as in the meetings of the Related Parties Committee (6 sessions out of 7).

In compliance with the supervisory provisions of the afore-referenced Circular issued by the Bank of Italy no. 285/2013, the Board of Statutory Auditors has carried out, in early 2018, its first self-evaluation regarding the 2017 period, and drew up the appropriate conclusive document. At the end of the process, the Board has deemed appropriate to issue a comprehensive judgement of "adequacy" of its composition and operating procedures;

11. the Board of Statutory Auditors has not found it necessary to remark about compliance with the principles of a correct administration;
12. the Board of Statutory Auditors has acquired knowledge and has overseen the organisational structure, particularly as regards its alignment with the applicable legislative provisions and related changes to and consolidation of the internal regulatory structure.

This activity has also involved a progressive updating of the organisational structure (of which a fundamental step was the publication of the Corporate Function Chart of the central structures of Banco BPM S.p.A.) and of the internal regulatory framework after the effects produced by the merger and integration of the previous Banking Groups. The alignment has involved also the streamlining of the outsourcing model within the Group along with the adoption of appropriate internal regulations.

To this end, based on a direct consultation with the Organisational Function and the individual Corporate Functions during the meetings and based on the findings, emerging at the conclusion of the controls carried out by the Control Functions, the Board of Statutory Auditors has confirmed the substantial adequacy of the organisational and regulatory structure of the Bank, even if pointing out the need for appropriate organisational and procedural measures to

be adopted, including those necessary for the integration and refining of the internal regulations, so as to ensure an even more consistent framework.

To this purpose, as already mentioned in this Report, the particular attention paid to and the monitoring carried out by the Board of Statutory Auditors on operations and projects completed and/or started during the period should be noted in consideration of their relevance in terms of the organisational, control and risk management structures;

13. given the recent establishment of the Bank, in 2017 Banco BPM has implemented organizational plans relating to the Internal Control System aimed at refining the measures to be adopted for a full integration subsequent to the merger. In this regard, it should be noted, *inter alia*, that with a view to strengthening the control system and in line with the intergroup outsourcing model adopted, the Parent Company has proceeded to centralise – if not yet done so at the time of the establishment of Banco BPM – the control activities carried out by the Audit, Compliance, Anti-Money Laundering and Risk Functions, by appointing the contact persons identified by the companies that have outsourced the service. This is also in order to ensure a greater uniformity of the operating management thereof.

Banco BPM has adopted the Integrated Internal Control System Regulations and applied them to the principles and criteria concerning the system itself and the roles and responsibilities attributed to the Corporate Bodies and Control Functions.

In carrying out its duties, the Board of Statutory Auditors has maintained a continuous dialogue with the second and third level Control Functions, thus promoting and ensuring their coordination with the planning of activities and especially, with the process for an increasingly improved integration and efficacy in the presentation to the Corporate Bodies of the findings emerging at the conclusion of the performed controls. The plans, aimed at the convergence of the evaluation metrics as well as of the instruments supporting the Control Functions, will also continue in 2018.

As regards the line controls (or first level controls), the Board of Statutory Auditors has monitored their adequacy both by reviewing the verifications carried out by the Corporate Second and Third Level Control Functions, and directly, with particular reference to specific areas (control of credit risk).

In 2017, the architecture of the controls has, in general, shown a gradual increase in the efficacy and efficiency rates of the first and second level controls which, *inter alia*:

- as regards the Compliance Function, this was specifically represented by: (i) the structuring of a refined methodological system and the precision of the formulated assessments; (ii) the

guaranteed controls applied to the review of the organisational processes and internal regulations aligned with any new legislative provisions and with the reorganisation carried out due to the merger (ex ante verification of compliance); (iii) the guaranteed monitoring carried out on the regulations regarding transparency, provision of investment services, market abuse and conflicts of interest;

- as regards the Anti-money Laundering Function, it was confirmed by the activities carried out (i) for the resolution of anomalies identified through the controls system, (ii) for the adoption for the Group of a unique anti-money laundering operational model and (iii) for outlining and implementing measures to align with the provisions of the Anti-Money Laundering Directive IV;
- as regards the Risk Function, the following was successfully carried out: (i) refinement of the risk measurement models (used for both management and regulatory purposes) through the implementation of the activities necessary to meet the requests for its extension to the contexts of ex BPM and for the updating of the advanced models for the measurement of the credit and market risks already validated for the ex Banco Popolare; (ii) definition of the framework in support of the activities related to the risk appetite framework (RAF), including the process for the management of the most significant transactions as well as the guaranteed constant monitoring of the observance of the thresholds defined in the RAF; (iii) strengthening of the second level control activities regarding credit and data quality processes;
- as regards the Internal Validation Function, it was represented by specific second level control activities carried out, within the scope of the already mentioned validation processes, on Banco BPM Group regarding the internal models, also upon request by the Supervisory Authority.

