



**REPORT OF THE BOARD OF DIRECTORS OF BANCO BPM SPA ON ITEM 2 OF THE AGENDA FOR
THE ORDINARY SHAREHOLDERS' MEETING**

(Prepared pursuant to Article 125-ter of
Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments)

Ordinary Shareholders' Meeting of 06 April 2019

Report of the Board of Directors of Banco BPM S.p.A. on item 2 of the Shareholders' Meeting agenda pursuant to article 125-ter of Italian Legislative Decree no. 58/1998 as amended ("CFL").

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

Dear Shareholders,

We remind you that on 15 October 2016 the Extraordinary Shareholders' Meetings of Banco Popolare and Banca Popolare di Milano, in addition to approving the Proposed Merger between Banco Popolare - Società Cooperativa and Banca Popolare di Milano S.c. a r.l., which gave life to Banco BPM Società per Azioni, also resolved to grant, for the duration set out by law, the assignment of auditing the separate financial statements and consolidated financial statements of the Banco BPM Group, the limited audit of the condensed consolidated interim financial statements and the verification of the regular keeping of the accounting records and the correct recording of operating events in the accounting records, to the Independent Auditors PricewaterhouseCoopers S.p.A., approving the related fee;

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- subsequently, the Shareholders' Meeting of Banco BPM S.p.A., convened on 07 April 2018, approved – on the proposal with justification of the Board of Statutory Auditors – supplements to the timescales and fees relative to the aforementioned role, defined following introduction of legislative changes (reform of independent auditing with entry into force of Italian Legislative Decree no. 135/2016, amending the provisions contained in Italian Legislative Decree no. 39/2010) and application of the new IFRS 9 accounting standard.

The assignment granted to PwC in fact included, *inter alia*, the possibility of revising the fee to take account of any circumstances that were unforeseeable at that time, which could change the timescales forecast in relation to carrying out the activities included in the proposal.

Regarding the above, the Independent Auditors PricewaterhouseCoopers S.p.A., with registered office in Via Monte Rosa 91, Milan, Italy, enrolled in the Register of Independent Statutory Auditors held by the Ministry for the Economy and Finance, sent Banco BPM S.p.A. a specific communication containing a proposed supplement to the timescales estimated, and to the relative fee pertaining to the independent auditing of the accounts as compared to the services included in the applicable agreement. That proposed supplement of the fee was thus submitted to the attention of the Board of Statutory Auditors.



Considering the above, the Shareholders' Meeting of the Bank is called upon to decide on the proposal submitted - pursuant to article 13 of Italian Legislative Decree no. 39/2010 as amended - by the Board of Statutory Auditors, pertaining to the request to supplement the fee of said Independent Auditors.

Milan, Italy, 28 February 2019

The Board of Directors



**JUSTIFIED PROPOSAL
OF THE BOARD OF STATUTORY AUDITORS OF BANCO BPM S.P.A. ON ITEM 2 ON THE AGENDA
OF THE SHAREHOLDERS' MEETING**

(Prepared pursuant to Article 13, paragraph 1 of Italian Legislative Decree no. 39 of 27
January 2010 and subsequent amendments)

Ordinary Shareholders' Meeting of 06 April 2019

Justified Proposal of the Board of Statutory Auditors of Banco BPM S.p.A. on item 2 of the Shareholders' Meeting agenda pursuant to article 13, paragraph 1 of Italian Legislative Decree no. 39/2010 (as amended).

Supplement of the fee due to Independent Auditors PricewaterhouseCoopers S.p.A. engaged to audit the accounts for 2017-2025.

Dear Shareholders,

You are informed that, following completion of the acquisition by Banco BPM S.p.A. (hereinafter "Banco BPM") of the subsidiaries BPM S.p.A. (with legal validity from 26 November 2018 and accounting/tax validity from 01 January 2018), Società Gestione Servizi BP S.C.p.a. and BP Property Management S.C.r.l. (these latter with legal validity from 11 February 2019 and accounting/tax validity from 01 January 2019), the independent auditors PricewaterhouseCoopers S.p.A. (hereinafter "PwC"), assigned with independent auditing of the accounts for the period 2017-2025, on 12 December 2018, presented a request to extend the timescales envisaged and the related fee pertaining to auditing activities in addition to the auditing services included:

- in the original proposal prepared on 19 May 2016 and approved by the extraordinary Shareholders' Meeting of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l, held on 15 October 2016;
- in the approved additions to the original assignment, following introduction of legislative changes (reform of auditing with implementation of Italian Legislative Decree no. 135/2016, amending the provisions of Italian Legislative Decree no. 39/2010) and application of the new IFRS 9 accounting standard, by the Shareholders' Meeting of Banco BPM on 07 April 2018.

