



This document is a translation into English of the Report of the Board of Directors of Banco Popolare – Società Cooperativa (Relazione Illustrativa del Consiglio di Amministrazione del Banco Popolare – Società Cooperativa) drawn up pursuant to Article 2501-quinquies of the Italian Civil Code in connection with the merger between Banco Popolare – Società Cooperativa and Banca Popolare di Milano s.c. a r.l..

In case of any discrepancies between the English and the Italian version, the Italian version shall prevail.

**REPORT OF THE BOARD
OF DIRECTORS OF
BANCO POPOLARE-SOCIETÀ COOPERATIVA**

**ON THE MERGER PLAN BETWEEN BANCO POPOLARE - SOCIETÀ COOPERATIVA
AND BANCA POPOLARE DI MILANO S.C. A R.L., TO BE IMPLEMENTED THROUGH
THE ESTABLISHMENT OF A NEW BANKING COMPANY**

(drawn up pursuant to Article 2501-quinquies of the Italian Civil Code, Article 125-ter of Legislative Decree no. 58 of 24 February 1998 and Articles 70, Paragraph 2 and 73 of the regulation enacted by Consob Resolution no. 11971 of 14 May 1999 as amended and integrated)

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Dear Shareholders,

This Report (the “**Report**”) has been drawn up to explain and justify, legally and economically, the Merger Plan of the “direct” Merger between Banco Popolare – Società Cooperativa and Banca Popolare di Milano S.c. a r.l., to be implemented through the establishment of a new banking company in the form of a joint stock company.

The Report has been drawn up pursuant to Article 2501-quinquies of the Italian Civil Code and Article 70, Paragraph 2, of the regulation enacted by Consob Resolution no. 11971 of 14 May 1999, as amended and integrated (the “**Issuers’ Regulation**”), in accordance with Scheme no. 1 of Annex 3A to that regulation, as well as Article 125-ter of the Legislative Decree no. 58 of 24 February 1998 (“**Consolidated Act on Finance**”) and Article 73 of Issuers’ Regulation in accordance with Scheme no. 4 of Annex 3A.

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1. ILLUSTRATION OF THE MERGER AND THEREASONS THEREFOR, WITH PARTICULAR REGARD TO THE MERGING COMPANIES' MANAGEMENT OBJECTIVES AND TO THE PLANS ESTABLISHED FOR THEIR ACHIEVEMENT

1.1 **Structure of the transaction**

1.1.1. Essential elements of the transaction and legal facets

On 23 March 2016, following the approval by their respective governing bodies, Banco Popolare – Società Cooperativa (“**Banco Popolare**”) and Banca Popolare di Milano S.c a r.l. (“**BPM**”), entered into a memorandum of understanding regulating the essential points of a “direct” merger transaction between Banco Popolare and BPM (the “**Memorandum of Understanding**”), to be carried out, pursuant to Article 2501 *et seq.* of the Italian Civil Code, through the establishment of a new banking company in the form of a joint stock company.

On 24 May 2016, the Board of Directors of Banco Popolare and the Management Board of BPM, following the favorable opinion of the Surveillance Board, approved the Merger Plan related to the Merger, in accordance with and for the purposes of Article 2501-ter of the Italian Civil Code (the “**Merger Plan**”), as integrated until 12 September 2016.

The name of the new banking company resulting from the Merger will be Banco BPM Società per Azioni (the “**Company**” or “**ParentCo**”).

ParentCo will carry on, at the same time, the functions of bank and holding company, with operational, coordination and unitary direction functions on all the companies composing the group resulting from the Merger.

ParentCo will have two headquarters, one in Verona and one in Milan. The registered office will be in Milan and the administrative office will be in Verona.

At the date of incorporation of ParentCo, the functions of the central and administrative functions shall be allocated between Verona and Milano as follows:

- (i) the following functions of the central structures shall be located in Verona: Accounting & Tax, Audit, Compliance, Credits, Divisional Banking Activities, Institutional/Public and Other Clients, Planning and Control, Retail Clients, Risks, General and Corporate Secretary, Equity Investments and Leasing;
- (ii) the following functions of the central structures shall be located in Milan: Communication, Corporate, Finance, Private & Investment Banking, Investor Relations, Legal, M&A and Corporate Development, Operations/Organization, Human Resources, IT, Asset Management and Bancassurance.

Banco Popolare's divisions, currently located in Lodi (Human Resources, Institutional/Public and Other Clients, and Equity Investments) and in Novara (Divisional Banking Activities), will gradually move to the Verona and Milan offices and on the basis of a program that will be guided by efficiency and saving-costs criteria and, in any case, so as to maintain significant organizational structures in Lodi and Novara.

Pursuant to Article 2504-bis of the Italian Civil Code, due to the Merger, ParentCo will assume rights and obligations of the merging companies, continuing in all their relationships, including those relating to legal proceedings existing prior to the merger. Moreover, pursuant to Article 57, Paragraph 2, Legislative Decree no. 385 of 1 September 1993 ("**Consolidated Act on Banking**"), the encumbrances and guarantees of any type, provided by any party to or otherwise in the possession of the merging banking company will retain their validity and degree, without the need for any formality or annotation in favour of ParentCo.

The application for admission to the listing will be submitted to the "Mercato Telematico Azionario" organized and managed by Borsa Italiana stock exchange ("**MTA**") for the shares of ParentCo issued as a result of the Merger, seamlessly with the listing of the shares of Banco Popolare and BPM, starting from the date of effectiveness of the Merger.

Through the Merger (and as a result of the resolution of approval of the Merger) both Banco Popolare and BPM – which have established to have assets higher than Euro 8 billion threshold pursuant to Article 29, Paragraph 2, of the Consolidated Act on Banking – will carry out their respective transformation from cooperative company to joint stock company mandated by Article 29, Paragraph 2-ter of the Consolidated Act on Banking. In this regard, please note that the deadline for the transformation into joint stock company, pursuant to Article 1, Paragraph 2, Decree Law no. 3 of 24 January 2015, converted into Law n. 33 of 24 March 2015, and under the Bank of Italy Implementing Provisions (Circular no. 285 of 17 December 2013 – 9th update of 9 June 2015, the "**Implementing Provisions**") is set for 18 months from the coming into force (which occurred on 27 June 2015) of the Implementing Provisions, that is 27 December 2016.

As regards ParentCo's corporate governance, please refer to the explanation set out in the following Paragraph 8 of this Report, as well as the Merger Plan and the connected By-laws enclosed as annexe to this Report.

1.1.2 The Spin-off

As part of the Merger and subject to completion of the Merger, it is provided that BPM, subject to the obtainment of the authorizations required by the law, shall carry out a contribution-in-kind to an already existing banking company of the entire network of branches (the "**Spin-off**"). The Spin-off forms an integral and essential part of the Merger.

The company beneficiary of the Spin-off has been identified by BPM in Banca Popolare di Mantova S.p.A., with registered office in Mantova, Piazza Martiri di Belfiore n. 7, which is

part of the BPM banking group, and subject to the control and to the direction and coordination activity of BPM (which, at the date of this Report, holds 94.39% of the share capital).

The company beneficiary of the Spin-off will have the form of a joint stock company, will take the company name, agreed on between Banco Popolare and BPM, of “Banca Popolare di Milano – Società per azioni” (“**Nuova BPM**”) and, following the Merger, will be controlled by ParentCo. This company will carry out the function of network-bank under the direction and coordination of ParentCo (where the administrative, planning, treasury and other central functions shall be centralized), and will have the registered office and administrative headquarter in Milano, and a “light” organization structure coherent with said nature of network-bank so to avoid duplication of costs and overlapping with the organization structure of the Company.

With regard to Nuova BPM’s governance, (i) the extraordinary transactions regarding Nuova BPM, including the merger by incorporation into ParentCo pursuant to Article 2505 of the Italian Civil Code, shall be approved by the Board of Directors of ParentCo and by Nuova BPM with the majorities provided by the law and (ii) within a reasonable period of time from the consummation of the Spin-off and, in any case, with effect starting from the third year following the effective date of the deed of merger, Nuova BPM shall be incorporated into ParentCo.

From a technical standpoint, the Spin-off will be implemented by a share capital increase that will be resolved by Banca Popolare di Mantova to service the contribution-in-kind comprising the network of branches carried out by BPM. The amendments of the By-laws related to the Spin-off and those connected to it have been authorized by Bank of Italy on 8 September 2016 in accordance with Article 56 of the Consolidated Act on Banking.

1.1.3 Banco Popolare’s capital strengthening measure

The Memorandum of Understanding and the Merger Plan provide that, in order to allow ParentCo to have capital resources consistent with the role and the importance that the Group resulting from the Merger will take in the Italian lending system, Banco Popolare – in advance of Banco Popolare’s and BPM’s extraordinary shareholders’ meetings convened to approve the Merger – shall carry out a capital strengthening transaction having the overall amount of Euro 1,000,000,000.00 (one billion) (the “**Share Capital Increase**”)

The above mentioned capital strengthening measure is one of the conditions that the European Central Bank has required during the preliminary assessment of the combination between Banco Popolare and BPM; on that occasion, the European Central Bank underlined that the company resulting from the merger, considering the role that it will play in the Italian market, shall have, since its beginning, a strong position in terms of capital and assets quality, enabling to face also an adverse financial context, and positioning the group resulting from the Merger at a level of capitalization compliant with the European and Italian best practice and having a non performing loans’ coverage aligned with the highest national banking system standards.

On 7 May 2016, the Extraordinary shareholders' meeting of Banco Popolare approved the capital strengthening measure, conferring in this respect to the Board of Directors of Banco Popolare the power, pursuant to Articles 2420-ter and 2443 of the Italian Civil Code, to carry out the Share Capital Increase.

On 10 May 2016 and 2 June 2016, the Board of Directors of Banco Popolare resolved to exercise the delegation conferred by the Extraordinary shareholders' meeting of 7 May 2016, increasing the Share Capital Increase pursuant to Article 2443 of the Italian Civil Code for the amount of Euro 996,343,990.56 and providing that said increase shall be carried out through the issuance of a number of 465,581,304 new ordinary shares to be pre-emptively offered to those having such right.

The Share Capital Increase was closed on 1 July 2016 with the full subscription of the amount of Euro 996,343,990.56, entirely allocated to share capital.

For further details about the Share Capital Increase, please refer to the documents made available by Banco Popolare and available on Banco Popolare's website www.bancopopolare.it, section "investor relations", "2016 share capital increase".

1.1.4 Conditions for the transaction

The Memorandum of Understanding and the Merger Plan provide that the consummation of the Merger is subject, in addition to Merger Plan's approval by the respective Shareholders' Meetings, also to the obtainment of the required authorizations and / or clearances by the competent regulatory authorities (including the authorization of the Merger pursuant to Article 57 of the Consolidated Act on Banking as well as the authorization by the Antitrust Authority pursuant to Law 10 October 1990 n. 287).

In this regard, it is noted that:

- a) on 20 July 2016, the Antitrust Authority issued the antitrust clearance, pursuant to Article 16, Paragraph 4, Law no. 287 of 10 October 1990;
- b) on 8 September 2016, the Bank of Italy authorized the Merger in accordance with and for the purposes of Article 57 of the Consolidated Act on Banking;
- c) on 9 September, the European Central Bank authorized:
 - (i) pursuant to Articles 4.1(a) and 14 of the EU Regulation n. 1024/2013, the conduct by ParentCo (x) of banking business pursuant to Article 14 Consolidated Act on Banking (y) of services and investment activities pursuant to Article 1, Paragraph 5, Letters from a) to f), Article 18, Paragraph 1 and Article 19, Paragraph 4 of the Consolidated Act on Finance, (w) the issuance of bank drafts, in accordance with Article 49 of the Consolidated Act on Banking and (z) the performance of custodian functions, pursuant to Article 47 of the Consolidated Act on Finance;
 - (ii) pursuant to Articles 4.1(c) and 15 of EU Regulation n. 1024/2013 the purchase by ParentCo, as a result of the Merger, of the controlling and qualified participating interests held, as of the date hereof, by Banco Popolare and

BPM in Italian banking companies, pursuant to Article 19 of the Consolidated Act on Banking.

The Memorandum of Understanding provides that, if within the term of 1 November 2016 – term that the parties may agree to extend if, at such date, the required authorizations by the Regulatory Authorities and by the Antitrust Authority would have been obtained (as actually occurred) and the parties were still to await the required authorizations from Consob and Borsa Italiana S.p.A for the listing of ParentCo's shares – the process of approval of the transaction by the competent corporate bodies of the merging banking companies would not be concluded, the Memorandum of Understanding shall be devoid of any effectiveness (and the Parties shall be free, with retroactive date as from the execution of the Memorandum of Understanding, from any obligations and rights provided therein).

The effectiveness of the Memorandum of Understanding was made subject to condition subsequent of the failure to carry out the Share Capital Increase, which condition – as said above (see Paragraph 1.1.3) - may not occur, since the Share Capital Increase has been closed with the full subscription of the same.

1.1.5 Authorization to the purchase of treasury shares

Reasons for the request of authorization for the purchase and disposal of treasury share

At the date of this Report, Banco Popolare and BPM have outstanding certain plans for the allocation of treasury shares and/or remuneration policies which provide that the payment of a portion of the variable (bonus) remuneration due up front up or deferred be made through the allocation of shares, and, in particular:

- (i) as regards Banco Popolare, on 10 March 2016, the ordinary shareholders' meeting approved (x) a plan for the allocation of shares in favour of certain Board of Directors' executive members and certain employees and other collaborators of particular relevance in the Group (ascribable to the category of "most important personnel" in accordance with Part 1, Title IV, Chapter 2, Bank of Italy Circular n. 285 of 17 December 2013), in connection with the 2015 incentive scheme and (y) subject to the authorizations required by the law, the purchase of treasury shares to be used for said plan (for any further information please refer to the Report dated 9 February 2016 drawn up by the Board of Directors of Banco Popolare pursuant to Article 114-*bis* and 125-*ter* of the Consolidated Act on Finance and to Article 73 of the Issuers' Regulation, available on the web-site www.bancopopolare.it, section corporate governance);
- (ii) as regards BPM, on 30 April 2016, the shareholders' meeting of BPM approved, subject to the authorizations required by the law, the purchase of treasury shares to implement the remuneration policies adopted by BPM, which provide that for the "most important personnel" (in accordance with the provisions of Part 1, Title IV, Chapter 2 of the Bank of Italy Circular no. 285 of 17 December

2013) half of the up-front and half of the deferred compensation of the bonus shall be awarded in the form of BPM shares (stock granting plan) and that any compensation associated with the termination of the employment relationships of employees which are part of the category of “most important personnel” (so called golden parachute) shall be paid half in shares, with an up-front and a deferred apportionment (for any further information, refer to the 10 March 2016 Report, drawn up by the Management Board of BPM pursuant to Article 125-ter of the Consolidated Act on Finance, available on the web-site www.gruppobpm.it, section governance);

The carrying out – subject to the authorizations requested by law- of the purchase and disposal of treasure shares, for which the authorization is being requested, shall therefore aim at allowing ParentCo to fulfill, where necessary, its commitments regarding the assignment of shares to directors, employees and collaborators that have been already undertaken by Banco Popolare and/or BPM according to the respective plans for the allocation of treasury shares and/or remuneration policies currently in force (or in which ParentCo will succeed into as a result of the Merger).

In connection with the consummation of the Merger, it is provided that ParentCo shall be authorized, in accordance with Articles 2357 and 2357-ter of the Italian Civil Code, to proceed with the purchase, also in more tranches, of treasury shares, as well as to dispose such treasury shares so purchased from time to time.

Maximum amount, category and nominal value of the shares for which the authorization is required

The authorizations that Banco Popolare and BPM shareholders’ meetings will give to the Board of Directors of ParentCo regard the purchase and disposal of ordinary shares (without nominal value) of ParentCo, resulting from the Merger.

The authorization concerns the purchase, also in more tranches, of a maximum number of treasury shares not exceeding 1% of the initial share capital of ParentCo (without prejudice to Article 2357, Paragraph 1, of the Italian Civil Code).

The authorization includes the possibility to subsequently proceed with the disposal, in one or more tranches, of treasury shares purchased and held in portfolio from time to time.

Subsequent purchase and sale transactions involving shares are authorized.

Period of time for which the authorization is requested

The authorization to the purchase of treasury shares by ParentCo is requested from the date on which the Merger will become effective and for a maximum period of up to 18 months starting from that date.

The authorization to the disposal of purchased treasury share is requested without time limit.

Minimum and maximum price

The purchases shall be made by ParentCo at a price not lower than 15% (fifteen per cent) and not higher than 15% (fifteen per cent) of the official price registered by the stock on the Mercato Telematico Azionario on the day before each individual purchase, without prejudice to the limits set out by Article 5, Paragraph 1, of EC Regulation no. 2273/2003 (and, accordingly, the purchase price cannot be higher than the price resulting from both the latest independent trade and the highest current independent bid on the trading venues where the purchase is concluded).

The treasury shares held in portfolio will be used to fulfill as necessary the commitments in which ParentCo will succeed as a result of the Merger and related to the assignment of shares pursuant to the stock grant plans involving treasury shares and/or remuneration policies currently in force for Banco Popolare and BPM, pursuant to the above mentioned Banco Popolare's and BPM's plans and/or remuneration policies.

Methods for purchase and sale of treasury shares

The purchase transactions shall be carried out in accordance with Article 132 of the Consolidated Act on Finance as well as Article 144-*bis* of the Issuers' Regulation and in any case according to modalities compliant with current legislation. In particular, the purchases shall be carried out in accordance with the operating procedures established in Article 144-*bis* of the Issuers' Regulation and which shall ensure an equal treatment to all shareholders and not allowing the direct matching of offers to buy with predetermined offers to sell. The purchase operation can occur in one or several transactions.

As regards the disposal of treasury share, such shares may be assigned, in one or more tranches also before the completion of the purchases, in order to fulfill, when necessary, the commitment in which ParentCo will success as a result of the Merger pursuant to the stock grant plans of treasury shares and/or remuneration policies currently in force for Banco Popolare and BPM.

The purchase of treasury shares authorized pursuant to the above may be carried out only upon the obtainment of the authorization required under the applicable provisions of EU Regulation no. 575/2013 and EU Delegated Regulation no. 241/2014.

1.2 Economic and strategic rationale for the Transaction and managerial targets

Business Rationale

The integration between Banco Popolare and BPM will create the third largest banking group in Italy, leader in the wealthiest areas of the country. The transaction represents a landmark event for the banking sector and for the Italian financial system, given this is the

largest amalgamation between Italian banking groups over the last 10 years and the first following the *Popolari* banks reform approved in 2015 by the Italian Government.

The Merger is taking place in the context of an evolving banking system on the back of key trends - such as globalization and liberalization of financial markets, harmonization of regulations on banking intermediation, technological innovation and higher accessibility of the Italian market to foreign investors and capital –, which require the identification of a strategic plan aiming at maintaining and gaining a higher level of competitiveness.

In this context, the Italian banking sector restructuring and renewal process, initiated by the Italian Government with the reform to transform *Popolari* banks into joint-stock companies, is a key catalyst to promote aggregation processes and thus to reduce the high fragmentation of the Italian banking system.

In light of the current trends, the implementation of an aggregation process enabling the achievement of competitive strengthening objectives assumes primary importance for medium-sized banks, while preserving at the same time the key features in terms of both competences and links with the territory of traditional presence.

In this perspective, the Merger represents an industrial project underpinned by an important strategic value for the two Groups, thanks to the complementary nature of the product factories, distribution networks, products offered and customer bases, which will lead to the creation of a competitive banking model in all market conditions.

The new Group will serve over 4 million customers through a distribution network of c. 2,500 branches supported by a multi-channel distribution model and benefiting from a leading position in Northern Italy and, in particular, in some of the wealthiest regions of the country such as Lombardy (1st player with a market share above 15%), Veneto (3rd player with a market share above 9%) and Piedmont (3rd with a market share above 12%).

The Merger will create the third largest player in Italy (by number of branches, net customers loans and direct and indirect funding), with total assets of over €171bn; direct funding of €120bn against net customer loans of €113bn; indirect funding of €105bn of which €56bn assets under management; and over 25,000 employees.

The new Group will have a customized offer targeted to all market segments, with a renewed focus on Corporate, Private, Retail and Small Business clients. With regards to the product factories, the entity resulting from the Merger will be a national leader in various high value-added businesses (top 3 in Debt & Equity Brokerage, Consumer Finance and Private Banking, top 5 in Bancassurance and Asset Management⁽¹⁾), with a

(¹) Source: for Consumer Finance: “*Report Assofin sul credito al consumo 2015, compreso credito e cartolarizzazioni*”. New Group figures including AGOS’s total assets. For Debt Brokerage: Report Assosim 1Q2015. “*Controvalori Bonds c/terzi*”. For Equity Brokerage: Assosim 2015 “*Controvalori Equity c/terzi*”. For Private Banking: 2015 AUM of Private Banking & Wealth Management clients, AIPB website. Banca Aletti figures including AUM of Institutional / Bancassurance clients. For Bancassurance: ANIA Trends 2015, life new written premium, only through banking channel. Position calculated excluding Aviva, Axa Italia, Ergo, Generali, Allianz, Sara, Unipol, Zurich, Old Mutual, Reale Assicura. For Asset Management: Assogestioni, total Asset under Management, including Anima.

prominent position which will allow the new Group to take advantage of its extensive branch network, its portfolio of highly recognized brands and cross-selling opportunities among its product factories.

The new Group will benefit since inception of solid capital and liquidity positions, and in particular:

- solid capital position, with a pro-forma fully loaded CET1 ratio, calculated based on Banco Popolare and BPM Common Equity Tier 1 Capital and RWA data as of 31 December 2015, equal to c. 12.3%². The Strategic Plan (as defined below) envisages such ratio to increase to c.12.9% in 2019. The main assumptions behind this estimate are: (i) a target dividend payout ratio of c. 40%, (ii) sufficient organic capital generation to compensate the conservative assumptions on the evolution of capital requirements for market and operational risk, and (iii) benefits from the extension of AIRB credit risk models currently used by Banco Popolare to the entire perimeter of the new Group;
- solid liquidity position with a Liquidity Coverage Ratio (LCR) and a Net Stable Funds Ratio (NSFR) above 100% across the Strategic Plan time horizon.

The creation of a dedicated business unit for the valorisation and management of bad loans ("*Sofferenze*"), in parallel with the definition of a clear plan for the reduction of the latter (targeting at least €8bn disposals), will ensure a primary focus on the credit quality profile of the new Group.

Based on the high level of complementarity of the two groups and the domestic nature of the Transaction, a significant level of value creation can be assumed with run-rate pre-tax synergies of c. €460m, which are expected to be realised by 2019, resulting from:

- cost synergies of c.€320m, of which:
 - c. €140m from personnel rationalisation, through the activation of solidarity funds with a capacity of 1,800 full-time equivalents (FTE);
 - c. €110m from savings on operating costs, rationalisation of cost duplications, increase in the bargaining power and reduction of the number of branches;
 - c. €45m from the migration towards a single IT system, which will benefit from a higher scale;
 - c. €25m of direct and indirect costs associated to the branches being closed due to geographical overlapping

⁽²⁾ This indicator does not include the c. €1bn capital increase completed by Banco Popolare in the first half of 2016, the impact from the actions to comply with the conditions prescribed by the European Central Bank in the context of the investigation process on the Merger, the effects from the application of IFRS3 accounting principles and integration costs related to the transaction.

- net revenue synergies of c. €138m, of which:
 - c. €105m synergies in the Corporate segment, leveraging on the areas of excellence (ex. Banca Aletti and Banca Akros) and on the benefits arising from the strengthening of the capital base and competitive position;
 - c. €43m synergies in the Retail segment, through an alignment to internal best practices and efficiency levels and an increase in the number of FTE allocated to commercial functions, including product specialists, distance marketing and digital branch;
 - c. €10m of potential revenue dis-synergies, deriving from customer attrition in relation to the branches being rationalised and from a reduction of the share of wallet.

Integration costs, equal to c. €480m (c. 150% of cost synergies), are expected to be fully expensed by 2018.

The full exploitation of the current and prospective potential of Banco Popolare and BPM will provide the new Group with a high value creation capability which all the stakeholders will benefit from, mainly through:

- the increase in critical mass, which will in turn strengthen the new Group market capabilities in its reference markets and help reaching economies of scale;
- the valorisation, through the adoption of a simple and integrated organisational model, of the cultures, the local communities and the competences specific of each Group;
- the valorisation of the personal and professional growth of the employees, in order to develop the quality and the commitment of the Group's human resources, key success factor for the new Group; the creation of a Group leader in Italy and with growth potential at international level will offer, indeed, new opportunities of professional development to both current employees and new talents that the new Group will be able to attract;
- the significant geographical fit;
- the strengthening of client support activities, especially for SME and households, also leveraging on a broader and more articulated range of products and services offered;
- the focusing on the development and the strengthening of the multi-channel banking and the digitalisation of the processes and the products/services
- the strengthening of the deteriorated loans management activities through the diversification of the total portfolio, the adoption of best practices and the establishment of a dedicated management unit directly reporting to the CEO and

that will be in charge of the valuation and management of the bad loans (“sofferenze”) thus maximising the efficiency and the speed of the valorisation processes also focusing on the selection and the execution of the best disposal options, for at least €8bn; in particular, this will grant a primary focus on the asset quality profile of the new Group, in order to pursue the following goals:

- a reduction in cost of risk down to ca. 63bps in 2019, substantially lower than 2015 figure, which was above 100bps;
- increased coverage on bad loans, up from 57% in 2015 to 59% in 2019, with the share of secured bad loans over total bad loans increasing from 58% in 2015 to 72% in 2019;
- gross deteriorated loans ratios in line with best-in-class players in the sector, decreasing from 24.8% in 2015 to 17.9% in 2019;
- net deteriorated loans ratios decreasing from 15.7% in 2015 to 11.1% in 2019;
- improvement in collection rate from 2.7% in 2015 to 4.5% in 2019;
- strengthening and streamlining of high value-added businesses, thanks to specialization and excellence in Asset Management, Corporate & Investment Banking and Private Banking, Bancassurance, Consumer Credit; in particular, there will be a renewed focus on:
 - Corporate customers: through the establishment of a dedicated division, with increased share of wallet in the penetration of value-added services, in order to achieve a compound annual growth rate (CAGR) of c. 3.8% in terms of gross loans by 2019, while preserving profitability levels
 - Private customers: effective customer proposition through a unique and complete range of products and services, with the devolvement of the business model from investment management to wealth management and leveraging on the collaboration and cross-selling with the corporate division and the enterprise segment, in order to achieve a CAGR of c. 3.2% in terms of assets by 2019, mainly driven by a growth in assets under management;
 - Retail and Small Business customers: focus on the development of customer base and cross-selling by offering customised products to each client sub-segment and simplification of processes, in order to achieve a CAGR of c. 3.5% both in terms of gross loans and total clients assets by 2019, while preserving profitability levels

The new strengthened Group will be able to execute projects and expansion initiatives not sustainable for any of the two entities on a standalone basis, and it will be able to attract and develop the skills and the competences of its workforce and to make investments in technology and innovation in line with the increased level of ambition.

New Group Strategic Plan Guidelines

On 16 May 2016 the managing bodies of Banco Popolare and BPM approved the 2016-2019 Strategic Plan (the “**Strategic Plan**”) of the Group resulting from the Merger (a detailed presentation on the Strategic Plan is available on both Banco Popolare and BPM websites).

The main strategic guidelines of the new Group can be summarized as follows:

- the creation of a new Group capable of competing with main operators on national scale and with the potential to develop abroad;
 - simple and integrated organizational structure, with the ability to add value to the territorial footprint and to the identity of historical brands of the two Groups;
 - strong focus on the enhancement of human capital and on the development of current competences of the two Groups.
- a focus on customer needs through continuous innovation of processes, models and products/services offered, coupled with the development and improvement of access channels. A growing focus on the development of digitalization processes, models and products/services, jointly with the streamlining of the retail distribution channels. Additionally, there will be a strengthening of specialization in the retail approach and to the products/services offering;
- the enhancement of the role of the so-called product factories of the two Groups, to fully exploit the excellent complementary nature of the offer;
- an ongoing focus on maintaining solid capital and liquidity ratios in line with sector best practices, especially through the roll-out of internal risk models, in compliance with regulatory guidelines;
- achievement of both scale and scope economies, through the integration of the respective structures thanks to the synergies exploitation of the Merger and to the improvement of operational efficiency through an alignment of operative, commercial and lending structures of the new Group companies to sector best practices. In particular, the following targets have been identified:
 - Asset under Management (AUM): CAGR of c. 7%, from Euro 40.7 billion in 2015 to Euro 53.5 billion in 2019;
 - Consumer credit turnover: CAGR of c. 5%, from Euro 1.4 billion in 2015 to Euro 1.7 billion in 2019;
 - Bancassurance AUM: CAGR of c. 6%, from Euro 15.9 billion in 2015 to Euro 20.1 billion in 2019;

- Investment banking fees: CAGR of c. 17%, from Euro 67 million in 2015 to Euro 126 million in 2019.

In particular, in order to achieve these targets, the new Group will leverage on an effective organizational structure, supported by an advanced operating model, thanks to a state-of-the-art IT architecture which will integrate existing areas of excellence and significant digital investments across the Strategic Plan period (more than €90m cumulated over the period 2016-2019).

