



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

Year 2023

Ordinary Shareholders' Meeting of 18 April 2024



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

Members,

the Board of Statutory Auditors (hereinafter also referred to as the "Board" or "Control Body") is required to report to the Shareholders' Meeting of Banco BPM S.p.A. (hereinafter also referred to as "Banco BPM" or "Bank" or "Parent Company") on the supervisory activity carried out during the year and on the omissions and reprehensible facts detected, pursuant to article 153 of Legislative Decree no. 58/1998 (hereinafter also referred to as the "TUF"). The Board of Statutory Auditors may also make observations and proposals concerning the Financial Statements, their approval and matters within its competence. The information provided below also takes into account the indications contained in Consob Communication no. 1025564/2001 and subsequent amendments and/or integrations.

The Draft Financial Statements and the Consolidated Financial Statements were approved by the Board of Directors on 27 February 2024; taking into account the convening of the Shareholders' Meeting scheduled for 18 April 2024, the Board of Statutory Auditors confirms that they have been made available within the terms prescribed by Article 154-ter of the Consolidated Law on Finance.

During the 2023 financial year, the Board of Statutory Auditors carried out its institutional duties, represented below, in compliance with the reference regulations, the provisions of the Articles of Association and those issued by the Authorities exercising supervisory and control activities, taking into consideration the rules of conduct recommended by the National Council of Chartered Accountants and Accounting Experts (also 'CNDCEC').

1. Appointment and Activities of the Board of Auditors

On 20 April 2023, Banco BPM's Shareholders' Meeting appointed the Board of Statutory Auditors, which had ceased to hold office for the full three-year period, electing, until the approval of the financial statements as at 31 December 2025, its standing members in the persons of prof. Marcello Priori (as Chairman), Prof. Elbano de Nuccio, Dr. Maurizio Lauri, Dr. Silvia Muzi and Dr. Nadia Valenti, as well as the alternate members in the persons of Dr. Sara Antonelli, Dr. Marina Scandurra and Dr. Mario Tagliaferri. The Chairman Prof. Marcello Priori and the Standing Auditors Dr. Maurizio Lauri, Dr. Silvia Muzi and Dr. Nadia Valenti were already present in the previous composition of the Board.

On 8 May 2023, the Board of Statutory Auditors, in compliance with current regulatory provisions, assessed its suitability to hold office, verifying for all its members (Standing and Substitute Statutory Auditors) the possession of the requirements of professionalism and honourableness and compliance with the criteria of competence, fairness, dedication of time and the specific limits on the accumulation of offices provided for by the *pro tempore* regulations in force, the "Qualitative and Quantitative Composition of the Board of Statutory Auditors" and other relevant internal regulations;



also verified that its members met the independence requirements pursuant to Article 33.4 of the Articles of Association and Article 14 of Ministerial Decree No. 169/2020, and that they are able to perform their duties with autonomous judgement.

On the same date, the Board of Statutory Auditors ascertained the correspondence between the qualitative and quantitative composition deemed optimal and the actual composition resulting from the appointment process, as well as the non-existence, with regard to the respective members, of situations falling within the scope of application of Article 36 of Decree-Law No. 201/2011 ("*interlocking prohibition*").

The outcome of the verifications was announced in a press release on 8 May 2023.

During the year, the Board ensured compliance with the limits on the accumulation of offices and the total commitment declared in the event of changes in the offices of each member.

In the year 2023, the Board of Statutory Auditors held 31 meetings, of which 12 up to 20 April 2023 (date of the Shareholders' Meeting) and 19 after that date, with an average duration of approximately three hours. During 2023 and up to the date of this Report, the Board of Auditors in its current composition met 30 times.

The Shareholders' Meeting, held on 20 April 2023 (in ordinary session), was physically attended by the Chairman for the Board of Statutory Auditors, while the regular members Dr. Maurizio Lauri, Dr. Silvia Muzi and Dr. Nadia Valenti participated by telecommunication means.

Recalling that the aforesaid Shareholders' Meeting appointed the Board of Directors in office to date, and recalling the contents of the Report on the 2022 financial year with regard to the supervision exercised by the Board of Statutory Auditors on the process of drawing up the "Board List", it is hereby acknowledged that the Control Body ascertained, on the basis of the statements issued by the individual Directors and the collective assessments expressed by the Bank's Board of Directors, that the criteria and procedures adopted by the latter to assess the independence of its members had been correctly applied.

The Board of Statutory Auditors also verified the Board of Directors' conduct - in compliance with the regulations in force - of the annual self-assessment process with reference to the 2023 financial year, the results of which showed a substantially positive picture in relation to both the composition and functioning of the Board. The points of improvement that emerged were the subject of discussion with the identification of specific corrective actions, including the continuation and integration of the ordinary *training* and *induction* plan (to whose sessions all the representatives of the main Companies of the Banco BPM Group, hereinafter also "the Group", are invited) with the aim of continuously strengthening skills and certain organizational refinements useful for better management of activities and aimed at fostering discussion among the Board members.

In the year 2023, the Board of Statutory Auditors attended all 19 meetings of the Board of Directors, of

which 6 took place before 20 April 2023 and 13 after that date. During 2023 and up to the date of this Report, the Control Board in its current composition has attended 17 Board meetings.

During the year under review, through its Chairman or an Auditor designated by the latter, in accordance with internal regulations, the Control Body attended all the meetings of the Internal Control and Risk Committee (hereinafter also 'CCIR', no. 18 meetings), until 26 April 2023 called the Internal Control, Risk and Sustainability Committee, the Sustainability Committee (established by board resolution on 26 April 2023, no. 9 meetings), the Remuneration Committee (no. 20 meetings), the Related Parties Committee (no. 6 meetings) and the Appointments Committee (no. 27 meetings), set up within the Board, and obtained, in compliance with the provisions of the law and the Articles of Association, exhaustive information on the activities carried out and the most significant transactions made by the Bank and its subsidiaries.

In 2023, the members of the Board of Statutory Auditors also participated in all the training sessions (no. 10) of the *training* and *induction* plan dedicated to the representatives of the Group Companies, carried out in some cases with the support of external consultants, of which no. 2 prior to 20 April 2023 and no. 8 subsequent to that date.

In compliance with the provisions of the Supervisory Provisions of Bank of Italy Circular No. 285/2013, as well as with specific internal regulations adopted in self-regulation (including the "Regulations of the Board of Statutory Auditors", lastly updated in May 2022), the Board of Statutory Auditors carried out its self-assessment with reference to the financial year 2023, drafting the relevant Concluding Document approved on 26 February 2024. The results of the self-assessment exercise - for which the Board of Statutory Auditors availed itself of the support of a qualified external consultant, in continuity with the previous two financial years - showed a substantial and pervasive adequacy, both of the composition of the Board of Statutory Auditors - with reference to the individual members and to the Board as a whole - and of its functioning. To overcome the marginal areas of improvement that emerged, the Board identified a specific initiative to be implemented as part of the new ordinary *training* and *induction* plan to be implemented during the current year. This document was forwarded to the Supervisory Authority in accordance with current company regulations.

During the year under review, the Board of Auditors acquired the information necessary to perform its duties through direct enquiries, collection of data and information from the Managers of the main Corporate Functions concerned and from the Company entrusted with the statutory audit, PricewaterhouseCoopers S.p.A. (hereinafter also referred to as 'PwC' or 'Auditing Company' or 'Auditor').

The Control Body carried out its audits on the Internal Control and Risk Management System (hereinafter also referred to as the 'Internal Control System' or 'ICS'), availing itself of the presence of the Head of the Internal Audit function at board meetings, which were often attended also by the Heads

of the regulatory compliance functions, anti-money laundering, control and risk management (the latter entrusted to the Chief Risk Officer, hereinafter also referred to as the 'CRO') and internal validation, as well as their direct collaborators, thus ensuring the necessary functional and informational link on how their respective institutional control tasks were carried out and on the outcomes of the relevant activities.

In view of the above, the findings of the activities carried out by the College for each area of intervention are set out below.

2. Supervisory activities on compliance with the principles of good governance

The Board of Auditors acquired adequate information on the most significant economic, financial and asset operations carried out by the Bank and its subsidiaries. In light of this information, it found that the aforementioned transactions complied with the law and the Articles of Association, were not manifestly imprudent or reckless, did not conflict with the interests or conflict with the resolutions passed by the Shareholders' Meeting or, in any case, were such as to compromise the integrity of the Bank's assets.

In addition to what is presented in this Report, please refer to the Group's Management Report and the Consolidated Notes to the Financial Statements for an exhaustive examination of the most significant transactions carried out during the year.

Taking into account the activities performed, as described below, the Board of Auditors has no observations to make on compliance with the principles of proper administration.

2.1. Group business development and other corporate transactions

The Board of Statutory Auditors considers it useful to provide some information concerning the context that characterised the year 2023, in some respects in continuity with the previous year.

The international geopolitical situation was still affected by the Russian-Ukrainian conflict, which has been going on since February 2022, with effects on the main macroeconomic variables (growth, industrial production, inflation, etc.) as well as on the financial, currency, energy and raw materials markets. The Board of Statutory Auditors has monitored that the impacts directly related to the Russian-Ukrainian conflict are substantially marginal for Banco BPM, reserving attention to the evolution of the situation during 2023 for a strengthening of the supervision by the Corporate, operational and control Functions, due to the possible underlying risks, especially with regard to indirect impacts on the Bank's business, including those deriving from possible *cyber* attacks on the financial system or those related to compliance with prohibitions and restrictions on operations with counterparties and countries subject to restrictive measures, recommending, in this context, careful and continuous monitoring of reference scenarios in support of business processes, in order to promptly capture any significant changes.

The international geopolitical situation has also been affected more recently by the start of the conflict in the Middle East involving the State of Israel.

The above-mentioned factors of uncertainty and instability were influenced by the markedly restrictive European monetary policy, which, while containing inflationary dynamics, also constrained the liquidity in circulation, conditioning the macroeconomic environment and the operations of the banking system.

As indicated in the Group's Report on Operations (to which reference should be made for details of transactions), Banco BPM's activities in 2023, although impacted by the context described above, were geared towards achieving the strategic objectives identified in the 2021-2024 Plan by pursuing the integration of the insurance *business*, which led to the recognition for the Group by the European Central Bank (hereinafter also "ECB"), on 7 March 2023, of its *status* as a financial conglomerate within the meaning of Directive 2002/87/EC and, therefore, access, pursuant to Article 49 of Regulation (EU) no. 575/2013, to the benefits deriving from the application of the so-called "*Danish Compromise*", the authorisation for which was received on 3 November 2023 with effect from the supervisory reports referring to 31 December 2023.

This growth path includes the approval, at the board meeting of 11 December 2023, of a new Group Strategic Plan 2023-2026, built in a *stand-alone* logic and articulated on seven pillars.

Having acknowledged the foregoing, on the basis of the main evidence acquired in the performance of its duties, the Board of Statutory Auditors has identified certain events that have characterised 2023 and the first months of 2024 that it deems appropriate to mention, taking into account their relevance in the context of the assessments of Banco BPM's financial and economic situation and the consistency of the management decisions taken, referring to the Group's Report on Operations for details:

- internalisation of the life business and divestment of the non-life/protection *business*;
- conclusion of major funding and capital transactions;
- project to enhance the e-money *business*;
- rationalisation of the Group structure.

In relation to the most recent changes in the Group's structure, it should be noted that on 13 March 2024, the Bank of Italy transmitted the Provision authorising the exercise of collective asset management and portfolio management services pursuant to Article 34 of the Consolidated Law on Finance for the Subsidiary, established in 2023, Banco BPM Invest SGR S.p.A. (hereinafter also "Banco BPM Invest SGR").

With specific reference to corporate transactions carried out during 2023, the Board of Statutory Auditors was informed about the relative organizational, corporate and tax profiles as well as, where relevant, about the process of integration into the Group of the Companies involved and within the



scope of the periodic information flows exchanged with the respective Boards of Statutory Auditors, also in order to take into account any impact on the Internal Control System defined at Group level. As regards relations with the Supervisory Authorities, it should be noted that during 2023 Banco BPM was subjected to inspections conducted, also *on site*, in the exercise of each Authority's verification and supervisory prerogatives, in particular by the ECB as part of the *Supervisory Review and Evaluation Process* (hereinafter also "SREP").

In this regard, it should be noted that the Bank received, in December 2023, the notification of the Prudential Decision (the "SREP *decision*"), containing the results of the annual Prudential Review and Evaluation Process covering 2024, which contained a number of recommendations to address the areas of improvement identified for the Bank. Taking into account the analyses and assessments carried out, the ECB determined for 2024 a *Common Equity Tier 1* (hereinafter also referred to as "CET 1") *ratio requirement* to be met on a consolidated basis of 9.07%, bringing the *Pillar 2 Additional Own Funds Requirement* to 2.52%, an improvement on the previous year's requirement (equal to 2.57%), as further detailed in the communication circulated to the market. All capital requirements were met by Banco BPM.

2.2. Intra-group transactions, transactions with related parties, atypical or unusual transactions and transactions falling within the obligations of bank officers

On the basis of the activities carried out in 2023 and in the first months of 2024, of the information set out in the Annual Financial Report, of the information received at the meetings of the Board of Directors and that provided by the Chairman of the Board of Statutory Auditors, the Chief Executive Officer, *Management*, the Head of the Audit Function, the Boards of Statutory Auditors of the Subsidiaries and PricewaterhouseCoopers S.p.A, as the Group's Sole Auditor, the Control Body had no evidence of the existence of any transactions that could be defined as atypical or unusual carried out by the Bank with third parties, with Group Companies or with Related Parties, without prejudice to what is represented in this Report. The intragroup and Related Party transactions carried out in 2023 were considered appropriate, compliant with the relevant regulations and in the interest of the Bank and the Group. Transactions in potential conflict of interest were resolved in compliance with the relevant internal and external regulatory provisions and were also subject to specific attention, monitoring and, where required, specific examination by the Related Parties Committee, whose meetings are attended by a designated Auditor. On the basis of the information available, the Board of Statutory Auditors can reasonably believe that the transactions were congruous in consideration and in the Bank's and/or Group's interest.

Banco BPM has adopted a unitary *policy*, preparing the "Rules for the management of transactions with parties with conflicts of interest" (hereinafter also referred to as the "*Policy*" or "*Rules*"), which defines



the principles, roles and responsibilities aimed at guarding against the risk of potential conflicts of interest in the management of transactions: (i) with Related Parties, pursuant to Consob Resolution no. 17221 of 12 March 2010 and subsequent amendments; (ii) with Connected Parties, as per Bank of Italy Circular no. 263/2006, Title V, Chapter 5; (iii) that involve obligations of bank officers pursuant to article 136 of Legislative Decree no. 385/1995 (hereinafter also referred to as the "CBA"); (iv) with Related Parties, as per Bank of Italy Circular no. 263/2006, Title V, Chapter 5; (v) with Related Parties, as per Article 136 of Legislative Decree no. 385/1995, as per Article 136 of Legislative Decree no. 385/1995 (hereinafter also referred to as the "CBA"). 263/2006, Title V, Chapter 5; (iii) which provide for obligations of bank exponents pursuant to Article 136 of Legislative Decree no. 385/1993 (hereinafter also "TUB"); (iv) which find interests of directors, in compliance with the provisions of the Italian Civil Code; (v) with Related Parties IAS 24 in relation to financial statement disclosures on transactions with Related Parties; (vi) which provide for loans to exponents and their Related Parties pursuant to Article 88 of Directive (EU) 2013/36.

The aforementioned *Policy* was approved in December 2023 by the Board of Directors of the Bank, subject to the favourable opinion of the Related Parties Committee and the Board of Statutory Auditors, and subsequently by the competent Administrative Bodies of the Subsidiaries, to the extent of their respective relevance and ensuring the consistency of any internal regulatory documents with the *Policy*. The *Policy* has been published on the Group Banks' websites.

The Rules therefore apply to Banco BPM and all Subsidiaries, directly or indirectly, according to the specificities of each discipline, and will be updated periodically in accordance with the provisions of the relevant regulations.

In this regard, the Board of Auditors monitored the compliance of the internal rules adopted by the Bank and the overall suitability of the internal procedures. In the Reports on Operations and in the specific Notes accompanying both the Company's Financial Statements and the Consolidated Financial Statements, the Board of Directors has adequately reported and illustrated, describing their characteristics, the main transactions with third parties, within the Group and with Related Parties, also in compliance with Consob Resolution no. 17221 of 12 March 2010 and subsequent amendments, in particular highlighting that during 2023, transactions of both greater and lesser significance were concluded, which the Board of Statutory Auditors verified, to the extent of its competence, compliance with the law, the Bylaws and internal regulations in force from time to time.

The Board of Statutory Auditors also examined, during the period, the results of the verification activities conducted on the matter by the Corporate Control Functions (hereinafter also referred to as 'FACs', as better identified below) for their respective areas of competence, which recorded a situation of substantial adequacy.