Taking account of that set out in the contract that governs the current auditing assignment – specifically point 4.3 of Attachment A "General Conditions of Contract", where it is established, *inter alia*, that "*If exceptional or unforeseeable circumstances should arise, including, merely by way of example, significant changes in the structure and business of the Company and/or the group the Company belongs to, going-concern problems, specific situations that require technical investigations, establishment of capital allocated to a specific deal, regulatory changes, changes in accounting and/or auditing standards, or other circumstances that are currently not foreseeable, which could make it necessary to increase the amount of time committed in relation to that estimated in this proposal, PwC shall inform the Company in order to reach an agreement on the definition of the activities not set out in the Engagement Letter and in the quantification of the related fees*" – the Independent Auditors communicated that, following the increased duties due to the aforementioned integration of subsidiaries into the Parent Company, additional activities are now necessary within the scope of the assignment of auditing the accounts for the years 2019 to 2025 of the separate and consolidated financial statements of Banco BPM.

In this regard, it is noted that PwC was already the company assigned to the independent auditing of the accounts for the aforementioned companies that were acquired by Banco BPM.

The independent auditors, in the supplement request, has highlighted that the situation described carries higher costs than previously estimated for the duties assigned to the independent auditors, in terms of a greater number of hours of work and corresponding additional fees (amounts rounded to the nearest €), as detailed below:

Additional activities				
Financial Years 2019 and 2020	hours	annual fees (€)	reduction (€)	net annual fees (€)
of which:				
Independent auditing of the financial statements	3,427	383,565	147,925	235,640
Verification of regular keeping of the accounting records	799	85,425	34,054	51,371
Limited auditing of the monthly statements	899	100,475	38,771	61,704
Verifications relating to the calculation of the contribution to the National Guarantee Fund	35	3,755	1,913	1,842
Total	5,160	573,220	222,663	350,557
Optional activities to be carried out only on specific request				
Limited auditing of the quarterly statements	825	92,265	34,046	58,219
Total	5,985	665,485	256,709	408,776

Additional activities				
2021 and following up to 2025	hours	annual fees (€)	reduction (€)	net annual fees (€)
of which:				
Independent auditing of the financial statements	3,427	383,565	147,899	235,666
Verification of regular keeping of the accounting records	799	85,425	34,094	51,331
Limited auditing of the monthly statements	899	100,475	38,766	61,709
Verifications relating to the calculation of the contribution to the National Guarantee Fund	35	3,755	1,913	1,842
Total	5,160	573,220	222,672	350,548
Optional activities to be carried out only on specific request				
Limited auditing of the quarterly statements	825	92,265	34,052	58,213

Total	5,985	665,485	256,724	408,761
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In relation to that illustrated above, the total hours and fees (amounts rounded up to the next euro) will therefore be as follows:

Financial Years 2019 and 2020	Proposal in progress		Proposed supplement		Updated total	
	hours	annual fees (€)*	hours	annual fees (€)	hours	annual fees (€)
Auditing the separate financial statements of Banco BPM S.p.A. and the compliance of the report on operations with the rules of law and declaration of any material errors.	11,073	814,660	3,427	235,640	14,500	1,050,300
Auditing the consolidated financial statements of the Banco BPM Group	766	57,685	-	-	766	57,685
Verification of regular keeping of the accounting records	1,846	120,529	799	51,371	2,645	171,900
Limited audit of the condensed consolidated interim financial statements and the half-yearly financial statements included in the interim report of the Banco BPM Group	2,906	202,096	899	61,704	3,805	263,800
Verifications relating to the signing of tax returns	318	20,745	-	-	318	20,745
Verifications relating to the calculation of the contribution to the National Guarantee Fund	127	8,293	35	1,842	162	10,135
Verification of the translation into English of the separate and consolidated financial statements and the consolidated condensed interim financial statements	499	32,570	-	-	499	32,570
Total	17,535	1,256,578	5,160	350,557	22,695	1,607,135
Optional activities to be carried out only on specific request						
Limited audit of the quarterly financial statements, drawn up to determine the quarterly consolidated income (loss) for the period to be included in the regulatory capital	2,755	192,381	825	58,219	3,580	250,600
Issue of the certification to the European Central Bank (only in the event that any income for the year will be included in the reporting of CET1 as at 31 December)	870	56,795	-	-	870	56,795
Total	21,160	1,505,754	5,985	408,776	27,145	1,914,530

