



**REPORT
OF THE BOARD OF DIRECTORS OF BANCO BPM SPA
ON ITEM 3 OF THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING**

(Prepared pursuant to Article 125-ter of
Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments)

Ordinary Shareholders' Meeting of 7 April 2018

This document is a translation into English of the document approved by Board of Directors. In case of any discrepancies or doubts between the English and the Italian version, the Italian version shall prevail.

Report of the Board of Directors of Banco BPM S.p.A. on item 3 of the Shareholders' Meeting agenda pursuant to Article 125-ter of Italian Legislative Decree no. 58/98 and subsequent amendments (“CFL”).

Remuneration policies:

- a) decisions relating to remuneration and incentive policies; approval of the report pursuant to legislative provisions in force. Relevant and consequent resolutions.**
- b) proposed approval of the upper limit of 2:1 for the ratio of the variable and fixed components of remuneration for selected company officers. Relevant and consequent resolutions.**
- c) proposed approval of the criteria for determining the compensation to be agreed in the event of early termination of employment or early termination of office, including the limits set for said compensation.**
- d) compensation plans based on the shares of Banco BPM S.p.A.: annual incentive system (2018). Relevant and consequent resolutions.**

Dear Shareholders,

We have called this meeting to report to you on the application of remuneration policies for the year ended as at 31 December 2017 by the Banco BPM Group and to submit for your approval, in particular, the Group remuneration policies, drawn up by the Board of Directors, as well as the related accompanying documentation.

Remuneration policies:

- a) decisions relating to remuneration and incentive policies; approval of the report pursuant to legislative provisions in force. Relevant and consequent resolutions.**

Dear Shareholders,

The “2018 Banco BPM Banking Group Remuneration Report” (**Remuneration Report**), prepared in accordance with the Bank of Italy Supervisory Provisions (Bank of Italy Circular no. 285/2013 and subsequent amendments and additions, hereinafter, the **Supervisory Provisions**), Article 123-ter of Italian Legislative Decree no. 58 of 24 February 1998 (**CFL**) and CONSOB Resolution no. 11971 of 14 May 1999 and subsequent amendments and additions (**Issuers’ Regulation**), is hereby submitted for examination and approval by the Shareholders’ Meeting.

The Remuneration Report is comprised of three sections.

The first section provides information regarding the remuneration policies established for 2018, valid for all personnel of the Banking Group and specifically contains: (i) the process for definition and approval of the remuneration policies adopted by the company bodies involved; (ii) the main characteristics of the remuneration policies in favour of the members of the management and control bodies, employees and collaborators not bound by an employer-employee relationship; (iii) the ratio of the variable component to the fixed component of remuneration (also subject to specific resolution during this Shareholders’ Meeting; see point b) hereof; (iv) the methods through which the link between the variable component of remuneration and results is ensured, the main parameters used as reference, the underlying reasons and the consistency with company objectives, strategies and risks; (v) the deferral policies and *ex post* correction mechanisms for risks; and (vi) the criteria for determination of compensation to be agreed in the case of early termination of employment or early termination of office (these are also subject to specific resolution during this Shareholders’ Meeting; see point c) hereof).

The second section reports on the implementation of the remuneration policies during 2017 and provides the disclosure required pursuant to the Supervisory Provisions and the Issuers’ Regulation.

The third section is reserved for the results of the verifications by the company control functions.

Verona, 27 February 2018

The Board of Directors

Remuneration policies:

- b) proposed approval of the upper limit of 2:1 for the ratio of the variable and fixed components of remuneration for selected company officers. Relevant and consequent resolutions.**

Dear Shareholders,

You have been called to a Shareholders' Meeting to resolve, pursuant to the Supervisory Provisions on remuneration, regarding the proposed increase of the maximum weight of the variable remuneration on fixed remuneration for selected officers considered strategic.

A year from the finalisation of the merger, the current scenario of the Group is marked by a sharp focus on the achievement of the objectives of the 2016-2019 Strategic Plan and the concurrent reorganisation of the Bank's structure as a whole.

In a highly complex framework, also considering ambitious commercial challenges, also characterised by suitable levels of capitalisation and liquidity, in line with the requirements of the Supervisory Authorities, in order for Banco BPM to continue on in its success, it must set up all operational drivers to be able to attract and retain in the Group persons with the professionalism and abilities suited to the needs of the business, to the benefit of competitiveness and good governance.