3. Supervisory activities on statutory audit

As a preliminary reminder, in compliance with national and European legislation that defines the specific requirements for the performance of statutory audits for so-called "Public Interest Entities" (hereinafter also referred to as "PIEs"), Banco BPM's financial statements and consolidated financial statements as at 31 December 2023 are audited by PricewaterhouseCoopers S.p.A, in execution of the engagement conferred by shareholders' resolutions of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. of 15 October 2016. The aforementioned mandate was conferred for the financial years from 31 December 2017 to 31 December 2025, in compliance with the duration provided for by law (9 financial years).

The Financial Statements of the Group Companies are subject (with rare exceptions, mainly attributable to Associated Companies) to a statutory audit by PwC itself or other companies in its *network*.

The Board of Statutory Auditors - in its role as the Internal Control and Audit Committee (hereinafter also referred to as 'CCIRC') and in compliance with the provisions of Article 150, paragraph 3, of the Consolidated Law on Finance - continuously monitored the activities carried out by the auditing firm, periodically meeting with the *Partner* and *Managers* in charge of PwC in order to ensure an adequate exchange of information flows. More specifically, the Board of Auditors examined the Audit Plan prepared with reference to the Company's Financial Statements and Consolidated Financial Statements 2023, meeting with PwC's contacts on the significant risks and key issues identified, as well as on the audit methodology approach. Subsequently - also by means of comparisons on individual issues or evaluation aspects - the Board maintained constant interaction regarding the audit approach used for the various relevant areas of the financial statements, sharing issues related to business risks, as well as receiving updates on the progress of audit activities and the main issues to the Auditor's attention, acquiring the results of the checks carried out on the regular keeping of company accounts and the correct recording of operating events in the accounting records.

During the above-mentioned periodic meetings, the Auditor did not point out to the Board of Auditors any acts or facts deemed reprehensible or irregularities that required the formulation of specific reports pursuant to Article 155, paragraph 2, of the Consolidated Law on Finance.

In light of the above, the Board of Statutory Auditors considers the interaction process with the auditing firm to be adequate and transparent.

It is therefore acknowledged that PwC issued on 19 March 2024:

- to the Bank, pursuant to Article 14 of Legislative Decree No. 39/2010 and Article 10 of Regulation (EU) No. 537/2014, the Audit Reports on the Company and Consolidated Financial Statements for the year ended 31 December 2023, which have been made available in full to the public together with the Annual Financial Report, pursuant to Article 154-ter of the Consolidated Finance Act. The

independent auditors issued an unqualified and unqualified opinion on both, according to which:

(i) it appears that the Management Reports accompanying the Company and Consolidated Financial Statements - in addition to certain specific information contained in the "Report on Corporate Governance and Ownership Structure" indicated in Article 123-bis, paragraph 4, of the Consolidated Law on Finance (the responsibility for which lies with the Bank's Directors) - are consistent with the Financial Statements and have been prepared in accordance with applicable legal provisions (ii) as regards material misstatements in the Management Reports, based on the knowledge and understanding of the business and its context gained during the course of the audit, declared that they have nothing to report. For details of the key aspects of the audit, please refer to the content of the Reports issued by PwC, published together with the company and consolidated financial statements. The same Reports also contain the auditor's opinion on the conformity of the preparation of the company and consolidated financial statements as at 31 December 2023 with the provisions of Delegated Regulation (EU) 2019/815;

- to the Board of Statutory Auditors, pursuant to Article 11 of Regulation (EU) No. 537/2014, the Report to the CCIRC (so-called "Additional Report") relating to the financial year 2023, from which no significant deficiencies were found in the Internal Control System in relation to the financial reporting process. Some deficiencies and/or areas for potential improvement, assessed by the Auditor as "not significant", were discussed with the Board of Statutory Auditors, also for the purpose of preparing its own observations to be forwarded to the Board of Directors - in accordance with the provisions of Article 19, paragraph 1, letter a, of Legislative Decree No. 39/2010 - to accompany the Additional Report for in-depth studies and the adoption of corrective measures for which the Board of Directors is responsible.

It should be noted that, with reference to the financial year 2022, on 28 March 2023 the Board of Statutory Auditors forwarded to the Board of Directors the relative Additional Report accompanied by its own observations. The Board of Directors also examined the Letter of Suggestions (hereinafter also referred to as the "*Management Letter*"), addressed to the Bank's *Management* by the Independent Auditors in order to formulate a number of recommendations at the end of their audit activities on the Financial Statements for the year 2022, taking note of the *remediation* activities undertaken by the competent corporate Structures, also referring to previous years (on the implementation of which the Board of Statutory Auditors duly supervised by calling, if necessary, the Structures responsible for *the remediation* activities). The observations made by the Independent Auditors in their *Management Letter* are included in the integrated report on the progress of remediation actions, which is provided to the Statutory Auditors by the FACs on a quarterly basis (so-called "Integrated Tableau de Bord").



The Independent Auditors also issued on 26 June 2023 the Report pursuant to Article 23, paragraph 7, of the Bank of Italy Regulation of 5 December 2019 with reference to the financial year 2022. The Report focused on the Descriptive Document prepared by Banco BPM containing the organizational and procedural solutions and related controls adopted for the reporting year in relation to the custody and *sub-custody of customers' assets* and their compliance with regulatory provisions. The Board of Statutory Auditors monitored, in periodic meetings with the Independent Auditors and the Corporate Functions, the status of implementation of the measures defined to meet a point of improvement that had emerged as a result of one of the Reports issued for previous years, which had already been brought to the attention of the Single Manager (appointed pursuant to the aforementioned Bank of Italy Regulations) and the other corporate contacts concerned. The Control Body also found that no new aspects emerged during the audits carried out with reference to the financial year 2022.

It should be noted that, with the approval of Banco BPM's company and consolidated financial statements at 31 December 2025 by the Shareholders' Meeting to be called in 2026, the engagement for the statutory audit conferred on 15 October 2016, as detailed above, will expire. On the basis of the regulations in force, this appointment is not renewable and a new one will therefore have to be entrusted by the Shareholders' Meeting, on the basis of a reasoned proposal of the Board of Statutory Auditors in its capacity as CCIRC, following a specific selection procedure.

Considering the size and structure of the Group, the Board of Statutory Auditors, in agreement with the competent Corporate Functions, deemed it appropriate to start the selection process as of July 2023 for the assignment of the legal audit engagement for the financial years 2026-2034 in order to submit the appointment of the new auditing firm to the Shareholders' Meeting called to approve the Financial Statements as of 31 December 2023.

The early appointment of the auditing firm, a common practice among the main listed companies, allows for a more profitable and gradual handover between the outgoing auditor and the new auditor, compliance with the time limits set to safeguard the auditor's independence (the so-called '*cooling-in period*'), as well as the appointment by the other Group companies.

The Shareholders' Meeting will also be called upon to decide on the remuneration of the auditing firm as well as on any criteria for adjusting the fees, again subject to the reasoned proposal of the Board of Auditors.

The relative reasoned proposal of the Board of Statutory Auditors, made available within the time limits and in the manner provided for by current regulations, is therefore submitted to the Banco BPM Shareholders' Meeting for consideration.

4. Supervisory activities on the statutory auditor's independence

During the year under review, the Board of Auditors verified and monitored, pursuant to Article 19 of Legislative Decree No. 39/2010, the independence of PwC, finding no critical aspects. In this regard, we acknowledge that on 1 March 2024, the Audit Firm issued its annual confirmation of independence pursuant to Article 6 of Regulation (EU) no. 537/2014, from which no situations emerged that could compromise its independence. The Board also took note of the Transparency Report for the financial year ending 30 June 2023, prepared by the Independent Auditors and published on their website pursuant to Article 13 of the aforementioned European Regulation.

For the purposes of proper application of the aforementioned European regulations, the Bank has adopted internal rules governing the procedures for the assignment of non-banned engagements for the provision of services other than statutory audit to the company acting as statutory auditor or to companies belonging to its *network*. These rules apply to Banco BPM and all Group companies, and were amended in December 2021 with a view to making them more prudential with respect to the provisions of the relevant external regulations, with the intention of formalising and specifying the operating practices already in use. In order to verify the existence of potential risks to the Auditor's independence and any safeguards applied, according to the internal rules in question, the formalisation of such services, provided to Group companies by the appointed auditing firm or by another company belonging to the same economic group, must be authorised in advance by the Board of Statutory Auditors of the individual Bank/Company, in its capacity as CCIRC; subsequently, in the case of a Bank/Company controlled by Banco BPM, the Board of Statutory Auditors of Banco BPM must be informed. In the case of Group Companies that do not qualify as EIPs, the granting of assignments for ancillary services that are not prohibited must be authorised in advance by Banco BPM's Board of Statutory Auditors.

In addition, a quarterly report is prepared showing the total fees committed in the reporting period to the Audit Firm or another company belonging to its *network* for verification by the Board of Statutory Auditors and, starting in 2020 (the three-year regulatory period from the appointment of PwC within the Banco BPM Group having been consolidated), monitoring has been activated to verify compliance with the quantitative limit on fees for non-audit engagements provided for in Article 4 of the European Regulation.

In the course of 2023 and in compliance with the aforementioned provisions on statutory audits, the Controlling Body has therefore approved in advance for Banco BPM - after the relevant checks on the potential risks to independence and the safeguard measures adopted - the engagements other than the statutory audit conferred on PwC and the companies belonging to its *network*.

Recalling that, in accordance with the provisions of the aforementioned European Regulation, (i) the fees rendered for permitted non-audit services provided to the PIE, its parent company or firms

controlled by it, may not exceed 70% of the average of the fees rendered in the last three consecutive financial years for the statutory audit activity (hereinafter also referred to as the "fee cap") and that, (ii) for the determination of the fee cap for the financial year 2023, the relevant period for the calculation is the three-year period 2020-2022, it should be noted that the fee cap was largely complied with for the financial year under review.

In order to provide a complete picture, it should be noted that in 2023, PwC was paid, in compliance with current regulations, fees for the legal audit of Euro 2,805,344 by the Parent Company Banco BPM and a total of Euro 2,241,486 by the other Group companies. The same auditing firm was also awarded additional engagements for attestation services in the amount of Euro 743,616 by the Bank and Euro 601,950 by the other Group companies.

Details of these fees are also included in the annex to Banco BPM's corporate and consolidated financial statements as required by Article 149-duodecies of Consob Regulation No. 11971 of 14 May 1999 (hereinafter also referred to as the 'Issuers' Regulation').

To companies belonging to the network to which PwC belongs, total fees were paid in the financial year 2023 for:

- legal audit in favour of other Group companies for Euro 192,527;
- other services in favour of the Bank for Euro 371,709.

The details of these remunerations are included in the annex to Banco BPM's corporate and consolidated financial statements as required by Article 149-duodecies of the current Issuers' Regulation.

5. Supervisory activities on the administrative-accounting system and the financial reporting process

For the purposes of supervising the financial reporting process, the Board of Statutory Auditors, in addition to the aforementioned in-depth examinations carried out with the independent auditors, from which no significant criticalities emerged in the Internal Control System inherent to the financial reporting process, carried out the scheduled and periodic meetings with the Manager in Charge of Preparation of the Company's Financial Reports (hereinafter also referred to as the 'Manager in Charge') and the competent structures of the Administration and Financial Statements function and the CRO Area, according to their respective areas of activity.

The administrative and accounting procedures for the preparation of Financial Reports (Annual and Half-Yearly), as for any other financial communication, have been prepared under the responsibility of the Manager in charge, who, together with the Managing Director, certifies their adequacy and effective application.

During the aforementioned periodic meetings, the Manager in Charge did not report any significant deficiencies in the operational and control processes that could affect the overall adequacy and



effective application of the administrative-accounting procedures in order to correctly represent the income statement, balance sheet and financial position of operations in accordance with current international accounting standards.

Acknowledging that the Bank regulates in internal regulations the aspects of the Internal Control System inherent to the financial reporting process, the Board of Statutory Auditors notes that no updates have been brought to its attention.

The Board of Statutory Auditors examined the "Report on the activities carried out by the Financial Reporting Manager of the Banco BPM Group for the purposes of issuing the certification required by article 154-bis of the Consolidated Finance Act on the annual financial report for the year ended 31 December 2023", submitted to the Board of Directors at its meeting of 27 February 2024. In this regard, it should be noted that the scope of the Relevant Companies, as illustrated in the Report in question, was revised during the fourth quarter of 2023 to take into account the change in the scope of consolidation following the acquisition of control of the Insurance Companies Vera Vita S.p.A. (hereinafter also "Vera Vita") and BBPM Life Dac and the loss of control of Banco BPM Assicurazioni S.p.A. The Manager in charge specified that the examination of the certifications received from the Subsidiaries (no. 25) did not reveal any points of attention considered obstructive for the purpose of expressing an opinion on the adequacy and effective application of the administrative and accounting procedures. In addition, the data referring to the balance sheet and profit and loss account situation, transmitted by the Subsidiaries with the certifications under examination, were matched with those present in the consolidation procedure considered for the purpose of preparing the Consolidated Financial Statements as of 31 December 2023, without finding any anomalies.

The Board of Statutory Auditors was pleased to note that, consistent with the change in the scope of consolidation, which resulted in the inclusion of companies operating in the insurance *business*, the Administration and Financial Statements function was strengthened with the addition of new resources specialised in the Group's new sphere of operations.

In his Report, the Executive in Charge of Preparation of the Company's Financial Statements therefore expressed an opinion of substantial adequacy in relation to the characteristics of the company and the effective application of the administrative and accounting procedures that govern the preparation of the Financial Statements, drawn up in light of the assessment of the residual risk present in the macro-areas analysed and the mitigation actions identified. In formulating his opinion, the Manager in Charge of Preparation of the Company's Financial Reports has taken into account, among other things, the actions implemented as a result of the evidence that he himself found with reference to the previous year, noting the existence of additional areas for improvement that do not, however, affect the overall assessment expressed and that have been shared and discussed in detail with the

Board of Statutory Auditors during the year, as well as continuously monitored by the latter in the context of the quarterly integrated Tableau de Bord.

It should be noted that the Independent Auditors identified (and reported in the Additional Report provided to the Board of Statutory Auditors, commented on above) certain areas for improvement that were not assessed as significant deficiencies in the Internal Control System in relation to the financial reporting process. These will be brought to the attention of the Bank's Management by the same Auditing Firm and represented to the Board of Directors by the Board of Statutory Auditors for the relevant determinations.

With regard to activities related to strengthening the governance of data and information and the quality thereof, as well as of the controls at the service of the decision-making and risk control processes (aspects that the Board of Statutory Auditors has been monitoring for some time), in 2023 the Control Board examined the reporting submitted by the risk control function, on a half-yearly basis, on compliance with BCBS 239 principles and, on a quarterly basis, on *data quality*, reporting that from 2024 will be integrated into a single document with quarterly reporting. In this regard, the Board of Auditors was able to note the gradual extension of BCBS 239 regulations (the subject of a specific project since 2017) to areas adjacent to the risk area, such as: (i) insurance, in consideration of the changes that have affected the Group's articulation; (ii) signalling, in line with the supervisory expectations on the matter, in order to increase the accuracy of the Group's data and the relative flexibility in aggregation, to cope with new or specific regulatory requests, including in the context of scenarios characterised by *stress*; (iii) "Environmental, Social, Governance" (hereinafter also "ESG"), in consideration of the entry into force of Directive (EU) 2022/2464 (so-called. (iii) "Environmental, Social, Governance" (hereinafter also referred to as "ESG"), in view of the entry into force of Directive (EU) 2022/2464 (the "Corporate Sustainability Reporting Directive", hereinafter also referred to as "CSRD") and the forthcoming drafting of corporate sustainability reporting.

The Board of Statutory Auditors also took note of the ECB Questionnaire "*Management Report on Data Governance and Data Quality - 2022/2023 pilot exercise*" (administered to significant banks), related to issues of *data quality*, IT infrastructure and adherence to BCBS Principles 239. This initiative is part of a broader scope of intervention of the Supervisory Authority on the subject, carried out through the open consultation process on the document "*Guide on effective risk data aggregation and risk reporting*" as well as the inclusion of adherence to BCBS 239 principles among the *Supervisory Expectations & Priorities* (also "SEP") for the period 2023-2025, also confirmed with the 2024-2026 update.

In light of the information received and the analyses performed, as mentioned above and below, the Board of Statutory Auditors has no remarks to make on the adequacy of the administrative-accounting system and its reliability in correctly representing operating events. With reference to the accounting information contained in Banco BPM's company and consolidated financial statements as at 31



December 2023, it should be noted that an unqualified attestation has been issued by the Chief Executive Officer and the Executive in Charge pursuant to Article 81-ter of Consob's current Issuers' Regulations.

