



**REPORT OF THE BOARD OF DIRECTORS OF BANCO BPM SPA
ON ITEM 3 OF THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING**

(Prepared pursuant to Article 123-ter of Italian Legislative Decree no. 58 of 24th February 1998 and subsequent amendments)

Ordinary Shareholders' Meeting of 06 April 2019

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 of the Board of Directors of Banco BPM S.p.A. on item 3 of the Shareholders' Meeting agenda pursuant to Article 123-ter of Italian Legislative Decree no. 58 of 24th February 1998 as amended (Consolidated Financial Law – CFL).

Remuneration policies:

- a) decisions on remuneration and incentive policies; approval of the report in compliance with the current legal provisions. Relevant and consequent resolutions;**
- b) approval of the criteria for calculating the amounts to be granted in the event of early termination of employment or early cessation of service, including the limits set on such amounts. Relevant and consequent resolutions.**

Dear Shareholders,

We have called this meeting to report to you on the application of remuneration policies for the year which ended on 31st December 2018 by the Banco BPM Group and in particular to submit for your approval the Group remuneration policies, drawn up by the Board of Directors and relative accompanying documentation.

This illustrative Report refers to letters a) and b) of point 3) of the Meeting Agenda.

Remuneration policies:

- a) decisions on remuneration and incentive policies; approval of the report in compliance with the current legal provisions. Relevant and consequent resolutions.**

Dear Shareholders,

The "2019 Banco BPM Banking Group Remuneration Report" (**Remuneration Report**), drawn up in compliance with Bank of Italy Supervisory Provisions (Bank of Italy Circular no. 285/2013 as amended, hereinafter the **Supervisory Provisions**, Article 123-ter of the CFL and CONSOB resolution no. 11971 of 14th May 1999 as amended (**Issuers' Regulation**), is hereby submitted for examination and approval by the Shareholders' Meeting.

The Remuneration Report consists of three sections.

The first section contains information on remuneration policies defined for the year 2019, in compliance with the 25th update of Supervisory Provisions issued on 23rd October 2018, valid for all staff of the Banking Group and specifically contains: (i) the process for the definition and approval of remuneration policies and company bodies involved; (ii) the main characteristics of remuneration policies in favour of management and control body members, employees and collaborators not bound by an employment contract; (iii) the policy regarding the identification of identified staff; (iv) methods used to ensure linkage of the variable component of remuneration and results, main reference parameters, underlying reasons and coherence with company objectives, strategies and risks; (v) risk correction mechanisms, deferment policies and ex post correction mechanisms (i.e. malus and claw back); (vi) criteria for determining amounts to be agreed in the event of early termination of employment contract (also subject to specific resolution during this Shareholders' Meeting).

The second section reports on the implementation of remuneration policies during 2018 and provides the information statement required pursuant to Supervisory Provisions and the Issuers' Regulation.

The third section is dedicated to the results of checks by internal control functions.

Verona, 12th March 2019

The Board of Directors

Remuneration policies:

- b) approval of the criteria for calculating the amounts to be granted in the event of early termination of employment or early termination of service, including the limits set on such amounts. Relevant and consequent resolutions.**

Dear Shareholders,

you have been called to a Shareholders' Meeting to resolve on the proposed approval of the criteria and upper limits for the determination of compensation in the event of termination of employment, as provided for by the Supervisory Provisions on remuneration. In particular, the Shareholders' Meeting is responsible for approving the criteria for determining the amount to be granted to staff in the event of early termination of employment, including the limits set for said amount in terms of the year of fixed remuneration and the maximum amount deriving from the application thereof.

Criteria for the determination of compensation to be granted in case of early termination of employment have been adjusted to provisions contained in the 25th update of Supervisory Provisions issued on 23rd October 2018.

The Parent Company has the unilateral right to agree on any amounts in the event of termination of employment. Total amounts are defined within a maximum limit of 24 monthly salaries of fixed remuneration which never exceeds 2.4 million euro (employee gross amount). Said amounts do not include indemnity for lack of notice, determined according to provisions set forth by the law.

Any amounts awarded for early termination of employment is subject to verification that conditions have been met with reference to the previous year, correlated with the Common Equity Tier1 (CET1) "phased-in" ratio of capital adequacy, and the consolidated liquidity adequacy indicator: Regulatory Liquidity Coverage Ratio (LCR):

- where the result of both CET1 ratio and LCR regulatory indicators is greater than the relative Risk Tolerance threshold, defined according to the Risk Appetite Framework, relative amounts can be awarded;
- should the result of even one of the CET1 ratio or LCR regulatory indicators be lower than the midpoint (equidistant) of relative Risk Capacity and Risk Tolerance thresholds (midpoint), it will not be possible to proceed with the award or the payment of amounts for early termination of employment;

- in remaining cases, should the result of one or both CET1 ratio and LCR regulatory indicators be lower than or equal to the relative Risk Tolerance threshold, but equal to or higher than the midpoint (except for in the case of the the CET1ratio, forecasts on the combined capital buffer requirement), The Board of Directors shall assess the need to approve the availability of economic resources for payment of amounts for early termination of employment.

The amount is determined by taking into consideration all elements considered to be relevant and in any event:

- circumstances which led to termination, taking into consideration the company's interest in avoiding the threat of legal proceedings;
- roles covered and/or positions held during employment, also in terms of risks assumed by the party;
- duration of employment and role;
- 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 fraudulent conduct or gross negligence), ascertained during the three calendar years prior to termination.

