



**REPORT OF THE BOARD OF STATUTORY AUDITORS
OF BANCO BPM S.p.A. TO THE SHAREHOLDERS' MEETING
PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE No. 58 OF 24 FEBRUARY 1998**

2020

**Ordinary Shareholders' Meeting
15 April 2021**



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 (TUF - Consolidated Financial Law)

Dear Shareholders,

the Board of Statutory Auditors (hereinafter also the "Board" or "Control Body") currently in office was appointed by the Shareholders' Meeting of Banco BPM S.p.A. (hereinafter also "Banco BPM" or "the Bank") held on 4 April 2020 after the previous Control Board completed its three-year term office. At the date of writing this Report, the standing members of the Board are Mr Marcello Priori (acting as Chairman, previously in office), Mr Carlo Ferrari (who on 4 September 2020 succeeded the resigning Ms Fulvia Astolfi, who on 7 August 2020 in turn succeeded the resigning Ms Maria Luisa Mosconi), Mr Maurizio Lauri, Mr Alfonso Sonato (previously in office) and Ms Nadia Valenti, as well as the alternate member Mr Gabriele Camillo Erba. The Shareholders' Meeting convened on 15 April 2021 will therefore be required to supplement the Board of Statutory Auditors.

With this Report, drawn up pursuant to article 153 of TUF (Consolidated Financial Law) and in compliance with the guidelines provided by Consob with Communication No. 1025564 of 6 April 2001, as amended, the Board of Statutory Auditors of Banco BPM is reporting on the supervisory activity carried out in 2020, in compliance with the applicable regulations while also taking into account the Rules of Conduct set out for the Boards of Statutory Auditors of listed companies, as recommended by the Italian Board of Professional Accountants and Auditors.

In 2020, the Board of Statutory Auditors carried out the supervisory activities falling under its area of competence and fulfilled its obligations; within this scope:

- it participated in all the meetings of the Board of Directors (also appointed by the Shareholders' Meeting held on 4 April 2020) and of the Executive Committee (this body is however no longer required following the amendments to the bylaws approved by said Shareholders' Meeting of 4 April 2020) and, through its Chairman or an Auditor appointed by the latter and according to the applicable regulations, in the meetings of the Internal Control and Risks Committee, the Remuneration Committee, the Related Parties Committee and the Appointments Committee, established within the Board of Directors and obtained, in compliance with all the laws and the provisions of the Articles of Association, comprehensive information on the activities carried out and on the most significant transactions conducted by the Bank and its Subsidiaries. At the Shareholders' Meeting held on 4 April 2020 (ordinary and extraordinary session), only the

Chairman attended on behalf of the Board of Statutory Auditors, in compliance with the rules adopted by the competent government bodies for the protection of health and safety in view of the ongoing health emergency;

- it acquired the necessary information on compliance with the laws and the Articles of Association, with the principles of sound management as well as on the functionality and efficiency of the Bank's organisational structure and of its internal control and risk management systems and administrative-accounting system, through direct investigations and by gathering data and information from the managers of the main 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 performed its auditing on the Internal Control and Risk Management System (hereinafter also "ICS"), benefiting from the presence of the Manager of the Audit Unit at the Board's meetings, in which, in addition to the Compliance Manager, the Managers of the Anti-Money-Laundering Unit, the Risk Unit and the Internal Validation Unit and their direct collaborators also participated. This therefore provided the necessary operational and informative details about the methods adopted in the performance of the respective institutional control tasks, as well as on the results of the pertinent activities;
- it carried out the necessary assessments on the adequacy of the guidelines issued to the Subsidiaries, also pursuant to article 114, paragraph 2 of Italian Legislative Decree No. 58/1998;
- it 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 Italian Legislative Decree No. 231/2001;
- it monitored the actual methods applied to the implementation of the governance provisions, as set forth in the previously applicable Code of Conduct for Listed Companies, to which Banco BPM has declared to have adhered. As from 1 January 2021 this document was replaced by the new Corporate Governance Code, promoted by the Corporate Governance Committee of Borsa Italiana S.p.A., to which the Bank confirmed its adherence;
- it oversaw 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 compliance with the Regulations themselves (updated over the year). The internal regulations will be adjusted to comply with the amendments introduced by Consob in Resolution No. 21624 of December 2020;

- it supervised the overall appropriateness of the internal procedures for achieving the objectives of the governing provisions in terms of risk and conflicts of interest concerning related parties, in compliance with the Circular issued by the Bank of Italy No. 263/2006, Title V, Chapter 5;
- it 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 were correctly applied. The Board also verified that, in accordance with applicable regulations, the Board of Directors had carried its annual internal assessment, the results of which highlighted an essentially positive framework in terms of both the Board's composition and functioning. The areas for improvement found were discussed and specific corrective measures identified, including the continuation and supplementation of the board induction process already in place (the members of the Board of Statutory Auditors are invited to and have always participated in these sessions) for the purpose of ongoing skill building;
- it examined the Draft Financial Statements, the Risk Appetite Framework and the Budget and expressed its opinion on the update of the Corporate Governance Project;
- it verified compliance with the law and regulations concerning the process for the preparation of the Financial Statements and drafting of the Non-Financial Statement as per Italian Legislative Decree No. 254/2016;
- in its role as Internal Control and Audit Committee, it fulfilled the requirements of Italian Legislative Decree No. 39/2010 and Regulation (EU) No. 537/2014, with regard to, among other things, the independence of the Auditing Firm appointed.

Before turning to the details of the main findings obtained in performing its duties, the Board of Statutory Auditors believes it useful to provide some information on the particular context that characterised the year 2020 as a result of the Covid-19 pandemic, which affected multiple aspects of Banco BPM's decisions, operations and activity in general.

The health emergency – while is still ongoing as this document is being written – has had heavy repercussions on the global economy and on business operations. Banco BPM implemented a detailed series of measures, especially in the early months of 2020, to protect the health and safety of its customers and employees, and to give practical support to the businesses, families and communities of the territory in which the Group operates. Some of these measures (which specifically include home working and shift-working for its own employees and promoting distance operations with customers) required the implementation of organisational and IT solutions to



guarantee the continuity of regular banking activity, while at the same time ensuring the physical safety of individuals and the IT security of transactions.

All these initiatives were managed and coordinated by a Crisis Committee, promptly set up on 23 February 2020, chaired by the Chief Executive Officer and made up of the heads of the main corporate units. The Committee laid the groundwork for the activities and actions that ensured the adoption of timely and effective solutions and the coordination and implementation of the most appropriate measures for the developing circumstances, in accordance with the ministerial provisions and the recommendations provided by the authorities and reference bodies/institutions. Banco BPM also launched a structured project entitled Re-Action under which the actions required to protect health and safety, guarantee the sustainability of the Group's economic and financial management and proactively support customers affected by the pandemic fallout were defined and implemented.

Consistent with the above, since the first quarter of 2020 the Bank has been doing all that is necessary to provide operational backup to the measures to support the economy adopted by the Italian Government, by ABI or on the basis of bilateral agreements (such as, granting payment moratoria, suspending loan instalments, granting or renegotiating loans against government guarantees, and advancing the redundancy fund).

As it is easy to imagine, the ongoing pandemic, its heavy impacts on social issues and on the domestic and international economy (with significant sector-specific asymmetries) as well as the consequent measures implemented, certainly had an effect on the exposure to the various types of risk characterising the Bank's operating activity and in particular to the credit risk. In order to oversee, manage and correctly measure these risks in relation to the exceptional ongoing crisis, the entire Group has implemented a series of evolutionary actions, which are often prudential in nature, regarding processes, procedures and internal models and has strengthened and modified mitigants and controls, the effectiveness and efficiency of which has been closely studied by the Board of Statutory Auditors, as will be reported later.

While conducting these supervisory activities, the Board paid specific attention to the numerous documents, guidelines, notices and recommendations progressively issued by the Supervisory Authorities (Central European Bank, Bank of Italy, Consob) but also by other international institutions (such as, EBA, ESMA, IASB, Basel Committee), to provide guidance on how to ensure correct and transparent measurement of risks, as well as interpretations for applying accounting standards in order to prevent the development of pro-cyclical effects. At the same time the Board bore in mind the recommendations on the need to ensure up-to-date information on the Covid-19 related risks impacting the Bank's state of affairs, the actions taken or planned by it to mitigate these risks and the indication of potentially significant effects on the expected future performance. The Statutory

Auditors therefore directed their attention, amongst other things and above all, to: (i) the classification of loans affected by moratorium measures and the general performance of the portfolio affected by Covid-related measures; (ii) the measurement of expected losses on credit exposures, so as to incorporate the forecast future macro-economic scenarios and the effects of state guarantees issued on Covid-related financing; (iii) market reporting on the effects recorded by the health crisis and on expected effects, as well as on the measures taken and planned to deal with the crisis, on the basis of the information provided in the statements and warning notices (specifically from ESMA and Consob); (iv) the assessment and determination of impairment of non-financial activities; (v) the overall adequacy of the accounting structure, the organisational structure and, last but not least, the Internal Control System, also in the pandemic context.

Furthermore, as from February 2020, the Board of Directors examined the reports on the actions taken to mitigate the impacts of Covid-19, with regard to the operational measures designed to curb the spread of contagion, the commercial measures to limit the adverse economic effects of the health emergency, the measures designed to limit, in compliance with the Supervisory Authorities' guidelines, the pro-cyclical elements in the calculation of the capital and liquidity requirements and, as 2020 progressed, the information on the business performance, the loans portfolio and the corporate projects specifically relating to the initiatives/activities on progress in the Digital Transformation programme and the activities of customers and employees.

In a context characterised by the uncertainties surrounding the ongoing pandemic, the Board of Statutory Auditors also closely monitored the initiatives implemented by the Bank (and specifically by the Risk Unit) to ensure that continuation of the full capital adequacy requirements is constantly and continuously monitored, while ensuring that sufficient buffers are maintained to meet the regulatory requirements also in view of developments in regulatory provisions and in requests from the Supervisory Authorities (with associated capital absorption). A positive move in this direction has been the activation of the quarterly ICAAP monitoring which allows account to be taken, among other things, of the changes in the external macro-economic context and any areas and/or elements of vulnerability within the Group to be identified.

Similarly, the Board verified that the Group's liquidity profile was subject to appropriate ongoing control by the Risk Unit, and particularly noted the implementation of specific monitoring activities (for example, on the performance of used and unused, revocable and irrevocable credit lines) and adjustments to models (such as those on the framework for on-demand items) considered important also in view of current regulatory measures of the Supervisory Authorities aimed to support financial institutions.

It should also be noted that, as already mentioned in the Report on the previous financial year 2019, on 3 March 2020 Banco BPM approved the 2020-2023 Strategic Plan, based on assumptions

and objectives defined before the onset of the health emergency. In light of what then happened and the situation generated by the pandemic (making the 2020-2023 Strategic Plan forecasts no longer relevant), the Board of Directors is assessing various possible scenarios for the evolution of the economic context in order to define new economic, capital and financial projections for the 2021-2023 three-year period.

Based on the main findings acquired while carrying out its functions, the Board of Statutory Auditors identified a number of significant events that characterised 2020. Although most of them have already been illustrated in the Group's Report on Operations drawn up by the Directors (to which reference is made), it is worth mentioning them hereunder, in view of their significance to the assessments of Banco BPM's financial and economic situation and the consistency of the management decisions made during the particularly challenging situation that affected 2020 as a result of the pandemic:

- initiatives to rationalise the Group's corporate and operating structure: *(i)* consistent with the process to simplify the Group structure, the Board of Directors approved the draft terms of merger by incorporation into Banco BPM S.p.A. of the Subsidiaries ProFamily S.p.A. and Bipielle Real Estate S.p.A. An account is given of this decision, taken at the beginning of 2021, as (a) the merger of ProFamily into the Parent Company Banco BPM, implemented for winding up purposes, is consistent with the agreements signed with the Crédit Agricole Group to further strengthen the partnership existing in Italy's consumer credit business, on which the Board had provided information in its Report on the previous year; (b) the incorporation of Bipielle Real Estate instead seeks to concentrate the overall ownership of the real estate assets directly under the Parent Company (which will also control all the organisational structures entrusted with managing these assets), and this initiative is also consistent with the information provided by the Board in its Report on 2019. Both merger transactions will be implemented following the simplified procedures established for wholly owned companies and will be completed, subject to authorisation from the competent authorities, by the end of July 2021; *(ii)* Banco BPM acquired 100% of the share capital of the subsidiary Release S.p.A. thanks to the acquisitions made by the minority shareholders on 22 December 2020 (with Banco Popolare di Sondrio) and 15 January 2021 (with BPER) respectively; *(iii)* Banco BPM has decided to reorganise and rationalise its commercial network by defining a plan to close down 300 small branches, to be implemented during the first half of 2021. Consistent with the strong development in digital banking and the fall in simple transactional activity, the main objective behind the transaction

is to upgrade the more structured branches to offer customers higher level consulting and more services;