* including ISTAT adjustment at 30 June 2018

Financial years between 2021 and 2025	Proposal in progress		Proposed supplement		Updated total	
	hours	annual fees (€)*	hours	annual fees (€)	hours	annual fees (€)
Auditing the separate financial statements of Banco BPM S.p.A. and the compliance of the report on operations with the rules of law and declaration of any material errors.	9,760	728,944	3,427	235,666	13,187	964,610
Auditing the consolidated financial statements of the Banco BPM Group	690	52,745	-	-	690	52,745
Verification of regular keeping of the accounting records	1,846	120,529	799	51,331	2,645	171,860
Limited audit of the condensed consolidated interim financial statements and the half-yearly financial statements included in the interim report of the Banco BPM Group	2,795	194,861	899	61,709	3,694	256,570
Verifications relating to the signing of tax returns	318	20,745	-	-	318	20,745
Verifications relating to the calculation of the contribution to the National Guarantee Fund	127	8,293	35	1,842	162	10,135
Verification of the translation into English of the separate and consolidated financial statements and the consolidated condensed interim financial statements	499	32,570	-	-	499	32,570
Total	16,035	1,158,687	5,160	350,548	21,195	1,509,235
Optional activities to be carried out only on specific request						
Limited audit of the quarterly financial statements, drawn up to determine the quarterly consolidated income (loss) for the period to be included in the regulatory capital	2,650	185,387	825	58,213	3,475	243,600
Issue of the certification to the European Central Bank (only in the event that any income for the year will be included in the reporting of CET1 as at 31 December)	870	56,795	-	-	870	56,795
Total	19,555	1,400,869	5,985	408,761	25,540	1,809,630

* including ISTAT adjustment at 30 June 2018

The request for supplement formulated by the Independent Auditors:

- confirms, in any event, that all the other clauses envisaged in the original proposal shall apply, specifying that the fees indicated do not include VAT or the supervisory contribution in favour of

Consob (if and to the extent applicable) and were calculated applying the rates applicable from 01 July 2018 to 30 June 2019, with forecasting of annual adjustment each 01 July, starting from 01 July 2019, on the basis of the change in the ISTAT index (index of consumer prices for families or blue-collar workers and white-collar workers) in relation to the previous year (basis June 2018);

- is accompanied by the details of the mix of professionals attributable to the estimated additional fees (hours and compensation).

In compliance with that set out in article 13, paragraph 1 of Italian Legislative Decree no. 39/2010, which states that *"the shareholders' meeting, on justified proposal of the control body, shall grant the assignment of auditing and determine the fees due to the auditor or independent auditors for the entire duration of the assignment and any criteria for adjusting that fee during the assignment"*, the Board of Statutory Auditors has examined said request of the Independent Auditors for the purpose of formulating the proposal to submit to the Shareholders' Meeting.

In that regard, the Board of Statutory Auditors has requested certain additional information (provided by PwC) and performed the examination under its responsibility of the additional detailed elements acquired (specifically of the hourly fees), also through in-depth analyses conducted individually by each member, with the cooperation of the structures of the Bank that conducted the negotiations, verifying and/or analysing, *inter alia*, the conditions and assumptions forming the basis of the supplement to costs and, specifically:

- the technical estimate of the additional hours post-acquisition (increased duties deriving from IFRS 9, IFRS 15, IFRS 16, etc.), applied in a linear manner to the 2019/2025 period;
- definition of the value of the additional hours, performed applying the same financial conditions of the original auditing proposals, with indication of estimated cost synergies;
- the specifications of professionals engaged to carry out the supplementary activities and the related hourly cost, verifying the lack of change in the overall mix for each professional role and reduction (also where limited) in the average overall rate.

The Board of Auditors has also observed that for the financial years in question, relative to the sum of times and costs for independent auditing of the accounts of companies acquired by the Parent Company indicated above, the estimate of the hours and relative additional fees for performance of independent auditing of the individual and consolidated financial statements of Banco BPM (Parent Company that made acquisitions) demonstrates a significant overall reduction, both in terms of working hours (over 37%) and fees (around 40%), which is even more marked for the optional activities (over 61% and around 67%, respectively).

On conclusion of the above analysis and the verifications directly carried out, also with the Independent Auditors, the Board of Statutory Auditors decided to submit to the Shareholders' Meeting the proposal to supplement the economic conditions of the auditing assignment granted to PwC, having assessed the formulated requests as being suitable on the whole in relation to the

additional auditing activities as compared to that originally estimated and already revised by resolution of the previously referenced Shareholders' Meeting of 07 April 2018.

