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REPORT OF 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

2021

Shareholders' Meeting

7 April 2022

Report of the Board of Statutory Auditors to the Shareholders' Meeting of Banco BPM S.p.A. pursuant to Article 153 of Italian Legislative Decree No. 58 of 24 February 1998

Dear Shareholders,

The Board of Statutory Auditors (hereinafter also just "Board" or "Control Body") currently in office was elected by the shareholders' meeting of Banco BPM (hereinafter also "Banco BPM" or "the Bank") on 4 April 2020, and later integrated by the bank's Shareholders' Meeting on 15 April 2021, following the resignations of some members over the course of 2020.

On the date this Report was drawn up, the following persons are standing members of the Board: Prof. Marcello Priori (in the office of Chairman), Mr. Maurizio Lauri, Mr. Alfonso Sonato, Ms. Nadia Valenti (all having previously held office) and Ms. Silvia Muzi (appointed by the Shareholders' Meeting on 15 April 2021), not to mention alternate members Mr. Gabriele Camillo Erba, and Mr. Wilmo Carlo Ferrari (a standing member since 4 September 2020, up until the Shareholders' Meeting held on 15 April 2021, which once again confirmed his position as an Alternate auditor) and Ms. Francesca Culasso (appointed by the Shareholders' Meeting on 15 April 2021).

With this Report, drawn up pursuant to article 153 of Legislative Decree no. 58/1998 (hereinafter also "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 2021, 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.

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In 2021, 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 meetings of the Board of Directors (it, too, appointed by the Shareholders' Meeting on 4 April 2020) 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 and Sustainability Committee (name updated with the review of the Articles of Association passed by the Banco BPM Extraordinary Shareholders' Meeting on 15 April 2021 - hereinafter also "ICRSC"), the Remuneration Committee, the Related Parties Committee and the Appointments Committee, established within the Board and obtained, in compliance with 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. The Chairman attended the Shareholders' Meeting in person on 15 April 2021 (the ordinary and extraordinary session), for the Board of Statutory Auditors, while those who were standing members then, Mr. Wilmo Carlo Ferrari and Mr. Alfonso Sonato and Ms. Nadia Valenti, in compliance with the prescriptions adopted by the competent government bodies to protect health and safety in the face of the health emergency, attended via telecommunications means;

- 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 units 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 and risk management system (hereinafter also "ICS"), 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 as well as their direct non-employed staff, have also often participated. This has therefore provided the necessary operational and informative details about the methods used to perform 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 the Consolidated Financial Law;
- 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 means of implementation of the rules of corporate governance set forth in the new Code of *Corporate Governance*, brought forth by the *Corporate Governance* Committee, which the bank follows;
- 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 (updated over the year after the changes that Consob made with Decision no. 21624 of 10 December 2020);

- it has supervised the overall appropriateness of the internal procedures in terms of at-risk activities 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 succeeded in carrying out the required verifications of the subsistence of the eligibility requisites for its members, applying the current regulations in this area;
- 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. The Board has also ascertained that the Board of Directors – following current legislation – conducted the annual self-assessment process, the results of which highlighted a substantially positive framework as far as both the composition and operation of the Board. The areas for improvement which emerged were discussed, identifying specific corrective actions, including the continuation and integration of the ordinary *training* and *induction* plan, already underway (with invitation to the sessions – and they have always attended – of the Board of Statutory Auditors' members as well) with the aim of strengthening skills continually;
- it examined the Draft Financial statements for the year and the consolidated financial statements and their attachments, the *Risk Appetite Framework*, 2021-2024 Strategic Plan and the *Budget*;
- it checked compliance with the laws and regulations inherent to the process for the preparation of the Financial statements and drafting of the Non-financial statement as set forth in Legislative Decree no. 254/2016;
- it set in place – in its role of Internal Control and Accounting Audit Committee – that required by Legislative Decree no. 39/2010 and EU Regulation no. 537/2014, with reference among others, to the verification of the designated Auditing firm's independence profiles.

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Before entering into the main findings acquired in performing its duties, the Board of Statutory Auditors deems it useful to provide some information on the special backdrop that characterised the year 2021 due to the Covid-19 pandemic, a situation that impacted certain decisions and business in general across the board for Banco BPM.

The health emergency – what's more, still a reality upon the drafting of this document – determined serious repercussions both on the world economy and on company operations. Against this backdrop, Banco BPM continued to implement an appropriate series of measures aimed at protecting the health and safety of the clientele and its employees, as well as to give solid support to the companies, families and communities in the local area in which the Group operates. Some of these interventions (including, to be specific, *smart working*, shifts for employed personnel and the promotion of remote customer operations) have been guaranteed by the implementation of organisational and IT solutions meant to guarantee the continuity of the regular banking activity, at the same time ensuring people's physical safety and the IT security of transactions.

The whole of the initiatives was managed and coordinated by a Crisis Committee, active since 23 February 2020, overseen by the Chief Executive Officer and made up of the managers of the main Corporate Functions, in the scope of which activities and interventions were arranged that ensured the adoption of rapid and effective actions, not to mention the coordination and implementation of the most opportune intervention measures, based on the evolution of the situation, in line with the regulatory provisions and with the instructions issued by the authorities and the bodies/institutions of reference.

Over the course of 2021, the activities of the project structured to face the impacts of the health emergency, called *Reaction*, were mainly focused on the sales scope to ensure people's physical safety and orient the relationship with customers towards the use of digital channels.

Consistently with the above, starting from the first quarter of 2020, the Bank proceeded with the operational activation of measures to support the economy adopted by the Italian Government, the Italian Banking Association or based on bilateral agreements (as a concession of payment moratoriums, suspension of mortgage payments, granting or renegotiation of loans with state guarantees, advances from the wage guarantee fund).

The pandemic backdrop, its strong impact both on the domestic and foreign economy and societies (what's more, with significant sectoral asymmetries), not to mention the measures consequently activated, influenced the exposition to different types of risk that characterise the Bank's operations, and specifically, credit risk. With the intention to oversee, manage and properly measure these risks in relation to the extraordinary ongoing crisis, the whole Group has implemented a series of evolutionary interventions - some even of a prudential nature - on processes, procedures and internal modelling, strengthening and reshaping protections and checks, the efficiency and effectiveness of which the Board of Statutory Auditors has particularly emphasised, as described in the rest of the Report.

In this supervision activity, the Board paid particular attention to the numerous documents, guidelines, calls and recommendations issued over time by the Supervisory Authorities (European Central Bank, Bank of Italy, Consob) and other institutions abroad (like EBA, ESMA, IASB, Basel Committee), meant to provide instructions to ensure a proper and transparent measurement of the risks, besides ensuring proper and transparent measurement of the risks, in addition to the interpretations for application of that envisaged by the accounting standards in order to prevent the development of *pro*-cyclical effects. Simultaneously, the recommendations about the need to ensure updated information on the risks associated with Covid-19 that may have an impact on the Bank's financial position and economic result, any actions taken or planned to mitigate those risks and an indication of the potential significant impact on future performance were adopted. To this regard, the Statutory Auditors have directed their attention specifically: *(i)* to the classification of the loans characterised by moratorium interventions, and the performance of the portfolio affected by "Covid-19-related" measures in general, both still active and past due; *(ii)* to the measurement of the expected losses on the credit exposures, such as to incorporate the forecasts of the future macroeconomic scenarios and the effects of the state guarantees granted on "Covid-19-correlated" loans; *(iii)* to the information to the market on the effects brought by the health crisis and those envisaged, as well as the measures undertaken and those planned to face the crisis, based on the instructions given in the *statements*, calls for attention and communications (particularly by ESMA, Consob and the Bank of Italy); *(iv)* to the assessment and determination of the *impairment* for the non-financial assets; *(v)* to the assessment and recoverability of the *deferred tax assets*; *(vi)* to the overall adequacy of the administrative/accounting structure, the organisational structure, and last but not least, the Internal Control and Risk Management System even in the pandemic context.

Moreover, note that starting in the month of February 2020, continuing in the course of 2021 and still up until the drafting of this Report, the Board of Directors examined the reports on actions implemented to mitigate the impact of Covid-19, with regard to the operational measures finalised to limit the spread of contagion, the business measures to limit the negative economic effects from the health emergency, the measures finalised in compliance with the cited Supervisory indications, to limit *pro*-cyclical elements in the calculation of the capital and liquidity requirements, as well as the information on the performance of the *business*, loan portfolio (particularly in reference to the portfolio for the moratoriums, the credit granted with assistance of state guarantees and the non-performing loans) and corporate projects, initiatives/activities on the progress of the *Digital Transformation* programme and that which is necessary to guarantee more and more ease and multichannel interaction as far as the activities of customers and employees.

Against a backdrop characterised by the uncertainties of the ongoing pandemic, the Board of Statutory Auditors also specifically monitored the initiatives that the Bank took up (specifically by the Risk Function) to ensure constant and continual monitoring of the regulatory capital, also for that which concerns the maintenance of adequate *buffers* for the regulatory requirements also with an outlook to the evolution of the Supervisory Authority's provisions and requests (with any linked capital absorptions). To this regard, it confirms the usefulness of ICAAP monitoring, today carried out with a complete update at 6-month intervals, in line with the update timing of the macroeconomic scenarios the Bank prepared for the purposes of its planning and audit activities. Considering the significant uncertainties of the period, the Board recommended close and continual monitoring of the scenarios of reference in order to quickly catch any significant changes in context.

Likewise, the Board ascertained the Risk Function's ongoing adequate control of Group liquidity implemented with the monitoring of the regulatory indicators (*Liquidity Coverage Ratio* and *Net Stable Funding Ratio*), integrated by metrics developed internally and complementary to them (like for example, the behavioural models on demand deposits), not to mention with a periodic positioning analysis on the adequacy of the Group's liquidity with respect to the European and Italian banking system.

Plus, as anticipated in the Report for last year, on 4 November 2021, Banco BPM approved the new 2021-2024 Strategic Plan, based on assumptions and objectives defined also in consideration of the health emergency's impact and its potential evolution, as detailed further in the Report on operations.

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In order to provide a complete preliminary picture, on a prospective basis we deem it best also to highlight the worrisome circumstances of the current international geopolitical context, as a consequence of the tensions which originated after Russia's recent invasion of the State of Ukraine, whose impact on the main macroeconomic variables (growth, industrial production, inflation, etc.) and on the financial and currency markets – in addition, even worse, in terms of human lives – today is difficult to quantify. Also having ascertained with independent research that Banco BPM's direct exposure to Russia is extremely minimal, the Board of Statutory Auditors underscored the necessity for close monitoring of the Italian macroeconomic context – considering the interrelation of the trend of the main variables with potential developments for the credit risk of the clientele – and a strengthening of the operational and control functions' protocols due to the potential risks it tinges the Bank's activity with, also in light of the compliance with the sanction initiatives taken up by the European Union and the potential *cyber* attacks the financial system could be exposed to.

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Based on the main findings acquired while carrying out its functions, some significant events, which have characterised the year 2021 (some of which already described in the Report for last year) as well as the early months of 2022 were identified. In relation to these events, it was deemed appropriate, although described in depth in the Report on operations of the Group drawn up by the Directors (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 made, as the pandemic scenario that also affected the year 2021 continues. In particular:

- initiatives of rationalisation of the Group's: *(i)* consistently with the process of simplification of the Group structure, over the course of 2021 and in the early months of 2022, the following merger transactions were completed (according to the simplified forms envisaged for wholly-owned companies and by authorisation from the competent authorities) for the incorporation of the subsidiaries into Banco BPM S.p.A.: *(a)* ProFamily S.p.A. (in keeping with the agreements signed with Crédit Agricole Group) on 19 July 2021, with accounting and tax effect as of January 1, 2021; *(b)* Bipielle Real Estate S.p.A. (with the objective of concentrating the whole of the real estate assets directly in the Bank) on the date 21 December 2021 with accounting and tax effects as of 1 January 2022; *(c)* Release S.p.A. (after the acquisition of 100% of the share capital) on the date 21 February 2022, with accounting and tax effects as of 1 January 2022. With reference to Bipielle Real Estate S.p.A. and Release S.p.A. the Board (as the Control Body of the Incorporating company) prepared the Reports as set forth in article 2429 of the civil code for the year 2021, available in the dedicated file; *(ii)* in view of the rationalisation of the Sales structure and network, Banco BPM completed the plan for the closure of no. 300 small branches and implemented the agreement signed with the Trade Unions at year-end 2020, regulating more than half of the voluntary agreed employee retirements within the month of June 2021;
- *derisking* initiatives: over the course of 2021, in line with the objectives of continuation of the process of progressively reducing the impaired portfolio, Banco BPM finalised the so-called "Rockets Project" which in the month of June entailed the assignment of the bad loans portfolio for a gross sum of 1.5 billion euros in the form of securitisation in favour of the SPE Aurelia SPV S.r.l. which issued the *Notes* (*Senior*, *Mezzanine* and *Junior*). The *Senior Notes* were subsidised by a State guarantee (so-called the "GACS"), the extension of which was approved by the European Commission. 95% of the *Mezzanine* and *Junior* securities were purchased by companies controlled by Elliott funds. After the transaction mentioned and net of that transaction, the Bank revised the *target* for additional assignments, standing at 650 million euros as at 31 December 2021;
- *Partnership* and strategic agreements: *(i)* on 5 March 2021, Banco BPM and Cattolica Assicurazioni drew up a new agreement (formulated in a *Memorandum of understanding*), with which the terms and methods of adjustment and continuation of the *partnership*in the *bancassurance* industry and the related *exit* rights, combining the respective interests and taking into account the altered economic backdrop. In the face of Banco BPM's waiver of the *call* already exercised in December 2020, the following were recognised anyway: *(a)* a right to early exit from the *partnership* (with original duration until 2033), exercisable in the period from 1

January to 30 June 2023; *(b)* an unconditional option to purchase 65% of Cattolica Assicurazioni's share in the capital of the *joint ventures* Vera Vita S.p.A. and Vera Assicurazioni S.p.A. The agreement also covers other protection mechanisms for both parties; *(ii)* in late June, Banco BPM redefined the agreements of the *partnership* currently existing with Covéa Group and related to the *joint ventures* in Bipiemme Vita S.p.A. and its subsidiary Bipiemme Assicurazioni S.p.A., requiring, among other things, the recognition of an unconditional option for Banco BPM to buy 81% of Bipiemme Vita's capital, exercisable in the period from 8 September 2021, and 31 December 2023. If this option is not exercised, the *partnership* may continue up until the end of 2028, save additional protection mechanisms exercisable by both parties, through *put* and *call* options; *(iii)* with reference to the *partnership* with Anima Holding S.p.A. no change occurred with respect to the framework agreement outlined in 2020 and the share Banco BPM holds in that same Company, classified under item "70. Interests in associates and joint ventures". On 1 March 2022, the Bank has also signed a share sale agreement for the transfer to Banca Popolare di Sondrio S.p.A. of its overall shareholding, equal to 39.5% of the share capital, held in Factorit S.p.A., an intermediary *pursuant to* Article 106 of Legislative Decree no. 385/1993 that operates in the advances and collection of trade receivables and related services. The completion of the transaction should draw to a close in that same month and falls within the more general action of rationalisation of the equity portfolio which Banco BPM has undertaken in the past few years;

- funding operations directed to institutional investors: *(i)* in January 2021 the issuance of *Additional Tier* 1 instruments was completed for a nominal value of 400 million euros, meant to strengthen the Group's equity position; *(ii)* in the month of June 2021 the allocation of an issue of a subordinated *Tier 2* bond for Euro 300 million euros and 10-year maturity, in the scope of the Group's EMTN Programme; *(iii)* in the month of July, 2021, in line with the Group's ESG strategies, the first issue of *Social Bond (senior preferred)* for 500 million Euros was completed, coming to maturity in 2026. Issued in the scope of a *Green, Social and Sustainability Bond Framework,* valid for the EMTN Programme, the bond is for financing a portfolio of selected SMEs which were granted disbursements covered by the public guarantee to face the Covid-19 emergency, envisaging yearly reporting; *(iv)* in the month of January 2022 came the completion of a new subordinated *Tier* 2 issue for 400 million and 10-year maturity which also is part of the EMTN Programme, the subject of information to the market and more broadly described in the section on significant events which took place after the end of the financial year illustrated in the Notes to the consolidated financial statements; *(v)* in the month of March 2022 the allocation of the first issue of *Green Covered Bond* was completed, for a total amount of 750 million euros and 5-year maturity, in the scope of the above-mentioned *Green, Social and Sustainability Bond Framework* and valid for the BPM Covered Bond 2 Programme for 10 billion euros, meant to finance a portfolio of selected mortgage loans on green residences granted to private clientele for the purchase of highly energy-efficient homes. The overall use of medium/long-term European Central Bank (hereinafter also "ECB") funding (TLTRO III), given the particularly favourable conditions to tackle the consequences of the Covid-19 pandemic, was further increased during the year and amounted to a nominal 39.2 billion euros as at 31 December 2021.