- **derisking initiatives:** in December 2020, in accordance with the objectives of continuing the progressive reduction of the NPL portfolio, Banco BPM finalised: *(i)* the non-recourse sale of two separate portfolios of non-performing loans (classified as "Unlikely to Pay" - UTP) to AMCO and Credito Fondiario and the sale to other counterparties of a number of single name positions (entire transaction referred to as the "Django Project"). The main sales concerned two portfolios worth a total of 1 billion euro and made up of 129 exposures, mostly mortgages, to business counterparties. The single name positions sold to other counterparties totalled approximately 60 million euro; *(ii)* a multi-originator securitisation of loans, assets and legal relationships arising from non-performing leasing contracts. The transaction, in which Banco BPM, Release S.p.A. and Alba Leasing S.p.A. participated as originators (named "Titan Project") and which was worth a total of approximately 335 million euro, entailed the sale of a portfolio of approximately 145 million euro and the issue of three classes of securities (senior, mezzanine and junior). A procedure has been initiated to request a state guarantee (GACS) for the senior tranche, which received a BBB rating from Scope Ratings and DBRS, while the mezzanine and junior tranches were sold to the market;
- **strategic partnerships and agreements:** *(i)* on 15 December 2020, Banco BPM informed Cattolica Assicurazioni (hereinafter also "Cattolica") of its intention to exercise the call option provided for by the Shareholders' Agreement signed in March 2018, concerning Cattolica's purchase of the 65% controlling interests in the capital of Vera Vita (which in turn wholly owns Vera Financial) and of Vera Assicurazioni (which wholly owns Vera Protezione). Based on the assumption that the execution of the corporate and industrial transaction between Cattolica Assicurazioni and Assicurazioni Generali on 23 October 2020 had led to a change of control of Cattolica (considered one of the triggering events entitling exercise of the aforesaid option), this initiative was disputed by the counterparty. On 5 March 2021 Banco BPM and Cattolica set out a new agreement (formalised in a Memorandum of Understanding) in which they resolved their differences and outlined the terms and conditions for adapting and continuing their partnership and the related exit rights, reconciling their respective interests and taking the changed economic context into account. These agreements, which qualify as events occurring after the end of the year, were disclosed to the market; *(ii)* on 14 May 2020, Banco BPM renegotiated the partnership framework agreement with Anima Holding, redefining both the levels of the expected targets and the timeframe for achieving them. Furthermore, following the Shareholders' Meeting of Anima Holding held on 31 March 2020, the new mechanism for appointing the corporate bodies introduced by the bylaw amendments

approved on 29 March 2019 came into effect, so that Banco BPM was able to designate five directors (including the Chairman and the Chief Executive Officer) out of a Board of Directors composed of ten members. The representation on the Board of Directors thus achieved was considered to be evidence of Banco BPM's ability to exercise considerable influence over Anima Holding through its participation in the Company's decision-making processes. This evidence is further supported by the increase in the percentage interest held in Anima Holding from 14.27% at the start of 2020 to 19.385%, very close to the 20% threshold, the keeping of which, in accordance with IAS 28, leads to the presumption of the possibility of exercising a significant influence on the management of the investee company. The Board ascertained directly that the interest is intended to be held on a permanent basis since its strategic nature is confirmed by the close partnership and contractual agreements regarding the distribution of the funds managed by the Anima Group through Banco BPM's Network. As a result of the above, the equity interest held in Anima Holding was reclassified with effect from 1 April 2020 under item "70. Equity investments", activating the Purchase Price Allocation process, the results of which were approved by the Board of Directors for the purposes of preparation of the 2020 Financial Statements;

- funding transactions: on 14 January 2020 Banco BPM completed an issue of Additional Tier 1 instruments for a value of 400 million euro, destined for institutional investors. A further issue of Additional Tier 1 instruments was completed in January 2021, again for a nominal value of 400 million euro and again destined for institutional investors. These transactions contributed to encouraging a streamlining of the Group's capital structure, allowing the Tier 1 capital targets to be achieved and further strengthening the Group's capital position. Furthermore, (i) February 2020 marked the successful conclusion of the placement, with institutional investors, of a senior non-preferred bond issue of 750 million euro with a maturity of 5 years, forming part of the Group's EMTN Programme: (ii) two subordinated Tier 2 issues were completed, the first in September 2020 (for a total of 500 million euro) and the second in December 2020 (for a total of 350 million euro), mainly subscribed by foreign institutional investors. The overall long-term financing position (TLTRO III) in respect of the European Central Bank (hereinafter also "ECB"), following the changes introduced by the Central Bank to deal with the consequences of the Covid-19 pandemic, was increased during the year.

With reference to the dealings with the Supervisory Authorities, it is reported that Banco BPM:

- received in November 2020 notification by the ECB of the "Information regarding the Supervisory Review and Evaluation Process 2020" letter (hereinafter "SREP Letter 2020"), containing a number of recommendations based on the SREP assessment carried out in 2020, with reference date 30 June 2020, to provide the Bank with guidance on the areas where

improvements are required. Taking the general situation linked to the Covid-19 pandemic into account, ECB decided not to issue an SREP Decision in 2020, and so the quantitative requirements established for Banco BPM for 2020 in the 2019 SREP Decision were reconfirmed for 2021 and namely a Pillar 2 ratio stable at 2.25%. In this regard it is reminded that in April 2020 ECB stated that, in order to relieve the burden on banks to comply with the capital requirements during the pandemic, the Pillar 2 Requirement, equal to 2.25% (fully constituted in the 2019 SREP Letter by Tier 1 capital), could be held by least 56.25% (i.e. 1.266%) in the form of CET 1, 75% (i.e. 1.688%) Tier 1 and the remainder Tier 2. All the capital requirements have been well complied with by Banco BPM;

- was subject to inspections by the Authorities as part of their scheduled ongoing supervisory activities and in the exercise of their control prerogatives, especially by ECB within the context of its Supervisory Review and Evaluation Process (hereinafter also "SREP"). These activities were mostly carried out remotely due to the pandemic. When carrying out its institutional activities, the Board of Statutory Auditors established a productive information relationship with the Joint Supervisory Team (JST), an operating unit of the Single Supervisory Mechanism (SSM), which is responsible for carrying out prudent supervision of the Group within the scope of the SSM - and with the inspection teams (of the European and National Authorities) tasked with the inspections as and when necessary. The Board of Statutory Auditors also implemented the activities specifically requested by the Authority, which mainly consisted in studying and issuing opinions on the remedial activities requested of the Bank. In its Report on 2019 the Board of Statutory Auditors already provided information on the issue of the document containing the outcome of the assessment conducted by the Control Body on the proper management of the "diamonds" case. The Board also verified that during 2020 the additional improvements recommended by it in the note of assessment had been implemented.

On this last matter, continuing the information provided in the Report on the previous year (which is deemed to be set out here) on the activity of referring customers interested in purchasing diamonds to the specialist company Diamond Business S.p.A. (an activity performed prior to 2017 and now completely terminated), it is stated that during 2020 the new complaints on the matter were limited both in numbers and in additional relief sought, which meant that it was not necessary to supplement the funds set aside to cover potential liabilities in the 2019 Financial Statements. The Board of Statutory Auditors still continues to closely monitor the management of claims (with specific regard to the percentage refund awarded to customers, in relation to which there is also a managerial indicator in the Risk Appetite Framework) and legal disputes, also examining the regular checks carried out by the Internal Validation Unit to test the proper functioning of the

model to determine the allocations made in the Financial Statements. At present no critical issues have been found.

In view of the above and also taking into account the particular context characterising the period, during 2020 and in the early months of 2021 the Board of Statutory Auditors supervised, also by conducting specific targeted monitoring and follow-ups, a number of areas considered of relevance to organisational, control and risk management aspects. The following information is provided.

Credit management and monitoring process

As already stated in the Control Body's Reports on previous years, Banco BPM has continuously taken action to gradually strengthen and perfect the regulatory and organisational framework of the credit management processes, to guarantee effective risk management, also in light of the relevant recommendations (with specific regard to non-performing positions) made by ECB following its inspections. The crisis triggered by the pandemic and the related measures to support the economy (also in accordance with government provisions) have suggested the need to consolidate governance and operating mechanisms, with specific regard to the procedures for identifying, monitoring and measuring the credit risk, often achieved by accelerating actions already being implemented. The Board continued to keep a special focus on these measures, which were worked on during the year, by studying proposals for their development and examining the enhanced reports on monitoring (carried out by first level structures) and controls (carried out above all by the Risk/Enterprise Risk Management Unit and by the Audit Unit). The following aspects are specifically reported:

- enhancement of creditworthiness assessments through the issue in May 2020 of a new platform for detecting and managing counterparties with anomalies (Monitoring and Management Practice - MMP) and development of a new performance scoring model (New Early Warning Score, in production since December 2020). More specifically, the new scoring model has advanced data model and estimation technique features which, by introducing the move into stage 2 as early warning sign, allow detection before the default event. At the same time, the MMP application incorporated the new rules on overdrawn exposures, set out by the EBA Guidelines on the definition of default, providing, as soon as the overdrawn event occurs, a procedure for processing homogeneous positions differentiated by counterparty type and level of exposure to risk, following a highly industrialised management approach seeking to prevent deterioration of the creditworthiness and serving to reinstate ordinary management of the

relationship. These measures facilitate early detection and management of signs of deterioration of exposures.

- the presence of a structured framework to regulate the ordinary process for granting, monitoring and measuring forbearance measures granted to customers (including the procedures for identifying the financial difficulty, the checks on compliance with the conditions for lifting the forbore exposure status and recognition of distressed restructuring in accordance with the regulatory provisions introduced with the new Definition of Default - "New DoD"). With regard to the handling of the support measures (including the legal moratoria and new financing pursuant to Italian Decree Law No. 23/2020 known as "Liquidity" converted into Italian Law No. 40/2020, as well as measures defined internally, such as bilateral suspension agreements), Banco BPM has continued to manage the granting and classification process according to ordinary procedures. At the same time, in accordance with the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-9 crisis" of 2 April 2020 (updated on 2 December 2020), as from March 2020 the Bank took advantage of the possibility of applying the "EBA temporary framework" (exemption of the need for the forbore flag) to new liquidity measures (with the exception of rescheduling) and moratorium measures which met the requirements defined by the Regulator. Although use of this framework for the aforesaid measures has been extended to 31 March 2021, as from November 2020 the Bank prudentially reactivated the ordinary process for verifying the forbearance status;
- in addition to the ongoing monitoring conducted on loans subject to support measures, as part of the first level controls in place, the structures within the Chief Lending Officer (CLO) area have initiated targeted ex post checks applying risk based criteria that consider specific qualitative information in order to assess the correct classification of the positions (taking into account, for example, potential financial difficulties identified by those managing the positions, amounts overdrawn on exposures with expired moratoria, high risk levels) or to identify counterparties showing signs of impaired creditworthiness. Following this approach and bearing in mind that trends for customers subject to moratorium produced by the routine analysis of the watchlists generated by the Early Warning Systems could potentially be less significant, Banco BPM has introduced specific initiatives to interact with customers benefiting from these support measures. The detailed feedback and information collected from these exchanges has enabled the competent structures to manage the potentially critical positions by promptly proposing appropriate solutions to the distressed debtors, in order to alleviate a possible "cliff effect", a matter for concern covered by repeated recommendations of the European Regulators. Given that this initiative is continuing in 2021, as is appropriate, the Board has also

been informed of the specific process in place to identify and manage counterparties whose support measures have expired and terminated and who are now showing early signs of impaired creditworthiness. As these measures allow action to be taken sufficiently far in advance, a huge increase in non-performing loans (NPLs) should be prevented;

- when developing the 2021 Lending Policies framework (approved by the Board of Directors in December 2020), Banco BPM defined special measures to enhance the process for analysing customers' financial sustainability, also in view of sector-specific dynamics, by introducing elements that were agreed upon with the Risk Unit. This has enhanced the governance of the process for assigning and assessing creditworthiness.
- to ensure appropriate hedging of the credit risk, for the purposes of preparation of the 2020 Financial Statements (and in some cases also for the purposes of preparation of the Half-Year Report as at 30 June 2020), a number of changes were made to the method for calculating expected losses on performing loans according to the IFRS 9 model (classified as stage 1 and stage 2), which also sought to assimilate the guidelines and requests drawn up by ECB. More specifically, taking the impacts of the health emergency into account, the Bank carried out a review of the method for calculating the Expected Credit Loss (ECL) as from 30 June 2020. Given that the Group has adopted an approach based on statistical models ("staging models") that identify the presence of significant increases in the current and future riskiness (SICR) of individual transactions, incorporating specific satellite models allowing estimation of the expected changes in the riskiness of individual counterparties belonging to the various business sectors on the basis of identified macro-economic scenarios and of the probability of occurrence, during 2020 these staging models were reviewed to ensure the systems assimilate the extremely asymmetrical nature of the macro-economic fallout on the various production sectors caused by the pandemic crisis and the measures taken to contain it. The new macro-economic projections have incorporated the riskiness inherent in the economic sector from a more prudential perspective, increasing the percentage interception of counterparties with SICR (classified as stage 2), increasing the impact of ECL on the Group's loans portfolio. The sectoral macro-economic scenarios were also updated again based on the projections in place at year end, in accordance with the decisions made by the Scenario Council (submitted to the Internal Control and Risks Committee and to the Board of Directors), in order to include their impact in the estimates of the risk parameters (forward looking assessments). The time series for calculating the risk parameters were also updated in September 2020. Furthermore, taking a conservative approach to the potential accounting impacts arising from the positive effects of the government measures granted, the Bank carried out a specific analysis of counterparties from the Small Businesses and Private Customers segment who were

upgraded in the second half of 2020 (from stage 2 to stage 1) exclusively as a result of the aforesaid support measures, sterilising the potential positive effects by manual adjustment (moving back to stage 2).

All these measures – and others referring to the valuation of state guarantees granted in relation to certain measures to support customers – were assessed by the Internal Validation Unit (whose observations were assimilated) and led to an increase in the volumes of exposure assigned to stage 2, and consequently to a higher level of provisions for the Group's performing loan portfolio. For the sake of completeness, the Board of Statutory Auditors commissioned analyses and studies – currently being conducted by the Internal Validation Unit with the assistance of an external advisor – on the staging framework in use. In light of the outcome of this activity, the Board will supervise the actions that prove necessary.

