



**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**

2018

**Shareholders' Meeting
06 April 2019**



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 Financial Law)

Dear Shareholders,

As you are aware, the Board of Statutory Auditors of Banco BPM S.p.A. began its role on 01 January 2017; the date that the consolidation merger between Banco Popolare Soc. Coop. (hereinafter "former Banco Popolare") and Banca Popolare di Milano S.c.a r.l. (hereinafter "former BPM") came into effect, creating Banco BPM S.p.A. (hereinafter "Banco BPM" or "the Bank").

With this Report, drawn up pursuant to article 153 of TUF (Consolidated Financial Law) 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 2018, 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 2018, 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, the Managers of the Anti-Money-Laundering Function, the Risk Function and the Internal Validation Function, have also 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 (although currently being updated);
- 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 2018, were identified. In relation to 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:

- initiatives for rationalisation of the Group corporate structure: in the context of restructuring of the Group and in line with the Strategic Plan, operations have been finalised for acquisition by the Parent Company Banco BPM of the subsidiaries Banca Popolare di Milano S.p.A. (hereinafter "BPM", with legal validity from 26 November 2018 and accounting and tax validity from 01 January 2018), Società Gestione Servizi BP S.C.p.A. (hereinafter "SGS") and BP Property Management S.C.r.l. (these latter with legal validity from 11 February 2019 accounting and tax validity from 01 January 2019);
- commercial network: from 01 January 2018, the new commercial network model became fully operational. This is an important project that involved all territorial structures, including the Corporate Network, and the definition of new professional roles. In this context, during the financial period there has been a rationalisation of the territorial structure, leading to the closure of over 500 branches (creating a need to quantify liabilities relative to disbursements for closed branches);
- Corporate & Investment Banking project: in line with the Strategic Plan, during the financial period, extraordinary corporate operations continued, aimed at integration and rationalisation of Group business. More specifically: (i) the reorganisation (launched in 2017) of the activities carried out by Private Banking and Corporate & Investment Banking was completed. This process involved centralisation of Private Banking activities in the subsidiary Banca Aletti & C. S.p.A. (hereinafter "Banca Aletti") and Corporate & Investment Banking activity in the subsidiary Banca Akros S.p.A. (hereinafter "Banca Akros"); (ii) IT migration of Banca Akros to the Group target systems was performed;
- asset disposal operations: during 2018, Banco BPM (i) completed restructuring of the Bancassurance area launched in 2017 (in line with the Strategic Plan and the natural expiry of partnerships of the former Gruppo Banco Popolare with the Unipol and Aviva Groups) through signing of agreements for disposal of an ownership stake in Popolare Vita S.p.A. and in Avipop Assicurazioni S.p.A. to Cattolica Assicurazioni Soc. Coop. and the launch of a strategic partnership with the same; (ii) formalised the sale to BNP Paribas Securities Services of the business unit designated to Custodian and Fund Administration activities; (iii) signed the agreement with Anima Holding S.p.A. (the content of which was already defined in 2017) defining the disposal by the subsidiary Banca Aletti to Anima SGR S.p.A. of delegated insurance asset management mandates carried out on behalf of the insurance joint ventures linked to the

Bancassurance network of the former Banco Popolare, in addition to definition of a partnership regarding conferral upon Anima SGR of the delegated management of the assets underlying the insurance products placed by the Banco BPM Group commercial network; (iv) in the context of restructuring of the consumer credit segment, signed a memorandum of understanding with Crédit Agricole and Crédit Agricole Consumer Finance S.A. aimed to strengthen the *partnership* in this sector, which included acquisition of the subsidiary ProFamily S.p.A. by Agos Ducato, subject to the finalisation of a partial demerger of the non captive assets of ProFamily in favour of a newly established company which will remain a full subsidiary of Banco BPM;

- disposal of credit portfolios: in line with the goals of reducing the impaired portfolio, contained in the Group Strategic Plan (specifically "*NPL Operational Plan*"). During 2018, amongst other actions, Banco BPM completed: (i) disposal, in June, of a portfolio of bad loans originating from Group banks for a gross nominal value of around € 5.1 billion (Project "*Exodus*") through a securitisation transaction supported by the State guarantee on senior securities (GACS); (ii) the disposal without recourse, in December, of credit exposures regarding the shipping sector for a total gross amount of USD 159.9 million, with "*unlikely-to-pay*" status. In this context and in order to accelerate the de-risking plan, the Group has also launched the "*ACE*" project, aimed at the disposal of a further portfolio of bad loans. Specifically, on 10 December 2018, the Board of Directors approved the binding offer received from Elliot International L.P. and Credito Fondiario S.p.A., one of the consortia selected as potential investors. In addition to the disposal of around € 7.4 billion of impaired loans, the agreement also defines the creation of a platform for recovery of non-performing loans in partnership with Credito Fondiario S.p.A., a specialised servicer with banking licence. The Bank has launched consultation with Trade Unions regarding creation of the platform, in order to ensure full observance of applicable legal and contractual provisions. The platform will be owned 70% by Credito Fondiario and 30% by Banco BPM.

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

- the banks of Banco BPM Group participate in the Voluntary Scheme ("*SVI*") managed by the Interbank Deposit Guarantee Fund ("*FITD*"), established in November 2015. Considering this participation and support activity initiated by the SVI and completed during 2018, a payment has been made to the SVI for a total amount of € 27.9 million, for subscription of the Tier 2 subordinated loan issued by Banca Carige S.p.A. This investment in the SVI – on the basis of the current situation of Banca Carige – has been subject to full writing down;
- deferred tax assets, referring to losses recorded in 2018, 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, on the basis of which a specific self-regulation policy for this matter is to be issued;

- Provisions for risks and charges have been allocated, the amount of which has been determined taking into account the overall risks to which the Bank is exposed, also considering potential liabilities deriving from transactions initiated by the two former Banking Groups prior to acquisition, as defined in more detail later in this Report.

At the beginning of February 2019, Banco BPM received 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. Considering the analyses and evaluations performed by the Supervisory Authority, the ECB has determined the following 2019 prudential requirements on a consolidated basis: (i) 9.31% Common Equity Tier 1 ratio, (ii) 10.81% Tier 1 ratio and (iii) 12.81% Total Capital ratio. The "Pillar 2 ratio" is down 25 basis points.