With reference to the relationship with the Supervisory Authority, we also report that Banco BPM was subject to the inspections conducted by the Authority in the exercise of its audit and supervision prerogatives, specifically by the ECB in the scope of the *Supervisory Review and Evaluation Process* (hereinafter also "SREP"). These activities were also conducted in person, compatibly with the protocols taken up in consideration of the ongoing pandemic. Even when carrying out its institutional functions, the Board of Statutory Auditors has established a productive information relationship with the *Joint Supervisory Team* (hereinafter also "JST"), an operating unit of the *Single Supervisory Mechanism* (hereinafter also SSM), which is responsible for carrying out prudent supervision of the Group - and with the inspection *teams* (of the same European authority or domestic ones) assigned as and when necessary.

To this regard, in February 2022 the Bank received the notice of the prudential decision (so-called "SREP *decision*"),with the outcomes of the annual process of supervisory review and evaluation valid for 2022, which gives some recommendations in order to orient the areas for improvement identified for the Bank. Considering the analyses and evaluations performed, for 2022 the ECB determined a *Common Equity Tier* 1 (hereinafter "CET 1") requirement of 8.52% to meet on a consolidated basis, keeping the "*Pillar 2 additional own funds Requirement*" steady at 2.25% (so-called "P2R") which must be met by at least 56.25% (corresponding to 1.27%) with CET 1 and by at least 75% with *Tier* 1. All equity requirements are fully met by Banco BPM.

Consistently with the information rendered in the Report for last year (which is deemed to be referred to herein) on the activity of reporting of clientele interested in purchasing diamonds from the specialised company Intermarket Diamond Business S.p.A. (operations dating back prior to 2017 and now completely stopped), it is hereby acknowledged that in 2021 the new claims to this regard were few both in number and in total additional *relief*. The Bank set up an ad hoc fund to face the residual risks linked with this activity, for which another 2.2 million euro provision was recognised in 2021. The Board of Statutory Auditors in any event always keeps an eye on the management of the petitions (especially regarding the percentage of reimbursement paid to the clientele, for which there is also a *managerial indicator* in the *Risk Appetite Framework*) and on the court disputes, likewise examining the periodic audits by the Internal Validation Function meant to test the proper functioning of the model for determining the budget provisions.

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Given the above, over the course of 2021 and in early 2022, the Board of Statutory Auditors has supervised, including through specific monitoring and targeted analysis activities, certain spheres on the basis of their relevance in reference to the organisational, risk-control and risk-management structure. More specifically, we report the following.

Loan Monitoring and Management process

As already stated in the Control Body reports for the past years, Banco BPM has continually set in place initiatives for the progressive strengthening and fine-tuning of the regulatory and organisational *framework* related to loan management processes, geared towards guaranteeing effective risk management, on the basis of the recommendations that the ECB formulated on the subject (especially for the *non-performing* loans) at the outcome of the inspections. The crisis the pandemic has caused and the correlated interventions to support the economy, extended until year-end 2021, have made it best to consolidate the *governance* and operational mechanisms, with a specific *focus* on the methods of identification, monitoring and measurement of the credit risk, in some cases by accelerating the implementations already underway, just like the broadening of the *reporting* activity to help *Top Management* and the corporate bodies, for more complete and effective representation, also for the purposes of making the proper informed decisions on the matter. The Board kept a special eye on these interventions developed during 2020 and 2021, both by examining the integrated monitoring (carried out by the first-level structure) and control report (conducted above all by the Risk/Enterprise Risk Management Function and the Audit Function). To this regard, we hereby expound the following aspects:

- besides the organisational changes made to the Area Chief Lending Officer (hereinafter "CLO"), meant to achieve the maximum effectiveness and the best operation synergies to guarantee greater operational integration of the risk management structures, especially that for credit, over the course of 2021, the methods of interaction between CLO (and the related structures of reference) and the Risk Function Manager (and related structures of reference like Enterprise Risk Management, Risk Models and Internal Validation) were bolstered. The *ex-ante* controls that the Risk Function set in place were broadened, the so-called "*credit file reviews*" improved (hereinafter also "CFR") and the CLO Area's activity constantly supervised, through the Manager of the Risk Function for the Credit Committee and the NPE Committee (as set forth *herein*);
- for that which concerns the *reporting* activity, the responsible Credit Governance Structure periodically made reports in the sphere of credit, which have been progressively improved and the scope of their detection/analysis has been extended, also in light of the need for even more stringent monitoring, made necessary by the ongoing pandemic situation. Specifically, we

remark that: *(a)* the Report "*Performing portfolio dynamics and focus on Covid measures*", aimed at monitoring the legislative and non-legislative support measures applied in light of the crisis generated by the Covid-19 pandemic (moratorium and new liquidity measures), which was progressively supplemented with sections dedicated to: (*i*) monitoring of the performance of expired moratoria and the potential riskiness of residual exposures; (*ii*) in-depth analysis of the distribution by risk band and sector outlook of expired and still active moratoria; (*iii*) *follow-up* on the performance of *early management* and borrower engagement activities and ex post controls carried out by the Monitoring and Controls structure; (*b)* the "*NPE Portfolio Dynamics*", aimed at allowing a periodic examination by the Statutory Auditors of the Loan Portfolio for the checks within their competence, also in consideration of the indications developed by the ECB regarding the appropriate examination and discussion of the Bank's Loan Portfolio by the Board of Auditors, particularly with reference to *non-performing positions*.

- regarding Credit Policies the bank has revised their *framework* to include greater involvement of the Head of Risk in decision-making processes. The new *framework* calls for the systematic participation of the Manager of the Risk Function in the Credit and NPE Management Committees, allowing for effective supervision and integration with the required opinions on the concession resolutions falling within the scope of the Major Transactions/Significant Transactions, as proof of the progressive broadening of the scope of transactions subject to the Risk Function's *ex-ante* assessments. During 2021, the *requirements* necessary to comply with the EBA "*Loan Origination and Monitoring*" Guidelines aimed at assessing the financial sustainability and prospective soundness of counterparties were defined and are being implemented; the Board of Statutory Auditors deems their prompt implementation of the utmost importance,
- for the management of the portfolio, the bank has implemented a series of measures to improve the monitoring *framework* already in place in line with and in response to the recommendations also received from the Supervisory Authority ("*Follow up on operational capacity to deal with distressed debtors in the context of Covid-19 pandemic*" of 30/11/2020 and "*Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic*" of 4/12/2020). All this, still taking into account the uncertain impact of the pandemic, not to mention the potential distorting effects on the process of assessing credit positions related to the government support measures put in place to support the economic system ("*cliff effect*"). These include:
  (i) analysis of the performance of the *performing* portfolio (under the responsibility of the Performance Management Bonis structure) and the *non-performing* portfolio (under the responsibility of the Performance Management NPE structure), the results of which are periodically reported to the Bodies. This analysis is integrated with the aggregate checks

(using the so-called "*Key Risk Indicators*" or "*KRIs*") carried out by the Risk function, whose anomaly indices are used to direct *credit file review* activities;

(ii) the strengthening of the interception system with: *(a)* continuous monitoring of positions ("*Early Warning System*"),in order to intercept clientele deterioration signals in advance; *(b)* implementation of the NEWS application ("*New Early Warning Score*"), new performance *scoring* model used for monitoring purposes. This comprehensive system then directs the management of individual positions under the monitoring procedure PMG ("Monitoring and Management Practice"), platform for identifying and managing anomalous counterparties;

(iii) monitoring and analysis of the performance of the portfolio benefiting from "Covid-19-related" support measures (under the responsibility of the Performance Management Bonis structure) with provision for specific first-level *ex post* sample checks (based on *risk-based* indicators) on counterparties benefiting from support measures, again with a view to identifying signs of financial hardship. These controls are complemented by the second level controls carried out by the Risk function (massive and through *credit file review*), which also include analyses of the liquidity position of customers benefiting from support measures;

(iv) the verification for possible lower significance of performance signals for customers subject to moratorium. This initiative (for which the CLO area provides periodic updates) is accompanied by specific checks by the Risk function for the assessment of the analyses carried out by the CLO area also in terms of representativeness and depth of the contact campaign scope (interaction initiatives, promoted by the CLO Area itself, with those benefiting from the support measures), as well as checks on the completion of the actions implemented/identified, where envisaged, and the related effectiveness;

(v) a specific *assessment* on UTP *Mid Ticket* counterparties, which the CLO Area conducted in the first half of 2021 with the support of an external consultant in order to anticipate the update of the economic and financial situation of the client, assessing the consistency of the classification, the adequacy of the forecasts and recovery times, as well as the validity of the expert reports. This allowed a very high percentage of *Mid Corporate* positions to be examined. The Risk Function subjected this activity to an adequacy assessment with *credit file review* specifications.

In this context, in view of the extension of the moratoria (Decree Law no. 73/2021 so-called "Sostegni *Bis*"transposed into Law no. 106/2021), the Bank has adopted a specific *framework* for assessing financial difficulty for the purpose of granting the extension. First of all, the Bank has fully informed all customers by trying, as far as possible, to address differentiated behaviour reflecting actual needs. Two *target* customers were identified, thus launching a campaign for "resumption of amortisation" and a campaign for "renewal of moratorium". With reference to the moratorium requests received with a utilisation of up to €500,000, the assessment of the financial difficulty and any *forbearance* measures were assessed at an aggregate level using a risk-based *approach*, unless different evidence was subsequently collected by the Commercial Network and assessed by the Monitoring and Prevention function. For the counterparties with a utilisation of over €500,000 an analytical check for financial difficulty was carried out by means of a specific Electronic Loan Application approved by ordinary *procedure* The absence of difficulties was justified and supported by specific evidence of financial strength (e.g., full recovery of activity/good prospects for 2021), in the absence of which the extended financing was considered *forborne*.

- In 2021, the *staging* process models were reviewed, in order to incorporate in the systems the heavily asymmetric nature of the macroeconomic *shock* on the different production sectors, generated as a result of the pandemic crisis and the containment measures promoted by the Competent Authorities. The new macroeconomic forecasts have incorporated the intrinsic risk of the sector of reference on a more prudential basis, to reduce the risk of any *cliff-effects* when the Government support measures come to an end. In this context, the Bank – since March 2021 – has implemented a series of methodological interventions of a prudential nature, resulting from specific Internal Validation Function requests and, subsequently, based on the plan adopted to respond to the evidence of the JST (as a result of the so-called *Credit ad hoc analysis* at the end of June 2021). Specifically, we report that:
  - *(i)* as early as the month of June 2021 with *post-model adjustment* of a prudential nature (given the punctual extraordinary anomaly of the pandemic emergency, difficult to capture from validated systems built with a *through-the-cycle*) view, and later on, starting with the Quarterly equity and economic statements as at 30 September 2021, directly in the “Suite IFRS9” (procedure for the acquisition of the necessary data and having carried out the monthly processes aimed at accounting for the expected losses on credit exposures), the so-called “*threefold effect*” was applied, which allows for classification in *stage* 2 of the counterparties in the portfolio which show a probability of *default* at the reference date that is at least three times greater than that recorded on the date the loan was granted;
  - *(ii)* the effects of the qualitative-quantitative analytical assessment carried out at the time of the half-yearly report, which led to the classification as *forborne* of the positions subject to the extension of the Article 56 moratorium *pursuant to* Article 56 of Decree Law no. 18/2020 so-called "Cura Italia" for which the presence of financial difficulties was identified, were incorporated into IFRS 9;
  - *(iii)* the "IFRS9 Suite" was amended to reflect changes in risk parameters that occurred as a result of the ECB's approval of changes to the A-IRB internal models in March 2021. The integration

has therefore made it possible to achieve complete methodological alignment in the calculation of the risk parameters applied in the accounting and regulatory context, while maintaining the specificities provided for both in IFRS9 and in the prudential supervisory regulations;

(iv) replicating what had already been done for the closing at 30 June 2021, the scope of application of the satellite models developed internally was confirmed, using, for sectors with a higher than average incidence of outstanding moratoria, an external model which, thanks to managerial interventions made by the supplier downstream with respect to the statistical results, is more prudent than the model developed internally.