2. COMPANIES PARTICIPATING TO THE MERGER

2.1 Banco Popolare – Società Cooperativa

2.1.1 Corporate details of Banco Popolare

Company name, registered office and identifying elements

Banco Popolare – Società Cooperativa, with registered office at Piazza Nogara n. 2, Verona, fiscal code and Companies Register of Verona registration no. 03700430238, entered on the Register of Banks under no. 5668, is a “banca popolare” that operates in the form of a “società cooperativa” and is the parent company of the Banco Popolare Bank Group.

Share Capital

The share capital of Banco Popolare at 1 July 2016 is Euro 7,089,340,067.39 fully paid-in, divided into 827,760,910 ordinary shares without par value.

The shares of Banco Popolare are traded on the MTA (Mercato Telematico Azionario).

2.1.2 Corporate purpose of Banco Popolare

The corporate purpose of Banco Popolare is as follows: “*The Company has as its objective the collection of savings and the provision of credit, in its various forms, as much in relation to its shareholders as to its non-shareholders, acting on the basis of the principles of Cooperative Lending (Credito Popolare). The Company may complete, in compliance with existing provisions and subject to obtaining the necessary authorisations, all banking, financial and insurance operations and services, including the establishment and management of open or closed pension funds, as well as the other activities permitted for credit institutions, including the issuance of bonds, the exercise of financing activity regulated by special laws and the purchase and sale of trade receivables. The Company may complete any other operational instrumental or connected to achieving the corporate purpose. The Company may also join associations and consortia to achieve its purposes. The Company, as the bank exercising the management and coordination activity over the Banco Popolare Banking Group in accordance with Art. 61, fourth paragraph of Italian Legislative Decree no. 385 of 1 September 1993, issues directives to the Group members, also to implement the instructions imparted by.*”

2.1.3 Corporate bodies of Banco Popolare

Banco Popolare adopts the “traditional” governance and control system, characterized by a Board of Directors and Board of Statutory Auditors (see Article 2380-*bis* and ff. of the Italian Civil Code).

Board of Directors

The current Board of Directors of Banco Popolare, appointed by resolution of the Shareholders’ Meeting on 29 March 2014, is composed by 23 directors ⁽³⁾, better specified as follows:

Name	Office
Carlo Fratta Pasini	Chairman of the Board of Directors
Guido Castellotti	Vice Chairman of the Board of Directors
Maurizio Comoli	Vice Chairman of the Board of Directors
Pier Francesco Saviotti	Chief Executive Officer
Patrizia Codecasa	Director
Luigi Corsi	Director
Domenico De Angelis	Director
Maurizio Faroni	Director
Gianni Filippa	Director
Cristina Galeotti	Director
Andrea Guidi	Director
Valter Lazzari	Director
Daniela Montemerlo	Director
Giulio Pedrollo	Director
Enrico Perotti	Director
Claudio Rangoni Machiavelli	Director
Fabio Ravanelli	Director
Cecilia Rossignoli	Director
Sandro Veronesi	Director
Franco Zanetta	Director
Tommaso Zanini	Director
Cesare Zonca	Director
Cristina Zucchetti	Director

Board of Statutory Auditors

The current Board of Statutory Auditors Banco Popolare, appointed by resolution of the Shareholder Meeting on 29 March 2014 (as integrated by the resolution of the Shareholder

⁽³⁾ The Notary Public Maurizio Marino resigned from his position as director of Banco Popolare on 24 May 2016, after taking part, in full alignment with the Board of Directors, in the adoption of decisions relating to the Merger Plan with Banca Popolare di Milano.

Meeting on 7 May 2016), is composed of 5 standing and 2 alternate statutory auditors, specified as follows:

Name	Office
Pietro Manzonetto	Chairman of the Board of Statutory Auditors
Marco Bronzato	Standing Statutory Auditors
Gabriele Camillo Erba	Standing Statutory Auditors
Claudia Rossi	Standing Statutory Auditors
Alfonso Sonato	Standing Statutory Auditors
Chiara Benciolini	Alternate Statutory Auditors
Paola Pesci	Alternate Statutory Auditors

2.1.4 Summary description of the activity of Banco Popolare

2.1.4.1 Summary description of the activity of Banco Popolare

Banco Popolare is the Parent Company of the Banco Popolare Group and, consistently with the principles of “credito popolare” (cooperative lending), it operates, also through its own subsidiaries and affiliates, the activities related to the receipt of savings and granting of various forms of credit, private and investment banking, merchant banking, asset management, leasing, bancassurance, consumer credit, both towards its own shareholders and non-shareholders, devoting special attention to the territories where its own components are historically rooted, especially to families and small and medium-sized enterprises and cooperative entities.

Banco Popolare Group is composed on Italian territory as follows:

- Banco Popolare which, as Parent Company, in addition to centralising the governance, control and coordination of Group subsidiaries, has assumed, following the integration of the Banks of the Territory ⁽⁴⁾, the role of operating bank undertaking credit activities and the distribution of financial products, organized on the basis of a territorial model divided into four territorial divisions (the Banca Popolare di Verona Division, the Banca Popolare di Lodi Division, the Banca Popolare di Novara Division, the Credito Bergamasco Division; they are collectively referred to as the “**Territorial Divisions**”), corresponding to the traditional historic areas of presence and reference for local communities. Following the merger with Banca Italease effective since 16 March 2015, Banco Popolare has operated through the newly formed leasing division, whose new division's aim is to manage the leasing portfolio, in coordination with the subsidiaries of the former Banca Italease;
- Banca Aletti S.p.A., which operates in the private banking and investment banking segments;

⁴ Banks of the Territory shall mean Banca Popolare di Verona S. Geminiano e S. Prospero, Banca Popolare di Lodi, Banca Popolare di Novara, Cassa di Risparmio di Lucca Pisa Livorno, Banca Popolare di Crema and Banca Popolare di Cremona incorporated in Banco Popolare with effect as of 27 December 2011, as well as Credito Bergamasco, incorporated in Banco Popolare effective as of 1 June 2014.

- the product companies include Aletti Gestielle SGR S.p.A. in asset management, Italease Gestione Beni S.p.A. and Release S.p.A., operating in the leasing sector together with the Parent Company leasing division, and to which are added the partnerships in the bancassurance sectors (Popolare Vita and Avipop Assicurazioni) and consumer credit (Agos Ducato).

The Banco Popolare Group operates its own activity through the following distribution organisation: the Territorial Divisions, the banks, the representative offices and the off-premises channels.

At the date of this Report, the Banco Popolare Group offers its services to more than 2 (two) million customers.

Individual customers are divided on the basis of three main segments: “Universal”, having assets of less than Euro 100,000, “Affluent”, having assets of more than Euro 100,000, and “Small Business Operators”, having turnover up to Euro 250,000.

The business customers are divided into Small Businesses (having sales of between Euro 250 thousand and Euro 5 million), Medium-sized Businesses (having turnover more than Euro 5 million and less than Euro 350 million), Large Businesses (having turnover more than Euro 350 million); other customer segments are represented by Institutional/Public and Other Clients.

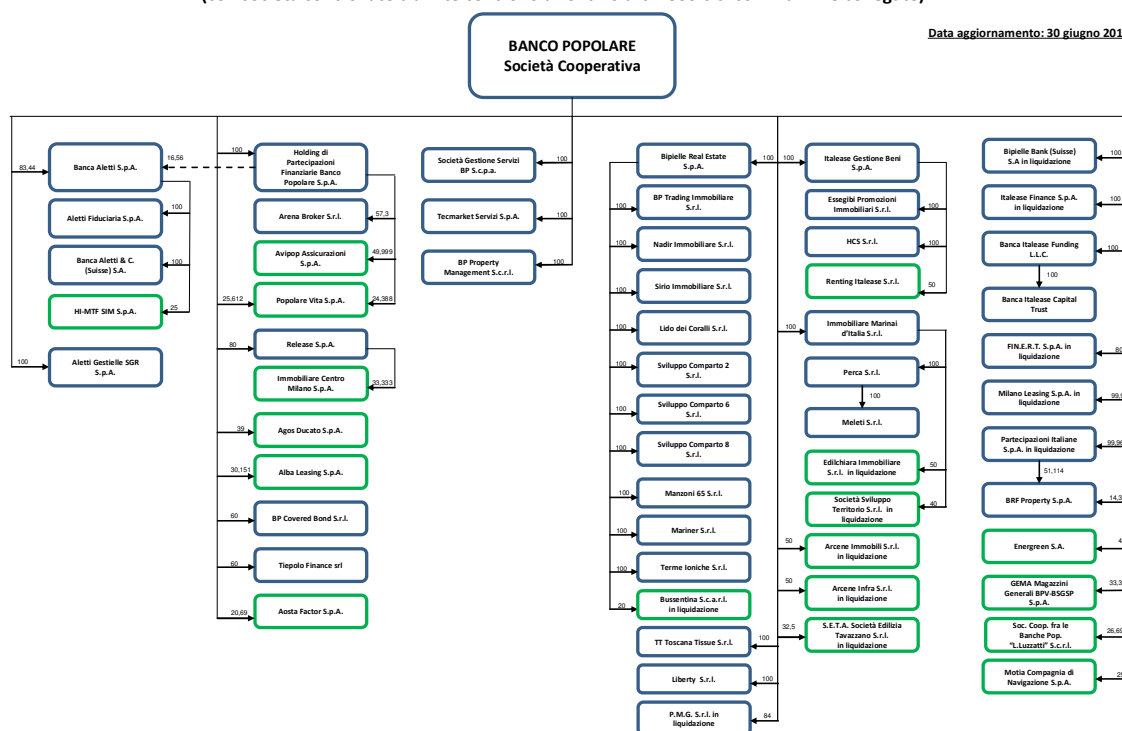
The accredited private customers, having assets of more than Euro 1 million, are managed by the private bankers of Banca Aletti S.p.A.

According to the data of the banking system at 31 December 2015, the Banco Popolare Group is the fourth largest bank group in Italy in terms of total assets and number of branches.

2.1.4.2 Graphic representation of Banco Popolare Group structure

RAPPRESENTAZIONE GRAFICA DEL GRUPPO BANCO POPOLARE
(con società controllate tramite controllo azionario art. 2359 c.c. comma 1.1 e collegate)

Data aggiornamento: 30 giugno 2016



2.1.5 Banco Popolare Group summary income statement and balance sheet

Income statement main data

The following table contains the main data of the reclassified income statement of Banco Popolare, on a consolidated basis, at 31 December 2015, as compared with those at 31 December 2014.

(thousands of Euro)	31/12/2015	31/12/2014 (*)	Percentage Change
Financial margin	1,686,865	1,641,979	2.7%
Net fee and commission income	1,425,410	1,379,724	3.3%
Operating income	3,663,000	3,376,577	8.5%
Operating expenses	(2,404,832)	(2,263,194)	6.3%
EBIT	1,258,168	1,113,383	13.0%
Net adjustments to trade receivables	(803,933)	(3,561,431)	-77.4%
Net adjustments to investments, goodwill and other intangible assets	-	(239,000)	N/A
Gross income (loss) from continuing operations	344,863	(2,763,836)	N/A
Net income without FVO (fair value option)	426,785	(1,919,903)	N/A
FVO impact	3,288	(25,988)	N/A
Net income (loss)	430,073	(1,945,891)	N/A

(*) Figures published in the Annual Financial Report 2015, which were restated for comparative purposes, as opposed to those originally published in the Annual Financial Report 2014.

The financial margin for the financial year 2015 amounted to Euro 1,686.9 million, up 2.7% from the Euro 1,642.0 million at 31 December 2014. This result was influenced by the

positive contribution made by the participated companies, valued using the equity method (“metodo del patrimonio netto”), equal to Euro 141.5 million as compared with Euro 90.1 million in the previous year. The interest margin held steady at Euro 1,545.4 million, it was largely unchanged as compared with Euro 1,551.9 million in 2014, due to the policy of reducing the cost of institutional funding and receiving deposits by the network.

Net fee and commission income amounted to Euro 1,425.4 million, and registered an increase of 3.3% as compared to Euro 1,379,7 million in 2014, due to the contribution of management services, intermediation and advisory service fees, which were sustained in particular by growing demand for mutual funds of investment by customers.

Operating income for the financial year of 2015 amounted to Euro 3,663.0 million, up 8.5% from 2014, also due to the good diversification of the sources of profitability as compared with the traditional core activity of a commercial bank. The 2015 financial year benefited from the profits realised following the sale of minority shareholdings held in the Istituto Centrale delle Banche Popolari and in Arca SGR, equal to Euro 241.2 million. Also net of the aforementioned profits, operating income grew by 1.3%, mainly due to the positive changes in financial margin and net fee and commission income.

Operating expenses, which amounted to Euro 2,404.8 million, registered an increase of Euro 141.6 million as compared with the same in the previous year, mainly caused by the significant ordinary and non-recurring contributions paid in 2015 to the “Fondo Nazionale di Risoluzione” (National Resolution Fund) and the “Fondo di Garanzia dei Depositi” (Deposit Guarantee Fund), equal to a total of Euro 162.2 million.

The result of the operating management (EBIT), equal to the difference between operating income and operating expenses illustrated hereinabove, was thus positive in both years (+ Euro 1,258.2 million at 31 December 2015, up 13% from Euro 1,113.4 million at 31 December 2014).

In reference to the last line on the income statement represented by net income, the results for the financial years are significantly impacted by the amounts charged as adjustments to receivables.

In particular, in 2015 the *Net adjustments to trade receivables* amounted to Euro 803.9 million as compared with Euro 3,561.4 million at 31 December 2014, also due to the significant reduction in net positive cash flow from new non-performing loans. Therefore, the 2015 financial year ended with consolidated net income of Euro 430.1 million.

In the 2014 financial year, the significant level reached by the aforementioned value adjustments was mainly justified by the decisions taken by the Group following analysis of the results for the financial year of the *Asset Quality Review (AQR)*, carried out by the European Central Bank (ECB) and announced in Q4 2014. Although it easily passed the Comprehensive Assessment during the financial year, the Group undertook a series of measures on processes for classification and assessment of credit ordinarily applied,

adopting approaches relating to forecasting processes allowed by the applicable accounting standards, policies, models and valuation parameters that were different from those used hitherto. In accordance with the recommendations of the Regulatory Authority, the introduced changes were aimed at eliminating, as much as possible, the amount of misalignment existing between the assessments made for budget purposes and the so called “*ECB thresholds*”, that is the parameters used to make estimates for prudential purposes by the ECB in the aforementioned AQR assessment. Overall, the net adjustments for non-performing loans made to customers were equal to Euro 3,561.4 million, with a contribution in Q4 equal to Euro 2,496.1 million.

The high cost of credit, together with the recognition of impairment on intangible assets related to the cash generating unit “Private & Investment Banking” caused a final negative result equal to Euro 1,945.9 million.

The following table contains the main data of the reclassified income statement of Banco Popolare, on a consolidated basis, at 30 June 2016, as compared with those at 30 June 2015.

(thousands of Euro)	30/06/2016	30/06/2015	Percentage Change
Financial margin	754,733	850,379	-11.2%
Net fee and commission income	639,308	771,085	-17.1%
Operating income	1,539,392	1,813,617	-15.1%
Operating expenses	(1,116,117)	(1,068,992)	4.4%
EBIT	423,275	744,625	-43.2%
<i>Net adjustments to trade receivables</i>	<i>(980,422)</i>	<i>(375,307)</i>	161.2%
Gross income (loss) from continuing operations	(566,223)	289,786	N/A
Net income without FVO	(387,243)	290,340	N/A
FVO impact	7,074	2,778	154.6%
Net income (loss)	(380,169)	293,118	N/A

To understand the evolution of the net loss made during H1 2016, it must be pointed out that, after the Memorandum of Understanding was signed with Banca Popolare di Milano, which provides for the merger of the two bank groups, the European Central Bank, during its preliminary review of the transaction, imposed a series of binding conditions for the granting of its authorisation and justified by the future relevance of the new legal entity in the European financial system. One of the principal conditions is a progressive reduction of the ratio between non-performing loans and the total amount of loans made and an increase in the average level of coverage of non-performing loans, in order to facilitate their reduction over time. In regard to that request, the average level of coverage of *sofferenze* and, more in general, non-performing loans has increased since Q1 2016 and, during Q2 2016, several sales of *sofferenze* were completed for a total face value of about Euro 240 million.

These decisions materially impacted the income statement for the first half, which registered a loss equal to Euro 380.2 million, after having charged net adjustments to receivables amounting to Euro 980.4 million, in spite of the changes in gross non-performing loans, whose stock shows a decrease of Euro 1.2 billion on an annual basis (-5.6%) and Euro 0.5 billion in H1 2016 (-2.4%).

That said, the changes in the principal earnings aggregates during H1 2016 are illustrated as follows, as compared with the corresponding period of the previous year.

At 30 June 2016, the financial margin amounted to Euro 754.7 million, down by 11.2% from H1 2015, when it was equal to Euro 850.4 million. In particular, this aggregate is impacted on the contraction in interest margin (Euro 691.3 million at 30 June 2016 and Euro 789.1 million at 30 June 2015), influenced by the registered reduction in Euribor rates, the persistently strong competitive pressure on interest rates as well as the reduction in the contribution made by the government securities portfolio. A positive contribution was made by the investee companies valued using the equity method ("*patrimonio netto*"), which was equal to Euro 63.5 million, largely in line with the Euro 61.3 million during H1 2015.

Net fee and commission income amounted to Euro 639.3 million at 30 June 2016, down 17.1% from H1 2015, although that period it had benefited from an exceptionally positive dynamic in the managed assets division. Aside from the negative performance of the markets and reduction in customer interest to make financial investments, the performance of fee income was penalised by the efforts made by network staff to provide information and assistance to customers interested in the Share Capital Increase.

On the basis of the changes illustrated hereinabove, operating income at 30 June 2016 amounted to Euro 1,539.4 million, compared with Euro 1,813.6 million at 30 June 2015 (with a decrease of 15.1%), further influenced by the reduction in other net operating income (Euro 46.6 million at 30 June 2016, compared with Euro 48.8 million at 30 June 2015) and the contraction in the net financial result without the fair value option (FVO), which at 30 June 2016 amounted to Euro 98.8 million (Euro 143.3 million at 30 June 2015).

Operating expenses at 30 June 2016 amounted to Euro 1,116.1 million, compared with Euro 1,069.0 million in H1 2015. Notwithstanding the decrease in cost of personnel (it decreased even excluding the non-recurring charges recognized during H1 2015 related to the staff redundancy provisions of Euro 11.6 million) and tight control of the costs related to other administrative expenses, the increase in operating expenses is attributable to the "systemic" costs connected with the contribution to the Single Resolution Fund, equal to Euro 44.3 million (Euro 23 million was the cost estimated in H1 2015 for the contribution to the National Resolution Fund) and the fee, introduced with Decree Law 59 of 3 May 2016, to maintain the possibility of transforming deferred tax assets into tax receivables, equal to Euro 40.4 million. In H1 2016 operating expenses were also negatively impacted by non-recurring adjustments referring to certain investment properties, which amounted

to Euro 2 million. Excluding the impact of “systemic costs”, and the non-recurring components for the two compared periods, the aggregate exposes a reduction of 2.6%.

At 30 June 2016 the result of the operating management (EBIT), equal to the difference between operating income and operating expenses illustrated hereinabove, was thus a positive Euro 423.3 million, such that it amounted to Euro 744.6 million in H1 2015.

The net adjustments for non-performing loans to customers at 30 June 2016 were equal to Euro 980.4 million, compared with Euro 375.3 million in H1 2015. The cost of credit, measured as the ratio between net adjustments to receivables and gross loans, shows a relevant discontinuity with the past, justified by the decision to begin the process of raising the average level of coverage of non-performing loans required by the ECB as a condition for its authorisation of the Merger with BPM.

Due to the increase in the cost of credit, H1 2016 ended with a net loss of Euro 380.2 million, compared with the net profit of Euro 293.1 million realised in H1 2015.

Balance sheet main data

The following table shows the main data of the reclassified balance sheet and the intermediation activity of the Banco Popolare Group at 30 June 2016 as compared with the main data at 31 December 2015, compared in turn with the data at 31 December 2014.

(thousands of Euro)	30/06/2016 (A)	31/12/2015 (*) (B)	31/12/2014 (**) (C)	Percentage Change (A-B)	Percentage Change (B-C)
Balance sheet figures					
Total assets	123,698,857	120,237,166	123,081,686	2.9%	-2.3%
Total loans to customers (net)	79,445,812	78,421,634	79,823,603	1.3%	-1.8%
<i>of which non-performing loans to customers (net)</i>	13,504,593	14,057,061	14,250,226	-3.9%	-1.4%
Total loans to customers (gross)	86,394,612	85,337,653	87,661,197	1.2%	-2.7%
<i>of which non-performing loans to customers (gross)</i>	20,150,080	20,645,172	21,664,697	-2.4%	-4.7%
Financial assets and hedging derivatives	29,365,769	27,531,012	26,190,599	6.7%	5.1%
Net equity attributable to the Group	8,876,031	8,493,565	8,064,219	4.5%	5.3%
Financial assets of customers					
Direct deposits	83,146,243	82,141,444	86,513,468	1.2%	-5.1%
Indirect deposits	67,358,616	71,094,777	66,476,003	-5.3%	6.9%
- Assets under management	34,915,895	35,371,884	34,153,477	-1.3%	3.6%
-- Open-end mutual funds (Sicav)	19,987,789	20,297,341	17,140,262	-1.5%	18.4%
-- Asset management in securities and	4,671,021	4,828,702	6,716,079	-1.8%	-28.1%

(thousands of Euro)	30/06/2016 (A)	31/12/2015 (*) (B)	31/12/2014 (**) (C)	Percentage Change (A-B)	Percentage Change (B-C)
funds					
-- Insurance policies	10,257,085	10,245,841	10,297,136	0.1%	-0.5%
- Administered assets	32,442,721	35,722,893	32,322,526	-9.2%	10.5%

(*) Figures published in the Half-year Consolidated Financial Report at 30 June 2016. For the aggregate "Total assets", the figure has been restated, for comparative purposes, from what was originally published.

(**) Data published in the Annual Financial Report 2015 in which, limited to the items of indirect deposits, restatements were made for a more exact division between the technical forms.

Evolution of the principal financial aggregates in H1 2016

At 30 June 2016 total loans to customers, financial assets and hedging derivatives represented about 88% of the total assets carried on the Group balance sheet, which is substantially in line with the amounts reported at 31 December 2015 and 31 December 2014.

Total loans to customers

At 30 June 2016 total loans to customers, net of adjustments, amounted to Euro 79,445.8 million, up from Euro 78,421.6 million at 31 December 2015 (Euro 79,823.6 million at 31 December 2014). The changes during the period (2014 – H1 2016) are attributable to the gradual elimination of receivables associated with the leasing division and the contraction in repo transactions, which decrease is substantially offset by the increase in medium and long-term loans in favour of all the customer segments mainly representing the over Euro 5 billion disbursed in H1 2016.

Net non-performing loan exposures (*sofferenze*, unlikely to pay and overdue exposures and/or overdrafts) amounted to Euro 13,504.6 million at 30 June 2016 and showed a decrease of 3.9% compared with the net amount at 31 December 2015. The reduction in the aggregate amount stems from the limited net flows of new entries in the non-performing loan category, which amount to about Euro 427 million in Q2 2016, but especially from the adjustments to additional receivables charged to profit and loss in H1 2016 in order to raise the average level of coverage for *sofferenze* loans.

At 30 June 2016, the impact of net non-performing loans to the total of net total loans to customers was 17%, down from the 17.9% at 31 December 2015 and 31 December 2014. The same downward trend is confirmed by the impact calculated gross of adjustments, which was equal to 23.3% at 30 June 2016, compared with 24.2% at 31 December 2015 (24.7% at 31 December 2014).

The level of coverage of *sofferenze* loans, including the eliminations of receivables subject to insolvency proceedings, rose to 59.3% from 56.3% at 31 December 2015, which marked a reduction from 58.8% at 31 December 2014, due to the sale of unsecured *sofferenze* loans of

modest amounts completed in 2015. In regard to the entire aggregate of non-performing loans, including the eliminated *sofferenze* loans, the level of coverage is 45.6%, up 1.9 percentage points from 43.7% at 31 December 2015 (44.6% at 31 December 2014).

As previously specified, the mentioned increase in the level of coverage of *sofferenze* loans is part of the process aimed at the issuance of the required regulatory authorizations related to the completion of the combination with BPM.

Financial assets and hedging derivatives

At 30 June 2016, the financial assets of the Group, including hedging derivatives, were equal to Euro 29,365.8 million, up from Euro 27,531.0 million at 31 December 2015 (+6.7%); the increase is entirely concentrated on debt securities, which at 30 June 2016 represent more than 85% of the portfolio (compared with the 83.5% observed at 31 December 2015 and 79% at 31 December 2014).

The debt securities are mainly represented by Italian government securities, which amounted to Euro 20,864.3 million at 30 June 2016 and Euro 19,154.1 million at 31 December 2015 (Euro 16,445.1 million at 31 December 2014).

Net equity attributable to the Group

At 30 June 2016, the net equity (*patrimonio netto*) of the Group, including the loss of Euro 380.2 million for the period, amounted to Euro 8,876.0 million, up 4.5% from 31 December 2015. The positive change observed during the period, amounting to Euro 382.4 million, includes the effects of the Capital Increase transaction, launched in June, which led to the recognition of an increase in own shareholders' equity, net of the directly related transaction costs, equal to Euro 965.7 million.

The total profitability registered at 30 June 2016, for the amount attributable to the Group, was negative for an amount of Euro 523.3 million due to the loss registered in H1 2016, equal to Euro 380.2 million and the negative change in valuation reserves, amounting to Euro 143.1 million. Note is also made of the negative changes resulting from the payment of Euro 54.3 million in dividends by Banco Popolare and Euro 5.5 million in donations, as resolved by the Shareholders' Meeting on 19 March 2016.

At 31 December 2015 net equity was equal to Euro 8,493.6 million, up from Euro 8,064.2 million at 31 December 2014, mainly due to the profit of the financial year equal to Euro 430.1 million.

Direct deposits

Direct deposits at 30 June 2016 amounted to Euro 83,146.2 million and reflected an increase of 1.2% from Euro 82,141.4 million at 31 December 2015, which was in turn down from Euro 86,513.5 million at 31 December 2014.

In detail, the growth registered in H1 2016 can be associated with the repo transactions (+ Euro 3.8 billion) and, to a lesser extent, deposits and current accounts (+ Euro 0.9 billion), which more than offset the repayment of bonds at maturity (- Euro 4.5 billion), not replaced with new issues. The aggregate figure does not include the permanent funding guaranteed by the stock of certificates issued by the Group, which at 30 June 2016 amounted to Euro 5.7 billion (+8% from 31 December 2015).

The decrease registered during 2015 (-5.1% from 31 December 2014) is partly attributable to the reduction in the contribution by the foreign subsidiary Banco Popolare Luxembourg, classified as in the process of disposal since 30 June 2015. On a like-for-like basis, direct deposits at 31 December 2015 shows a 3.6% contraction on an annual basis. The decrease in deposits, related to the analogous contraction in assets, is attributable to the reduction in funds raised through bonds, influenced by the partial substitution with other, less costly forms of funding and by the redemption plan aimed at reducing the overall cost of funding. This decrease was largely offset by the permanent liquidity generated by certificates, whose stock increased to Euro 1.6 billion in 2015, as measured in nominal terms.

Indirect deposits

Indirect deposits at 30 June 2016 was equal to Euro 67,358.6 million, down 5.3% from Euro 71,094.8 million at 31 December 2015, justified by the trend in market quotations and a non-recurring transaction carried out by a major customer that led to the transfer of administered deposits to another bank. The decrease in the overall aggregate amount is attributable both to the component of administered assets, which amounted to Euro 32,442.7 million (-9.2% from 31 December 2015), and the component of assets under management, which was equal to Euro 34,915.9 million (-1.3% from 31 December 2015).

The increase in indirect deposits at 31 December 2015 from Euro 66,476.0 million at the beginning of the year (+6.9%) is attributable both to the assets under management, which at 31 December 2015 had reached Euro 35,371.9 million (+3.6%), and especially administered assets, equal to Euro 35,722.9 million (+10.5%). On a like-for-like basis, excluding the contribution made by Banco Popolare Luxembourg, classified as undergoing disposal since 30 June 2015, from the annual figure for 2014, the annual increase registered in 2015 was equal to 8.3%.

2.1 Banca Popolare di Milano S.c. a r.l

2.1.1 Corporate details of BPM

Banca Popolare di Milano S.c. a r.l., with registered office at Piazza F. Meda n. 4, Milan, fiscal code and Companies Register of Milan registration no. 00715120150, entered on the Register of Banks under no. 5584, is a “banca popolare” that operates in the form of a

“società cooperativa” and is the parent company of the Bipiemme – Banca Popolare di Milano Bank Group (“**BPM Group**”).

The share capital of BPM at 30 June 2016 is Euro 3,365,439,319.02 fully paid-in, divided into 4,391,784,467 ordinary shares without par value.

The shares of BPM are traded on the MTA (Mercato Telematico Azionario).

2.1.2 Corporate purpose of BPM

The corporate purpose of BPM is as follows: *“The Company’s purpose is to provide loans to its Members by taking deposits on a co-operative basis, and to perform any kind of banking transaction and service, on its own behalf or for third parties, including non-Members, totally excluding any kind of purely speculative operation. In granting credit, the Bank gives preference to its own Members and to transactions involving relatively modest amounts.”*

Moreover: *“Providing it complies with current regulations and obtains suitable authorisation when needed, the Company can carry out all permitted types of banking, financial and brokerage/dealing transactions and services, as well as any other transaction that is banking-related or otherwise involved in achieving the corporate purpose.”*

2.1.3 Corporate bodies of BPM

BPM adopts the “dualistic” management and control system, which calls for the presence of a Surveillance Board and a Management Board (see Articles 2409-*octies* et seq. Italian Civil Code).