As for the Audit Function, in consideration of the organisational changes made with the merger, the activities carried out have guaranteed, within a risk-based logic, in-depth analyses of the core processes which are exposed to greater risk. A particular effort was made by the structure in performing activities (also in terms of certification of the measures adopted and performance of specific assessments) related to the implementation of the already mentioned Credit Action Plan, of the IFRS 9 project and the processes for the validation and expansion of the internal models for (credit and market) risk measurement. Specific actions were also taken with regard to the process for the definition of the Risk Appetite Framework, concerning which – within its area of competence – the Board of Statutory Auditors was able to confirm the absence of any

critical issues. Equally important was the work done by the Audit Function in support of the requests formulated by the European Supervisory Authorities in exercising its inspection activities.

In general, across all the Control Functions, the Board of Statutory Auditors has found a number of unplanned and not plannable activities, in early 2017, that were made necessary upon a request by the Supervisory Authorities, the Corporate Bodies and/or following assessments made by the Functions themselves concerning the exposure to new risks or to an increase in the already identified risks.

Within the scope of its broader supervisory activities on the Control System, the Board of Statutory Auditors of Banco BPM has reviewed the "Report for the assessment of the Group's Internal Control System", drawn up by the Audit Function for the year 2017, in order to ensure the completeness, adequacy, functionality and the reliability of the different components of this system.

In compliance with the Supervisory Provisions set forth in the Circular 285/2013, the Audit Function, in drawing up the afore-mentioned Report, has kept into consideration its assessments as well as those expressed by the other Corporate Control Functions. The Report provides a comprehensive assessment of the substantial adequacy of the Group's Internal Control System since the effects deriving from completing the integration process in 2017 and the identification of areas needing improvements did not compromise the overall efficacy of the control system.

In acknowledging the overall judgement of substantial adequacy regarding the above-described individual sectors, the Board of Statutory Auditors has endorsed the actions taken in those areas identified as needing improvement at the conclusion of the assessments carried out during the year, to which appropriate measures were applied while their implementation is being monitored by the Corporate Control Functions.

To this end, the Board of Statutory Auditors, inter alia, has paid specific attention to and promoted specific actions, most of them already carried out: (i) in the Anti-Money Laundering area, aimed at resolving anomalies identified by the controls carried out and implementing the new anti-money laundering operating model, unique at the Group level (together with the innovations introduced at the European level – Anti-Money Laundering Directive IV); (ii) in the provision of Investment Services area, supporting the decision to extend to the Group the adoption of the consulting model by portfolio (instead of the consulting by "product") already in use at the BPM S.p.A. subsidiary, with a consequent gradual resolution of some operational issues that were identified during the year; (iii) in the area of governance of some processes/plans as regards risk management, about which some streamlining actions were requested, inter alia, in the management of the information flows among and towards the

control structures and between the latter and the Corporate Bodies; *(iv)* in the area of governance of massive manoeuvres, about which the Board of Statutory Auditors has emphasised the necessity of rigorous regulations in compliance with the guidelines provided by the Supervisory Authority; *(v)* in the area of credit management and monitoring (as specified at a previous point of this Report).

In addition to the above observations, the Board of Statutory Auditors has consistently monitored the findings emerging at the conclusion of the activities carried out by the Control Functions and/or identified by the Supervisory Authority while carrying out its inspections, thus acknowledging the assumption of responsibilities by the competent structures, as well as the tracking and monitoring by the Control Functions.

The Board of Statutory Auditors has also shared with the Control Functions some prospective profiles which will require their attention in 2018 especially as regards *(i)* the verification of a correct and complete application of the MiFID 2 regulations together with the extension to the entire distribution network of the consultation model by portfolio; *(ii)* the implementation of the new Anti-Money Laundering operational model (including alignment with the new regulations on the matter); *(iii)* the review of the real estate department (in particular monitoring and management of tangible assets); *(iv)* the actual application of strengthened controls, implemented on credit processes, in order to verify its completion and efficacy; *(iv)* the capacity of the IT structures of the Group to support, in addition to the evolving processes carried out by the Business Functions, the development of the monitoring systems as required by the Control Functions.

With a specific reference to the verifications carried out on the sales network, the Board of Statutory Auditors has found, during the year, some behavioural anomalies, with regards to which it has promoted – through the Corporate Control Functions and the sales structures – a risk culture at all levels of corporate operations, in order to ensure behaviours in line with the internal and external regulations and with the corporate strategies. This action has fostered an increasingly substantial reduction of these issues. An additional strengthening of the control system is expected with the adoption of the new sales network model.