With specific reference to the findings regarding the reporting activity for customers involved in the purchase of diamonds by the specialist company Intermarket Diamond Business S.p.A. (hereinafter "IDB") in the period from 2003 to 2016 (and therefore prior to the merger of the former Banco Popolare and the former BPM), the Board of Statutory Auditors (i) sent (in December 2017) specific communications to the Supervisory Authorities, also in consideration of in-depth analyses performed by the Bodies of Banco BPM, providing subsequent updates to the aforementioned Authorities; (ii) despite the fact that the aforementioned transactions pre-date the foundation of Banco BPM and, as is known, despite this activity having ceased under management of Banco BPM, requested and obtained activation of more rigorous processes and monitoring, in order to prevent repetition of events of this type; (iii) also shared initiatives launched by the Bank to identify any responsibilities falling to employees and representatives; (iv) promoted adoption of customer care measures aimed at compensation for damages to customers due to the reporting activity initiated by the Bank, with subsequent definition of allocations to the Provision for risks and charges (as previously mentioned), referring the reader in regard to determination of the same to the Directors' Report and the Notes to the 2018 Financial Statements for further details; (v) maintained continuous information flows on developments with the Corporate Bodies, with the Supervisory Board as per Legislative Decree no. 231/2001, with the relevant structures of the Bank, and with the Board of Statutory Auditors and the Supervisory Authority.

Considering the above, in light of the aforementioned finding that the transaction in question is no longer in existence and that the events are substantially referable to 2017, as well as in light of the replacement of certain Control Function Managers during 2018, the Board of Statutory Auditors, with good reason and on the basis of the facts currently available, also due to consequent monitoring adopted, holds that the findings do not impact on the evaluation of the adequacy of

the current overall Internal Control System of Banco BPM. With regard to the investigations in progress by the Public Prosecutor's Office of Milan, in relation to certain managers and former managers of the Group and initiated on the basis of administrative offence pursuant to Legislative Decree no. 231/2001, the Board of Statutory Auditors, by denouncing the events identified, have expressed complete faith in the activities of the Judicial Authority, acknowledging the active collaboration on the part of the Bank supporting identification of the elements necessary to shed light on the events around the sale of IDB to its customers, having fully agreed with the initiatives undertaken by the Banco BPM Supervisory Board as per Legislative Decree no. 231/2001. In this regard, it is noted that in light of the aforementioned recent events involving the Bank, during the session of 27 February 2019, the Board of Directors proceeded with the precautionary suspension of the managers involved.

Given the above, and taking into account the finalisation process of a complete integration of the two Banking Groups participating in the merger carried out in 2018 as well as in the gradual consolidation of assets of the new Group, the Board of Statutory Auditors has maintained 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, and in particular:

- IT migration: the IT migration process of the subsidiary Banca Akros to the target systems of Banco BPM was performed, that, continuing operations already completed in 2017, allowed finalisation of work to achieve uniform Group processes/procedures. In relation to this operation, the Board of Statutory Auditors monitored the activity of the specially established working group both during the set-up and preparation of the event and following its full implementation. More specifically, there was careful examination (also in collaboration with the Board of Statutory Auditors of the Subsidiary) of problems that emerged on certain fronts, as well as the actions taken for their prompt resolution, proceeding – wherever appropriate – with specific notifications directly to the owner structures of the processes in question, also verifying possible accounting effects;
- actions aimed at strengthening the credit management and monitoring process: also considering the recommendations regarding Credit and Counterparty Risk Management, formulated by the ECB as a result of the inspections carried out on the former Gruppo Banco Popolare and former Gruppo BPM in 2016, ("Credit and Counterparty Risk Management and Risk Control System"), in 2017 Banco BPM had substantially completed the special Action Plan

approved by the Board of Directors (Credit Action Plan). In this regard, as already highlighted in its Report for financial year 2017, the Board of Statutory Auditors had monitored – undertaking independent assessment initiatives – the implementation of the corrective measures, verifying the outline of a regulatory and organisational framework which, as reported on over time, has proved to be adequate. During 2018, the Board of Statutory Auditors therefore examined the results of the specific checks – performed by the Bank's Control Functions in line with the expectations and requests of the European Supervisory Authority – on the effectiveness and functionality of credit processes, the overall positive findings of which are to be attributed to the identified general strengthening of monitoring, above all with reference to evaluation of impaired loans and collateral management. During 2019, actions are planned for refinement of functional aspects of processes and procedures as well as further corrective measures, also identified following inspection activities conducted in the meantime during 2018 by the European Supervisory Authority on other specific areas of credit activities, and in light of developments in the regulatory framework;

- processes for updating and extension of internal risk-measurement models: during 2018, also in consideration of authorisations received from the ECB for use of internal models for reporting purposes, the Bank implemented the new models for calculation of credit and market risk parameters. Considering the equity impacts associated with consolidation of the system of internal models, the Board of Statutory Auditors maintained continuous information flows with the Bank structures (and specifically with the Risk Function and the Internal Validation Function) regarding the activities progressively carried out. The Board of Statutory Auditors also initiated a project (led by the Risk Function) aimed at mapping the system of internal models (regulatory and management), as well as governance of internal models (also with reference to the risk associated to them), which it performed following specific internal regulations. The Board of Statutory Auditors shall proceed in 2019 with supervisory activity of further developments in risk models, also in consideration of projects under way for further extension and development of these in line with reference legislation and with the expectations of the Supervisory Authority;
- IFRS 9 standard: with reference to the entry into effect of the new international accounting standard IFRS 9, replacing IAS 39, in 2017 Banco BPM had launched a project – starting with the activities already performed with the former Banco Popolare and former BPM – aimed at adjusting all processes and procedures in order to conform to the new accounting standard. During 2018, the Board of Statutory Auditors oversaw, in particular, the process and effects of the First Time Application (FTA), in addition to the activities aimed at strengthening monitoring of classification, measurement and impairment processes introduced by the new standard. The overall IFRS 9 framework has been the subject of intense verification activity, both via Bank

Internal Functions and the Auditing Firm. This activity has been subject to supervision and continuous information flows by the Board of Statutory Auditors;

- projects for adaptation to specific legislation, including MiFID 2, the Insurance Distribution Directive (IDD) and the Fifth Anti-Money-Laundering Directive: during 2018, the Banco BPM Group *(i)* proceeded with implementation of planning initiatives aimed at adoption of new legislative provisions within the Group, in relation to investment service provision and market governance, together with those connected with extension of a portfolio consulting model to the entire commercial network. All of the activities which the Board of Statutory Auditors has monitored on an ongoing basis through periodic updates from the relative structures, have been aimed at improving and strengthening monitoring investment service provision; *(ii)* launched a project for implementation of the requirements defined by the Directive on distribution of insurance products, the actions of which will be subject to progressive consolidation, in order to upgrade the Group target model also in relation to the current adoption of certain contingency solutions aimed at making the framework compliant with legislation; *(iii)* proceeded with consolidation of the new Group Anti-Money-Laundering Operational Model (also extended to Banca Akros following the aforementioned migration to Group target systems) and actions for alignment with legislative provisions – made available progressively – outlined in implementation of the aforementioned European Directive on the risk of money-laundering and financing terrorism. The Board of Statutory Auditors has been continuously updated on the activities carried out and the project initiatives launched;
- real-estate segment: during 2018, various initiatives were launched aimed at further rationalisation and increased efficiency of management in the real-estate sector at Group level, not least through the aforementioned acquisition by the Parent Company of the subsidiaries BP Property Management and SGS. The Board of Statutory Auditors has overseen these actions aimed at improving management of operational assets and exploiting/removing non-operational assets. In this context, it has focused on strictly organisational, classification and evaluative aspects of owned real estate, supporting the idea of integration of relative policies and further strengthening of connected processes;
- Thematic Action Plans: during 2018, the Bank has been called to define and approve a series of Action Plans for specific areas, in order to plan corrective and improvement measures identified progressively, primarily following inspection activity (on site and remote) normally conducted in the context of ongoing supervision (Supervisory Review Evaluation Process) or in relation to specific instances put forward by the Bank to the Supervisory Authority. The Board of Statutory Auditors has examined and receives periodic updates regarding the state of implementation of these Plans. Amongst other aspects, along with a request prepared in this