In addition to the processing of "Suite IFRS9" some *post-model adjustments* were replicated with the of capturing elements of possible increased risk not captured by the above methodologies in light of the exceptionalness of the current backdrop. Specifically: *(i)* classification at *stage* 2 of the credit lines with counterparties which, benefiting from the government support measures, went back to *stage* 1 (so-called "*Backward-looking* Approach"); *(ii)* prudential classification at *stage* 2 of counterparties with exposure of less than €500,000 who have requested an extension to the end of 2021 of the moratorium *pursuant to* art. 56 of Decree Law no. 18/2020 so-called "Cura Italia" and not judged to be *forborne* after the quantitative analytical *assessment* done by the account manager; *(iii)* the use of risk parameters estimated through internal modelling for the write-down of credit lines that fall under Structured Finance Transactions. In addition, there are the usual *overrides* performed by the Credit Function, in application of the internal regulations of reference, with respect to that generated by the "IFRS 9 Suite";

- regarding the activities to cover the credit risk of the *non-performing positions*, first off, you will recall that the NPE Performance Management structure (CLO Area) annually defines and revises the methodological *framework* underlying the process of *provisioning non-performing* positions and updates the threshold used to identify the perimeter of exposures whose provisions are determined using the automated method or the analytical method (in collaboration with the Risk Models structure through the sharing of the parameters underlying the valuation models and subject to Internal Validation Unit validation). To this regard, please take note that in relation to the calculation of loss forecasts for the *non-performing* portfolio for customers with exposures below the materiality threshold (€1 million), known as "automated *gone*", methodological adjustments were made starting from the reference date of 30 June 2021, also in order to incorporate the *findings* previously formulated by Internal Validation. Specifically, the estimates of real estate *haircuts* and the *Recovery Rate* of *Bad Loans* have been prudentially revised, and further corrections have been introduced on the *danger rate* parameters related to the introduction of the new definition of *default*. Moreover, following checks by Internal Validation, the recovery times proposed to the operator at the time of the analytical assessment were also revised and made more consistent with the quantification logic adopted for the lump-sum assessment. The Risk Function – through the 2nd Level Controls – conducts *dual coding* activity at at least six-month intervals based on the calculation model used to automatically determine the expected losses. No inconsistencies emerged from the activities conducted on the dates of reference of 31 December 2020, and 30 June 2021, such as to make a significant impact on the financial statement data, therefore expressing a judgement of substantive adequacy. Periodic reporting is also done on this verification and submitted to the Corporate Bodies and Steering Committees. With regard to the analytical *provisioning* process, the Performance Management NPE structure defines the framework underlying the methodologies for estimating provisions, conducts analyses on the level of existing outstanding provisions on impaired exposures, carries out simulations on the cost of credit and performs Level I controls, second instance, on *non-performing* loans regarding the correct assessment of the credit. These activities are periodically reported to the NPE Committee. As part of Level 2 controls, the Risk function *(i)* conducts analytical reviews of individual exposures in the loan portfolio through Enterprise Risk Management, which are consistent with the methodologies defined from time to time for the purpose of assessing the adequacy of provisions; *(ii)* conducts checks and reviews of *provisioning* models through Internal Validation, and also performs *backtesting* activities.

Recalling that pointed out in the last Report on the recommendations that the Manager responsible for preparing the Company's financial reports (hereinafter "Manager Responsible") and Internal Validation prepared on the *extra*-procedural methods, often used in the past to calculate the impact of the methodological interventions initiated, the Board highlights the significant developments in 2021 that led to the automation of the manual and/or laboratory activities, only leaving out certain ones - what's more, also soon to be taken care of.

With regard to updating the value of real estate used as collateral for credit exposures, the NPE Performance Management structure monitors the process of updating the value of the guarantees – under the responsibility of the Operations area – relating to the perimeter of competence, in order to identify possible anomalies and propose appropriate corrective actions. In the context of Level II controls, the Risk Function carries out specific verification activities on the appraisals of *assets* used to guarantee *performing* and *non-performing* exposures, in order to check that they are correctly updated in line with the provisions of internal regulations. With reference to the internal process being used to monitor the collateral/mortgage loans and the initiatives implemented for their additional strengthening, the Bank defined specific "*alerts*", in order to identify the assets for which acquiring a new appraisal becomes necessary. In order to pursue the constant strengthening of the controls on the appraisals and their process, the Risk Function outlined the specifications for the information

implementation needed to carry out the checks with respect to the rotation of the experts not to mention in relation to their independence. Lastly, the Risk Function continues ongoing monitoring of the past-due appraisals used to guarantee both *performing* and *non performing* exposures and is finishing the *backtesting* activity on the value of the collateral. In this area, the Board has repeatedly shown and recommended rapid, ongoing updating of the appraisals on collateral - an essential information for precise valuation of the residual credit risk.
More in general, also during 2021, in the area of Credit the Board examined the results of the specific checks – performed by the Bank's Control Functions (specifically the Audit Function and the Second-Level Control structure of the Risk Function) 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. On the areas of improvement identified, improvement activities have been launched, often linked to IT implementations. To this regard, while understanding the difficulties linked to the complex realisation of the necessary IT implementations, the Board recommended every possible managerial action to try and cut the time to create and adopt proper counterbalancing actions in course of realisation. The Board reserves the right to check the effectiveness of the actions already finished and will proceed to monitor the realisation of the interventions planned, also with regard to the evolution of the regulatory framework and any indications formulated by the Supervisory Authority on the topic.
We deem that these potential threats - just like the still uncertain outlooks correlated to the repercussions of the crisis brought on by the pandemic still underway and to the mitigating effect (however temporary) of the economy support measures granted - were assessed with the approach adopted by the Board of Directors, also urged on by the Board of Statutory Auditors, in determining the coverage of the credit risk the Bank is exposed to, despite being well aware of its uncertainties against a complex macroeconomic backdrop, and more recently, geopolitical backdrop linked to the war in Ukraine. On this issue, the special attention that the Board of Statutory Auditors has devoted to the application of regulations in the area of *Calendar Provisioning* and the means by which the Bank aligns and informs the Corporate Bodies on this important topic is worthy of note. All this, particularly with regard to the different times that the assessments both from a static and from a dynamic viewpoint are shared and illustrated, with a detailed description of the motives - also following the outcome of the discussions with the Supervisory Authority - which led to the quantifications included in the ICAAP exercise developed based on the 2021-2024 Strategic Plan, approved by the Board of Directors on November 4, 2021.
That described above therefore does not make the Bank exempt from carrying on with further fine-tuning of the methodological, organisational and process *framework* , not to mention continually strengthening the position monitoring system (and related precise *reporting*) of the positions and

proactively rapid intervention to provide support upon any manifestation of signs of hardship. The Risk Function will continue to ensure controls on the *performing* portfolio's risk profile, just like, among other things, on the solidity of the classification processes and the congruity of the provisions, both through aggregated and analytical checks. They will also be made official with the issuance of ad hoc opinions given to the Corporate Bodies and the Supervisory Authorities. Carrying on from 2021, the activities schedule that the Audit Function prepared for 2022 affirms the *effort* invested in conducting checks and/or *follow-ups* on credit processes, what's more, paired with *credit file review* activities (sometimes required by the Supervisory Authority) and certification of the completion and verified effectiveness of the corrective actions set forth in the *Remedial Action Plans*, made to resolve the findings of the Supervisory Authority following the scheduled inspections.
The Board of Statutory Auditors is also well aware of the importance (and complexity) of the necessary addition of assessments on the potential effects of *climate change* (and more in general of ESG issues) in the methods inherent to monitoring the loan portfolio, for which ad hoc projects were launched within the Risk Function (by Risk Models), whose conclusion and related implementation the Control Body deems very important.

Processes for extending and updating the internal risk measurement models

In consideration of the equity impacts of the consolidation of internal models, during 2021 the Board continued with its supervisory activities regarding further developments in *risk models*, affected by processes for extension and development in line with reference legislation and with the expectations of the Supervisory Authority. The Board of Statutory Auditors maintained continuous information flows with the Bank structures (and specifically with the Risk Models structure and the Internal Validation Unit) regarding the activities progressively carried out, also in order to address the *findings* formulated by the ECB as a result of the process aimed at authorising the requests for amendment/extension of the internal models used for risk measurement for reporting purposes submitted by the Bank. To this regard, also as an update to that related in the last Report, we inform that, related:

- to credit risk, from March 2021, the Supervisory Authority authorised the Banco BPM to use a more updated IRB *framework* with the introduction within the various areas of application (regulatory and operational) of new PD, LGD and EAD parameters both for *retail* customers and *corporate* customers. These incorporate the new regulatory definition of *default* (EBA/GL/2016/07) and anticipate a range of aspects regarding the EBA guidelines on the estimation of PD, LGD and *downturn* (respectively EBA/GL/2017/16 and EBA/GL/2019/03). In 2021, the Bank also launched an important project to review the A-IRB system, with the aim of completing the process to align the current credit risk models with the regulatory requirements originating from the EBA Guidelines on the development of PD and LGD models (EBA/GL/2017/16), estimation of *downturn*

(EBA/GL/2019/03, as well as EBA/RTS/2018/04) and *Credit Risk Mitigation* techniques (EBA/GL/2020/05). The projects to review credit risk models, the assessment criteria of the same (*backtesting framework*) and the adaptation of the various Bank processes, led to the submission of an A-IRB *model change* application to the Supervisory Authority in the first quarter of 2022; moreover, the fundamental objective of this new *application* was to resolve the *Obligations* pointed out during the last inspections on A-IRB internal models as well as certain findings that the Internal Control functions raised over time;

- to the market risk, during 2021 significant refinements were made to the internal model (for which we remark having received authorisation on 16 November 2020, from the Supervisory Authority to extend the specific debt securities risk), with a view to fulfilling the *Obligations* of previous inspections. The changes regarded, in particular, the measurement of foreign exchange positions, the quality of VaR, *Stressed* VaR and IRC market parameter data, the process of identifying and managing "*Risks Not In Model Engine*" (RNIME) and the "*Incremental Risk Charge*" (IRC) calculation method. As regards the latter, a *limitation* is in place with a 10% *Add-On* on an individual and consolidated basis, until several relative methodological *findings* have been resolved;
- to the operational risk, the transition period for the ECB authorisation having ended for the use of the combination of the three regulatory methods (specifically, the AMA - *Advanced Measurement Approach* relating to the validated scope of the *former* Banco Popolare Group, the TSA - *Traditional Standardised Approach* on the scope of the *former* Banca Popolare di Milano Group and the BIA - *Basic Indicator Approach* for the other remaining companies), from the reporting date of 31 December 2020, the Supervisory Authority asked the Group to fully adopt the Traditional Standardised Approach (TSA) to calculate capital requirements for all companies that make up the Group, while with regard to the other qualitative-quantitative elements envisaged by Supervisory Regulations, to fulfil all of the requirements of the CRR 575/2013 for the TSA as well as those envisaged by the above-mentioned AMA in articles 321 (points b-e) and 322 (points b-f).

For that which concerns the internal modelling used to measure risk for management purposes, the responsible structures (Risk Models in particular) carried on with continual maintenance and updating in 2021 as well, in specie in the area of interest rate risk and liquidity risk, developing, moreover, the behavioural model on the demand items, with the application of a new method for identification of the transactional deposits; the latter is of fundamental importance in light of the effects on the regulatory liquidity indicators for a bank with significant direct funding from customers.

Furthermore, increasing levels of *capacity* are dedicated to activities related to the inclusion of climate and environmental risks – and, more generally, ESG issues – within the Group's risk management process, as described below and as already mentioned above.

The Board of Statutory Auditors was shown the petitions to make modelling modifications, specifically for the regulatory modelling. In this context, among other things, the Board examined the second (specifically, Internal Validation) and third-level audits that the Internal Control Functions performed, as well as the Supervisory Authority's final decisions on the petitions themselves, the related requests and consequent corrective *Action Plans* that the Bank approved (these, too, subjected to *assurance* by the Audit Function).

Regarding that described above, in the scope of its supervision of the Internal Control and Risk Management System (ICRMS), the Board underscored the need - in planning activities inherent to modelling interventions - to adequately estimate the time required to carry out accurate audits by the Functions responsible for them (*first and foremost,* Internal Validation and Audit).

Product Governance

Going back to that already reported in the last Report on the commitment the Group made, supported by the Compliance Function, within its scope of responsibility, in the area of *Product Governance* (also "POG") for Investment services and adaptation to the so-called "MiFID II Directive" in light of the results of the inspection Consob conducted in 2019 and taking into account the projects already underway as well, we hereby make known that the relevant Corporate Functions are proceeding with the realisation of the initiatives outlined. However, there are still areas for improvement highlighted by the ECB and Consob, for which actions have been identified, the solutions for which were completed for the most part by the end of December 2021/early 2022, while in the second quarter of 2021, most of the mitigation actions underlying the findings raised by the Compliance Function in this area were completed. On all these project interventions, the Board maintained, and will maintain, the proper monitoring, even through the Compliance Function, requesting and receiving specific updates/briefs on the progress of the interventions for adaptation to the MiFID Directive and the overall process of *Product Governance*. Particular *focus* will still be placed on the process of customer profiling, the new model in effect as of 6 December 2021, identification of the *target market* and creation of the distribution strategy, on the process of product *review*, the specific application procedure for the provision of consultancy, and the fit and proper assessments.

Further corrective actions are underway regarding *Product Governance* with respect to the anomaly profiles highlighted by the Bank of Italy in its Communication entitled "Guidelines for intermediaries on governance and control mechanisms for retail banking products (POG)", forwarded to the market on 18 March 2021, and relating precisely to banking products. The results of the *assessment* conducted by the Bank and the related plan of action (with successive deadlines up to 2022) were illustrated to the Board of Auditors at the meeting of 12 July 2021, during a specific discussion with the competent structures, requested in order to obtain information on the subject, with particular reference to Banco BPM's state of compliance with the indications contained in the note in question. In this context, the Board of Auditors was able to verify the level of adequacy of the internal procedures relating to the *Product Governance* process with respect to the anomaly profiles highlighted by the Bank of Italy, also resorting to *contingency* solutions, appreciating the efforts made by the structures involved, which have, however, acknowledged a certain delay in the implementation of certain improvement/refinement measures (especially with regard to automated computer systems at a procedural level), on which they have ensured maximum commitment. The Board also stressed the importance of the issue, not only in terms of the internal control system but also, and above all, in terms of "culture" and approach to customers, ensuring proper monitoring over the course of 2022, also *focusing* on the training provided to the Sales Network. To these ends, knowing full well how the *contingency* solutions clearly end up compensating the structural solutions, the Board recommended that the necessary IT adaptation at procedural level be implemented in a timely manner.

Investment services

In the scope of investment services, the Board of Statutory Auditors periodically examines – besides the process checks – the results of the audits conducted by the Compliance Function on the Banco BPM Sales Network in order to detect, mainly by analysing remote indicators (*Key Risk Indicators* or KRI), any macro-phenomena representing widespread operating practices that are potentially non-compliant with company *policies*. The analyses carried out during the year 2021 highlighted an overall positive *trend*. Nevertheless, and on the basis of the discussions with the Board of Statutory Auditors, the Compliance Function specifically delved into certain aspects, suggesting improvements and raising the Sales Network's awareness on some behavioural approaches not exactly compliant with the model in use, even by organising - with the aid of the Sales Function - training sessions at the territorial facilities. In this area, it is best to recall the Board of Statutory Auditor's recommendations in term of "company culture" highlighted above, to be implemented in the relationship with the clientele.