Although the new classifications based on the legislation on the new definition of default entered into force on 1 January 2021 (consistent with the forward looking perspective of IFRS 9), the adverse economic effects associated with the introduction of the new legislation were reflected in the 2020 Financial Statements, by booking in the income statement for the year the estimate of the higher adjustments required with regard to reclassification of loans from performing to non-performing;

- with regard to the valuation of the non-performing portfolio, the actions taken were again prudential and in particular: (i) the model for automatic calculation of the expected losses applied to exposures not exceeding one million euro ("Automated Gone") was amended to assimilate the adjustments requested by the Internal Validation Unit. Also in order to make an early determination of future losses attributable to the Covid-19 pandemic, the chosen methods take a conservative approach and are based on a forward looking vision; (ii) with regard to the analytical assessments of the expected losses on exposures exceeding one million euro, carried out by those managing the positions in accordance with a process that takes into account - in compliance with regulatory guidelines – the customer's current and future cash flows (estimated on a going concern or non-going concern basis, in order to include an anticipatory perspective in the expected credit losses attributable to the Covid-19 pandemic), specific emphasis was placed on the process to update the economic and financial information on the positions classified as probable defaults with restructuring plans in progress. For this purpose an assessment was set up to evaluate the performance of the plans and to update accordingly, if it should prove necessary, the expected losses on the counterparty; (iii) in 2020 the Board of Directors approved amendments to the NPL management strategy and to the sales targets, also with a view to approval of the 2020 Financial Statements. In compliance with Group policy, which for the purposes of estimating expected losses requires the adoption

of a forward looking approach with different impacts depending on the portfolio management perspectives, these actions had an impact from an evaluation point of view (IFRS 9 add on); (iv) during 2020 the process for updating appraisals of real estate collateral was gradually strengthened, adopting specific organisational solutions – that were also strongly advised by the Board of Statutory Auditors – designed to ensure timely and quality updates, and setting up a system of internal reporting and second level ad hoc controls by the Risk Unit.

Despite the transactions to sell very impaired positions (carried out at the end of 2020 and already mentioned in this Report), all these actions led to an increase in the level of hedging of the non-performing portfolio.

While noting that, when using some of the methods described, the Bank calculated the impacts in a laboratory environment, the Board has stressed that, also following the recommendations of the Executive in charge of financial reporting and the Internal Validation Unit, this arrangement must be considered as an exceptional contingency measure, while in normal conditions the procedural implementations must be subject to appropriate advance planning, in order to allow proper tracing of all the processing performed, to reduce possible operating errors associated with processing conducted outside the procedure, and to facilitate orderly control of the results produced. It should also be noted that, where the new methodology was not put into production in time to be used for the determinations to be reported in the financial statements (full-year Financial Statements, as well as Half-Year Report and interim reports), the Executive in charge of financial reporting asked the Risk Unit to carry out independent control calculations.

More generally, with regard to the Credit area, again in 2020, the Board of Statutory Auditors examined the results of all the checks – performed by the Bank's Control Units (in particular by the Audit Unit and the II Level Controls structure of the Risk Unit), in line with the expectations and requests of the European Supervisory Authority – on the effectiveness and functionality of processes, the overall positive findings of which are to be attributed to the identified general strengthening of monitoring. On the areas of improvement identified, strengthening activities have been launched, often linked to IT implementations. The Board retains the competence to verify the effectiveness of actions that have already been finalised (many of which towards the end of 2020) and will continue to monitor implementation of the scheduled actions, while also observing changes in the regulatory framework.

The Board deems that these potential risks, and the uncertain outlook associated with the crisis triggered by the still ongoing pandemic and the mitigating (but temporary) effect of the economic support measures granted, were taken into account in the generally prudential approach adopted by the Board of Directors, also at the request of the Board of Statutory Auditors, when deciding how to hedge the credit risk to which the Bank is exposed. However, there is still a

fundamental need to continue the activities to enhance the systems for monitoring (and prompt reporting on) the positions and for timely and proactive intervention if evidence of difficulty should arise. The Risk Unit will continue to guarantee oversight of the risk profile of the performing portfolio, as well as of the soundness of the classification processes and the appropriateness of provisions made, by conducting aggregate and analytical checks, which may also be formalised through the issue of specific opinions for the Corporate Bodies and the Supervisory Authority. As was very much the case in 2020, the activity planning drawn up by the Audit Unit in 2021 confirms the strong effort made in the checks carried out on the lending processes, accompanied by credit file review activities (sometimes requested by the Supervisory Authority).

Processes to update and extend internal risk measurement models

Also in consideration of the equity impacts of the consolidation of internal models, during 2020 the Board of Statutory Auditors 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 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. In this regard, in 2020 after completion of the Internal Models Investigation (IMI) activity, the ECB issued the authorisation to use the Internal Market Risk Measurement Model (VaR, sVaR, IRC) also for the "debt instruments - specific risk; Forex Risk" risk categories, with impacts on capital absorption. Again on the matter of market risk, in 2020 the Bank launched an important project on the Fundamental Review of the Trading Book ("FRTB"), assisted by an external consulting firm. The Board will continue to ensure appropriate supervision of the progressive adjustment.

The process of validating the internal credit risk model – on which the inspection began in the last quarter 2019 and continued throughout the first quarter 2020 – is also being finalised with specific regard to the PD, LDG (Performing, Elbe and Defaulted Asset) and EAD parameters. In compliance with the new regulations and in fulfilment of specific ECB obligations, these new models contain significant methodological changes compared to the risk parameters currently used by the Group for Corporate and Retail customers. The supervisory measures and the recommendations – already mentioned over the course of the inspection process – made by ECB will be implemented and addressed in a special Remedial Action Plan.

At the same time, and still during 2020, a model change application was drawn up for adjusting the IT systems, internal procedures and processes and the risk parameters through technical calibration to the new definition of default following the entry into force of the relevant European regulations. The Application Package was sent to ECB in August 2020, after which an off-site inspection was commenced by the Authority in September 2020 and formally closed in November 2020. Also in this case the formal supervisory procedure is in the final stage.

Again on the matter of credit risk measurement models, in November 2020 the supervisory measures were incorporated in the PD models of the Mid Corporate Plus and Large Corporate portfolios, as requested after a TRIM inspection.

With regard to operational risk measurement models, it is reminded that, as from the merger date, the Banco BPM Group was provisionally authorised by the European Supervisory Authorities to use for regulatory purposes a combination of the three regulatory methods (specifically, the AMA - Advanced Measurement Approach within the former Banco Popolare Group perimeter, the TSA - Traditional Standardised Approach within the former Banca Popolare di Milano Group perimeter and the BIA - Basic Indicator Approach for the remaining companies). When this provisional authorisation period terminated, as from the report dated 31 December 2020, the Regulator asked the Group to fully adopt the TSA method to calculate the capital requirements of all the companies making up the Group. The AMA method will continue to be used to measure risk for management purposes.

With regard to the internal models used to measure risks for management purposes, in 2020 the competent structures (Risk Models in particular) continued to ensure their ongoing maintenance and update, with specific regard to the liquidity risk, and also upgraded the model for identifying operational deposits.

Furthermore, Banco BPM has finalised the project – overseen by the Board of Statutory Auditors - to evolve the ICT risk management framework, in accordance with the Supervisory Authority's recommendations, in order to guarantee that the residual ICT risk is consistent with the risk appetite approved by the Board of Directors, also by improving the effectiveness of risk mitigants. In this context, a new method was defined for analysing and quantifying this type of risk which, as it is a direct source of operational, reputational and strategic risks, has been integrated into the frameworks for assessing the aforesaid risks (already being currently used in the Group). After quantifying the inherent risks and assessing the mitigants, these frameworks determine the residual risks, the extent of which is constantly monitored through specific indicators to verify their consistency with the risk appetite defined in the Risk Appetite Framework.

The Board of Statutory Auditors was informed of the model change applications, and in particular the regulatory application. In this context the Board examined the checks carried out by the

second level (Internal Validation, in particular) and third level (Audit) Control Units, as well as the Supervisory Authority's final decisions on the applications, the related requests and consequent Action Plans approved by the Bank (also subject to assurance by the Audit Unit).

With regard to the above, in performing its duty of supervising the Internal Control and Risk Management System (ICS), the Board asked that, when model change activities are being planned, a suitable estimation is provided of the time required to allow the pertinent Units (first and foremost, Internal Audit and Audit) to carry out specific checks.

MiFID II and Product Governance

As already stated in the Report on 2019 (the year when the Banco BPM Group consolidated its portfolio advisory model, completing projects regarding the provision of investment services and market regulation and continuing work to complete its Product Governance or "POG", while at the same time enhancing the role of the New Products and Markets Committee, as well as the preliminary screening and ex post monitoring procedure), Consob conducted an inspection on the matter between April 2019 and December 2019. In light of the outcome of the inspection and also taking into account projects that were already in progress, Banco BPM set out a roadmap, with the assistance of the Compliance Unit with regard to aspects within its remit, on the following project macro-threads: (i) MiFID II (perfecting solutions adopted after adjustment to the changes introduced by the MiFID II Directive and developing the existing model); (ii) POG Framework (development of Product Governance oversight); (iii) multichannel digital evolution of the wealth management service model; (iv) evolution of the framework for profiling customers and analysing their needs; (v) adjustment to the provisions of the IDD Implementing Regulations; (vi) integration of the ESG factors in investment service provision processes.

The Board will continue to ensure appropriate monitoring of all these projects, directly or through the Compliance Unit.

Again with regard to investment services, the Board of Statutory Auditors regularly examines - in addition to the checks on processes - the outcome of the controls conducted by the Compliance Unit on the Banco BPM Commercial Network to detect, mainly through remote indicator analysis ("Key Risk Indicators" or "KRI"), any macro-phenomena indicating widespread operating practices that are potentially non-compliant with company policies. The analyses conducted in 2020 recorded an overall positive trend. However, after consulting the Board of Statutory Auditors, the Compliance Unit carried out specific follow-up inspections on certain aspects (such as the impact of unsuitable portfolios and of transactions at the customer's initiative), proposing improvements and raising awareness within the Commercial Network of certain behavioural approaches that are not entirely compliant with the model in use, also by holding training meetings at the territorial

structures, with the assistance of the Compliance Unit.

With regard to the “market risk” factor, which is used to verify the suitability of customers' portfolios and has increased significantly owing to the volatility caused by the Covid-19 pandemic crisis, Banco BPM has approved a contingency methodological adjustment using multipliers to be applied to the thresholds established to define customers' market risk appetite, identified through completion of the MiFID questionnaire. In this regard, the Board and the Compliance Unit have agreed to activate oversight mechanisms to manage this solution, which will remain in force until completion of the review of the MiFID questionnaire and underlying logics and methods, in relation to the finalisation of which the Board has advocated precise compliance with the established timeframes.

The analysis of the Report on Investment Services and the Report on Complaints on the provision of investments services drawn up by the Compliance Unit - to be sent to Consob pursuant to article 89 of the Intermediaries Regulations, as updated by Resolution No. 20307 of 15 February 2018 – did not bring to light any critical areas, other than those already being addressed through specific initiatives and/or projects. The increase in the number of complaints observed in 2020 (at odds with the falling trend characterising the last few years) is essentially attributable – as confirmed by the Compliance Unit - to an increase in complaints referring to particularly risky products, placed in 2015, before Banco BPM was established, under a different advisory model, and which have now reached maturity with significantly negative performances.

To conclude, the analyses did not give the Compliance Unit cause to highlight significant shortcomings in organisation or conduct requiring prompt intervention, firstly because no concentrations of complaints were identified with regard to a particular service or a particular territory, and secondly because the main reasons for complaint refer to past events that cannot be repeated in the current investment service management structure adopted by the Group.

In 2020 the Risk Unit/Enterprise Risk Management structure (hereinafter also “ERM”) continued to carry out second level controls on the Advisory, Product Governance, Pricing and Best Execution micro-processes, the results of which will be included in the Annual Report on Investment Services to be drawn up pursuant to the Joint Bank of Italy and Consob Regulations. At the same time the ERM structure is working to enhance the reporting system and improve systematic aspects.

Pending issue of the Audit Unit's Annual Report on Investment Services, which will also be sent to the Authority, the Board of Statutory Auditors examined the checks carried out in this area by the aforesaid Unit, the results of which revealed an essentially adequate framework, and the improvements identified have been addressed (for example, classification of customers as professional pursuant to MiFID).

The Board of Statutory Auditors will examine the Annual Reports submitted by the Risk Unit and the

Audit Unit.

Reporting to the Supervisory Authorities

In its Report on 2019, the Board had noted that improvements were required in Finance and Markets to bridge the gaps found in certain processes/procedures, mostly arising from a not entirely adequate functioning of the supporting IT systems (with potential impacts on regulatory reporting). In 2020 the interfunctional work group, set up by the Parent Company Banco BPM in October 2019, continued its activity to identify the measures to be taken to overcome the operational anomalies notified by Consob to the Subsidiaries Banca Aletti & C. S.p.A. (Banca Aletti) and Banca Akros S.p.A. (Banca Akros) with regard to the obligations to report derivative transactions to the Trade Repository pursuant to European Regulation No. 648/2012 (hereinafter also "EMIR"), and to move towards a progressive enhancement of the first level controls on this activity. In this regard, the penalty proceedings initiated in 2020 by Consob pursuant to articles 193-*quater* and 195 of Italian Legislative Decree No. 58/1998 on account of the aforesaid Subsidiaries' failure to comply with the obligations set out in the EMIR Regulation, were concluded with the Supervisory Authority imposing an administrative fine on the Subsidiaries that was almost equal to the statutory minimum, and which has already been paid and published in the Consob Bulletin.