regard by the Board of Statutory Auditors, during 2018, a structured process was formalised for allocation to the Bank structures of management and resolution of the findings of the Internal Control Functions and the Supervisory Authority and/or Auditing Firm. This action has guaranteed to harmonise monitoring and management of findings and areas for improvement, already previously launched and implemented by various Corporate Functions.

Taking into account the completion during 2018 of a series of operations, including extraordinary operations that involved the Group, as well as the plans continued from 2017 or launched in 2018, and the numerous inspection activities indicated above (on site or remote), along with requests from the Supervisory Authority in the context of the SREP, the Board of Statutory Auditors has overseen the progressive adoption by the Board of Directors of appropriate determinations to ensure a regulatory framework and internal organisational structures adequate to maintain correct application of operating processes. In this regard, although acknowledging that this organisational and legislative structure requires further adjustments, the Board has concluded its substantive compliance.

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, the Board of Statutory Auditors has decided to proceed in 2018 with a Communication as per article 46 of Legislative Decree no. 231/2007 including certain anomalies identified in recording of certain transactions in the Single Electronic Archive. The Board of Statutory Auditors has subsequently monitored reduction of IT malfunctions that caused the problems and sending of new S.A.R.A. information to the Authority.

In reference to the communications sent in December 2017 to the Supervisory Authority (performed also on the basis of further investigation by Bank Bodies and provisions set forth by the Antitrust Authority, dated 30 October 2017) regarding the reporting activity for customers interested in the purchase of diamonds by the former Gruppo Banco Popolare to the company IDB – specifically with reference to the periods prior to financial year 2017 – the Board of Statutory Auditors provided the relative Authorities with appropriate updates.

The Board of Statutory Auditors has verified and analysed in-depth the process for the preparation of the 2018 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.

Regarding these activities, the Board of Statutory Auditors, inter alia, (i) has verified the adequacy, in terms of methodology, 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 verified application of the accounting standards IFRS 9 and IFRS 15 (iii) 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 2018 financial statements.

During the first few months of 2019, meetings between the Board of Statutory Auditors and the Auditing Firm intensified in order to guarantee a suitable information flow in compliance with the respective auditing obligations, also in consideration of the time frames for preparation of the relative 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 2018. As we know, since financial year 2017 the form and contents of the Auditing Report have been significantly revised in compliance with changes to Legislative Decree no. 39/2010 made by Legislative Decree no. 135/2016.

Considering this, with regard to conclusions and certifications, PwC has issued its Independent Auditing Reports on the Separate and Consolidated Financial Statements without any exceptions and noting the acquisition by Banco BPM S.p.A. of BPM S.p.A. with accounting and tax validity from 01 January 2018. PwC (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 under consideration while 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.

It should be noted that, with reference to financial year 2017, on 16 March 2018, the Board of Statutory Auditors sent the Board of Directors the aforementioned Report along with its remarks. The Board of Directors also examined the Management Letter addressed to the management of the Bank from the Auditing Firm for the purpose of formulating certain recommendations as a result of its independent auditing of the 2017 Separate Financial Statements, approving the relative actions (implementation of which was duly overseen by the Board of Statutory Auditors).

On 15 March 2019, 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 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 aforementioned Decree, it has not formulated any remarks.

Regarding the Management Letter prepared by the Auditing Firm as a result of activities performed for the Non-Financial Statement relative to financial year 2017, the Board of Statutory Auditors has verified that the recommendations indicated therein were given due consideration by the Bank structure during preparation of the Non-Financial Statement relative to financial year 2018.

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 2018 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 Directors' Report and the Notes to the Consolidated Financial Statements at 31 December 2018;

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 2018 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 Directors' 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 indicated above, the company assigned with independent auditing of the accounts, PricewaterhouseCoopers S.p.A., has issued, on 15 March 2019, its Independent Auditing Reports on the Separate and Consolidated Financial Statements without any exceptions and noting the acquisition by Banco BPM S.p.A. of BPM S.p.A. with accounting and tax validity from 01 January 2018. PwC *(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.

PwC has also issued, on 15 March 2019, 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, as already highlighted, 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 under consideration while 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 15 March 2019, 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 aforementioned 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 ascribed to 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 2018, PricewaterhouseCoopers S.p.A., in compliance with the applicable laws, was paid the fees due for the legally-required audit in the amount of € 1,526,688 by the Parent Company Banco BPM S.p.A, and € 2,056,196 by the other Companies of the Group.

In this regard, with the aim of guaranteeing a complete information framework, the justified proposal is noted made to the Shareholders' Meeting and prepared by the Board of Statutory Auditors (made available pursuant to law in preparation for the Shareholders' Meeting called for 06 April 2019) regarding payment of supplementary fees to the Auditing Firm which became necessary following completion of the aforementioned acquisitions by Banco BPM of the subsidiaries BPM S.p.A., Società Gestione Servizi BP S.C.p.a. and BP Property Management S.C.r.l. which require and shall require additional activities within the scope of auditing the accounts for the years 2019 to 2025 for the separate and consolidated financial statements of the acquiring party, Banco BPM.

The Auditing Firm was also conferred additional responsibilities for certification services by the Parent Company, for € 478,619, as well as by the other Companies of the Group for € 72,895.

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 2018:

- other services provided to the Parent Company for € 553,000;
- other services provided to the Subsidiaries for € 898,000.

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.