It should be noted that, in accordance with the provisions of Delegated Regulation (EU) 2019/815, Banco BPM has prepared the Annual Financial Report in the ESEF (*European Single Electronic Format*) format, which represents a combination of XHTML (for the presentation of financial reports in a human-readable format) and XBRL (*eXtensible Business Reporting Language*) markup. The information contained in the schedules of the Consolidated Financial Statements (Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement) and in the Notes to the Consolidated Financial Statements was mapped according to the "Inline XBRL" (also "iXBRL") specifications contained in the basic taxonomy issued by the European Securities and Markets Authority (hereinafter also referred to as "ESMA"). It should also be noted that, in order to comply with the disclosure requirements set forth in Directive 2004/109/EC (the "*Transparency Directive*"), the Annual Financial Report prepared by the Bank in the format described above will be made public within the terms of the law.

In addition to the aforementioned in-depth examinations carried out with the Independent Auditors, the Executive in Charge of Financial Reporting and the Risk Control Function, the Board of Statutory Auditors proceeded to verify and investigate the process for the preparation of Banco BPM's 2023 company and consolidated financial statements, as well as its compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors, also taking into account the indications formulated by the Supervisory Authorities, referring in particular to the recommendations provided by ESMA, most recently in its communication of 25 October 2023 entitled "*European common enforcement priorities for 2023 annual financial reports*".

In relation to these activities, the Board of Auditors has, inter alia:

- (i) verified the adequacy, from a methodological standpoint, of the *impairment test* process to which the balance sheet assets concerned were subjected, recommending the adoption of a prudential approach. In particular, the Board of Statutory Auditors ascertained that - already at the time of drafting the Half-Yearly Financial Report and in compliance with the ESMA and Consob indications elaborated on the subject - the valuation analyses were conducted, inter alia, through the use of a multi-scenario approach and considering, in a context of uncertainty on future macroeconomic scenarios, the risk inherent in the actual realisation of the cash flow projections assumed as the basis for determining the value in use. Due to the elements of uncertainty that characterise the current context and that may affect the valuation methodologies adopted, the Bank also conducted sensitivity analyses in order to be able to appreciate the resilience of the recoverable value determined with respect to alternative hypotheses and assumptions. All of

which is described in more detail in the Notes to the Consolidated Financial Statements, to which reference should be made for details.

It should be noted that the scenarios and multi-year projections used for this and the other main corporate estimation processes, taking into account the forecasts and objectives of the 2021-2024 Strategic Plan, first, and the 2023-2026 Strategic Plan, more recently, were (a) defined by the Scenario Council (in which the Chief Risk Officer, among others, participates the Chief Financial Officer and the heads of the Planning and Control, Administration and Financial Reporting and Audit Functions, the latter as auditor) according to a structured framework that provides for materiality triggers, (b) examined by the Audit and Risk Committee (Endoconsulting Committee) and (c) submitted to the Board of Directors for approval, as provided for by the Group Policy.

The scenarios in question were also used for the sustainability test of deferred tax assets (hereinafter also referred to as 'DTAs'), which the Board examined in detail with the Administration and Financial Statements function and which confirmed, also following specific sensitivity analyses, the recoverability by the end of the financial year 2033, as better illustrated in the Notes to the Consolidated Financial Statements. Lastly, it should be noted that the recoverability of all DTAs could be negatively impacted by changes in current tax regulations, which the Bank has assessed to be unforeseeable at present;

- (ii) examined the aforementioned macroeconomic scenarios also for the purposes of their use in the calculation of credit risk parameters with reference to credit exposures. The relative IFRS 9 impairment model, based on expected losses, in fact requires the implementation of adequate monitoring systems, aimed at identifying the existence or otherwise of a significant deterioration with respect to the date of initial recognition of the exposure. It follows that the determination of expected losses is a complex exercise that requires significant elements of judgement and estimation, on which the Board of Statutory Auditors has performed continuous supervision. In this regard, it should be noted that, as illustrated in the Notes to the Consolidated Financial Statements, during the 2023 financial year, the Group continued the process of revising and fine-tuning the models in use, with the aim of more accurately reflecting the expected losses of performing exposures, also as a result of the economic disruptions related to the situation of international political instability. This process has also provided for a series of managerial post-model adjustments - approved by the Bodies in accordance with internal regulatory provisions - in order to factor in certain valuation elements not adequately intercepted by the models in use (such as, for example, climatic and environmental risks), as well as some changes in the criteria used to assess the significant increase in credit risk (so-called "SICR" or "Significant Increase in Credit Risk"). The improvements made to the process in question, to which the Chief Risk Officer and Chief Lending Officer Areas (hereinafter also referred to as the "CRO Area" and "CLO Area")

contribute for their respective areas of competence, also took into account the indications formulated by the Supervisory Authority, in particular as a result of specific interventions, as well as the areas for improvement indicated by the Executive in Charge of Financial Reporting and the Independent Auditors. However, the Board reiterated its recommendation to reduce *post-model adjustments* and related amounts to a minimum, even though it understands the need to do so given the context of high volatility;

- (iii) noted the impact of the increase in the targets for the sale of *non-performing* loans as a result of the change in the relative management strategy, an area on which the Board reserved the right to conduct appropriate in-depth studies with the support of the competent Corporate Functions;
- (iv) ascertained the application of the newly introduced or amended accounting standards, which are compulsorily effective from 2023, finding that they are substantially in line with those followed for the purposes of preparing the financial statements as at 31 December 2022 and that they have no particular impact on Banco BPM's balance sheet and profit and loss situation, except for the additions that have become necessary as a result of the extension of the Group's scope of operations to the insurance sector, most recently with the acquisition of control of Vera Vita and BBPM Life Dac. Reference is made in particular to the application from 1 January 2023 of accounting standard IFRS 17 "Insurance Contracts", issued to replace IFRS 4, with the aim of having a single standard on insurance. On this point, reference is made to the qualitative and quantitative information set out in the Notes to the Consolidated Financial Statements in order to understand the impact on the consolidated balance sheet, financial position and profit and loss account related to the adoption of the new standard, which for the Banco BPM Group concerns both the Subsidiary Insurance Companies at the date of first-time application and the Insurance Companies considered as associates for FTA purposes. For the Subsidiaries, an illustration is provided of the main methodological choices adopted in the application of the standard in question and the related implementations, while as regards Vera Vita, which became part of the Group on 14 December 2023, the transition was carried out by the previous parent company in a manner substantially homogeneous with those adopted by the Banco BPM Group, except for the liabilities relating to Branch III (*unit-linked*) insurance contracts, in line with what is permitted by IFRS 17. For the purposes of these new rules, the Bank has taken into account the guidance issued by ESMA, including the most recent *Public Statement* mentioned above.

In this regard, it should also be noted that, in addition to the communications issued by the various Supervisory Authorities during 2023 regarding the main accounting issues for the preparation of the Financial Statements and the content of the Notes to the Financial

Statements, the provisions of Bank of Italy Circular No. 262 of 22 December 2005 "Bank Financial Statements: formats and rules for preparation" and subsequent updates were applied, including the 8th update published on 17 November 2022, which incorporated the regulatory changes of IFRS 17 "Insurance Contracts", already commented on. The Bank of Italy's communication of 14 March 2023 "Update of the provisions of Circular no. 262 "Bank financial statements: formats and rules for preparation" concerning the impact of Covid-19 and measures to support the economy", which abrogated the disclosure, provided for as from the 2021 Financial Statements, on loans assisted by Covid-19 moratoria, taking into account the expiry of the suspension period, requiring, in a free format, only the financial statement information on loans subject to public guarantees, which the Bank has reported in a dedicated paragraph in the Consolidated Notes to the Financial Statements;

- (v) monitored the process of updating the *fair value* valuation of the Bank's real estate assets, in accordance with the measurement criteria established by accounting standard IAS 40 for properties held for investment purposes or by IAS 16 - and in particular the criterion of restated value - for properties used in operations. This process, in compliance with the requirements set forth by the accounting standard IFRS 13, is supported by special appraisals issued by a leading company, with the periodicity envisaged by the relevant internal regulations. The Board of Statutory Auditors has paid particular attention to the process in question, taking into account the indications formulated by the Supervisory Authority, also as a result of a specific inspection activity, and by the Auditing Firm, urging quality, punctuality and traceability of the valuation exercises, on the assumption that it cannot be excluded that the use of different methodologies or estimation parameters as well as future real estate market price dynamics may have an economic impact on the Bank;
- (vi) examined additional balance sheet items whose valuation could be affected by risks and uncertainties, in particular recalling risks related to (a) to commitments undertaken by the Group in the context of *partnership* agreements and to guarantees granted against the sale of equity investments or other assets or groups of assets, which resulted, for the year under review, in allocations to other provisions for risks and charges, taking into account the evolution of net inflows as of 31 December 2023 and that expected as of February 2025, estimated on the basis of a multi-scenario elaboration; (b) to the activity of signalling customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A., according to the updates detailed in the Notes to the Consolidated Financial Statements, which, against complaints and disputes, both those not yet settled and the estimated potential ones, which are now residual, support the specific provision set aside to cover the aforementioned disputes;
- (vii) noted the *disclosure*, contained both in the Group's Management Report and in the

Consolidated Notes to the Financial Statements, of the aspects considered as priorities by ESMA in the aforementioned *Public Statement*, among which we recall the project initiatives aimed at complying with *the* CSRD regulations and the impact of aspects linked to climate and environmental factors as well as the current macroeconomic context;

(viii) having taken note of the updates provided on one of the main ongoing tax disputes, dating back to a matter involving the *former* Banca Popolare Italiana Soc. Coop., which is currently pending before the Court of Cassation due to the unfavorable outcome of the first two levels of judgment. In noting the determination made by the Board of Directors, supported by authoritative external professional opinions, as to the confirmation (a) of the assessment of the risk of losing the case as "possible" but not "probable" and (b) of the consequent absence of provisions in the Financial Statements as at 31 December 2023 against the potential liability connected to the outcome of the litigation in question, the Board of Statutory Auditors has verified the accurate information provided in the Notes to the Financial Statements, also in light of the most recent events, reserving the right to monitor the developments of the matter and the related and consequent decisions by the Bank. Reference should also be made to the Notes to the Consolidated Financial Statements for detailed information on the risks arising from legal or tax disputes, in respect of which the Board of Statutory Auditors has been periodically updated by the Manager in Charge of Preparation of the Financial Statements to monitor any related liabilities and costs.

6. Supervisory activities on the non-financial reporting process

The Board of Statutory Auditors, as part of the performance of the functions assigned to it, has supervised - inter alia, by periodically meeting with the Structure in charge, discussing with the Independent Auditors and examining the results of the verification activities conducted by the FACs - compliance with the provisions contained in Legislative Decree no. 254/2016 and in the "Regulations on the Disclosure of Non-Financial Information" adopted by Consob with resolution no. 20267 of 18 January 2018, in particular with reference to both the drafting process and the contents of the Consolidated Statement of Non-Financial Information (hereinafter also "DCNF") prepared by Banco BPM. The DCNF relating to the 2023 financial year was approved by the Board of Directors at its meeting of 27 February 2024 and made available to the Control Body within the terms of the law and will therefore be made public in accordance with the relevant regulations.

In this regard, having examined: (i) the attestation issued by the Independent Auditors pursuant to Article 3, paragraph 10, of Legislative Decree No. 254/2016 and (ii) the declaration made by the same in the context of the Report to the Consolidated Financial Statements pursuant to Article 4 of the Consob Regulations implementing the aforementioned Decree, both issued on 19 March 2024, the

Board of Auditors did not find any elements of non-compliance and/or violation of the reference regulations.

On this point, it should be pointed out that, with the 2023 financial year, the relevant European legislation (in particular, Delegated Regulation (EU) 2021/2178 and subsequent amendments and additions) extended the scope of data and *templates for the Bank* within the scope of the DCNF in terms of taxonomy (in accordance with the provisions of Regulation (EU) 2020/852 and subsequent amendments and additions) to represent eco-friendly economic activities. On this subject, the European Commission also intervened on 21 December 2023 with a communication on the interpretation and implementation of certain provisions precisely with regard to the reporting of economic and capital activities that are admissible and aligned with the taxonomy, in particular providing clarifications in relation to Groups, such as Banco BPM, characterised by different *business segments*. In pointing out that these provisions are outside the scope of the verification activities conducted by PwC, in accordance with the regulations in force, the Bank has taken steps to ensure compliance with them, undertaking to provide the data and *templates* requested in accordance with a release plan outlined and monitored, on the assumption that this is an initial representation in a regulatory and methodological context that is still being defined.

Regarding the Letter of Suggestions drafted by the Auditing Firm as a result of the activities carried out on the DCNF relating to the financial year 2022, the Board of Statutory Auditors verified that the recommendations indicated therein were duly taken into account by the Bank Structures involved in the drafting process of the DCNF relating to the financial year 2023.

It is worth emphasizing the centrality of ESG issues for the Bank, in line with the statutory provision on sustainable success, and for the Group, given the relative declination in the 2021-2024 Strategic Plan, first, then updated in the 2023-2026 Strategic Plan.

The Board of Statutory Auditors, which considers sustainability issues to be an essential and crucial aspect for the creation of long-term value, has had the opportunity to note - also through the active participation of the Chairman or other designated Statutory Auditor, in the most recently established Board Committee, the Sustainability Committee - the growing attention paid by the Bank to this issue. Acknowledging that the path undertaken by the Bank as early as 2021, aimed at integrating the various sustainability profiles into the Group's business strategies, has gradually strengthened, the Control Body points out that it cannot be considered complete, also in the light of recent verification activities conducted by the Audit function on the matter, regulatory developments in this regard, market opportunities and the complexity associated with the full integration of ESG factors in all the Bank's processes.

The Board of Statutory Auditors has therefore focused part of its supervisory action on these matters, also due to the increasing levels of *capacity* dedicated by the corporate Structures (directly and/or

indirectly involved) to the activities inherent to the inclusion of climate and environmental risks - and, in a broader sense, ESG issues - within the risk management process implemented by the Group.

In particular, it is worth mentioning that, with regard to the progressive implementation of the project initiatives outlined in this framework, the College has:

- (i) took note of the activities concluded and/or in the process of completion for each Worksite in which the complex "ESG Programme" is articulated, observing that a collective, conscious and proactive commitment is needed, spread from top management to all corporate levels, for a real and effective response to the expectations not only of the Supervisory Authorities but, above all, of the market and all *stakeholders*, also in view of the role, as a Bank, of "development and awareness engine" (e.g. in credit matters at SME level) of the transition activities towards a fully sustainable development;
- (ii) renewed the recommendation to promote all the necessary initiatives (including training and information) to increase the awareness of each actor in business processes, accelerating as far as possible the implementation of the actions identified in the planning phase and in particular those aimed at completing the internal regulatory *framework* and strengthening the ICS, including in terms of *disclosure*;
- (iii) pointed out the need to strengthen the Structures in charge of overseeing social, environmental and, in a broader sense, other initiatives related to *business sustainability*, in view of the relevance and pervasiveness of ESG issues in banking operations, also from an evolutionary perspective, and the attention paid to them by third parties.