In this view, also considering that the main competitors of the Group have already increased to 2:1 the upper limit of the ratio of variable remuneration on fixed remuneration, the need arises to request the adjustment to market practices for selected officers deemed strategic. This will allow the Group to have an increased remuneration driver that will be used to act on total compensation. Through better use of the variable component, always considering the weight of fixed remuneration, a balanced ratio of variable to fixed remuneration will be pursued, also in relation to benchmarking studies.

The persons potentially involved in the adjustment of the limit up to 2:1 represent around 0.5% of personnel of the Banking Group as at 31 December 2017. Of these, 57 are identified among key personnel (with reference to the amount of key personnel identified as at 1 January 2018).

That forecast guarantees compliance with prudential regulations, and there do not seem to be current or future implications on the Bank's ability to continue to comply with all the prudential rules, considering that:

- it is reserved to a limited number of people;
- it does not entail higher charges for the Bank in relation to economic resources allocated to variable remuneration, but different distribution and differentiation of incentives for persons deemed more highly strategic. The economic resources to support the adjustment in question are part of the annual forecast, determined according to the rules set out in the remuneration and incentive policies in force, i.e. within a maximum pre-set percentage of Income (loss) after tax from continuing operations (net of non-recurring components) set out in the budget, and

approved by the Board of Directors during the yearly budgeting process;

- access to the incentives is subordinate to rigorous mechanisms of verification of levels of capitalisation, liquidity and risk-adjusted profitability in line with the Risk Appetite Framework and the risk governance and management policies approved by the Board;
- the disbursement of the incentives is also subject to the *ex post* correction system (*malus* and claw back) which may result in the cancellation of the variable remuneration in relation to levels of capitalisation liquidity or profitability significantly lower than the objectives or non-compliant individual conduct.

In particular, the upper limit set out in the general criteria (1:1) may be increased up to a ratio of 2:1 (as permitted by the Bank of Italy and subject to the binding approval by a qualified majority of the Shareholders' Meeting for persons included among key personnel), for persons included in the following categories:

- high-end key personnel;
- personnel in the areas of Finance, Corporate, Investment Banking and Private Banking.

At the date of approval of this report, the number of Group resources potentially involved comes to 125, of which:

- 34 parties included in the high-end key personnel;
- 13 parties for Finance, of which 4 included in the high-end key personnel;
- 27 parties for Corporate, of which 6 included in the high-end key personnel;
- 35 parties for Investment Banking, of which 11 included in the high-end key personnel;
- 16 parties for Private Banking, of which 2 included in the high-end key personnel.

Lastly, it is noted that, pursuant to Article 16.2 of the Articles of Association of Banco BPM and in line with the requirements of the supervisory provisions, resolutions concerning the proposal to set a higher limit for the ratio of 1:1 between the variable component and fixed component of individual remuneration for key personnel shall be approved:

- with votes in favour of at least 2/3 (two-thirds) of the share capital represented in the shareholders' meeting and having the right to vote, when the Shareholders' Meeting is formed of at least half of the share capital;
- with votes in favour of at least 3/4 (three-fourths) of the share capital represented in the shareholders' meeting and having the right to vote, no matter the amount of share capital comprising the Shareholders' Meeting.

Verona, 27 February 2018

The Board of Directors

Remuneration policies:

- c) proposed approval of the criteria for determining the compensation to be agreed in the event of early termination of employment or early termination of office, including the limits set for said compensation.**

Dear Shareholders,

You have been called to a Shareholders' Meeting to resolve on the proposed approval of the criteria and upper limits for the determination of compensation in the event of termination of employment or early termination of office, as envisaged by the Supervisory Provisions on the issue of remuneration.

In particular, the Shareholders' Meeting is responsible for approving the criteria for determining the compensation to be granted to key personnel in the event of early termination of employment or early termination of office, including the limits set for said compensation in terms of the year of fixed remuneration and the maximum amount deriving from the application thereof.

According to that set out in the Supervisory Provisions on remuneration, compensation agreed in view of or on early termination of employment or early termination of office constitutes golden parachutes, also including among these any compensation paid based on non-competition agreements.

The individual companies have the unilateral right to agree on any golden parachutes, defined, subject to the advance authorisation by the Managing Director of the Parent Company, in relation to the role and/or office of the party and/or the duration thereof and/or the assessment of individual results and/or risks assumed by the company, in the maximum extent of two years of gross fixed annual pay and up to the maximum limit of euro 2.4 million (employee gross amount).