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. In 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. In this respect, the Board of Statutory Auditors has also provided its opinion (*i*) on the remuneration of Directors vested with specific assignments or powers pursuant to article 2389 of the Civil Code, (*ii*) on the appointment of the Managers of Corporate Control Functions. Furthermore, it has prepared remarks, evaluations and opinions as defined by Supervisory Regulations as well as those required by the European Central Bank and national Supervisory Authorities with specific Communications (primarily regarding the different profiles for management and control of risks that the Bank is exposed to in performance of its business);

10. in 2018, the Board of Statutory Auditors met 42 times, participated in the only Ordinary Shareholders' Meeting, in 20 meetings of the Board of Directors and in 11 meetings of the Executive Committee and, through its own representative (or, in exceptional cases, through shared assessment) in the meetings of the Internal Control and Risks Committee (at all 24 sessions held), in the meetings of the Remuneration Committee (at all 19 sessions held, 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 (14 sessions out of 17) as well as in the meetings of the Related Parties Committee (10 sessions out of 11).

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 2019, its self-evaluation for the 2018 period, and drew up the appropriate conclusive document. The process was conducted with the support of an independent external Consultant considered

capable of guaranteeing autonomous judgement. At the end of the process, the Board has deemed it appropriate to issue an overall judgement of "substantive 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 of and has monitored the organisational structure, particularly in terms of its alignment with applicable legislation and relative amendments to and consolidation of the internal regulatory structure.

This activity also regarded the progressive updating of the internal regulatory framework, including on the basis of the operations and events identified throughout this Report.

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 substantive 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 launched and/or under way should be noted in consideration of their relevance in terms of the organisational, control and risk management structures.

In this context, the Board of Statutory Auditors requested identification of the Manager of the Information Technology Function following resignation (with effect from mid-February 2019) of the previous head of the structure, and appointment of the Manager for the IT Security organisational unit on the basis of the previous Manager registering to access the Early Retirement Fund.

13. given the relatively recent establishment of the Bank, in 2018 Banco BPM has implemented organizational plans relating to the Internal Control System aimed at its constant updating and refinement. 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 continued with the gradual centralisation of control activities carried out by the Audit, Compliance, Anti-Money-Laundering and Risk Functions, by appointment of the contact persons by the Companies that have outsourced the service.

During 2018, as already mentioned in this Report, subject to approval of the Board of Statutory Auditors, new Managers were appointed to the Audit Function (following

resignation of the previous Manager on 08 May 2018) and the Compliance Function (following assignment of another role to the previous head of the structure), also on the basis of findings regarding the events around diamond transactions which occurred in the period prior to 2017. Furthermore, following appointment of the new Manager, the organisational structure of the Audit Function was revised, in consideration of the new organisational structure of the Bank (reorganisation of the commercial network) and the Group (project for Corporate & Investment Banking/streamlining of the corporate structure in line with the Industrial Plan). The restructuring is therefore in line with the objectives of ensuring constant strengthening of the effectiveness and efficiency of the Internal Control System. In this context, revision of the structure of the Compliance Function is also under way.

Again, regarding supervisory activity for the adequacy of the Control System, the Board of Statutory Auditors has accepted the proposal from the Internal Control and Risks Committee regarding performance of a benchmarking analysis by the Organisational Function of the Bank. The results of this were used to define appropriate actions for qualitative and quantitative strengthening of Corporate Control Functions, as already initiated by the Human Resources Function.

Within Banco BPM the Integrated Internal Control System Regulations are applied and govern 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.

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).

Again, 2018 saw continuation of the necessary, ongoing and gradual increase in the efficacy and efficiency rates of the first and second level controls which, inter alia:

- regarding the Compliance Function, has been manifested specifically: *(i)* in strengthening of the role assigned to the same in the process area, including that of the framework relative to new products and services offered by the Bank, also in light of new developments in the product governance area, for alignment with applicable Italian and European legislation; *(ii)* in the guidance provided to business structures in order to adapt

Bank processes to the indications as and when issued by the Supervisory Authority (e.g. regarding transparency and correctness in relation between intermediaries and customers); (iii) in the monitoring guaranteed by the same on auditing of organisational processes and internal regulations, including verification of ex ante compliance; (iv) in the ongoing monitoring guaranteed, amongst other areas, for observance of legislation regarding transparency, investment service provision, distribution of insurance products, market abuse, environmental impacts during 2018 of significant organisational, procedural and IT actions, in part resulting from the corporate transactions involving the Group;

- for the Anti-Money-Laundering Function, it has resulted in activities aimed at consolidation/extension and refinement of the Group Consolidated Anti-Money-Laundering Operational Model, along with ongoing monitoring of implementation of actions for alignment with the provisions of the Anti-Money-Laundering Directive IV, as well as resolution of anomalies identified in the auditing performed (failed recording in Centralised Computing Archive);
- regarding the Risk Function, it has been manifested: (i) in extension within the Group of the models developed for regulatory purposes (subject to authorisation during the year), guaranteeing functionality and application for all Companies involved; (ii) in guidance of the internal model inventory and model risk management project; (iii) in the support guaranteed during meetings in continuation of the inspections performed by the Supervisory Authority, as well as in the resolution of findings resulting from such activity; (iv) in the development of new methods required for alignment with continual new indications issued by the relative Authorities and International Bodies; (v) in the consolidation of the two strategic processes, RAF and ICAAP, and broadening of the integrated information on risks; (vi) in strengthening of the scope and second level audit activity for credit processes, in the context of investment service provision and data quality;
- for the Internal Validation Function it has been manifested with regard to the specific control activities performed: (i) in the context of passage to generation of the aforementioned internal models subject to validation, also on request of the Supervisory Authority; (ii) in order to verify correspondence with the methodology adopted in the context of IFRS 9; (iii) to produce the documentation required by Supervisory regulations supporting the requests submitted by the Group to the Authority.

Regarding the Audit Function, the organisational changes occurring following appointment of the new Manager did not impact the ongoing operations of the structure and the activity

performed guaranteed, with a risk-based approach, further analysis of core processes, therefore at greater risk. Particular efforts were made by the structure for performance of the activities (also in terms of certification of actions and performance of specific checks) aimed at ensuring the effectiveness of measures adopted by the Group in the context of implementing the previously mentioned Credit Action Plan and the IFRS 9 Project. Constant focus was maintained by the Audit Function on the Corporate & Investment Banking Project involving Banca Aletti and Banca Akros, primarily with reference to migration of the latter to the Group target system, following which certain anomalies were identified and promptly addressed. Other audit activities of specific interest to the Board of Statutory Auditors regarded the process for definition of the Risk Appetite Framework and management of the Most Significant Transactions, management of conflicts of interest (alongside the Compliance Function), intergroup outsourcing and the purchasing cycle process, with regard to which, in the absence of significant critical issues, the Board of Statutory Auditors, under its area of competence, invited monitoring of implementation of suggested improvement actions. There was also a significant effort on the part of the Audit Function in support of the requests as and when received from the European Supervisory Authority in performance of the relative inspections, in addition to the efforts made for tracking and certification activity in relation to closure of findings of the Supervisory Authority itself.