Instead with regard to the reporting obligations regarding transactions in financial instruments, as governed by article 26 of Regulation (EU) No. 2014/600 and Commission Delegated Regulation (EU) No. 2017/590 (hereinafter "MiFIR" and "Transaction Reporting") - activities that also formed the subject of specific attention and requests from Consob - the inspections conducted by the Compliance Unit found that the situation had improved compared to previous findings. The remaining actions, concerning points requiring attention found in the analyses, have been addressed thanks to the identification of the mitigation measures to be implemented with the assistance of an external consultant.

Both these aspects will continue to be closely monitored by the Parent Company's Board of Statutory Auditors and also by the Control Bodies of the Subsidiaries Banca Aletti and Banca Akros. For these purposes, in February 2021 the aforesaid Body requested and obtained an update on the status of the initiatives launched, and was reassured by the owner Units (specifically Organisation and Information Technology) that the problems were being solved and that the expiry dates of the scheduled actions were reliable. For its part, the Compliance Unit has developed special monitoring programmes on the regulatory reporting activity which will be regularly reported to the Control Body.

Transparency

Firstly, the Board noted completion of the Plan of Corrective Measures (including a Customer Repayment Plan) outlined by the Bank on the basis of the findings of the inspection on "Transparency of transactions and fairness in customer relations" conducted by Bank of Italy between the end of 2018 and the beginning of 2019.

Still on the matter of Transparency, the Board acknowledged that the analyses carried out on Banco BPM and ProFamily by the Compliance Unit and the Audit Unit at the request of Bank of Italy and IVASS, set out in the letter sent to the banking/financial system on 17 March 2020 concerning the offer of products combined with financing, were concluded with an essentially positive outcome. The inspections did not highlight any significant shortcomings in the offer and placement of insurance products combined with financing. However, the Board of Statutory Auditors advised that prudential follow-ups should be conducted on certain data arising from the inspection, by implementing the actions suggested by these Control Units (customer satisfaction questionnaire, greater use of mystery shoppers).

An examination of the Report drawn up by the Compliance Unit on the analysis of the banking complaint management activity and the adequacy of the internal procedures adopted by the Bank did not highlight any specific risk factors or causes for concern. As in the past, the complaints tended to concern the products that are most widely used by customers, and specifically current accounts, products for granting loans and payment services. The most common reasons for complaint chiefly concerned the execution of transactions, the conditions and/or their application and the rise in the number of complaints received is mostly due to the protests associated with the effects of the Covid-19 health emergency. Acknowledging that, in the opinion of the Compliance Unit, the organisational procedures and solutions adopted to manage complaints are adequate, with regard to the internal regulations, as well as from the point of view of the operating processes, the Board agreed that it is advisable to examine more closely the procedure for managing (and the timeframes for dealing with) complaints regarding payment services ("PSD2 complaints"), often conditioned by the need to carry out a technical analysis which, for complaints regarding fraud/disallowances, requires the involvement of other Bank structures (such as IT Security) in addition to Complaints Management.

Again on the matter of Transparency, in 2020 the Compliance Unit further extended the scope of the regular remote checks on banking services (Transparency, Usury, Complaints Management, Products combined with financing), using indicator analysis to detect phenomena that are potentially non-compliant with company regulations. The outcome of this monitoring activity, which did not find any evidence of specific risks, is sent to the Bank's competent units for the areas within their remit, to assess the adoption of measures to deal with any anomalies.

The analysis of the outcome of the checks conducted by the Audit Unit on the Commercial Network did not find any significant anomalies attributable to compliance with Transparency regulations. Existing anomalies are mostly attributable to aspects concerning the completion of paper documentation.

Data quality and information technology

Further to the assessment carried out at the end of 2018 and aimed at checking the suitability of the Group with respect to the principles of data governance, reporting and aggregation contained in the BCBS 239 legislation, during 2019 the Bank implemented a series of initiatives (in line with a pre-defined road map) for the outline of both suitable internal regulations and an organisational framework compliant with the aforesaid requirements. In this context of specific attention to the subject matter in question (also identified as an area requiring improvement in the Report on Control Systems) the Data Governance and IT Security Unit was also set up (reporting directly to the Joint General Manager - Resources Area) and specific data owners were appointed within the Bank's structures. In 2020 the controls on interest rate risk and operational risk were consolidated and the extension of the data quality framework to all the main risk areas was completed. Additional data quality controls were developed, to support the main projects of the Risk Unit (for example, regarding the new definition of default and of core deposits and operating deposits), as well as to respond to regulatory requests or requests from the Audit Unit (for example, regarding liquidity and market risk). The coverage of data lineage was also completed, the automation of control activities continued and training sessions on data governance were held at the Bank's various units. In 2020 the methodology for analysing second level controls on the ICT risk was also established and its application will begin in 2021.

The Board of Statutory Auditors expects said measures to provide an overall strengthening of the Group's data quality which has been found to require improvement in many areas, mostly attributable to historical reconstructions used for the operational listing of internal models. This expected progress is being achieved by the measures that have already completed and by the investments planned for the purpose of a general upgrade of the Group's information technology system, to be considered of fundamental importance in supporting the business and control activities in order to avoid the adoption of contingency organisational measures, with impacts on economic and human resources.

In this regard it should be noted that in 2020 an assessment was performed on 6 areas (architecture, infrastructure, data governance and data quality, processes, working procedures and sourcing strategy), in the light of which the 2020-2023 IT Masterplan and the 2020 Operating Plan were defined (both directed at updating the architecture and infrastructure, developing the

sourcing strategy, reviewing the IT operating model and accelerating digitalisation). This Masterplan also considers the findings of the annual Reports on ICT risk (conducted using methods that have been phased out by a new model approved in 2020, as already stated in the Report), which led to an overall assessment confirming a “low” risk level.

In this regard it has to be acknowledged that the system has guaranteed continuity and reliability - and even responded to attempted cyber-attacks – even in the complicated periods of the early stages of the health emergency, which also required an acceleration of the activities already included in the IT Plan and the implementation of unforeseen measures to adjust the systems to the contingency regulations.

In this last respect, mention must be given - with regard to the project to upgrade the IT operating model and infrastructure - to the actions taken and investments scheduled for Cyber Security and designed to maintain adequate security levels within the Bank and the Group and to bring the protection systems into line with technological developments and market trends, to counteract the evolving nature of cyber-attacks in the face of ever increasing exposure through digital banking and open banking.

The Board will continue to closely monitor these aspects, as well as the continuous improvement of the system for protection and prompt detection of IT incidents.

Thematic Action Plans

During 2020 – albeit to a lesser degree, given the slowdown in inspection activities associated with the pandemic – the Bank was called to define and approve a series of Action Plans for specific areas (“Action Plans”), in order to plan corrective or improvement measures identified progressively, primarily following inspection activity (on site and remote) normally conducted in the context of the aforementioned ongoing supervision carried out by the Supervisory Authority or in relation to specific requests made by the Bank to the Regulator. The Board received and examined regular updates on their state of implementation (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 also examined the certificates (issued by the Audit Unit) on the completion and the verified effectiveness of the corrective measures envisaged in these Remedial Action Plans. These checks prove particularly significant for the Board of Statutory Auditors (which expects the Internal Audit Unit to challenge more readily the owner structures of the remedial actions), as they guarantee a substantive approach (assessment of the effectiveness of the

measures) rather than a merely formal certification of completion of the actions.

Remuneration Policies

The Board of Statutory Auditors acknowledged that, in the meeting held on 23 March 2021, the Board of Directors approved, as far as its authority extended pursuant to applicable legislation, the Report on the remuneration policy and the remuneration paid to personnel of the Banco BPM Banking Group, inclusive of the "2021 Remuneration Policy" section and the "Remuneration Paid" section, as well as the Explanatory Report for the Shareholders' Meeting to which the documents will be submitted.

Worthy of note in the 2021 Policies are (i) the tightening of the capital adequacy and liquidity requirements for access to the Short Term Incentive Plan and the activation of the Long Term Incentive Plan associated with the performances to be achieved in the 2021-2023 three year period; (ii) the inclusion of the Bank's main long term objectives among the benchmark indicators; (iii) the enhancement of the mechanisms embedded in the incentive system to foster an ESG oriented company culture, including quantitative and qualitative elements.

The Board of Statutory Auditors also examined (i) the annual check conducted by the Audit Unit on management of the Group remuneration and incentive system, concluded with an adequacy finding stating that on the whole the remuneration and incentives practices adopted complied with the principles laid down in the applicable Group Policies approved by the Shareholders' Meeting, and with the external reference legislation; (ii) the (ex ante) opinion issued by the Compliance Unit stating that the Banco BPM Group's 2021 compliance and incentive Policies complied with reference legislation.

On the matter of remuneration, attention should also be drawn to the general enhancement of the framework, also as a consequence of the measures taken by the Bank to address the findings of the "On Site Inspection related to Governance - Remuneration" conducted by ECB at the end of 2019 (with results notified during 2020 and with a Remedial Action Plan being finalised).

Lastly it is stated that in the context of the health emergency linked to the Covid-19 epidemic, the Members of the Board of Directors, the Statutory Auditors and the Top Management waived a portion of their remuneration for 2020.

The Board of Statutory Auditors monitored the financial reporting process and specifically verified and analysed in depth the process for the preparation of the 2020 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. With regard to this activity, the Board of Statutory Auditors:

- (i) verified the adequacy, at a methodological level, of the impairment test process carried out on the balance sheet assets. More specifically, the Board found that - already when the Half-Year Report was being drawn up and in compliance with the ESMA and Consob guidelines on the matter - the evaluations were carried out using a multi-scenario approach in order to consider the risk inherent in the effective achievement of the cash flow projections underlying the determination of the value in use, also taking into account the fact that due to the Covid-19 pandemic the forecasts and objectives set out in the Strategic Plan approved by the Bank in March 2020 are no longer relevant. The results of the impairment tests carried out on intangible assets with an indefinite useful life as at 31 December 2020 confirmed the recoverability of the book values, with the exception of the goodwill attributed to the "Bancassurance Vita" CGU which was fully written down - also taking into account sensitivity tests to see how the value could hold up compared to alternative assumptions - by 25.1 million euro, as explained in greater detail in the Notes to the Financial Statements (where the details can be found).

Following the aforementioned events that affected the Bancassurance area after the Board of Directors approved the 2020 Draft Financial Statements (including the review of the production targets for the 2021-2023 three year period also by the insurance companies), at the request of the Board of Statutory Auditors, the Bank carried out a mapping of the possible economic and financial effects arising from the redefinition of the existing commercial agreements, concluding that the hypotheses and assumptions drawn up when preparing the Financial Statements are substantially reasonable. These assessments were confirmed by the Auditing Firm after completion of its independent audits.

It is reminded that the multiyear scenarios and projections, used by the Company for this and for the other main estimation processes, were defined by the Scenario Council (a work group set up for the purpose, the members of which include the Chief Financial Officer, the Planning and Control Unit, the Risk Unit and the Audit Unit), examined by the CCIR and submitted to the approval of the Board of Directors.

- (ii) verified that the newly introduced or amended accounting standards, coming into mandatory effect from the 2020 Financial Statements, had been applied. More specifically, as Banco BPM already opted for early application from 2019 of Regulation No. 34 of 15 January 2020 (which approved the amendments made to IFRS 9, IAS 39 and IFRS 7 by the IASB, in order to reduce the impacts on the financial statements of the effects of the reform of the benchmarks for determining interest rates), the accounting standards used to prepare the Financial

Statements as at 31 December 2020 are essentially consistent with those used to prepare the Financial Statements as at 31 December 2019 and have had no impact on Banco BPM's balance sheet and income statement. The only exception is the voluntary amendment of the criterion for valuing controlling interests in Banco BPM's separate Financial Statements, as a result of which the equity investments held in the Subsidiaries are valued - as from 31 December 2020 - using the equity method rather than the cost method.

The Board of Directors also approved use of the option to realign differences between tax and accounting values, provided for by the 2021 Budget Law (Italian Law No. 178 of 30 December 2020, published in O.S. 46 to UJ of 30 December 2020).

The following is also noted: (i) in addition to the aforementioned communications released by the various Supervisory Authorities with specific regard to the statements/warning notices/interpretations issued during 2020 following the spread of the Covid-19 health emergency, in preparing the Financial Statements Banco BPM applied the provisions of the Bank of Italy communication dated 15 December 2020 entitled "Supplements to the provisions of Circular No. 262 *Bank financial statements: presentation formats and rules* concerning the impacts of Covid-19 and of the measures to support the economy and amendments to the IAS/IFRS", which introduced the obligation to provide specific quali-quantitative disclosure on the effects of the ongoing pandemic as from the 2020 Financial Statements; (ii) with regard to the obligation for listed companies to draw up and publish their financial reports in the "eXtensible HyperText Markup Language" (XHTML) format, using the "Inline Extensible Business Reporting Language (iXBRL)" to map the main items of the consolidated Financial Statements (required by the European Single Electronic Format - ESEF Regulation), Banco BPM took into account the postponement of the entry into force of the rules (originally scheduled as from the 2020 financial year) approved by the European Parliament in December 2020, to which Italy adhered by means of Italian Law No. 21/2021 (converting the "Milleproroghe Decree");

- (iii) examined the Audit Plan drawn up by PwC with regard to the 2020 individual and consolidated Financial Statements, discussing the significant risks and key aspects identified and the methodological audit approach defined with the PwC partners. After this, also by discussing individual items or valuations as and when required, the Board obtained the results of the audits conducted by the Auditing Firm on the regular keeping of the company accounts and on the correct recording of the management events in the accounting entries, which did not highlight any critical areas, as stated in greater detail below;
- (iv) held regular meetings with the Executive in charge of financial reporting, during which the Executive did not report any significant shortcomings in the operating and control processes that could undermine the adequacy and effective application of the administrative and

accounting procedures for the purpose of providing a true and fair view of the assets and liabilities, financial position and profit and loss in compliance with the accounting standards. This was confirmed by the content of the "Report on the activity carried out by the Executive in charge of financial reporting of the Banco BPM Group for the purposes of issue of the certification required under article 154-bis of the TUF (Consolidated Financial Law) on the annual financial report as at 31 December 2020", as stated below;

- (v) took note of the disclosure contained in the Report on Operations and in the Notes to the 2020 Financial Statements on the uncertainty associated with the Covid-19 health emergency, of which the possible impacts on the scenarios and the income statement and balance sheet figures are still unforeseeable, given the uncertainties linked to the prolonged exceptional event of the ongoing pandemic.