To this end, the Control Body noted, as described in more detail in the Annual Financial Report and the DCNF, to which reference is made:

- the inclusion of ESG aspects in the Group's strategy as outlined in the 2021-2024 Strategic Plan and the 2023-2026 Strategic Plan;
- the identification and analytical breakdown of the various ESG risk factors as part of the periodic update of the Group's *Risk Identification* process, distinguishing between those specifically related to climate/environmental aspects and those related to *governance* and *social sustainability*;
- a strengthening of ESG expertise and strategies, also as a result of regulatory exercises and initiatives carried out in recent years, recalling in particular the so-called "Thematic Review", i.e. the process of thematically reviewing the strategies, *governance* and management *frameworks* for climate and environment-related risks carried out by the ECB to verify the level of banks' adherence to its expectations on the matter and the progress achieved by them with respect to the *self-assessments* and operational plans submitted in 2021. It should also be noted that, in the last quarter of 2023, the Group started preparatory activities for the "*Fit for 55 climate risk scenario analysis*" *data collection*, conducted by the European Banking Authority (hereinafter also referred to as the "EBA")

with the cooperation of the ECB, of the *starting points* as at 31 December 2022 of the climate data (which will take place in the first quarter of 2024);

-further strengthening of the ESG area in the *Risk Appetite Framework* through the introduction of new indicators (defined on three different levels of analysis: strategic, managerial and *early warning*), consistent with the objectives and projects defined by the Group, and also envisaging specific ones referring to individual Companies and at the level of individual *Business Lines*;

-the refinement of the articulation of credit policies already subject, in the course of 2022, to a major revision aimed at integrating a new valuation profile, the "ESG Score", as a summary measure of the information acquired concerning environmental factors with application/calibration logics differentiated according to the type of counterparty. The main implementations include, by way of example: (i) the evolution of the methodology for classifying transition risk, based more on emissions; (ii) the introduction of physical risk into the valuation process; (iii) the extension to the *Large Corporate* segment; (iv) the management of priority sectors with a high emissions risk; (v) the introduction of ESG credit guidelines;

-completion of the activities useful for the integration of the ESG *disclosure under Pillar III* with the Public Disclosure as at 31 December 2023, to be published at the same time as the Annual Report;

-the approval by the Board of Directors, on 7 November 2023, of the new "*Green, Social & Sustainability Bonds Framework*" (hereinafter also referred to as the "*Framework*"), which updated the previous one, adopted in July 2021, to support the definition of bond issues in line with the Bank's sustainability objectives. The *Framework* has been adapted to best market practices, covering a broader range of assets and including alignment to the European taxonomy for certain eligible assets, as further detailed in the Group's Management Report. It will be further strengthened in the course of 2024 due to a plan of initiatives, defined also as a result of a specific intervention carried out by the Audit function;

-the correlation between variable staff remuneration and ESG factors, as a key element of the Remuneration Policy adopted by the Bank;

-the integration of ESG factors in the Bank's various areas of operation, including but not limited to: (i) the attention recognised in the selection and distribution of investment products, including insurance products, in line with the provisions of Article 8 of Regulation (EU) 2019/2088 on sustainability disclosures in the financial services sector, as well as in the collection of customers' sustainability preferences by means of a special questionnaire and in the classification of sustainable products, defining a methodology and related model calibration processes; (ii) the offer of financing products aimed at supporting both individuals and businesses in the transition towards a sustainable economy, favouring energy transformation and investments in renewable

energy plants, including through specialised support from *Specialised Lending* and *Project Finance* as well as dedicated training sessions;

-the evolutionary interventions implemented at the level of: (i) *governance*, with the adoption of the 'Guidelines on Respect for and Protection of Human Rights', the updating of the 'Guidelines on Operations in the Armaments Materials and Systems Sector' and the 'Guidelines on the Management of Environmental, Energy and Climate Change Issues'; (ii) training initiatives addressed to all employees or specific *targets* in the technical, commercial and managerial spheres, aimed at disseminating the criteria of sustainable success, also in terms of inclusiveness (iii) institutional, with the choice to join, in addition to the UN *Global Compact* initiative and the *Task Force on Climate-Related Financial Disclosures*, in March 2023, the *Net-Zero Banking Alliance*, the initiative promoted by the United Nations to accelerate the sustainable transition of the banking system through the commitment of participants to align their credit and investment portfolios to the achievement of net-zero emissions by 2050, in line with the *targets* set by the Paris Climate Agreement.

Lastly, it is worth emphasizing that this evolutionary path is part of a constantly updated legislative and regulatory framework, which the Bank will have to take care of and govern over the next few years and in respect of which it will be necessary to maintain constant monitoring for effective integration into corporate strategies.

In this context, we recall the entry into force (5 January 2023) of the CSRD, to be applied to financial, larger non-financial and listed companies, providing for specific sustainability *standards* (*European Sustainability Reporting Standards* or 'ESRS', adopted by the European Commission on the proposal of the *European Financial Reporting Advisory Group* or 'EFRAG'). In this regard, it is worth noting that the aforementioned regulations must be transposed into national law by 6 July 2024, providing that the Directors' Report on the Group's performance must include a special section that provides the information necessary for understanding the Group's impact on sustainability issues and how sustainability issues affect the Group's performance, results and situation.

Although the 2022-2023 European Delegation Law (in which the specific delegation for the transposition of the CSRD is included) still has to complete the ritual *process of promulgation*, the outline of the delegated decree, drafted by the Treasury Department and the State General Accounting Office, has been placed for consultation on the *website* of the Ministry of Economy and Finance, following an initial discussion with the technical structures of the Authorities concerned.

It is also worth mentioning the proposed *Corporate Sustainability Due Diligence Directive*, the text of which, approved in December 2023, is still under consideration by the European Council, which should introduce for a wide range of companies the obligation to identify, prevent and mitigate the negative

impacts of corporate activity on human rights and the environment, as well as to prepare a transition plan consistent with the 2015 Paris Agreement.

In view of the significant impact of the forthcoming sustainability reporting and, more generally, of the continuous evolution of the regulations on the subject, the Board of Statutory Auditors has recommended that suitable resources and means be dedicated to the compliance process, given the complexity of the activities to be carried out in order to meet the requirements of the new regulations and in order to ensure an appropriate structuring of processes and safeguards to guarantee the quality of data and a suitable and robust supporting Control System. On this point, reference is also made to what the Bank has set out for alignment with the CSRD in the Group Management Report and in the DCNF.

Finally, it should be noted that, at the date of this Report, the *on-site* phase of an ECB inspection on *climate and environmental risks* had been completed, the results of which may contribute to further strengthening the integration of this type of risk into the *framework* defined for the Group.

7. Supervision of the adequacy of the internal control and risk management system

It should be noted in the following preliminarily that the Internal Control and Risk Management System in the Banco BPM Group consists of the set of rules, functions, structures, resources, processes and procedures that, in order to contribute to the sustainable success of the Bank, aim to ensure, in compliance with sound and prudent management, the achievement of the following goals:

- verification of the implementation of company strategies and policies;
- containment of risk within the limits indicated in the framework for determining the Group's risk appetite (*Risk Appetite Framework*, hereinafter also 'RAF');
- preservation of asset value and protection against losses;
- effectiveness and efficiency of business processes;
- reliability and security of company information and IT procedures;
- prevention of risks to which the Group is exposed, even unintentionally, in unlawful activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- operational and regulatory compliance with the law, supervisory regulations and internal policies, plans, regulations and procedures.

For the Group, the ICS plays a central and strategic role in the corporate organisation and represents a fundamental element of knowledge for the Corporate Bodies so as to guarantee full awareness and responsibility for the effective control of corporate risks and their interrelationships. In addition, it guides strategic lines, corporate policies and the organizational structure and oversees the functionality of management systems and compliance with prudential supervisory institutions, fostering the dissemination of a correct risk culture, which is today the subject of particular attention by the

Corporate Bodies, also at the instigation of the Supervisory Authority, legality and corporate values.

In this context, the Group's ICS is articulated through:

- Bodies and Control Functions, involving, each within their respective spheres of competence, the Board of Directors, the Endoconsiliar Committees, the Chief Executive Officer, the Chief Risk Officer, the Board of Statutory Auditors, as well as the Corporate and Control Functions and the Management Committees with specific tasks in this respect;
- information flows and coordination arrangements between the actors involved;
- Group *governance* mechanisms.

The Board of Directors of Banco BPM has sole responsibility for setting up the FACs, determining their duties, responsibilities as well as the procedures for their coordination and collaboration, and the information flows between these Functions and the Corporate Bodies. It is up to the same Board to assess, at least once a year, the adequacy, effectiveness and actual functioning of the ICS.

The Managing Director of Banco BPM has been appointed by the Board of Directors as the "Director in charge of the internal control and risk management system" for the current term of office, in continuity with the previous ones and in compliance with the provisions of the *Corporate Governance Code* (to which the Bank has adhered), reference is made to the "Report on Corporate Governance and Ownership Structures" for a detailed description of the ICS, specifying that from a technical-operational point of view, the latter contemplates, in addition to the line controls carried out by the operating structures and/or incorporated in the IT procedures (first-level controls), the second-level FACs (identified, also pursuant to Bank of Italy Circular no. 285/2013, in: Risk, Internal Validation, Compliance, Anti-Money Laundering and, with reference to the Group's Insurance Companies, Actuarial) and third level (Audit). The second- and third-level FACs are separate from each other and hierarchically independent of the Corporate Functions performing the activities subject to the controls. The relevant managers are appointed on the proposal of the Audit and Risk Committee, subject to the opinion of the Board of Statutory Auditors.

It is also worth mentioning the constant liaison between the FACs implemented within the Group Internal Control System Coordination Committee (the minutes of which a Statutory Auditor is delegated to examine, in order to report the evidence of interest to the Board), within which the planning of activities, the results that emerge, the assessment of residual risks and in general the evaluation of the adequacy of the ICS are shared. During the course of the financial year, the refinements introduced in recent years were consolidated, in particular due to the change in the Group's perimeter, as well as developments in methodology and supporting applications. In this last regard, the Board of Auditors noted how the Bank, in line with market *best practices*, has marked an important evolutionary path, aimed at investing increasingly in predictive risk analysis tools and expert personnel, with the aim of developing a dynamic, flexible and timely control and monitoring system, capable not only of

intercepting but also of preventing risks in an increasingly challenging and changing context.

In the light of the above, the Control Body acknowledges that it has carried out a periodic and continuous exchange of relevant information with the aforesaid FACs during the reporting period, noting that the aforesaid Control Functions have fulfilled their information obligations towards the Board of Auditors as outlined in the relevant external regulations, as well as in specific internal regulations governing information flows. In order to ensure a continuous and timely flow of information with the Audit function, the Head is permanently invited to the meetings of the Board.

In the course of its activities, more specifically, the Control Body examined, by way of example, but not limited to

- the integrated Tableau de Bord, which reports on a quarterly basis at Group level on the *gaps* identified by the FACs (including the Manager in Charge and the Tax Control Manager), the Audit Firm and the Supervisory Authorities, together with a summary report on the activities of the period for each FAC;
- Annual reports of the activities carried out by FACs, related planning and further periodic reporting focusing on controls and monitoring for specific areas of intervention;
- *reports* on individual audits carried out by FACs, based on the criteria and/or materiality assessments set out in the Integrated Internal Control System Regulation (Information Flow Annex);
- the Annual Reports on specific areas of intervention of each FAC.

In recalling, insofar as relevant, also in compliance with the Supervisory Regulations, the contents of the paragraph on the financial reporting process, with reference to the individual FACs (whose activities, in general terms, also extend to the Group Companies that have *outsourced* the service, while they are carried out in coordination with the corresponding Control Functions where already present at the Subsidiaries), the Board of Statutory Auditors observes, in particular, the following:

- **Compliance Function**: given that the Head of the Compliance Function also acts as Data Protection Officer (hereinafter also referred to as 'DPO') at the Group level and that there are three Specialised Units (for the areas of Taxation, Labour and Social Security Regulations and Health and Safety in the Workplace), the Function was engaged, in addition to *ex post* verification activities, in constant *ex ante* verification activities (on regulations and commercial proposals), consultancy (also for the conduct of specific *gap analysis*) and in a specific *effort* due to the need to support various corporate projects. The Board of Auditors has, moreover, repeatedly recognised the importance of the *ex ante* activities performed by the Function, which make it possible to address in advance the work and projects (as well as documents and products) on compliance aspects, activities that have also been enhanced over time from a methodological point of view, since they are integrated in the *Compliance Risk Assessment for the purposes of assessing the safeguards*.



The *Compliance Plan 2023* - as amended as a result of the mid-year review - was completed and the Function expressed an opinion of substantial adequacy on the ICS and its ability to mitigate the risk of regulatory non-compliance.

During 2023, the Compliance Function also conducted a monitoring of complaints, both for the purpose of timely detection of any abnormal business practices and as a useful source of information to initiate *risk-based* audits.

In specifying that the corporate scope of the Function (including the DPO) is represented by Banco BPM and the Subsidiaries for which the activity has been outsourced, it should be noted that in the course of 2023 the methodological and operational model was progressively extended to the Compliance Function of Banco BPM Vita S.p.A. (hereinafter also "Banco BPM Vita", also in its capacity as Parent Company of the Insurance Group), with the aim of ensuring an integrated control model. In addition to the implementation of coordination mechanisms between the two Functions through specific information flows formalized in internal regulations and in a specific collaboration protocol, in 2023 an integrated *Rulemap* model was defined to define the regulatory taxonomy applicable to the aforesaid Subsidiary based on that in use at Banco BPM. This activity allowed the complete integration of the processes inherent to the risks of non-compliance with regulations to which Banco BPM Vita is exposed.

During the year, it also developed several initiatives of specific interest, such as: (i) the *Compliance Universe* project, aimed at the continuous strengthening of its methodological and operational model, within the scope of which, in the second quarter of 2023, the first exercise was conducted to assess the residual risk of non-compliance, to which the Companies that recently joined the Group operating in the insurance sector are exposed on the basis of their level of knowledge of the regulatory areas they oversee, and, in the fourth quarter of 2023, the "*Insurance*" project was launched aimed at defining the "*Insurance* risk library", as well as the gradual incorporation in the dedicated application of information flows useful for automating the "*Insurance*" inherent risk assessment model; (ii) the "Remote Indicators" project for the automation of *Key Risk Indicator* (hereinafter also referred to as "KRI") flows monitored at the same time as their review, in order to verify their completeness and adequacy as well as the degree of coverage of regulatory areas with respect to the control perimeter.

The Function also collaborated in the provision of training courses dedicated to personnel, with the aim of disseminating and promoting within the Group a solid and robust culture of risk control, an adequate knowledge of regulations and related responsibilities, as well as contributing to the acquisition of an increasingly full awareness of tools and procedures to support compliance.

With reference to the specific activities of the DPO (duly reported in the Function's Annual Report), the Board took note of them, noting that none of the *data breaches* that occurred in 2023 were characterised by the presence of the mandatory reporting requirements.

The Board of Auditors, in the light of the above and of the feedback received during the periodic meetings with the Head, was able to verify the adequacy of the current qualitative and quantitative structure of the Compliance Function with respect to the activities it is called upon to perform, emphasizing, however, the importance of ensuring attention to the continuous strengthening of the quality of the resources assigned to it;

- **Anti-Money Laundering** Function (hereinafter also referred to as "AML"): it should first be noted that the AML Function's corporate scope of reference is represented by Banco BPM and the Subsidiaries for which the activity has been outsourced, as well as those with which a collaboration agreement is in place (Banca Aletti & C. (Suisse) S.A. - hereinafter also "Banca Aletti Suisse" - and Banco BPM Vita, also in its capacity as the Insurance Group Parent Company). (Suisse) S.A. - hereinafter also referred to as "Banca Aletti Suisse" - and Banco BPM Vita, also in its capacity as Parent Company of the Insurance Group) which regulates the obligation to prepare and transmit *ad hoc* information flows to the Banco BPM Function, as well as the procedures for the mutual exchange of information on reports of suspicious transactions relating to common customers. This articulation makes it possible to ensure an integrated control model.

The activities carried out in 2023 by the AML Function, from 2022 placed under direct reporting to the Chief Executive Officer, concerned, inter alia: (i) with reference to the international sanctioning system, the application aspects related to (a) *the* adoption of measures by the competent Authorities also in response to the changed socio-economic and geopolitical context, influenced by the conflict still in progress between Russia and Ukraine, as well as (b) the consolidation of the safeguards, including the assignment to the AML Function of the role and responsibilities of *Sanction Compliance Officer*, on the front of relations with counterparties and countries subject to restrictive measures and (c) the intensification of information flows to the Corporate Bodies; (ii) the continuous exchange of information with the other FACs both through the contribution provided in the preparation of the integrated Tableau de Bord, and in terms of streamlining the operational synergies arising from the activities falling within their respective spheres of competence, as well as in relation to the outcome of specific verification activities (iii) the profitable dialogue with the Bank 's Territorial Departments and with the respective Control Structures, made increasingly incisive also thanks to the Control Coordination meetings, initiatives aimed at continuously refining a model of widespread knowledge and awareness of the risks associated with the use of the financial system for the purposes of money laundering or terrorist financing (iv) *the* various training initiatives, many of which are managed directly by the Function,

aimed at the Commercial Network as well as at Headquarters resources, and the specific sessions addressed to the Corporate Bodies (*board induction*), together with the specialised training courses used by the Function's resources, with highly qualified external teaching; (v) ordinary activities, including monitoring on due diligence and customer profiling, data retention, the process of identifying and reporting suspicious transactions, international financial sanctions against terrorism (vi) the activity of validating internal regulations, analysing the relevant legislative and regulatory developments (recalling in particular the *gap analysis* on the "Implementing Provisions on the Organisation, Procedures and Internal Controls to Prevent the Use of Intermediaries for the Purposes of Money Laundering and Terrorist Financing" of 26 March 2019, as updated by the relevant Provision issued by the Bank of Italy on 1 August 2023, transposed into the Group Regulation on the subject in November 2023), assistance, advice and issue of opinions in the area of the credit process (vii) the project-based initiatives launched by the Function with the aim of optimising the AML *framework* with an approach that integrates the requirements of compliance, technological innovation and efficiency of the AML model. In the course of 2023, planning continued for the finalisation of the replacement of the "Gianos 3D" application, with the release of the new customer risk profiling system with the Gianos 4D GPR tool, as well as further important strategic project initiatives, including the application of *machine learning* and artificial intelligence logics on the transactional monitoring system. In this regard, the Board of Auditors has monitored the implementation of the new Gianos platform, given its significance for the further strengthening of the anti-money laundering control measures and processes, also in relation to the management of Suspicious Transaction Reports.