In the event of agreement of compensation included in one of these cases, the Group shall pay the compensation according to that set out in the Remuneration Report. In particular, without prejudice to the exceptions set forth in the Bank of Italy Supervisory Instructions, the disbursement takes place in compliance with the following criteria:

- one up-front instalment equal to 60%, and three deferred annual instalments of equal amounts, totalling 40%, for parties for whom the amount of the golden parachute is less than or equal to euro 600,000;
- one up-front portion equal to 40%, and five deferred annual instalments of equal amounts, totalling 60%, for parties for whom the amount exceeds euro 600,000;
- the up-front portion is applied on termination of employment, within the time limits envisaged by the individual agreements. The deferred portions are attributed annually, the first becoming effective at least 12 months from the date of disbursement of the up-front portion, and the subsequent disbursements at an equal amount of time from the attribution of the previous portion, within the time limits envisaged by the individual agreements;
- 50% of each instalment in cash and 50% in Banco BPM ordinary shares. There is a retention period

(sale restriction) on the shares attributed of two years for the up-front shares and of one year for the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is accrued. The vesting of the shares occurs at the same time as the respective cash portions, while the assignment to the recipients (and therefore actual transfer of ownership) takes place at the end of the retention period. The book value of both the up-front and deferred portions of the shares assigned will be equal to the "normal value", corresponding to the arithmetic mean of the official prices recorded in the third calendar days preceding the date on which each portion becomes available through the transfer to the recipient's securities portfolio. In compliance with the provisions of Article 2357-ter, paragraph 2 of the Italian Civil Code, any rights and/or dividends associated with the shares shall accrue in favour of the beneficiary starting from the transfer of the securities to the recipient's securities portfolio;

- only in the absence of verified fraudulent conduct or gross negligence implemented by the terminated person, or conduct that leads to heavy losses. The verification of this conduct, sanctioned by the internal disciplinary process or by a first or second instance ruling issued during legal proceedings, shall suspend the disbursement of the deferred components. The conclusion of the internal disciplinary process or the final judgment, along with the assessment of the Managing Director of the Parent Company or the Board of Directors of the Parent Company for parties directly appointed by this body with regard to the significance of the negligence or loss, entail the cancelation of portions not yet disbursed (*malus*) and the return of those already attributed (claw back);

- subject to the authorisation from the Managing Director of the Parent Company.

The Supervisory Provisions also specify that compensation (other than that set out by law) agreed in view of or on early termination of employment, or early termination of office, paid to key personnel in an amount exceeding notice payments are considered golden parachutes.

In that regard, it is specified that the financial measures defined for early termination of employment by the specific category national collective labour agreements (specifically, the payments made pursuant to Articles 28, 30 or 32 for personnel classified as executives or Article 11 and Chapter XI for personnel in the professional areas or classified as middle managers) are included in the concept of notice payments (and, therefore, excluded from the specific regulations on variable remuneration), also in relation to settlements defined in order to avoid the threat of legal proceedings, provided that they fall within the limits set by the law and national agreements.

It is specified that the limits in terms of years of remuneration and maximum amount, as mentioned above, include any golden parachutes as well as any compensation deriving from the provisions of law and national collective labour agreements, as above.

The criteria for determining the compensation to be agreed in the event of early termination of employment or early termination of office, and the limits set for said compensation, shown above, remain unchanged on that approved by the Shareholders' Meeting in 2017, under the



Remuneration Policies.

Verona, 27 February 2018

The Board of Directors

Remuneration policies:

d) compensation plans based on the shares of Banco BPM S.p.A.: annual incentive system (2018). Relevant and consequent resolutions.

Dear Shareholders,

You have been called to resolve, pursuant to Article 114-bis, paragraph 1 of the CFL, on a compensation plan (the **Plan**), that calls for the valuation of a portion of the variable component of remuneration of the executive members of the Board of Directors and employees and collaborators of the Banco BPM Banking Group in the category of "key personnel", to be paid through the free assignment of ordinary shares (the **Shares**) of Banco BPM S.p.A. (the "Bank" or the "Company"), proposed as part of the remuneration policies adopted by the Group under the 2018 annual incentive system.

The characteristics of the Plan are illustrated in detail in the information document (the **Information Document**) prepared by the Bank pursuant to Article 84-bis of the Issuers' Regulation. The structure of the Group remuneration and incentive plans is illustrated in the 2018 Remuneration Report of the Banco BPM Banking Group.