The examination of the Annual report on the activity carried out, also rendered as set forth in article 89 of the Intermediaries Regulation (as updated with Consob resolution no. 20307 of 15 February 2018), and that related to the Complaints about the Investment Services prepared by the Compliance Function - to be sent to Consob - did not reveal other problematic aspects than those already sent with specific initiatives and/or projects.

In conclusion, the analyses conducted resulted in the Compliance Function not finding significant organisational or behavioural shortcomings that would require prompt intervention, both because neither did concentrations of complaints manifest for the service provided, nor from a territorial viewpoint, both because the main causes for complaints appertain to episodes in the past, which could not recur in the current investment service management structure that the Group has adopted. The number of complaints recorded in 2021 what's more is decreasing compared to the year before (-28.1%), as well as compared to the 2018-2019 two-year span.

During 2021 second-level audits also continued, which the Enterprise Risk Management (hereinafter also "ERM") Function conducted, attributable to the Consultancy, *Product Governance*, *Pricing* and *Best Execution* macro-processes, the findings from which will be integrated in the Annual report on Investment Services to be drafted as set forth in the Bank of Italy and Consob Combined regulation of 29 October 2007, and as amended. At the same time, the ERM structure keeps strengthening the *reporting* system, even in terms of method.

While awaiting the issuance of the Audit Function's Annual Report on the Provision of Investment Services - it, too, to be sent to the Authority - the Board of Statutory Auditors has examined the audits that the above said function conducted in that area, on the basis of which a picture of essential adequacy emerged and - also upon the Board's request - the improvement actions identified (for example, on the classification of clientele as professional as set forth in MiFID, also for the Banca Akros subsidiary) were adopted.

The Board reserves the right to examine the Annual reports that the Risk Function and Audit Function will submit.

Transparency, consumer protection and usury

In the scope of the supervisory rights, the Board of Statutory Auditors pays close attention to the topics in question, periodically examining the results of the monitoring activity the Internal Control Functions carried out, each within their area of responsibility.

To this regard, the periodic control activities that the Compliance Function conducts on Banco BPM in the area of *(i)* banking products and services, *(ii)* products paired with loan contracts, *(iii)* insurance distribution (reporting begun during 2021) and *(iv)* usury, meant to detect any non-compliant profiles through the analysis of indicators, while they did not come across specific risk ratios, they highlighted some attention profiles, which the aforesaid function keeps properly monitored, also upon request of the Board of Statutory Auditors. The outcomes of this monitoring are also sent to the competent Bank functions by respective area of responsibility in order to assess the adoption of any targeted interventions on the anomalies encountered.

Regarding the analysis on the activity of management of the banking complaints and the adequacy of the internal procedures the Bank adopted, no specific risk factors or worrisome signs emerged from the Compliance Function's report. In fact, like in the past, the complaints ended up being more about the most popular products among the clientele, especially the bank accounts and products appertaining to the granting of loans and payment services. The main reasons at the base of the complaints mainly have to do with the performance of the transactions, communications/information to the clientele, and the conditions and/or their application. What's more, in 2021, there was a 15% decrease in the number of complaints received in the banking sphere compared to the previous year; this statistic is also attributable to the progressive decrease all throughout 2021 in the number of complaints linked to the Covid-19 emergency, which significantly impacted the total complaints for 2020.

Acknowledging that, regarding the adequacy of the procedures and organisational solutions adopted for the management of the complaints, the Compliance Function expresses a judgement of "adequacy" both in terms of internal regulations and from the viewpoint of operating processes, in 2021 the Bank continued - also in response to the requests that the Supervisory Authority formulated in the scope of previous inspections and the outcomes of the Compliance Function's audits - fine-tuning the controls meant to strengthen the practices adopted in the management of complaints or processes that could expose the Bank to the filing of complaints. The initiatives (scheduled and underway) with the same purpose include interventions aimed at revising the internal process of repudiation of the transactions the clientele made with payment instruments, which are to be authorised over the course of this year and with final date planned in September 2022.

After analysing the outcomes of the Audit Function's audits conducted on the Sales Network, no significant anomalies emerged linked to compliance with Transparency regulations. The existing ones are in any event mostly linked to aspects of documental completeness of hard copies.

For that which concerns the processes relevant to management of customer relations in the area of Transparency, the initiatives taken up to ensure that the information to customers concerning any future unilateral manoeuvres are fully in line with the Bank of Italy's expectations continue, just as the bank requested in its communication of 23 September 2021. Moreover, that same Authority launched inspections on the Sales Network in the latter part of 2021, focused on compliance of the obligations arising from the implementing provisions of Directive 2014/92/EU, so-called “PAD Directive” (“*Payment Accounts Directive*”), on the topic of transparency and comparability of the expenses related to the payment account. On this control activity, too, (begun on 11 November 2021, in *off-site* mode, and as of 22 November 2021, *on-site* at some of the bank's branches), currently underway, the Board of Statutory Auditors means to maintain the proper monitoring through the competent Corporate Functions, while awaiting the outcomes of the assessments they are responsible for.

Reports/Reporting to the Supervisory Authorities

Going back to that which has already been discussed in the last Report, although in a context of architecture of the controls that the Compliance Function assessed as solid on the whole, the need to finish the developments underway persists, aimed at strengthening the control systems to mitigate the risk of non-compliance with regulations, specifically in reference to the process of Reports to the *Authorities* in the scope of Markets and Infrastructure regulations in relation to the reports sent to the various Supervisory Authorities ("*Transaction Reporting*" and "*Securities Financing Transaction Regulation*" or "SFTR"), with the objective of further bolstering the Control Systems, both in the *ex-ante* stages and in the *ex-post* stages of the reporting *procedure*.

To this regard, with reference to *Transaction Reporting*, although the situation has significantly improved compared to the past, some points of attention persist for which a project has been launched, with the support of an external consultant, in order to determine any *gaps* and define a plan of action, with a solution expected by the end of December 2021.

For full disclosure, it is hereby acknowledged that the Bank is waiting for the end of the penalty proceeding (which Consob launched in July 2021) in the first quarter of 2022 regarding the quality of the data reported, as set forth in Regulation (EU) no. 648/2012 (so-called "EMIR"), to the *Trade Repository* on derivative contracts, what's more, from previous operations.

On the above-mentioned topics, regarding the EMIR reports and *Transaction Reporting*, the Compliance Function remains very alert also by doing - starting in the fourth quarter of 2020 - quarterly remote monitoring (KRI), reported for the first time to the Board of Statutory Auditors at the meeting on 6 April 2021, and later on, at the usual intervals.

Banco BPM's Board, too, just like the Control Bodies of the subsidiaries Banca Aletti and Banca Akros -– focused and will continue to focus on these aspects, also carrying out a focused reflection with the support of the relevant corporate structures.

Data Quality

As an update to that reported in the last Report, regarding the initiatives the Bank has launched since 2019 to outline both proper internal rules and an organisational *framework* compliant with the requirements and principles of *data governance*, *reporting* and *aggregation*in the BCBS 239 regulation, in particular, during 2021, three objectives of reference were pursued: *(i)* firstly, the *lineage* was maintained on the metrics already documented and the documentation of the remaining metrics deemed important to document; *(ii)* then a registration was done, complete with the corresponding documentation, the existing controls on all risk areas (credit, market, liquidity, etc.) and along all control levels (first level - first and second instance - and second level) with a view to preparing a component for the analytical assessment of th fitness of the data quality control; also in the sphere of the BCBS 239 Project, an analysis was also launched to set a method oriented towards

measuring the quality of the data; *(iii)* lastly, works are in progress to check the capacity of the bank's structure to produce the reporting necessary in special situations of problems with operations.
During the first half of 2021, the second level supervision of IT risk was also activated, as a result of the regulatory and methodological activities on the treatment of this risk implemented in 2020.
The *framework* di *Data Quality* framework now is extended to all the Pillar 1 risk categories (market risks, interest rate, liquidity, credit, counterparty and operational) and other *Data Quality* controls have also been developed in the scope of development of PD, LGD and *single step* estimation models and new definition of *Default*. With reference to the Pillar 2 risk categories, the auditing activities will be completed in 2022.
During 2022, the activities of adaptation to the BCBS 239 Guidelines will continue, mainly in terms of updating the already processed metrics, with a preview presentation to the Bodies every six months of the BCBS 239 Project progress and the key decisions *Management* made on the topic. Therefore, *(i)* the completion of the mapping of *Data Quality* controls as regards risk and the design and implementation of second level controls where missing or to be reviewed, as well as *(ii)* the assessment of the *Key Quality Indicators* (so-called "KQI") based on the method established in 2021, will be proceeded with.
The Board of Statutory Auditors expects said measures to provide an overall necessary strengthening of the Group's *Data Quality*, which in many spheres has manifested the need for improvement, what's more, mainly attributable to historic reconstructions functional to the operational breakdown of the internal modelling. The Control Body will therefore proceed with close monitoring of the progressive implementation of the initiatives identified, deeming the *Data Quality* to be one of the key aspects of corporate processes.

Information Technology

The Board of Statutory Auditors has always paid particular attention to the Group's *Information Technology* system and its overall evolution, to be considered of essential importance in supporting the *business* and control activities, in order to avoid the adoption of organisational *contingency* interventions, having impacts both in terms of financial and human resources. To this regard, in addition to the reporting and planning foreseen in compliance with the outside regulatory provisions and internal rules pertaining to this area, the Board of Statutory Auditors asked the IT structures' contact persons for an ad hoc meeting (held on 16 November 2021) to delve into the general IT system scenario and its evolution in view of the major market challenges and dynamics, encouraging another one in the cycle of scheduled *Board Induction* sessions geared towards the senior members of the Group.
In recalling that in 2020 an *assessment* was made on no. 6 areas (architecture, infrastructure, *data*

governance & data quality, processes, job method and *sourcing* strategy), in light of which the IT 2020-2023 *Masterplan* and related 2020 Operational Plan (both geared towards updating the architecture and infrastructure, the evolution of the *sourcing* strategy, review of the IT operating model and acceleration of digitalisation), also taking into account the evidence that emerged from the Annual reports on IT risk, we wish to underscore how at the meeting on July 19, 2021, when the Strategic Guideline Document and Operational Plan of the 2021 IT Initiatives were submitted to the Body, the Board was able to see the critical analysis the competent Functions conducted on the aforementioned IT 2020-2023 *Masterplan* , to check its applicability with respect to the scenarios that have significantly changed after the Covid-19 pandemic and rapidly changing, also regarding: *(i)* the 2021-2023 "multiscenario" Projections submitted to the Board of Directors in April 2021; *(ii)* the results of the periodic *assessment* conducted (*herein)*. All of which are elements that helped lay down the ICT risk mitigation strategy of the Group, based on a multi-year programme of initiatives broken down into operational plans with a one-year horizon.

So more specifically, in the scope of the broad considerations made on the content of the Strategic Guidelines Document illustrated, the Board of Statutory Auditors underscored the importance of paying particular attention - specifically regarding risk mitigation - with instatement of proper audits and controls:

- to the *sourcing* strategy, related to the application domains, which, while proceeding in keeping with the Guidelines set in 2020, will also include the scope of the *cloud* services;
- to the development of products with "ESG" *drivers*, properly weighing their risks and opportunities;
- to the introduction of innovative technologies (like, Robotics and Artificial Intelligence), considered a driver for the evolution of the digital and *paperless* Bank;
- to taking advantage of *partnerships* with *fintech companies*, innovation centres and universities also for the use of *Open Banking* solutions;
- to the strengthening of *Cybersecurity*, including interventions for: *(i)* increasing security in the most exposed areas (for example *Cloud*, *On Line* Services, Third Parties), *(ii)* the evolution of the solutions meant to manage the security incidents, Business Continuity and *Crisis Management*, *(iii)* establishment of data protections solutions (classification, encryption, masking, tracking) in compliance with the *General Data Protection Regulation* and *Privacy* rules.

Specifically in reference to the Operational Plan of the IT Initiatives set for 2021, the Board of Statutory Auditors recommended that all structures involved ensure absolute commitment to achieving the objectives (considering the transversal nature of these aspects on the whole of the operations of the Bank and Group) regarding:

- "*Data Quality*", through optimisation of the *framework* of *Data Governance* (with interventions to consolidate the *tools*, enrichment of the *Key Quality Indicators* and evolution of the management *reporting*) and its application to new data perimeters, as well as to the resolution of the indications that came up during inspections;

- "Security", through the evolution of control models (addition of new controls, expansion of the perimeter over third parties and *Cloud*), definition of the process for third-party risk assessment (outsourcing and large ICT supplies), optimisation of processes for customer management and assistance and for infrastructures in the area of *Fraud Management*.

At the above-mentioned board meeting, the Board of Statutory Auditors also examined the "Brief report on the adequacy and costs of the 2020 ICT", acknowledging the assessments conducted over the course of 2020 within Banco BPM Group which, in line with the results in the previous years, confirm the judgement of "adequacy" of the ICT systems and charges. After the discussion with *Management* at that meeting, the Board also called the competent Functions' and Bodies' attention to:

- the monitoring of IT incidents, in light of the strategy the Group pursues to progressively develop digitalisation, strengthen the omnichannel approach and the innovation of process and technology;
- both quantitative and qualitative sizing of the ICT organisational structure, also in view of future evolutionary challenges on IT and information systems;
- the level of the investments to reach the Group's strategic objectives by developing the architecture, infrastructure modernisation, development of the IT operating model and digitalisation.

On this, the Board has recommended the adoption of suitable initiatives with an outlook towards ongoing improvement and strengthening of the model for governance and control of IT risks, technological infrastructure, IT architecture, architecture of the IT operating data and model, in order to further increase the amount of monitoring of the systems and quality of services provided not to mention guarantee top level security to the IT system - what's more, to undergo interventions scheduled in the Strategic Guidelines Document, and as a consequence, in the Operational Plan of 2021 IT Initiatives mentioned above.

From the analysis conducted (also at that same meeting) on the "Brief report on the IT risk situation for the year 2020. Second-level controls on the analysis of IT risk as at 31 December 2020", the Board of Statutory Auditors – even taking into account that for an assessment of the IT risk scenario for the year 2020, the new methodological *framework* was used for the first time, approved by the Board of Directors in March 2020 – was able to ascertain:

- an overall Group residual risk profile that stands at an assessment of "low" with respect to the applications in the scope, deemed the most critical;

- the outlining of the risk mitigation plan for the applications assessed as "moderate" residual risk, recommending that the competent structures monitor them, paying attention to implementation within the set time horizon (12 months);
- a limited impact (in economic capital terms) on the model to estimate the strategic risk and a substantial unchanging contribution with reference to the reputational risk estimate model.

The Board also found: *(i)* the substantially positive outcomes of the consistency check on the method and second-level controls (handled by the Risk Data Quality and Aggregation structure, under the Risk Function), which confirm the overall validity of the IT risk analysis results given above; *(ii)* the proper orientation, for the purposes of overcoming the problems, of the residual points of attention highlighted by the Risk Function.