In general, across all the Control Functions, the Board of Statutory Auditors has found a number of unplanned and unforeseeable activities, in early 2018, 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 2018, in order to ensure the completeness, adequacy, functionality and the reliability of the different components of this System.

In drawing up the aforementioned Report, the Audit Function has taken into consideration its assessments as well as those expressed by the other Corporate Control Functions. The Report – the methodological basis of which was subject to development in line with requests submitted by the Board of Statutory Auditors – provides a comprehensive assessment of the substantive adequacy of the Group's Internal Control System since the effects deriving from completing the integration process also performed during 2018 and the identification of

areas needing improvement (in some cases significant) did not compromise the overall efficacy of the control system.

In acknowledging the overall judgement of substantive 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.

In this regard, the Board of Statutory Auditors, amongst other actions, focused on and promoted corrective and strengthening measures, largely already completed: *(i)* in the context of Anti-Money-Laundering activity, in order to promptly resolve procedural anomalies identified in the functioning of an application that had generated failed reporting in the Centralised Computing Archive (as previously noted in this Report); *(ii)* in the context of investment service provision, to prompt ongoing progressive implementation of measures for alignment with the MiFID 2 legislation, with particular attention being paid to monitoring signing of new contracts and re-profiling of customers (prompt completion of which was the subject of specific requests to the Commercial structure from the Board of Statutory Auditors); *(iii)* in the context of governance of internal risk measurement models for regulatory and management purposes, with the aim of ensuring correct management of the life cycle of these models as well as the underlying risks; *(iv)* in the context of transparency, allowing actions to be performed (also of a restitutory nature) following issue of the Bank of Italy guidelines on this matter and regarding product governance, with the aim of continuing strengthening of the process; *(v)* in the context of credit management and monitoring, continuing the initiatives adopted by the Bank on the basis of the aforementioned specific Action Plan and overall de-risking activity.

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. As already mentioned in this Report, the Board of Statutory Auditors promoted the now issued regulations regarding management of findings presented by the Supervisory Authority and internal Functions of the Bank.

The Board of Statutory Auditors has also shared with the Control Functions some prospective profiles which will require their attention in 2019, especially as regards: *(i)* investment service provision, in order to guarantee prompt and effective observance of applicable internal and external regulations, also regarding management of the life cycle of individual products and services offered by the Group; *(ii)* completion of restructuring actions for the real-estate

segment and management and valuation of real-estate; (iii) structuring of a process for monitoring triggers contained in certain clauses of agreements established by the Bank in the context of the extraordinary operations (some of which already mentioned in this Report); (iv) the capacity of the Group IT structures to support, in addition to the development of processes proposed by the Business Functions, developments in the systems required by the Control functions, also on the basis of the findings presented in the area migration/integration operations that involved the Group; (v) further development actions regarding internal risk measurement models.

With specific reference to the commercial network, the Board of Statutory Auditors has verified that appropriate training actions have been brought in and, where applicable, disciplinary measures have been adopted for violation of regulations. This action has fostered an increasingly substantial reduction in irregular conduct. In this regard, as a result of its ongoing verification activity and considering the irregularities identified also with reference to past years, the Board of Statutory Auditors shall continue to promote – both through Corporate Control Functions and through commercial structures and the Human Resources Function – diffusion of an increasingly consolidated culture around risk and respect for the rules at all levels of company operations, in order to guarantee conduct in line with internal and external regulations and corporate strategies. With this perspective, strengthening of monitoring ensured by adoption of the new model for the commercial network will be subject to specific checks in 2019, via the Audit Function.

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 substantive

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 Financial Reporting Manager has also taken into account, *inter alia*, the measures adopted in light of the findings identified thereby in the previous year, thus acknowledging the presence of other areas needing improvement (mainly of an organisational nature or regarding the adoption/update of the internal regulations), some of which are of significance looking towards the future, but which do not influence the overall evaluation expressed.

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 2018 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 were updated during 2018, in order to take into consideration the Guidelines published by Consob on inside information. Having issued the internal regulations of an operational nature, the Board of Statutory Auditors reserves the right to initiate specific verification of functionality.

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 aforementioned 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. with the exception of that previously presented regarding the diamond situation, 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 2018 and the subject matters falling under its competence.

Milan, 15 March 2019

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 Prof. Claudia Rossi
signed Mr Alfonso Sonato



**REPORT FROM THE BOARD OF STATUTORY AUDITORS
OF BANCO BPM S.p.A. TO THE SHAREHOLDERS' MEETING
PURSUANT TO ARTICLE 2429, PARAGRAPH 2, OF THE CIVIL CODE**

**Financial Statements at 31 December 2018
of the company subject to acquisition, BP Property Management S.C.r.l.**

Ordinary Shareholders' Meeting of 06 April 2019



Report from the Board of Statutory Auditors to the Shareholders' Meeting of Banco BPM S.p.A. pursuant to article 2429 of the Civil Code – Financial Statements at 31 December 2018 of the company subject to acquisition, BP Property Management S.C.r.l.

Introduction

Dear Shareholders,

As you are aware, BP Property Management S.C.r.l. (hereinafter "BP Property") was the subject of an acquisition by the Parent Company Banco BPM S.p.A. (hereinafter "Banco BPM") with validity from 11 February 2019.

The Board of Directors of the company subject to acquisition has prepared the Financial Statements at 31 December 2018 and approved them during its meeting on 05 February 2019, as the Company was still in existence at that date. The Financial Statements – consisting of the Statement of Financial Position, the Income Statement, the Cash Flow Statement, and the Notes to the Financial Statements – was subsequently sent, along with the Directors' Report, for the attention of the Board of Statutory Auditors of Banco BPM, the acquiring company, for preparation of this Report.

Please note that, for the purpose of preparing this Report, the Board of Statutory Auditors of Banco BPM obtained the necessary information regarding activities and checks performed by the Control Body of BP Property (which held its role until the date of validity of the acquisition), via acquisition and analysis of minutes from the meetings held by the latter during financial year 2018 (including the documentation recorded during the meetings), as well as in the context of periodic meetings for the exchange of information between the Control Bodies of the Parent Company and the Subsidiary (most recently on 07 February 2019), taking into consideration the reports prepared in this regard, notices issued, and analysis performed at such meetings.

Given all of the above, with this Report, prepared pursuant to article 2429, paragraph 2 of the Civil Code, the Board of Statutory Auditors of Banco BPM shall discuss:

- the supervisory activity performed by the Board of Statutory Auditors of BP Property during financial year 2018 and until the date of its aforementioned termination, in compliance with applicable legislation and also taking into account the "Rules of Conduct for the Boards of Statutory Auditors of unlisted companies", issued by the Italian Board of Professional Accountants and Auditors and applicable from 30 September 2015;
- the results for the financial year, making observations and proposals regarding the Financial Statements and approval thereof, with particular reference to any application of the exception pursuant to article 2423, paragraph 4 of the Civil Code;

- any reports received from the Shareholders pursuant to article 2408 of the Civil Code.