In fulfilling its supervisory duties on the financial reporting process, the Board of Statutory Auditors also examined the Audit Unit's report on the ex post checks conducted on the Pillar III Public Disclosure published in 2020 (referring to 2019), which was found to comply with the legislation in force at the time and to be sufficient to give a comprehensive view of the Group's risk profile provided through information that was clear and complete, and comparable with the Market. With specific regard to the Disclosure Model, the Audit Unit affirmed that the Control System to oversee its preparation process was found capable of guaranteeing its proper updating, by reason of appropriate acquisition, filing and logging of the qualitative and quantitative information (thanks also to a suitable backup information system).

The Board then examined the Pillar III Public Disclosure Model for 2020 - submitted to the Auditors by the Risk Unit and forming the basis for the annual Disclosure - without making any observations. The annual Disclosure was prepared on the basis of the Model and will be published at the same time as the Draft Financial Statements and will include the requested declarations of conformity.

As stated above, within the assessment activities falling under the area of its competence, the Board of Statutory Auditors met on several occasions with the Executive in charge of financial reporting and the Auditing Firm, PwC, for the purpose of ensuring the exchange of information that is necessary, inter alia, for carrying out the supervisory activities for which the Board of Statutory Auditors is responsible (in its role of "Internal Control and Accounting Audit Committee") pursuant to article 19 of Italian Legislative Decree No. 39/2010, as well as for the purpose of analysing the most relevant issues for the preparation of the 2020 Financial Statements.

During the first few months of 2021, meetings between the Board of Statutory Auditors and the Auditing Firm intensified in order to ensure a suitable information flow in compliance with the respective auditing obligations, also in consideration of the time frames for preparation of the relative reports.

In light of the current provisions, the Auditing Firm issued:

1. to the Bank, pursuant to Article 14 of Italian Legislative Decree No. 39/2010, the Independent Auditing Report on the Separate and Consolidated Financial Statements for the year ended 31 December 2020. The form and contents of the Auditing Report are compliant with the amendments made to Italian Legislative Decree No. 39/2010 by Italian Legislative Decree No. 135/2016.

Considering this, with regard to conclusions and certifications, PwC issued its Independent Auditing Reports on the Separate and Consolidated Financial Statements without any exceptions and without disclosures. PwC *(i)* issued an opinion 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 Italian Legislative Decree No. 58/1998 (the responsibility of which is assigned to the Bank's Directors) – are consistent with the Financial Statements and were prepared in observance of the applicable legislative provisions; *(ii)* checked the preparation by the Directors of the “Annual report on the remuneration policies and on remuneration paid”, as envisaged by Article 123 ter, paragraph 8 bis of Italian Legislative Decree No. 58/1998; *(iii)* declared, with regard to material errors in the Reports on Operations, based on the knowledge and understanding of the company and its related context, acquired during the auditing activities, it has nothing to report. For details on the key aspects of the auditing, please see the 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 (“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 Board's attention. 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 issues were 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

Italian Legislative Decree No. 39/2010 – along with the Additional Report as regards in-depth analyses and the adoption of the measures falling under the area of competence of the Board of Directors.

It should be noted that, with reference to financial year 2019, on 18 March 2020, 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 Recommendations addressed to the Bank's Management from the Auditing Firm for the purpose of making suggestions at the end of its independent auditing of the 2019 Separate Financial Statements, approving the relative actions (implementation of which was duly overseen by the Board of Statutory Auditors which, when required, called on the structures responsible for the actions). The observations made by the Auditing Firm in its Management Letter have now been included in the supplemented report on the performance of the remedial actions, provided to the Auditors by the Control Units on a quarterly basis.

On 28 October 2020 the Auditing Firm also issued the Report pursuant to article 23, paragraph 7 of the Bank of Italy Regulation dated 5 December 2019. The Report concerned the Descriptive Document drawn up by Banco BPM containing the organisational and procedural solutions and related controls adopted in 2019 with regard to the deposit and sub-deposit of customers' assets and of their compliance with legislation. The areas of improvement found were brought to the attention of the Sole Manager (appointed pursuant to the aforesaid Bank of Italy Regulations) and of the other company officers concerned, who took charge of the activities required, which are expected to be finalised within the first half of 2021.

On 15 March 2021, 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 also acknowledged the Transparency Report prepared by the Auditing Firm, published on its web site pursuant to article 13 of the EU Regulation No. 537/2014.

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, 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 from 2020 (as the legally required three-year period from the time Banco BPM appointed PwC has past) additional monitoring was introduced to verify compliance with the quantitative limit established for fees for non-audit assignments by article 4 of the aforesaid European Regulations. The Board of Statutory Auditors affirms that the limit was observed.

Special internal regulations, applied at Group level, are also in force to regulate the operating activity associated with these checks on non-audit service assignments. These rules were recently reviewed to make them more prudential than the external reference provisions, for the purpose of formalising and further specifying the operating practices already in use.

In carrying out its duties, the Board of Statutory Auditors monitored - also by regularly meeting the structure in charge and exchanging views with the Auditing Firm - compliance with the provisions contained in Italian Legislative Decree No. 254 of 30 December 2016, with specific regard to both the preparation process and the content of the Non-Financial Statement drawn up by Banco BPM. To this regard, after reviewing the certification issued by the Auditing Firm pursuant to article 3.10 of Italian 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, the Board did not find any non-compliances and/or breaches of reference legislation.

Regarding the Management Letter prepared by the Auditing Firm as a result of activities performed for the Non-Financial Statement relative to financial year 2019, the Board of Statutory Auditors verified that the recommendations indicated therein were given due consideration by the Bank structures during preparation of the Non-Financial Statement relative to financial year 2020.

With regard to this last aspect and more generally the ESG (Environmental, Social and Governance) area, when the results of a recent assessment on the impacts of climatic and environmental risks were presented, the Board of Statutory Auditors had an in-depth discussion with the competent corporate structures (including the Sustainability structure) on all the projects that have been launched by the Bank in this area, the initiatives that have already been completed and those scheduled (on the basis of a structured cross-functional project), in order to set up a more robust ESG framework with the intention of meeting the expectations of the Supervisory Authority and the stakeholders. These initiatives - which have been brought into line with the ESG risk factor tracing within the Risk Identification process conducted in mid-2020 and with the Guidelines on climatic and environmental risks published by ECB in November 2020 - hinge on a governance system involving the aforementioned Sustainability organisational unit, the presence of an ESG Managerial Committee, chaired by the Chief Executive Officer, and the assignment of specific activities (analysis, assessment and supervision) to the Internal Control and Risks Committee.

The ambitious project seeks to develop and strengthen suitable processes covering the various

areas of concern (risk measurement, loans, Product Governance, investment and wealth management services, equal opportunities, customer and supplier relations management, stakeholder engagement), supported by appropriate awareness raising and specific training activity to be provided on ESG issues. Of particular importance to the Board were the programme's initiatives, coordinated by the Risk Unit, designed to include climatic risks within the risk management framework, in order to measure, monitor and mitigate them in the long term, and to develop an approach to factor in climatic risks to the annual capital adequacy and liquidity assessment.

To complete this report for the Shareholders' Meeting, the specific information required by Consob Communication No. 1025564 of 6 April 2001, as amended, is provided below on the basis of the activities carried out in 2020 by the Board of Statutory Auditors of Banco BPM:

1. the Board of Statutory Auditors of Banco BPM 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 found that these transactions were 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 2020;

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, emerged, without prejudice to the contents of this Report. The intergroup transactions and transactions with related Parties carried out in 2020 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 Report on Operations and in the Notes to the Separate and Consolidated Financial Statements, the Board of Directors 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 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 24 March 2021, its Independent Auditing Reports on the Separate and Consolidated Financial Statements without any exceptions. PwC (i) issued an opinion 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 Italian Legislative Decree No. 58/1998 (the responsibility of which is assigned to the Bank's Directors) – are consistent with the Financial Statements and were prepared in observance of the applicable legislative provisions; (ii) checked the preparation by the Directors of the “Annual report on the remuneration policies and on remuneration paid”, as envisaged by Article 123 *ter*, paragraph 8 *bis* of Italian Legislative Decree No. 58/1998; (iii) declared, with regard to material errors in the Reports on Operations, based on the knowledge and understanding of the company and its related context, acquired during the auditing activities, that it has 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 24 March 2021, pursuant to Article 11 of the EU Regulation No. 537/2014, the Report for the Internal Control and Accounting Audit Committee (“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 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 Italian 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 reported.

On 15 March 2021, 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 certification, pursuant to article 3, paragraph 10, of Italian Legislative Decree No. 254/2016, as well as a declaration, along with the Report on the Consolidated Financial Statements, pursuant to article 4 of the Consob Regulations transposing the aforementioned Decree, regarding the Non-Financial Statement;

5. the Board of Statutory Auditors received a complaint pursuant to article 2408 of the Italian Civil Code. The Board of Statutory Auditors carried out the necessary investigations on the circumstances and did not find any grounds for initiating specific actions;
6. in addition to the matters indicated in the previous point, the Board of Statutory Auditors received, through its Chairman, four communications that were potentially qualifiable as claims reporting some alleged misconduct on the part of company employees/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 Authorities);
7. in 2020, PricewaterhouseCoopers S.p.A., in compliance with the applicable laws, was paid the fees due for the legally-required audit in the amount of € 1,640,171 by the Parent Company Banco BPM S.p.A, and € 1,203,271 by the other Companies of the Group.

In this regard, in order to guarantee full information, it is reported that a one-off request was made to supplement the audit fee relating to the amendment of the criteria for valuing real estate and artistic assets adopted by the Bank and applied when preparing the 2019 Financial Statements, which required extra work and higher expenses compared to the proposal drawn up for the nine-year audit assignment, approved by the Banco BPM's Shareholders' Meeting in April 2017.

The request for a supplementary fee concerned not only Banco BPM S.p.A., but also Release S.p.A. and Bipielle Real Estate S.p.A., and was made on the basis of paragraph 4.3 of Annex A to the general conditions of contract governing auditing activity.

Considering the characteristics and scale of the supplement (which, also including the aforesaid Subsidiaries, came to a total of approximately 90,000 euro) and the legitimate reference to the contractual clause, the Board of Statutory Auditors acknowledged the requested supplement, placed the documentation on file and informed the Board of Directors.

The Auditing Firm was also conferred additional responsibilities for certification services by the Parent Company, for € 609,686, as well as by the other Companies of the Group for € 111,110. The details of these fees are included in the annex to the Separate and Consolidated Financial Statements of Banco BPM, as required by Article 149 *duodecies* of the Consob Issuer Regulations;

8. the companies that are part of the network to which PwC belongs were paid fees in 2020 for:
 - auditing other Group companies for 143,161 euro;
 - other services for the Parent Company for 552,850 euro.

The details of these fees are included in the annex to the Separate and Consolidated Financial Statements of Banco BPM, as required by Article 149 *duodecies* of the Consob Issuer Regulations.

During the period, no critical issues were identified in terms of the Auditing Firm's independence, also pursuant to the provisions of Italian 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, approved beforehand – after assessing the potential risks for independence and the protective measures adopted – the assignments, other than the legally-required auditing, conferred to PwC and to the companies that are part of its network;

9. the Board of Statutory Auditors issued the opinions required by the law and the Articles of Association. In this respect, the Board of Statutory Auditors also provided its opinion *(i)* on the remuneration of Directors vested with specific assignments or powers pursuant to article 2389 of the Italian Civil Code, *(ii)* on the appointment and remuneration of the Managers of Corporate Control Units; *(iii)* on the Corporate Governance Project. Furthermore, it prepared remarks, evaluations and opinions as defined by Supervisory Regulations as well as those required by the European Central Bank and national Supervisory Authorities with specific Communications (primarily regarding the different profiles for management and control of risks that the Bank is exposed to in performance of its business);
10. during 2020 the Board of Statutory Auditors met 43 times, of which 12 before 4 April 2020 (date of the Shareholders' Meeting that renewed the Board of Statutory Auditors) and 31 after 4 April 2020. At the single Shareholders' Meeting held on 4 April 2020 (ordinary and extraordinary session), only the Chairman attended on behalf of the Board of Statutory Auditors, in compliance with the rules adopted by the competent government bodies for the protection of health and safety in view of the ongoing health emergency. The Board also participated in the 22 meetings of the Board of Directors (of which 9 before 4 April 2020 and 13 after that date) and in the 2 meetings of the Executive Committee (terminated by the

Shareholders' Meeting held on 4 April 2020), and through one of its members (or exceptionally, through joint examination) in the meetings of the Internal Control and Risks Committee (in all 25 meetings held), the Remuneration Committee (in all 21 meetings held), the Appointments Committee (in 21 of the 22 meetings), and the Related Parties Committee (in all 5 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 carried out its self-evaluation for the 2020 period, drawing up the appropriate conclusive document. At the end of the process, the Board deemed it appropriate to issue an overall judgement of "substantive adequacy" of its composition and operating procedures. To deal with the minor areas of improvement found and with a view to continuous improvement, the Board identified specific initiatives to be implemented during the current year.