The current BPM Surveillance Board, appointed by resolution of the Shareholders' Meeting on 30 April 2016, consists of 18 members, who are listed as follows:

Name	Office
Nicola Rossi	Chairman of the Surveillance Board
Mauro Paoloni	Vice Chairman of the Surveillance Board
Marcello Priori	Vice Chairman of the Surveillance Board
Alberto Balestreri	Member of the Surveillance Board
Carlo Bellavite Pellegrini	Member of the Surveillance Board
Mara Bergamaschi	Member of the Surveillance Board
Angelo Busani	Member of the Surveillance Board
Massimo Catizone	Member of the Surveillance Board
Emanuele Cusa	Member of the Surveillance Board
Carlo Frascarolo	Member of the Surveillance Board
Roberto Fusilli	Member of the Surveillance Board
Paola Galbiati	Member of the Surveillance Board
Piero Lonardi	Member of the Surveillance Board
Maria Luisa Mosconi	Member of the Surveillance Board
Mariella Piantoni	Member of the Surveillance Board
Ezio Simonelli	Member of the Surveillance Board

Name	Office
Manuela Soffientini	Member of the Surveillance Board
Daniela Venanzi	Member of the Surveillance Board

The current BPM Management Board, appointed by resolution of the Shareholders' Meeting on 17 January 2014, consists of 5 members, who are listed as follows:

Name	Office
Mario Anolli	Chairman of the Management Board
Giuseppe Castagna	Managing Director
Davide Croff	Director
Paola De Martini	Director
Giorgio Girelli	Director

2.1.4 Summary description of BPM

The BPM Group is an integrated and multi-functional bank Group, active in all segments of credit and financial intermediation and focused primarily on the retail market, i.e. it is focused on individuals and small and medium-sized enterprises. It also receives deposits and grants loans, and provides investment services, which includes the marketing of products in affiliates and third-party companies (e.g. asset management and bancassurance).

The activity of the Group is broken down into the following business lines:

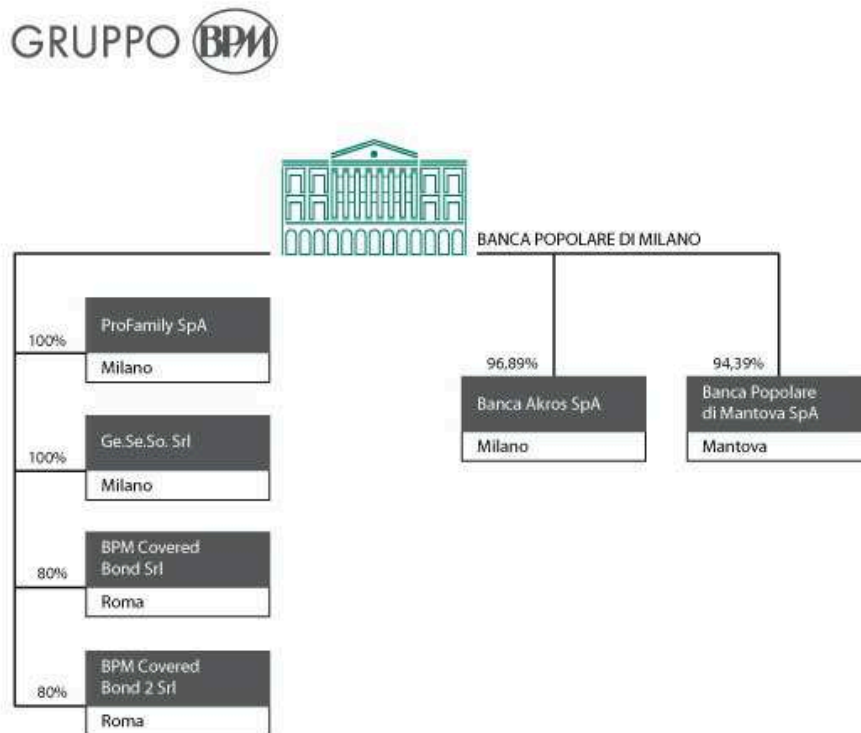
- *retail banking*: this includes the services offered to individuals and small businesses by the BPM and Banca Popolare di Mantova branch network. In particular, this segment includes the services for retail customers and businesses having turnover of less than Euro 15 million. Retail banking also includes the activity of online customers, private banking activity (performed by BPM and Banca Akros) and the activity of ProFamily, a consumer credit company;
- *corporate banking*: which includes the services offered by the BPM branch network of bank, financial and credit services targeting businesses falling in the large corporate customer (sales of more than Euro 250 million), upper businesses (sales between Euro 50 and 250 million) and middle businesses (sales of between Euro 15 and 50 million) customer segments. This area also includes the provision of investment services and finding commercial opportunities for extraordinary financial transactions.
- *treasury & investment banking*: this involves the management of owned securities and intermediation in securities and foreign exchange on its own account and for treasury. This segment includes not only the financial activity of Group commercial banks but also the activities operated by Banca Akros;

- *corporate center*: this includes the residual activities and activities instrumental to operation of the Group, functioning as a centralised holder of the investment portfolio, subordinate liabilities and all other assets/liabilities not allocated to the preceding activity segments.

BPM is the Parent Company of the BPM Group and performs not only banking activities but also policy making, governance and unified control of the subsidiary holding and operating companies.

As the bank managing and coordinating the Group, pursuant to Article 61, paragraph 4, of the Consolidated Banking Act, BPM issues, in the operation of its management and coordination activity, directives to the members of the Group, inter alia for the execution of instructions issued by the Supervisory Authority and in the interest of Group stability.

The structure of the BPM Group structure is illustrated as follows:



2.1.5 Highlights of the BPM Group income statement and balance sheet

Income statement main data

The following table contains the key figures from the income statement of BPM (Parent Company), on a consolidated basis, at 31 December, as compared with those at 31 December 2014. The figures are shown in thousands of Euro.

Income statement main data at 31 December 2015

	31 December 2015	31 December 2014	Percentage Change
Interest margin	806,746	800,171	0.8%
Net fee and commission income	605,996	556,566	8.9%
Net interest and other banking income	1,612,077	1,585,124	1.7%
Net income from banking activities	1,252,230	1,121,470	11.7%
Operating expenses	(968,819)	(923,860)	-4.9%
Income (loss) before tax from continuing operation	353,421	324,941	8.8%
Net income (loss) for the period attributable to the Parent Company	288,907	232,293	24.4%

The interest margin totals Euro 806.7 million and shows an increase of about Euro 6.6 million (+0.8%) from December 2014, due to the increase in the commercial margin, which benefits from the expansion in investment volumes and lower cost of interbank and institutional funding, which more than offset the reduced contribution of the securities portfolio of the Parent Company.

Net fee and commission income are up Euro 49.4 million (+8.9%) from 2014, mainly due to the Euro 51.4 million (+ 20.1%) growth in fees for management, intermediation and consulting fees.

The net interest and other banking income amounted to Euro 1,612.1 million, up 1.7% (+ Euro 27 million) from the amount reported in 2014. This performance benefits from the positive effect of interest margin and fees, while being impacted by the lower contribution of activity related to the management of financial assets and liabilities.

Net income from banking activities was Euro 1,252.2 million, up 11.7%, benefiting in particular from the contraction in net adjustments for impairment of loans (- Euro 77.2 million).

Operating expenses increased by Euro 45 million. This increase was entirely related to higher administrative costs, which were impacted by the one-off contribution of Euro 39.7

million paid following the Bank of Italy order of 21 November 2015 for the program to wind-up Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara and Cassa di Risparmio della Provincia di Chieti.

The net income of the Parent Company, after recognising minority interests (Euro 1 million), amounting to Euro 288.9 million, compared with a net income of Euro 232.3 million in 2014.

The following table contains the key figures from the income statement of BPM, on a consolidated basis, at 30 June 2016, as compared with those at 30 June 2015. The figures are shown in thousands of Euro.

Income statement main data at 30 June 2016

	30 June 2016	30 June 2015	Change Percentage
Interest margin	403,077	402,880	0.0%
Net fee and commission income	303,344	306,753	-1.1%
Net interest and other banking income	811,452	788,718	2.9%
Net income from banking activities	658,721	612,121	7.6%
Operating expenses	(482,129)	(456,291)	-5.7%
Income (loss) before tax from continuing operation	222,633	212,366	4.8%
Net income (loss) for the period attributable to the Parent Company	158,135	154,053	2.6%

At 30 June 2016 interest margin amounted to Euro 403.1 million and shows substantial stability compared with the previous year. The management analysis shows that the contraction in the commercial margin and securities portfolio are offset by the lower cost of institutional funding.

Net fee and commission income decreased slightly from 30 June 2015 (- Euro 3.4 million), mainly after contractions in management, intermediation and consulting services, which were not fully offset by the increase in fees for other services related to loans granted and collection and payment service fees.

At 30 June 2016, the net interest and other banking income was Euro 811.5 million, up from its total in H1 2015 (+ Euro 23 million). The increase stemmed mainly from the greater profits from sale and buy-back of financial assets available for sale (+ Euro 32 million).

Net income from banking activities at 30 June 2016 amounted to Euro 658.7 million, up from its total at 30 June 2015, when it was Euro 612.1 million. The increase benefits from

the aforementioned increase in net interest and other banking income and the lower cost of net adjustments for impairment of loans (- Euro 26 million).

Operating expenses at 30 June 2016 amounted to Euro 482.1 million, up from the net amount reported at 30 June 2015 (+ Euro 26 million). The increase has to be attributed both to higher personnel costs (+ Euro 11.5 million) due to compliance with the national collective bargaining agreement (CCNL) and increases in social security, welfare and retirement benefit costs and the increase in other administrative expenses (+ Euro 7 million), which reflect the higher cost to the *Single Resolution Fund* and the costs for fees to professionals, mainly related to the costs connected with the business combination.

After having recognised taxes for Euro 64 million (with a tax rate of 28.7%), the profit attributable to the Parent Company BPM at 30 June 2016 amounted to Euro 158.1 million, net of profit attributable to minority interests amounting to Euro 0.5 million, compared with a net profit of Euro 154.1 million in H1 2015.

Balance sheet main data

The following table contains the key figures from the balance sheet of BPM, on a consolidated basis, at 31 December 2015, as compared with those at 31 December 2014.

The following table also shows the main data of the balance sheet at 30 June 2016 compared with the net amounts at 31 December 2015, where the change is considered significant. The figures are shown in thousands of Euro.

	30 June 2016 (A)	31 December 2015 (B)	31 December 2014 (C)	Percentage Change (A-B)	Percentage Change (B-C)
Shareholders' equity	4,571,206	4,627,347	4,536,683	-1.2%	2.0%
Share capital	3,365,439	3,365,439	3,365,439	0.0%	0.0%
Total loans to customers	34,520,420	34,186,837	32,078,843	1.0%	6.6%
<i>of which non-performing exposures</i>	3,610,077	3,624,224	3,597,901	-0.4%	0.7%
Net interbank position:	-2,915,777	-3,614,722	-2,333,787	19.3%	-54.9%
<i>Due from banks</i>	1,812,384	1,224,717	984,777	48.0%	24.4%
<i>Due to banks</i>	4,728,161	4,839,439	3,318,564	-2.3%	45.8%
Financial assets (*)	10,425,227	11,416,540	11,887,806	-8.7%	-4.0%
Financial liabilities (**)	1,531,460	1,250,321	1,538,280	22.5%	-18.7%
Total assets	49,697,726	50,203,300	48,271,811	-1.0%	4.0%

	30 June 2016 (A)	31 December 2015 (B)	31 December 2014 (C)	Percentage Change (A-B)	Percentage Change (B-C)
Direct deposits(***)	36,789,648	37,601,769	36,836,892	-2.2%	2.1%
Indirect deposits:	32,363,782	34,060,203	32,610,223	-5.0%	4.4%
<i>Assets under management</i>	21,252,907	20,901,445	17,872,354	1.7%	16.9%
<i>Administered assets</i>	11,110,875	13,158,758	14,737,869	-15.6%	-10.7%

(*) The item “*financial assets*” includes: financial assets held for trading, financial assets designated at fair value through profit and loss, financial assets available for sale, hedging derivatives receivable and fair value change of financial assets in hedged portfolios.

(**) The item “*financial liabilities*” includes: financial liabilities held for trading, hedging derivatives payable and fair value change of financial liabilities in hedged portfolios.

(***) The item “*direct deposits*” includes: due to customers, securities issued and financial liabilities designated at fair value through profit and loss.

At 31 December 2015, the Shareholders’ equity of the BPM Group, including the net income of Euro 289 million for the period, amounted to Euro 4,627 million, up from 31 December 2014 (+2.0%).

Total loans to customers amounted to Euro 34,187 million at 31 December 2015, up Euro 2,108 million (+ 6.6%) from December 2014, mainly in consequence of the increase in “Other loans” (+ Euro 1,663 million; + 22.9%), in particular, the increase in pool loans and stand-by loans, and the item “*mutui*” (+ Euro 731 million; + 4.6%).

Net Non-performing exposures amounted to Euro 3,624 million at 31 December 2015, representing 10.6% of the loans granted. This figure is up from 31 December 2014 (+ Euro 26.3 million, + 0.7%) principally due to the increase in *sofferenze* positions (+ Euro 146 million). That increase is partly related to the transfer to *sofferenze* of positions deriving from other classes of non-performing loans (specifically, the “unlikely to pay”, which decreased by Euro 74 million); “past due” also decreased (- Euro 45.7 million).

At 30 June 2016, total loans to customers amounted to Euro 34,520 million, which was substantially unchanged from 31 December 2015. Specifically, net non-performing exposures amounted to Euro 3,610 million, down 0.4% from 31 December 2015.

The net interbank position at 31 December 2015 shows a negative balance of Euro 3,615 million compared with the negative balance of Euro 2,334 million in December 2014 (- Euro 1,281 million; -54.9%); this change is mainly attributable to the change in bank payables, which compared with 31 December 2014 increased by Euro 1,521 million (+45.8%).

The net interbank position at 30 June 2016 is a negative Euro 2,916 million, up from the net amount reported at 31 December 2015 (approximately + Euro 700 million; +19.3%). This change mainly reflects the change in receivables from banks, while the payables to banks are largely unchanged from 31 December 2015.

The financial assets of the BPM Group at 31 December 2015 total Euro 11,416.5 million, down 4% (- Euro 471 million) from December 2014. The aggregate figures show the most significant movements:

- the reduction in financial assets available for sale (- Euro 179 million) is tied to the sale of government securities held in the portfolio and certain significant equity interests;
- the reduction in positive hedging derivatives (- Euro 138 million) results from the reduction in hedged items, and particularly bond issues;
- the reduction in financial assets held for trading (- Euro 124 million) is caused by reduced transactions in the trading portfolio;
- less significant changes concern the financial assets designated at fair value through profit and loss (- Euro 22 million) and adjustment to the value of financial assets in hedged portfolios (- Euro 8 million).

The aggregate of financial assets decreased significantly during H1 2016 (- Euro 991 million; - 8.7%), to be attributed almost entirely to the reduction in financial assets available for sale (- Euro 1,078 million) for sales of government securities in the portfolio.

The financial liabilities of the BPM Group at 31 December 2015 amount to Euro 1,250.3 million, down by 18.7%, mainly due to the reduction in financial liabilities held for trading, whose change is strictly related to the corresponding assets. The breakdown of the balance between financial assets and financial liabilities held for trading, amounting to Euro 614 million at 31 December 2015, shows an increase of Euro 156 million from December 2014. The aggregate is represented mostly by the trading portfolio of the subsidiary Banca Akros, whose operations consist mainly of intermediation activity, market making and risk management with dynamic hedging strategies in the system of operating limits.

At 30 June 2016 financial liabilities increased by about Euro 281 million from 31 December 2015. The increase essentially reflects the financial liabilities held for trading (+ Euro 249 million) and is tied to the increase in the corresponding financial assets (+ Euro 60 million), with the consequent determination of a net trading balance of Euro 425 million, down Euro 189 million from the net amount in December 2015 (-30.8%).

Direct deposits – the aggregate composed of due to customers, securities issued and financial liabilities designated at fair value through profit and loss – amounted to Euro 37,602 million at 31 December 2015, up Euro 765 million (+2.1%) from 31 December 2014.

In detail:

- due to customers amounted to Euro 28,623 million, up Euro 920 million (+3.3%), mainly due to the increase in current accounts and savings deposits (+ Euro 2,027 million), only partially balanced by the contraction in PCT liabilities (- Euro 1,107 million);

- securities issued amounted to Euro 8,849 million and showed a contraction of Euro 133 million (-1.5%) mainly due to the redemption of senior and subordinate bonds;
- the financial liabilities designated at fair value through profit and loss amounted to Euro 130 million, down Euro 22 million (- 14.8%).

At 30 June 2016 direct deposits amounted to Euro 36,790 million, down Euro 812 million (-2.2%) from 31 December 2015. The reduction is essentially tied to the sharp contract in the aggregate of securities issued (- Euro 1,778 million; -20.1%), mainly in consequence of the repayment of an EMTN for Euro 1 billion, the reduction in short-term PCT made with securities issued by the Company that were bought back (- Euro 893 million) and the repayment of other bonds (- Euro 630 million), only partly offset by the issuance of a covered bond for Euro 750 million.

The reduction in securities issued was partly offset by the increase in trade payables (+ Euro 994 million; +3.5%) due to the increase in current accounts and deposits (+ Euro 1,645 million), only partly offset by lower PCT liabilities (- Euro 655 million).

In 2015 indirect deposits from ordinary customers that are marked to market amounted to Euro 34,060 million, up from December 2014 (+ Euro 1,450 million; +4.4%). This performance benefits from the positive results of assets under management, which amounted to Euro 20,901 million (+ Euro 3,029 million; + 16.9%), in consequence both of the positive trend of the markets and net positive deposits during the year of Euro 2,612 million.

Assets under administration amounted to Euro 13,159 million at 31 December 2015, down from 31 December 2014 (- Euro 1,579 million; -10.7%) substantially for the process of reallocating the liquidity resulting from maturing government securities for managed asset products.

The performance of indirect deposits, which amounted to Euro 32,364 million at 30 June 2016, was down from H1 2016 (- Euro 1,696 million; -5.0%). The decrease is attributable to assets under administration (- Euro 2,048 million), mainly in consequence of the performance of financial markets, while assets under management (+ Euro 351 million) benefits from positive net deposits, albeit less than in the previous year.

3. REFERENCE BALANCE SHEETS AND EXPERTS' REPORTS

Pursuant to Article 2501-*quater*, Paragraph 2, of the Italian Civil Code, the reference balance sheets for the Merger taken as reference by both Banco Popolare and BPM, the financial statement as of 31 December 2015 approved, respectively, by the Shareholders' Meeting of Banco Popolare on 19 March 2016, and by the Surveillance Board of BPM on 30 March 2016.

On 22 April 2016 and on 18 April 2016, the Court of Venezia and the Court of Milano appointed, respectively, upon request of Banco Popolare and of BPM, KPMG S.p.A. (for Banco Popolare) and Reconta Ernst & Young S.p.A. (for BPM) as experts charged with

preparing the report on the fairness of the shares' exchange ratio pursuant to Article 2501-*sexies* of the Italian Civil Code.

4. EXCHANGE RATIOS AND DETERMINATION CRITERIA

4.1 Introduction

The Board of Directors of Banco Popolare has hired independent financial advisors for the purpose of determining the financial aspects of the Merger, namely Mediobanca - Banca di Credito Finanziario S.p.A. ("**Mediobanca**"), Bank of America Merrill Lynch ("**Merrill Lynch**") and Colombo & Associati ("**Colombo & Associati**"), which are also in charge of ascertaining the fairness of the exchange ratio of the Merger.

The Management Board of BPM has hired independent financial advisors for the purpose of ascertaining the fairness of the economics of the Merger, namely Citigroup ("**Citigroup**") and Lazard & Co. ("**Lazard**").

4.2 Forecasts contained in the Memorandum of Understanding and Merger Plan – exchange ratios

In the Memorandum of Understanding and the Merger Plan, Banco Popolare and BPM, with the support from their respective financial advisors, have agreed that, taking into account their respective contributions, the Merger shall take place on the basis of exchange ratios determined in application of the following relative contributions:

- (i) **Banco Popolare shareholders** will hold **54.626%** of the share capital of ParentCo(the "**BP Relative Contribution**")
- (ii) **BPM shareholders** will hold **45.374%** of the share capital of the New Entity (the "**BPM Relative Contribution**" and, together with the BP relative contribution, the "**Relative Contributions**")

The Relative Contributions have been determined taking into account:

- a) the Capital Increase to be carried out in its entirety (hence no adjustments have been made to these ratios as a result of the Capital Increase being completed); and
- b) the ordinary dividends distributed by Banco Popolare (equal to Euro 54,326,940.90) and BPM (equal to Euro 118,537,025.62) for the year ended 31 December 2015.

The Memorandum of Understanding and the Merger Plan provide for the exchange ratios of the Merger to be determined after the number of shares to be issued by Banco Popolare for the Capital Increase has been determined and in such a way as to respect the aforementioned Relative Contributions. Specifically, the Memorandum of Understanding and the Merger Plan envisage that the exchange ratios - in terms of the exact number of

shares in the New Entity to be allocated in exchange for shares of Banco Popolare and BPM that will be cancelled as a result of the Merger - should be determined as follows:

- 1 (one) new share in ParentCo for each of BP share outstanding at the Merger date, including the shares issued through the Capital Increase, and
- 1 (one) share in ParentCo for every "X" BPM shares outstanding at the Merger date, where X is determined as follows:

$$X = \frac{\text{BPM shares}}{(\text{BP shares post Capital Increase})} \times \frac{\text{BPM Relative Contribution}}{\text{BP Relative Contribution}}$$

whereby:

- BP shares post Capital Increase = (BP shares outstanding at the Memorandum of Understanding signing date) – (BP treasury shares) + (newly-issued shares in the context of the Capital Increase);
- BPM shares = (number of BPM shares outstanding at the Memorandum of Understanding signing date) – (BPM treasury shares)

It should be noted that the Relative Contributions are based on the following assumptions:

- at the date of the Merger (assumed for these purposes as the date of the signing of the Memorandum of Understanding) Banco Popolare holds 94,936 treasury shares (the “**Banco Popolare Treasury Shares**”), and that all the treasury shares held by Banco Popolare will be cancelled;
- at the date of the Merger (assumed for these purposes as the date of the signing of the Memorandum of Understanding) BPM holds 1,524,259 treasury shares (the “**BPM Treasury Shares**”), and that all the treasury shares held by BPM will be cancelled.

Legal and financial confirmatory due diligence, carried out by each party on the other party as per the Memorandum of Understanding, has not revealed the existence of significant differences compared to the values considered by the parties for the purpose of determining the Relative Contributions. In addition, by the date of approval of the Merger Plan by the governing bodies of Banco Popolare and BPM, no facts or situations have occurred which, individually and/or collectively, could possibly affect or cause relevant deviations from the values considered by the parties for the purpose of determining the relative contributions.

In compliance and in accordance with the provisions of the Memorandum of Understanding and the Merger Plan (and of the Relative Contributions indicated therein), as communicated to the market jointly with BPM on 1 July 2016, following the conclusion

at the same date of the Capital Increase with the full subscription of Euro 996,343,990.56 and the issuance of 465,581,304 new shares of Banco Popolare, the exchange ratios have been determined as follows:

- **1 (one) share of ParentCo** for each **1 (one) share of Banco Popolare** outstanding at the time of the Merger;
- **1 (one) share of ParentCo** for each **6.386** (six / threehundredeighty-six) **shares of BPM** outstanding at the time of the Merger.

4.3 Objectives of the valuations

The valuations regarding Banco Popolare and BPM for the purpose of determining the Relative Contributions have been carried out with the purpose of expressing a comparative estimate of the companies' values, privileging the comparability of the criteria adopted over the absolute value of the companies considered individually, and should be taken into account only in relative terms with limited reference to the Merger.

The valuation methodologies have been identified for the sole purpose of identifying a range of values for the appropriate relative contributions and should not be considered as possible indication of the market price or value, current or prospective, in a different context. Stand-alone valuations reflect the current situation and future prospects of the two companies considered independently, disregarding the effects of the Merger.

It should also be noted that the Board of Directors of Banco Popolare has taken into account the significant strategic value of the Merger with BPM and the benefits obtainable from the synergies arising from the Merger, in the scenario of a consolidating domestic banking sector following the reform of the *Popolari* banks and in the macroeconomic, competitive and regulatory framework in which Italian banks operate, and also taking into account the provisions of the Memorandum of Understanding.

4.4 Main limitations encountered

The final valuations considered by the Board of Directors of Banco Popolare, with the assistance and support of Mediobanca, BAML and Colombo & Associati as financial advisors, are subject to certain limitations which may be summarized as follows:

- the absence of updated business plans developed on a stand-alone basis for Banco Popolare and BPM, approved by the respective governing bodies. Hence, where relevant for the application of the valuation methodologies, financial projections have been derived from (i) 2016 budgets approved by Banco Popolare on 9 February 2016 and by BPM on 18 January 2016; and (ii) a selection of equity research reports from leading research firms for both Banco Popolare and BPM;

- the inclusion of the Capital Increase for valuation purposes. As announced to the market, the Capital Increase is part of the Merger Plan and responds to requests raised by the regulatory bodies in order for the New Entity to reach a coverage level aligned to the highest industry standards, while maintaining capital ratios in line with European and Italian best practice, and thus favouring deteriorated loans disposal in order to reduce their incidence on total loans. Hence, where relevant, the Capital Increase has been considered for determining the range of the Relative Contributions;
- regulatory capital: the two banks currently use different calculation models for their capital ratios. Banco Popolare has already adopted the A-IRB models, while BPM still uses the standard models; in the absence of the Merger, the validation of BPM's A-IRB models would have been presented by BPM during 2016. For purposes of the valuation, where relevant and applicable, the effect of BPM A-IRB models has been considered as provided by BPM during discussions with the European Central Bank prior to the Merger's announcement.

In relation to the above, the following main assumptions have been used for valuation purposes:

- full recognition of negative goodwill in the CET1 fully-loaded capital ratio;
- the potential refund of shares subject to the withdrawal ("*recesso*") by existing Banco Popolare and BPM shareholders, following the resolutions approving the Merger Plan, will be implemented without the use of internal funds or resources of the New Entity but through the pre-emptive offering of such shares to current shareholders, followed by a market offering, without altering the relative contributions.

4.5 Reference date for the valuation and documentation used

Reference date

The valuations carried out refer to the earnings and capital situation of Banco Popolare and BPM as shown in the 2015 financial statements, the results presentation of Banco Popolare for the period ended 31 March 2016, and BPM's interim financial statements as at 31 March 2016. Given the criteria used, as defined below, the valuations refer to the earnings and market conditions as at 20 May 2016, with the single exception of the stock market price methodology, for which reference is made to the data as at 18 March 2016, i.e. the last trading day for the Banco Popolare and BPM stocks before the convening of the respective governing bodies on 22 and 23 March 2016 to discuss the terms of the Merger and approve the Memorandum of Understanding. For valuation purposes, it is assumed that, for both parties, no significant event has occurred which is able to significantly alter

the financial, capital and earnings situation in the period from the most recent available financial statements mentioned below and the date of this report.

Documentation used

In order to assess the value of the companies, public information and data provided by Banco Popolare have been used, including, with regard to the documentation for Banco Popolare and BPM, the following:

- financial statements for the year ended 31 December 2015 for Banco Popolare and BPM, interim financial statements for the three months ended 31 March 2016 for BPM, results presentation for Banco Popolare and BPM and related press releases
- 2016 budgets as approved respectively by the Board of Directors of Banco Popolare on 9 February 2016 and the Management Board of BPM on 18 January 2016
- Number of ordinary shares existing as at 31 March 2016:
 - o for Banco Popolare: the share capital consists of 362,179,606 ordinary shares and 94,936 treasury shares;
 - o for BPM: the share capital consists of 4,391,784,467 ordinary shares and 1,524,259 treasury shares;
- Memorandum of Understanding approved by the governing bodies of Banco Popolare and BPM on 23 March 2016 and related joint press release and presentation to the market;
- Merger Plan approved by the governing bodies of Banco Popolare and BPM on 24 May 2016;
- 2016-19 strategic plan of the new group approved by the governing bodies of Banco Popolare and BPM on 16 May 2016 and related joint press release and presentation to the market.

The documentation used also includes:

- Reports with results of the confirmatory due diligence run by Banco Popolare's advisors;
- Equity research reports (consensus) for both Banco Popolare and BPM;
- For a sample of listed Italian banks, market data and information on the earnings, capital and consensus data;
- Publicly available information deemed relevant for the application of selected valuation methodologies.

4.6 Valuation methodologies: description and application

The valuation methodologies used to estimate the value of the companies, on a stand-alone and going concern basis, include some of the most widely-accepted methodologies applied in the national and international valuation practice for the banking/financial sector. In applying these criteria, the characteristics and limitations of each of them have been considered. In particular the following methodologies have been used:

- Stock market price methodology
- Trading multiples
- Linear regression
- Excess capital dividend discount model

Stock market price methodology

The stock market price methodology uses stock market prices as relevant information in order to calculate the theoretical economic value of a company, taking into account the market capitalization in periods deemed significant and on the assumption that market prices are a meaningful reflection of the value of the companies being valued. The main feature of this methodology is the possibility of expressing in relative terms the market values of the two companies as perceived by the market.