In this regard, in recalling the findings of the recent inspections conducted by the Bank of Italy (detailed in greater detail in the Group's Report on Operations), the Board of Statutory Auditors acknowledges that it has monitored the implementation of the respective corrective action plans defined, reserving the right to ascertain, as part of the periodic report submitted by the Function, the production of the application identified for a specific action aimed at strengthening the supervision of operations in the area of beneficial ownership. In general terms, the Control Body urged the AML Function to take from the evidence emerging from the aforesaid inspections, as well as from direct verification activities or those conducted by other FACs, useful elements for exploring further and increasingly effective initiatives to refine the AML model.

The AML 2023 Plan - as amended as a result of the mid-year review - was completed, ongoing monitoring continued (inter alia, noting significant recoveries of inventories, especially the oldest ones, as a result of close cooperation with the Network Control Structures) and the Function was able to express an opinion of substantial adequacy on the ICS and its ability to mitigate the risk of money laundering and terrorist financing.

This is confirmed by the results of the self-assessment exercise conducted in this regard, which was further refined during the year, in compliance with the relevant Supervisory Provisions and aligned with the most recent EBA Guidelines. In this regard, it should be noted that the results of the self-assessment, both on Banco BPM (considering the Institutional, *Corporate* and *Retail* lines of *business*) and at Group level (according to a perimeter that for the year under review does not include Banco BPM Invest SGR, Vera Vita and BBPM Life Dac), confirm an overall "low" residual risk profile, specifying that two specific *risk assessment* exercises were also conducted in relation to insurance distribution (on the Banco BPM and Banca Aletti S.p.A. perimeter, hereinafter also referred to as "Banca Aletti"), as required by IVASS Provision No. 111 of 13 July 2021, and *compliance with the sanction programme* (also "OFAC", on the Banco BPM, Banca Aletti and Banca Akros S.p.A. perimeter, hereinafter also referred to as "Banca Akros"), which concluded with an inherent risk assessment of "Medium High", similarly to the findings of last year, and "Medium Low", respectively.

In view of the consolidation of the organizational structure of the Anti-Money Laundering Function over the past few years, the Board was able to ascertain the provision of an adequate *effort*, while reaffirming the importance of continuing to upgrade the skills of the relevant personnel, which has in any case already been planned;

- **Risk Management and Control Function** (excluding the Internal Validation Function): it should be noted in advance that: (i) effective 1 January 2023, Banco BPM's Board of Directors resolved to set up a CRO, reporting directly to the Chief Executive Officer, in order to strengthen the area that deals with risk control in view of the expansion of the activities assigned/to be assigned to it, particularly in the area of credit risk, also in response to the expectations of the Supervisory Authority (ii) *as a result of* the aforesaid organizational change, the CRO and the Functions supporting it are responsible for overseeing, at Group level and in an integrated manner, the processes of risk governance (through the Enterprise Risk Management function, hereinafter also referred to as "ERM"), risk development and measurement (through the Risk Models and Methodologies function, hereinafter also referred to as "RMM") and the validation process (through the Internal Validation function, which is the subject of separate discussion) of internal risk measurement models. With reference to the activities carried out by Subsidiaries operating in the insurance sector, there is a risk control function that is functionally dependent on the Parent Company's CRO and the Functions that support it. In 2023, the Bank also strengthened the organizational structure of the ERM and RMM Functions, identifying additional units reporting to the latter, in accordance with the areas of activity of each and in implementation of the ECB's indications as well as the most recent supervisory provisions on risk management.

During 2023, the Board of Statutory Auditors reviewed, among other things, the disclosures relating to the definition of the RAF and the related quarterly monitoring *report* (*Risk Appetite Monitoring*), as well as the Model and Public Disclosure (*Pillar III*).

With regard to further reporting containing information on the ICS, in 2023, the Board of Statutory Auditors, following its review of the assessments of the adequacy of the Group's capital adequacy framework (ICAAP) and the overall functionality of the internal process and liquidity risk management system (ILAAP), relating to the 2022 financial year, found for both the ICAAP and ILAAP processes that the main indications previously received from the ECB or the FACs had been considered and/or included in appropriate action plans and that the relevant regulatory provisions had been duly complied with by the Bank.

With regard to the 2023 financial year, the Board of Statutory Auditors acknowledged, at the date of this Report, the *framework* defined for the two processes, the reports on which will be prepared within the deadlines envisaged by the regulations in force, noting in particular that the competent Functions took into consideration the remedial actions outlined for the resolution of *findings* that emerged as a result of a specific inspection activity conducted by the ECB, as well as defined the methods for integrating *climate* factors into the Bank's risks.

With particular reference to the operation of the RMM function, during 2023:

- a large part of the *capacity* was used for evolutionary activities and adjustments to internal models, planned in the context of specific projects, such as (i) the 'NAA-2021' project relating to material changes to internal models for calculating credit risk parameters; (ii) the 'NAA-2022' project dedicated to the implementation of the *Slotting Criteria* approach for assessing the riskiness of specialised loans; (iii) the 'NAA-2024' project aimed at presenting a *pre-application package* inherent to the new models for estimating and calibrating the conversion factor;
- the activities useful for the execution of regulatory exercises were carried out, such as the so-called "*Joint Liquidity Exercise*" in the area of liquidity risk and *funding*, for the first time conducted jointly by the ECB and the *Single Resolution Board*, with a positive outcome in terms of punctuality, completeness and correctness of the information provided;
- Also in the regulatory area, the function was engaged in: (i) supporting the ECB's inspection teams in *on-site* verification activities on the subject of "*Internal Governance and Risk Management*" and on the subject of "*Climate and environmental risks*", as well as the Bank of Italy in relation to the use of the IRB system; (ii) in the implementation of remedial actions necessary to comply with the requests formulated by the Supervisory Authority as a result of inspection activities or exercises (such as, for example, the "*2023 EU-wide stress test*" and the *climate stress test*, still in progress, called "*Fit for 55*"); (iii) in discussions with the ECB regarding the Group reorganisation project involving Banca Akros;

- work continued on implementing the operational plans defined to meet the ECB's expectations for integrating climate and environmental risks into the risk and credit management *framework*.

The Control Body monitored all the aforementioned activities to improve the models developed for regulatory purposes, aimed at ensuring their functionality and timely application within the Group, also appreciating the continuation of *model inventory* and *model risk management* activities also with reference to the models used for management purposes.

As far as the ERM function is concerned:

- completed the main planned activities that, with a view to continual improvement, allowed for the reinforcement of risk control and containment measures. Significant improvements were made in the risk control *framework*, particularly for credit risk, and in data quality control;
- oversaw the integration, guidance, control and risk management activities for the Subsidiaries operating in the insurance sector, through the definition of processes and tools, such as the *Risk Identification* and *Risk Map*, preparatory to the preparation of the RAF 2024, already aligned to Banco BPM's RAF as of August 2022 in terms of guidance and control;
- oversaw the definition of the annual Insurance Plan and the management of insurance policy renewals;
- carried out the preparatory activities for the resolution of the requirements specified by the ECB as a result of inspection activities, such as in connection with the SREP, *the Thematic Review on climate and environmental risks* or the *capital adequacy* inspection;
- provided support to the ECB inspection *teams* in their *on-site* audit activities on '*Internal Governance and Risk Management*' and on '*Climate and environmental risks*';
- was particularly involved in activities related to regulatory *Stress Tests*, including, in addition to those mentioned above, the first '*Cyber Resilience Stress Test*', as well as in the ESG Programme.

With reference to the ERM function, we highlight the establishment in 2023 of the ICT & Security Risk organizational unit as the structure responsible, in line with the provisions of Bank of Italy Circular No. 285/2013, for the monitoring and control of ICT (also "*Information and Communication Technology*") and security risks, as well as the verification of the adherence of ICT operations to the risk management system, risk profiles of growing importance for corporate strategy.

The particular macroeconomic and, more recently, geopolitical context that the Bank has had to face in recent years has, in the opinion of the Board of Statutory Auditors, made the initiatives and activities of forecasting and continuous monitoring of the dynamics of capital and liquidity, economic and capital, conducted and developed by the CRO Area Functions, of considerable importance, especially from a strategic point of view;

- **Internal Validation Unit** (hereinafter also referred to as "IVU"): reporting directly to the CRO, IVU's independence and autonomy are ensured both by its independence from the Structures in charge of model development and risk integration and by its direct access to the Corporate Bodies. From the standpoint of quantitative sizing (given the *skills* related to its *mission*, which already ensure a qualitatively high level of professionalism), the Structure is deemed adequate in relation to the planned activities (as ascertained by the Board of Statutory Auditors, also through direct contact with the Manager), in the awareness: (i) of the need for appropriate prioritisation of activities, (ii) of the need for continuous *recruiting with the* cooperation of the Human Resources Function, and (iii) of the possibility of calling on the support of external specialist consultants on specific activities and analyses.

Considering that the scope of IVU's activities includes all the models used within the Group for the measurement of risks for both regulatory and management purposes and with reference to the entire perimeter of the Group Companies, with the exception of the insurance segment, following the audits conducted in 2023, according to the approved Plan of Activities - as amended following the mid-year review - and overall completed, the Department expressed an opinion of substantial adequacy of the internal modelling, despite the presence of some required evolutionary interventions and addressed through the provision of appropriate remedial actions. In this regard, in addition to carrying out recurring analysis and *backtesting* activities, IVU carried out specific checks with reference to (i) the modelling used to quantify Pillar I risks, with particular regard to credit risk (with the finalisation of the controls necessary to send the request to the ECB regarding the *Slotting Criteria* methodology to be used on the Specialised Loans portfolio and, subsequently, providing support during the inspections conducted on the subject by the ECB in 2023) and market risk (with the completion of the verification activities relating to the partial demerger of Banca Akros and the application of the validated model to the *Banking Book* perimeter with reference to exchange rate risk); (ii) the models used for management purposes, especially in the area of credit risk (with the performance of activities to analyse the methodology applied by the bank for *staging allocation* under IFRS 9 and the verification of the automated *gone* model), interest rate (carrying out in-depth analyses of a modelling nature and assessing developments to take account of the new EBA Guidelines) and liquidity. In the area of credit risk, IVU carried out specific checks on the methodologies adopted by the Bank to identify ESG risks (transition risk, physical risk and environmental risk).

The Function also carried out verification activities on the ICAAP and ILAAP *packages* during the first quarter of 2023, with particular reference to the methodologies used to quantify risks, expressing an opinion of substantial consistency. In the context of MiFID II regulations, IVU coordinated the activities for the preparation of the annual Validation Report on Algorithmic

Trading to be sent to Consob, after assessment by the Audit and Compliance Functions. The analyses showed that the existing controls were consistent.

All the indications and requests for action drawn up by the Function were taken into account by the Structures in charge of implementing corrective actions and are carefully monitored by the same, although an increase in the overall number of open issues was noted during the year, mainly attributable to the credit risk area as a result of the work performed on the models, also at the request of the Supervisory Authority.

The Board of Statutory Auditors, in acknowledging the specific importance of the checks and analyses performed by the IVU Function (often impacted by the need to carry out targeted activities, also unplanned, aimed at verifying the adequacy of specific risk assessment processes, in the light of requests made by the Surveillance Authority, the Corporate Bodies or by the Internal Structures themselves in the context of special working groups), reminded the Development and *Business* Functions that they must always ensure that the IVU Function has an adequate timeframe in which to perform the timely checks expected in relation, in particular, to model developments;

- **Audit Function**: reporting directly to the Board of Directors, the Audit Function covers the entire perimeter of Group Companies according to the *governance* model that has centralised on Banco BPM the internal audit activities for all Subsidiaries, with the exception of Banca Aletti Suisse and Banco BPM Vita (with its Subsidiaries), which have autonomous internal audit functions that are in any case integrated under the direction, control and coordination of the Parent Company's function.

The Audit Function verifies the regular performance of operations and the evolution of risks, bringing possible improvements to the risk management process to the attention of the competent bodies. In addition to developing an *audit* plan defined through a *risk-based* and *process-driven* approach, focused on identifying the main risk factors (and emerging risks) to which the Group is or may be exposed, it takes into consideration significant organizational changes, major corporate operations, inspections of the Commercial Network and investigations of operational irregularities and external frauds, and in 2023 also assessed the overall resilience of the Group's Integrated Internal Control System on an ongoing basis.

The Function has operated with adequate resources in terms of quantitative sizing, duly supervised with the support of the Human Resources Function and with suitable replacement processes to cope with the physiological *turnover*. The Board of Statutory Auditors observes, however, that, from a prospective perspective, specific needs may arise with respect to the size of the Function due to: (i) the finalisation of the multi-year plan of activities and (ii) ensure, from a qualitative standpoint, intervention in specific areas (e.g., credit processes), also in relation to requests by the Supervisory Authority.

The Audit Function carried out the activities defined in the 2023 Plan - as amended following the mid-year review - analysing the governance, control and risk management, commercial, finance, credit, support, ICT and insurance processes and performing inspections on the Network, also *on site*. At the same time, it continued the evolutionary activities of the System of Remote Controls, in the assumption, shared by the Board, that the implementation of advanced control *frameworks*, with leverage on new technologies and instruments for data analysis/processing, is at the basis of its increasing effectiveness and predictive capacity. This context also includes the activation, at the end of 2022, of the GRC (*Governance, Risk & Compliance*) procedure, an integrated application platform that guarantees an industrial approach to the collection and sharing of the information assets of each FAC and the automation of various reports, including in particular the integrated Tableau de Bord.

The Audit Function also oversees the Internal Violation Reporting System (hereinafter also referred to as "SISV", also known as "*whistleblowing*"), in relation to which the safeguards to guarantee anonymity have been consolidated and the internal reference regulations have been updated, the latter in order to incorporate the new provisions introduced by Legislative Decree no. 24 of 10 March 2023 and, in particular, third party reports, at the same time extending the system to Subsidiaries operating in the insurance sector. In this regard, the Board of Statutory Auditors, also taking into account the insignificant number of reports received in recent years, renewed its recommendation to implement specific cognitive and training measures aimed at encouraging their use as an important tool for preventing unlawful conduct.

This was highlighted in a context of audits and in-depth analyses carried out on an ongoing basis on *core* processes in a *risk-based* logic, the year 2023 was still characterised by a particular commitment on the part of the Audit Function in the performance of activities aimed at ascertaining the effectiveness of the initiatives adopted by the Group to implement the measures set forth in the *Remedial Action Plans* gradually approved by the Board of Directors as a result of inspection processes (in terms of certifying corrective actions and conducting targeted audits envisaged in the Plans themselves), as well as to fulfil specific requests formulated by the Surveillance Authority within the scope of or as a result of the same processes. The Board of Statutory Auditors believes that even these activities obviously provide an opportunity to investigate the soundness of the Bank's processes and, consequently, to appropriately direct any further investigations.

The Board was also able to appreciate: (i) the coordination activities of the FACs carried out by the Function, also in relation to the *gap* assessment methodology and the promotion of greater integration and homogenisation of the reports of the same Functions, as well as the identification of areas of possible synergy with the other FACs, making it possible to make activities more efficient with respect to the available resources, without prejudice to the respect of the independence of

the Functions themselves (ii) the commitment made not only in the aforesaid certification activities connected with the post-inspection Remedial Plans (including the activities aimed at issuing the *assurances* on the Plans themselves before approval by the Board of Directors) but also in the monitoring ensured on an ongoing basis of the resolution of the critical issues raised by the Surveillance Body (and the related *reporting* to the Bodies).

As the recipient of periodic reports on the activities carried out and of a significant number of *audit reports*, the Control Body was able to note the constant attention maintained by the Audit Function (i) on credit processes, also (in addition to what has already been reported) with reference to the evolutions of the internal modelling and projects relating to the adjustment to regulatory provisions and to the strengthening of the Control System for specific operational areas (such as, for example, structured finance activities and the granting and monitoring processes), noting that the verification activities were often carried out through *credit file reviews* and as part of the assessments necessary for the certification of the closure of remedial actions (ii) in the Finance and Markets area, also in relation to the management of structuring, issuance and monitoring activities of *green, social & sustainability bonds* for institutional investors, as well as operations in financial instruments for professional customers; (iii) in the *Governance* area, especially on primary processes for the Bank, such as ICAAP/ILAAP and RAF, as well as on specific profiles, such as the process of monitoring mortgage guarantees, the management of outsourcing, the valuation of real estate assets and the processes of ICT and security risk control.

With specific reference to the Commercial Network, the Board - in addition to participating through a designated Auditor in certain *exit meetings*, organised at the conclusion of the audits carried out - periodically examined the results of both inspections and assessments, the latter aimed at investigating anomalous conduct (including fraudulent conduct) of employees. In this regard, a situation of sufficient operational compliance emerged, although there were areas for improvement, especially in the area of anti-money laundering, for which there was active cooperation with the relevant Function and specific training was carried out.