The Board however observed that the scope of the applications subject to ICT risk analysis must be extended and the first-level controls must also be broadened, as well as the second-level ones (also with *backtesting* checks and comparisons with past results), in addition to the *process* of method compliance validation of the execution of these second-level controls, all this following the path already traced for continual strengthening of the IT risk protocol, in line with the instructions received from the Supervisory Authorities.

In perspective, given that one of the strategic priorities at the base of the Group's 2021-2024 Plan is the progressive evolution of the service model in terms of digitalisation and also keeping in mind the areas for improvement that the Audit Function encountered, the Board emphasised the opportunity to fine-tune traceability and the ICT Strategic Plan's structure in order to ensure full implementation of the instructions of the EBA Guidelines and a close link with the outlining of the Plan's objectives to foster their sustainability.

The Board of Statutory Auditors will closely monitor such aspects.

Thematic Action Plans

During 2021 - although to a lesser extent in relation to the slowing of the inspections related to the pandemic, analogously to what happened in 2020 - the Bank was 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 remotely) normally conducted in the context of aforementioned ongoing supervision carried out by the Supervisory Authority or in relation to specific instances put forward by the Bank to the Authority. The Board received and examined periodic updates on their implementation status (primarily through the "*Monitoring of remedial actions relating to the recommendations from Supervisory Authorities*" *report*). This monitoring is based on the structured process for assignment to the Bank Units of the management and resolution of the findings of the Supervisory Authority and/or Auditing Firm and the

Internal Control Units.

The Board of Statutory Auditors has examined the certifications as well (issued by the Audit Function) on the completion and verified effectiveness of the corrective actions foreseen in the cited *Remedial Action Plans*. These audits are particularly important to the Board of Statutory Auditors (which expects an ever greater *challenge* from the Internal Audit Function towards the *owner* structures of the remediation actions), since they make it possible to ensure a substantial approach (ascertainment of effectiveness of the measures) rather than a mere formal attestation that the interventions were completed. To this regard, the Board on more than one occasion has urged for a precise performance of the remediation actions in the timing described by the Supervisory Authority, deeming that any rescheduling must necessarily come as a second option.

Sustainability and ESG themes

Considering the importance, even to the Bank, of sustainable development, and in general of the centrality of the so-called “ESG” (*Environmental, Social and Governance*) themes, the Board of Statutory Auditors focuses part of its supervisory action on these topics, also due to growing *capacity* levels that company structures dedicate (directly and/or indirectly involved) to the activities inherent to the inclusion of the risks linked to climate and the environment – and, in a broader sense, of the ESG themes – within the Group's risk management process, as will be further discussed, with respect to that anticipated in the paragraphs above, also in the rest of this Report, to which reference is to be made. Specifically, it is best to point out that with regard to the progressive implementation of the planning initiatives outlined in this area, the Board:

- while periodically acknowledging the activities concluded and/or being completed for each work-in-progress in which the complex "ESG" Project is structured, noticed how an aware and proactive group effort is needed, going from top management to all personnel levels, for a real and effective response not just to the Supervisory Authority's expectations but also, above all, to those of the market and all *stakeholders*, also in view of the role, as the Bank, of “engine for development and awareness-raising” (for example, with respect to lending activity for SMEs) of activities for transition towards fully sustainable development;
- thus formulated the recommendation to promote all the necessary initiatives (also for training and information) to increase the awareness of each player in the corporate processes, speeding up implementation of the interventions identified during the planning state as much as possible, and especially those meant to complete the internal regulatory *framework* and strengthen the Internal Control System, also as far as concerns *disclosure*;
- suggested the opportunity to evaluate the option to bolster the structures designated to monitor the social and environmental initiatives and - in the broader sense - the other initiatives linked to

the sustainability of the *business*, in view of the growing importance and pervasiveness of the ESG themes in banking operations, also from an evolutionary viewpoint, and of the attention that third parties give to them.

To this regard, the Bank has developed an evolution plan of its activities in the ESG sphere, which the Control Body positively assessed. However, considering how much ambition it expressed, in any event the Board of Statutory Auditors has urged for accurate implementation in the envisaged timing.

Remuneration Policies

The Board of Statutory Auditors has acknowledged that at the meeting on 15 March 2022, the Board of Directors approved - for that which is under its responsibility in accordance with the applicable legislation - the Policy-on-remuneration report and payouts awarded to Banco BPM Banking Group's staff including the "2022 Remuneration policy" section and the "Payouts awarded" section as well as the related Illustrative Report to the Shareholders' Meeting to which the documents will be submitted.

The *Policy* set up for 2022 substantially confirms the framework for the year 2021, also implementing the new elements introduced by the 37th update of Circular no. 285/2013 of the Bank of Italy and taking into consideration the content of the 2021–2024 Strategic Plan which the Board of Directors approved in November 2021.

In the scope of the 2022 policies, the Board deemed substantial, moreover,

(i) concerning the *performance* objectives of the *Short Term Incentive* Plan, the coverage of ESG objectives for the annual outlining of that which is set forth in the Strategic Plan not to mention the coverage of objectives in the sphere of monitoring strategies and management of non-performing loans;

(ii) the outlining of the method used for the purposes of the Board of Directors' analysis of the neutrality of the remuneration policy with respect to the type as well as the illustration of the initiatives envisaged for inclusion and enhancement of talents and diversity, consistently with the 2021-2024 Strategic Plan, specifically regarding the projects specifically geared towards women;

(iii) the implementation of the principles and recommendations set forth on remuneration policies by the Code of *Corporate Governance*, that Banco BPM complied with. Specifically, the *Policy* is functional to the pursuit of the Bank's sustainable success.

The Board of Statutory Auditors also examined:

- the Audit Function report which reports the results of the audit it conducted itself during 2021 on the implementation of the Group remuneration and incentivisation system, on the basis of which: *(i)* consistency with the practices adopted in the sphere of remuneration and incentivisation was ascertained, with respect to the principles set in the current Group policies and approved by the Shareholders' Meeting, as well as the outside regulations of reference; *(ii)* it was found that the

Control System for monitoring the implementation of the remuneration policies turned out to be effective and efficient;

- the *opinion* (*ex-ante*) which the Compliance Function issued on the Banco BPM Group's 2022 remuneration and incentivisation policy with the regulations of reference.

Other topics of particular interest

Among the activities carried out over the course of 2021 and up until the date this report was drawn up, the Board of Statutory Auditors also placed particular emphasis on certain specific areas of operations, particularly sensitive or potentially precursory of significant risks to the Bank and/or Group, requiring targeted *focus* , that is, organising notes comparison and/or delving into the topic with the contact persons from the competent corporate structures. To this regard, this includes:

- *"IBOR Transition" Project*

  Launched in 2019, it aims to monitor the challenges arising from the reform of market reference indices (IBOR), particularly the fulfilments linked to Regulation (EU) 2016/1011 (so-called "*Benchmark Regulation*" or "BMR") and the certain (for example EONIA, LIBOR) or potential (for example EURIBOR) lapse of the principal market *benchmarks*, against a backdrop of uncertainty over the regulatory developments. Considering the broad scope of application of the IBOR indices, and therefore, the extension of the interventions identified, the Board of Statutory Auditors has followed the Project's evolution, acknowledging that at year-end 2021 most of the activities envisaged, which mainly were the alignment of organisational and IT processes, contracts and Banco BPM's rules to the provisions under the cited European Regulation, were concluded.

- *Process of acquisition of tax credit originating from Ecobonus and Super Ecobonus schemes*

  Regarding the significant development, especially over the course of 2021, of the services relating to the purchase *without recourse* from its own customers of trade and tax receivables and incentives, the latter also held vis-à-vis the Public Administration (including tax credit relating to the so-called "Ecobonus" and "Super Ecobonus") and taking into account the many risk profiles underlying such delicate and complex activities (also with a "*231/2001 sensitive*" outlook), if for no other reason than they are innovative insofar as applicable legislation, the Board of Statutory Auditors delved deeper into the operating processes implemented for their management with the competent company structures (with a *focus* on the means of acquiring the so-called "Ecobonus" and "Super Ecobonus" credit), focusing particular attention on the controls (regulatory, organisational, procedural, specifically IT, and of control, also with reference to the *partners* involved in the different processes) implemented to mitigate the potential risks the Bank and Group could be exposed to. Also because of the establishment of Banco BPM's important position in this specific market, the Board will continue to closely monitor these operations.

- *Structured Finance*

  It being one of the *business lines* in which the Bank is particularly active, also in perspective, the Board placed particular emphasis on the necessities of progressive strengthening of the operational and organisational controls of the structure, as much in terms of human resources as in terms of IT infrastructures in order to also have adequate monitoring of the transactions made both in the capacity of agent or lead bank and of participant bank in *pooled* loans.

- *Process of monitoring real estate guarantees and appraisals*

  Considering that credit is the Bank's *core business* , in light both of the macroeconomic background hard hit by the crisis that the pandemic sparked and of the major regulatory developments in this area, the Board of Statutory Auditors deemed it best to focus part of their supervisory activity on the process of monitoring and updating the real estate guarantees and the appraisals also from a quality standpoint, since strictly linked to credit valuation and its *provision*.

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First off, according to that set forth in the Delegated Regulation (EU) 2019/815 (hereinafter "ESEF Regulation"), the Annual Financial Report was prepared in the new ESEF (*European Single Electronic Format*) format, which is a combination of xHTML language and the XBRL (eXtensible Business Reporting Language) markups. *Moreover, the information in the Consolidated Financial statements was subject to mapping according to the "Inline* XBRL" specifications in the basic taxonomy issued by the ESMA.

The Board of Statutory Auditors has overseen the financial reporting process, and in particular, verified and analysed the process in-depth for the preparation of the 2021 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. In relation to these activities, among other things the Board of Statutory Auditors has:

(i) verified the adequacy, in terms of method, of the *impairment test* process that the relevant financial statement assets underwent. Specifically, the Board ascertained that – as early as when the Interim Financial Statements were drafted and in compliance with the ESMA and Consob indications given on the topic - the assessment analyses were conducted by using an approach with multiple scenarios in order to consider, against a backdrop of uncertainty over the future macroeconomic scenarios, the risk inherent to the actual creation of cash flow projections taken up at the base of the determination of the value in use. The outcomes of the *impairment tests*,

done on the intangible assets with an indefinite useful life as at 31 December 2021, led to the confirmation of the recoverability of the book values. Considering the elements of uncertainty that characterise the current backdrop and that could influence the assessment methods adopted, the Bank conducted sensitivity analyses in order to appreciate the stability of the recoverable amount with respect to alternative assumptions and situations. All this, as best illustrated in the Notes to the Consolidated Financial Statements, to which reference is to be made for the details. Please recall that the long-term forecasts and scenarios - used for this and for the other main company estimation processes, taking the forecasts and objectives of the new 2021-2024 Strategic Plan approved in November 2021 into account - were defined by the Scenario Council (working group formed ad hoc, in which, among others, the Chief Financial Officer and managers of the Planning and Control, Risk, Administration and Budget and Audit Functions participate - the last in this list as auditor), examined by the ICRSC and submitted to the Board of Directors for approval, as set forth in the Group *Policy* . Moreover, during 2021 this activity was stressed even more by defining a *framework* to update the scenarios, also envisaging the materiality thresholds for them to be changed;

(ii) ascertained the application of the newly introduced or amended accounting standards, having a mandatory starting point from the 2021 Financial statements, encountering substantial alignment with those followed for the purposes of preparing the Financial statements as at 31 December 2020, and no particular impacts on Banco BPM's balance sheet or income statement. As mentioned in part in the Report for last year, in 2021 (also confirming it in January 2022) Banco BPM resolved to avail itself of the option to realign the differences between tax values and book values, in compliance with the provisions of the 2021 Budget Law, as amended by an analogous regulation for 2022, both for some properties (a decision also made by other Group companies, Bipielle Real Estate S.p.A. and Release S.p.A. incorporated companies, in addition to Banca Akros S.p.A.), both for the intangible assets represented by trademarks and *client relationships* recognised in the separate financial statements, the results of which are given in the Report on operations and Note to the consolidated financial statements (to which reference is to be made).

Also please note that besides the already mentioned communications issued by the various Supervisory Authorities during 2021, regarding the main accounting areas affected by Covid-19, the Bank of Italy's provisions in update 7 of Circular no. 262 and the communication of 21 December 2021, entitled “Update of the supplements to the provisions of Circular no. 262 'Bank financial statements: layouts and rules for preparation' regarding the impacts of COVID-19 and the measures to support the economy", with which the specific qualitative/quantitative *disclosure* on “Loans subject to current moratorium measures no longer compliant with GL and not assessed as forborne" was introduced, were applied in preparing the Consolidated Financial statements;

(iii) examined the Audit plan that PwC prepared for the draft financial statements and consolidated financial statements for the year 2021, having discussions with its *partners* on significant risks and the key aspects identified, not to mention on the methodological audit approach defined. Subsequently - also, through discussions held gradually on individual topics or assessment aspects - the Board acquired the results of the audits carried out by the Auditing company on the proper keeping of company accounts and correct recognition of the company affairs in the accounts, over which no concerns were raised, as illustrated more clearly hereafter;

(iv) carried out periodic meetings with the Financial Reporting Manager, during which the manager did not report significant shortcomings in the operational and control processes that could have impaired the adequacy and actual application of the administrative-accounting procedures for the purposes of a fair view of the balance sheet, income statement and financial situation in compliance with the accounting standards. This view is confirmed by that stated in the "Report on the activities carried out by the Manager responsible for preparing the company's financial reports of Banco BPM Group for the purpose of issuing the certification set forth in Article 154 *bis* of CFL on the Consolidated as at 31 December 2021", as illustrated hereinafter;

(v) ascertained *disclosure*, both in the Report on operations and the Note to the 2021 Financial statements, related to the uncertainty linked to the health emergency linked to Covid-19, whose possible impacts on the scenarios and on the future financial position and economic results are currently still marked by a certain uncertainty, given the protraction of the pandemic.

In fulfilling its supervisory duties on the process of financial reporting, the Board of Statutory Auditors also examined the Audit Function's *report* regarding the *ex-post* audit activities on the Disclosure to the Public Pillar III, published in 2021, results compliant with the regulations in effect from time to time and suitable to transmitting an exhaustive Group risk profile to the market, clearly and completely showing all the significant information and capable of guaranteeing expository continuity and comparability. For that which specifically concerns the Disclosure Template, the Audit Function has attested to how the Control System instated to oversee the process of its preparation was able to guarantee its proper updating, by virtue of adequate acquisition, filing and archiving of the quantitative and qualitative information (also thanks to a suitable supporting information system).

The Board also examined the Disclosure Template to the Public Pillar III for the year 2022 - which the Risk Function submitted to the Statutory Auditors - without raising observations. Consistently with this Template, the Information on the data as at 31 December 2021, was prepared, to be published simultaneously with the Financial statements, including the required statements of compliance.

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As previously mentioned, 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 general purpose of exchanging 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 2021 financial statements.

During the first few months of 2022, 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 pertinent 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 2021.