In this specific case, it has been deemed relevant to apply this methodology to the average stock market prices of Banco Popolare and BPM, for reference periods considered to be relevant before and including 18 March 2016.

Trading multiples methodology

The trading multiples methodology is based on the stock market prices of a sample of companies that are deemed to be comparable with the one being valued.

In order to apply this methodology, a series of ratios (the multiples) between the stock market values and selected earnings/financial metrics considered relevant is calculated of the comparable companies.

The application of the trading multiples methodology consists of the following steps:

A. Selection of the sample

Given the nature of this methodology, the similarity of the operational and financial features of the selected comparables companies to the company being valued is critical. Indeed, the meaningfulness of the results is closely dependent upon the degree of comparability reflected by the companies included in the sample. If companies similar to the one being valued in all its respects cannot be found, it

becomes necessary to determine which are the most significant features to be considered in the selection of comparable companies.

The stocks selected must also be sufficiently liquid and must not represent companies that could be affected by particular temporary situations.

B. Identification of the fundamental ratios considered significant and representative for each company to be valued for the selected appropriate time period

For each of the selected comparables, the most relevant ratios are calculated. The choice of these ratios is made considering the intrinsic features of the sector in which the companies being valued operate, and following standard market practice ratios, such as the Price/Earnings ratio.

C. Determination of the reference time horizon for calculation of the ratios

The relevance of the ratios calculated and the choice of the time horizon are based on qualitative analysis of the significance of the multiples obtained and the earnings/financial metrics of the company being valued.

D. Application of the selected multiples to the companies being valued

The multiples obtained as described above are applied to the earning/financial metrics of the company being valued to estimate a range of values.

For the purpose of the exercise, the Price/Earnings multiple has therefore been applied to the projected years. This choice reflects the need to value the company on the basis of its expected normalized profitability.

The trading multiples have been applied to the companies based on:

- For 2016, earnings as shown in the budgets
- For 2017 and 2018, earnings consensus data from selected brokers.

Linear regression methodology

The linear regression methodology assumes that the economic value of a company can be determined based on the correlation between the expected profitability of the capital and the relative premium, or discount, expressed by the market prices over the its adjusted book value. This correlation is represented by a statistical regression of the data points (expressed by the Return on Average Tangible Equity - RoATE) and the price to tangible book value (P/TBV) multiple for a panel of banks comparable to the company being valued.

The valuation parameters thus determined, if relevant, are then applied to the expected RoATE and tangible book value of the company being valued in order to determine the economic value which would be attributed to the company by the market on the basis of the reported correlation.

The application of the regression methodology consists of the following steps:

- A. Selection of the reference sample – see “Trading multiples methodology” section above;
- B. Calculation of the RoATE and P/TBV for the companies included in the selected sample;
- C. Regression analysis between RoATE and P/TBV; if statically relevant, application of the regression parameters in order to determine the theoretical economic value attributed to the companies being valued.

The theoretical economic value of the companies being valued is determined according to the linear regression on the basis of the following equation:

$$P/TBV = i + c \cdot RoATE$$

Where:

P/TBV = multiple to be applied to the TBV of the companies being valued in order to calculate the economic value;

i = represents the intercept of the linear regression representing the given data set;

c = represents the slope of the linear regression;

RoATE = represents the RoATE of the companies being valued. In this specific case, this metric has been estimated for the 2016-18 period in the same way as the one described in the section headed “Trading multiples methodology” above.

The closer the correlation coefficient R^2 , which measures the data set dispersion, is to 100%, the higher the statistical significance.

For the projections for the 2016-18 period budget figures for 2016 were used, whereas for 2017 and 2018 selected consensus data has been used.

Excess capital dividend discount valuation model (“DDM”)

The DDM methodology is based on the assumption that the company’s value is equal to the net present value of the cash flows available in the future, assumed equal to the dividends available for shareholders maintaining an appropriate capital structure, based upon considerations related to the current legislation and economic factors in order to support the expected future growth. These flows may differ from the dividend policy actually planned or adopted by the management.

Using this methodology, the value of a company is equal to the sum of the present value of future dividends and the terminal value, calculated using the following formula:

$$E_v = \sum_{t=1}^n \frac{D_t}{(1+Ke)^t} + \frac{TV}{(1+Ke)^n}$$

Where:

E_v = Economic value of the company;

D = Maximum annual dividend distributable maintaining an adequate capital structure;

TV = Terminal Value;

n = Number of years projected;

K_e = Cost of equity (dividends discount rate).

The application of this formula involves in practice the following steps:

- A. Prediction of future dividend flows distributed during the period of reference taking into account the need to maintain an adequate level of capitalization, in accordance with the regulations in force for companies operating in the banking/financial sector as well as economic considerations;
- B. Calculation of the terminal value, or the value expected in the last year of the explicit prediction referred to in A above, has been determined using the so-called "Gordon Growth Model" formula, assuming a long-term growth rate;
- C. Determination of the discount rate for the dividends. Although is possible to calculate that rate using various methodologies, generally the discount rate, defined as the cost of equity, is calculated based on the Capital Asset Pricing Model formula as described below:

$$K_e = R_f + \beta * (R_m - R_f)$$

R_f = Return rate of risk-free investments;

β = Correlation factor between the return of a stock and the return of its reference index;

R_m = Expected market return of the reference stock market;

$(R_m - R_f)$ = Market or Equity Risk Premium, is the risk premium required by the market for investments implying an underlying risk.

This methodology is based on the assumption that, in an efficient market, investors determine the required rate of return considering only the amount of systemic risk (or market risk) of the investment, expressed by the relation between the change in the stock price and change in stock market performance (β factor). The amount of specific risk of the investment is not taken into account, however, since it can be eliminated by the investor through an appropriate investment diversification policy.

Solely in order to calculate the maximum dividend distributable for the application of these criteria, an adequate capital base level has been defined to allow Banco Popolare and

BPM to operate, taking as its benchmark the minimum capital required by the European Central Bank as highlighted by the Supervisory and Evaluation Process (SREP).

The 2016-18 period has been identified as the time horizon to be used in determining the dividend flows; then a terminal value for the companies has been calculated

For the 2016-18 financial projections, reference has been made to the 2016 budgets and selected consensus data for 2017 and 2018.

4.7 Valuation results and Relative Contributions

Without prejudice to the considerations and assumptions indicated above, on the basis of the analyses carried out according to the criteria described above – and taking also into account the dividends distributed by Banco Popolare and BPM referring to the 2015 financial year– the following results have been obtained:

Valuation Methodologies	<u>BP Relative Contribution</u>	
	Min	Max
Stock market price methodology	46%	57%
Trading multiples methodology	50%	58%
Linear regression methodology	48%	57%
DDM methodology	43%	54%
Valuation methodologies - avg.	47%	56%

Following the outcome of this assessment process and the reasoned comparison between the outcomes obtained from the various valuation methods adopted, taking also into account, in relation to the Board of Directors of Banco Popolare, the work carried out by the financial advisors Mediobanca, BAML and Colombo & Associati, the Board of Directors of Banco Popolare and the Management Board of BPM, in their respective meetings of 24 May 2016, defined and agreed on the relative values of Banco Popolare and BPM for the purpose of the Relative Contributions as defined in Paragraph 4.2.5.

5. MODALITIES FOR THE ASSIGNMENT OF THE SHARES OF THE COMPANY RESULTING FROM THE MERGER AND DATE OF THE ENJOYMENT OF THE SAME

As an effect of the consummation of the Merger, all of the outstanding shares of Banco Popolare and BPM shall be annulled and substituted with and exchanged for ordinary shares of the Company resulting from the Merger, on the basis of the exchange ratios set out in Paragraph 4 above.

The shares of the companies taking part in the Merger held by the same companies (treasury shares) will be annulled without any exchange.

ParentCo's shares that will be assigned, in exchange, to the shareholders of the companies involved in the Merger will be listed on the MTA.

The shares of ParentCo will have regular enjoyment; as such, the dividends that the ordinary Shareholders' meeting of Banco Popolare and BPM, respectively, on 19 March 2016 and 30 April 2016, resolved to distribute in respect of the financial year closed on 31 December 2015 have been assigned, respectively, to the shareholders of Banco Popolare and BPM.

ParentCo's shares issued to service the exchange ratio shall be made available to the shareholders of Banco Popolare and BPM, in dematerialized and centralized form with Monte Titoli S.p.A., through authorized intermediaries, starting from the first date of open trading at the stock exchange following the date of effectiveness of the Merger, with times and modalities that will be communicated in accordance with applicable laws. The date in which the shares of the Company are going to be made available will be communicated with appropriate release to be published pursuant to applicable laws.

The date in which the shares of ParentCo are going to be made available will be communicated with appropriate release to be published pursuant to applicable laws.

No cost will be charged to the shareholders for the exchange of the shares.

If necessary, there shall be made available to the shareholders of Banco Popolare and BPM, through authorized intermediaries, a service to allow the round up/down to the unit immediately above or below the number of shares of ParentCo to which they are entitled as a result of the exchange ratio, without any charging of expenses, stamp duties, or commissions. As an alternative, other modalities may be activated to ensure the comprehensive arrangement of the transaction. In addition, all the activities necessary to ensure the comprehensive arrangement of the exchange shall be carried out.

Additional information on the modalities of allocation of the shares of ParentCo shall be communicated, where necessary, according to the terms and modalities provided by the law.

6. **DATE FROM WHICH THE TRANSACTIONS OF THE COMPANIES PARTICIPATING TO THE MERGER SHALL BE ALLOCATED TO THE FINANCIAL STATEMENT OF THE COMPANY RESULTING FROM THE MERGER**

The Merger shall come into effect, pursuant to Article 2504-*bis*, Paragraphs 1 and 2, of the Italian Civil Code, with the last of the registrations provided by Article 2504 of the Italian Civil Code or by the following date that shall be indicated in the deed of merger. Starting from the date of effectiveness of the Merger, the Company shall be assigned all of the

active and passive legal relationships related to the two companies participating in the Merger.

For accounting purposes, the transactions of the companies participating to the Merger shall be accounted in the financial statement of the Company with effect from the date in which the Merger comes into effect as set out by the preceding Paragraph. From the same date the fiscal effects shall run.

7. ACCOUNTING ASPECTS AND TAX IMPACTS OF THE MERGER

7.1 Accounting aspects

From an accounting perspective, the Merger represents a modality of realization of a “business combination”, as it entails the combination of two distinct corporate entities in a single new entity required to draw up a financial statement. In particular, the modalities for the accounting of the business combination are regulated by the ‘IFRS 3’ accounting principle on “Business Combinations”.

On the basis of such principle, the business combinations are accounted using the so-called “purchase method”, which requires, as a first step, to identify the entity representing the virtual purchaser.

In the case at hand, for accounting purposes only, the virtual acquiring entity is that which obtains control of the acquired company, having the capacity to manage the relevant activities and also being exposed to the variability of the results deriving from such power. In the cases in which the acquiring entity is not clearly identifiable, it is necessary to consider all of the available evidences, among which:

- the existence of a difference between the number of new ordinary shares issued by the new entity and assigned to the two entities participating in the merger;
- the existence of a significant different between the fair values in favor of one of the two entities participating in the merger;
- the composition of the managing body of the entity resulting from the combination;
- the existence of a significant difference between the size of one of the two entities part of combination, to be assessed, for instance, on the basis of the assets and revenues.

On the basis of the elements indicated above, and in particular, the prevalence of the number of shares to be assigned to the shareholders of Banco Popolare and the size requirements, the virtually acquiring entity is identified in Banco Popolare and the virtually acquired entity in BPM.

Accordingly, for accounting purposes, the financial statement of ParentCo shall be drawn up so as to guarantee the continuity in the values vis-à-vis the financial statement of Banco Popolare, while BPM shall be reflected in the financial statement of ParentCo, starting from the date of acquisition of control, since IFRS 3 does not contemplate the possibility of accounting retroactivity, unlike the Italian Civil Code (Article 2504-bis, Paragraph 3). In detail, in the financial statement of ParentCo, BPM's identifiable assets acquired, the identifiable liabilities undertaken, including contingent liabilities (collectively, the "net identifiable assets") shall be accounted on the basis of the respective fair values at the date of acquisition. The date of acquisition is represented by the date of effectiveness of the Merger on which the exchange of shares takes place.

In response to the accounting of the fair value of the net identifiable assets, the IFRS 3 requires to identify the consideration of the combination, to be determined valuing the shares issued by ParentCo assigned in exchange to the shareholders of BPM, on the basis of the stock exchange price at the date of such assignment.

Taking into account the current situation on the stock markets, as well as the relevant forecasts, it is reasonable to foresee that, from an accounting perspective, the consideration transferred for the combination will be less than the fair value of the acquired net identifiable assets; in such case, the difference (the so-called "badwill") shall be immediately recorded in the profit and loss accounts, as a revenue, after verifying, with a new assessment, the correct procedure for the identification of the fair value of all the assets acquired and liabilities undertaken.

Conversely, in the event that the transferred consideration would exceed the fair value of the acquired net identifiable assets, the difference shall be accounted as goodwill.

The costs correlated to the combination, which include intermediation fees, legal fees, accounting fees, professional costs, as well as general administrative costs, are accounted in the profit and loss account at the moment in which they are borne, save for the potential costs related to the issuance of the share certificates, which shall be accounted as a reduction of the net asset value (*patrimonio netto*) as indicated in IAS 32.

The procedure mentioned above shall be followed for the purposes of both the accounting of the combination in the consolidated financial statement of the new group, and the accounting of the transaction in the financial statement of ParentCo.

At the date of preparation of this Report, the consideration of the combination and the fair values of the net identifiable assets acquired by BPM may be only estimated or in any case determined provisionally. Such values and the consequent amount of badwill/goodwill may be determined, in a definitive way, only at the date of consummation of the acquisition or within the following twelve months, if at the date of preparation of the 2016 financial statement there are reasons to suggest that such values are still provisional. In this regard, it shall be pointed out that the IFRS 3 accounting principle provides that the accounting reporting of the business combination may be performed, in a definitive way, within the maximum term of 12 months from the date of acquisition (the valuation

period), so to afford a reasonable time span to the acquirer to obtain all the information necessary to identify the values of the combination.

7.2 Tax aspects

7.2.1 Tax treatment

Direct tax

As regards the tax aspects, pursuant to Article 172 of the Unified Text on Income Taxes, approved with Decree of the President of the Republic 22 December 1986 no. 917 and following amendments, the merger does not represent a realization nor a distribution of gains or losses of the assets of the merged companies. It is, therefore, established a tax neutrality principle of the merger.

For the purposes of income taxes, the effects of the merger shall run from the date of effectiveness of the merger (see Paragraph 6). The taxable income relating to the fraction of the taxable period following such date shall therefore be allocated to the company resulting from the merger.

The potential higher values accounted for in the financial statement as a result of the exchange ratio of the shares of the companies participating in the merger shall not constitute income of the company resulting from the merger. In such case, the company resulting from the merger may potentially evaluate to avail itself of the option allowed by Articles 176, Paragraph 2-ter of the Unified Text on Income Taxes, Article 15, Paragraphs 10-12, of the Law Decree 185/2008 as amended by Article 1, Paragraphs 95-97 of the Law 28 December 2015 no. 208 (so-called 'Stability Law 2016') for the purpose of obtaining the tax recognition of the higher values related to the assets indicated therein.

The deferred tax assets accounted in the latest financial statement of the companies participating to the merger as re-created in the financial statement of the company resulting from the merger do not form part of the income of the same, in accordance with Article 172, Paragraph 5, of the Decree of the President of the Republic no. 917/86.

The accounting and tax values shall result from the relating reconciliation form of the income statement (Article 172, Paragraph 2, last sentence, of the Unified Text on Income Taxes).

As the tax effects of the transaction run from the date of effectiveness of the Merger (see Paragraph 6), the income of the companies participating in the merger, for the period comprised between the beginning of the tax period and the date in which the merger comes into effect, shall be determined on the basis of the result of a relating financial statement drawn up by each of the merging companies in accordance with the customary criteria set out by the law.

From the date of effectiveness of the Merger, the company resulting from the Merger shall succeed in the obligations and rights of fiscal nature of the merging companies, including the payment obligation, also relating to withholding taxes.

Indirect taxes

The Merger represents a transaction excluded from the purview of the VAT, pursuant to Article 2, Paragraph 3, letter f), of the Decree of the President of the Republic, no. 633/1972.

The transaction is subject to the registration tax, and cadastral and mortgage taxes having a fixed amount (Euro 200 for each tax), pursuant to Article 4, letter b), of the Tariff attached to the Decree of the President of the Republic 26 April 1986, n. 131, First Part, and Article 10 of Legislative Decree 347/1990 and Article 4 of the Tariff attached to the same Legislative Decree.

7.2.2 Treatment for the shareholders

The Merger is an event devoid of any effects on the income also in respect to the shareholders of the merging companies: on the one hand, the exchange of the shareholdings will not give rise to the realization of capital gains or losses, nor will it constitute the realization of revenues for the shareholders.

On the other, the assignment of the shares of the company resulting from the Merger will not entail the application of the tax on financial transactions.

8. CORPORATE GOVERNANCE OF THE COMPANY RESULTING FROM THE MERGER

8.1 Model of corporate governance and control

ParentCo shall adopt the “traditional” governance and control system, based on the Board of Directors and the Board of Statutory Auditors.

In the following Paragraphs the essential elements of the corporate governance of ParentCo are illustrated, as result from both the deed of incorporation of the same contained in the Merger Plan and the by-laws of ParentCo attached to the Merger Plan. For further details on the governance of ParentCo please refer to said documents attached to this Report.

8.2 Composition of the first corporate bodies of the company resulting from the Merger

8.2.1 The first Board of Directors of ParentCo

For the first term the Board of Directors of ParentCo shall be composed by 19 (nineteen) directors, designed by the companies participating to the Merger, in accordance with the Memorandum of Understanding, as follows:

Name	Offices
Carlo Fratta Pasini	Chairman of the Board of Directors*
Mauro Paoloni	Deputy Vice Chairman of the Board of Directors**
Guido Castellotti	Vice Chairman of the Board of Directors *
Maurizio Comoli	Vice Chairman of the Board of Directors *
Giuseppe Castagna	Chief Executive Officer
Cristina Galeotti	Director*
Giulio Pedrollo	Director *
Fabio Ravanelli	Director *
Pier Francesco Saviotti	Director *
Costanza Torricelli	Director *
Cristina Zucchetti	Director *
Mario Anolli	Director **
Michele Cerqua	Director **
Rita Laura D'Ecclesia	Director **
Carlo Frascarolo	Director **
Paola Galbiati	Director **
Piero Lonardi	Director **
Marisa Golo	Director ***
Manuela Soffientini	Director ****
<p>* Director designated by Banco Popolare</p> <p>** Director designed by BPM</p> <p>*** Director designed by Banco Popolare with the consent of BPM</p> <p>**** Director designed jointly by Banco Popolare and BPM</p>	

The By-laws of ParentCo provide for that at least 9 (nine) of the aforementioned nineteen directors meet the independence requirements provided for by the By-laws.

As regards the compensation for the members of the first Board of Directors of ParentCo, it is established an annual fixed gross compensation of Euro 110,000.00, and of Euro 50,000.00 for each member of the Executive Committee (see the following Paragraph 8.2.2), in addition to the cost of the director liability's insurance coverage for the members of the Board of Directors, which shall be borne by ParentCo. These compensations have been determined taking into account the increased size which the new Group, established from the Merger, will have, and the commitment required of each member, as well as the compensations provided for analogous offices in the major Italian banks having operations similar to those of ParentCo.

8.2.2 The first Executive Committee and the first Intra-board Committee

Executive Committee

In addition to the Chairman of the Board of Directors, the Vice Deputy Chairman, the two Vice Chairmen and the CEO mentioned in the previous Paragraph 8.2.1, ParentCo shall appoint an **Executive Committee** composed of six directors.

The first Executive Committee of ParentCo shall be composed as follows: (i) four of the six members shall be those designed by Banco Popolare or BPM to hold the first offices of Deputy Vice Chairman of the Board of Directors (designed by BPM), Vice Chairmen of the Board of Directors (designated by Banco Popolare) and Chief Executive Officer; (ii) the remaining two members shall be designed one by Banco Popolare – in the person of the current Chief Executive Officer of Banco Popolare (Mr Pier Francesco Saviotti) who shall be the Chairman of the Executive Committee – and one by BPM.

The delegations and the powers to be conferred to the Executive Committee of ParentCo shall be limited to the granting and management of credits, whereas they do not include the valuation and management of the “non-performing loans” (to be understood as the “sofferenze”, “inadempienze probabili (unlikely to pay)” and the “esposizioni scadute e/o sconfinanti deteriorate (expired exposures and/or deteriorated and breached exposures)”, as well as any decision connected to the management of the same (e.g., settlement and litigation). The “sofferenze” shall be entrusted to a specific management unit, established *ad hoc*, reporting directly to the Chief Executive Officer, without prejudice to the competences of the Board of Directors.

Intra-board Committee

Four Intra-board Committees are provided for, namely an Internal Control and Risks Committee, a Nomination Committee, a Remuneration Committee and Related Party Committee, each of them composed by four members. The composition of the first Intra-board Committees is characterized by an equal representation of members designed by Banco Popolare and BPM (*i.e.*, respectively, two members), with the Chairmanship of the

Remuneration Committee and the Related Party Committee entrusted to one of the members designed by Banco Popolare, whereas the Chairmanship of the Internal Control and Risks Committee and the Nomination Committee entrusted to one of the members designed by BPM.

ParentCo shall also appoint a General Manager, in the person of the current General Manager of Banco Popolare (Mr Maurizio Faroni) and the two Co-General Managers, one appointed by Banco Popolare (in the person of Mr Domenico De Angelis) and one appointed by BPM (in the person of Mr Salvatore Poloni).

8.2.3 The first Board of Statutory Auditors of ParentCo

For the first term, the Board of the Statutory Auditors of ParentCo shall be composed of 5 (five) standing and 3 (three) alternate statutory auditors, appointed by the companies participating to the Merger, pursuant to the Memorandum of Understanding, as follows:

Name	Office
Marcello Priori	Chairman of the Board of the Statutory Auditors*
Maria Luisa Mosconi	Standing Statutory Auditor**
Gabriele Camillo Erba	Standing Statutory Auditor***
Claudia Rossi	Standing Statutory Auditor***
Alfonso Sonato	Standing Statutory Auditor***
Chiara Benciolini	Alternate Statutory Auditor***
Marco Bronzato	Alternate Statutory Auditor***
Paola Simonelli	Alternate Statutory Auditor**
<p>* Designed by BPM (also with the indication of Banco Popolare)</p> <p>** Designed by BPM</p> <p>*** Designed by Banco Popolare</p>	

In relation to the compensation for the members of the first Board of Statutory Auditors of ParentCo, an annual gross compensation of Euro 110,000.00 for each standing Statutory Auditor and Euro 160,000.00 for the Chairman of the Board of Statutory Auditors, has been established, in addition to the cost of the third-party liability insurance's coverage for the members of the Board of Statutory Auditors, which shall be borne by ParentCo. These compensations have been determined taking into account the increased size which the new Group, established from the Merger, will have, and the commitment required of each

member, as well as the compensations provided for analogous offices in the major Italian banks having operations similar to those of ParentCo.

8.2.4 Audit of the Account

Upon motivated proposal of the Board of Statutory Auditors of Banco Popolare and the Surveillance Board of BPM, the role of auditor of the account of ParentCo shall be entrusted to PricewaterhouseCoopers S.p.A. for the duration provided by the law. The terms of such assignment are set out in the motivated proposal of the Board of Statutory Auditors of Banco Popolare, which is available to the shareholders on Banco Popolare's website.

8.3 **Bylaws' governance structure of ParentCo**

8.3.1 Limits to the voting rights

The By-laws of ParentCo shall provide for a limit to the number of votes exercisable, whereby no person, individually considered, may exercise, directly or indirectly, in any way the right to vote for an amount of shares in ParentCo exceeding 5% (five per cent) of the share capital with voting rights. This provision shall be effective until 26 March 2017 (that is, until the expiration of the 24th month following the date of coming into force of the conversion law of Decree Law 24 January 2015 no. 3); following this term, it shall automatically lapse.

For the purposes of determining the amount of shares in ParentCo to be referred to a single person, consideration shall be given to the votes cast in relation to the total shareholding held by the parent company, natural or legal person or company, all subsidiaries, direct or indirect, as well as shares held through fiduciary and/or interposed person as well as votes cast in any other case in which the voting right is attributed, for any reason, to any subject other than the holder of the shares; however, shareholdings included in the portfolio of mutual funds, Italian or foreign, managed by controlled or affiliated companies are not to be considered.

8.3.2 Corporate bodies: composition and appointment

The By-laws of ParentCo shall provide for that, for the period following the first mandate, the **Board of Directors**, which is responsible for the strategic supervision and management of the company, is composed by 15 (fifteen) directors, of which at least 7 (seven) must possess the independence requirements (see Article 20.1 of the By-laws).

The members of the Board of Directors shall be appointed, pursuant to the By-laws of ParentCo (see Articles from 20.4 to 20.10 of the By-laws), on the basis of the voting mechanism of list that, *inter alia*:

- (i) shall permit the presentation of a list of candidates by the shareholders which are collectively holders of a shareholding equal to at least 1% of the share capital (or a different percentage provided for by laws) and by the Board of Directors

whose mandate is about to expire. In the latter case, the list must be approved by the Board of Directors with a qualified *quorum* (of fourteen directors out of nineteen in the occasion of the first whole renovation of the management body after the date of efficacy of the Merger or eleven out of fifteen during the 'ordinary' regime); and

- (ii) shall permit the presentation of a list of candidates by working employees of ParentCo or subsidiaries thereof who are at the same time shareholders and collectively represent a minimum amount of the share capital equal to 0.12% ("**List of the Employees**"). The List of the Employees which shall have obtained the majority of votes, as a percentage of the capital, shall appoint one member of the Board of Directors of ParentCo. With respect to the sole first renovation of the Board of Directors following the establishment of ParentCo, it shall be provided that the List of the Employees may be submitted only by the working employees who, in the same time, were shareholders for at least 5 years (calculating for this purpose also their *status* of shareholders in the two banks participating to the Merger).

In the event that more than one list of candidates is submitted, the appointment of Board Members shall be made as follows: (a) 12 (twelve) directors or the lower number of directors covering all the candidates indicated in such list are selected from the list that has obtained the majority of votes; (b) the remaining 3 (three) directors – or the higher number of directors in the event that from the list indicated in letter (a) above less than 12 (twelve) directors have been taken – are selected from the lists of the minority, without prejudice that at least one director shall be chosen by the List of the Employees which have obtained the majority of the numbers of votes.

The **Chairman of the Board of Directors** shall be the first candidate of the list, which, as results from the votes cast by the Shareholders' Meeting, will have appointed the majority of the directors. The third name of the same list shall be appointed for the assignment of **Deputy Vice Chairman of the Board of Directors**. Only during the first mandate two Vice Chairmen shall be also appointed.

The By-laws shall provide for the appointment of an **Executive Committee** composed by six members (see Article 26 of the By-laws).

The By-laws of ParentCo shall also provide for:

- (i) the necessary appointment of a **Chief Executive Officer** (see Article 30 of the By-laws); and
- (ii) the appointment of a General Manager and two Co-General Managers, unless the Board of Directors resolves not to appoint such appointments (see Article 31 of the By-laws).

The **Intra-board Committee**, which shall be established within the Board of Directors, shall be the following: Internal Control and Risks Committee, Nomination Committee, Remuneration Committee and Related Party Committee. Any such committees shall be composed by four members (see Article 24.4 of the By-laws).

The **Board of Statutory Auditors** shall be composed by five standing and three alternate statutory auditors. Without prejudice as abovementioned in relation to the first Board of Statutory Auditors, the Board of Statutory Auditors shall be appointed by means of the voting mechanism of list, structured as follows: (i) the list being first obtains two standing and one alternate statutory auditor; (ii) the list being second obtains two standing and one alternate statutory auditor; (iii) the list being third obtains one standing (with functions of Chairman) and one alternate statutory auditors (see Article 35 of the By-laws).

8.3.3 Qualified Majority of the Board

Qualified majority (that is, the approval of 14 directors in office for the first mandate of the Board of Directors and 11 directors in office from the Board of Directors following to the first) are provided for on the following matters:

- (i) approval of the List of the Board, which the Board of Directors may decide to submit for voting;
- (ii) sale, contribution and acts of disposition and restructuring in general (even if carried out in one or more phases) of banking businesses or business branches which have a single value exceeding 20% of ParentCo's consolidated regulatory capital, with the exception of cases in which said transactions are the result of instructions issued by Regulatory Authorities as well as of transactions regarding the company beneficiary of the Spin-off, the approval of which by qualified majority of the Board is not required.

8.3.4 Support to the territories of historical rooting

Without prejudice to the provisions of the bylaws regarding the allocation of profits, the Board of Directors of ParentCo, subject to resolution of the ordinary Shareholders' Meeting, may allocate a portion of the net profits for the year resulting from the approved annual financial statement not exceeding 2.5% of such profits for the purposes of assistance, charity and public interest, to be used to support initiatives related to specific territories of reference.