Finally, within the scope of the Control System, the functional and informational connection between the Board of Statutory Auditors and the Supervisory Board of Banco BPM, established pursuant to legislative Decree no. 231/2001, is here highlighted and ensured, in addition to the periodic exchange of the appropriate information flows, also by the fact that one of the Auditors is also a member of the Supervisory Board;

14. as regards the adequacy of the administrative and accounting system, during the periodic meetings with the Board of Statutory Auditors, aimed at an exchange of information and the supervision of which the Control Body is responsible, the Executive in charge of financial reporting did not identify any significant deficiency in the operational and control processes which, due to their impact potential, could affect the judgement regarding the adequacy and actual application of the administrative-accounting procedures for the correct representation of operational activities, in compliance with the applicable international accounting standards.

In his/her Report, for the purpose of issuing the certification set forth in article 154-bis of TUF, the Executive in charge of financial reporting has expressed a judgement on the substantial adequacy and actual application of the administrative and accounting procedures governing the preparation of the financial statements, formulated in light of the residual risk assessment present in the analysed macro areas and in the identified mitigation actions. In expressing his/her judgement, the Executive in charge of financial reporting has also taken into account, inter alia, the measures adopted in light of the findings identified thereby in the previous year (both regarding ex Banco Popolare and ex BPM), thus acknowledging the presence of other areas needing improvement (mainly of an organisational nature or regarding the adoption/update of the internal regulations) which do not however impact the overall expressed assessment.

The Auditing Firm has also identified (and reported in its Additional Report provided to the Board of Statutory Auditors) some areas needing improvements which were not assessed as significant deficiencies of the internal control system as regards the financial information process. These areas shall be brought to the attention of the Management of the Bank by the Auditing Firm and presented to the Board of Directors by the Board of Statutory Auditors for the necessary resolutions.

The Board of Statutory Auditors of Banco BPM has no issues to report regarding the adequacy of the administrative-accounting system and its reliability in correctly representing the operational performance. With reference to the accounting reports contained in the separate and consolidated Financial statements at 31 December 2017 of Banco BPM, it must be noted that the certification with no findings was issued by the Managing Director and the Executive in charge of financial reporting pursuant to article 81 ter of the applicable Consob Regulation no. 11971 of 14 May 1999;

15. the Board of Statutory Auditors has found no issues regarding the adequacy of the internal regulations which govern the guidelines to be provided to the subsidiaries in order to obtain the

information flows that are necessary to ensure the timely fulfilment of the reporting obligations set forth by the law.

The Board of Statutory Auditors has also acknowledged that the internal regulations are being reviewed in order to take into consideration the Guidelines issued by Consob in terms of inside information.

From the relationships established with the corresponding control bodies of the subsidiaries, as well as from the findings submitted by the Control Functions of the Parent Company, in particular by the Compliance Function, no critical issues worthy of being reported have emerged.

16. as already stated, the Board of Statutory Auditors has met periodically with the Managers of the Auditing Firm responsible for the legally-required auditing of the company's records in compliance with the provisions of article 150, paragraph 3, of Legislative Decree no. 58/1998 for the purpose of exchanging information. The Auditing Firm did not find any acts or facts to be considered as censurable or irregular, which might have required the formulation of any specific remarks pursuant to article 155, paragraph 2 of Legislative Decree no. 58/1998, as well as pursuant to article 19, paragraph 3, of Legislative Decree no. 39/2010;
17. as regards the corporate governance, it should be noted that Banco BPM has adopted the current Code of Conduct for listed companies promoted by Borsa Italiana S.p.A., as communicated to the market through the publication on the corporate website of the Report on Corporate Governance and Ownership Structure, drawn up pursuant to article 123 bis of Legislative Decree no. 58/1998, as amended.

The afore-mentioned report describes the methods and the behaviours with which the principles and criteria stated in the Code of Conduct have been actually applied, as well as the non- or partial adoption or application of any of the recommendations from this Code of Conduct, thus providing, in these cases, all the related reasons;

18. following the supervisory activities carried out, as described above, no omissions, censurable facts or irregularities worth mentioning in this report were identified;
19. in conclusion, with regard to the supervisory activities carried out, the Board of Statutory Auditors of Banco BPM does not believe that there are preconditions that make it necessary to formulate recommendations to the Shareholders' Meeting pursuant to article 153, paragraph 2, of Legislative Decree 58/1998 regarding the approval of the separate financial statements of Banco BPM at 31 December 2017 and the subject matters falling under its competence.



Milan, 15 March 2018

The Board of Statutory Auditors of Banco BPM S.p.A.

signed Prof. Marcello Priori, Chairman

signed Mr Gabriele Camillo Erba

signed Ms Maria Luisa Mosconi

signed Ms Claudia Rossi

signed Mr Alfonso Sonato