In view of the need for the Board of Statutory Auditors to be supplemented by the Shareholders' Meeting called to approve the 2020 Financial Statements, *(i)* in compliance with the provisions of Italian Ministerial Decree No. 169/2020 and the internal policies on the requirements of company officers, *(ii)* continuing the approach taken when the entire Control Body was renewed by the Shareholders' Meeting held on 4 April 2020, and *(iii)* taking into account the outcome of the self-evaluation process, in the meeting held on 15 March 2021, the Board of Statutory Auditors approved the Document on the optimal qualitative composition of the Board of Statutory Auditors of Banco BPM, providing appropriate information and recommendations, also in light of the applicable national and European legislation and practices/guidelines on the matter of members' requirements;

11. the Board of Statutory Auditors did not find it necessary to remark about compliance with the principles of sound administration;
12. the Board of Statutory Auditors acquired knowledge of and monitored the organisational structure, particularly in terms of its alignment with applicable legislation and relative amendments to and consolidation of the internal regulatory structure.

In this regard, on the basis of direct exchanges with the Joint General Manager - Resources Area and with the Organisation Unit and the individual Corporate Units during the meetings held over the year, and in relation to the findings of the checks conducted by the Control Units, the Board of Statutory Auditors found the Bank's organisational and regulatory structure to be substantially adequate. More specifically, in the meeting held at the beginning of 2021, the reference company managers confirmed that the organisational chart, the functional chart (Company Regulations), the system for delegating powers and authority and the organisational provisions were on the whole consistent, given the need to ensure

homogeneity between organisational roles and responsibilities and the underlying company processes. In 2020 the Bank's organisational structure did not undergo significant changes, as it was consolidated after the amendments made in 2019, of which an account was provided in last year's Report.

It should be noted that in 2020, taking into account the impacts of the Covid-19 pandemic, the Board of Statutory Auditors closely monitored the actions and initiatives taken by the Crisis Committee, requesting that the Compliance Manager be formally included as one of its members.

More specifically, the Board verified that the contingency processes, introduced by the Organisation Unit to manage (assessing risks and consequently adopting safeguards) the operating impacts of the working arrangements defined for the personnel – in order to safeguard their health and safety - during the emergency (and specifically, extension of home working, closing of agencies and shift working) as well as the new procedures for interacting with customers, were regulated in documents previously validated by the Compliance Unit and/or submitted to the competent Management Committees. Furthermore, it ensured that the Audit Unit carried out ex post controls on the main corporate processes (which did not highlight any critical areas, not even regarding the processes to manage the special measures introduced to support the economy).

As far as it could gather directly and in the light of the (limited) numbers and nature (mostly attributable to objective circumstances beyond the Institution's control due to the pandemic) of the complaints received from customers classifiable as Covid-19 related, the Board of Statutory Auditors did not identify situations of operational discontinuity or serious shortcomings in the management of contingency processes, confirming that the Bank had essentially shown organisational resilience in managing the pandemic.

It would be advisable for the Bank to gain from the experience imposed by the pandemic to further develop its digitalisation processes (after providing appropriate personnel training paths, to bring about a radical change in approach to work that does not depend on physical interaction with the customer), its technological infrastructure (to encourage remote working and communication procedures, already considerably enhanced during the early stages of the pandemic) and mobility management. All of which should be implemented in compliance with and promoting a sustainable approach. In this regard it is reported that in 2020 the Group successfully completed the implementation activities required to adopt an ISO integrated Management System. This meant that, as the Certifying Body had completed its audit process with a positive outcome, it was able to issue the relevant certificates of

compliance with the ISO 45001-Occupational Health and Safety, ISO 50001-Energy and ISO 14001-Environment standards.

Continuing the attention given by the Board in previous years to the framework for outsourcing within and outside the Group (with specific regard to the progressive implementation of the Group model approved on 1 January 2017 through gradual centralisation of coordination, support and control functions under the Parent Company and progressive adoption of contractual standards with services levels that can be monitored), in 2020 the Auditors again focused on the matter with regard to adjustment to the EBA Guidelines and development of the Group's business. More specifically, the Board verified with the structures, not only the progress made in adjustment to the contractual standards (finalised, with the exception of a few intergroup contracts, as also affirmed by the Audit Unit), but also the initiatives to implement the tools and perfect the processes to ensure efficient monitoring of outsourced activities (including release of the "Outsourcing Register" application), thanks also to the update of the reference internal regulations. With specific regard to the outsourcing of Important Operating Units (hereinafter "IOU"), the Board saw that a prior analysis of importance (classification as IOU) involving various Corporate Units including Compliance and Risks is conducted (and formalised in a document summarising the Business Case), at the end of which the outsourcing process is activated in compliance with supervisory regulations.

It is also reported that on 30 December 2020 Banco BPM announced that it had signed an agreement with the company Trade Union Organisations, concerning the voluntary early retirement of 1,500 employees, for which use will be made of the extraordinary benefits of the sector Solidarity Fund. If on one hand this move (together with normal retirements) will foster generational renewal and youth employment, on the other it will prove essential to ensure that the turnover does not affect the operational efficiency and effectiveness of the Bank's structures, especially those where the average employee age is high.

In this regard, on several occasions the Board has voiced its opinion on the fact that the quali-quantitative adequacy of the corporate structures should also be guaranteed and assessed in consideration of the presence (or of the possibility/advisability of enhancement and/or implementation) of IT supports and automated processes that improve their operational efficiency and quality.

Having stated the above and taking into account the matters indicated in this Report, both with reference to the internal project activities and initiatives and to the numerous inspection activities indicated above (on site or remote), along with requests from the Supervisory Authority (also regarding SREP), the Board of Statutory Auditors monitored the progressive

adoption by the Board of Directors of appropriate decisions to ensure a regulatory framework and internal organisational structures adequate to maintain correct application of operating processes. In this regard, while acknowledging that, in a Group of a considerable size and complexity such as Banco BPM, this organisational and legislative structure requires continual developmental and constant enhancement measures, the Board found it to be essentially compliant.

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

It is clear that the Board of Statutory Auditors will continue to monitor further organisational/procedural measures, as well as the integration and updating of internal regulations, aimed at ensuring the overall framework remains fully complete and compliant;

13. in 2020, the organisational structure of the Internal Control System ("ICS") was affected by changes attributable, on the one hand, to the rotation of certain Heads of the Corporate Control Units and, on the other, to the review of the structure of the Compliance and Anti-Money Laundering Units. The intergroup outsourcing model adopted with a view to greater guarantee of the control systems was also consolidated, with centralisation under 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 - pursuant to the Supervisory Provisions - of contact persons by the Companies that outsourced the service. As already reported, in 2020 the Bank appointed, after seeking an opinion from the Board of Statutory Auditors, the new Managers of the Anti-Money Laundering Unit (after resignation of the previous Manager on 23 July 2020) and of the Risk Unit (after termination of the relationship with the previous Manager for just cause, as resolved by the Board of Directors in the meeting held on 6 February 2020, as already mentioned in the Report on 2019). For both positions the Board of Statutory Auditors can affirm the fairness and adequacy of the selection process implemented to identify suitable persons to whom to entrust the responsibility for the aforesaid Units. The Board was suitably involved in the procedures and was also consulted, to the extent of its competence, on the issue of remuneration.

In carrying out its duties to supervise the adequacy of the Control System, the Board of Statutory Auditors constantly liaised with the Managers of the Corporate Control Units, for the purpose of: (i) verifying whether they required qualitative or quantitative enhancement, and if so, requested the Organisational Units and Human Resources, as well as the Board of Directors, to define appropriate measures. In this regard, it should be noted that following an internal assessment by the Audit and Compliance Units and to meet certain expectations of

the Risk Unit, some internal changes were made in the Audit Unit and some additional resources were assigned to the Enterprise Risk Management structure and, to a limited degree, to the Audit and Anti-Money Laundering Units. Furthermore, 2020 saw continuation of the training activities defined in cooperation with the Human Resources Unit on the basis of the skill inventory conducted in 2019 (an account of which was provided in the Report on the previous year), in order to consolidate the skills and professional expertise of individuals and Units. The Board was therefore able to verify the overall adequacy in qualitative and quantitative terms of each Control Unit. It is also reported that, at the request of the Remuneration Committee, the Bank appointed an external consultant to carry out an assessment involving job evaluation and remuneration benchmarking analysis, the results of which led to a process to review the remuneration of some of the senior officers of the Corporate Control Units to bring it fully into line with the market context and with the responsibilities assigned; (ii) promoting and verifying coordination of the Units, both with regard to activity planning and, above all, in the process of increasing integration and efficiency in the reporting of the findings and outcomes of the controls performed to the Corporate Bodies. In this regard it should be noted that in 2020 numerous initiatives were developed to ensure standardisation and coordination among the Control Units, specifically including the approval of a common method for scoring the findings and the remedial actions identified. This activity, together with the widespread analysis of the gaps already found to ensure their standardised assessment, formed the basis for the preparation of an integrated scoreboard system for all the Control Units (including the Executive in charge of financial reporting, with the inclusion of the suggestions drawn up by PwC in its Management Letter), achieving an important objective with a view to preventing overlaps and improving the efficiency of the process to monitor the remedial actions. The work to achieve an integrated approach among the Control Units will continue in 2021, a year which will also see the creation of a new integrated application platform, aimed to guarantee an industrial approach to the collection and sharing of each Unit's wealth of information, and the systematic review of information flows (between units and to the Bodies/Committees). It is also reported that the constant liaising between the other Corporate Control Units also extends to the Internal Control System Coordination Committee, with which the results of the control activities, the assessment of residual risks and in general the assessment of the adequacy of the ICS are shared. One Auditor is entrusted with reading the minutes of this Committee and reporting the findings of interest to the Board.

With regard to the individual Corporate Control Units, in 2020 the gradual but steady rise in the control efficiency and effectiveness indicators continued, as to be expected in the

process of continuous improvement of a complex Group like Banco BPM. In this context the Board of Statutory Auditors specifically reports the following:

- Compliance Unit (excluding the Anti-Money Laundering Unit): as the Compliance Manager also fulfils the office of Data Protection Officer (hereinafter also "DPO") at Group level, and as three Specialist Controls are in place (for the Tax, Employment Law and Occupational Safety areas), the reference corporate perimeter of the Compliance Unit (reporting directly to the Chief Executive Officer) is represented by the Parent Company Banco BPM, as well as by the Subsidiaries Banca Aletti, Banca Akros, Aletti Fiduciaria S.p.A., Release S.p.A. and ProFamily S.p.A. With regard to Banca Aletti & C. (Suisse) S.A. (which has its own Compliance Unit), the Compliance Unit's controls only concerned the activity for the free provision of services in Italy.

During 2020 the Compliance Unit's activity was affected by the ongoing pandemic, as a result of which it carried out considerable ex ante control activity (on business regulations and proposals), increased consulting activity (also for specific gap analysis surveys) and put particular effort into its necessary participation in numerous work groups. The Board recognises the general importance of these ex ante activities carried out by the Unit, which allow the compliance aspects of works and projects (as well as documents and products) to be addressed in advance. The impacts of Covid-19 and the related risks obviously led to the need – as for all the Corporate Control Units – to recalibrate the content of the scheduled ex post inspections. The 2020 Compliance Plan - as amended after the half-year review - was completed and the Unit expressed an opinion of substantial adequacy on the Internal Control System and on its capacity to mitigate the compliance risk.

In this context, the Compliance Unit noted the need to complete the upgrading process - already scheduled and under implementation - in the Markets area, both with regard to Trade Repository reporting ("Regulatory Reporting" process, EMIR Regulation), and to the structure to support the systematic internaliser system and, in general, the functioning of the post trade transparency and transaction reporting ("Corporate and Investment Banking" process). Taking the findings into consideration, the Unit also developed (in addition to those already in widespread use) risk measurement tools (KRI) for EMIR and MiFIR reporting - to be commenced in 2021 - which will enable regular monitoring of anomalies in reporting obligations.

The Compliance Unit also monitored (and will continue to do so in 2021) the Complaints Register in order to better address its maintenance for the purpose for efficient

representation of any market phenomena, and as a useful source of information for initiating risk based controls.

During the year – in addition to the above – the Compliance Unit also worked on several initiatives of specific interest, such as *(i)* the launch of a project to review the Compliance Universe with the aim of proposing the review of a number of key elements of the compliance risk assessment methods and in particular the rationalisation of regulatory and macro-requirement areas (grouping of the regulatory requirements into conceptual categories), to achieve benefits in the phases involved in the identification, measurement, assessment and mapping of compliance risks; *(ii)* the launch of an initiative to complete the upgrade of the internal methods used in the Compliance Unit's performance of its second level control duties on Security and ICT, an aspect given attention by the Regulator; *(iii)* the development of internal methods for carrying out quarterly remote controls on Regulatory Reporting; *(iv)* the active contribution to numerous projects and in particular to the project on the definition and gradual implementation of initiatives in the Investment Services and Product Governance areas.