Such overall amount shall be divided amongst initiatives connected to the territories in which ParentCo has a stronger presence on the basis of the quotas set forth below:

- 18.5% (eighteen point five per cent) to initiatives in support of the civil and social fabric of the Veronese territory and of the territories of the Division of reference as well as in support of the territorial Foundation the establishment of which will be possibly promoted by ParentCo;

- 45% (forty-five per cent) to initiatives in support of the civil and social fabric of both the Milan territory and the territorial Foundation the establishment of which will be possibly promoted by ParentCo;
- 13.5% (thirteen point five per cent) to initiatives in support of the Bipielle Foundation in the Lodi territory and of the territories of the division of reference;
- 13.5% (thirteen point five per cent) to initiatives in support of the Banca Popolare di Novara Foundation for the Territory in the territory of Novara and of the territories of the division of reference;
- 1.5% (one point five per cent) to initiatives in support of the Culto Banco S.Geminiano and S.Prospiero Foundation;
- 8% (eight per cent) to initiatives in support of the Credito Bergamasco Foundation in the Bergamo territory and of the territories of the division of reference.

9. FORECASTS ON THE COMPOSITION OF THE RELEVANT SHAREHOLDINGS AND ON THE CONTROLLING STRUCTURE OF THE COMPANY RESULTING FROM THE MERGER

According to the exchange ratios indicated in Paragraph 4 hereinabove, it is expected that that 54.626% of the share capital of ParentCo will be held by the former shareholders of Banco Popolare and 45.374% by the former BPM shareholders.

10. EFFECTS OF THE MERGER ON THE SHAREHOLDERS' AGREEMENTS SUBJECT TO ARTICLE 122 OF THE CONSOLIDATED LAW ON FINANCE

At the date of this Report, according to the information provided pursuant to Article 122 Consolidated Law on Finance, we are not aware of shareholders' agreements applying to the shares of Banco Popolare.

As regards BPM, at the date of this Report, on the basis of the information provided pursuant to Article 122 Consolidated Law on Finance, the following is reported:

- (i) on 9 September 2011, BPM and Fondazione Cassa di Risparmio di Alessandria (the "Foundation") executed a shareholders' agreement containing, inter alia, (i) a clause providing for the presence of a member designated by the Foundation in the management bodies of BPM and (ii) rules regarding unlisted entities belonging to the BPM Group. On 25 June 2014 and subsequently on 13 July 2015, BPM and the Foundation, after mutually waiving their right of withdrawal provided for in the shareholders' agreement, entered into an integration of the same, whereby they extended the term of the shareholders' agreement until 13 July 2018 (with express exclusion of any automatic renewal subsequent to that term) or, if earlier, until the first of (a) the date on which the transformation of BPM into "società per azioni"

(joint-stock company) will take effect or (b) the date when a corporate amalgamation involving BPM will take effect;

- (ii) on 18 November 2014 BPM was notified of the incorporation of the shareholders' association named "Per la Cooperativa BPM". The members decided to comply, to the extent that Article 122 of the Consolidated Act on Finance on shareholders' agreement would be applicable to such arrangement, with the obligations of communication and disclosure to the public and regulatory authorities provided by that law. In light of the above, the excerpt of the aforementioned association agreement has been published on the website of BPM www.gruppobpm.it, "Governance" section, "Patti parasociali e Associazioni di Soci".

11. RIGHT OF WITHDRAWAL

11.1 Information on the qualification for the right of withdrawal and related procedure

The consummation of the Merger by way of establishment of ParentCo entails the transformation of Banco Popolare (and of BPM) from a "*società cooperativa*" (cooperative company) into a "*società per azioni*" (joint-stock company) (so-called "transformative merger"). Therefore, the shareholders and the members of Banco Popolare that have not consented to the shareholders' meeting resolution approving the Merger may exercise their right of withdrawal from the company pursuant to Article 2437, Paragraph 1, of the Italian Civil Code.

The unit liquidation value to be paid to the shareholders and members that have exercised their right of withdrawal is determined, pursuant to Article 2437-*ter*, Paragraph 3, of the Italian Civil Code, exclusively on the basis of the arithmetic average of the closing prices during the six months preceding the date of publication of the notice of call of the Shareholders' Meeting convened to resolve on the Merger (value set at Euro 3.156 per share).

Pursuant to Article 2437-*bis* of the Italian Civil Code, the qualified persons (i.e. the shareholders and the members who are absent, vote against or abstain from voting on the shareholders' meeting resolution approving the Merger Plan) may exercise their right of withdrawal, for all or part of the shares they hold, by sending a certified mail letter with return receipt, addressed to the registered office of Banco Popolare, within 15 days of the recording at the Companies' Register of the resolution approving the Merger. The notice communicating that the resolution has been recorded at the Companies' Register shall be published pursuant to applicable statutory and regulatory provisions. The communication given by the withdrawing person must contain the information indicated in Article 2437-*bis*, Paragraph 1, of the Italian Civil Code and must be attached to a relevant communication, issued by an authorised intermediary, attesting his/her/its ownership of the shares for which the withdrawal has been exercised from the date of the Shareholders'

Meeting whose resolution triggered the exercise of the right of withdrawal uninterruptedly throughout the date of effective exercise of the right of withdrawal, as well as that no pledge or any other encumbrance exists on the shares for which the right of withdrawal has been exercised. More details on the exercise of the withdrawal right will be furnished to the shareholders and members in accordance with applicable legislative and regulatory provisions.

The effectiveness of the withdrawal rights potentially exercised shall be conditional on the effectiveness of the Merger.

The liquidation of the shares for which the right of withdrawal has been exercised shall occur on the terms and conditions set out in Article 2437-*quater* of the Italian Civil Code. The details of that procedure will be published by Banco Popolare and/or ParentCo in accordance with applicable statutory and regulatory provisions.

The proceeds deriving from the placement of the shares to the shareholders or third parties pursuant to Article 2437-*quater*, Paragraphs 1 to 4, of the Italian Civil Code, shall be used to reimburse the liquidation value of the shares for which the withdrawal right has been exercised, in accordance with the specific criteria of reimbursement and allocation ensuring equal treatment of all shareholders.

In any event, pursuant to the provisions of Article 2437-*bis*, Paragraph 2, of the Italian Civil Code, the shares for which the right of withdrawal has been exercised will become unavailable for disposal until the procedure to liquidate those shares has been completed (therefore, they may not be transferred by their respective holders who have exercised the right of withdrawal), with the consequent temporary impossibility of realizing their own investment.

11.2 Information on potential limitation to the reimbursement of the shares for which the withdrawal right has been exercised remaining after the pre-emptive offer and the offer on the market pursuant to Article 2437-*quater*, Paragraphs from 1 to 4, of the Italian Civil Code have been completed

11.2.1 The rules applicable to the reimbursement of the shares for which the withdrawal right has been exercised in “banche popolari”

The Decree Law no. 3 of 24 January 2015, as converted with amendments by the Law no. 33 of 24 March 2015, introduced, *inter alia*, a new Paragraph 2-*ter* to Article 28 of the Consolidated Banking Act, pursuant to which “At ‘*banche popolari*’ and ‘*banche di credito cooperativo*’, the right of reimbursement in the event of withdrawal, also as a result of transformation, death, or exclusion of the shareholder, is limited in accordance with the provisions of the Bank of Italy, even if this involves a derogation from statutory provisions, when this is necessary to allow the computability of the shares in the core regulatory capital of the bank. For the same purposes, the Bank of Italy may limit the right of reimbursement of the other equity instruments issued”.

The regulatory framework set out by the new Article 28, Paragraph 2-ter, of the Consolidated Banking Act was completed by the introduction of Chapter 4 of Part Three of Bank of Italy Circular no. 285 of 17 December 2013, and in particular by Section III, which provides that *“The by-laws of the ‘banca popolare’ and the ‘banca di credito cooperativo’ confers on the body having the strategic supervision, upon proposal of the management body, having heard the body having controlling functions, the power to limit or defer, entirely or partly and with no time-limits, the reimbursement of the shares and other capital instruments of the shareholder that has exercised his/her/its withdrawal right (even in the event of transformation), exclusion or death, as provided by the applicable supervisory regulations. This right is granted, pursuant to Article 28, Paragraph 2-ter, Consolidated Banking Act, even in derogation from the applicable provisions of the Italian Civil Code and other statutory provisions”*.

Consistently, taking into account the guidelines issued by the Bank of Italy and following the issuance of the ascertainment order pursuant to Article 56 of the Consolidated Banking Act, Banco Popolare has amended its own by-laws by introducing a new Paragraph at the end of Article 15, according to which *“In implementation of the provisions of Art. 28, paragraph 2-ter of Italian Legislative Decree no. 385 of 1 September 1993, the Board of Directors, in respect of the regulatory provisions in force at each time, having heard from the Board of Statutory Auditors, is entitled to limit, in whole or in part and without time limits, or to defer in whole or in part, also in this case without time limits, the redemption of the shares in the case of withdrawal, also following the transformation of the Company, exclusion or death of the shareholder, all in derogation of the provisions of the Italian Civil Code in that regard and any other rule of law. Without prejudice to the applicable authorisations of the Supervisory Authorities for the redemption of shares, the Board of Directors, having heard from the Board of Statutory Auditors, makes the decisions on extending the deferment, on the extent of the limitation or, if full, on the exclusion of the redemption of shares as well as on the time extension of the deferment, taking into account the Bank’s prudential situation”*.

BPM has added a similar provision in its own by-laws (see Article 39, Last Paragraph, of the by-laws of BPM).

Moreover, the reductions of the banks’ own assets as a consequence of the reimbursement of Tier 1 core capital instruments are regulated (first and foremost) at the European Union level. These regulations constitute the basis for the national regulations, and specifically Regulation (EU) no. 575/2013 (CRR) (in particular, see Articles 29, 77 and 78) and the Delegated Regulation (EU) no. 241/2014, which integrates the aforementioned Regulation (EU) no. 575/2013.

Specifically, with respect to the assessments that the competent corporate bodies are to make to determine the extension of the deferral or the amount of the limitation of the reimbursement of the shares for which the withdrawal right has been exercised – and the related latitude for the discretion granted to the corporate body responsible for taking that decision – Paragraphs 2 and 3 of Article 10 of Delegated Regulation (EU) no. 241/2014 apply. Pursuant to the same, it is provided on the one hand that *“the capacity of the entity to limit the reimbursement in accordance with the provisions regulating capital instruments provided*

in Article 29, Paragraph 2, letter b), and Article 78, Paragraph 3, of Regulation (EU) no. 575/2013, regard both the right to defer the reimbursement and the right to limit the amount of the reimbursement [...]” and, on the other hand, that “The amount of the limits on the reimbursement provided by the provisions that regulate the instruments is determined by the entity on the basis of its prudential situation at any time, considering in particular, but not exclusively, the following elements: a) the overall situation of the entity with respect to its financial position as well as its liquidity and solvency; b) the amount of Tier 1 core capital, Tier 1 capital and the total capital in relation to the aggregate amount of the risk exposure calculated in accordance with the requirements imposed in Article 92, Paragraph 1, letter a), of Regulation (EU) no. 575/2013, the specific requirements of the bank’s own assets provided in Article 104, Paragraph 1, letter a), of Directive 2013/36/EU, and the combined requirements of capital reserves pursuant to Article 128, sub-indent 6, of the same directive”.

Section III of Chapter 4 of Part Three of Bank of Italy Circular no. 285 can also be traced back to said European regulation. This Bank of Italy circular, which also addresses the regulation of the parameters to be considered in determining the extension or length of the deferral or limitation of the reimbursement, provides that: “The strategic supervision body takes its own decisions on extension of the deferral and the amount of the limitation of the reimbursement of shares and other capital instruments taking into account the prudential situation of the bank. In particular, for the purposes of this decision, such body considers: - the overall financial situation, liquidity and solvency of the bank or bank group; - the amount of tier 1 core capital, the tier 1 capital and the total capital in relation to the requirements imposed by Article 92 of the CRR [editor's note: Regulation (EU) no. 575/2013], the specific requirements on the bank’s own assets as provided in Part One, Title III, Capital 1, Section 3, Paragraph 5 [editor's note: of Bank of Italy Circular no. 285], the combined requirements of capital reserves pursuant to Part One, Title II, Capital 1 [editor's note: of Bank of Italy Circular no. 285]”.

The reimbursement of the Banco Popolare shares (as well as BPM shares) for which the withdrawal has been exercised as a result of the Merger – which, as mentioned above, entails the simultaneous transformation of Banco Popolare and BPM from “società cooperativa” (cooperative companies) into a “società per azioni” (joint-stock company) – is subject to the application of the aforementioned statutory provisions as well as the by-laws and, to the extent not derogated from, the applicable provisions of the Italian Civil Code.

11.2.2 Preliminary assessments on the possible deferral or limitation of the reimbursement of the shares for which the withdrawal has been exercised

In the Merger Plan (Paragraph 8) approved by their respective management bodies, Banco Popolare and BPM acknowledge that, “taking into account the indications received from the competent Regulatory Authority on the need that the Company resulting from the Merger holds, from the very beginning, a level of capitalization and coverage of deteriorated credits aligned to the highest values of Italian banks (goal to be attained also through the Share Capital Increase) have agreed (reserving to take any more punctual determination in compliance with the terms provided by the law) on the understanding that, in case the amount of withdrawals is capable of reducing or affecting the capital ratios of the Company resulting from the Merger above the thresholds that will

be deemed sustainable taking into account the overall prudential, financial, liquidity and solvency situation of the Company – or of reducing or limiting, above the thresholds that will be deemed sustainable, the capacity of the same to attain, from the very beginning, a level of coverage of deteriorated credits deemed adequate – the potential reimbursement of the shares subject to withdrawal shall be performed without using the Company’s assets or internal resources, but rather through the purchase of such shares by other shareholders as part of a pre-emption offer of the shares subject of withdrawal and/or by third parties in connection with their placement on the market following the pre-emption period. Any such determination shall be taken by Banco Popolare and BPM and be made public with the management’s report on the Merger to be prepared and published according to applicable laws”.

The potential reimbursement of the shares for which the withdrawal right has been exercised and that have not been purchased by the other shareholders or by the market pursuant to Article 2437-*quater*, Paragraphs 1 to 4, of the Italian Civil Code may, within the limits of (and taking into account) what is illustrated hereinafter, be charged to ParentCo, pursuant to the provisions of Article 2437-*quater*, Paragraphs 5 and 6, of the Italian Civil Code as well as pursuant to the regulations governing the reimbursement of the shares for which the withdrawal has been exercised provided in respect to “*banche popolari*” and illustrated in Paragraph 11.2.1 hereinabove.

In this regard, it is pointed out that Banco Popolare and BPM are unable to provide herein any definitive information on the limitation that will be imposed by ParentCo (a company not yet existing) on the reimbursement of those shares, since the same banks are not aware of – nor can they presently determine with certainty – the effective situation of the regulatory capital coefficients and overall prudential and financial situation, liquidity and solvency that will characterize ParentCo and on the basis of which the same will take its own decisions in this regard.

Nevertheless, in accordance with the requests made by Bank of Italy in the consultation report in connection with the issuance of the new provisions contained in Circular no. 285 of 17 December 2013 related to the reform of ‘*banche popolari*’, it has been decided – for the purpose of allowing the members and shareholders to exercise their right of withdrawal on as informed a basis as possible – to indicate in this Report the criteria identified by the Board of Directors of Banco Popolare and by the Management Board of BPM, after consulting with their own control bodies, in regard to the (partial or, if applicable, full) limitation on the reimbursement of the shares for which the withdrawal has been exercised and that have not been acquired by the other shareholders or the market (provided however - as previously mentioned - that the decision shall be taken by the competent bodies of ParentCo).

Finally, it is pointed out that the decision on the reimbursement of the remaining shares shall be taken: (i) only after the Merger takes effect; and (ii) once the amount of the shares for which the withdrawal has been exercised and the result of the offer of the same on a pre-emptive basis and on the market pursuant to Article 2437-*quater*, Paragraphs 1 to 4, Italian Civil Code, have been published in order to know the remaining amount that

would be charged to ParentCo pursuant to Article 2437-*quater*, Paragraph 5, of the Italian Civil Code.

The situation of Banco Popolare and BPM

In February 2016, the Board of Directors of Banco Popolare and the Management Board of BPM approved, respectively, their consolidated results at 31 December 2015, which show – in terms of their fully loaded regulatory capital coefficients ⁽⁵⁾ – a *Common Equity Tier 1 Ratio* (“**CET 1 Ratio**”) of 12.4% and 12.2%, respectively. On the basis of the aforementioned figures of Banco Popolare and BPM as at 31 December 2015, the pro-forma CET1 of ParentCo, calculated on a fully loaded basis, would be equal to 12.3%. However, this figure, which is provided on a merely informative basis, does not consider: (i) the impacts deriving from the capital increase carried out by Banco Popolare at the end of the first half of 2016 and the impacts deriving from the decisions taken and to be taken in order to comply with the conditions indicated by the European Central Bank (“**ECB**”) during its investigation procedure on the Merger; (ii) the impacts that will result from the accounting recognition (“*rilevazione contabile*”) of the Merger pursuant to the IFRS 3 accounting principle; and (iii) the impacts resulting from the non-recurring charges to be incurred in carrying out the transaction, all the foregoing as better illustrated hereunder.

(i) *Impacts of the capital increase of Banco Popolare and the decisions taken and to be taken to guarantee satisfaction of the conditions indicated by the ECB*

In the course of its discussions with Banco Popolare and BPM during the months prior to the execution of the Memorandum of Understanding, the ECB set out the guidelines and identified certain targets related to the credit rating and capitalisation of ParentCo.

In detail, in a letter dated 12 February 2016, the ECB, given the complexity and systemic importance that ParentCo would assume in the Italian and European banking system, specifically requested that, from the very beginning, ParentCo: (i) has a high level of capitalisation allowing to face adverse financial conditions; (ii) has a convincing plan to reduce its currently high level of non-performing loans, which may not be higher or have a level of coverage less than the average value for Italian banks of equivalent importance; (iii) has a business plan indicating a level of profitability that is sustainable over the medium term and, very importantly, having a clear and efficient governance structure. Specifically, with respect to the capitalisation of ParentCo, the ECB requested that ParentCo be “*stronger than the two former banks on a stand-alone basis*”.

In order to comply with the guidance of the ECB and in accordance with the same Regulatory Authority, Banco Popolare carried out a capital increase at the end of the first half of 2016, for a total amount of Euro 996 million. This resulted in a net increase of Euro

⁽⁵⁾ The new harmonised regulations for banks and investment undertakings contained in Regulation (EU) no. 575/2013 (“**CRR**”) and in Directive 2013/36/EU (“**CRD IV**”) of 26 June 2013 came into force beginning 1 January 2014. These regulations transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (“*Basel 3 framework*”). These regulations provide a transitional system for the gradual implementation of certain new rules (“*phase-in*”). The estimates of the regulatory capital ratios calculated in accordance with the rules that will be in force at the end of the transition period are commonly referred to as “*Basel 3 fully loaded/fully phased*”.

970 million of its book net assets' value. It is perfectly evident in the assumptions made by the Regulatory Authority and in the development of the Strategic Plan of ParentCo that this capital increase is deemed to be structurally necessary, inter alia in light of the additional restrictions set by the ECB, as illustrated hereunder.

In the previously cited letter of 12 February 2016, the ECB made specific requests in regard to the average level of coverage and the amount of non-performing loans. More specifically, during the course of their discussions, with respect to the first target indicated hereinabove, the ECB formally requested that ParentCo has an average level of coverage amounting to 62% for "*sofferenze*" and about 49% for the total of non-performing loans. Having to reach these levels of coverage from the very establishment of ParentCo, Banco Popolare has undertaken a process aimed at raising its average level of coverage for non-performing loans since the first quarter of 2016. This process will have to continue through the second half of the year for the purpose of further raising the average levels of coverage reached at 30 June 2016, both for the component of "*sofferenze*" and the component of probable defaults. Consequently, the regulatory capital ratios at year-end will be negatively impacted by the additional value adjustments that will be charged to the profit and loss account, which might be significant.

Meeting the targeted reduction in the ratio of non-performing loans vis-à-vis the total amount of loans as indicated by the ECB and included in the strategic plan of ParentCo approved by the management bodies of the two banks and communicated to the market on 16 May 2016 (the "**Strategic Plan**" or "**Plan**") – this Plan calls for steadily reducing the ratio of nominal non-performing loans, i.e. inclusive of the loans that have been partly written-off, to the total of loans from 24.8% at 31 December 2015 to 17.9% –will require, *inter alia*, the adoption of a non-performing loan management strategy focused on greater recourse to sales of receivables to third parties. In this perspective, to the extent that the transactions will be completed or the conditions otherwise exist for modifying the forecasts of recovering the non-performing loans identified for probable disposal in future, it might be necessary to charge negative value adjustments on those loans to the profit and loss account. Those negative value adjustments may even have a significant impact on the regulatory capital ratios.

The Strategic Plan of ParentCo, as submitted to the ECB in connection with the request of authorisation of the Merger, includes the expected impacts of the estimated changes in the valuation procedures used to value the non-performing loans, and the estimated sales of the "*sofferenze*".

(ii) Impacts resulting from the accounting recognition ("*rilevazione contabile*") of the Merger in accordance with IFRS 3

The Merger to be accomplished through the combination of Banco Popolare and BPM, which entails the combination of two distinct corporate entities in a single new entity that is to prepare financial statements, represents one way to realise a "business combination" to be recognised for accounting purposes in accordance with IFRS 3 ("*Business*

Combinations”), and more specifically according to the “*purchase method*”. The accounting recognition method set out by IFRS 3 provides that, at the effective date of the merger, the cost of the business combination for the virtual purchaser be identified for accounting purposes only (in the case of this Merger, Banco Popolare) and then be allocated to the assets, liabilities and contingent liabilities of the purchased entity that can be identified at the effective date of the Merger and measured on the basis of their respective fair values. The value of the cost of the business combination at hand will be determined by measuring the value of the new shares of ParentCo issued and assigned in exchange to the shareholders of BPM on the basis of the first official listing price of the shares of ParentCo after the effective date of the Merger.

Consequently, the process of allocating the cost of the combination will entail identifying any differences existing at the effective date of the Merger between the book value and the fair value of all the assets and liabilities of the BPM Group. This allocation process might require the identification of negative differences (assets whose fair value is lower than their individual book value and/or liabilities whose fair value is higher than their individual book value) whose total exceeds the positive differences (assets whose fair value is higher than their individual book value and/or liabilities whose fair value is lower than their individual book value). To the extent that this occurs, there might be negative impacts on the Common Equity Tier 1 and the regulatory capital ratios of ParentCo that cannot be estimated now.

(iii) *Impacts of the non-recurring charges and investments to be made in pursuit of the targets of the strategic plan*

The merger plan between Banco Popolare and BPM calls for the realization of major cost and revenue synergies. Moreover, pursuit of the targets envisaged in the Strategic Plan will require sustaining significant up-front integration costs. Charging these costs will entail, both in 2016 and in the first few subsequent financial years, negative impacts on profitability and consequently on the regulatory capital ratios of ParentCo. Moreover, considering that the market scenarios in which ParentCo will operate already appear especially challenging, adequate capital resources to support the necessary level of activity and investments will have to be available.

Finally, it should be pointed out that the measurement of the level of adequate capitalisation is influenced by a series of contingent variables, including the need to face the impacts resulting from new and more challenging regulatory requirements as announced by the regulator (e.g. the expected revision of the use of internal models for measuring regulatory capital requirements requested to meet the risks of the First Pillar of Basel), in reference to the credit, operating and market risk aspects, which might be reflected, inter alia, in a significant increase in the risk-weighted assets.

Merely for the sake of comparison, note that: (i) at 31 December 2015, the 51 banks that underwent the Stress Test under the coordination of the *European Banking Authority* (EBA)

had a fully loaded CET1 coefficient, based on the aggregate data, of 12.6% ⁽⁶⁾; and (ii) at 30 June 2016, the listed Italian banks that underwent the *Supervisory Review and Evaluation Process* (SREP) had an average fully loaded CET1 coefficient of 12.3% ⁽⁷⁾.

The assessments of the management bodies of Banco Popolare and BPM

On the basis of the foregoing considerations the following sets out – in relation to the Shareholders’ Meetings called to resolve on the Merger and in order to allow the members and the shareholders to decide whether or not to exercise their right of withdrawal providing as much information as possible – the criteria that will be followed in limiting the reimbursement of shares:

- (i) at the date on which the competent corporate bodies of ParentCo will have to decide whether to limit (partially or, if appropriate, fully) the reimbursement of the shares for which the right of withdrawal has been exercised, the “pro-forma” fully loaded CET 1 ratio of ParentCo will be estimated. This estimate will be based on the most recent regulatory capital ratios respectively of Banco Popolare and BPM and will reflect the expected impacts in order to guarantee compliance with the conditions indicated by the ECB, the impacts consequent to the recognition (“*rilevazione*”) of the Merger in accordance with IFRS 3, and the impacts consequent to the non-recurring charges and investments to be sustained in pursuit of the Strategic Plan objectives;
- (ii) the estimated fully loaded CET 1 ratio indicated at point (i) hereinabove will then be compared with the “pro-forma” fully loaded CET 1 ratio that will be identified by the competent corporate bodies of ParentCo as the minimum level below which it is deemed that the aforementioned indicator shall not fall as a result of the reimbursement of the shares for which the right of withdrawal has been exercised. In the determination of such minimum level the contents of the Strategic Plan of ParentCo – submitted to the ECB as part of its review leading to the obtainment of the authorisation of the Merger and that, as already announced to the market, calls for achieving a fully loaded CET 1 ratio of 12.9% at the end of 2019 – will be duly considered as well as the overall economic, financial, liquidity and solvency situation existing at the time of the decision and the most updated forecasts on its evolution, the market risks, any additional instructions that might be received from the Supervisory Authority, the expected impacts in consequence of the new and more challenging regulatory requirements that are announced by the regulator, or otherwise foreseeable, and the levels of the abovementioned indicator referred to the principal European and Italian banks that are of the same size or bigger than ParentCo.

⁽⁶⁾ Source: EBA presentation of 30 July 2016.

⁽⁷⁾ Calculated as the average of the fully loaded CET1 coefficients of Intesa Sanpaolo, UniCredit, Banca Monte dei Paschi di Siena, UBI, Banca Popolare dell’Emilia Romagna, Credito Valtellinese, Credito Emiliano and Mediobanca. Banca Carige and Banca Popolare di Sondrio do not publish their fully loaded CET1.

Therefore, considering the amount of the shares for which the right of withdrawal will be exercised and the outcome of the offer on a pre-emptive basis and to the market pursuant to Article 2437-*quater*, Paragraphs 1 to 4, of the Italian Civil Code, it will be evaluated whether their reimbursement is compatible with the aim of maintaining the fully loaded CET 1 ratio indicated at point (i) above the minimum level of that same indicator as determined in accordance with what is described at point (ii) hereinabove.

On the basis of all the foregoing and the illustrated criteria, it is pointed out that there might not be the conditions for ParentCo to be allowed to make available its own resources for the reimbursement of the shares for which the right of withdrawal has been exercised and not taken up in the offer on a pre-emptive basis and to the market.

11.2.3 Criterion for allocation of the potential amount made available by ParentCo for the reimbursement of the shares for which the right of withdrawal has been exercised

As regards the criterion that would be followed by ParentCo to allocate – amongst the members and the shareholders of the two banks participating in the Merger that have exercised the right of withdrawal – any amount that might be made available, by applying the aforementioned criteria, for the reimbursement of the shares for which the right of withdrawal has been exercised and which will not be purchased by the other shareholders or by the market, ParentCo will proceed on the basis of the Relative Contributions indicated hereinabove at Paragraph 4.2, regardless of the total amount of shareholders of the two banks that have exercised the right of withdrawal and the ratio between the amount of withdrawals pertaining to each of the two banks.

Once the amount available to each of the two groups of members and shareholders of the two banks that have exercised the right of withdrawal is known, the exact number of Banco Popolare and BPM shares to be reimbursed (as exchanged for shares of ParentCo) will be determined. This determination will be carried out by dividing the amount available to the former members and shareholders of Banco Popolare that have exercised the right of withdrawal and the former members and shareholders of BPM that have exercised the right of withdrawal, respectively, at the withdrawal price applicable to each of these two groups.

The shares that might be reimbursed in application of the criteria determined hereinabove will be fully liquidated to those entitled – on condition of obtaining the authorisations required to reduce its own resources for reimbursement of the Tier 1 core capital instruments envisaged in Articles 77 and 78 of Regulation (EU) no. 575/2013 (CRR) – while the non-reimbursed shares – exchanged for shares in ParentCo on the basis of the exchange ratios determined with the Merger – will be made available again to the shareholders that have exercised the right of withdrawal once the legal procedures have been concluded. With respect to these last shares, it is noted that listing of the shares of ParentCo will allow the shareholders to trade the stock directly on the market and monetise their own investment if and when they decide to.

It has been decided to exclude the possibility of proceeding with a deferral of the reimbursement of the shares for which the withdrawal right has been exercised since, although this possibility is envisaged by the aforementioned regulation, it appears prejudicial to the shareholder exercising his/her/its withdrawal right: in fact, in this case, the latter would suffer – for a period of time that cannot be calculated beforehand – the restriction of not being able to sell or transfer the shares for which the withdrawal right has been exercised provided for by Article 2437-bis, Paragraph 2, of the Italian Civil Code, with the consequent impossibility of realizing his/her/its own investment.