In recalling that the model adopted by the Bank provides for second-tier first-tier controls rooted in the Network Structures, articulated in the figures of the Control Referents at the operating units and the Control Structures at the Territorial Departments, also in the light of the results of the checks and inspections conducted by the Audit Function, the Board of Statutory Auditors renewed its recommendation to pay specific attention to the substantiality of the controls performed at first level. In this context, the Board of Auditors considers it appropriate to emphasise that an adequate dissemination - also by the Bank's top management - of the risk culture remains fundamental, particularly on the Commercial Network, in a logic of continuous strengthening of the controls that can benefit the *business*, promoting the adoption of compliant conduct also on

the basis of instruments that should have a deterrent function (such as, for example, the SISV). The Board of Statutory Auditors also acknowledges that it has been able to appreciate the awareness-raising initiatives undertaken by the Commercial Area with the involvement of a wide audience of network operators in order to disseminate a correct approach to operations, in compliance with rules, procedures and controls that comply with internal and external regulations and with corporate strategies.

With regard to the findings of behavioural anomalies, the Board noted that, when the conditions were met, appropriate disciplinary measures were taken by the Bank, receiving periodic updates on the subject from the Human Resources Function.

As a result of the overall activities carried out during 2023 and the *follow-ups* conducted on those completed in previous periods, the Audit Function concluded - for its own area of responsibility - that no elements emerged that could suggest that the ICS was not, on the whole, substantially adequate to the Group's needs. Although no significant irregularities have emerged, nor have "high" urgency remedial actions been requested, the Audit Function has nevertheless noted the presence of certain *gaps* (the resolution of which is monitored on an ongoing basis, as well as through *follow up* actions), the timely resolution of which is necessary in order to properly mitigate the risks to which the Group may be exposed.

In order to provide a complete representation of the ICS, it should be noted that, with regard to the tax variable, the Group has outlined its objectives, principles (of integrity and transparency) and risk appetite in specific internal regulations. In this regard, in order to achieve the defined objectives and ensure tax management aligned with its risk appetite, the Group is committed to promoting and maintaining, as an integral part of its ICS, an adequate control system to monitor tax risk through the design and implementation of an effective *Tax Control Framework* (hereinafter also 'TCF'). The TCF is understood as the set of tools, organizational structures, standards and corporate rules aimed at allowing, through an adequate process of identification, measurement, management and monitoring of the main tax risks, the Group to be managed in such a way as to minimise the risk of operating in violation of tax regulations, or in contrast with the principles or purposes of the law. The TCF applies to Banco BPM and the Subsidiaries that have adopted it (Banca Aletti, Banca Akros and Aletti Fiduciaria S.p.A.).

The Bank has therefore identified a *Tax Risk Manager* who coordinates activities for the management of tax risk according to a *Risk & Control Matrix*, carrying out *ex ante* and *ex post* audits (preparing an Annual Plan), the results of which are reported, also contributing to the *gap* monitoring system (integrated Tableau de Bord) and liaising with the Compliance Function with a view to ongoing *tax risk assessment*.

For 2023, the Board acknowledges that all the audits planned under the TCF and the cooperation protocol with the Compliance Function were completed, showing a situation of substantial adequacy for the processes investigated.

In view of the changes in the Group's structure, the Board of Statutory Auditors recommended extending the scope of the TCF to the other Subsidiaries, in order to ensure an integrated management of tax risk as well.

As part of its broader supervision of the ICS, the Board also examined the "Summary Assessment of the Banco BPM Group's Internal Control System", prepared by the Audit Function with reference to the first and second halves of 2023, in order to ascertain the completeness, adequacy, functionality and reliability of the various components that characterise this System, taking into account the assessments expressed during the year as well as those formulated by the other FACs and the Control Functions of the Subsidiaries (in perimeter) that operate in the insurance sector. In the two Reports for the year under review, the Audit Function acknowledges that the activities carried out by the FACs in the reporting period and the *follow up* on those carried out in previous periods did not reveal any elements that might suggest that the ICS is not, on the whole, substantially adequate to the Group's needs. Acknowledging the overall judgement, the Board of Statutory Auditors agreed with the actions to intervene in the areas for improvement identified, which are also traceable to the results of the audits conducted and brought to its attention during the year. With more general reference to the management of remedial actions, there was an increase both in processes with a "Medium Low" rating compared to December 2022 and in the *stock* of open *gaps* (both by FACs and by the Supervisory Authorities and the Audit Firm). The Board of Statutory Auditors has therefore called for greater accountability of the Structures *owning the* interventions and for an increasing incisiveness of the FACs in promoting the closure of the gaps, also for those with a "Low" or "Medium" level of urgency. In this regard, it has appreciated the practice of convening within the Group Internal Control System Coordination Committee the Structures which *are the owners of remedial actions with a* "High" or "High" level of *aging* to discuss the reasons behind the delays.

The Board nevertheless recommended that the FACs continue in a constructive and challenging dialogue with the Bank's other management structures, making their authority in the analysis of the various cases under examination increasingly effective.

In the context of the ICS set-up, it should be noted the functional and information link between the Board of Statutory Auditors and Banco BPM's Supervisory Board, set up pursuant to Legislative Decree No. 231/2001, which is ensured not only by the periodic exchange of the appropriate information flows, but also by the fact that an Auditor is a member of the Board itself. In this context, the Board acknowledged the adequacy and effectiveness of the Organizational Model adopted pursuant to the reference legislation (updated in 2023 to incorporate the regulatory changes that have taken

place), as well as the absence of reports (among those received) pertaining to its violation for the year under review, as attested in the Body's Annual Report, illustrated by its Chairman at the meeting held on 15 February 2024.

Among the activities carried out during the 2023 financial year, also for the purpose of operating in close connection and fostering comparison within the Bank's and the Group's Control System, pursuant to Article 151, paragraph 2, of the Consolidated Law on Finance and the Supervisory Provisions, the Board maintained a periodic exchange of information flows with the Control Bodies of the main Group Companies (Banca Aletti, Banca Akros and Banco BPM Vita), also receiving updates on the Companies controlled by them. This initiative was also facilitated by the fact that the Chairman of the Board of Statutory Auditors and two standing members also hold positions on the Boards of the other two Group Banks and two Insurance Companies. On the basis of the relations established with the corresponding Control Bodies of the aforementioned Subsidiaries, as well as the evidence presented by the Parent Company's FACs, in particular Audit, Compliance and Anti-Money Laundering, no critical issues worthy of reporting emerged.

Still maintaining the focus on the ICS, it is worth recalling the "Guidelines on internal governance pursuant to Directive (EU) 2019/2034" (EBA/GL/2021/14) published by the EBA on 22 November 2021, together with more recent ECB communications (e.g. the February 2023 *Supervision Newsletter*), which highlighted the link between a strong "risk culture" and the soundness of banks. As part of the dialogue with the Supervisory Authority, the opportunity therefore emerged for Banco BPM to strengthen its risk culture, including in relation to internal controls and the role of the Corporate Bodies. In this context, the Bank decided to activate a specific project aimed at strengthening the Group's "risk culture" in order to fully meet supervisory expectations. This project will be developed in the course of 2024, also with the support of an external consultant, and the Board of Statutory Auditors will be involved to provide its contribution in light of its role and the skills of its members, as well as its knowledge of the Bank's ICS. The project described will certainly contribute to a further strengthening of the safeguards for an adequate and conscious management of the risks underlying the various areas of Group operations.

Taking into account the activities carried out and the evidence gathered, as described so far, the Board of Statutory Auditors did not find any critical situations or facts that could lead it to deem the Internal Control and Risk Management System as a whole inadequate, even though situations emerged that required the planning and addressing of specific corrective actions, in some cases still in progress.

8. Other topics of interest

In addition to the foregoing paragraphs, the Board of Statutory Auditors deems it appropriate to set

out certain specific areas of operations to which it paid attention in 2023 and up to the date of preparation of this Report, which were deemed particularly sensitive or potentially harbingers of risks for the Bank and/or the Group and for which it requested specific *focus* or moments of discussion and/or in-depth analysis with the contacts of the competent corporate Structures, as better described below.

8.1. Credit management and monitoring process

In continuity with previous years, Banco BPM put in place initiatives to progressively strengthen and refine the regulatory and organizational *framework for its* credit management processes, in order to ensure effective risk management, in virtue of the recommendations made by the ECB in this regard (especially for *non-performing* positions) as a result of inspections. The economic-financial imbalances correlated to the Covid-19 pandemic crisis, the situation of international political instability and the energy crisis that have characterised the last few years, have made it opportune to further consolidate *governance* and operational mechanisms, with specific *focus on* the methods of identifying, monitoring and measuring credit risk, also for the purposes of determining adequate coverage thereof. Among the various interventions developed with a view to *continuous improvement*, we note the further expansion and structuring of *reporting* activities for the benefit of *Top Management* and the Corporate Bodies, for the most complete and effective representation, also for the purpose of the conscious taking of appropriate decisions on the matter. Specifically, of particular value is the "risk opinion" - prepared by the CRO at the outcome of the verification activities (*ex ante*, *ex post* and continuous monitoring) of the structures employed by the same - on the robustness and appropriateness of the processes and methodological choices made by the credit structures on the credit risk management process and in general in the definition of long-term projections.

The Board of Auditors focused its attention on the actions developed by the Bank, both by examining the development proposals, and by reviewing the integrated monitoring reports (carried out by the first level structures) and control reports (conducted mainly by the ERM Function, reporting to the CRO, and the Audit Function). In this regard, the Board continued to recommend the timely and continuous updating of appraisals on real estate under guarantee, an essential information element for a timely assessment of residual credit risk.

In this regard, it is noted that: (i) *in the* course of 2023, the path of implementation of the monitoring of the controls carried out by the then Level II Control Structure (now Risk Control Structure), within the ERM Function reporting to the CRO, on the process of acquiring appraisals continued; (ii) in this context, the Bank received the final decision of the ECB following the inspection of the credit and counterparty risk relating to the *Commercial Real Estate* portfolio (which also covered the aspect of the quality of the appraisals), on the basis of which it defined a specific Action Plan in accordance with the

requirements and recommendations contained therein.

More generally, in the area of credit, also in 2023 the Board of Statutory Auditors examined the results of the audits - performed by the Bank's FACs (in particular by the Audit Function and the Structures reporting to the CRO), in accordance with the expectations and requests of the Supervisory Authority - on the effectiveness and functionality of credit processes, the results of which, on the whole, were positive, due to the general progressive strengthening of the controls noted. On the areas of improvement identified, the appropriate initiatives have been launched, often connected with IT implementations, for which the Board of Auditors has recommended every possible managerial action for a desirable containment of implementation times and the adoption of adequate compensatory actions pending their completion, in accordance with the regulatory framework and the instructions issued by the Supervisory Authority on the matter.

It is also worth noting that, following the review carried out in 2022 on the scope and approach of the activities falling within its competence, the Board of Auditors held periodic update meetings on the main issues and on the overall maintenance of the credit risk-related controls, involving in these sessions the contacts of the CLO Area and the CRO Area as well as the IVU, Compliance, Audit and Administration and Financial Statements Functions, with the aim of having a holistic view of the credit area with evidence:

- of areas for improvement in the ICS;
- of the main project initiatives underway by the Bank on credit issues that, in particular, are relevant to the findings of the Supervisory Authorities or FACs;
- of the most significant initiatives planned to address reliefs or to close regulatory expectations.

In this context, the Board of Auditors has in any case renewed its invitation to the Bank to continue its activities to further refine the methodological, organizational and process *frameworks* - including those related to the implementation of the Supervisory instructions contained in the ECB Guidance on Climate and Environmental Risks, to better consolidate the metrics for assessing ESG risk factors, in line with the evolution of the reference context - as well as to continuously strengthen the systems for monitoring (and related timely *reporting*) of the positions.

8.2. Leveraged and structured finance transactions

The Board of Statutory Auditors paid attention to the Bank's position with respect to "*Leveraged Finance*", already indicated by the ECB as one of the *Supervisory Priorities* for 2022-2024, in line with the expectations defined in 2017 in the document "*Guidance on leveraged transactions*", as well as the subject of a specific reference in the 2022 communication on "*Leveraged transactions - supervisory expectations regarding the design and functioning of risk appetite frameworks and high levels of risk taking*", also examined by the Board of Directors in 2023.

In this regard, the Board of Statutory Auditors acknowledged the actions taken by the Bank to date in pursuing effective management and ensuring the appropriate identification and monitoring of risks related to leveraged finance transactions at the Group level through, for example, the activation of a round table between the various Corporate and Control Functions and, therefore, the provision of specific reporting by the CLO Area as well as the consideration of *Leverage Finance related risk* as an idiosyncratic risk in the ICAAP 2023. It also recalls that the Bank provides regular reporting to the Supervisory Authority on the transactions in question, as part of the quarterly STE - *Leveraged Transactions* report (included in the *Data Collection* subject to data quality checks). An overall strengthening of the *framework* for measuring and monitoring leveraged transactions was also defined, achieved, inter alia, through the integration of a specific RAF indicator both at Group level and *cascading* over the *Corporate* chain.

With regard to the correct identification of the perimeter of *Leveraged Transaction* positions, the Audit function carried out an annual audit that highlighted a situation of prevailing adequacy, while at the same time pointing out some profiles for improvement, in order to strengthen first-level controls and align internal processes with the most recent indications of the Supervisory Authority, in terms of *reporting* and the *RAF framework*, in particular for the monitoring of positions with higher *leverage*.

In close correlation with the subject under examination, the Control Body supervised the Structured Finance operations developed by the Bank, noting the interventions to strengthen the organizational structure carried out as well as the control system.

In consideration of the progressive upward trend in interest rates and the expectations highlighted by the Supervisory Authority, also in the context of more recent discussions, the Board of Auditors, in formulating a call for general prudence in dealing with particularly risky transactions, reserves the right to monitor the initiatives that will be taken by the Bank in the course of 2024 for the operational areas described.

8.3. Processes for updating and extending internal risk measurement models

In view of the capital impacts associated with the consolidation of internal modelling, during 2023 the Board of Auditors continued its supervision of the development of *risk models* affected by extension and evolution processes in accordance with the reference regulations and the expectations of the Supervisory Authority. The Board of Statutory Auditors maintained constant information flows with the Bank Structures (in particular, with the RMM and IVU Functions) with respect to the activities progressively carried out, also in order to address the remarks formulated by the ECB at the end of the process aimed at authorising the requests to amend/extend the internal models used to measure risks for reporting purposes.

As regards the internal modelling used to measure risks for management purposes, the competent

Structures (in particular RMM) continued, also in 2023, their maintenance and updating activities on an ongoing basis, especially in the areas of credit, market and liquidity risk.

The Board of Auditors was presented with requests for changes to models, especially regulatory models, as well as *ex ante* and *ex post* notifications of non-material changes to validated internal risk assessment models. In this context, the Board of Auditors examined, inter alia, the audits carried out by the second (in particular, IVU) and third level FACs (Audit), as well as the final decisions of the Supervisory Authority on the requests themselves, the relative requests and the consequent corrective *Action Plans* approved by the Board of Directors (subject to *assurance* by the Audit Function).

In relation to the above, as part of its supervisory action on the ICS, the Board reiterated the need to adequately estimate the time required in planning the activities inherent in modelling interventions, in order to carry out timely controls by the Functions in charge of them (*first and foremost*, IVU and Audit).

8.4. Product Governance

With regard to the evolutionary path undertaken by the Group, with the support of the Compliance Function for the aspects within its competence, in the area of *Product Governance* (hereinafter also "POG") for Investment Services and compliance with the so-called "MiFID II Directive", in light of the results of the inspection conducted by Consob in 2019 and also taking into account projects already underway, it is hereby represented that the competent Corporate Functions have continued to implement the residual initiatives outlined, reaching the completion of the Plan originally prepared. The Board of Statutory Auditors maintained appropriate monitoring on all the project interventions, also through the Compliance Function, requesting and receiving specific updates/details on the status of the implementation of the interventions to comply with the MiFID II Directive and to strengthen the overall *Product Governance* process.

With regard to the initiatives underway, again in the area of *Product Governance*, identified with reference to the anomaly profiles in the System highlighted by the Bank of Italy in the Communication entitled "Guidelines for Intermediaries on *Governance* and Control Arrangements for Retail Banking Products (POG)" - forwarded to the market on 18 March 2021 - it should be noted that the Board of Statutory Auditors has periodically monitored the status of their implementation with the support of the competent Structures. In this regard, noting the complex articulation of the activities in which the project is developed, it was informed of the rescheduling of some of them, for which it hoped for a speedier implementation, where possible, recommending in particular that the evolutionary path undertaken by the Bank for the *Product Governance* of banking and ancillary products be supported by adequate staff training initiatives.

8.5. Investment Services

In the area of Investment Services, the Board of Statutory Auditors periodically examined - in addition to the checks on processes - the results of the controls conducted by the Compliance Function on Banco BPM's Commercial Network aimed at detecting, mainly through the analysis of remote indicators (KRIs), any macro-phenomena representative of widespread operating practices potentially not compliant with corporate *policies*. The analyses carried out in 2023 showed an overall positive *trend*.

The Board of Statutory Auditors discussed with the Compliance Function the evidence that emerged during the year in this area and the projects underway, refining processes and procedures with a view also to integrating the new aspects introduced by intervening regulations, such as those on ESG.