The Information Document and the Remuneration Report are made available to the Shareholders and the public pursuant to law, *inter alia*, on the website of the authorised storage mechanism www.emarketstorage.com and on the Bank's website at www.bancobpm.it (Corporate Governance – Remuneration Policies section).

In the last few years, the issue of remuneration of listed companies and, more specifically, companies in the financial sector has been handled with increasing attention by international organisations and regulators, with the goal, among others, of guiding companies to adopt remuneration and incentive systems in line with the company values, strategies and long-term objectives.

For potential recipients of the Plan, 50% of the bonus paid under the 2018 incentive system, subordinate to the achievement of pre-set conditions for access, as well as specific performance targets, is disbursed through the free assignment of ordinary shares of Banco BPM, subject to deferral and retention clauses (sale restriction). 60% of the share component vests up-front and the remaining 40% is deferred in three annual instalments of equal amount. For bonuses paid exceeding euro 300 thousand, the up-front portion comes to 40% and the remaining 60% is deferred in five annual instalments of equal amount. The retention period starts from the vesting and is two years for the up-front portion and one year for the deferred portions. The shares shall be effectively available to the beneficiaries starting from the end of the retention period. Considering the retention period, the Plan concludes in 2025. Thus, the Plan is proposed under the remuneration policies adopted for 2018, to align the interests of the management and shareholders, remunerating Group's strategic resources based on the creation of value over the medium/long



term.

For additional information – including that regarding the reasons underlying the adoption of the Plan, the recipients, the approval process and the timescale for assignment of the Shares – refer to the Information Document and the Remuneration Report.

Verona, 27 February 2018

The Board of Directors

Dear Shareholders,

In light of all of the above, we ask that you approve the following proposed resolution (on which separate votes will be proposed based on the topic, one for each point of resolution, each with its own mandate for execution):

"The Shareholders' Meeting,

- having examined and acknowledged the content of the Remuneration Report, as well as the results of the related verifications conducted by the internal audit and compliance functions of Banco BPM S.p.A., made available to the Shareholders according to the methods and within the terms set out in regulations in force;*
- acknowledging the content of the Information Document on the 2018 compensation plans, made available to the Shareholders according to the methods and within the terms set out in regulations in force;*
- taking account of that illustrated in this Report,*

RESOLVES

- Resolution 1: approval to the extent of its responsibility – without prejudice to subsequent resolutions - of the content of the Remuneration Report prepared pursuant to Article 123-ter of the CFL and the Supervisory Provisions of the Bank of Italy in force and, as a result, in particular: (i) also pursuant to Article 11.3, letter (g) of the Articles of Association, the remuneration and incentive policies for the members of the Board of Directors, the Statutory Auditors and personnel; (ii) to resolve, pursuant to and within the limits of Article 123-ter, paragraph 6 of the CFL in favour of the related sections of the Remuneration Report;*
- Resolution 2: approval, to the extent of its responsibility, of including in the structure of the Group remuneration and incentive systems, starting from 2018, the upper limit of 2:1 for the ratio of the variable component to the fixed component of individual remuneration for selected company officers, as described in the text;*
- Resolution 3: approval of the criteria for determining the compensation to be agreed in the event of early termination of employment or early termination of office, including the limits set for said compensation in terms of two years of gross fixed annual pay up to the maximum limit of euro 2.4 million (employee gross amount);*
- Resolution 4: approval, pursuant to Article 114-bis of the CFL and Article 84-bis of the Issuers' Regulation, of the Plan, which calls for the valuation of a portion of the variable component of remuneration of the executive members of the Board of Directors and employees and collaborators of the Banco BPM Banking Group in the category of key personnel, to be paid through the free assignment of ordinary shares of Banco BPM S.p.A., proposed as part of the remuneration policies adopted by the Group under the 2018 annual incentive system;*

granting a mandate to the Chairman of the Board of Directors, the Managing Director, severally and with the right to sub-delegate, for the purpose of correct and prompt execution of these



resolutions and the formalities and deeds related thereto and/or resulting therefrom, assigning them all the necessary powers for such purpose, including the power to make any changes or additions thereto that may be necessary and/or opportune in relation to requests or recommendations of the Supervisory Authorities or the market management company".

Verona, 27 February 2018

The Board of Directors