With regard to the specific activities of the DPO (duly reported in the Unit's Annual Report), the Board acknowledged the activities carried out by the appropriate organisational unit and specifically noted that none of the data breaches that occurred in 2020 met the conditions for mandatory reporting and that the project implementations to complete the Group's adjustment to the provisions of European Regulation No. 2016/679 (GDPR) are being monitored. In this regard, while acknowledging that the underlying data governance and IT security measures are not simple and that the current system essentially meets the applicable provisions, the Board of Statutory Auditors recommended that these measures be finalised before the deadline currently indicated;

- Anti-Money Laundering Unit (AML): even though it reports directly to the Manager of the Compliance Unit, this Unit can approach the Corporate Bodies directly and produces its own reports guaranteeing autonomy and independence in the performance of its activities to oversee the money laundering and terrorist financing risk. In 2020 the Manager of the Anti-Money Laundering Unit was replaced (on 29 September 2020 with the appointment of Ms Arianna Rovetto, formerly the Manager of the Control and Compliance Structure) and the Unit underwent significant internal restructuring. More specifically, the new Manager oversaw the spin-off of the control activities (AML Controls structure) from the compliance activities (AML Compliance structure) and the concentration of the data and information storage processes (AUI) and related Objective

Communications and SARA flows under the Suspicious Transaction Reporting Structure; all of which with the purpose of further increasing the efficiency of the specific control duties. In accordance with the guidelines issued from time to time by the Supervisory Authorities and even in the context of the Covid-19 pandemic, the Anti-Money Laundering Unit focused its efforts on maintaining and, in most cases, enhancing the organisational and control safeguards. The 2020 AML Plan was completed and ongoing monitoring continued (including on the collection of due diligence, expiry of risk profiles, beneficial owners and validity of identity documents) and in the Unit's opinion the Internal Control System and its capacity to mitigate the money laundering and terrorist financing risk was substantially adequate. This was confirmed by the outcome of the self-evaluation conducted on the matter, which found that the residual risk for Banco BPM S.p.A. and at Group level was "low".

The opinion expressed was specifically based on: (i) the substantial finalisation of the actions set out in the Action Plan to remedy the findings of the inspection conducted by the Bank of Italy in 2019 on online operating activity, which led to an overall strengthening of the oversight of the money laundering risk also through the adoption of a new Control Suite and the related development of new indicators to control and detect anomalies (in addition to significant customer screening in relation to the AML risk); (ii) the strengthening of the process to identify and classify those who may qualify as PEP; (iii) the enhancement of the system of controls on those operating in weaponry; (iv) the launch of the review (after assessment by an external consultant) of the entire framework of procedures and controls on foreign operating activity and in particular with countries subject to restrictive measures; (v) the stepping up of controls on the Suspicious Transaction Reporting workflow. The process of managing Suspicious Transaction Reporting is expected to be further strengthened (also in order to bridge certain gaps found by the Audit Unit) by the finalisation of the replacement of the "GIANOS 3D" application (an essential tool in assessing customers' AML risk) by a new "GIANOS 4D" platform. The Board stresses the importance of the implementation of this new platform in full accordance with the established timeframes, given its significance in the drive to further step up AML oversight and control processes.

The experience gained from the pandemic and the need for enhanced AML controls on lending processes, as well as on the procedure for assessing suspicious transactions and cash movements have led to the review of certain procedural aspects with a view to further consolidating and improving the efficiency of control activities. The Board also acknowledged the intensive training activity provided to the Commercial Network under

a new model, designed to enhance the use of tools for increasing the spread of remote training, with the engagement of a higher number of resources and the continuous availability (on durable media) of short training sessions ("video pills"), to be used as special focus contents to accompany the continuous guidance provided by the Unit and the delivery of specialist training provided directly to resources of the Anti-Money Laundering Unit. This aspect, combined with the signing of a specific Cooperation Protocol with the Audit Unit (designed to promote the exchange of information resulting from the control activities conducted by it on the territorial structures and to define specific additional AML controls), should have a favourable effect in terms of a widespread and overall improvement also on the first level controls carried out by the Commercial Network.

Lastly the Board verified that, in compliance with the provisions of the reference legislation, after the process to self-assess the money-laundering and terrorist financing risk, initiatives to gradually enhance oversight were identified. Consistent with the projects already implemented, these initiatives will consist in: implementing a broader set of transactional monitoring indicators, taking the actions required upon completion of the aforesaid assessment on the adequacy of the AML safeguards on operating activity with foreign counterparties and countries subject to restrictive measures, continuing the training programme dedicated first and foremost to the Commercial Network (with specific regard to customer due diligence, especially for requests for credit lines from customers, assessment and reporting of anomalous transactions, correct communication to the MEF of breaches of the regulations limiting the use of cash and bearer instruments), adjusting and perfecting the self-risk assessment model in use at the Group Banks with its gradual extension to the Group's non-banking entities;

- Risk Unit (excluding the Internal Validation Unit): reporting directly to the Chief Executive Officer, the position of Manager of the Risk Unit was vacant for the first few months of 2020 (until the Manager was appointed by the Board of Directors in the meeting held on 26 May 2020 and took up office on 16 July 2020), without this entailing any solution of continuity in the structure's ordinary and extraordinary operating activity to ensure the functional coordination of the oversight of the Group Companies' risks and to supervise - at Group level and in an integrated manner - the processes of governance and control (ERM structure) and development and measurement of risks (Risk Models structure). On the whole, in addition to the arrival of the new authoritative Manager, Mr Andrea Rovellini, the Risk Unit - and in particular the ERM structure - was strengthened not only in quantitative terms (with the injection of a considerable number of resources), but also in terms of

improved definition and formalisation – as well as further broadening (in accordance with the expectations of the Supervisory Authority and with new internal provisions) - of its role and responsibilities. With the aim of further defining and implementing control models and metrics for ensuring improved efficiency in calculating, monitoring and reporting the exposure to risk, providing more complete, timely and comprehensible reports to, among others, the Corporate Bodies, with the ultimate aim of increasing their awareness of the risks assumed, also in relation to business and operating decisions. The new duties assigned to the Risk Unit must be matched by the overall adequacy of the structure, which will be verified in 2020 through a specific internal assessment.

With specific regard to the operating activity of the Risk Models Unit, the internal risk measurement models and metrics continued to be subject to ordinary monitoring and maintenance, accompanied by important initiatives in the Pillar 1 risk areas and specifically concerning *(i)* the credit risk, in relation to the aforementioned new DoD (updating all the risk parameters to assimilate the new definition of default), the redevelopment of Business and Private PD satellite models, the updating of the time series underlying the determination of the main risk parameters and, more generally, the IFRS 9 adjustments required to better manage the impacts of the pandemic (with significant sector-specific differences) and related support measures; *(ii)* the market risk, in relation to the activities to follow up the findings of the inspection to validate the request to extend the application of the internal model to the specific risk of debt securities and to the foreign exchange risk of the Banking Book (authorisation later received from ECB with final decision notified in December 2020) and also in relation to the challenging project of adjustment to the Fundamental Review of the Trading Book; *(iii)* the operational risk, to set up the move back to the Traditional Standardised Approach (TSA) to risk measurement. It is also reported that the structure has played a significant part in the progressive resolution of the findings of the Supervisory Authority, to be appropriately integrated and associated with the evolutionary needs imposed by the continuous developments in regulatory legislation.

With regard to the liquidity risk, Risk Models maintained ordinary oversight of the measuring, monitoring and reporting of the measures summarising the Group's exposure to the liquidity and funding risks, also providing appropriate reports to the Board of Statutory Auditors. Furthermore, to address some of the findings of the Supervisory Authority, implementations were made to the internal models (for example, to identify stable retail and operational wholesale deposits and to the behavioural model on repayments of tax refunds), to enhance stress testing exercises, to improve and intensify reporting (including

Covid-19 related), to develop/replace applications used, to expand RAF indicators, in relation to the overall data quality framework. The safeguard implemented by the structure included the supervision of the constituent parts of the ILAAP process and of evolution of the liquidity profile, aspects duly monitored by the Board.

The Risk Models structure was also entrusted with coordinating, within the context of the Bank's wider Plan mentioned above, the project to progressively develop detection of the ESG risks, with specific regard to the matters of climatic changes, deemed of considerable importance by the Board of Statutory Auditors. The Control Body continued to focus on all these activities to improve the models developed for regulatory purposes and aimed to ensure their functionality and precise application within the Group, also noting the continuation of the models inventory and model risk management activities also with regard to the models used for management purposes.

As already stated, 2020 demanded a strong commitment from the ERM structure, especially with a view to responding to some of the requests and expectations expressed by the Regulator also in its 2019 SREP Letter. Worthy of special note is the activity to upgrade the strategic processes, such as (i) RAF, with the launch of a progressive cascading down of the indicators - on the three hierarchical levels (strategic, managerial and early warning) - for each risk area, taking a more pervasive approach, characterised by breakdowns by business line/portfolio and by identification and assignment of contact persons for the main framework indicators (which means that these contact persons can be challenged on the performance of the indicators); (ii) ICAAP, with the introduction of quarterly monitoring to take account of changes in the macro-economic context and to promptly identify any areas of vulnerability within the Group. Similarly noteworthy is the gradual enhancement of the capital allocation process in view of the various types of risks referring to the business lines used also in the segment reporting; (iii) Risk Identification, updated in mid-2020 to take into account the effects of the pandemic, among other things.

Still on the matter Risk Strategy and Capital Adequacy, 2020 witnessed an overall improvement in the effectiveness and immediacy of reporting, with specific regard to the Integrated Risk Report, which was presented differently on the basis of the requirements of the recipients (Bodies rather than managerial/technical committees).

It has already been stated in this Report that, in view of the deterioration of the domestic and global macro-economic framework caused by the spread of the Covid-19 pandemic, measures were defined to perfect the second level controls conducted by ERM - already structured and implemented in accordance with legislative provisions - in

order to increase synergy with the pandemic context. More specifically, close checks were carried out on the operating activity to assimilate the government support measures (through specific targeted analysis to assess their compliance with the eligibility requirements, correct finalisation and effectiveness in risk mitigation terms and also to safeguard aspects of eligibility and future enforceability of the guarantees provided by said business support instruments), as well as aggregate analysis linked to the performance of the Key Risk Indicators, assessing the dynamics on the various business sectors and customer segments. The Board found that the outcome of these controls was on the whole positive, in line with the outputs of the checks carried out by the Audit Unit on the processes adopted by the Group for granting the support measures to economic operators within the context of the Covid-19 pandemic (with specific regard to those provided for by Government Decrees and by sector agreements).

Positive results were also obtained from the routine second level controls on lending (regarding fair and timely management and classification of positions, suitable and timely determination of provisions, detection of impairment trends in the loans portfolio), carried out on an ongoing basis and independently from the line units, through aggregate checks and by reviewing single positions sampled statistically or on the basis of specific risk profiles, so as to meet the specific requests made by the Board of Statutory Auditors.

Again in 2020, with a view to greater involvement in the issue of ex ante assessments by the Risk Unit, the scope of transactions qualifying as Significant Transactions (ST) subject to the ERM's opinion (especially in the lending area) was extended and the structure was more closely involved in the activities to support the Manager of the Risk Unit in issuing opinions on matters within the area of the Chief Lending Officer and the Chief Financial Officer. This challenge to the activities of the CLO and CFO is also facilitated by the Manager of the Risk Unit's participation in Management Committees;

- Internal Validation Unit (hereinafter also "IVU"): even though it reports directly to the Manager of the Risk Unit, the IVU's impartiality and autonomy are ensured by its independence from the structures entrusted with developing the Models and integrating the Risks as well as by its direct access to the Corporate Bodies. As already stated, the Unit was subject to a review (formalised in January 2021) of its internal structure which led to the creation of two structures (Credit Valuation and Models Valuation) with the aim of improving efficiency in the performance of its activities. In terms of its size (given that the high skills associated with the structure's mission already ensure that in qualitative terms its professional level is high), the structure was deemed adequate (as ascertained by the Board also through a direct exchange with the Manager), also bearing in mind the

possibility of availing of the support of specialist external advisors for specific activities and analysis.

Given that the reference perimeter of the Internal Validation Unit's activities includes all the models used within the Group perimeter to measure risks for regulatory and management purposes, following the checks conducted in 2020 (the Plan of activities was essentially completed, with only 3% rescheduled for 2021), IVU found the internal models to be essentially adequate, even though some developments were required and addressed by setting out remedial actions. More specifically, in addition to carrying out recurrent analysis and backtesting, with regard to: (i) the models used to quantify the Pillar 1 risks, IVU conducted specific tests on the application drawn up by the development units to assimilate the impact of the new definition of default in the models. On the matter, in a context of substantial adequacy (confirmed by the preliminary outputs of the off-site inspection conducted by ECB), the Internal Validation Unit considered it advisable to carry out further checks on the data quality structure and requested some evolutionary implementations to be included in the next model change application (which will be drawn up in 2021 to assimilate forthcoming legislative provisions); (ii) the models used for management purposes (especially with regard to credit, liquidity and reputational risk), IVU carried out checks on the aforementioned methodological changes to the "Automated Gone" model (used by the Bank for quantifying adjustments for defaulting counterparties with exposures not exceeding 1 million euro), the IFRS 9 standard (with regard to which further activities are being conducted on the staging allocation criteria), the main models used for measuring the liquidity risk for management purposes (specifically analysing the model for identifying the operational quota of wholesale deposits for LCR purposes), the challenger model for correct definition of the allocation to the Provision for Risks and Charges in relation to past operations in diamonds. The model for quantifying the reputational risk was also closely inspected.

All the recommendations and requests for action made by the Internal Validation Unit were acknowledged by the structures entrusted with implementing the corrective actions and are closely monitored by IVU.