   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 without disclosures. 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 the Consolidated Financial Law (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 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 shortfalls in the Internal Control system concerning the financial reporting process that were considered worthy of being brought to the attention of the Board itself. Some shortfalls 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, 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 Administrative Body.
It should be noted that, with reference to financial year 2020, on 24 March 2021, the Board of Statutory Auditors sent the Board of Directors the aforementioned Report along with its remarks. The Board of Directors also examined the Letter of suggestions (hereinafter also "*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 2020 Financial Statements, acknowledging the *remediation* activities launched by the corporate structures of reference, also for past years (implementation of which was duly overseen by the Board of Statutory Auditors calling, if needed, the *owner* structures of the orientation interventions). What's more, the remarks the Auditing firm made in its *Management Letter* are now in the integrated reporting on the resolution actions, which the Internal Control Functions provide to the Directors every quarter.
On 30 June 2021, the Auditing firm also issued the Report as set forth in article 23, paragraph 7, of the Bank of Italy Regulation of 5 December 2019, regarding the 2020 financial year. The Report dealt with the Descriptive Document prepared by Banco BPM with the organisational, and procedural solutions and related controls adopted for the year of reference in relation to the deposit and *sub*-deposit of the clientele's assets and their compliance with regulatory provisions. At periodic meetings with the Auditing firm and the Corporate Functions, the Board of Statutory Auditors monitored the implementation status of the interventions set to fulfil the points for improvement that emerged on the basis of the Report issued for the year 2019, already brought to the attention of the Sole Manager (appointed in accordance with the cited Bank of Italy Regulation) and the other relevant company contacts.
On 8 March 2022, the Auditing Firm 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 Board has also acknowledged the Transparency Report prepared by the Auditing Firm, published on its website pursuant to article 13 of the EU Regulation No. 537/2014.
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*. In this regard, starting in 2020 (the legally-required three-year period from

the assignment Banco BPM conferred upon PwC being set), monitoring to verify the observance of the quantitative limit on payments for non-audit assignments set by article 4 of the aforementioned European Regulation was also begun. The Board of Statutory Auditors attests that the limit was fully observed.

Moreover, the ad hoc internal regulation applied throughout the Group to govern the operations linked to the cited audits for the granting of non-audit service assignments is also in effect. Moreover, this rule was recently revised with an outlook to greater prudence regarding the provisions of outside regulations of reference, with the intention to make the operational practices already in use official.

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The Board of Statutory Auditors, within the scope of the functions attributed thereto, has monitored - inter alia, periodically meeting with the designated structure and comparing notes with the Auditing firm - 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, both issued on 16 March 2022, the Board has not found any non-compliance and/or violation of the regulations of reference.

Regarding the Management Letter prepared by the Auditing Firm as a result of activities performed for the Non-Financial Statement relative to financial year 2020, 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 2021.

Considering the centrality of the ESG (*Environmental*, *Social and Governance*) topics, for which the 2021-2024 Strategic Plan requires full integration into the Group's *business* model, the Board of Statutory Auditors periodically met with the responsible Corporate Functions (including the Sustainability structure) for an update on all of the projects that the Bank has launched in that area, initiatives already ended as well as planned interventions (on the basis of a structured cross-disciplinary project), for the purpose of setting a sturdier overall *framework* in this area with the intention to meet the Supervisory Body's and the *stakeholders'* expectations (all this, described in greater detail in the Note to the Consolidated Financial statements and the Non-financial Statement). Specifically important to the Board are the initiatives of the cited Programme - which the Risk Function coordinates - meant, inter alia, to integrate the risks linked to climate and environmental factors into the *framework* of risk management (particularly for credit risk), in order to measure, monitor and mitigate them long-term, as well as to develop an approach to factor the climate risks into the annual capital and liquidity adequacy assessment. As part of the *Risk Identification* process carried out in 2021, the Group identified the Climate Risk as a specific additional risk factor.

The Board of Directors also examined the results in-depth *(i)* both of the self-analysis with respect to the expectations stated in the "Guide on climate and environmental risks" the ECB issued for banks, *(ii)* and of the schedule of activities set to monitor the impact of climate and environmental changes, both prepared an sent by the Bank to the Supervisory Authority during 2021, also acknowledging the activities launched for the period of the so-called "*Climate Risk Stress Test* 2022", currently underway, also by request of the ECB on the whole European banking sector.

For this area, it's also best to report the evolutionary interventions implemented: *(i)* in terms of *governance* with proposals to revise the Articles of Association of the Group banks to adapt to the most recent provisions and practices of Supervision over the company members' requirements, which were implemented in company regulations and were submitted to the respective extraordinary meetings; *(ii)* in terms of Banco BPM's organisational structure with the institution in 2021, reporting to the Human Resources Function, of a structure for the monitoring of initiatives aimed at instilling an inclusive corporate culture that emphasises enhancement of individual differences (called "Inclusion, Diversity and Social") Group-wide.

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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 2021 by the Board of Statutory Auditors of Banco BPM:

1. the Board 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 Report on operations and the Notes to the Consolidated Financial Statements at 31 December 2021;

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 with related Parties carried out in 2021 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., issued, on 16 March 2022, its Independent Auditing Reports on the Separate and Consolidated Financial Statements without any exceptions. 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 the Governance and Ownership Structure" as provided for in article 123-*bis*, paragraph 4, of CFL (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 also issued, again on 16 March 2022, 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, as already highlighted, did not identify any significant shortfalls 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 shortfalls 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 aspects 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, as already stated.

On 8 March 2022, the Auditing Firm 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 in the Report on the consolidated financial statements, pursuant to article 4 of the Consob Regulations transposing the aforementioned Decree, regarding the non-financial statement;

5. the Board of Statutory Auditors has not received any claims pursuant to article 2408 of the Italian Civil Code;
6. in addition to the matters indicated in the previous point, the Board of Statutory Auditors has received, through its Chairman as well, two communications that were potentially qualifiable as claims reporting some alleged misconduct ascribed to some Employees/corporate structures 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 2021, PricewaterhouseCoopers S.p.A., in compliance with the applicable laws, was paid the fees due for the legally-required audit in the amount of € 1,828,310 by the Parent Company Banco BPM S.p.A, and € 1,208,792 by the other Companies of the Group.

   In this regard, with the aim of guaranteeing a complete information framework, the justified proposal is made to the Shareholders' Meeting, prepared by the Board of Statutory Auditors (made available pursuant to law in preparation for the Shareholders' Meeting called for 7 April 2022) regarding payment of supplementary fees to the Auditing Firm which became necessary*(i)*following Group reorganisation transactions, already commented, and *(ii)* for the obligations linked to the drafting of the Annual Financial Report according to the provisions under the ESEF Regulation which require and shall require additional activities within the scope of auditing the accounts for the years 2021 to 2025 for the separate and consolidated financial statements of Banco BPM.

The Auditing Firm was also conferred additional responsibilities *(i)* for certification services by the Bank, for € 875,297, as well as by the other Companies of the Group for € 101,689 and *(ii)* for other services by other companies of the Group for € 32,500.

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 Regulation nr. 11971 of 14 May 1999 (hereinafter "Issuer Regulation");

8. the companies that are part of the *network* to which PwC belongs were paid the following total fees for the year 2021 for:
   - independent audit for other Companies of the Group for Eur 161,649;
   - other services for the Bank for Eur 250,050.

   The details of these fees are also included in the annex to the Separate and Consolidated financial statements of Banco BPM, as required by article 149-*duodecies* of the current 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, as well as the observance of the prescribed quantitative limit – 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 remuneration of the Managers of the Internal Control Functions. Furthermore, it has prepared remarks, evaluations and opinions as defined by Supervisory Regulations as well as those required from time to time 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), as well as by company regulations;
10. during 2021 the Board of Statutory Auditors met 40 times, of which 14 up until April 15, 2021, (date of the Shareholders' Meeting which, inter alia, proceeded with the integration of the Board of Statutory Auditors) and 26 after that date. The Chairperson attended the only Shareholders' Meeting on 15 April 2021, (ordinary and extraordinary session) on behalf of the Board of Statutory Auditors, and three of those who were standing members then also logged in using telecommunication modes, in compliance with the prescriptions adopted by the competent

Government bodies to protect health and safety in response to the health emergency. The Board also attended the 22 Board of Directors' meetings (of which 8 prior to 15 April 2021, and 14 after that date) not to mention, with its own representative (or, in exceptional cases, through shared assessment) the meetings of the Internal Control and Risks Committee (attending 19 meetings out of the 20 which were held), the Remuneration Committee (all 26 sessions held), the Appointments Committee (17 sessions out of the 18 held) as well as the Related Parties Committee (all 6 meetings held).

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 its self-evaluation for the 2021 period, drawing up the appropriate conclusive document. The outcomes of the self-assessment exercise - for which the Board relied on the aid of a qualified outside consultant - highlighted a substantial and pervasive adequacy, as much in the composition of the Board of Statutory Directors (as far as the individual members and the Body on the whole) as in its operation. To overcome the marginal areas for improvement that emerged with an outlook to *continuous improvement*, the Board identified a specific initiative to be implemented in the scope of the new ordinary *training* and *induction* plan to be implemented over the course of this year;

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.

    To this regard, both based on direct discussions with the Managers of the Corporate Functions designated for the meetings held little by little throughout the year both on the findings which emerged on the basis of the audits that the Internal Control Functions conducted, the Board of Statutory Auditors has confirmed the substantive adequacy of the organisational and regulatory structure of the Bank. Specifically, in an ad hoc meeting held in early 2022, the company managers of reference confirmed the organisational chart, functional chart (Company rules), proxy and power of attorney system and organisational provisions' overall consistency, given the need to guarantee uniformity among organisational roles and responsibilities and the underlying corporate processes.

    Over the course of 2021, the Bank's organisational structure did not undergo significant changes in its make-up, but in any event it was affected *(i)* by the implementation of the agreement signed in 2020 with the company's trade unions for the encouragement of employees to retire on a voluntary basis, also by resorting to extraordinary benefits of the Solidarity Fund for the sector, *(ii)* by the completion of the plan to close 300 small branches, and *(iii)* more recently, in January 2022, in line with the Group's 2021-2024 Strategic Plan initiative on specialisation of the service model to serve companies, with the implementation of 135 points devoted to this type of clientele.

We deem it best to report that the Loans Area has been affected by the Chief Lending Officer's rotation (on 13 December 2021) after the previous Manager took advantage of the leaving incentive initiative promoted by the Bank.

During 2021, taking into account the protraction of the Covid-19 pandemic, the Board of Statutory Auditors carefully monitored the Crisis Committee's work and initiatives, receiving information on attendance of board meetings. Begun in 2020 in order to handle the impact on operations having to do with the period of emergency, the *contingency* solutions (specifically, *smart working*, closing of agencies and shifts) were partially maintained and also adjusted over time to strengthen IT measures so as to protect people's health and safety. Introduced in 2020, the new ways of interacting with the clientele were strengthened even more by revamping the operating and service model to incentivise the use of digital channels.

As far as it could directly discern, and not to mention in light of the number (quite few) and type (mostly attributable to objective circumstances, not available to the Bank in relation to the pandemic situation) of customer complaints that could be classified as "Covid-19 related", the Board of Statutory Auditors did not identify situations of interruption of operations or serious shortcomings in process management, affirming substantial organisational resilience by Banco BPM in handling the lingering pandemic.

The Bank drew from the experience imposed on it by the pandemic to advance development of its digitalisation processes (with the proper personnel training programme aimed at bringing about a radical changed in the approach to the job, regardless of physical interaction with the customer), its technological equipment (to facilitate the job and the means of remote communication) and mobility management. All this, in connection with the following and fostering of sustainability rationales.

In keeping with the focus the Board placed on the outsourcing *framework within* and *outside of the* Group in past years, in 2021 as well, the Statutory Auditors dealt with the issue in relation to its adaptation to the EBA Guidelines and the development of Group *business* by examining *(i)* both the audits that the Audit Function conducted, also requesting the implementation of any improvements, *(ii)* and the results of periodic monitoring of outsourced activities submitted to the Board of Directors.

What's more, in this area the Board expressed its opinion on several occasions stating that the qualitative/quantitative adequacy of the corporate structures must be guarantee and assessed also considering that there are - or there is a chance/opportunity to strengthen and/or implement - electronic media and automation processes that improve its efficiency and the quality of operations.

Against this backdrop, the Board recommended continuing major investment policies and improvement of the IT infrastructure, both to equip the corporate structures dealing in the new areas of *business* with appropriate means, and to adapt the company's overall IT system to the complex challenges brought on by needs for digitalisation and implementation of new technology that is now available.

Now, therefore, and taking into account the matters indicated both in this Report with reference to the internal project activities and initiatives and in relation to the numerous inspection activities indicated above (*on site* or remote), along with requests from the Supervisory Authority (also in the context of the SREP), the Board of Statutory Auditors has overseen the progressive adoption by the Board of Directors of appropriate decisions to ensure a regulatory *framework* and internal organisational structures adequate to guarantee correct application of operating processes. In this regard, although acknowledging that in a large highly structured Group like Banco BPM this organisational and legislative structure requires continual developmental and constant enhancement measures, the Board has concluded its essential compliance.

Given the matters indicated, in light of the activities carried out, the acquired information and the documentation reviewed, the Board of Statutory Auditors has decided not to proceed with any reporting to the Supervisory Authority.

It being understood that the Board will continue with its monitoring of the additional organisational/procedural measures, as well as the integration and updating of internal regulations, aimed at keeping the overall *framework* always fully complete and consistent;

13. in 2021 the organisational structure of the Internal Control System (ICS) was affected by the strengthening of the tax risk management *framework*, also by identifying a Tax Risk Manager. The *outsourcing* model the Group adopted with a view to a greater guarantee of the control systems, with centralisation in the Parent Company of the control activities carried out by the Audit, Compliance, Anti-Money Laundering and Risk Units on the main *Legal Entities* and with the appointment - as set forth in the Supervisory Provisions - of the contact persons by the Companies that have outsourced the service.

    During 2021 there weren't any rotations of roles and responsibilities for the Internal Control Functions and the Board was heard, within its area of responsibility, on the remunerations of the respective managers.