Also as a result of the discussions with the Board of Statutory Auditors, the Compliance Function conducted specific in-depth studies, proposing improvements and raising the awareness of the Commercial Network with respect to certain behavioural approaches that do not fully comply with the model in use, also through the organisation - with the support of the Commercial Function - of targeted meetings at the territorial structures. In this context, it is deemed appropriate to recall the recommendations formulated by the Board of Auditors in terms of 'corporate culture' as an essential element for a positive and constructive relationship with customers.

The examination of the Annual Report on the activities performed, also made pursuant to Article 89 of the Intermediary Regulations, and the Report on Complaints on the Provision of Investment Services prepared by the Compliance Function - to be forwarded to Consob - did not reveal any critical aspects in addition to those already addressed through specific initiatives and/or projects. In fact, the analyses carried out led the Compliance Function to find no significant organizational or behavioural shortcomings requiring timely intervention, both because there were no concentrations of complaints in the services provided or in specific territories, and because the main causes of complaint were heterogeneous or related to past events. The number of complaints registered in 2023 was slightly up on the previous year, but still significantly lower than in 2020-2021.

During 2023, second-level controls continued to be carried out by the ERM Function, attributable to the Advisory, *Product Governance*, *Pricing* and *Best Execution* macro-processes, the evidence of which will be included in the Annual Report on Investment Services to be prepared pursuant to the joint Bank of Italy and Consob Regulation of 29 October 2007, as amended. At the same time, the aforesaid Function is continuing its activities aimed at progressively improving the *reporting* system and further strengthening the monitoring processes within the ESG *framework* of controls on Investment Services.

Pending the issuance of the annual Report of the Audit Function on the Performance of Investment Services, which is also to be forwarded to the Authority, the Board of Statutory Auditors was informed

of the results of the audits conducted in this area by the Function, from which a framework of substantial adequacy emerged, the improvement actions identified having been addressed, also at the request of the same Board.

8.6. Transparency, consumer protection and usury

Within the scope of its supervisory prerogatives, the Board of Auditors has paid particular attention to the issues in question, periodically examining the results of the monitoring activities carried out by the FACs, to the extent of their respective competences.

In this regard, it should be noted that the periodic remote-control activities aimed at detecting, through the analysis of indicators, any non-compliance profiles, conducted by the Compliance Function at Banco BPM for the relevant regulatory areas, while not revealing any specific risk indicators, did reveal certain areas of attention, over which the Compliance Function maintains appropriate oversight, also at the indication of the Board of Statutory Auditors. The results of such monitoring are also forwarded to the competent Bank Functions for the areas of their respective competences, in order to assess the adoption of any measures to address the anomalies found.

Examination of the Report prepared by the Compliance Function, concerning the analysis of the bank and insurance complaint handling activities and the adequacy of the internal procedures adopted by the Bank, did not reveal any specific risk factors or indices of concern. In fact, as in the past, complaints were insistent on the products most widely used by customers, particularly current accounts and products related to the granting of credit and payment services. The prevailing reasons for the disputes mainly related to the execution of transactions, communications/information to customers and the conditions and/or application thereof. Compared to the previous year, 2023 also saw a decrease in the number of complaints received in the banking sector and substantial stability in complaints relating to insurance products (non-IBIPS).

With reference to the adequacy of the procedures and organizational solutions adopted for the handling of complaints, the Compliance Function expresses an opinion of adequacy both in terms of internal regulations and in terms of operational processes. In this regard, it should be noted that the Bank continued in 2023 - also in response to requests made by the Supervisory Authority during inspections and to the results of the checks carried out by the Compliance Function itself - to refine the measures taken to strengthen the practices adopted in the management of complaints or processes that may expose it to complaint actions.

Analyses of the results of the audits conducted by the Audit Function on the Commercial Network did not reveal any significant anomalies attributable to compliance with the Transparency Law. Those that do exist are, however, mostly attributable to aspects of completeness of paper documents.

With regard to the processes pertaining to the management of customer relations in the area of Transparency, the initiatives undertaken to ensure that information to customers on the occasion of any unilateral manoeuvres are fully in line with the Bank of Italy's expectations, as requested by the latter in its communication of 23 September 2021, continue.

In addition, the audit carried out by the Compliance Function on the management processes of pre-contractual information on consumer credit and consumer real estate credit products highlighted the need to strengthen the existing controls, activities already addressed through the competent structures. The issue was also the subject of an inspection started by the Bank of Italy last November 2023 and continued until the beginning of February 2024, for which the relevant inspection report is awaited. It should be noted that the Board of Statutory Auditors has maintained appropriate monitoring through the competent Corporate Functions, examining in particular the correspondence that took place (between the end of 2023 and the beginning of 2024) between the Bank and the Supervisory Authority in relation to the results of the *mystery shopping* checks conducted at the Bank's branches and the request for further clarification on the unilateral manoeuvres carried out as a result of inflation and interest rate trends.

The Board also renewed on these occasions the recommendation, formulated in a prospective perspective, to the competent Functions to:

- continue to pay particular attention to transparency requirements, also in relation to the necessary updating/coordination of internal regulations, in accordance with external regulatory developments and sector guidelines, also taking into account the analysis of complaints and grievances received from customers;
- pursue with speed the alignment of the relevant operational processes with appropriate IT implementations, to guard against risks and to strengthen the overall ICS;
- ensure adequate and up-to-date staff training on the subject.

In addition, during 2023 and up to the date of this Report, the Board of Statutory Auditors received periodic updates from the competent corporate Structures on the progress of project activities in the area of Usury, which were initiated as a result of the *assessment* conducted with the support of external consultants, aimed at carrying out a review of the processes and the system of controls in question, also in light of regulatory changes, especially with regard to an appropriate review of the criteria for calculating the usury thresholds and verification of the adequacy of internal procedures for monitoring this risk. Taking into account the actions completed in the meantime and especially those still to be finalised, the Board of Statutory Auditors emphasised the great attention to be devoted to the issue, recommending that the remaining activities be monitored in order to reach their conclusion within the envisaged deadlines.

8.7. Integration of ESG dimensions into business processes

Recalling preliminarily what has been set out in the section of this Report on the subject of non-financial disclosure, the Board emphasises that, in light of the activities carried out and the information flows received during 2023, an effective gradual integration of ESG dimensions into business processes can be noted, in particular for the purposes of defining an adequate ICS for the management of correlated risks as well as to support the pursuit of sustainable success, within the framework of sound and prudent management of the Bank and the Group, in accordance with the defined strategic objectives.

In this regard, the Control Body acknowledges that it has monitored, in particular through the examination of the results of the activities carried out by the FACs, the impacts of this evolutionary process undertaken by the Bank in the various areas of operations (e.g. Loans, Finance, Operations), in a context which, from a regulatory and legal point of view, is still in the development and consolidation phase, reserving the right to oversee the timely implementation of the improvement actions identified in compliance with the planned timeframe, having requested, where deemed appropriate, an acceleration thereof.

The Board of Statutory Auditors drew the attention of the Corporate Functions to the underlying operational risks, of a reputational and legal nature, to the production and management of information and data on sustainability, particularly in view of: (i) the most recent harmonisation measures adopted by the European Union, (ii) the Bank's role on the market, and (iii) the attention paid by the Supervisory Authority (including with dedicated inspection activities, one, as mentioned above, recently concluded for the *on-site* part).

The Control Body also emphasised the need for a general strengthening of the organizational structure and the ICS, through a precise structuring of the various levels of control as well as the related tracking, reaffirming the transversal nature of information and data on sustainability, all according to an approach that, in the current context of the application of CSRD regulations, must ensure their measurability, quality and comparability. The initiatives taken in this perspective are also considered essential for the purposes of adequate financial and sustainability reporting and further *disclosure* requirements, as well as relevant in other contexts that are in any case impacted, such as the Bank's remuneration and incentive policies.

8.8. Information and Communication Technology and Information Security

For the area under consideration, it is appropriate to recall preliminarily the articulated legislative and regulatory framework of reference (citing, for example, the *Digital Operational Resilience Act*, also "DORA", and the three supplementary delegated documents issued by the European Commission, as well as the 40th update of the Bank of Italy Circular no. 285/2013), the related

supervisory expectations (the EBA Guidelines on Information and Communication Technology Risk Management and Security as well as the ECB's Supervisory Priorities 2024-2026, in continuity with previous years) as well as the operational context (the Strategic Plan objectives in terms of the deployment of an omnichannel and digital distribution model) and geopolitical context (Russian-Ukrainian and Middle East conflicts) in order to understand more fully the relevance for the Bank and the Group of the definition of an adequate organizational set-up for the control of ICT and security risks. Recently (February 2024), the European Supervisory Authority intervened (*Supervisory Newsletter*) to emphasise the importance of ensuring greater competence of the banks' boards of directors in this area, defining a specific *policy* that takes up the principles already expressed in the document "*Guide on effective risk data aggregation and risk reporting*" put out for consultation by the ECB in 2023.

In this context, the Board of Statutory Auditors has reserved, in continuity with the past, specific attention to the Group's *Information and Communication Technology* system and its overall evolution, as an essential element to support *business* and control activities.

In addition to examining the periodic reports and plans provided for in compliance with external and internal regulatory provisions relating to this area (such as *Business Continuity* and *Disaster Recovery*), in 2023, taking into account the international geopolitical tensions mentioned above, the Board of Statutory Auditors paid particular attention to the assessment of risks related to *cybersecurity*, in order to ascertain the Bank's adoption of adequate and effective organizational and technical measures, aimed at mitigating such risks, also through a strengthening of information flows by the competent Functions, in line with the recommendations formulated by the Supervisory Authorities (*first and foremost*, Consob and the Bank of Italy).

Recalling that a specific *assessment* was carried out in 2020, as a result of which the *IT Master Plan 2020-2023* and the related annual Operating Plans (aimed at updating the architecture and infrastructure, evolving the *sourcing* strategy, revising the IT operating model and accelerating digitalisation) were defined, it is underlined that, on the occasion of the presentation of the Operational Plan of IT Initiatives 2023, having examined the contents of the 'Summary Report on the IT Risk Situation - Year 2022', the Board of Auditors found that the initiatives were closely aligned with the objectives of the Strategic Plan 2021-2024. The Control Board also analysed the "Summary Report on ICT Adequacy and Costs 2022", taking note of the assessments conducted that confirmed, in line with the results of previous years, a judgement of adequacy of ICT systems and charges.

Pending examination of the Summary Report on the ICT and Security Risk Situation for the year 2023, the Board of Statutory Auditors deemed it appropriate to monitor, in support of its supervisory duties (i) the developments of the inspection activity conducted *on site* by the ECB on the subject of "IT and Cyber Security Risks" in order to detect (pending the final formalisation of the results) the

Authority's assessment of the Group's cybersecurity and cyber risk presences; (ii) the results of the IT *Risk Questionnaire* drawn up by the Bank during the same year, which showed several improvements compared to the previous questionnaire both in terms of reducing risk exposure and increasing maturity in several areas monitored (iii) the execution in the first months of 2024 of the first *Cyber Resilience Stress Test* exercise, which transversally involves all the Bank's functions with the objective of assessing resilience to cybersecurity events, identifying and addressing weaknesses and shortcomings, creating a "*learning experience*" for both the Bank and the ECB, the results of which will be shared in July 2024.

The Board also took into account the results of the audit activities conducted by the FACs, also pursuant to supervisory regulations, pertaining to the area under review, which revealed certain aspects that needed strengthening.

In this context, the Board of Statutory Auditors took note of the steps already taken by the Bank to strengthen its organizational structure with: (i) the adaptation of the methodology for conducting ICT and security risk analysis, in line with the aforementioned update of Bank of Italy Circular no. 285/2013, and the evolution of the RAF indicators in the area of security (in terms of guards and incidents); (ii) the establishment of the ICT & Security Risk organizational unit, previously mentioned in this Report, within the ERM Function; (iii) the adjustments of internal regulations in compliance with the aforementioned Circular (iv) the appointment of the Chief Innovation Officer; (v) a development programme aimed at supporting the IT transformation and strengthening the role of the Group's *Data Quality* and Information Security through a training plan that guarantees the development of *know-how*, considering emerging issues (*upskilling* and *reskilling*), on professional and transversal staff skills. The Board of Auditors also monitored the progress of the initiatives taken in response to the indications formulated by the FACs, urging compliance with the planned timetables and an adequate allocation of resources to support them, in order to ensure full compliance of corporate processes and procedures, believing that the areas of improvement indicated constitute a further impetus and tool in terms of the progressive strengthening of management procedures and internal operating controls, with a view to further advancing the digitisation and innovation process launched by the Bank and confirmed in the new Strategic Plan as a fundamental pillar.

In a more general perspective, the Board of Statutory Auditors emphasised the need to pay the utmost attention when adopting solutions that envisage the acquisition of application and infrastructure resources from external providers or from the *Internet* (such as *cloud computing* services), since they are considered initiatives potentially harbingers of greater risks, urging extremely prudent behaviour and compliance with the envisaged increasingly stringent control systems, on the assumption that IT security is highly dependent on the attitude of individuals, starting with *Top Management*.

8.9. Risk arising from outsourcing/services contracts with partners outside the Group

The Board maintained a constant focus on monitoring the risks associated with the outsourcing of Corporate Functions and therefore on the measures adopted by the Bank to mitigate them within the framework of an organizational model that envisages the centralisation of operational and control functions at the Parent Company, in compliance with the relevant supervisory provisions and guidelines. In the course of 2023, the Control Body examined the Annual Report of the activities carried out in the year 2022 on the Essential or Important Functions outside the Group (also "FEI"), noting the positive assessment expressed by the Audit Function and at the same time drawing attention to the importance of timely implementation of the *framework* defined for the management of outsourcing (in particular if FEI) in compliance with the reference regulations and in line with supervisory guidelines. Following the changes that have taken place in the Group's structure, this oversight is also relevant in relation to the new insurance *business* lines (particularly pending completion of the internalisation of Vera Vita) and asset management (although, as things stand, the newly-formed Banco BPM Invest SGR has not yet started its activities), as also emerged as a result of the Risk *Identification* process carried out by the risk control function in 2023.

It should be noted that the College is waiting to receive the Annual Report on FEI activities in the year 2023 for consideration.

In close connection with the previous paragraph, it is worth recalling the supervisory priorities identified by the ECB for the period 2024-2026 (in continuity with previous ones), among which the risks of outsourcing of IT services and cyber/cyber security are included as important operational risk factors for banks. In this context, the Supervisory Board has envisaged horizontal data collection and analysis of outsourcing activity registers and targeted inspections of outsourcing and cybersecurity management, as well as the previously mentioned systemic cyber resilience *stress* test, initiatives that the Board reserves the right to monitor during 2024.

8.10. Reporting/Reporting to Supervisory Authorities

In a context of control architecture assessed, by the Compliance Function, as being of overall soundness, the need was identified for further strengthening of control measures to mitigate the risk of non-compliance with regulations with reference to the process relating to reports to the various Supervisory Authorities. Taking into account what had emerged, the Function further implemented the risk indicators (so-called "*Key Risk Indicators*" or "KRIs") in the area of reporting to the Supervisory Authorities already in use, in order to more effectively monitor on a periodic basis for the detection of any anomalies regarding reporting obligations.

The Board of Statutory Auditors of Banco BPM - as well as the Control Bodies of the Subsidiaries Banca Akros and Banca Aletti - has also paid specific attention to these aspects, proceeding, where

deemed useful, to targeted in-depth analyses with the support of the competent corporate Structures.

8.11. Thematic Action Plans

In the course of 2023, the Bank was called upon to define and approve Action Plans on specific areas (also referred to as "Action Plans"), in order to plan corrective or improvement measures, as identified mainly as a result of inspections (*on-site* or remote), usually conducted as part of the aforementioned ongoing supervision by the Supervisory Authorities or in relation to specific requests made to them by the Bank. The Board received and examined periodic updates on the status of their implementation (primarily through the *report* prepared by the Audit Function "*Monitoring of remedial actions relating to the recommendations from Supervisory Authorities*"). This monitoring is based on the structured process for assigning to the Bank's Functions the management and resolution of the findings identified by both the Supervisory Authorities and/or the Audit Firm and the FACs.

The Board of Statutory Auditors also examined, from a *risk-based* perspective, certain certifications (issued by the Audit Function) on the completion and verified effectiveness of the corrective actions set forth in the aforementioned *Remedial Action Plans*. These verifications are particularly significant for the Board of Statutory Auditors (which expects an increasing *challenge from the* Internal Audit Function to the Structures responsible for the remedial activities), as they ensure a substantive approach as opposed to a mere formal certification of the finalisation of the actions. In this regard, the Board of Statutory Auditors has recommended on several occasions that remedial actions be carried out punctually in compliance with the deadlines represented to the Surveillance Body, considering that any rescheduling must necessarily be of a residual nature.