Report

During 2018, and until validity of the acquisition (11 February 2019), the Board of Statutory Auditors of BP Property performed the relative supervisory activity and fulfilled its duties.

Analysis of the reports regarding verifications by the Board of Statutory Auditors and corporate events, along with the further information acquired as described above and confirmed by the Control Body of the aforementioned Company (most recently, the aforementioned meeting held on 07 February 2019), generated the findings set out below.

Notes to the Financial Statements in XBRL format

The Board of Statutory Auditors of BP Property, as already indicated in the Report on the Financial Statements for the previous year, has noted that the Board of Directors prepared the Draft Financial Statements of the Company using a "standard" format. It is noted that the Board of Directors has the responsibility of encoding the Financial Statements presented for your attention in XBRL format, as defined by Legislative Decree no. 223 of 04/07/2006 and subsequent implementation provisions, for the purpose of submission to the Companies Register.

Knowledge of the Company, risk evaluation and report on roles assigned

The Board of Statutory Auditors of BP Property, also through participation of the Board of Directors and in the meetings of the Board of Statutory Auditors itself, acquired sufficient knowledge of the Company with which the Parent Company had concentrated activities regarding administration, development and management of the existing real-estate structure.

"Planning" of supervisory activity, consisting of the evaluation of intrinsic risks and critical issues regarding (i) the type of activity performed and (ii) its organisational and accounting structure, has been implemented on the basis of confirmation of that already established from the information acquired over time and through examination of the Audit Reports prepared.

As a result of the knowledge acquired through the typical supervisory activity of the Company, the Board of Statutory Auditors of BP Property was able to confirm that:

- the typical activity performed by the Company (that, it is noted, is a limited liability consortium company) has not changed during the financial year in question and is aligned with the business purpose;

- the overall organisational structure has not changed in relation to the increased real-estate assets of the new Parent Company Banco BPM, following the merger of the former parent company Banco Popolare Soc. Coop. with the former Banca Popolare di Milano S.c.a r.l., which established the new bank Banco Bpm S.p.A.;
- management of the Company in 2018 was equivalent to the previous year and, consequently, the values of the income statement for financial year 2018 are comparable with the corresponding values for the previous year.

During the financial year, the Board of Statutory Auditors of BP Property regularly held meetings pursuant to article 2404 of the Civil Code and prepared the relative minutes, signed for unanimous approval.

Activity performed

During periodic checks, the Board of Statutory Auditors of BP Property became aware of the development of activities performed by the Company, focusing particular attention on issues of a contingent and/or one-off nature in order to identify their economic and financial impact on results for the period and on the equity structure, along with any possible risks.

Constant exchange of information with Managers of the Internal Audit Function was maintained, assigned to the Audit Function of the Parent Company. The latter performed checks during the financial year directly on the activities and processes of BP Property.

The Board of Statutory Auditors of BP Property therefore periodically evaluated the adequacy of the organisational and functional structure of the Company and any changes with respect to the minimum requirements based on business performance.

Relationships with the persons operating in the aforementioned structure – Directors and Managers of the main Operational Functions – was characterised by joint collaboration in regard to the roles assigned to each and the Board of Statutory Auditors of BP Property was periodically updated by the Directors regarding business performance and expected developments, as well as regarding significant transactions performed by the company, on the basis of size and characteristics.

The Board of Statutory Auditors of BP Property met the Managers of the Auditing Firm assigned to independent auditing, acquiring information, as well as meeting the members of the Board of Statutory Auditors of the Parent Company to share information.

In conclusion, as far as it was possible to identify during the activity performed in the year, the Board of Statutory Auditors of BP Property established that:

- the decisions taken by the Shareholders and the Board of Directors were compliant with law and the Articles of Association and were not evidently imprudent or such as to compromise the integrity of corporate assets;

- sufficient information was acquired regarding business performance and expected developments, as well as regarding significant transactions performed by the company, on the basis of size or characteristics;
- the operations effected were also compliant with law and the Articles of Association and were not potentially incompatible with the resolutions issued by the Shareholders' Meeting nor such as to compromise the integrity of the corporate assets;
- no specific observations were made regarding the adequacy of the Bank's organisational structure, neither regarding the adequacy of the administrative and accounting system, nor the reliability of the latter for correct representation of management aspects, also considering the outsourcing of certain services to the Parent Company or other Group Companies;
- during the supervisory activity, as described above, no facts emerged of sufficient significance to be noted in this Report;
- it was not necessary to intervene on the basis of omissions on the part of the Board of Directors pursuant to article 2406 of the Civil Code;
- from the information shared with the Auditing Firm, no significant facts or information emerged that must be noted in this Report;
- no reports were received pursuant to article 2408 of the Civil Code;
- no reports were made pursuant to article 2409, paragraph 7, of the Civil Code;
- regarding transactions with Related Parties, the Company has accepted and adopted a Regulation defining procedural and substantive rules to maintain such transaction under constant surveillance, also at Group level. No transactions emerged that may be considered significant and not performed under normal market conditions.

In the context of activities performed as Supervisory Board pursuant to Legislative Decree no. 231 of 08 June 2001 (hereinafter "SB"), assigned to the Board of Statutory Auditors of BP Property by the Board of Directors of the Company, no reprehensible circumstances or violations emerged in relation to the Organisational Model pursuant to Legislative Decree no. 231/2001, and neither did the SB become aware of any actions or conduct that led to violations of the provisions contained in the aforementioned Decree.

Observations and proposals regarding the Financial Statements and approval thereof

The Draft Financial Statements at 31 December 2018 were approved by the Board of Directors in its meeting on 05 February 2019 and consisted of the Balance Sheet, the Income Statement, the Notes to the Financial Statements, the Cashflow Statement, and the Statement of Changes in Shareholders' Equity.

Furthermore:

- the Board of Directors also prepared the Directors' Report pursuant to article 2428 of the Civil Code;
- these documents were delivered to the Board of Statutory Auditors of BP Property and subsequently to the Control Body of Banco BPM with sufficient time to allow them to be submitted at the registered office of the Parent Company Banco BPM along with this Report, independently of the term defined by article 2429, paragraph 1 of the Civil Code;
- independent auditing of the accounts is assigned to the Audit Firm PricewaterhouseCoopers S.p.A. that has prepared its own Report pursuant to article 14 of Legislative Decree no. 39/2010, issued on 15 March 2019 without remarks and with a notice regarding the acquisition of the Company by Banco BPM S.p.A. with accounting and tax validity from 01 January 2019.