    In the exercise of its duties to supervise the adequacy of the Control System, the Board of Statutory Auditors has maintained constant dialogue with the heads of the Internal Control

Functions, inter alia, for the purpose of: *(i)* checking any needs to strengthen their quality and quantity and in this regard, where deemed appropriate, requested the Organisation and Human Resources Units, as well as the Board of Directors itself, to define appropriate measures. To this regard it is helpful to note that on the basis of an internal *assessment* and in order to meet certain expectations of the Supervisory Authority, the cited structures were affected by some resource integrations and in any event selection activities are underway to ensure achievement of even the qualitative *target* size for each Function. Furthermore, also during 2021, the training activities defined in association with the Human Resources Function based on the *skills inventory* conducted in 2019 (referred to in the Reports pertaining to the previous years), in order to consolidate the skills and professionalism of individuals and the Functions. The Board thus was able to ascertain the overall qualitative/quantitative adequacy of each Internal Control Function. However, it should be noted that by request of the Remuneration Committee, the Bank charged an outside consultant with conducting an *assessment* concerning, inter alia, analysis of *job evaluation* and remunerative *benchmarking*, on the basis of which pay adjustment initiatives were taken, previously addressed in the Report for the last period. The path to reaching an integrated approach between the Internal Control Functions continued over the course of 2021 as well (for example, with the preparation of an integrated Quarterly Dashboard, also extended to the bank subsidiaries) and the Board was updated on the additional interventions set to be implemented in the near future. Plus, the constant connection between the Internal Control Functions is implemented in the Committee to Coordinate the Group's Internal Audit System, which shares the results that emerged from the activity carried out, the residual risk assessment and the adequacy assessment of the ICS in general. A Statutory Auditor is delegated to read the reports of that Committee in order to report the findings therein which may interest the Board.

Regarding the individual Internal Control Functions, again, 2021 saw continuation of the ongoing and gradual increase in the efficacy and efficiency rates of the controls, a must in the scope of a process of *continuous improvement* of a complex Group like Banco BPM. Against this backdrop, in particular the Board of Statutory Auditors observes:

- Compliance Function (not including the Anti-money laundering Function): given that the Compliance Manager also fills the role of Data Protection Officer (hereinafter also “DPO”) at Group level and that three Specialist Units are active (for the tax areas, implemented as described above, Labour Law and Occupational Safety), the company reference perimeter of the Compliance with Rules Function (directly reports to the Chief Executive Office) is represented, not just by Banco BPM, but by the subsidiaries Banca Aletti & C. S.p.A., Banca Akros S.p.A., Aletti Fiduciaria S.p.A., while for that which concerns Banca Aletti & C. (Suisse)

S.A. (with its own autonomy Compliance with Rules Function), the Compliance Function has performed audits solely concerning activity for the free provision of services in Italy.
During the period in question, the activity of the Compliance Function, also due to the ongoing epidemic, has been engaged in considerable *ex-ante* audit activities (on business proposals and regulations), in a growing advisory service (also for conducting specific *gap analyses*) and in a specific *effort* by reason of the need to participate in numerous working groups. Moreover, in general the Board recognises the importance of the activities the Function carries out *ex-ante*, which allow orientation of jobs and projects (as well as documents and products) in advance in terms of conformity aspects. Also for 2021, the Covid-19 impact and the risks linked thereto have brought – as for all the Internal Control Functions – the need to calibrate the content of the scheduled *ex-post* audits. The 2021 *Compliance Plan* – as amended on the basis of the half-yearly audit – was in any event completed, and the Function expressed a judgement of "substantive adequacy" on the Internal Control System and its capacity to mitigate the risk of non-compliance with regulations.
Against this backdrop, the Compliance Function saw the need to finish the protocols – already planned and being realised – to boost the Markets and Infrastructure spheres in relation to the reports sent to the various Supervisory Authorities (EMIR, *Transaction Reporting* and SFTR), both in the *ex-ante* and in the *ex-post* stages of their processes. Taking the findings into account, what is more, the Function developed risk measurement instruments (KRI) - in addition to those already widely used - regarding EMIR and MiFIR *reporting* which allowed for periodic monitoring of any anomalies surrounding the reporting obligations.
Also in 2021, the Compliance Function performed monitoring of complaints, especially in the sphere of banking services, both to rapidly uncover any business issues, and as a source of information helpful to launch audits on a *risk basis*.
During 2021, based on the development of an internal method, the aforesaid Function also does periodic remote audits in the area of Supervisory Reporting, expressing a judgement of overall compliance on the reporting items audited and monitoring the solution of any points of attention encountered.
Over the course of the year – in addition to that already illustrated – the Compliance Function also brought forth various initiatives of specific interest, like: *(i)*the *Compliance Universe* audit plan, with the goal of proposing the review of some key elements of the assessment method of the risk of non-compliance with regulations, and specifically, the rationalisation of the regulatory spheres and the macro-requirements (grouping into conceptual categories of regulatory requirements), in order to gain benefits in the stages of identification, measurement, assessment and representation of the risks of non-compliance; *(ii)* an initiative

meant to finalise the strengthening of the internal method inherent to the performance of second-level control tasks in the Security and ICT sphere, an aspect spotlighted by the Supervisory Authority; *(iii)* active contribution to numerous projects, and in particular, to that for the outlining and progressive creation of the project initiatives for Investment Services and *Product Governance*, also with an outlook to adoption of the ESG requirements.

With reference to specific DPO activities (accurately reported in the Function's Annual Report), the Board acknowledged the activities that the designated organisational unit carried out and in particular it found that none of the *data breaches* which occurred in 2021 had the characteristics that would imply their mandatory reporting and that in 2021 the project for the Group's complete adaptation to Regulation (EU) 2016/679 (so-called "GDPR") was completed;

- Anti-money laundering Function (hereinafter also "AML"): even if made to directly report to the Compliance Function Manager, the Function directly accesses the Corporate Bodies and makes its reports guaranteeing autonomy and independence in carrying out the activities against the risk of money-laundering and funding of terrorism.

  The Anti-money Laundering Function has established its organisational structure (updated in 2020, with the appointment of the current manager as well) and, in line with the recommendations issued over time by the Supervisory Authority, against the backdrop of the ongoing Covid-19 pandemic, gave another boost to the development of an approach (already launched in 2020 with the formalisation of a Collaboration Protocol with the Audit Function) increasingly geared towards enhancing dialogue and the exchange of information, specifically involving the *business* structures for a healthy and widespread risk culture. The experience brought by the pandemic and the need for precise AML audits on the processes of granting loans, as well as on the *procedure* of assessment of suspicious transactions and the movement of cash, besides strengthening the organisational and control protocols, have also facilitated the review of some procedural aspects in a rationale of further consolidation and effectiveness of the activities. Against this backdrop comes the closing, for example, of a Collaboration Agreement between Banco BPM and the SACE public guarantor entity, for better risk sharing and more efficient distribution of the *compliance* obligations. During 2021 the new "Regulations concerning the prevention of money laundering and the funding of terrorism" was also adopted in compliance with the latest regulations of reference.

  The 2021 AML Plan - as amended on the basis of the half-yearly audit - was completed, just as the ongoing monitoring continued (what's more, encountering considerable recovery of the balances, an outcome of the close collaboration with the Network's Control structures) and the Function was able to express a judgement of "substantive adequacy" on the Internal Control System and on its capacity to mitigate money-laundering and terrorism funding risk. This was confirmed by the outcomes of the self-assessment exercise conducted in this area, which yielded a residual risk both for Banco BPM S.p.A. and at Group level confirmed to be "low". The judgement expressed was specifically determined by: *(i)* the completion, meeting the deadlines indicated to the Supervisory Authority, of all interventions defined in the *Action Plan* prepared after the inspection that the Bank of Italy conducted in 2019 on *online operations,* as the Audit Function certified as well; *(ii)* implementation of a KRI system for all Group banks; *(iii)* the strengthening of preventive *screening* and clientele monitoring, in line with the latest anomaly schemes, with information provided by *Infoproviders*; *(iv)* strengthening of controls and audits on cash transactions with large bills or that come from foreign countries; *(v)* significant involvement of the Anti-Money Laundering Function in the activity of giving opinions in the sphere of the loan granting process.

As required by IVASS Provision no. 111 of 13 July 2021, a specific *risk assessment* exercise was done on the insurance distribution, which concluded with an assessment of the "low" residual risk, analogously to that which the Bank found on the other lines of *business* (Institutional, *Corporate* and *Retail*).

During 2022, the project to replace the "GIANOS 3D" application (an essential tool in assessing AML risk related to customers) with the new "GIANOS 4D platform" will continue. To this regard, the Board underscores the importance of total implementation of this new platform, given its significance for the purposes of strengthening the controls and control processes even more in the scope of Anti-money laundering, also particularly relating to the STR management process.

For this area, considering the recent international geopolitical developments that have highlighted the importance of an adequate protocol for the sanctions system, the Board of Statutory Auditors will keep carefully monitoring the initiatives the Bank takes up to strengthen *screening* and assessment structures and infrastructures, in order to be able to guarantee compliance with domestic and international regulations applicable in this instance;

- Risk Function (not including the Internal Validation Function): made to directly report to the Chief Executive Officer, the Risk Function is in charge of ensuring the functional coordination of the risk control protocols of Group companies and to supervise – at Group level and in an integrated manner – governance and control processes (Enterprise Risk Management structure, also "ERM") and those for the development and measurement of the risks themselves (Risk Models structure, also "RM"). Overall, the Risk Function not only does quantitative strengthening, but also that to better define and make official - besides further expansion (in line with the Supervisory Authority's expectations and the new internal provisions) - its role and the correlated responsibilities. This, with the aim to better define and implement control models and metrics to ensure calculation, monitoring and more effective reporting of exposure to risk, making the reporting addressed, inter alia, to the Corporate Bodies more complete, timely and comprehensible, in order to further raise their awareness on the risks assumed, also in relation to the *business* and operational choices.

Specifically concerning the RM unit's operations, the ordinary internal risk measurement models and metrics maintenance and monitoring activities continued, paired with important initiatives in the Pillar 1 risk areas, and specifically: *(i)*for credit risk the project inherent to the petition on the system for calculating capital requirements (so-called "*Next Application* A-IRB 2021"), which calls for complete re-estimation of the *Corporate* and *Retail* risk parameters with full alignment with the EBA Guidelines, adoption of signs of impairment of the loans historically reconstructed based on the new definition of *default* and structural change to the LGD estimation *framework*, not to mention, in the management area, finalisation of the redevelopment of the Corporate and Private Customer PD satellite models; *(ii)* for market risk, the activities to resolve the *findings* opened by the Supervisory Authority for the petition to extend the specific risk for debt securities and the foreign exchange risk of the *banking book*, as well as the plan for adaptation to the new Supervisory regulations about to be introduced (so-called "*Fundamental Review* of the *Trading Book*", hereinafter "FRTB"); *(iii)* for risks related to liquidity, *funding* and interest rate of the *banking book* the major improvements made in the calculation of the metrics for quantifying the exposure, especially regarding the new behavioural model on the demand deposits, now fully integrated and consistent among the cited risk areas, while enhancing its specificities; *(iv)* for operational risk, the completion of the plan for the Group to fully switch to the TSA approach, as required by the Regulations, as of the supervisory reporting date referring to 31 December 2020. The structure's major commitment in the progressive resolution of the *findings* opened by the Supervisory Authority, to be properly integrated and to link to the developmental needs imposed by regulatory regulations that are constantly evolving.

The RM structure was also assigned the coordination – in the scope of the Bank's broader plan that has already been mentioned – of the developmental project meant to detect ESG risk, particularly for climate change and environmental issues, too, which are especially important to the Board of Statutory Auditors, both for the purposes of preparing the exercises promoted by the BCE as early as 2021 (like self-analysis on the expectations in the "Guide on climate-related and environmental risks” and activity schedule outlined to monitor the impact of environmental and climate changes) and underway for 2022 (*Climate Stress Test* and *Thematic Review* on the risks linked to climate and the environment), both for the progressive addition of new risk factors in the parameters for calculation of the traditional metrics with which the Group's overall risk profile is estimated.

The Control Body kept an eye on all the cited activities for improvement of the models developed for regulatory purposes, meant to guarantee their functionality and precise application within the Group, also appreciating the continuation of *models inventory* and *model risk management*, also with reference to the models used for management purposes.

For that which concerns the ERM structure, as already partially reported, the year 2021 required it to make a great effort both to respond to some requests and expectations of the Supervisory Authority and to continually improve to strengthen controls with an outlook to checks, risk limitation and data quality. Specifically, that activity aimed at enhancing strategic processes is deemed worthy of mention, like *(i)* the RAF, with the implementation - consistently with the new structure, of a *cascading down* system for the indicators by individual risk area, characterised by information by line of *business*/portfolio and the identification and attribution of contact persons for the main *framework* indicators, and the introduction of long-term thresholds for the strategic indicators; *(ii)* the ICAAP, with the review of the monitoring process requiring complete quantitative analysis every six months and a qualitative one in the other quarters, also through verification of positioning of Pillar 2 measures and the use of materiality thresholds to detect *disruptive elements.* For this area, reflections are also being made on the strategic risk assessment methods, while the development activity in the sphere of reputational risk was completed; *(iii)* the *Risk Identification* with inclusion of the ESG risk factors.

Also in the *Risk Strategy* and *Capital Adequacy* areas, the year 2021 was also one of additional improvement of the effectiveness and immediacy of reporting, with clear, structured messages and the set-up of the *Risk Appetite Framework Monitoring*, broken down differently based on the needs of its recipients (Bodies rather than managerial/technical committees, for the latter, reporting the first monitoring of exposures to the so-called “*Shadow Banking System”*).

As already pointed out in this Report, as well as that for last year, consistently with the domestic and global macroeconomic framework arising from the Covid-19 pandemic's impact, the second-level controls ERM carried out - already structured and conducted in compliance with current regulatory dictates - were arranged to make them more synergic with the pandemic backdrop as well. Specifically, on credit, the ordinary second-level

controls, done continuously and separately from the line Functions, were finalised for example to assess the effectiveness of the interventions adopted regarding the analyses of financial sustainability of the measures granted to the clientele, also considering the sectoral dynamics and the effects arising from the pandemic, and with aggregated checks (mainly inherent to the interception system that the CLO Area adopted in the scope of loan monitoring, the process of identification of the forbearance measures – so-called "*forbearance*" – and specific activities on the guarantees with an outlook to adequacy of the *provisioning*). Those very controls also reviewed individual positions statistically sampled or based on the specific risk profile (so-called "*credit file review*" or "CFR", with audits on the correctness and timeliness of the activities of management of the exposures and their classification, the adequate and timely determination of provisions, the effectiveness of the recovery process, and the proper interception of lending measures), with positive outcomes on the whole. A review of the KRIs is also underway (whose results will be made official in the first quarter of 2022) used to select the sample subjected to CFR activity, also after a *quick-assessment* on the new interception criteria of the CLO Area's *Early Warning* system and in keeping with the evolution of the reference legislative framework.
As another useful monitoring tool, there is also the so-called "*risk opinion*" shared quarterly with the Corporate Bodies, meant to provide a comprehensive *overview* of the Risk Function manager's audits on CLO Area activities, with reference to the various credit process aspects.
During 2021, also with reference to ERM's second-level controls: *(i)* the switch to that structure of all the activities relating to clientele risks, especially for investment services, was completed; *(ii)* the activities on data quality were strengthened (for example, with the extension of the project for adaptation to the principles governed by Circular 239 of the Basel Committee – so-called "BCBS 239" – on second-level controls over IT risk and with the start of analysis to define a method geared towards data quality measurement as well as a work-in-progress meant to verify the structures' ability to make the reports needed in special situations of difficulty with operations).
With an outlook of ever greater involvement for the Risk Function's issuance of *ex-ante* assessments during 2021, with the review of the internal regulations of reference, the extension of the scope of transactions subject to ERM's opinion was completed, both with the fine-tuning of the criteria for identification of those which classify as Most Significant Transactions (so-called "MST") and with the addition of a new type of significant transaction (the so-called "Significant Transactions"), ensuring a strengthening of controls performed above all in the phase of loan granting, particularly regarding the SME portfolio (hard hit by

the pandemic), and the phase of classification of counterparties. In relation to this activity, in line with the Supervisory Authority's expectations, the Board continuously monitored the management of the timing required for the Risk Function's prior analysis of the transactions, calling the proposing structures to meet it and underscoring the exceptional nature of urgent requests.

