



**EXPLANATORY REPORT
OF THE BOARD OF DIRECTORS OF BANCO BPM S.P.A.
ON ITEM 2 OF THE AGENDA OF THE ORDINARY SESSION OF THE SHAREHOLDERS' MEETING**

(Drawn up pursuant to Art. 125-ter of Legislative Decree no. 58 of 24 February 1998, as amended, and pursuant to Article 84-ter of the Regulation adopted by Consob Resolution no. 11971 of 14 May 1999, as amended and supplemented)

Ordinary and Extraordinary Shareholders' Meeting of 15 April 2021

Explanatory Report of the Board of Directors of Banco BPM S.p.A. on item 2) of the agenda to the ordinary session of the Shareholders' Meeting called for 15 April 2021, in single session, on "Proposals regarding the result for the year 2020, in accordance with that set out in detail in the Directors' Report. Related and consequent resolutions".

Dear Shareholders,

With reference to item 2) on the agenda, you are called to the Shareholders' Meeting to resolve on the coverage of the loss recorded by Banco BPM S.p.A. in the company financial statements for the year 2020, the update of existing restrictions on the availability of the reserves and the proposed distribution of a dividend from the distributable profit reserves.

Banco BPM S.p.A. closed the year 2020 recording a loss for the year of € 24,270,308.33, while at the level of Banco BPM Group, a profit for the year of € 20,880,000 was recorded. In that regard, we propose fully covering the loss for the year using the extraordinary reserves available.

With reference to the update of existing restrictions on reserves, it is noted that, pursuant to Art. 6 of Legislative Decree no. 38 of 28 February 2005, due to the changes resulting from the movements recorded in assets and liabilities measured at fair value in 2020, it is necessary to increase the restriction of unavailability established in previous years for € 64,132,425.41.

During the year, the criterion for valuation of interests in associates and joint ventures adopted for the purpose of drawing up the company financial statements was also changed from the cost criterion to the equity criterion. Said change resulted in the recognition of a specific "Reserve of profits on interests in associates and joint ventures carried at equity", which includes the total effect generated over time, equal to the difference between the cost previously posted in the financial statements and the value determined using the new measurement criterion. As at 31 December 2020, that reserve amounted to € 838,928,708.74, to which € 24,433,473.73 will be added, deriving from the movements during the year, included in the profit/loss for 2020, and is subject to the restriction of unavailability set out in Legislative Decree no. 38 of 28 February 2005. Therefore, also considering the effect of the change in the measurement criterion for interests in associates and joint ventures, the restricted reserve pursuant to Art. 6 of Legislative Decree no. 38/2005 will amount to a total of € 1,182,799,074.88.

It is also noted that, due to the decision to realign the tax value of the intangible assets with

their respective book values pursuant to the provisions of Art. 110, paragraph 8 bis of Decree Law no. 104 of 14 August 2020, as added by Art. 1, paragraph 83 of Law no. 178 of 30 December 2020 (Budget Law 2021), a restriction must be established against the distribution of the reserves to shareholders, for an amount of € 414,085,449.52, equal to the amount of the realigned values net of substitute tax.

Lastly, for the purpose of implementing the recommendations provided by the European Central Bank in communication dated 27 March 2020 on dividend distributions during the COVID-19 pandemic, the Shareholders' Meeting of 4 April 2020 did not cover item 2 on the agenda of the ordinary session (Resolutions on profit allocation and distribution). Therefore, the net profit from the financial statements of Banco BPM as at 31 December 2019, equal to € 942,476,323.08 - minus the amount of € 105,130,400.60 to be allocated to unavailable reserves pursuant to Art. 6 of Legislative Decree 38/2005 - was included in the Bank's shareholders' equity in the amount of € 837,345,922.48 as an extraordinary reserve available for distribution.

With subsequent communications on 27 July 2020, the Supervisory Authority extended the prohibition on distributing dividends to 1 January 2021 and, on 15 December 2020 formulated new recommendations on the matter. With this latter recommendation, considering the continuing level of economic uncertainty due to the pandemic, the European Central Bank asked banks not to distribute profits or conduct share buy-backs, or to limit the distribution of profits to a level not exceeding the lower of "15% of their accumulated profit for the financial years 2019 and 2020, or more than 20 basis points in terms of the Common Equity Tier 1 ratio". Where banks intend to propose the distribution of a dividend, the Supervisory Authority asked that they notify their Joint Supervisory Teams¹ of this intention in advance. As part of the discussion held with the Supervisory Authority, the bank shared the possibility of proposing distribution of a dividend from available profit reserves, up to a total amount of 6 cents per share.

In relation to the above, the Board of Directors proposes:

- (i) full coverage of the loss for the year using the extraordinary reserves available;
- (ii) the updating of the restrictions to availability of reserves pursuant to Art. 6 of Legislative Decree no. 38 of 28 February 2005, raising to € 1,182,799,074.88 the total amount of the unavailable reserves;

¹ Joint Supervisory Team shall mean the team of supervisors jointly composed of personnel of the European Central Bank and those of the single national authority (i.e., Bank of Italy).

- (iii) the creation of a new restriction to the possibility to distribute reserves in the amount of € 414,085,449.52, equal to the amount of the realignment of tax values to the book values of intangible assets net of substitute tax to be paid, as a result of the decision to use the option granted by Art. 110, paragraph 8 bis of Decree Law no. 104 of 14 August 2020, as added by Art. 1, paragraph 83 of Law no. 178 of 30 December 2020.
- (iv) the distribution of a dividend of € 0.06 for each of the 1,515,182,126 ordinary shares, for a total amount of € 90,910,927.56. As previously announced to the market in the press release dated 9 February 2021, this distribution, if approved by the Shareholders' Meeting, will take place on 21 April 2021 (payment date) with coupon detachment date on 19 April 2021 (ex date) and record date on 20 April 2021. In that case, no dividend will be paid for own shares held by the Bank. The amounts paid will be subject to the ordinary tax regime of dividend distribution.

For more details, refer to the 2020 Annual Financial Report as at 31 December 2020.

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Given all of the above, we invite you to adopt the following resolution:

"The ordinary session of the Shareholders' Meeting of Banco BPM S.p.A., having examined the Explanatory Report made available to the public in the form and methods required by applicable laws,

resolves:

- to cover the net loss resulting from the financial statements of Banco BPM as at 31 December 2020, equal to € 24,270,308.33, by using the same amount from available extraordinary reserves;*
- to increase the restricted reserves pursuant to Art. 6 of Legislative Decree no. 38/2005 up to the amount of € 1,182,799,074.88;*
- to establish a restriction to the possibility to distribute reserves in the amount of € 414,085,449.52, following the decision to use the option to realign the tax values to the book values of intangible assets, granted by Art. 110, paragraph 8 bis of Decree Law no. 104 of 14 August 2020, as added by Art. 1, paragraph 83 of Law no. 178 of 30 December 2020;*



- to the use of those available extraordinary reserves to distribute a total dividend of € 90,910,927.56, equal to € 0.06 for each of the 1,515,182,126 ordinary shares.”*

Verona, 9 March 2021

The Board of Directors