The Draft Financial Statements have therefore been examined, regarding which the following additional information is again provided:

- the evaluation criteria of the asset and liability items have been checked and have not been found to differ substantially from those adopted in the previous financial years, in line with the provisions of article 2426 of the Civil Code;
- careful attention has been paid to the approach used for the Draft Financial Statements, and general compliance with the law regarding compilation and structure, with no observations emerging in this regard that must be included in this Report;
- observance of legislation has been verified regarding preparation of the Directors' Report, with no observations emerging in this regard that must be included in this Report;
- in preparation of the Financial Statements, the Board of Directors has not deviated from legal provisions pursuant to article 2423, paragraph 4, of the Civil Code;
- it was identified that the Financial Statements substantially correspond with the facts and information which the Board of Statutory Auditors of BP Property became aware of through performance of its duties and no further observations are made in this regard;
- pursuant to article 2426, paragraph 1, points 5 and 6 of the Civil Code, it has been noted that there are no costs in the Financial Statements attributable to intangible fixed assets that must be recorded with the consent of the Board of Statutory Auditors.

Regarding the proposal of the Board of Directors for allocation of the net profit for the year recorded in the Notes to the Financial Statements and at the end of the Directors' Report, the Board of Statutory Auditors of Banco BPM has no observations to make, noting that the decision in this regard falls to the Shareholders' Meeting.

Profit for the financial year

The net profit recorded by the Board of Directors relative to the financial year closed on 31



December 2018, as also evident from the Financial Statements, is +€ 906,698.

Conclusions

On the basis of the activities performed and the controls carried out by the Board of Statutory Auditors of BP Property (in its role since 11 February 2019, the date of validity of the acquisition), the information presented above and that which has been brought to the attention of the Board of Statutory Auditors of Banco BPM, it is unanimously agreed that there are no elements obstructing your approval of the Draft Financial Statements at 31 December 2018 as prepared and proposed to you by the Board of Directors of the Company subject to acquisition.

Milan, 15 March 2019

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 Prof. Claudia Rossi
signed Mr Alfonso Sonato



**REPORT FROM THE BOARD OF STATUTORY AUDITORS
OF BANCO BPM S.p.A. TO THE SHAREHOLDERS' MEETING
PURSUANT TO ARTICLE 2429, PARAGRAPH 2, OF THE CIVIL CODE**

**Financial Statements at 31 December 2018
of the company subject to acquisition, Società Gestione Servizi BP S.C.p.A.**

Ordinary Shareholders' Meeting of 06 April 2019



Report from the Board of Statutory Auditors to the Shareholders' Meeting of Banco BPM S.p.A. pursuant to article 2429 of the Civil Code – Financial Statements at 31 December 2018 of the company subject to acquisition, Società Gestione Servizi BP S.C.p.A.

Introduction

Dear Shareholders,

As you are aware, Società Gestione Servizi BP S.C.p.a. (hereinafter "SGS") was the subject of an acquisition by the Parent Company Banco BPM S.p.A. (hereinafter "Banco BPM") with validity from 11 February 2019.

The Board of Directors of the company subject to acquisition has prepared the Financial Statements at 31 December 2018 and approved them during its meeting on 05 February 2019, as the Company was still in existence at that date. The Financial Statements – consisting of the Balance Sheet, the Income Statement along with the Statement of Comprehensive Income, the Notes to the Financial Statements, the Cashflow Statement, the Statement Of Changes in Shareholders' Equity, accompanied by the Directors' Report – have subsequently been sent to the Board of Statutory Auditors of Banco BPM, the Acquiring Company, for the preparation of this Report.

Please note that, for the purpose of preparing this Report, the Board of Statutory Auditors of Banco BPM obtained the necessary information regarding activities and checks performed by the Control Body of SGS (which held its role until date of validity of the acquisition), via acquisition and analysis of minutes from the meetings held by the latter during financial year 2018 (including the documentation recorded during the meetings), as well as in the context of periodic meetings for the exchange of information between the Control Bodies of the Parent Company and the Subsidiary (most recently on 07 February 2019), taking into consideration the reports prepared in this regard, notices issued, and analysis performed at such meetings.

Given all of the above, with this Report, prepared pursuant to article 2429, paragraph 2 of the Civil Code, the Board of Statutory Auditors of Banco BPM shall discuss:

- the supervisory activity performed by the Board of Statutory Auditors of SGS during financial year 2018 and until the date of its aforementioned termination, in compliance with applicable legislation and also taking into account the "Rules of Conduct for the Boards of Statutory Auditors of unlisted companies", issued by the Italian Board of Professional Accountants and Auditors and applicable from 30 September 2015;
- the results for the financial year, making observations and proposals regarding the Financial Statements and approval thereof, with particular reference to any application of the exception

pursuant to article 2423, paragraph 4 of the Civil Code;

- any reports received from the Shareholders pursuant to article 2408 of the Civil Code.

Report

During 2018, and until validity of the acquisition (11 February 2019), the Board of Statutory Auditors of SGS performed the relative supervisory activity and fulfilled its duties.

Analysis of the reports regarding verifications by the Board of Statutory Auditors and corporate events, along with the further information acquired as described above and confirmed by the Control Body of the aforementioned Company (most recently, the aforementioned meeting held on 07 February 2019), generated the findings set out below.

Notes to the Financial Statements in XBRL format

The Board of Statutory Auditors of SGS, as already indicated in the Report on the Financial Statements for the previous year, has noted that the Board of Directors prepared the Draft Financial Statements of the Company using a "standard" format. It is noted that the Board of Directors has the responsibility of encoding the Financial Statements presented for your attention in XBRL format, as defined by Legislative Decree no. 223 of 04/07/2006 and subsequent implementation provisions, for the purpose of submission to the Companies Register.

Knowledge of the Company, risk evaluation and report on roles assigned

The Board of Statutory Auditors of SGS, also through participation of the Board of Directors and in the meetings of the Board of Statutory Auditors itself, acquired sufficient knowledge of the Company with which the Parent Company had concentrated activities with particular strategic importance, such as development of IT applications (largely developed internally) and technology infrastructure, security including both development of defence mechanisms against potential external attacks and for operational continuity, operations for monitoring of middle and back-office administrative structures, procurement and supply and logistics, as well as Group functions for all aspects regarding health and safety in the workplace.

"Planning" of supervisory activity, consisting of the evaluation of intrinsic risks and critical issues regarding (i) the type of activity performed and (ii) the organisational and accounting structure, has therefore been implemented on the basis of the information acquired directly, as well as through examination of the numerous Audit Reports prepared periodically.