The Board recognises the specific importance of the inspections and analyses performed by the Internal Validation Unit (often required to carry out ad hoc, unplanned activities to verify the adequacy of specific processes to assess risks, in light of requests from the Supervisory Authority, the Corporate Bodies or the internal structures within the context of special work groups) and reminded the development and business units of the need to ensure IVU has sufficient time to carry out the expected controls on changes to models;

- Audit Unit: reporting directly to the Board of Directors, the Audit Unit carries out third level controls for all the Group's Legal Entities on the regular performance of operating activity and the evolution of risks, informing the competent Bodies of possible ways to improve the risk management process. In addition to developing an Audit Plan that considers aspects regarding emerging trends and risks, significant organisational changes, the main Group transactions, inspections on the Sales Network and investigation of operational irregularities and external fraud, in 2020 the Audit Unit continuously assessed the overall resilience of the Group's Integrated Internal Control System, also taking into account the operating solutions (home working and increase in customers' use of remote activities) and the contingency processes introduced by the Bank to withstand the Covid-19 emergency (including to manage the measures to support the economy). In this regard, at the request of the Board of Statutory Auditors, after the first full-scale lockdown the Audit Unit carried a specific inspection to ascertain how the ICS had been affected by the employee working arrangements and the customer interaction procedures defined by the Bank during the health emergency. The outcome of its investigation (conducted on the Bank's main operating areas, also taking into consideration the processes where the Control System - especially if non-automated – could have been more heavily affected by the emergency) did not highlight problems regarding business continuity or omitted controls. The limited irregularities found concerned the activities of the Commercial Network and were remedied and addressed with an intensive drive to raise awareness of compliance with the contingency regulations duly defined.

Considering that the health emergency also affected the possibility for the Audit Unit to carry out on site Network inspections, the aforesaid examination of the ICS provided the Board with the opportunity to further analyse the Remote Control System used by the Audit Unit (especially to monitor the operating activity of branches and units) and its current development to be finalised in 2021. This development also responds to the Board's opinion, voiced on a number of occasions, that the implementation of an advanced control framework, leveraging new technologies and tools for data analysis/processing, forms the basis for increasing the efficiency and predictive capacity of the Control System. The Audit Unit also oversees the Internal System for Reporting Breaches ("ISRB", also known as the "Whistleblowing System"), with regard to which the guarantees of anonymity were further enhanced. In this respect, also taking into account the insignificant number of reports received in recent years, the Board asked the Bank to provide specific education and training initiatives to raise awareness of this tool.

That said, in a context of continuous checks and investigations on core processes (where there is greater risk) and contingency processes conducted according to a risk-based logic, in 2020 the Audit Unit worked particularly hard to carry out the activities to verify the effectiveness of the measures adopted by the Group within the context of Covid-19 and to implement the measures required under the Remedial Action Plans progressively approved by the Board of Directors (in terms of certifying actions and conducting targeted checks required by the Plans), and to deal with specific requests made by the Supervisory Authority with regard to or upon completion of these inspections. Obviously these activities also represented an opportunity to examine the solidity of the Bank's processes and to guide further specific investigations, where required.

Last but not least the Board acknowledges: *(i)* the activity of coordinating the Control Units carried out by the Internal Audit Unit, also in relation to the aforesaid review of the methods for assessing gaps and promoting greater integration and homogeneity in FAC reporting; *(ii)* the significant commitment not only in the aforesaid certification activities associated with the post inspection Remedial Plans but also in the continuous monitoring on the resolution of the concerns raised by the Supervisory Authority (and in related reports to the Bodies).

As the recipient of regular reports on the activity performed and of a large number of audit reports (those concluded with an opinion in the negative range, those issued in the credit area, those required by legislation or regarding the main corporate processes, as well as those specifically requested/identified by the Board), the Control Body noted the constant attention maintained by the Audit Unit: *(i)* on the lending processes, also (in addition to what has already been reported) regarding the development of internal models and projects concerning adjustment to legislative provisions, such as the new definition of default. The control activities were often carried out by credit file review and as part of the assessments required to certify closure of the remedial actions; *(ii)* in Finance and Markets, also in relation to the effectiveness of the operational listing of certain projects (including MiFID II, Corporate & Investment Banking) or the development of internal models; *(iii)* in Governance especially on the Bank's primary processes, such as ICAAP/ILAAP and Risk Appetite Framework and on specific issues, such as the process to manage Suspicious Transaction Reporting, the outsourcing framework, structured finance activities and the procurement process.

Upon completion of all its activities, even though no serious irregularities were found, and no highly urgent remedial activities were requested, the Audit Unit confirmed the

presence of a number of gaps (all subject to continuous monitoring), which need to be promptly addressed in order to properly mitigate the risks to which the Group is exposed.

With specific regard to the Distribution Network (of which the Annual Plan was essentially finalised through on site and remote actions, in compliance with the provisions relating to the health emergency), the Board regularly examined the results of the inspections on the Commercial Network and the checks carried out to further investigate anomalous (and potentially fraudulent) conduct by employees. In this regard, with reference to the operations of the Commercial 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 further the overcoming of the most recurrent shortcomings, specific training measures were carried out (also with the participation of the Audit Unit, and as already mentioned above, the AML Unit). The Board has positive expectations for the progressive consolidation of the model for first level controls on Network structures introduced after the merger, based on the role of the Control Contact Persons in the operating units and on the Management Controls in the Territorial Departments. In this regard, also in light of the results of the inspections and checks carried out by Audit, the Board recommended that special attention be given to the substance of the first level controls. In this context, it is important that a control culture is promoted - also by the Bank's senior management - where control is not regarded in a negative light, but as a tool to support business.

The Board found that appropriate disciplinary measures had been taken by the Bank in the event of conduct-related anomalies. In this regard, as a result of its ongoing verification activities and considering the irregularities identified, the Board of Statutory Auditors 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 of Statutory Auditors of Banco BPM also reviewed the "Report for the assessment of the Group's Internal Control System", drawn up by the Audit Unit for the year 2020, in order to ensure the completeness, adequacy, functionality and reliability of the different components of this System.

In drawing up the aforementioned Report, the Audit Unit took into consideration its assessments as well as those expressed by the other Corporate Control Units. 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 endorsed the actions undertaken in those areas identified as needing improvement as a result of the checks carried out during the year and brought to the Control Body's attention. More specifically, in five areas of activity the effectiveness of the controls was found to be "medium-low". For each of these areas, in addition to other lesser risk profiles, the Report identifies the remedial actions in progress and, if already set, the expected date of completion. The matter specifically concerns: *(i)* the need to complete the process to strengthen oversight of the risk of sending incorrect/late reports to the various Supervisory or Market Management Authorities, with particular regard to the EMIR regulations (reporting of derivative transactions to the Trade Repository). In this Report an account has already been given of the actions, some of which finalised and some of which in progress, that have been taken with regard to the framework for EMIR reporting as well as MiFIR/Transaction Reporting; *(ii)* anti-money laundering activities with regard to oversight of the risk of failure on the part of the Commercial Network to properly manage customer due diligence and active collaboration. On the matter, apart from pointing out that the branches selected for inspection by the Audit Unit are generally those where risk is higher (and therefore where the outputs may be worse than the average score assigned to this area of activity), mention has already been given to the numerous measures taken to ensure an overall strengthening of oversight of the exposure to the risk of money laundering, many of which in implementation of the post inspection Action Plan. With specific regard to the Commercial Network, the AML Unit placed particular emphasis on training, with sessions directly provided by the Unit, and drew up specific Operational Guidelines (to provide operators with specialist support) in order to strengthen the phase for assessing and updating the customer's risk profile ("help cards") as well as the phase for correct identification of Beneficial Owners who are not natural persons. The system is expected to be further strengthened – not only by the enhanced second level controls – but also by implementation of the "GIANOS 4D" platform; *(iii)* certain administrative and middle office activities relating to the process to manage capital gains (caused by weakness in the IT control framework, with underlying legal/tax operational risks), already addressed with solutions of which the effectiveness is currently being verified by the Audit Unit, as well as to the calculation agent process, which will form the subject of a specific internal document to regulate the process to be followed in the activity and to specifically and clearly identify the assignment of roles as well as the operating and control safeguards required to guarantee an adequate level of reduction of potential errors; *(iv)*

certain aspects linked to the credit decision process, to reduce the risks with specific regard to counterparties with higher exposure. In this regard, a support application is to be implemented for managing approved counterparties belonging to an Economic Group and to contribute to the oversight of potential concentration risks. As already extensively reported, several actions were taken in the Credit area in 2020, most of which to enhance monitoring activities and precise provisioning. The Board supervised and will continue to monitor the practical effectiveness of these implementations; (v) across the board, data quality aspects (within the ICT Governance and Planning activities), where the most significant problems concern the recovery of historical data for developing the models arising from changes in legislation. Reference is made to the information provided on the progressive consolidation of this area of the Control System in 2020.

The Board gave special attention to these aspects, as well as to others brought to its attention during the year, and urged implementation of the corrective measures, if necessary calling in the process owner Units.

On the more general matter of management of remedial actions and in particular of compliance with deadlines for finalising activities, while having noticed a significant decrease in the number of problem issues raised (by the Internal Control Units as well as by the Supervisory Authority and the Auditing Firm), the Board of Statutory Auditors expects the structures owning the measures to take greater responsibility and the Internal Control Units to be more insistent when requesting closure of the findings. In this regard, the new integrated reporting framework contains information allowing challenges to also be raised by the Bodies. Finally, within the scope of the Control System, the functional and informational connection between the Board of Statutory Auditors and the Supervisory Board of Banco BPM, established pursuant to Italian Legislative Decree no. 231/2001, is here highlighted and ensured, not only by the periodic exchange of the appropriate information flows, also by the fact that one of the Auditors is also a member of the Supervisory Board. In this regard, the Board of Statutory Auditors acknowledged that the Supervisory Board, in its regular report to the Board of Directors, affirmed that the Organisational Model adopted pursuant to Italian Legislative Decree 231/2001 was fully adequate and effective.

14. as regards the adequacy of the administrative and accounting system, during the periodic meetings with the Board of Statutory Auditors, aimed at an exchange of information and the supervision of which the Control Body is responsible, the Executive in charge of financial reporting did not identify any significant deficiency in the operational and control processes which, due to their impact potential, could affect the judgement regarding the adequacy and actual application of the administrative-accounting procedures for the correct

representation of operational activities, in compliance with the applicable international accounting standards.

In his/her Report, for the purpose of issuing the certification set forth in Article 154 bis of TUF (Consolidated Financial Law), the Executive in charge of financial reporting 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 Executive in charge of financial reporting also took into account, *inter alia*, the measures adopted as a result of the findings identified thereby in the previous year, thus acknowledging the presence of other areas needing improvement, which moreover do not influence the overall evaluation expressed.

The Auditing Firm also identified (and reported in its Additional Report provided to the Board of Statutory Auditors) some areas needing improvements which were not assessed as significant deficiencies of the Internal Control System as regards the financial information process. These areas shall be brought to the attention of the Management of the Bank by the Auditing Firm and presented to the Board of Directors by the Board of Statutory Auditors for the necessary resolutions.

The Board of Statutory Auditors of Banco BPM has no issues to report regarding the adequacy of the administrative-accounting system and its reliability in correctly representing the operational performance. With reference to the accounting reports contained in the Separate and Consolidated Financial Statements at 31 December 2020 of Banco BPM, it must be noted that the certification with no findings was issued by the Chief Executive Officer and the Executive in charge of financial reporting pursuant to Article 81-*ter* of the applicable Consob Regulation No. 11971 of 14 May 1999;

15. the Board of Statutory Auditors has found no issues regarding the adequacy of the internal regulations which govern the guidelines to be provided to the Subsidiaries in order to obtain the information flows that are necessary to ensure the timely fulfilment of the reporting obligations set forth by the law.

The Board of Statutory Auditors also furthered the annual 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 and a complete IT procedure that is in line with the guidelines issued by Consob in October 2017.

From the relationships established with the corresponding Control Bodies of the Subsidiaries, as well as from the findings submitted by the Control Units of the Parent Company, in particular by the Compliance Unit, no critical issues worthy of being reported have emerged.

16. as already stated, the Board of Statutory Auditors 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 Italian Legislative Decree No. 58/1998 for the purpose of exchanging information. The Auditing Firm did not find any acts or facts to be considered as censurable or irregular, which might have required the formulation of any specific remarks pursuant to article 155, paragraph 2 of Italian Legislative Decree No. 58/1998, as well as pursuant to article 19, paragraph 3, of Italian Legislative Decree No. 39/2010;
17. with regard to corporate governance, it should be noted that Banco BPM had adopted the Code of Conduct for Listed Companies (in force until the end of 2020) and then adopted the new Code of Corporate Governance promoted by the Corporate Governance Committee, 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 Italian Legislative Decree No. 58/1998, as amended.

The aforementioned Report describes the methods and the behaviours with which the principles and criteria stated in the Code have been actually applied, as well as the non- or partial adoption or application of any of the recommendations from this Code of Conduct, thus providing, in these cases, all the related reasons;

18. 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 formulate recommendations to the Shareholders' Meeting pursuant to Article 153, paragraph 2, of Italian Legislative Decree 58/1998 regarding the approval of the Separate Financial Statements of Banco BPM at 31 December 2020 and the subject matters falling under its competence. The Board of Statutory Auditors, 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 € 0.06 per share.

Milan, 24 March 2021



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

signed Marcello Priori, Chairman

signed Wilmo Carlo Ferrari

signed Maurizio Lauri

signed Alfonso Sonato

signed Nadia Valenti