Proposal of resolution for the shareholders' meeting of Banco Popolare – Società Cooperativa

Dear Shareholders,

On the basis of what has been illustrated hereinabove, the Board of Directors submits the following unitary motion to your approval :

“The Shareholders’ Meeting of Banco Popolare – Società Cooperativa, having gathered on extraordinary call:

- *having heard the proposals made by the Board of Directors;*
- *having seen the Merger Plan, prepared pursuant to Article 2501-ter of the Italian Civil Code, with the attached By-laws of the company to be incorporated named Banco BPM S.p.A.;*
- *having taken note of, as reference financial statement pursuant to Article 2501-quater, paragraph 2, of the Italian Civil Code, the annual financial statements as of 31 December 2015 of Banco Popolare - Società Cooperativa approved by the Ordinary Shareholders’ Meeting on 19 March 2016;*
- *having taken note of, as reference financial statement pursuant to Article 2501-quater, Paragraph 2, of the Italian Civil Code, the annual financial statement as of 31 December 2015 of Banca Popolare di Milano S.c. a r.l. approved by the Surveillance Board on 30 March 2016;*
- *having taken note of the Report of the Board of Directors of Banco Popolare – Società Cooperativa drawn up pursuant to Article 2501-quinquies of the Italian Civil Code and Article 70, Paragraph 2, of the Regulation approved with Consob Resolution no. 11971 of 14 May 1999, as amended (the Issuers’ Regulation);*
- *having taken note of the Report on the fairness of the shares’ exchange ratio drawn up pursuant to Article 2501-sexies of the Italian Civil Code by the accounting firm KPMG S.p.A., acting as expert appointed for Banco Popolare Società Cooperativa by order of the Court of Venice on 22 April 2016;*
- *having taken note that the authorizations required for the merger have been obtained from the competent Regulatory Authorities (including the authorization pursuant to Article 57 of Legislative Decree 385 of 1 September 1993, as amended);*

- *having taken note of any other content set out in the Information Document (Documento Informativo) on the merger, prepared pursuant to Article 70, Paragraph 6, of the Issuers' Regulation;*
- *having taken note of all the formalities of deposit and information provided by the law and regulations have been fulfilled pursuant to Articles 2501 et seq. of the Italian Civil Code and Article 70 of the Issuers' Regulation, and in particular:*
 - (i) *the registration of the Merger Plan with the Companies' Registers of Verona and Milano on 12 September 2016;*
 - (ii) *the deposit of the documentation required pursuant to Article 2501-septies of the Italian Civil Code at the registered office of Banco Popolare - Società Cooperativa and of Banca Popolare di Milano S.c. a r.l. within the prescribed deadlines;*
 - (iii) *the documents provided by Article 70 of the Issuers' Regulation, including the Information Document regulated therein, have been made available to the public according to the terms and modalities provided therein;*
- *having taken note of the motivated proposal of the Board of Statutory Auditors on the engagement of PricewaterhouseCoopers S.p.A. as accounting external auditor of the new company Banco BPM S.p.A., made in accordance with and for the purposes of Article 13, Paragraph 1, Legislative Decree no. 39 of 27 January 2010;*
- *having also taken note that the Merger Plan, also in the context of its consummation, provides, inter alia, for:*
 - (i) *the request for admission to listing on the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A. of the ordinary shares to be issued by the new company Banco BPM S.p.A., in compliance with the current Regulation on the Markets organized and managed by Borsa Italiana S.p.A.;*
 - (ii) *the authorization, pursuant to and for the purposes of, Articles 2357 and 2357-ter of the Italian Civil Code, to the Board of Directors of the new company Banco BPM S.p.A., for a maximum period of 18 (eighteen) months from the effective date of the Merger, to purchase, in one or more transactions, a maximum number of shares not exceeding 1% of the initial share capital of the new company Banco BPM S.p.A. to be used, if necessary, to fulfill the commitments on the assignment of shares to directors, employees or collaborators already hired by Banco Popolare – Società Cooperativa and/or Banca Popolare di Milano S.c. a r.l. pursuant to their respective stock grant plans of treasury shares and/or currently applicable remuneration policies (and which will be taken on, in consequence of the merger, by Banco BPM S.p.A.);*
 - (iii) *in accordance with the motivated proposal of the Board of Statutory Auditors of Banco Popolare - Società Cooperativa and the Surveillance Board of Banca Popolare di Milano S.c. a r.l., the engagement, pursuant to Article 13, paragraph 1, of Legislative Decree 39 of 27 January 2010, of an accounting external auditor for the new company Banco BPM S.p.A. for the statutory period;*

RESOLVES

1. *to approve, pursuant to and for the purposes of, Article 2502 of the Italian Civil Code, the Merger Plan for the merger between Banco Popolare - Società Cooperativa and Banca Popolare di Milano S.c. a r.l., to be implemented through the incorporation of a new "società per azioni" (joint-stock company) named "Banco BPM Società per Azioni", as registered with the Companies' Register of Verona and Milan, respectively, pursuant to Article 2501-ter of the Italian Civil Code, and attached hereto and entirely referred to as an integral part of this resolution, which provides for, and entails, inter alia:*
 - 1.1 *the assignment to the shareholders of Banco Popolare - Società Cooperativa of 1 (one) share the new company Banco BPM S.p.A. for each 1 (one) share held and the assignment to the shareholders of Banca Popolare di Milano S.c. a r.l. of 1 (one) share of the new company Banco BPM S.p.A. for each 6.386 (six / threehundredeightsix) shares held;*
 - 1.2 *the approval of the deed of incorporation and the by-laws of the company resulting from the merger as contained in the Merger Plan and as such including, inter alia, indication of the composition of the corporate bodies of the newly incorporated company Banco BPM S.p.A.;*
 - 1.3 *the granting to the Board of Directors of the new company Banco BPM S.p.A. of the authorisation, in accordance with Articles 2357 and 2357-ter of the Italian Civil Code, to proceed with the purchase, in compliance with the limit provided by Article 2357, paragraph 1, of the Italian Civil Code, of a maximum number of ordinary shares not exceeding 1% of the initial share capital of the new company Banco BPM S.p.A. and the consequent disposal of the purchased shares, by granting a disjoint mandate to the Chairman and Chief Executive Officer to make the purchase and consequent disposal pursuant to the terms and conditions provided by the law and as indicated in the Report of the Board of Directors drawn up for the purposes of illustrating the Merger Plan, it being provided that: the authorization for the purchase of the treasury shares will have a duration of 18 (eighteen) months from the effective date of the merger (while no time limit is provided for the disposal of the purchased treasury shares); the treasury shares will be used to fulfill, as necessary, the commitments to assign shares to directors, employees or collaborators already hired by Banco Popolare - Società Cooperativa and/or Banca Popolare di Milano S.c. a r.l. pursuant to the respective treasury shares stock grant plans and/or remuneration policies currently in force; the purchases shall be made at a price not lower than 15% (fifteen per cent) and not higher than 15% (fifteen per cent) of the official price registered by the stock on the Mercato Telematico Azionario on the day before each individual purchase; the purchases of treasury shares will be made pursuant to the terms and conditions provided by Article 144-bis of the Issuers' Regulation;*
 - 1.4 *the assignment of the following compensation to the members of the first Board of Directors of the company resulting from the merger, for the entire period of their term in office, and which is to be paid and based on the effective duration of their tenure:*
 - (i) *annual fixed gross compensation of Euro 110,000.00 for each member of the Board of Directors;*
 - (ii) *annual fixed gross compensation of Euro 50,000.00 for each member of the Executive Committee;*

in addition to the cost of the director liability's insurance coverage for the members of the Board of Directors, which shall be borne by the company resulting from the merger;

- 1.5 *the assignment to the members of the first Board of Statutory Auditors of the company resulting from the merger, for the entire period of their tenure, of the following compensation to be paid and based on the effective duration of their tenure in office: an annual gross compensation of Euro 110,000.00 for each standing Statutory Auditor and Euro 160,000.00 for the Chairman of the Board of Statutory Auditors, in addition to the cost of the liability insurance's coverage for the members of the Board of Statutory Auditors, which shall be borne by the company resulting from the merger;*
- 1.6 *the granting of the mandate as external auditor of the new company Banco BPM S.p.A. pursuant to Article 13, paragraph 1, of Legislative Decree 39 of 27 January 2010, along with the related fees, to the accounting firm PricewaterhouseCoopers S.p.A., in accordance with the terms and conditions set out in the motivated proposal of the Board of Statutory Auditors made available to the shareholders and attached hereto;*
- 1.7 *the request for admission to listing on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. of the ordinary shares to be issued by the new company Banco BPM S.p.A., in compliance with the current Regulation on Markets organized and managed by Borsa Italiana S.p.A.;*
2. *consequently, to grant the Chairman of the Board of Directors, the Deputy Chairmen, the Chief Executive Officer and the General Manager pro-tempore in office, also disjointly among them, and also by means of attorneys-in-fact designated for the purpose, the broadest powers and authority to:*
 - 2.1 *make any non-material changes, additions and deletions to the shareholders' meeting resolutions as are necessary when they are registered with the Companies Register;*
 - 2.2 *carry out the merger in accordance with the terms and conditions set out in the Merger Plan, in the Report on the Merger prepared by the Board of Directors and in the preceding resolutions and, accordingly: (i) execute and sign the public deed of merger and any and all acknowledgement deed, as well as any amendment, implementation and/or rectification deed that might be necessary or appropriate for this purpose, while defining any arrangement, conditions, clauses, terms and modalities, always in compliance with the provisions of the Merger Plan and the resolutions passed by this Shareholders' Meeting today; and (ii) execute any other documentation, and carry out any formalities or acts necessary for the complete performance, even with separate acts, of the resolutions indicated hereinabove, in participating in the definition and execution of the deed of merger and any other inherent, consequent, necessary or appropriate deed, without limitations or exceptions, and consequently providing for:*
 - a) *the possible substitution, in agreement with the persons designated for such purpose by Banca Popolare di Milano S.c. a r.l., of the members of the Board of Directors and Board of Statutory*

Auditors designated in the Merger Plan of the new company Banco BPM S.p.A. who, for any reason, might not take on or accept the office;

b) the capacity to insert in the deed of merger any variations, integrations, or clarifications as might be necessary or appropriate, also for the purpose of transposing what is specified in the Merger Plan and in the resolutions passed by this Shareholders' Meeting;

c) the capacity to insert in the by-laws of the company resulting from the merger the additions and updates, including in respect to the numerical expressions, that will be known on a definitive basis only upon execution of the deed of merger (including the updates and integrations of Articles 1.1, 6.1, 20.1.1 and 43.1 of the text of the by-laws attached to the Merger Plan), and also with authorization to make any other update of the by-laws, even after the deed of merger has been executed, possibly that might result from completion of the withdrawal procedures;

d) the registrations, recordings, annotations, changes or rectifications of registrations in the public registers and in all other competent venues, with release of the competent cadastral officer and any other public officer from any relating liability;

e) submission (i) of the request for admission to listing on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. and the filing to Consob for its approval of the publication of the Prospectus and/or any other document connected with listing of the shares to be issued by the company resulting from the merger and, if required in consequence of the foregoing, (ii) any other consequent request for admission to listing or equivalent procedures on regulated markets or other trading venues in Italy or abroad, of the financial instruments other than the shares issued by the companies participating to the merger and listed there as at the date of effectiveness of the merger, as well as at the completion of any other actions or obligations as necessary and appropriate;

f) to carry out, with the broadest powers, including representation and corporate signature authority, all the necessary and appropriate actions, without limitations or exceptions, to execute the resolutions indicated hereinabove, also in regard to the engagement to the external auditor."

Verona, 12 September 2016.

Banca Popolare – Società Cooperativa

for the Board of Directors

The Chairman of the Board of Directors

(Avv. Carlo Fratta Pasini)

Annex 1: Merger Plan, including the by-laws of the company resulting from the Merger



BANCA POPOLARE DI MILANO

This document is a translation into English of the merger plan between Banco Popolare – Società Cooperativa and Banca Popolare di Milano s.c. a r.l.. In case of any discrepancies between the English and the Italian version, the Italian version shall prevail.

MERGER PLAN

BETWEEN

BANCO POPOLARE – SOCIETÀ COOPERATIVA

AND

BANCA POPOLARE DI MILANO S.C. A R.L.

BY MEANS OF THE ESTABLISHMENT OF A NEW BANKING COMPANY

Prepared pursuant to and for the purposes of Article 2501-ter of the Italian Civil Code

24 May 2016

(as integrated until 12 September 2016)

RECITALS

Pursuant to and for the purposes of Article 2501-*ter* of the Italian Civil Code

- the Board of Directors of Banco Popolare – Società Cooperativa (“**Banco Popolare**”) and
- the Management Board of Banca Popolare di Milano S.c. a r.l. (“**BPM**”),

in the respective meetings of 24 May 2016, prepared and approved this merger plan (the “**Merger Plan**”) concerning the merger between Banco Popolare and BPM to be carried out through the establishment of a new banking company (the “**Merger**”).

The banking entity resulting from the Merger shall take the name of Banco BPM (the “**Company**”), shall be established in the form of a joint stock company and shall carry on, at the same time, the function of bank and holding company, with operating, management, coordinating, and service functions, which shall allow for an effective action of unitary direction pursuant to and for the purposes of Article 61, Paragraph 4, of Legislative Decree 1 September 1993, n. 285 (“**TUB**”) on all the companies that will form part of the Group resulting from the Merger.

The shares of the Company issued as a result of the Merger will be listed on the “Mercato Telematico Azionario” organized and managed by Borsa Italiana stock exchange (“**MTA**”), seamlessly with the listing of the shares of Banco Popolare and BPM, starting from the date of effectiveness of the Merger.

In order to allow the Company to have available an adequate capital for the role and relevance that the Group resulting from the Merger will be having in the Italian banking community, Banco Popolare – prior to the date in which the Extraordinary Shareholders’ Meeting of the shareholders of Banco Popolare and BPM will be convened to approve the Merger – shall carry out a capital strengthening process for the overall amount of euro 1.000.000.000,00 (one billion), which may be carried out, in one or more tranches, or in separate moments, through the issuance of a share capital increase pre-emptively offered to shareholders or also with the exclusion of the pre-emption right or through the issuance of convertible bonds (with right of conversion also in advance on the initiative of the Board of Directors of Banco Popolare) and/or to be mandatorily converted in ordinary shares of Banco Popolare, in the latter case also to be offered pre-emptively to those having such right, or with the exclusion of the pre-emption right (the “**Share Capital Increase**”). In this regard: (i) on 7 May 2016, the Extraordinary shareholders’ meeting of the shareholders of Banco Popolare approved the capital strengthening measure, conferring in this respect to the Board of Directors of Banco Popolare the power, pursuant to Articles 2420-*ter* and 2443 of the Italian Civil Code, to carry out the Share Capital Increase; (ii) on 10 May 2016, the Board of Directors of Banco Popolare resolved to exercise such delegation conferred by the Extraordinary shareholders’ meeting of 7 May 2016, setting the maximum amount of the Share Capital Increase to be exercised pursuant to the delegation received in the amount of euro 1.000.000.000,00 (including any share premium) and providing that said increase shall be carried out through the issuance of ordinary shares to be pre-emptively offered to those having such right.

Currently, moreover, in the context of the Merger and subject to consummation of the same, it is provided that BPM, conditional on the authorizations required by the law, may carry out a contribution-in-kind in favor of an already existing banking company of certain activities including the network of branches of BPM (the “**Spin-off**”). If the Spin-off is carried out, the company beneficiary of the Spin-off: (i) shall have the form of a joint stock company, shall take the company name that will be agreed on between Banco Popolare and BPM and, following the Merger, shall be controlled by the Company; (ii) shall carry out the function of network-bank under the direction and coordination of the Company (where the administrative, planning, treasury and other central functions shall be centralized); and (iii) shall have a “light” organization structure coherent with said nature of network-bank so to avoid duplication of costs and overlapping with the organization structure of the Company. If BPM exercises the aforementioned possibility, the Spin-off would become an essential and integral part of the Merger. In the event that the Spin-off is actually be carried out, (i) the extraordinary transactions regarding the entity beneficiary of the Spin-off, including the merger by incorporation into the Company pursuant to Article 2505 of the Italian Civil Code shall be approved by the Board of Directors of the Company and by the company beneficiary of the Spin-off with the majorities provided by the law and (ii) within a reasonable period of time from the consummation of the Spin-off and, in any case, with effect starting from the third year following the effective date of the deed of merger, the company beneficiary of the Spin-off shall be incorporated into the Company.

1. COMPANIES PARTICIPATING IN THE MERGER

1.1 Banco Popolare

Banco Popolare – Società Cooperativa is a *banca popolare* operating in the form of a cooperative company, and is the parent company of the Gruppo Bancario Banco Popolare (registered in the Register of banking group with n. 5034.4).

Banco Popolare has its registered office and general management at Verona, Piazza Nogara n. 2, fiscal code and registration number with the Register of Enterprises of Verona n. 03700430238 and is registered with the Register of banks with n. 5668.

The share capital of Banco Popolare is, as of the date of 24 May 2016, equal to euro 6.092.996.076,83, fully paid-in, divided into n. 362.179.606 ordinary shares without nominal value.

On 7 May 2016, the Extraordinary shareholders’ meeting resolved to confer to the Board of Directors the delegation: (i) pursuant to Article 2443 of the Italian Civil Code, to increase, by means of an onerous and dividable increase, in one or more times, the share capital for a maximum overall amount, including share premium, of euro 1 billion, through the issuance of ordinary shares to be offered, according to Board of Directors’ decision, in whole or in part, pre-emptively to those having such pre-emption right and/or with the exclusion of the pre-emption right pursuant to Article 2441, Paragraph 5, of the Italian Civil Code, along with the right of the Board of Directors to place the shares to qualified investors; and/or (ii) pursuant to Article 2420-ter of the Italian Civil Code, to issue convertible bonds (with right of conversion also in advance on the initiative of the Board of Directors of Banco Popolare) and/or mandatorily convertible in ordinary shares, for a total maximum amount of euro 1

billion, along with the related increase of share capital to service the conversion through the issuance of ordinary shares having the same characteristics as those outstanding, to be offered, at the decision of the Board of Directors, in whole or in part, pre-emptively to those having such right and/or with the exclusion of the pre-emption right pursuant to Article 2441, Paragraph 5, along with the right of the Board of Directors to place the convertible bonds (with right of conversion also in advance on the initiative of the Board of Directors of the Company) and/or mandatorily convertible in ordinary shares.

On 10 May 2016, in execution of the delegation conferred by the Extraordinary Shareholders' meeting dated 7 May 2016, the Board of Directors of Banco Popolare resolved to increase, in accordance with Article 2443 of the Italian Civil Code, by means of an onerous and divisible increase, the share capital increase for an amount of euro 1.000.000.000,00, including share premium, through the issuance (for consideration) of ordinary shares, having regular enjoyment, to be pre-emptively offered to those which, at the date of beginning of the subscription period, shall be registered as shareholders (*azionisti*) of Banco Popolare, in proportion to the number of shares held. More precisely, the share capital increase shall be carried out for the total maximum amount of euro 1.000.000.000,00 or the total amount immediately below as determined by the Board of Directors for the sole purposes of the realization of the exact pre-emption ratio, with issuance of a number of shares and of a nominal value to be identified by the Board of Directors, taking into consideration, among other things, the price that will be established by the Board of Directors for each share, within the limits of the delegation conferred by the Shareholders' meeting.

The shares of Banco Popolare are listed on MTA.

1.2 BPM

Banca Popolare di Milano S.c. a r.l. is a *banca popolare* operating in the form of a cooperative company and is the parent company of the Gruppo bancario Bipiemme – Banca Popolare di Milano (registered in the Register of banking group with n. 5584.8).

BPM has its registered office and general management at Milano, Piazza F. Meda n. 4, fiscal code and registration number with the Register of Enterprises of Milano n. 00715120150 and is registered with the Register of banks with n. 5584.8.

The share capital of Banco Popolare is, as of the date of 24 May 2016, equal to euro 3.365.439.319,02 fully paid-in, divided into n. 4.391.784.467 ordinary shares without nominal value.

The shares of BPM are listed on MTA.

2. TYPE OF MERGER – THE INCORPORATION DEED OF THE COMPANY RESULTING FROM THE MERGER

2.1 Type of merger

The Merger regulated under this Merger Plan shall be carried out through the so-called “direct merger” by way of the establishment of a new banking company in the form of a joint stock company.

2.2. Incorporation deed of the company resulting from the merger

2.2.1 Company name

The Company name is identified in Banco BPM Società per Azioni.

2.2.2 Registered office and administrative office

The Company will have its registered office in Milano and administrative office in Verona.

Article 3.4 of the bylaws of the Company indicates that, at the date of incorporation of the Company, the functions of the central and administrative functions shall be allocated between Verona and Milano as follows:

- (i) the following functions of the central structures shall be located in Verona: Accounting & Tax, Audit, Compliance, Credits, Divisional Banking Activities, Institutional/Public and Other Clients, Planning and Control, Retail Clients, Risks, General and Corporate Secretary, Equity Investments and Leasing;
- (ii) the following functions of the central structures shall be located in Milan: Communication, Corporate, Finance, Private & Investment Banking, Investor Relations, Legal, M&A and Corporate Development, Operations/Organization, Human Resources, IT, Asset Management and Bancassurance.

The establishment of the functions of the central and administrative structures of the Company, their deletion, substitution, transfer, or consolidation, may be resolved on, according to a balanced and coherent allocation between Verona and Milano, exclusively by the Board of Directors and shall not be deemed as an amendment of the By-laws.

2.2.3 Duration

The Company's duration has been set to 23 December 2114, and may be extended.

2.2.4 Company purpose

The Company's corporate purpose is to collect savings and provide loans in various forms, both directly and through subsidiaries. In compliance with applicable regulations and after obtaining the necessary authorizations, the Company may carry out, directly or through controlled companies, all banking, financial and insurance transactions and services, including the setting up and management of open or closed-end pension schemes, and the other activities that may be performed by lending institutions, including issuance of bonds, the exercise of financing activity regulated by special laws and the sale and purchase of company receivables. The Company may carry out any other transaction that is instrumental to or in any way related to the achievement of its corporate purpose. To pursue its objectives, the Company may adhere to associations and consortia of the banking system, both in Italy and abroad. The Company, in its capacity as Parent Company of the Banking Group Banco BPM, pursuant to the laws from time to time in force, including Article 61, Paragraph 4, of Legislative Decree 385 of 1 September 1993, in exercising the activity of direction and coordination, issues guidelines to

Group members, also for the purpose of executing instructions issued by the Regulatory Authorities and in the interest of the stability of the Group. The determination of the criteria for the coordination and direction of the Group companies, as well as for the implementation of the instructions issued by the Regulatory Authorities, is reserved to the exclusive competence of the Board of Directors of the Parent Company.

2.2.5 Share capital and limits to right to vote

The amount of share capital of the Company and the numbers of shares in which it is divided shall be indicated in the deed of merger.

Article 8 of the bylaws of the Company provides for a limit to the number of votes exercisable, whereby no person, individually considered, may exercise, directly or indirectly, in any way the right to vote for an amount of shares in the Company exceeding 5% (five per cent) of the share capital with voting rights. This provision shall be effective until 26 March 2017 (that is, until the expiration of the 24th month following the date of coming into force of the conversion law of Decree Law 24 January 2015 n. 3); following this term, it shall automatically lapse. For the purposes of determining the amount of shares in the Company to be referred to a single person, consideration shall be given to the votes cast in relation to the total shareholding held by the parent company, natural or legal person or company, all subsidiaries, direct or indirect, as well as shares held through fiduciary and/or interposed person as well as votes cast in any other case in which the voting right is attributed, for any reason, to any subject other than the holder of the shares; however, shareholdings included in the portfolio of mutual funds, Italian or foreign, managed by controlled or affiliated companies are not to be considered. Control exists in the cases provided for under Article 23 of TUB as in force from time to time. In case of breach of the provisions of the bylaws regarding the limitations to the right to vote, the shareholders' resolution may be challenged pursuant to Article 2377 of the Italian Civil Code, if the required majority would not have been reached without such breach. The shares for which voting rights cannot be exercised are in any case counted for the purposes of the regular constitution of the Shareholders' Meeting.

2.2.6 Management and control system and corporate bodies

The Company will adopt the traditional governance and control system, pursuant to Articles 2380-*bis et seq.* of the Italian Civil Code, based on the presence of a Board of Directors and a Board of Statutory Auditors.

Board of directors

Without prejudice to the provisions of the bylaws attached to this Merger Plan, until the date of the Shareholders' meeting convened to approve the annual financial statement relating to the third financial year following the date of effectiveness of the Merger (computing, to this end, also the financial year running from such date) (the "**First Expiration**") the Board of Directors shall be composed by 19 (nineteen) directors, identified as follows:

- Carlo Fratta Pasini
- Giuseppe Castagna

- Mauro Paoloni
- Guido Castellotti
- Maurizio Comoli
- Mario Anolli
- Michele Cerqua
- Rita Laura D'Ecclesia
- Carlo Frascarolo
- Paola Galbiati
- Cristina Galeotti
- Marisa Golo
- Piero Lonardi
- Giulio Pedrollo
- Fabio Ravanelli
- Pier Francesco Saviotti
- Manuela Soffientini
- Costanza Torricelli
- Cristina Zucchetti.

Following the First Expiration, the Board of Directors shall be composed of 15 (fifteen) directors.

Chairman of the Board of Directors and Vice-Chairmen

Without prejudice to the bylaws attached to this Merger Plan:

- (i) the office of Chairman of the Board of Directors shall be assumed by Carlo Fratta Pasini;
- (ii) the office of Deputy Vice-Chairman of the Board of Directors shall be assumed by Mauro Paoloni;
- (iii) two Vice-Chairmen of the Board of Directors of the Company will be appointed in the persons of Guido Castellotti and Maurizio Comoli.

CEO, Executive Committee, and General Management

Without prejudice to the bylaws attached to this Merger Plan concerning the appointment of the corporate offices and the conferring of the related powers, the Board of Directors of the Company shall proceed to appoint:

- (i) a CEO, in the person of Giuseppe Castagna;
- (ii) an Executive Committee, composed of 6 (six) directors, among whom, the CEO, the Deputy Vice-Chairman, and two Vice Chairman. For the first term, the Chairman of the Executive Committee shall be Pier Francesco Saviotti.

The Board of Directors of the Company in office at the date of effectiveness of the Merger shall also proceed to appoint a General Manager, in the person of Maurizio Faroni, and 2 (two) Co-General Managers, in the persons of Domenico De Angelis and Salvatore Poloni.

Intra-board Committees

The Board of Directors of the Company in office at the date of effectiveness of the Merger shall proceed to appoint the following intra-board committees: an Internal Control and Risks Committee, a Nomination Committee, a Remuneration Committee and a Related Parties Committee, each of which shall be composed of 4 (four) members.

Substitution of the members of the Board of Directors in case of cooptation within the First Expiration

In case of cessation from office, for any reason, of a member of the Board of Directors and, in case it is necessary to proceed with his/her substitution by way of cooptation within the First Expiration, such substitution shall be made, if possible, so as to ensure that the substitute be expression of the reference territories of the bank that had originally designated the same.

Board of Statutory Auditors

Until the date of the Shareholders' meeting of the Company convened to approve the annual financial statement relating to the third financial year following the date of effectiveness of the Merger (computing, to this end, also the financial year running from such date), the Board of Statutory Auditors shall be composed of 5 (five) standing and 3 (three) alternate members, identified as follows:

- Marcello Priori, Standing Auditor and Chairman of the Board of Statutory Auditors
- Gabriele Camillo Erba, Standing Auditor
- Maria Luisa Mosconi, Standing Auditor
- Claudia Rossi, Standing Auditor
- Alfonso Sonato, Standing Auditor
- Chiara Benciolini, Alternate Auditor
- Marco Bronzato, Alternate Auditor
- Paola Simonelli, Alternate Auditor

External auditing firm

The role of external auditor of the Company's accounts shall be entrusted, for the duration provided by the law, upon motivated proposal of the Board of Statutory Auditors of Banco Popolare and of the Surveillance Body of BPM, as external auditing firm, to PricewaterhouseCoopers S.p.A.. The relevant information will be made available to the public within the terms and with the modalities provided by the law.

2.2.7 Duration of the financial years and regulations on the allocation of profits

The financial year closes on 31 December of each year.

The net profit resulting from the approved financial statement – deducted the quota to be allocated as legal reserve and the quota not available pursuant to the law – shall be allocated, by resolution of the Shareholders' meeting, to the shareholders as dividend, or to set up and/or increase other reserves or

provisions however they may be named or for the other purposes defined by the Shareholders' meeting (including for the purposes of the support to the territories of historical rooting).

2.2.8 Support to the territories of historical rooting

Without prejudice to the provisions of the bylaws regarding the allocation of profits, the Board of Directors of the Company, subject to resolution of the ordinary Shareholders' meeting, may allocate a portion of the net profits for the year resulting from the approved annual financial statements not exceeding 2,5% of such profits for the purposes of assistance, charity and public interest, to be used to support initiatives related to specific territories of reference.