Supervisory Provisions provide for the opportunity to use a predefined formula, to be specified in the bank's remuneration policy. Application thereof determines the amount to be paid in the event of early termination of employment, within the scope of an agreement between the bank and staff, at any stage of proceedings, for the resolution of a current or potential dispute. If defined by applying said formula, the amount is not included in the calculation of the upper limit of the variable component compared to the fixed one.

In the exercise of rights established in Supervisory Provisions, the Banco BPM Group applies the identified staff formula to its own remuneration policies, which establishes the amount as follows: 8a) 24 months of fixed remuneration for top identified staff (Chief Executive Officer, General Manager, Co-General Manager and Managers in the first line of

management of the Parent Company, the Chief Executive Officer, General Manager, Co-General Manager and Deputy General Manager (if present), of Banca Aletti, Banca Akros and ProFamily); (b) 24 months of fixed retribution for identified staff not already included under point (a) here above, with more than ten years of seniority at the Group; (c) 18 months for other identified staff not already included in points (a) and (b) here above.

Any reductions applied to amounts described in points (a), (b) and (c) here above consist of the following: (1) zeroing in the event of ascertained fraudulent conduct or gross negligence in the three calendar years prior to termination. The Parent Company's Board of Directors assesses the significance of said offences in the case of persons directly appointed by it, and the Chief Executive Officer of the Parent Company assesses offences committed by all remaining persons; (2) 50% cut if on termination, the employee has operated at the Group for less than three calendar years, or 25% cut if at termination they have operated in this position for less than two calendar years (similar positions also count to this effect).

Irrespective of the method used to define the amount, payment thereof occurs according to the same methods provided for by the annual incentive system, defined in remuneration policies 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 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 remuneration policies in force on the award date, or 40% under all other circumstances;
 - in five equal annual deferred portions, for identified staff in top management, irrespective of the amount awarded, and for identified staff who report directly to the Chief Executive Officer of subsidiary Italian banks, in the event the awarded amount is equal or greater than the particularly high amount established in remuneration policies in force on the award date, or in three deferred portions in all remaining circumstances;
 - the up-front portion is accrued on termination of employment and is attributed within the time limits established by the individual agreements. The deferred portions are accrued annually, the first at least twelve months after the date of disbursement of the up-front portion, and the subsequent disbursements at an equal amount of time from accrual of the previous

portion;

- the up-front is disbursed 50% in cash and 50% in ordinary shares of Banco BPM;
- for each deferred portion, the part consisting of ordinary shares of Banco BPM amounts to 55% in the case of deferments applied over five years, and 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. Shares are vested simultaneously with respective cash portions, whereas actual transfer of ownership occurs at the end of the retention period;
- 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 year period starting from initial accrual.

Remuneration determined by a court judgment or arbitration, TFR employee severance fund payment and indemnity for early termination of employment are not included in agreements which provide for or which are issued on occasion of early termination of employment. For the latter two circumstances, this applies when the total is determined in accordance with legislative provisions and within the scope thereof (they are not variable remuneration items and are not subject to criteria and limits established by the Meeting).

With reference to the non-competition clause and notice period extension clause contained in employment contracts, the same capital adequacy and liquidity assessments as provided for other amounts for early termination of employment are adopted with the same issuing methods as those of the annual incentive system, complete with malus and claw-back mechanisms applicable in cases of fraudulent conduct or gross negligence.

Verona, 12th March 2019

The Board of Directors

Dear Shareholders,

In light of all of the above, we ask that you approve the following proposed resolution (on which separate votes will be proposed based on the topic, one for each point of resolution, each with its own mandate for execution):

"The Shareholders' Meeting,

- having examined and acknowledged the content of the Remuneration Report, as well as the results of the related verifications conducted by the internal audit and compliance functions of Banco BPM S.p.A., made available to the Shareholders according to the methods and within the terms set out in regulations in force;*
- taking into account everything described in this Illustrative Report,*

RESOLVES

- within the scope of its own responsibility and without prejudice to subsequent resolutions - to approve the contents of the Report on Pay drawn up pursuant to Article 123-ter of the CLF and Bank of Italy Supervisory Provisions in force and as a result, in particular: (i) also pursuant to article 11.3 letter (g) of the Bylaws, remuneration and incentive policies for the Board of Directors, Statutory Auditors and staff; (ii) to rule, pursuant to article 123-ter, paragraph 6 of the CLF, in favour of relative sections of the Report on Pay;*
- the approval of criteria for determining the amount to be accrued in case of early termination of employment or early termination of office, including limits set for said amount as 24 months of fixed retribution and in any case no greater than 2.4 million euro (employee gross amount), limits which do not include indemnity for lack of notice, determined according to provisions set forth in legislation*

granting a mandate to the Chairman of the Board of Directors and the Managing Director, severally and with the right to sub-delegate, for the purpose of correct and prompt execution of these resolutions and the formalities and deeds related thereto and/or resulting thereof, assigning them all the necessary powers for such purpose, including the power to make any changes or additions thereto that may be necessary and/or opportune in relation to requests or recommendations of the Supervisory Authorities or the market management company".

Verona, 12th March 2019

The Board of Directors