

This document is a courtesy translation into English of the Board of Directors' Report on the proposed amendments to the Bylaws. In case of any discrepancies between the English and the Italian version, the Italian version shall prevail.



**EXPLANATORY REPORT
OF THE BOARD OF DIRECTORS OF BANCO BPM S.P.A.
ON ITEM 6 OF THE AGENDA FOR THE ORDINARY SHAREHOLDERS' MEETING**

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

Ordinary and Extraordinary Shareholders' Meeting of 7 April 2022



Explanatory report of the Board of Directors of Banco BPM S.p.A. pursuant to article 125-ter of Legislative Decree no. 58 of 24 February 1998 as amended (Consolidated Law on Finance) on item 6 of the agenda of the Ordinary Shareholders' Meeting called for 7 April 2022, on single call, regarding the:

"Compensation Plans based on shares of Banco BPM S.p.A.:

1. Approval of the short-term incentive plan (2022). Pertinent and consequent resolutions.
2. Approval of the *long-term incentive plan (2022-2024)* and the raising of the levels of achievement of the performance objectives of the *long-term incentive plan (2021-2023)*, in line with the most challenging 2023 objectives of the Strategic Plan. Pertinent and consequent resolutions."

Dear Shareholders,

with reference to item 6 on the agenda, you have been called to the Shareholders' Meeting to resolve, pursuant to Article 114-bis, paragraph 1, of Legislative Decree no. 58 of 24 February 1998 as amended and supplemented ("the **T.U.F.**"), concerning the "Compensation Plans based upon Banco BPM S.p.A. shares" for the:

1. short-term *incentive system* or **2022 short-term incentive plan (the "2022 Plan"** or the "S.T.I. Plan"), which provides for the valuation by the assignment of ordinary shares (the "Shares") of Banco BPM S.p.A. (the "Bank" or the "Company") of an amount of the variable component of the compensation, addressed to the executive members of the Board of Directors and to employees and collaborators of the Banco BPM Banking Group, as it pertains to the category of key personnel ("the P.P.R.");
2. *long-term incentive system* or long-term incentive plan (the "**L.T.I. Plan**"), which provides for enhancement through the assignment of Bank Shares of the long-term variable component of the compensation of executive members of the Board of Directors and of employees and collaborators of the Banco BPM Banking Group attributable to the category of top management roles in the Group. The S.T.I. and the L.T.I. Plans are proposed as part of the remuneration policy (the "Policy") adopted by the Group, applicable respectively to the 2022 short-term incentive plan and to the long-term

incentive plan, the latter defined on the basis of the 2021-2023 performance period and to the 2022-2024 performance period.

The 2021-2023 L.T.I Plan was approved by this Assembly at the meeting of 15 April 2021. The features of the 2022-2024 S.T.I. and L.T.I. Plans are detailed in the respective information documents (the "Information Documents") prepared by the Bank pursuant to Art. 84-bis of Consob Regulation no. 11971/99, as amended and supplemented (the "Issuers' Regulation"); the Plan structure and Group Policy are illustrated in the "Report on the Remuneration Policy and Remuneration Paid of the Banco BPM Banking Group - 2022" (the "Remuneration Report").

The Disclosure Documents and the Remuneration Report are available to the Shareholders and the public, in accordance with the law, inter alia, on the website of the authorised storage platform www.emarketstorage.com and on the Banco BPM website www.gruppo.bancobpm.it (Corporate Governance section – Remuneration Policies).

The subject of the remuneration of executive members of the Board of Directors and of the identified staff of listed companies and, more specifically, of the financial sector, is increasingly attracting the attention of international bodies and of regulators, with a view, inter alia, to guide companies to adopt remuneration and incentive systems in line with the values, strategies and long-term objectives of the company. In said context, Banco BPM Group intends to implement:

- a short-term incentive plan (2022). The related S.T.I. Plan is potentially addressed to about 150 recipients, for whom at least 50% of the recognised incentive is paid through the assignment of Shares, subject to deferral and retention clauses (obligation to sell) for one year. The implementation period of the STI Plan is between the reference year for the recognition of the results of the 2022 short-term incentive plan and the actual availability of the last deferred portion in Shares (2028, or 2029 in case of deferral over five years); considering the retention period, the Plan will end in 2029. The expected cost is estimated at approximately 4.5 million Euro for the approximately 150 potential recipients of the Plan;
- a long-term incentive plan, to support the 2021-2024 Strategic Plan approved by the Board of Directors on 4 November, 2021. In particular, approval of a 2022-2024 Long-Term Incentive Plan is proposed, alongside the 2021-2023 *Long-Term Incentive* plan previously approved by the Shareholders' Meeting last 15 April

2021, by which it is simultaneously proposed to raise the achievement levels (cap and floor) of the ROTE and Gross NPE ratio indicators to the most challenging objectives for 2023 of the 2022-2024 Strategic Plan. For the ROTE, the floor goes from 4% to 5% and the cap from 6% to 7%; for the Gross NPE ratio, the floor goes from 9.5% to 6.9% and the cap from 7.6% to 5.4%. The remaining performance objectives of the 2021-2023 *long-term incentive* plan remain unchanged. For ease of reference, the overall context of the 2021-2023 L.T.I. plan is reported below:

- ROTE at 2023, weight 35%, floor 5% and cap 7%,
- Gross NPE ratio at 2023, weight 35%, floor 6.9% and cap 5.4%,
- Total Shareholder Return (TSR) vs peers, weight 15%, average floor and cap > 70%ile;
- ESG, weight 15%:
 - o Rating Standard Ethics, EE floor and EE+ cap,
 - o Increase of women in managerial positions as at 31/12/2023, floor +15% and cap +33%,
 - o CO₂ Emissions, floor -50% and carbon neutrality cap,
 - o Social initiatives (hours), 6,000 floor and 8,000 cap.