9. Supervisory activities on the adequacy of the organizational set-up

The Board of Statutory Auditors became familiar with and monitored the organizational structure, particularly with regard to compliance with regulatory provisions and the related changes and consolidation of the internal regulatory system.

In this regard, both on the basis of direct discussions held with the Heads of the relevant Corporate Functions during the meetings held during the year, and in relation to the evidence that emerged as a result of the checks carried out by the FACs, the Board of Statutory Auditors found that the Bank's organizational and regulatory structure was substantially adequate. In particular, in a specific meeting held at the beginning of 2024, the relevant Company Managers confirmed the overall consistency between the organisation chart, function chart (Company Regulations), system of delegated and proxy powers and organizational provisions for the year 2023, given the need to ensure homogeneity between organizational roles and responsibilities and the underlying business processes, also taking into account the expansion of the Group's perimeter to include the insurance sector. The Board has

received assurances that in the coming months further alignment with the most recent determinations made for the revision of the Bank's organizational and *governance* model mentioned in this Report will be ensured.

During 2023 and the first months of 2024, Banco BPM's organizational structure underwent the changes summarised below, in addition to the interventions already mentioned in this Report or described with reference to the FACs:

- with reference to the Head Office Structures, certain functions were reorganised/renamed, in order to better rationalise the operating perimeters and better monitor the activities falling within their sphere of competence (Communication and Sustainability, Marketing and Omnichannelality, Commercial, Institutional, Entities and Third Sector, Integrated Procurement Management, Global Transaction Banking, Credit Governance, CRO Area, Corporate & Investment Banking, Finance, Human Resources, Monitoring and Prevention). In this regard, it should be emphasised that, within the financial conglomerate, the new Bancassurance Function was established, as the first intervention to strengthen the *governance* of the insurance sector;
- in relation to the Commercial Network: (i) Large Corporate was divided into two new operating structures for better operational and commercial supervision; (ii) in the Corporate area, there was a reorganisation of the Corporate Centres within the current Corporate Markets, as well as the activation of portfolios with a prevailing concentration of types of customers operating in specific sectors; (iii) in the Retail area, refinement interventions were carried out with regard to the corporate centres and the relative territorial poles with the aim of strengthening the supervision over the corporate segment in line with the Strategic Plan objectives, the closure of no. 75 branches (decided in 2022), a review of the formats of certain other branches with a view to offering better service to customers, through more structured "points of sale" and a homogeneous commercial *focus* consistent with the territory and, lastly, the figure of the Bancassurance Contact Person was introduced at the DT Commercial structures within the Territorial Departments, for the operational coordination of the Bancassurance Specialists;
- with regard to the Group's other companies: (i) the partial demerger of Tecmarket Servizi S.p.A. in favour of Banco BPM took effect on 1 January 2023, entailing the transfer of 20 of the company's 23 employees to the Parent Company, and consequently to the National Collective Bargaining Agreement for Credit Institutions 23 of that company's resources; (ii) in Banca Akros - consistent with the partial demerger transaction, already mentioned in the body of the Report - reorganisation/renaming operations were carried out with the Plan's goal of increasing the effectiveness of *corporate finance* and *investment banking* activities (iii) in Banco BPM Vita, there was an evolution of the Company's initial organizational set-up, specifically with regard to the Administration and Financial Statements Department, to ensure more effective supervision of the

relevant processes; (iv) in Banca Aletti, measures were implemented to spin off the *advisory* activities on the investment services side for the benefit of Banco BPM's Local Departments.

Procedures were also activated for the rationalisation of the Group's corporate and operational structure, such as: the partial demerger of Banca Akros in favour of Banco BPM, with the transfer to Banco BPM of the 62 resources belonging to the demerged business unit (referring to the *Global Markets business line*) and the establishment of Banco BPM Invest SGR, with the consequent transfer of 10 Banco BPM resources to the SGR.

The inclusion of new resources in the workforce favoured both generational turnover and *business* development, also due to the changed operating context and the progressive integration of the insurance branch. In this last regard, the Board of Statutory Auditors has solicited and was also informed of the hiring of resources qualified in insurance matters within, among others, the Audit and Administration and Financial Statements Functions.

In a year still characterised by complexity and uncertainty (international geopolitical situation strongly compromised by the Russian-Ukrainian conflicts from 2022 and in the Middle East from October 2023), the Board monitored the initiatives taken to ensure the best working conditions, for example with the confirmation of the agile working modality (so-called '*smart working*'), adopted from 2020 and adjusted over time, as well as the flexibility of working hours. The new methods of interaction with customers, introduced in 2020, were also further strengthened with a revision of the operating and service model to encourage the use of digital channels, also in line with the objectives of the Strategic Plan. In fact, the Bank was able to factor in the experience imposed by the pandemic to further develop digitisation processes, technological equipment (to foster remote working and communication modes) and mobility management. All with a view to respecting and promoting the logic of sustainability.

The Board of Statutory Auditors has also reiterated on several occasions how the qualitative and quantitative adequacy of the corporate structures must be guaranteed and assessed also in light of the investments undertaken in strengthening and/or implementing IT support and automation processes, aimed at improving the efficiency and quality of operations.

In continuity with the consideration given by the Board of Auditors in previous years on the *framework of intra-* and *extra-Group* outsourcing, also in 2023 the Statutory Auditors continued to pay attention to compliance with the EBA Guidelines and the evolution of the Group's *business*, examining (i) both the audits carried out by the Audit Function, also urging the swift implementation of the improvement measures identified, (ii) and the results of the periodic monitoring of outsourced activities presented to the Board of Directors.

In light of the foregoing and taking into account what has been highlighted in this Report, both with reference to internal projects and initiatives, and to the numerous activities connected with inspections

(on site or remotely) and the requests of the Supervisory Authorities (including in the context of SREP), the Board of Statutory Auditors monitored the gradual adoption by the Board of Directors of determinations suitable for ensuring a regulatory *framework* and internal organizational structures adequate to guarantee the proper application of operating processes. In this regard, while being aware that, in a Group as sizeable and structurally significant as Banco BPM, such an organizational and regulatory framework requires continuous evolution and constant strengthening, the Board found that it was substantially compliant.

In 2023, the organizational structure of the ICS, with exclusive reference to the CRO Area (as already described in this Report), was affected by a number of changes, also in continuation of what was started in 2022, aimed at further strengthening the organizational structure of the ERM and RMM Functions, identifying additional units reporting to the latter in compliance with the areas of activity of each and in implementation of the indications formulated by the ECB, as well as the most recent supervisory provisions on risk management.

In addition to this, for all FACs, the perimeter of the activities falling within their competence was enlarged to include those related to the insurance sector, following the aforementioned corporate transactions. In this regard, it should be noted that the corresponding Control Functions of the Insurance Companies functionally report to the Parent Company's FACs.

In exercising its supervisory duties over the adequacy of the ICS, the Board of Statutory Auditors maintained a constant dialogue with the Heads of the FACs in order, among other things, to verify any qualitative-quantitative reinforcement needs of the FACs, recommending, where deemed appropriate, to the Organisation and Human Resources Functions, as well as to the Board of Directors itself, to define appropriate actions. The Board therefore ascertained the overall substantial qualitative-quantitative adequacy of each FAC.

10. Remuneration policy

The Board of Statutory Auditors acknowledged that the Board of Directors, in its meeting of 12 March 2024, approved, to the extent of its competence pursuant to applicable regulations, the Report on Remuneration Policy and Remuneration Paid to the Personnel of the Banco BPM Banking Group (hereinafter also referred to as "*Remuneration Policy*"), including the section "*Remuneration Policy 2024*" and the section "*Remuneration Paid*", as well as the related Explanatory Report to the Shareholders' Meeting to which the documents will be submitted.

In this regard, it should be noted that, in acknowledging that the *Remuneration Policy* prepared for 2024 substantially confirms the structure of the 2023 financial year, the Board assessed, inter alia:

- (i) the extension of the remuneration policy to the newly incorporated company Banco BPM Invest SGR, in compliance with the relevant regulations;

- (ii) with regard to the *performance objectives* of the *Short Term Incentive Plan*, a widespread assignment of ESG objectives, envisaging in particular specific ones for the commercial chain that manages both *retail* and *corporate/enterprise* customers, as well as the provision of indicators related to the dissemination of the so-called 'risk culture';
- (iii) the confirmation of the methodology used in 2023 for the Board of Directors' analysis of the gender neutrality of the remuneration policy, with the continuation of initiatives aimed at recognising and enhancing diversity in all its meanings, with particular attention to the enhancement of female talent, consistently with the 2023-2026 Strategic Plan;
- (iv) compliance with the principles and recommendations on remuneration policies set out in the *Corporate Governance Code*, to which the Bank has adhered. In particular, the *Remuneration Policy* is functional to the pursuit of the sustainable success of the Bank.

The Board of Auditors also examined:

- the report of the Audit Function that accounts for the results of the audits it conducted in 2023 on the implementation of the Group's remuneration system, as a result of which it was ascertained the consistency of the initiatives taken on staff remuneration with the principles and rules set forth in the internal and external reference regulations, the compendium of which is represented by the "Remuneration Policies" approved annually by the Board of Directors and the Shareholders' Meeting, in accordance with their respective competences;
- the (*ex ante*) *opinion* issued by the Compliance Function on the regulatory compliance of the Group's Remuneration Policy 2024.

In addition to what has already been reported, it should be noted that, within the scope of its prerogatives, the Board of Statutory Auditors participated, through an Auditor designated by the Chairman, in the meetings of the Remuneration Committee, taking note of the activities (depending on the case, preliminary, consultative and propositional) carried out by the aforesaid end-consultative Committee, also for the purpose of issuing the opinions envisaged by the regulations on the subject.

Pursuant to Article 2389 of the Italian Civil Code, the Board of Statutory Auditors has examined and, after having detailed its own reflections and considerations on the matter, has issued its favourable opinion on the proposal, formulated by the Remuneration Committee and approved by the Board of Directors at its meeting of 26 April 2023, concerning the remuneration to be paid to Directors holding special offices, correlated to the commitment required by the office and the related responsibilities, for the period ending with the date of the Shareholders' Meeting called to approve the Financial Statements as of 31 December 2025.

The Statutory Auditors also voted in favour, pursuant to Article 136 of the Consolidated Banking Act, of the determinations, defined at the proposal of the Remuneration Committee and approved by

the Board of Directors (at the meetings of 7-8 February and 12 March 2024), resulting from the achievement of *performance* by the CEO in relation to the 2023 *Short Term Incentive Plan* and the 2021-2023 *Long Term Incentive Plan*.

The Board of Statutory Auditors is also heard, in accordance with the provisions of Bank of Italy Circular no. 285/2013 and on the indications expressed by the ECB: (i) on the personal files relating to the incentive plans of the persons belonging to the most significant personnel of the Audit, Compliance, Anti-Money Laundering, Internal Validation and CRO areas, with particular reference to the absence of conflicts of interest; (ii) within the scope of the assessment conducted by the Remuneration Committee, in coordination with the Internal Control and Risk Committee, on the correct application of the rules established by the *Remuneration Policy* for the variable remuneration of the same Managers.

11. Further activities of the Board of Statutory Auditors and disclosure required by Consob

To complete the due disclosure to the Shareholders' Meeting, the specific information required by Consob Communication No. 1025564 of 6 April 2001 and subsequent updates, not already set forth above and rendered on the basis of the activity carried out in 2023 and the first months of 2024 by Banco BPM's Board of Statutory Auditors, is provided below:

- It is recalled that with the 42nd update of 30 March 2023, Bank of Italy Circular No. 285/2013 was amended in Chapter 3 of Part Three concerning the provisions on "Covered Bank Bonds". Along with the new rules, a transitional regime was envisaged in order to ensure that securities issued after the date of entry into force of the aforementioned provisions, even if under pre-existing programmes, complied with the new regulatory framework, in implementation of the changes introduced by the European legislation of reference. In compliance with this transitional regime, the Board of Statutory Auditors acknowledges that, with reference to the "BPM OBG1" and "BPM OBG2" programmes: (i) the respective first issues (for each programme) following the entry into force of the new provisions were carried out after the 30 days that the Bank of Italy established in the transitional regime (starting from the date on which the notice of intention to carry them out was sent); (ii) it was heard in relation to the certifications issued by the Board of Directors on the compliance of each programme with the new regulatory framework. In this regard, it should be noted that the Board acquired for each new issue the attestations issued by the Risk Control Function and the Legal and Financial Structure as well as the compliance opinion issued by the Compliance Function;
- the Board of Statutory Auditors received a report from a Shareholder, handled pursuant to Article 2408 of the Italian Civil Code. In this regard, the Control Body carried out the necessary in-depth

investigations, finding no grounds or presence in the facts highlighted of prerequisites to take specific action;

- In addition to the matters indicated in the previous point, the Board of Statutory Auditors, also through its Chairman, received three communications potentially qualifying as complaints, in which alleged misconduct ascribed to employees/Company Structures in the performance of their activities was reported. These complaints were investigated by the Board of Statutory Auditors, also with the involvement of the competent corporate Structures. The analyses conducted did not reveal any cases worthy of mention and, to date, no follow-up has been reported;
- the Board of Statutory Auditors issued the opinions required by law and the Articles of Association, some of which have already been set out in this Report. The Board of Statutory Auditors also issued the observations, assessments and opinions required by the Supervisory Regulations, as well as those required from time to time by the ECB and the national Supervisory Authorities with specific Communications (mainly relating to the various profiles of risk management and control to which the Bank was exposed in the performance of its activities), as well as by company regulations;
- the Board of Statutory Auditors has conducted the necessary checks on the adequacy of the provisions issued to the Subsidiaries, also pursuant to Article 114(2) of the Consolidated Law on Finance, and has no remarks to make on the adequacy of the internal rules regulating them in order to acquire the information flows necessary to ensure the timely fulfilment of the disclosure obligations required by law.

The Board of Auditors also promoted the annual conduct of a specific compliance audit on the management of privileged 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 IT procedures that was complete and aligned with the Guidelines issued by Consob in October 2017.

Among the activities carried out during the 2023 financial year, also for the purpose of operating in close connection and fostering comparison within the Bank's and the Group's Control System, pursuant to Article 151, paragraph 2, of the Consolidated Law on Finance and the Supervisory Provisions, the Board maintained a periodic exchange of information flows with the Control Bodies of the main Group Companies (Banca Aletti, Banca Akros and Banco BPM Vita), also receiving updates on the Companies controlled by them. This initiative was also facilitated by the fact that the Chairman of the Board of Statutory Auditors and two standing members also hold positions on the Boards of the other two Group Banks and two Insurance Companies. From the relations with the corresponding Control Bodies of the aforesaid Subsidiaries, as well as from the evidence

presented by the Parent Company's FACs, in particular Audit, Compliance and Anti-Money Laundering, no critical issues worthy of reporting emerged;

- as far as corporate governance rules are concerned, it should be noted that Banco BPM has adhered to the *Corporate Governance Code* promoted by the *Corporate Governance Committee*, as communicated to the market through the publication on the company's website of the "Report on Corporate Governance and Ownership Structure", drawn up in accordance with Article 123-bis of the Consolidated Law on Finance and subsequent amendments and additions. This Report illustrates the methods and conduct with which the principles and application criteria of the Code have been effectively applied. The Board of Statutory Auditors took note of the contents of this Report as well as the "2023 Report on the Evolution of Corporate Governance in Listed Companies" sent by the Chairman of the Committee (also Chairman of the Board of Directors of Banco BPM) in a letter dated 14 December 2023, together with the "Committee's Recommendations for 2024", and acquired their indications during one of its meetings;
- in early 2024, the Chairman of the Board of Statutory Auditors met, in accordance with current regulations and practices, with the *Joint Supervisory Team* of the ECB in order to have a fruitful exchange of information, including on specific issues outlined in this Report;
- as a result of the supervisory activity carried out, as described above, no omissions, reprehensible facts or irregularities worthy of mention herein have emerged;
- in conclusion, in view of the overall supervisory activity performed, the Board of Statutory Auditors of Banco BPM, having acknowledged the declaration of going concern expressed by the Directors and the opinion of appropriateness expressed by the Independent Auditors on the use of this assumption, does not deem it necessary to exercise its right to make proposals to the Shareholders' Meeting pursuant to article 153, paragraph 2, of the Consolidated Finance Act with regard to the approval of Banco BPM's separate financial statements at 31 December 2023 and the matters for which it is responsible. The Board of Statutory Auditors, having performed the appropriate in-depth analyses, also in relation to the recommendations made to the banking system by the European Supervisory Authority, and taking into account the proposal to allocate to a specific reserve the amount determined pursuant to Article 26 of Decree-Law No. 104/2023 ("Urgent provisions to protect users, concerning economic and financial activities and strategic investments", converted with amendments by Law No. 136/2023), has no observations to make regarding the proposal to the Shareholders' Meeting to distribute a dividend of Euro 0.56 per share.

Milan, 19 March 2024

The Board of Statutory Auditors