The knowledge acquired through the typical supervisory activity of the Company allowed the Board of Statutory Auditors of SGS to establish that:

- the typical activity performed by the Company has not changed during the financial year in question and is aligned with the business purpose;
- the organisational structure and use of IT structures has not undergone further change following broadening of the operational scope during 2017 with addition of the IT/Back Office branch of Banca Popolare di Milano S.p.A. and Banca Akros S.p.A.;
- the values of the income statement for financial year 2018 are comparable with the corresponding values for the previous year.

During the financial year, the Board of Statutory Auditors of SGS regularly held meetings pursuant to article 2404 of the Civil Code and prepared the relative minutes, signed for unanimous approval.

Activity performed

During periodic checks, the Board of Statutory Auditors of SGS became aware of the development of activities performed by the Company, focusing particular attention on issues of a contingent and/or one-off nature in order to identify their economic and financial impact on results for the period and on the equity structure, along with any possible risks.

Constant exchange of information with Managers of the Internal Audit Function was maintained, assigned to the Audit Function of the Parent Company. The latter, as is typical, performed multiple checks during the financial year directly on the activities and processes of SGS and, indirectly, on the activities that saw SGS as a supplier of services to other Group entities in the previously indicated areas.

The overview of the checks conducted by the Audit Function of the Parent Company on the control system for risks and operations of SGS permitted a judgement of substantive adequacy of the Company Internal Control System.

The Board of Statutory Auditors of SGS therefore periodically evaluated the adequacy of the organisational and functional structure of the Company and any changes with respect to the minimum requirements on the basis of business performance.

Relationships with the persons operating in the aforementioned structure – Directors, Employees and External Consultants – was characterised by joint collaboration in regard to the roles assigned to each and the Board of Statutory Auditors of SGS was periodically updated by the Directors regarding business performance and expected developments, as well as regarding significant transactions performed by the company, on the basis of size and characteristics.

The Board of Statutory Auditors of SGS met the Managers of the Auditing Firm assigned to independent auditing, acquiring information, as well as meeting the members of the Board of

Statutory Auditors of the Parent Company to share information.

In conclusion, as far as it was possible to identify during the activity performed in the year, the Board of Statutory Auditors of SGS established that:

- the decisions taken by the Shareholders and the Board of Directors were compliant with law and the Articles of Association and were not evidently imprudent or such as to definitively compromise the integrity of corporate assets;
- sufficient information was acquired regarding business performance and expected developments, as well as regarding significant transactions performed by the company, on the basis of size or characteristics;
- the operations effected were also compliant with law and the Articles of Association and were not potentially incompatible with the resolutions issued by the Shareholders' Meeting nor such as to compromise the integrity of the corporate assets;
- no specific observations were made regarding the adequacy of the Bank's organisational structure, neither regarding the adequacy of the administrative and accounting system, nor the reliability of the latter for correct representation of management aspects;
- during the supervisory activity, as described above, no further facts emerged of sufficient significance to be noted in this Report;
- it was not necessary to intervene on the basis of omissions on the part of the Board of Directors pursuant to article 2406 of the Civil Code;
- from the information shared with the Auditing Firm, no significant facts or information emerged that must be noted in this Report;
- no reports were received pursuant to article 2408 of the Civil Code;
- no reports were made pursuant to article 2409, paragraph 7, of the Civil Code;
- regarding transactions with Related Parties, the Company has accepted and adopted a Regulation defining procedural and substantive rules to maintain such transaction under constant surveillance, also at Group level. No transactions emerged that may be considered significant and not performed under normal market conditions.

Observations and proposals regarding the Financial Statements and approval thereof

The Draft Financial Statements at 31 December 2018 were approved by the Board of Directors in its meeting on 05 February 2019 and consisted of the Balance Sheet, the Income Statement along with the Statement of Comprehensive Income, the Notes to the Financial Statements, the Cashflow Statement, and the Statement of Changes in Shareholders' Equity.

Furthermore:

- the Board of Directors also prepared the Directors' Report pursuant to article 2428 of the Civil

Code;

- these documents were delivered to the Board of Statutory Auditors of SGS and subsequently to the Control Body of Banco BPM with sufficient time to allow them to be submitted at the registered office of the Parent Company Banco BPM along with this Report, independently of the term defined by article 2429, paragraph 1 of the Civil Code;
- independent auditing of the accounts is assigned to the Audit Firm PricewaterhouseCoopers S.p.A. that has prepared its own Report pursuant to article 14 of Legislative Decree no. 39/2010, issued on 15 March 2019 without remarks and with a notice regarding the acquisition of the Company by Banco BPM S.p.A. with accounting and tax validity from 01 January 2019.

The Draft Financial Statements have therefore been examined, regarding which the following additional information is again provided:

- as in the previous financial years, following the option permitted pursuant to article 4, paragraph 4 of Legislative Decree no. 38/2005, the Company has prepared the Financial Statements in compliance with the IAS/IFRS international accounting standards published by the IASB and relative interpretations issued by the IFRIC;
- the evaluation criteria of the asset and liability items have been checked and have not been found to differ substantially from those adopted in the previous financial years, in line with the provisions of article 2426 of the Civil Code;
- careful attention has been paid to the approach used for the Draft Financial Statements, and general compliance with the law regarding compilation and structure, with no observations emerging in this regard that must be included in this Report;
- observance of legislation has been verified regarding preparation of the Directors' Report, with no observations emerging in this regard that must be included in this Report;
- in preparation of the Financial Statements, the Board of Directors has not deviated from legal provisions pursuant to article 2423, paragraph 4, of the Civil Code;
- it was identified that the Financial Statements substantially correspond with the facts and information which the Board of Statutory Auditors of SGS became aware of through performance of its duties and no further observations are made in this regard;
- pursuant to article 2426, paragraph 1, points 5 and 6 of the Civil Code, it has been noted that there are no costs in the Financial Statements attributable to intangible fixed assets that must be recorded with the consent of the Board of Statutory Auditors.

Regarding the proposal of the Board of Directors for allocation of the net profit for the year recorded at the end of the Directors' Report, the Board of Statutory Auditors of Banco BPM has no observations to make, noting that the decision in this regard falls to the Shareholders' Meeting.

**Profit for the financial year**

The net profit recorded by the Board of Directors relative to the financial year closed on 31 December 2018, as also evident from the Financial Statements, is +€ 204,493.

Conclusions

On the basis of the activities performed and the controls carried out by the Board of Statutory Auditors of SGS (in its role since 11 February 2019, the date of validity of the acquisition), the information presented above and that which has been brought to the attention of the Board of Statutory Auditors of Banco BPM, it is unanimously agreed that there are no elements obstructing your approval of the Draft Financial Statements at 31 December 2018 as prepared and proposed to you by the Board of Directors of the Company subject to acquisition.

Milan, 15 March 2019

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 Prof. Claudia Rossi
signed Mr Alfonso Sonato