Another boost for the Risk Function's increased prior involvement in the activities of the Chief Lending Officer and Chief Financial Officer, also recommended by the Supervisory Authority, was, moreover, shown by the above said function's manager's participation in the Management Committees.

The special macroeconomic and more recently, geopolitical, context of the past few years that the Bank has had to face have, in the Board's opinion, made the initiatives and activities to predict and constantly monitor economic, capital and liquidity dynamics, conducted and developed by the Risk Function, particularly important. For this reason, the Board will maintain adequate monitoring so that they are strengthened and constantly adjusted to support the Bank' sound and prudent management;

- Internal Validation Unit (hereinafter also "IVU"): while made to directly report to the Risk Function's Manager, the extraneous nature and independence of the IVU are ensured both by its independence from the structures designated to develop the models and integration of risks both and its direct access to the Corporate Bodies. As anticipated in the Report for last year, the Function was involved (made official in January 2021) in a revision of its internal make-up which saw the creation of two structures (Credit Validation and Model Validation) with the intention to improve the efficiency of the performance of its activities. From the standpoint of the quantitative size (given the advanced *skills* linked to the structure's *mission* which already ensure high quality professionalism), the structure is assessed to be adequate (as ascertained by the Board also through a direct discussion with the Manager), while being aware of the need for adequate prioritisation of the activities as well as the chance to resort to the aid of specialised outside consultants on specific activities and analyses.

  Given that the scope of reference of the Internal Validation Function includes al models used, in the Group perimeter, for risk measurement with both regulatory and management purposes, after the audits conducted in 2021 (the Schedule - as amended on the basis of the half-yearly audit - was substantially completed, with a remaining 4% rescheduled for 2022), IVU expressed a judgement of "substantive adequacy" of the internal models, although with some requested upgrading oriented by including remedial actions. Specifically, besides carrying out the recurring activities of analysis and *backtesting* IVU set in place specific audits with reference: *(i)* to the models used to quantify Pillar 1 risk, particularly concerning credit risk (in the last quarter of 2021 with the launch of controls for sending the ECB the petition to change the models in use for a full application of the EBA Guidelines, so-called "*Next Application* A-IRB 2021") and market risk (with completion of the activities the Supervisory Authority required and the performance of audits on the *standard* requisite quantification method required by the FRTB); *(ii)* to the models used for management purposes, especially in the credit risk area (conducting audit activities on the model, so-called "Automated G*one*", of the IFRS9 system and the *staging allocation* criteria) and liquidity risk (mainly with validation of the main models used for the demand items and the new segmentation of the clientele, as well as the new method for calculation of the *Early Warnings*). IVU was also involved for the audit of provisions defined in relation to past reports by clientele interested in purchasing diamonds with an alternative model, which led to a small integration of the dedicated fund. The structure's major commitment to the progressive resolution of the *findings* opened by the Supervisory Authority is also worthy of note.

All instructions and intervention requests that the Internal Validation Unit prepared were taken up by the structures in charge of creating the corrective actions and are carefully monitored by the Unit itself, over the course of the year encountering a drop in the number of *findings* opened right after the activities carried out by the competent functions.

The Board recognises the specific importance of the audits and analyses the Internal Validation Unit performs (often affected by the need to conduct target activities, even unplanned, aimed at checking the adequacy of specific processes for risk assessment, in light of the petitions formulated by the Supervisory Authority, Corporate Bodies or the very internal structures in the scope of designated working groups) and called the development and *business* functions so that it would always be guaranteed an adequate time frame to carry out the expected precise audits relating to modelling developments;

- Audit Function: reporting directly to the Board of Directors, the Audit Function checks, in terms of third-level control for all the Group's *Legal Entities* the regular performance of operations and the evolution of risk, also informing the competent bodies of any ways in which the risk management process could be improved. Besides developing an *audit* plan that considers the aspects regarding emerging trends and risks, significant organisational changes, the Group's main operations, inspections on the sales network and checks on irregularity of operations and outside frauds, over the course of 2021, too, it continually assessed the overall resilience of the Group's Integrated Internal Control System, also taking into account operational solutions (*smart working* and the increase in the clientèle's remote operations)

which the Bank began to face the Covid-19 emergency (including those to manage the measures in support of the economy).
During 2021 the Audit Function worked availing of adequate resources in terms of quantitative sizing, properly overseen, with the support of the Human Resources Function, with suitable replacement processes to deal with the physiological *turnover*. With reference to the qualitative structure, over the course of the year, the training activities based on the ad hoc *gap analysis* (*skill inventory*) conducted in 2019, already cited.
In view of constant improvement of the adequacy of the Function's organisational structure, during 2022 a review is envisaged for the structure, meant to guarantee *(i)* a focus in the area of methods, instruments and scheduling and *(ii)* reorganisation of the Audit Network structure, as a consequence of the interventions to rationalise Banco BPM's branches and the activation of ad hoc points to serve companies provided for by the 2021 - 2024 Strategic Plan.
During 2021 the Audit Function carried out the activities defined in the Plan – as amended based on the half-yearly audit – carrying out part of the interventions on the network even *on site* and at the same time continuing the activities to develop the Remote Control System, in line with the Board's repeatedly expressed opinion on the fact that the implementation of advanced control *frameworks*, leveraging new technology and tools for the analysis/processing of data, is at the base of exponential effectiveness and predictive capacity of the Control System.
The Audit Function also oversees the Internal Whistleblowing System ("IWS", also known as "*whistleblowing*"), regarding which the protocols guaranteeing anonymity were established. To this regard, also taking into account the irrelevant number of reports received over the past few years, the Board renewed its recommendation to implement specific learning and training interventions aimed at incentivising their use as an important tool for the prevention of unlawful conduct.
This being said, in a context of ongoing audits and in-depth analyses of *core* processes carried out within a *risk-based* logic, in 2021, too, the Audit Department made a special effort to carry out activities aimed at ascertaining the effectiveness of the measures adopted by the Group as part of the implementation of the interventions under the *Remedial Action Plans* gradually approved by the Board of Directors (in terms of certification of the corrective actions and conducting targeted audits required by the plans themselves), as well as to deal with specific requests which the Supervisory Body made as part of or as a result of the aforementioned inspection processes. These activities, too, are obviously an opportunity to check the solidity of the Bank's processes and consequently to be able to steer any other specific investigations.

Last but not least, the Board recognises: *(i)* the Internal Audit Function's coordination of the Internal Control Functions, also for the aforementioned audit of the method of assessment of *gaps* and the promotion of more integration and uniformity of the reports of those very functions; *(ii)* the huge commitment not just in the cited certification activities linked to the *post*-inspection Remedial Plans, but also in the continuous monitoring ensured on the issues raised by the Supervisory Authority (and in the related *reporting* to the Bodies).

In the capacity of recipient of precise periodic reporting of the activities set in place and a significant number of *audit reports* (those closed with a negative judgement, those issued in the credit sphere, those mandatory by law or relevant to the main corporate processes besides those specifically requested/identified by the Board), the Control Body was able to see the constant focus kept by the Audit Function: *(i)*on credit processes, also (besides that already mentioned) with reference to the internal modelling developments and projects inherent to the adaptation to regulatory provisions. The audit activities have often been carried out through *credit file reviews* and in the scope of the necessary checks for certification of closure of the remedial actions; *(ii)* in the Finance and Markets sphere, also relating to the effectiveness of the operational division of some projects (including MiFID II, *Corporate & Investment Banking*) or the development of internal models; *(iii)* in the *Governance* sphere, especially on primary processes for the Bank, like for example ICAAP/ILAAP and *Risk Appetite Framework* and on specific profiles, like the mortgage collateral monitoring process, management of outsourcing, structured finance activities and the purchasing process.

On the basis of the activities carried out on the whole, although neither serious irregularities emerged, nor were there requests for "highly" urgent remedial actions, the Audit Function confirmed that there were some *gaps* (all monitored on an ongoing basis, as well as with *follow-up* interventions), which it was necessary to fix in a timely manner for the proper mitigation of the risk the Group is exposed to.

With specific reference to the Distribution Network (the Annual plan for which was substantially finalised with *on-site* and remote interventions, following the provisions linked to management of the health emergency), the Board periodically examined the results of both the checks on the Sales Network and the checks aimed at investigating anomalous (and potentially fraudulent) behaviour of employees. In this regard, with reference to the operations of the Sales Network, it emerges that it is essentially adequate, even though there are areas for improvement, especially in the anti-money laundering sphere. In order to help in overcoming the most recurrent shortcomings, as described above, there was proactive cooperation with the Anti-money laundering Function and specific training interventions were completed (also with the participation of the Audit Function, and specifically, the Anti-money Laundering Function itself). Moreover, the Board managed to see progressive establishment of the first level control model on the Network structures introduced after the merge, based on the figures of the Audit Representatives at the operational units and Audit structures at the Regional Departments. To this regard, also in light of the outcomes of audits and the checks that the Audit Function performed, the Board recommended a specific focus on the materiality of the first level controls. Against this backdrop, it is important to promote, with an outlook to further strengthening – also by the Bank's top management – an audit culture, not to be read with a negative connotation but as a tool to support the *business* itself in terms of a proactive approach, also availing of tools like the IWS.

For that which concerns the checks for unusual behaviour, the Board has ascertained that, when the premises subsist, the Bank has adopted the proper disciplinary provisions, receiving periodic updates on the matter from the Human Resources Function. In this regard, as a result of its ongoing verification activities and considering the irregularities identified, the Board shall continue to promote – both through Corporate Control Units and through commercial structures and the Human Resources Unit – the diffusion of an increasingly consolidated culture around risk and respect for the rules at all levels of company operations, with the aim of guaranteeing conduct in line with internal and external regulations and corporate strategies.

Within the scope of its broader supervision of the Control System, the Board has also reviewed the "Report for the assessment of the Group's Internal Control System", drawn up by the Audit Unit for the year 2021, 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 provides an overall assessment of the essential adequacy of the Group's Internal Control System, despite the presence of certain areas that have highlighted the need to adjust the safeguards. In acknowledging the overall judgement, the Board of Statutory Auditors has endorsed the actions undertaken in those areas identified as needing improvement, what is more already identified on conclusion of the checks carried out during the year and brought to the Control Body's attention. Specifically, there are three business areas where the effectiveness of the control measures was "medium to low". For each, together with other minor risk profiles, the Report identifies the remedial actions underway, and when already defined, the date of foreseen total completion. More in general with reference to the remedial actions, and specifically, regarding meeting the deadlines for completion of the activities, despite having witnessed a considerable drop in the *stock* of open issues (both by the Internal Control Functions and the Supervisory Authority and the Auditing company) and appreciating the clarity of the supporting reports, the Board of Statutory Auditors asked that the *owner* structures of the interventions be more responsible and increased incisiveness of the Internal Control Functions in urging the closure of the findings.

From this standpoint, the Board recommended that the Internal Control Functions carry on with a constructive *challenge* towards the other managerial structures of the Bank, making their authority in analysing the various circumstances under examination more and more effective.

Finally, within the scope of the Control System structure, 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 Body itself. Against this backdrop, the Board acknowledge the adequacy and effectiveness of the Organisational Model adopted pursuant to the regulations of reference as well as the absence of reports (among those received) appertaining to their violation for the year in question, as the Body's Chairman ascertained at the meeting held on 28 February 2022;

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.

According to the requirements of the ESEF Regulation, the Annual Financial Report was prepared in the new ESEF format, which is a combination of xHTML language and XBRL *markups*. Moreover, the information in the Consolidated Financial statements was subject to mapping according to the "*Inline* XBRL" specifications in the basic taxonomy issued by the ESMA.

In his/her Report, for the purpose of issuing the certification set forth in Article 154 *bis* of CFL, 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 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 in order to take any relevant decisions.

The Board therefore 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 2021 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 Issuers' Regulation;

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 also furthered the performance of a specific review of the system and its functionality with regard to the handling of insider information and the exchange of information flows between the various Group companies involved, the results of which showed overall compliance, attesting to the proper functioning of the process analysed, as well as a system of safeguards in terms of internal regulations (recently updated in order to also include operations in the credit sphere) and a complete IT procedure that is in line with the guidelines issued by Consob in October 2017.

    Among the activities completed during the year 2021, also in order to work in close co-operation and facilitate dialogue in the sphere of the Bank's and Group's Control System, the Board maintained a periodic exchange of information flows with the Control Bodies of the main subsidiaries, also aided by the fact that the Chairman of the Board and two standing members are also Chairmen and a standing member of the Boards of two other banks in the Group. From the relationships established with the corresponding Control Bodies of the Subsidiaries, as well as from the findings submitted by the Internal Control Functions of the Parent Company, in particular by Audit and Compliance, 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 the CFL 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 the CFL, as well as pursuant to article 19, paragraph 3, of Legislative Decree No. 39/2010;

17. with regard to corporate governance rules, it should be noted that Banco BPM has adopted the current *Corporate Governance* Code furthered by the Committee for *Corporate Governance*, 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 the CFL, as amended.

    The aforementioned report describes the methods and the behaviours with which the principles and application criteria in the Code have been actually applied, as well as the non- or partial adoption or application of any of the recommendations from the above said Code, thus providing, in these cases, all the related reasons. The Board has also acknowledged the Committee Chairman's letter from December 2021, acquiring its instructions during one of its meetings;

18. following the supervisory activities carried out, as described above, no omissions, censurable facts or irregularities worth mentioning in this report were identified;

19. in conclusion, with regard to all 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 exercise its right to formulate recommendations to the Shareholders' Meeting pursuant to Article 153, paragraph 2, of the CFL regarding the approval of the Separate Financial Statements of Banco BPM at 31 December 2021 and the subject matters falling under its competence. The Board, having carried out the necessary checks also in relation to the recommendations made to the Banking System by the European Supervisory Authority, has no observations to make regarding the proposal to the Shareholders' Meeting to distribute a dividend of € 0,19 per share.

Milan, 16 March 2022

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

signed Prof. Marcello Priori, Chairman

signed Mr. Maurizio Lauri

signed Ms. Silvia Muzi

signed Mr. Alfonso Sonato

signed Ms. Nadia Valenti