Such amount shall be divided amongst initiatives connected to the territories in which the Company has a stronger presence on the basis of the quotas set forth below:

- 18,5% (eighteen point five per cent) to initiatives in support of the civil and social fabric of the Veronese territory and of the territories of the Division of reference as well as in support of the territorial Foundation the establishment of which will be possibly promoted by the Company;
- 45% (forty-five per cent) to initiatives in support of the civil and social fabric of both the Milan territory and the territories where BPM has operated before the Merger and the territorial Foundation the establishment of which will be possibly promoted by the Company;
- 13,5% (thirteen point five per cent) to initiatives in support of the Bipielle Foundation in the Lodi territory and of the territories of the Division of reference;
- 13,5% (thirteen point five per cent) to initiatives in support of the Banca Popolare di Novara Foundation for the Territory in the territory of Novara and of the territories of the Division of reference;
- 1,5% (one point five per cent) to initiatives in support of the Culto Banco S.Geminiano and S.Prospero Foundation;
- 8% (eight per cent) to initiatives in support of the Credito Bergamasco Foundation in the Bergamo territory and of the territories of the Division of reference.

2.2.9 Bylaws of the company resulting from the merger

The Company resulting from the Merger shall be governed by the bylaws, which form an integral part of this Merger Plan, and which are attached to the same under **Annex 1**.

3. EXCHANGE RATIO AND POTENTIAL CASH DIFFERENCE

The reference financial statements are, with respect to Banco Popolare, the annual financial statement of the financial year closed on 31 December 2015, approved by the Shareholders' meeting of Banco Popolare on 19 March 2016, and, with respect to BPM, the annual financial statement of the financial year closed on 31 December 2015, approved by the Surveillance Board of BPM on 30 March 2016.

The Board of Directors of Banco Popolare and the Management Board of BPM have agreed that the Merger will be executed on the basis of exchange ratios determined applying the following contribution ratios:

- (i) the current shareholders of Banco Popolare shall be assigned, as exchange ratio, **54,626%** of the Company's share capital (the "**BP Relative Contribution**");
- (ii) the current shareholders of BPM shall be assigned, as exchange ratio, **45,374%** of the Company's share capital (the "**BPM Relative Contribution**" and, together with BP Relative Contribution, the "**Relative Contributions**").

The Relative Contributions have been calculated:

- (a) taking into account the entire Share Capital Increase (thus, no adjustment will be carried out to the above contributions as a result of the execution of the Share Capital Increase); and
- (b) taking into account the distribution of ordinary dividends by respectively Banco Popolare (equal to total euro 54.326.940,90) and BPM (equal to total euro 118.537.025,62) on the net income for the financial year closed on 31 December 2015.

The exchange ratios of the Merger will be determined after the number of shares of Banco Popolare to be issued to service the Share Capital Increase have been defined and so as to comply with the above-mentioned Relative Contributions. In particular, the exchange ratio – in terms of exact number of shares of the Company to be assigned in exchange for the shares of Banco Popolare and BPM will be annulled as a result of the Merger – shall be determined as follows:

- 1 (one) share of the Company for each share of Banco Popolare outstanding as at the moment of the consolidation, including the shares issued to service the Share Capital Increase (the "**Exchange Ratio BP**"), and
- 1 (one) share of the Company for each "X" shares of BPM outstanding as at the moment of consolidation (the "**Exchange Ratio BPM**", together with the Exchange Ratio BP, the "**Exchange Ratios**"), where "X" shall be determined as follows:

$$X = \frac{\text{Shares BPM}}{(\text{Shares BP Post Share Capital Increase}) \times \frac{\text{BPM Relative Contribution}}{\text{BP Relative Contribution}}}$$

And where:

- Shares BP Post Share Capital Increase = (number of shares of Banco Popolare that are issued as at the date of 23 March 2016, which is the date of execution of the Memorandum of Understanding between Banco Popolare and BPM) – (number of Banco Popolare Treasury Shares) + (number of shares Banco Popolare issued to service the Share Capital Increase);
- Shares BPM = (number of shares of BPM that are issued at the date of 23 March 2016, which is the date of execution of the Memorandum of Understanding between Banco Popolare and BPM) – (number of BPM Treasury shares)

It is further specified that the Relative Contributions shall be based on the following assumptions:

- at the moment of consolidation, Banco Popolare holds 94.936 treasury shares (the “**Banco Popolare Treasury Shares**”) and all of the treasury shares held by Banco Popolare have been annulled;
- at the moment of consolidation, BPM holds 1.524.259 treasury shares (the “**BPM Treasury Shares**”) and all of the treasury shares held by Banco Popolare have been annulled.

As soon as determined in the exact amount calculated as per the above, the exchange ratios will be made public with a relating press release.

No cash differences are provided.

On 22 April 2016 and on 18 April 2016, the Court of Venezia and the Court of Milano appointed, respectively, upon request of Banco Popolare and of BPM, KPMG S.p.A. (for Banco Popolare) and Reconta Ernst & Young S.p.A. (for BPM) as experts charged with preparing the report on the fairness of the shares' exchange ratio pursuant to Article 2501-*sexies* of the Italian Civil Code.

4. MODALITIES OF ALLOCATION OF THE SHARES

As an effect of the consummation of the Merger, all of the shares of Banco Popolare and BPM shall be annulled and substituted with and exchanged for ordinary shares of the Company resulting from the Merger, on the basis of the exchange ratios set out in Paragraph 3 above.

The shares of the companies involved in the Merger held by the same companies (treasure shares) will be annulled without any exchange.

The Company's shares that shall be assigned, in exchange, to the shareholders of the companies involved in the Merger will be listed on MTA.

The Company's shares issued to service the exchange ratio shall be made available to the shareholders of BPM and Banco Popolare, in dematerialized and centralized form with Monte Titoli S.p.A., through the authorized intermediaries, starting from the first date of open trading at the stock exchange following the date of effectiveness of the Merger, with times and modalities that will be communicated in accordance with applicable laws. The date in which the shares of the Company are going to be made available will be communicated with appropriate release to be published pursuant to applicable laws.

No cost will be charged to the shareholders for the exchange of the shares.

If necessary, there shall be made available to the shareholders of Banco Popolare and BPM a service to allow the round up/down to the unit immediately above or below the number of shares of the Company to which they are entitled as a result of the exchange ratio, without any charging of expenses, stamp duties, or commissions. As an alternative, other modalities may be activated to ensure the comprehensive arrangement of the transaction. In addition, all the activities necessary to ensure the comprehensive arrangement of the exchange shall be carried out.

Additional information on the modalities of allocation of the shares of the Company shall be communicated, where necessary, according to the terms and modalities provided by the law.

5. **DATE FROM WHICH THE SHARES OF THE COMPANY RESULTING FROM THE MERGER THAT HAVE BEEN GIVEN IN EXCHANGE PARTICIPATE TO PROFIT SHARING**

The shares of the Company that will be issued in connection with the exchange ratio related to the Merger will have regular enjoyment; as such, the dividends that the ordinary shareholders' meeting of BPM and Banco Popolare, respectively, on 30 April 2016 and 19 March 2016, resolved to distribute in respect of the financial year closed on 31 December 2015 have been assigned, respectively, to the shareholders of BPM and Banco Popolare.

6. **DATE FROM WHICH THE EFFECTS OF THE MERGER SHALL RUN AND ALLOCATION OF THE TRANSACTIONS OF THE COMPANIES PARTICIPATING TO THE MERGER TO THE FINANCIAL STATEMENT OF THE COMPANY RESULTING FROM THE MERGER**

6.1 For accounting purposes, the transactions of the companies participating to the Merger shall be accounted in the financial statement of the Company with effect from the date in which the Merger comes into effect as set out by the following Paragraph 6.2 of this Merger Plan. From the same date the fiscal effects shall run.

6.2 The Merger shall come into effect, pursuant to Article 2504-*bis*, Paragraphs 1 and 2, of the Italian Civil Code, with the last of the registrations provided by Article 2504 of the Italian Civil Code or by the following date that shall be indicated in the deed of merger. Starting from the date of effectiveness of the Merger, the Company shall be assigned all of the active and passive legal relationships related to the two companies participating in the Merger.

7. **TREATMENT POTENTIALLY RESERVED TO PARTICULAR CLASSES OF SHAREHOLDERS OR TO THE HOLDERS OF SECURITIES OTHER THAN SHARES**

There are no particular classes of shareholders or shares of the companies participating in the Merger.

It should be noted that, in the context of the bylaws' regulations regarding the appointment of the Board of Directors of the Company, the bylaws allow for the submission of a list of candidates also by the employees of the Company or of companies controlled by it, provided they are also shareholders and represent a minimum participating interest equal to 0,12% (the "**List of Employees**"). The List of Employees which has obtained the highest number of votes, as a percentage of the corporate capital, shall appoint one director of the Company. With respect to the sole first renovation of the Board of Directors following the establishment of the Company, the List of Employees may be submitted only by employees that, at the same time, have been both "shareholders" (*soci*) for at least 5 years (computing in this respect also the status of "shareholder" (*socio*) in the two banks participating to the Merger) (on this matter, please refer to Articles 20.4 and 45 of the Bylaws of the Company attached to this Merger Plan).

8. **WITHDRAWAL RIGHT**

The consummation of the Merger by way of establishment of the Company entails the transformation both of Banco Popolare and BPM from cooperative company to joint stock company (so-called “transformative merger”). In this respect, the shareholders of Banco Popolare and BPM that have not consented to the resolution approving the Merger may exercise their withdrawal right pursuant to Article 2437, Paragraph 1, of the Italian Civil Code.

The reimbursement of the shares for which the withdrawal has been exercised in connection with the shareholders’ meetings approving the Merger shall be subject to Article 28, Paragraph 2-*ter* of the TUB and related regulations of Banca d’Italia, which provide for the right of the managing bodies of the Bank, having heard the controlling body, to limit or postpone, in whole or in part, and without time limits, the reimbursement of the shares and of the other equity securities of the withdrawing shareholder also in the case of transformation, as provided for in the applicable prudential regulations and without prejudice to the authorizations required by the law in connection with the reduction of bank’s capital assets.

This provision has also been incorporated in the current bylaws of Banco Popolare (Article 15, Paragraph 2) and of BPM (Article 39, last Paragraph).

In this respect, Banco Popolare and BPM, taking into account the indications received from the competent Regulatory Authority on the need that the Company resulting from the Merger holds, from the very beginning, a level of capitalization and coverage of deteriorated credits aligned to the highest values of Italian banks (goal to be attained also through the Share Capital Increase) have agreed (reserving to take any more punctual determination in compliance with the terms provided by the law) on the understanding that, in case the amount of withdrawals is capable of reducing or affecting the capital ratios of the Company resulting from the Merger above the thresholds that will be deemed sustainable taking into account the overall prudential, financial, liquidity and solvency situation of the Company – or of reducing or limiting, above the thresholds that will be deemed sustainable, the capacity of the same to attain, from the very beginning, a level of coverage of deteriorated credits deemed adequate – the potential reimbursement of the shares subject to withdrawal shall be performed without using the Company’s assets or internal resources, but rather through the purchase of such shares by other shareholders as part of a pre-emption offer of the shares subject of withdrawal and/or by third parties in connection with their placement on the market following the pre-emption period. Any such determination shall be taken by Banco Popolare and BPM and be made public with the management’s report on the Merger to be prepared and published according to applicable laws.

9. CONDITIONS AND ASSUMPTIONS FOR THE MERGER

The consummation of the Merger is subject to the required authorizations and / or clearances by the competent regulatory and vigilance authorities (including the authorization of the Merger pursuant to Article 57 of the TUB as well as the authorization or clearance by the Antitrust Authority pursuant to Law 10 October 1990 n. 287).

Also, the consummation of the Merger assumes the execution of the Share Capital Increase by Banco Popolare, that is the cash-in by Banco Popolare, within 31 October 2016 of the entire amount of Euro 1.000.000.000,00 referred to in the Recitals above (it being understood that, if the Share Capital

Increase has been realized through the issuance of mandatorily convertible securities or securities whose conversion depends on the exercise of an option of the issuer, for the purposes hereof only the amounts cashed in by Banco Popolare for such securities for which, before the deadline of 31 October 2016, the relating underlying shares to service the conversion have been issued, shall be computed as 'cashed-in'). In this regard, it is worth noting that failure to execute the Share Capital Increase, in the aforementioned terms, within 31 October 2016, constitutes a termination cause of the Memorandum of Understanding executed between Banco Popolare and BPM on 23 March 2016 in connection with the Merger.

10. AUTHORIZATION TO THE SALE AND PURCHASE OF TREASURY SHARES

In connection with the consummation of the Merger, it is provided that the Company resulting from such transaction will be authorized, in accordance with Articles 2357 and 2357-*ter* of the Italian Civil Code, to proceed with the purchase, also in more tranches, of a number of treasury shares not exceeding 1% of the initial share capital of the Company, as well as to dispose such treasury shares so purchased from time to time. The carrying out of the purchase and disposal of treasury shares shall aim at allowing the Company to fulfill, where necessary, its commitments regarding the assignment of shares to directors, employees and collaborators that have been already undertaken by Banco Popolare and/or BPM according to the respective plans for the allocation of treasury shares and/or remuneration policies currently in force (or in which the Company succeeds into as a result of the Merger).

The duration of the authorization, the minimum and maximum price of the purchases and disposals and the modalities through which such transactions shall be carried out will be established in the resolutions by which the Shareholders' Meetings of Banco Popolare and BPM will approve the Merger.

The Information document provided by Article 70, Paragraph 4, of the Regulation approved by Consob Resolution n. 11971 of 14 May 1999 (as amended and integrated), further to the documentation required by Article 2501-*septies* of the Italian Civil Code, shall be deposited and made available at the terms provided by the law.

This is without prejudice to any potential variations, integrations and updates (also numerical) of the Merger Plan, as well as of the text of the bylaws of the Company attached to the Merger Plan, which may be necessary also as a result of requests put forth by the competent Registers of Enterprises. Furthermore, it is attributed to the Chairmen of the management bodies of Banco Popolare and BPM as well as to the respective CEOs the power to decide, in agreement between them, upon execution of the deed of merger (also, in case, through attorneys-in-fact) the potential substitution of the components of the Board of Directors and of the Board of Statutory Auditors indicated above, who may not, for any reasons, take on or accept their office.

Kindly note that, pending the on-going investigation procedure to be performed by the Regulatory Authorities (European Central Bank and Bank of Italy) for the issuance of the requested authorizations, following the date of 24 May 2016, limited non-substantial integrations have been made to the Merger Plan and the related annex, also for taking into account the indications coming from said Authorities. Furthermore, it is noted that the Share Capital Increase was closed on 1 July 2016 with the full subscription of the amount resolved (by the Extraordinary Shareholders' Meeting) of Euro 996.343.990,56 and, therefore, the condition subsequent set out in Section 9, Second Paragraph, of the Merger Plan has not occurred.

In light of the results of the Share Capital Increase (which has entailed the issuance of no. 465.581.304 Banco Popolare shares), the Exchange Ratios have been determined as follows, in compliance with, and applying, the Relative Contributions and the calculation indicated in Paragraph 3:

- 1 (one) share of the Company for each 1 (one) share of Banco Popolare outstanding at the moment of effectiveness of the Merger;
- 1 (one) share of the Company for each 6,386 (six/three hundred eighty six) shares of BPM outstanding at the moment of effectiveness of the Merger.

Annexes:

Annex 1: bylaws of the company resulting from the merger

Verona – Milan, 24 May 2016 (as integrated until the date of 12 September 2016)

Banco Popolare - Società Cooperativa

Banca Popolare di Milano S.c. a r.l.

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ANNEX 1

TO THE MERGER PLAN BETWEEN BANCO POPOLARE – SOCIETÀ COOPERATIVA AND BANCA POPOLARE DI MILANO S.C. A R.L.

BY-LAWS

TITLE I -

INCORPORATION, COMPANY NAME, DURATION, REGISTERED OFFICE AND PURPOSE OF THE COMPANY

Art. 1. - Incorporation and company name

- 1.1.** Banco BPM Società per Azioni (the “**Company**”) was incorporated, in accordance with the merger plan approved on [24 May 2016]⁽¹⁾ (the “**Merger Plan**”), by deed no. [•] dated [•], drawn up by the Notary Public Carlo Marchetti of Milan.
- 1.2.** The Company was formed as a result of the merger (the “**Merger**”) between:
- (i) “Banco Popolare - Società Cooperativa” (“**BP**”), incorporated on 27 June 2007, as the resulting entity of the merger between the “Banco Popolare di Verona e Novara Soc. Coop. a r.l.”, incorporated on 21 May 2002, which, in turn, resulted from the merger between “Banca Popolare di Verona – Banco S.Geminiano and S.Prospiero S.c. a r.l.”, established on 21 June 1867, and “Banca Popolare di Novara S.c. a r.l.”, established on 28 May 1871, and “Banca Popolare Italiana – Banca Popolare di Lodi Società cooperativa”, established on 28 March 1864; and
 - (ii) “Banca Popolare di Milano – Società Cooperativa a responsabilità limitata”, established on 12 December 1865 (“**BPM**”).
- 1.3.** The Company may operate using, among others, as traditional distinctive names with local relevance, “Banca Popolare di Verona”, “Banca Popolare di Verona – Banco S.Geminiano e S.Prospiero”, “Banco S.Geminiano e S.Prospiero”, “Banca Popolare di Lodi”, “Banca Popolare di Novara”, “Cassa di Risparmio di Lucca Pisa Livorno”, “Cassa di

(1) To be updated.

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Risparmio di Lucca”, “Cassa di Risparmio di Pisa”, “Cassa di Risparmio di Livorno”, “Credito Bergamasco”, “Banco San Marco”, “Banca Popolare del Trentino”, “Banca Popolare di Cremona”, “Banca Popolare di Crema”, “Banco di Chiavari e della Riviera Ligure”, “Cassa di Risparmio di Imola”, “Banco Popolare Siciliano”, “Banca di Legnano” and “Cassa di Risparmio di Alessandria”, as well as the company names and/or brands or distinguishing signs used over the years by BP and BPM and by the companies from time to time incorporated in the Company.

- 1.4. The Company operates in continuity with the values represented by the rooting of BP and BPM in their respective historical areas of reference.
- 1.5. The Company is organized according to territorial Divisions (the “**Divisions**”) corresponding to one or more areas in which they have been traditionally rooted.

Art. 2. - Duration

- 2.1. The Company’s duration has been set to 23 December 2114, and may be extended.

Art. 3. - Registered Office

- 3.1. The Company’s registered office is in Milan, and the administrative office is in Verona.
- 3.2. The Company, with resolution of the Board of Directors and in accordance with applicable law, may establish, cease and move secondary offices and representative offices, in Italy and abroad.
- 3.3. The establishment of the functions of the central and administrative structures of the Company, their deletion, substitution, transfer, or consolidation, may be resolved on, according to a balanced and coherent allocation between Verona and Milano, exclusively by the Board of Directors and shall not be deemed as an amendment of the By-laws.
- 3.4. At the date of establishment of the Company, in accordance with the Merger Plan, the functions of the central and administrative structures shall be allocated between Verona and Milano as follows:
 - (i) the following functions of the central structures shall be located in Verona: Accounting & Tax, Audit, Compliance, Credits,

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Divisional Banking Activities, Institutional/Public and Other Clients, Planning and Control, Retail Clients, Risks, General and Corporate Secretary, Equity Investments and Leasing;

- (ii) the following functions of the central structures shall be located in Milan: Communication, Corporate, Finance, Private & Investment Banking, Investor Relations, Legal, M&A and Corporate Development, Operations/Organization, Human Resources, IT, Asset Management and Bancassurance.

Art. 4. - Corporate Purpose

- 4.1. The Company's corporate purpose is to collect savings and provide loans in various forms, both directly and through subsidiaries.
- 4.2. In compliance with applicable regulations and after obtaining the necessary authorizations, the Company may carry out, directly or through controlled companies, all banking, financial and insurance transactions and services, including the setting up and management of open or closed-end pension schemes, and the other activities that may be performed by lending institutions, including issuance of bonds, the exercise of financing activity regulated by special laws and the sale and purchase of company receivables.
- 4.3. The Company may carry out any other transaction that is instrumental to or in any way related to the achievement of its corporate purpose.
- 4.4. To pursue its objectives, the Company may adhere to associations and consortia of the banking system, both in Italy and abroad.
- 4.5. The Company, in its capacity as Parent Company of the Banking Group Banco BPM, pursuant to the laws from time to time in force, including Article 61, Paragraph 4, of Legislative Decree 385 of 1 September 1993, in exercising the activity of direction and coordination, issues guidelines to Group members, also for the purpose of executing instructions issued by the Regulatory Authorities and in the interest of the stability of the Group.
- 4.6. The determination of the criteria for the coordination and direction of the Group companies, as well as for the implementation of the instructions issued by the Regulatory Authorities, is reserved to the exclusive competence of the Board of Directions of the Parent Company.

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TITLE II -

SUPPORT TO THE TERRITORIES OF HISTORICAL ROOTING

Art. 5. - Support to the territories of historical rooting

- 5.1. The Company grants special attention to the territories in which it is present through its own distribution network and that of the Group, also taking into account families, small and medium enterprises and cooperative companies.
- 5.2. Without prejudice to Article 41, paragraph 1, of the Bylaws, the Board of Directors of the Company, subject to resolution of the ordinary Shareholders' Meeting, may allocate a portion of the net profit for the year resulting from the approved annual financial statements not exceeding 2,5% (two point five per cent) of such profit for the purposes of assistance, charity and public interest, to be used to support initiatives related to specific territories of reference.
- 5.3. Such amount shall be divided amongst initiatives connected to the territories in which the Company has a stronger presence on the basis of the quotas set forth below:
 - 18,5% (eighteen point five per cent) to initiatives in support of the civil and social fabric of the Veronese territory and of the territories of the Division of reference as well as in support of the territorial Foundation the establishment of which will be possibly promoted by the Company;
 - 45% (forty-five per cent) to initiatives in support of the civil and social fabric of both the Milan territory and the territories where BPM has operated before the Merger and the territorial Foundation the establishment of which will be possibly promoted by the Company;
 - 13,5% (thirteen point five per cent) to initiatives in support of the Bipielle Foundation in the Lodi territory and of the territories of the Division of reference;
 - 13,5% (thirteen point five per cent) to initiatives in support of the Banca Popolare di Novara Foundation for the Territory in the territory of Novara and of the territories of the Division of reference;
 - 1,5% (one point five per cent) to initiatives in support of the Culto Banco S.Geminiano and S.Prospiero Foundation;

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- 8% (eight per cent) to initiatives in support of the Credito Bergamasco Foundation in the Bergamo territory and of the territories of the Division of reference.
- 5.4. The Board of Directors puts forth the appropriate directives and necessary guidelines regarding the policies on expenditure and social responsibility with assistance, charity and public interest purposes in compliance with the provisions of this article, ensuring their compliance. Such directives and guidelines are implemented by the territorial Foundations already existing or to be established in accordance with Article 5.3 or, absent such Foundations, with the opinion or upon proposal of the consulting territorial committees, which, if established, shall have mere consulting roles.

TITLE III -

SHARE CAPITAL, SHARES, LIMIT ON VOTING RIGHTS, WITHDRAWAL

Art. 6. - Share capital and shares

- 6.1. The subscribed and paid-up share capital is equal to Euro [●] and is represented by [●] ordinary shares without nominal value ⁽²⁾.
- 6.2. The issue of new shares may be decided by the Extraordinary Shareholders' Meeting with the capital attendance quorum and deliberative quorum provided for under the law applicable from time to time, with the power to mandate the Board of Directors, pursuant to Articles 2443 and 2420-ter of the Italian Civil Code, to increase the share capital or to issue convertible bonds, also with exclusion and/or limitation of the pre-emption right in accordance with paragraphs 4 and 5 of Article 2441 of the Italian Civil Code; the Company may avail itself of the rights provided by Article 2441, Paragraph 4, second period, of the Italian Civil Code. The contribution in kind may regard receivables and physical assets.
- 6.3. The shares are nominal and indivisible. In the event of joint ownership of a share the rights of the joint owners must be exercised by a common representative, in compliance with the laws applicable from time to time. If the common representative has not been appointed, or if notice of such appointment has not been given to the Company, the

⁽²⁾ The amount of the share capital and the number of shares will be known at completion of the merger.

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communications and declarations made by the Company to any of the joint owners are effective towards all of them.

- 6.4. The shares are transferable in accordance with the law.
- 6.5. All the shares belonging to a same class attribute identical rights. Within the limits set out under applicable law, the Company may issue classes of shares having different rights, determining their content.
- 6.6. The Company may resolve to assign profits to employees of the Company or controlled companies through the issuance of shares or other securities (different from the shares) to be assigned to employees in compliance with applicable law.

Art. 7. - Dividends

- 7.1. Dividends that are not collected within five years of the date they become payable will be devolved to the Company.

Art. 8. - Right to vote

- 8.1. Each ordinary share may attribute the right to one vote, save as provided in the following 8.2 as well as in the cases of suspension or termination of the right to vote provided for in the Bylaws or under the applicable law.
- 8.2. Until 26 March 2017, no person, individually considered, may exercise, directly or indirectly, in any way the right to vote for an amount of shares in the Company exceeding 5% (five per cent) of the share capital with voting rights. For the purposes of determining the amount of shares in the Company to be referred to a single person, consideration shall be given to the votes cast in relation to the total shareholding held by the parent company, natural or legal person or company, all subsidiaries, direct or indirect, as well as shares held through fiduciary and/or interposed person as well as votes cast in any other case in which the voting right is attributed, for any reason, to any subject other than the holder of the shares; however, shareholdings included in the portfolio of mutual funds, Italian or foreign, managed by controlled or affiliated companies are not to be considered. Control exists in cases provided for under Article 23 of the Legislative Decree 385 of 1 September 1993 as in force from time to time. In case of breach of the provisions of this Article 8.2, the shareholders' resolution may be challenged pursuant to Article 2377 of the Italian Civil Code, if the

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required majority would not have been reached without such breach. The shares for which voting rights cannot be exercised are in any case counted for the purposes of the regular constitution of the Shareholders' Meeting. This Article 8.2 shall automatically lapse after 26 March 2017.

Art. 9. - Withdrawal of the shareholder

- 9.1. The withdrawal of the shareholder is permitted only in the mandatory cases provided for by the law. In any case, the right of withdrawal is excluded for shareholders who did not participate in the approval of resolutions regarding:
- the extension of the term of duration of the Company;
 - the introduction, modification or removal of restrictions on the circulation of shares.
- 9.2. The terms and procedures of the right of withdrawal, the criteria for determining the value of the shares and the related liquidation process are governed by law.

**TITLE IV -
CORPORATE BODIES**

Art. 10. - Corporate bodies

- 10.1. The exercise of corporate functions, in accordance with their respective competence, is delegated to:
- a) the Shareholders' Meeting;
 - b) the Board of Directors;
 - c) the Executive Committee;
 - d) the Chairman of the Board of Directors;
 - e) the Chief Executive Officer;
 - f) the General Management;
 - g) the Board of Statutory Auditors.

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**TITLE V -
SHAREHOLDERS' MEETINGS**

Art. 11. - Shareholders' Meetings

- 11.1.** The Shareholders' Meeting, when duly convened and constituted, represents all shareholders and the resolutions adopted in compliance with the law and these Bylaws are binding on all shareholders, even if absent or dissenting.
- 11.2.** Shareholders' Meetings may be ordinary or extraordinary pursuant to law.
- 11.3.** The ordinary Shareholders' Meeting:
- (a). appoints, in the number established by the Bylaws and in accordance with Article 20.5, and revokes, the members of the Board of Directors, determines their compensation and appoints the Chairman and Deputy Vice Chairman in accordance with Article 20.8;
 - (b). appoints the Statutory Auditors and the Chairman of the Board of Statutory Auditors in accordance with Article 37 and determines their compensation;
 - (c). resolves on the liability of the members of the Board of Directors and of the Boards of Statutory Auditors;
 - (d). approves the annual financial statements;
 - (e). decides on the allocation and distribution of profits;
 - (f). appoints, upon motivated proposal of the Board of Statutory Auditors, and revokes or modifies, where necessary, having consulted the Board of Statutory Auditors, the company entrusted with the auditing of the accounts, determining its fees;
 - (g). resolves on the approval: (i) of remuneration and incentives policies for Members of the Board of Directors, Statutory Auditors and personnel, including any proposal of the Board of Directors to set a limit to the ratio between the variable and the fixed component of the individual remuneration, higher than 1:1, for the most relevant personnel, in any case not exceeding the limits set out in the applicable regulations in force; (ii) of equity-based remuneration and/or incentives plans and (iii) of the criteria for determining the consideration to be granted in the event of early termination of the employment relationship or of the office, including the limits to

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such consideration in terms of years of the fixed remuneration and the maximum amount deriving from their application;

- (h). approves and modifies the Shareholders' Meeting regulation;
- (i). resolves on the other matters assigned to its competence by applicable laws, or the Bylaws.

- 11.4.** The extraordinary Shareholders' Meeting resolves on the amendments to the Bylaws (except for the powers conferred to the Board of Directors pursuant to Article 24.2.2, letter (bb)), on the appointment, revocation, replacement and powers of liquidators and on any other matter reserved by law to its competence and not derogated by the Bylaws.

Art. 12. - Meeting venue

- 12.1.** Without prejudice to Article 43 with reference the sequence of the meeting venues of the first 5 (five) sessions of the ordinary Shareholders' Meetings regarding the approval of the annual financial statements following the Company's incorporation, the sessions of the ordinary Shareholders' Meetings of the Company concerning the approval of the annual financial statements as well as, upon decision of the Company's Board of Directors, the additional matters set out in the agenda of the same ordinary Shareholders' Meeting and the sessions of the extraordinary Shareholders' Meetings to be held in conjunction with said ordinary Shareholders' Meetings, are held, for each cycle of 5 (five) sessions of the ordinary Shareholders' Meeting, on a rotating basis, in the following venues: (i) 2 (two) (non-consecutive) sessions are held in a venue located in the province of Milan and (ii) 3 (three) sessions are held, one each, in venues located in the provinces of Verona, Lodi and Novara.