That being said, the Board of Statutory Auditors submits to the approval of the Shareholders' Meeting its proposal to update, in line with the terms of the request for a supplement formulated by the Independent Auditors, the economic conditions currently set out for the auditing assignment granted to PricewaterhouseCoopers S.p.A. according to the terms indicated in the following proposed resolution:

"The Ordinary Shareholders' Meeting of Banco BPM S.p.A.,

- acknowledging that, in relation to the operations for acquisition by Banco BPM S.p.A. of the subsidiaries BPM S.p.A., Società Gestione Servizi BP S.C.p.a. and BP Property Management S.C.r.l., the independent auditors, PricewaterhouseCoopers S.p.A., assigned to independent auditing of the accounts for financial years 2017 to 2025, has presented, on 12 December 2018, as subsequently formalised on 27 February 2019, a request for supplementation of the times and relative fees for the additional auditing activities in relation to the auditing activities included in the original proposal;*
- having examined the justified proposal of the Board of Statutory Auditors containing the terms of the requests from the Independent Auditors, formulated on conclusion of the analysis and the verifications under their responsibility carried out also in collaboration with the structures of Banco BPM S.p.A and the Independent Auditors, having assessed the formulated requests as being suitable on the whole in relation to the additional auditing activities as compared to that originally estimated and already revised by resolution of the Shareholders' Meeting of 07 April 2018;*

resolves

- 1. to update the economic conditions set out in relation to the auditing assignment previously granted to PricewaterhouseCoopers S.p.A. according to the terms indicated in the request for supplement formulated by said Independent Auditors. The following fee (amounts rounded up to the next euro) shall be classified as specified below:*
 - for the years ended as at 31 December 2019 and 31 December 2020, € 1,607,135 per year (corresponding to 22,695 labour hours of work), of which € 1,050,300 (equal to 14,500 hours of work) for auditing the separate financial statements of Banco BPM S.p.A. and compliance of the report on operations with the rules of law and declaration of any material errors, € 57,685 (equal to 766 hours of work) for auditing the consolidated financial statements of the Banco BPM Group, € 171,900 (equal to 2,645 hours of work) for the verification of regular keeping of the accounting records, € 263,800 (equal to 3,805 hours of work) for the limited audit of the condensed consolidated interim financial statements and the half-yearly financial statements included in the interim report of the Banco BPM Group, € 20,745 (equal to 318 hours of work) for verifications relating to the signing of tax returns, € 10,135 (equal to 162*

hours of work) for verifications relating to the calculation of the contribution to the National Guarantee Fund, € 32,570 (equal to 499 hours of work) for verification of the translation into English of the separate and consolidated financial statements and the consolidated condensed interim financial statements;

specifying that the following charges for optional activities to be carried out only on specific request could be added to that fee: € 250,600 (equal to 3,580 hours of work) for the limited audit of the quarterly financial statements, drawn up to determine the quarterly consolidated income (loss) for the period to be included in the regulatory capital and € 56,795 (equal to 870 hours of work) for the issue of the certification to the European Central Bank (only in the event that any income for the year will be included in the reporting of CET1 as at 31 December);

- for the years ended as at 31 December 2021, 31 December 2022, 31 December 2023, 31 December 2024 and 31 December 2025, 1,509,235 per year (corresponding to 21,195 labour hours of work), of which € 964,610 (equal to 13,187 hours of work) for auditing the separate financial statements of Banco BPM S.p.A. and compliance of the report on operations with the rules of law and declaration of any material errors, € 52,745 (equal to 690 hours of work) for auditing the consolidated financial statements of the Banco BPM Group, € 171,860 (equal to 2,645 hours of work) for the verification of regular keeping of the accounting records, € 256,570 (equal to 3,694 hours of work) for the limited audit of the condensed consolidated interim financial statements and the half-yearly financial statements included in the interim report of the Banco BPM Group, € 20,745 (equal to 318 hours of work) for verifications relating to the signing of tax returns, € 10,135 (equal to 162 hours of work) for verifications relating to the calculation of the contribution to the National Guarantee Fund, € 32,570 (equal to 499 hours of work) for verification of the translation into English of the separate and consolidated financial statements and the consolidated condensed interim financial statements;

specifying that the following charges for optional activities to be carried out only on specific request could be added to that fee: € 243,600 (equal to 3,475 hours of work) for the limited audit of the quarterly financial statements, drawn up to determine the quarterly consolidated income (loss) for the period to be included in the regulatory capital and € 56,795 (equal to 870 hours of work) for the issue of the certification to the European Central Bank (only in the event that any income for the year will be included in the reporting of CET1 as at 31 December);

in addition to VAT (where applicable) and the charging of expenses and the supervisory contribution required by Consob according to the terms and conditions agreed in the assignment in force, with the rest of the conditions of the latter remaining unchanged;

2. to delegate to the Board of Directors, and through it the Chairman and the CEO, separately, any and all broader powers, in compliance with the law, to fully execute the above resolution, with any and all powers requisite and appropriate for this purpose, none excluded and



excepted, including that of making non-substantial modifications to the resolutions, deemed necessary and/or opportune to fulfil all the obligations and formalities related and/or resulting therefrom, pursuant to the applicable regulations or required by the Supervisory Authorities."

Milan, Italy, 28 February 2019

The Board of Statutory Auditors