The 2022-2024 L.T.I. Plan is potentially addressed to about 60 recipients, to whom the incentive is fully recognised in the form of Shares, subject to *deferral* and retention clauses (obligation to sell) for one year. The implementation period of the 2022-2024 L.T.I. Plan is included between the year of approval by the Shareholders' Meeting and the actual availability of the last deferred portion in Shares (2030, or 2031 in the event of a deferral over five years); considering the *retention* period, the L.T.I. will end in 2031. The estimated burden is expected to be 5.5 million Euro.

The S.T.I. and the L.T.I. Plans envisage conditions and results to which the attribution of the Shares is subject and, therefore, align the incentives with the long-term objectives of the Group and bring together the interests of management and shareholders, remunerating the Group's key personnel based on the creation of medium-to-long term value.

For additional information - including information regarding the reasons that motivate the adoption of the S.T.I. and of the LTI Plans, as well as the recipients, the approval or review process, the conditions and results to which the assignment of the Shares is subject and the relative timing of assignment - please refer to the Information Documents and the

Remuneration Report referred to in at point 6 on the agenda of the Shareholders' Meeting.

* * *

Now, therefore, we hereby invite you to approve the following proposed resolutions:

Resolution on the short-term incentive plan (2022)

"The ordinary Shareholders' Meeting of Banco BPM S.p.A.:

- after examining and acknowledging the content of the Explanatory Report of the Board of Directors regarding the S.T.I. Plan;*
- after acknowledging the Disclosure Document relating to the S.T.I. Plan, made available to the Shareholders and the public in the manner and within the terms envisaged by current legislation;*
- after considering the provisions of the Remuneration Report, also made available to the Shareholders and the public in the manner and within the terms envisaged by current legislation,*

resolves

- 1. to approve, pursuant to Art.114-bis of the T.U.F. And Art. 84-bis of the Issuers' Regulations, the 2022 S.T.I. Plan; which provides for the valuation of a portion of the variable component of the remuneration through the free assignment of ordinary shares of Banco BPM S.p.A. to executive members of the Board of Directors and to employees and collaborators of the Banco BPM Banking Group attributable to the category of key personnel, proposed as part of the remuneration policy adopted by the Group in relation to the 2022 Short-Term Incentive Plan, within the terms and in the manner described in the documentation referred to above;*
- 2. to award mandate to the Board of Directors and on its behalf to the Chairman, to the CEO, separately, for the proper and timely implementation of this resolution and for the formalities and action related and/or consequent to the same, awarding the widest powers to them, including that of delegating said activities to the competent functions of the Bank and/or of Group Companies and to comply with the obligations (also for disclosure to the market) pursuant to the applicable legislation where requested by the Supervisory Authorities or by the market management company."*

Resolution concerning the Long-Term Incentive Plan

"The ordinary Shareholders' Meeting of Banco BPM S.p.A.:

- after examining and acknowledging the content of the Explanatory Report of the Board of Directors regarding the L.T.I. Plan;*
 - after acknowledging the Disclosure Document relating to the 2022-2024 L.T.I. Plan, made available to the Shareholders and the public in the manner and within the terms envisaged by current legislation;*
 - after considering the provisions of the Remuneration Report, also made available to the Shareholders and the public in the manner and within the terms envisaged by current legislation, resolved*
- 1. to approve, pursuant to Art. 114-bis of the T.U.F. and Art. 84-bis of the Issuers' Regulation, the 2022-2024 L.T.I. Plan and the raising of the levels of achievement of the performance objectives of the 2021-2023 LTI plan to the most challenging expectations for year 2023 of the Strategic Plan, on the basis of the documentation mentioned before. The L.T.I. Plan envisages the enhancement of a portion of the variable component of the remuneration through the free assignment of ordinary shares of Banco BPM S.p.A. to executive members of the Board of Directors and to employees and collaborators of the Banco BPM Banking Group, as it pertains to the top management roles of the Group, and is proposed as part of the remuneration policy adopted by the Group in relation to the long-term incentive plan, within the terms and in the manner described in the documentation referred to above;*
 - 2. to award mandate to the Board of Directors and on its behalf to the Chairman, to the CEO, separately, for the proper and timely implementation of this resolution and for the formalities and action related and/or consequent to the same, awarding the widest powers to them, including that of delegating said activities to the competent functions of the Bank and/or of Group Companies and to comply with the obligations (also for disclosure to the market) pursuant to the applicable legislation where requested by the Supervisory Authorities or by the market management company."*

Milan, 1st March 2022

The Board of Directors