- 12.2.** The meeting venue of ordinary Shareholders' Meetings other than those referred to in Articles 12.1 and 43 and of the extraordinary Shareholders' Meetings not held in conjunction with the ordinary Shareholders' Meetings called to approve the annual financial statements is decided by the Board of Directors in a venue located in the provinces of Verona, Milan, Lodi and Novara.

Art. 13. - Convocation

- 13.1.** Shareholders' Meetings are convened by the Board of Directors, in the venue to be identified pursuant to Article 12, whenever the latter deems

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it appropriate or, in accordance with Article 2367 of the Italian Civil Code and with the modalities set forth by applicable law, upon written request containing the indication of the matters to be discussed submitted by shareholders representing at least one twentieth of the share capital or the different percentage set forth by the applicable law. In any case, the ordinary Shareholders' Meeting must be convened at least once a year within 120 (one hundred-twenty) days of the end of the financial year. Convocation is permitted up to a maximum of 180 (one hundred-eighty) days from the closing of the financial year in the cases provided for by the law.

- 13.2. Without prejudice to the powers of convocation established by other provisions of law, Shareholders' Meetings may also be convened, subject to communication to the Chairman of the Board of Directors, by the Board of Statutory Auditors or by at least two of its members, in accordance with applicable law.
- 13.3. With the procedures, terms and limits established by the applicable law, shareholders who, also jointly, represent at least one fortieth of the share capital or the different percentage established under applicable law, may submit written request for integration of the agenda to be discussed in the Shareholders' Meeting stated in the notice of call of the same, indicating the further matters they propose and providing a report on the matters they propose to discuss, as well as to submit proposal of resolutions on matters already on the agenda. The convocation and integration of the agenda on request of shareholders are not allowed for matters on which the Shareholders' Meeting resolves, by law, upon proposal of the Board of Directors or on the basis of a project or a report prepared by the same, other than those indicated in Article 125-ter, paragraph 1, of Legislative Decree 58 of 24 February 1998. Entitlement to exercise such right shall be proven by depositing copy of the communication or certificate issued by the intermediary with which the shares are deposited pursuant to applicable legal framework.
- 13.4. The Shareholders' Meeting is convened at the venues provided for in Article 12 through notice containing indication of the date, time and place of the meeting, the list of the items to be discussed and anything else required by the applicable legal framework. The notice of call shall be published in compliance with the legal time limits and the other modalities established by the applicable legal framework.

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13.5. The Shareholders' Meeting, both ordinary and extraordinary, is held, generally, in a single call, pursuant to Article 2369, paragraph 1, of the Italian Civil Code. However, the Board of Directors may establish that the Shareholders' Meeting, ordinary or extraordinary, may be held in more calls, setting a second call and, solely for the Extraordinary Shareholders' Meeting, also a third call. Notice of such determination is given in the notice of call.

Art. 14. - Attendance and representation in Shareholders' Meetings

14.1. The Shareholders' Meeting may be attended by subjects having the right to vote for which the Company has received, within the time limits provided for under the applicable law, the communication of the authorized intermediary certifying their right to attend the Shareholders' Meeting and to exercise the right to vote.

14.2. Those who have the right to vote are entitled to be represented in the Shareholders' Meeting in compliance with applicable law. The proxy can be notified electronically through the use of the appropriate section of the Company's website or by certified email, as indicated in the notice of call, or by other means among other provided for under applicable law.

14.3. The Board of Directors has the power to designate, providing notice in the notice of call, for each Shareholders' Meeting, one or more subjects to whom the holders of voting rights may confer, in the manner provided for under the applicable law, a proxy with voting instructions on all or some of the proposals on the agenda. The proxy to the subject designated by the Board of Directors has only effect with regard to the proposals for which voting instructions are conferred.

14.4. Except as set out by Article 2372, paragraph 2, of the Italian Civil Code, the proxy may be conferred for single Shareholders' Meetings only, with validity for subsequent calls, and cannot be assigned leaving the name of the representative blank.

14.5. There shall be no voting by mail.

14.6. The Board of Directors may set up one or more remote links with the venue in which the Shareholders' Meeting is to be held, to allow shareholders not planning to go to such venue to take part in the discussion, follow the meeting's works and express their vote at the appropriate time, provided that identification of these shareholders is

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ensured and that exercise of this solution has been communicated in the notice of call of the Shareholders' Meeting. In any case, the Chairman of the Shareholders' Meeting and the Secretary shall be in the same venue indicated in the notice of call, where the Shareholders' Meeting shall be deemed to be held.

- 14.7. Members of the Board of Directors and of the Board of Statutory Auditors cannot vote in resolutions concerning their respective liabilities.

Art. 15. - Formation of the Shareholders' Meeting

- 15.1. For the valid formation of the Shareholders' Meeting, both ordinary and extraordinary, in a single, first, second call, and for the sole extraordinary Shareholders' Meeting, third call, the relevant laws in force shall apply, except as provided in Article 16.2.

Art. 16. - Validity of the resolutions of the Shareholders' Meeting

- 16.1. The resolutions are adopted by the ordinary Shareholders' Meeting, in single, first and second call, with the majorities provided for under applicable law in relation to each call, except as provided by Article 16.2 and except as provided for in the Bylaws with respect to the appointment of the members of the Board of Directors and of the Board of Statutory Auditors. If the votes are equal, the proposal shall be considered rejected.
- 16.2. The resolutions concerning any proposal to set a limit to the relationship between the variable component and the fixed component of individual remuneration of key personnel greater than 1:1, as determined under applicable law, shall be deemed approved by the ordinary Shareholders' Meeting when (i) the Shareholders' Meeting is formed with at least half of the share capital and the resolution is adopted with a favorable vote of 2/3 (two thirds) of the share capital represented in the Shareholders' Meeting and having right to vote; or (ii) the resolution is adopted with a favorable vote of at least 3/4 (three fourths) of the share capital represented in the Shareholders' Meeting and having right to vote, regardless of the share capital attending the meeting.
- 16.3. The extraordinary Shareholders' Meeting in single, first, second, and third call shall resolve with the favorable vote of shareholders

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representing at least 2/3 (two thirds) of the share capital represented in the Shareholders' Meeting and having right to vote.

- 16.4. Without prejudice to the provisions of the Bylaws, where the Shareholders' Meeting is called to resolve in respect to related parties transactions upon contrary opinion of the Related Party Committee, the resolutions shall also be taken in accordance with the special provisions on deliberative majorities provided for by the law from time to time in force and by the specific regulation for related party transactions.

Art. 17. - Chairmanship and Procedure for Shareholders' Meetings. Secretary

- 17.1. Shareholders' Meetings, both ordinary and extraordinary, are chaired by the Chairman of the Board of Directors or, in the event of his/her absence or incapacity, by his/her substitute pursuant to Article 29.2; failing this, the Shareholders' Meeting appoints a Chairman pursuant to Article 2371 of the Civil Code.

- 17.2. In compliance with the Shareholders' Meeting Regulation, the Chairman has full powers to verify, also through subjects appointed by the same, the regularity of the proxies and in general the right of those present to take part and vote in the Shareholders' Meeting, to establish whether the meeting has been regularly formed and has reached the appropriate voting quorum, to direct and regulate the conduct of the Shareholders' Meeting, to take all appropriate measures to enable the orderly conduct of the discussion and voting, as well as establishing voting procedures (which in any case shall allow the identification in relation to each vote cast), verifying and declaring the relating results.

- 17.3. The Shareholders' Meeting, upon proposal of the Chairman, appoints a Secretary; where considered appropriate, the Chairman shall be assisted by the scrutineers, even not being shareholders, that he/she has selected.

In the case of extraordinary Shareholders' Meeting, or when the Chairman deems it appropriate, the Secretary functions are assumed by a notary public designated by the Chairman of the Shareholders' Meeting.

- 17.4. If the matters in the agenda are not exhausted in one day, the Shareholders' Meeting, in compliance with the Shareholders' Meeting Regulation, shall be extended to no later than the eighth day thereafter by simple verbal communication from the Chairman of the

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Shareholders' Meeting to the participating shareholders, without further notice being required. In the following meeting, the Shareholders' Meeting is formed and resolves with the same majorities provided for the validity of the formation and resolution of the Shareholders' Meeting of which it represents the extension.

Art. 18. - Minutes of the Shareholders' Meetings

- 18.1. The resolutions adopted by the Shareholders' Meetings are recorded in minutes, signed by the Chairman of the meeting and by the Secretary or by the Notary Public, where appointed, and by the scrutineers, where appointed, and transcribed in the appropriate book.
- 18.2. This book, the copies and extracts of the minutes declared to be true copies by the Chairman of the Board of Directors or by his/her deputy, provide full proof of the Shareholders' Meetings and resolutions thereof.

TITLE VI -

GOVERNANCE AND CONTROL SYSTEM

Art. 19. - Traditional governance and control system

- 19.1. The Company adopts the traditional governance and control system, pursuant to Articles 2380-*bis et seq.* of the Italian Civil Code. Accordingly, it operates through a Board of Directors (hereinafter, also, the "**Board**") and a Board of Statutory Auditors.

FIRST SECTION - BOARD OF DIRECTORS

Art. 20. - Board of Directors

20.1. - Composition, number and requirements

- 20.1.1. The Board of Directors is composed of 15 (fifteen) Directors, also non-shareholders, including a Chairman and a Vice Deputy Chairman, appointed by the Shareholders' Meeting, as provided in Article 20.8. This is without prejudice to Article 44.1 of the Bylaws in respect to the transitional period, which will lapse at the date of the Shareholders'

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Meeting called to approve the financial statement relating to the financial year closed as of [●] ⁽³⁾ (the “**First Expiration**”).

- 20.1.2.** The composition of the Board of Directors ensures, in accordance with the provisions of Law 120 dated 12 July 2011 and subsequent amendments, and applicable laws, including regulations, in force, the gender balance for the period provided for by the same law.
- 20.1.3.** Board Members must be suitable to the performance of the office, as provided in the applicable law in force, and in the Bylaws and, in particular, they must meet the requirements of professionalism, honorability and independence and comply with the criteria of competence, correctness and commitment of time and the limits on the accumulation of positions prescribed under applicable laws and the Bylaws.
- 20.1.4.** Without prejudice to the other and/or additional requirements set out under the applicable laws, all members of the Board of Directors must have acquired adequate experience – by carrying out at least five years, in Italy or abroad, of activities of direction and/management and/or control, or at least three years as chairman, chief executive officer and/or general manager in (i) banks, finance companies, asset management companies or (ii) insurance companies; or (iii) companies with shares traded on a regulated Italian or foreign market; or (iv) enterprises or companies, other than those described above, which have a turnover, on a stand-alone or consolidated basis, exceeding Euro 100 million resulting from the latest approved balance sheet. A number of candidates that does not represent the majority who have not acquired such experience may be appointed provided that: (a) they are or have been tenure university professors for at least five years in legal, business, economics or mathematics/statistics/engineering management subjects; (b) are or have been enrolled for at least a decade on the professional register of Chartered Accountants, Notaries or Lawyers; or (c) have held for at least three years executive roles in public administrations or independent authorities competent on matters related to banking, insurance and financial activities.
- 20.1.5.** Without prejudice to any further requirement provided under applicable law, at least 7 (seven) directors must possess the

⁽³⁾ Date that will be indicated afterwards and will coincide with the last day of the third financial year as of the date of effectiveness of the Merger (taking into account, in this respect, also the financial year starting from the date of effectiveness of the Merger).

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independence requirements set out in Article 20.1.6 below; such directors are defined in the Bylaws as “**Independent Directors**”.

20.1.6. For the purposes of the Bylaws, Independent Directors shall be considered those directors who do not hold and have not recently held – directly or indirectly – with the Company or connected entities relationships that are of professional, financial, personal or other nature, such as to influence their independent judgment, it being acknowledged that a director shall not be considered an Independent Director if he/she falls within any of the following cases:

- a) a director who, directly or indirectly, including through subsidiaries, fiduciaries or nominees, controls or is able to exercise significant influence over, or is party to a shareholders’ agreement through which one or more parties can exercise control or significant influence over, the Company;
- b) a director who is, or has been in the previous three years, a relevant representative – meaning: the Chairman of the Board of Directors, “executive directors” and “executives with strategic responsibilities” – of the Company, of one its subsidiaries with strategic importance or of a company under common control with the Company, or of a company or entity that, also together with others through a shareholders’ agreement, controls the Company or is able to exercise significant influence over the same;
- c) a director holding the office of executive director in another company in which an executive director of the Company holds a position of director, even non-executive;
- d) a director who is a shareholder, director or employee of a company or entity belonging to the network of companies in charge of the audit of the Company;
- e) a director who receives or has received in the previous three years, by the Company or a subsidiary or parent company, a significant additional remuneration (with respect to the “fixed” remuneration of a non-executive director of the Company, the remuneration for participation in internal committees within the Board of Directors, and the attendance fee for participating to the meetings), including the possible participation in incentives plans linked to corporate performance, including equity-based schemes;
- f) a director who has, or has had in the previous year, directly or indirectly (for example through subsidiaries or companies of

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which he is a relevant representative, or in the capacity of partner of a law / CPA firm or a consulting company), a significant relationship that is professional, patrimonial, commercial or financial in nature:

- with the Company, one of its subsidiaries, with any of their respective relevant representatives;
- with a subject which, even together with others through a shareholders' agreement, controls the Company, or – if a company or entity – with the related relevant representatives;
- with companies under common control with the Company;

or is, or has been in the previous three years, an employee of, independent worker or a continuous collaboration with one of the aforementioned entities;

- g) a director who is a close relative (meaning the spouse, unless legally separated, direct relative or any relative within the fourth degree of kinship, the more uxorio cohabitant or the sons of the more uxorio cohabitant and the cohabitant relatives) of the directors of the Company or of the directors of the companies controlled by the Company, of the companies that control it or those under common control;
- h) a director who is a close relative of a person who is in any of the above described situations;
- i) if he/she falls in any other case of lack of the independence requirement provided by applicable law.

For the purposes of this Article 20.1.6, "executive directors" shall be:

- (i) the chief executive officer, the directors to whom the board of directors have conferred delegations in accordance with Article 2381, second paragraph, of the Italian Civil Code (and of Article 24.2.2, letter g), of the Bylaws) and the directors who carry out, de facto, functions related to the ordinary management of the company of which they are directors;
- (ii) the directors who are members of the executive committee;
- (iii) the members of a board of directors who hold management roles in the managed company, overseeing determined areas of the company management.

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Furthermore, also for the purposes of this Article 20.1.6, “executives with strategic responsibilities” shall be those who have the power and responsibility, directly or indirectly, for the planning, management and control of the activities of a company.

The Board of Directors determines in a general way the quantitative and/or qualitative criteria suitable for determining the significance of the relationships indicated under letter e) and f) of the preceding paragraph.

- 20.1.7.** More than one requirement of this Article 20.1 may be met at the same time by the same person, it being understood that it cannot be considered as Independent Director, pursuant to Article 20.1.6 above, an executive director of the Company, of a controlled company having strategic relevance or of a company under common control with the Company, or of a company or juridical person that, also together with other parties through a shareholders’ agreement, controls the Company or is capable of exercising a relevant influence over the same.

20.2. - Duration

Board Members remain in office for three years, expiring at the date of the Shareholders’ Meeting convened for the approval of the financial statements related to the final year of their term in office and are eligible again at the expiry of their mandate.

20.3. - Prohibitions and incompatibility of the members of the Board of Directors

- 20.3.1.** Without prejudice to Article 20.1, those who fall under the cases of ineligibility or cessation from office under Article 2383 of the Italian Civil Code or do not meet the honorability and professionalism requirements set out in the applicable laws, including applicable regulatory provisions, may not be appointed to the office of Board member.
- 20.3.2.** Except for the potential additional causes of incompatibility provided for under applicable laws, those who are or become members of management bodies or employees of companies that carry out or belong to groups which perform activities in competition with those of the Company or the Group to which it belongs, may not be appointed to the office, and if appointed, they cease from the office, except in the

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case of central banks or subsidiaries, directly or indirectly, controlled by the Company.

The above prohibition does not apply when the participation in management bodies in other banks is assumed in representation of organizations or trade associations of the banking system.

20.3.3. Without prejudice, where stricter, to the causes of ineligibility and cessation from office as well as the prohibitions under applicable laws and regulations, the limits on multiple offices that may be held at the same time by the directors, are governed by the appropriate internal regulations approved by the Board of Directors.

20.3.4. Without prejudice to Article 20.3.2, if the cause of incompatibility occurs after the office has been taken, the director will be deemed as automatically ceased from office, if he/she does not remove the cause of incompatibility within sixty days of its occurrence.

20.3.5. The loss of the requirement of independence provided for under Article 20.1.6 by a director shall not cause the loss of office if the requirements are still met by the minimum number of directors who, according to these Bylaws, in compliance with applicable legislation, must meet this requirement.

The loss of the requirement of independence provided for under Article 20.1.6 determines in any case the loss of the roles for which this requirement shall be met under applicable law or the Bylaws.

20.3.6. Each Board Member, during the course of his/her office, shall update, with timely notice to the Chairman of the Board of Directors, the declarations relating to the fulfillment of the requirements and any information useful for the purposes of the complete assessment of the suitability for the position held.

20.4. - Lists of Candidates

20.4.1. Members of the Board of Directors are appointed on the basis of lists in which candidates are assigned consecutive numbers. In case of submission of a number of candidates equal to, or exceeding, 3 (three) the list shall be composed so to comply with the gender proportions provided under applicable laws.

20.4.2. The lists of candidates for the office of director can be submitted:

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- (i) by the Board of Directors (the “**List of the Board**”). The composition and the submission of the List of the Board must be approved, after non-binding opinion of the Nominations Committee, with a favourable vote of 11 (eleven) directors in office (without prejudice to Article 44.3);
- (ii) by one or more shareholders which are collectively holders of a shareholding equal to at least 1% (one per cent) of the share capital of the Company having right to vote in the ordinary Shareholders’ Meeting or any other percentage established under the applicable law and which will from time to time be communicated in the notice of call of the Shareholders’ Meeting called to resolve upon the appointment of the Board of Directors (the “**List of Shareholders**”); and
- (iii) by one or more shareholders that are simultaneously working employees of the Company or subsidiaries and who collectively have a shareholding equal to at least 0,12% (zero point twelve per cent) of the share capital of the Company (the “**List of Employee-Shareholders**”).

Ownership of the minimum stake in the share capital for the presentation of lists under (ii) and (iii) is determined with regard to the shares registered to each individual shareholder, or of more shareholders jointly, on the day on which the lists are submitted to the Company. The ownership of the number of shares necessary for the submission of the lists must be proven in accordance with applicable law; such proof may be received by the Company even after the filing provided at least twenty-one days before the date of the Shareholders’ Meeting in the manner provided for by applicable law.

On penalty of inadmissibility:

- a. the lists of candidates must be deposited with the registered office, including through means of distance communication defined by the Board of Directors and indicated in the notice of call, enabling identification of the subjects proceeding to the deposit, within the twenty-fifth day preceding the date of the Shareholders’ Meeting and are made available to the public at the registered office, on the Company’s website and with the other procedures prescribed by the laws applicable from time to time, at least twenty-one days before the date of the Shareholders’ Meeting;

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- b. each shareholder may submit or concur to submit, and vote for one list of candidates only, even if through a third party. Shareholders belonging to the same group – meaning the parent, the subsidiaries and the companies subject to common control – and the shareholders that are part to a shareholders’ agreement provided for by Article 122 of Legislative Decree 24 February 1998 n. 58, relating to the Company’s shares cannot submit, nor can those with voting rights vote for, more than one list, even if through a third party or through a fiduciary company. Shareholders submitting a list and being distinct from the shareholders holding a controlling or relative majority stake must also submit a declaration attesting to the absence, in respect of such shareholders, of connection qualified as relevant under applicable law. Each candidate may be present one list only, under penalty of ineligibility.
- c. the List of the Board must meet the following requirements: (i) it must contain 15 (fifteen) candidates; (ii) in the first two slots, there shall be indicated the candidate for the office of Chairman of the Board of Directors, in the first place, and of Chief Executive Officer, in the second place; (iii) in the third slot, there shall be indicated the candidate for the office of Deputy Vice Chairman of the Board of Directors;
- d. the composition of the List of the Shareholders and the List of Employee-Shareholders does not need to comply with the above letter c. The submission of lists with less than 15 (fifteen) candidates is therefore permitted, provided that: (i) the lists that provide for a number of candidates equal to, or above, 3 (three) shall include candidates of different gender, in order to ensure that the composition of the Board of Directors complies with the gender balance provided by the law and applicable regulations; (ii) they must also contain a number of candidates who meet the independence requirements set out under Article 20.1.6 equal to at least 7 (seven) candidates where the list is composed of 15 (fifteen) candidates or at half (by approximation to the unit below if the first decimal point is equal to or below 5, or to the unit above, in the other cases) if the list is composed of less than 15 (fifteen) candidates;

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- e. where not otherwise specified by the applicable laws in force, together with each list, within the time limit for depositing the same indicated in the preceding letter a), all further documentation and declarations required by law, including of a regulatory nature, must be submitted to the registered office of the Company, as well as the information relating to those who submitted the lists, with indication of the total percentage of shares held, exhaustive information on the personal and professional characteristics of the candidates, the declarations with which the individual candidates accept their own candidature and attest, at their own responsibility, to the absence of causes of ineligibility and incompatibility and the existence of the requirements prescribed by the law, regulations and Bylaws for carrying out the office of Board Member, the list of positions as director and statutory auditor carried out in other companies and the potential declaration of meeting the requirements of independence set out under these Bylaws as well as any information useful for the complete assessment of suitability for the role held, according to the scheme that will be made public in advance by the Company, also taking into account the guidelines of the Regulatory Authority;
- f. in addition to the documentation set out in the preceding letter e., the employee-shareholders that submit the List of Employee-Shareholders must file the documentation proving the status as employees of the Company or its subsidiaries

20.4.3. Lists submitted without complying with the above provisions shall be considered as not submitted. However, failure to provide documentation on individual candidates in a list does not entail the exclusion of the whole list, but only of those candidates to whom the irregularities are attributed.

20.4.4. The List of the Board must be deposited and made public using the same procedures established for the lists submitted by the shareholders.

20.5. - Voting

20.5.1. In the event that more than one list of candidates is submitted, the appointment of Board Members shall be made as follows:

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- (a) 12 (twelve) directors or the lower number of directors covering all the candidates indicated in such list, based on the sequential order in which they were listed, are selected from the list that has obtained the majority of votes;
- (b) the remaining 3 (three) directors – or the higher number of directors in the event that from the list indicated in letter (a) above less than 12 (twelve) directors have been taken – are selected from the other lists as follows:
 - 1. where at least one List of Employee-Shareholders is regularly submitted and obtained votes: (i) 1 (one) director is selected from the List of Employee-Shareholders obtaining the highest number of votes among the Lists of Employee-Shareholders; whilst (ii) the remaining 2 (two), or more than 2 (two), directors to be appointed pursuant to letter (b) above, are selected from the list, other than the list referred to under (i), according to the following criterion: the votes obtained by each list are divided by one, two, three, four and so on, according to the number of directors yet to be appointed. The quotients so obtained are attributed progressively to the candidates of each of said lists, according to the order respectively provided by the same. The quotients so attributed to the candidates of the various lists are set in a sole decreasing order: the candidates that have obtained the highest quotients and that are taken from lists that are not in any way related, under applicable law, to the list that has obtained the majority of votes shall be appointed as directors, up to the number of directors yet to be appointed. It is understood that, in any case, 1 (one) director shall be selected from the List of Employee-Shareholders even if the number of votes obtained by such list is below the number of votes obtained by the other lists;
 - 2. where Lists of Employee-Shareholders are not submitted or are submitted but none of such Lists of Employee-Shareholders obtained votes or where the list that has obtained the highest number of votes pursuant to letter (a) above is a list of Employee-Shareholders, the remaining 3 (three) or more directors are selected from the other lists that obtained votes – other than the list that resulted first

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pursuant to letter (a) above – according to the following criteria: the votes obtained by every list are divided by one, two, three, four and so on according to the number of members yet to be appointed. The quotients thereby obtained are assigned progressively to the candidates of each of these lists, according to the order in which they appear. The quotients thereby attributed to the candidates of the various lists are arranged in a single decreasing order: the candidates obtaining the highest quotients and that are selected from lists that are not in any way connected, pursuant to applicable law, to the list that has obtained the majority of votes, are appointed as Board members, up to the number of directors yet to be appointed.

20.5.2. Without prejudice to the provisions of the following Articles 20.6 and 20.7, in the event it is not possible to complete the composition of the Board of Directors according to the procedure set out in Article 20.5.1(b) or the total number of candidates included in the lists is lower than the number of directors to be appointed, the remaining directors are appointed by resolution of the Shareholders' Meeting adopted by relative majority vote in accordance with the provisions set forth under Articles 20.1.2., 20.1.3., 20.1.4., 20.1.5, 20.1.7, 20.3.1, 20.3.2 and 20.3.3.

20.6. - Parity of quotients and ballot

20.6.1. In the cases governed by Articles 20.5.1(b)(1) and 20.5.1(b)(2) where more than one candidate obtain the same quotient, the candidate of the list from which no Board Member has been appointed or from which the lowest number of Board Members has been appointed, shall be appointed (it being understood that in the case under Article 20.5.1(b)(1), one director shall be taken from the List of Employee-Shareholders, where duly submitted, which has obtained the majority of votes among the Lists of Employee Shareholders). If none of said lists has appointed a Board Member or if they have all appointed the same number of Board Members, the candidate of the one obtaining the highest number of votes shall be appointed. In the event of parity of votes on each list and also parity of quotient, a ballot shall take place, in which the whole Shareholders' Meeting shall vote again, with the appointment of the candidate obtaining the relative majority of votes, without prejudice to Articles 20.1.2, 20.1.3, 20.1.4, 20.1.5, 20.1.7, 20.3.1, 20.3.2, and 20.3.3.

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20.7. - Supplementary mechanism

20.7.1. If at the end of voting (i) Board Members meeting the independent requirements of Article 20.1.6 are not appointed in the number required by these Bylaws, or (ii) the composition of a Board of Directors does not allow to comply with the regulations in force regarding gender balance, a number of appointed candidates shall be excluded and replaced with candidates meeting the needed requirements, taken from the same list as the candidate to be excluded according to the progressive list order; in this regard, the non-independent candidate or the candidate from the most represented gender, appointed as last in the progressive order in the list that has obtained the majority of votes shall be excluded, and, where the substitution with another candidate taken from the same list does not allow to comply with the requirements at hand, the candidates taken from the other lists shall be excluded (and shall be substituted with candidates taken from the same list). If the number of Board Members to be appointed cannot be completed with this criterion, the missing directors shall be appointed – complying with the independence requirements set forth in Article 20.1.6 and gender balance – by the Shareholders’ Meeting at that very meeting, by resolution adopted by relative majority of the share capital represented in the Shareholders’ Meeting and having right to vote, upon proposal of the attending shareholders.

20.8. - Appointment of the Chairman and the Deputy Vice Chairman of the Board of Directors

20.8.1. The Chairman and Deputy Vice Chairman of the Board of Directors are taken, respectively, from the first and third names on the list that appointed the highest number of directors pursuant to Article 20.5.1. In case no list is presented or where there is not a list that has appointed the highest number of directors, or where the persons indicated in the first and third place of the list that has appointed the majority of directors have accepted the office of director but not the office of Chairman or Deputy Vice Chairman, the Chairman and Deputy Vice Chairman of the Board of Directors are appointed by the Board of Directors, with the ordinary majorities provided for by Article 23.4.1 of the Bylaws.

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20.9. - Single list

20.9.1. If only one list of candidates is submitted, the members of the Board of Directors are appointed from said list up until the number of candidates included in said list. If the number of candidates included in the single list are less than 15 (fifteen), the remaining directors are appointed by the Shareholders' Meeting with resolution adopted by relative majority vote of the share capital attending the Shareholders' Meeting and having right to vote, upon proposal of the attending shareholders.

20.10. - Absence of lists

20.10.1. If no list is submitted within the relevant deadline, the Shareholders' Meeting shall adopt a resolution by relative majority of the share capital represented at the meeting and having right to vote, upon proposal of the attending shareholders. In the event of votes being equal between a number of candidates, a second vote shall take place, it being understood that such resolution shall comply with the requirements provided by the applicable law and Article 20.1.2, 20.1.3, 20.1.4, 20.1.5, 20.1.7, 20.3.1, 20.3.2 and 20.3.3, concerning composition and requirements of the members of the Board of Directors.

20.11. - Replacement

20.11.1. Without prejudice to Article 44.1 of the Bylaws, if during the course of the office, one or more Board Members cease to hold office for any reason, provided that the majority is still composed of members appointed by the Shareholders' Meeting, the Board of Directors shall replace them by cooptation pursuant to Article 2386 of the Italian Civil Code, by choosing, if possible, among the candidates originally submitted in the same list from which the ceased member had been taken who have confirmed their candidacy and by complying with the minimum number of independent directors provided for by the Bylaws and the minimum number of directors belonging to the less represented gender as provided by the Bylaws and applicable laws, and applicable regulations.

20.11.2. At the following appointment by the Shareholders' Meeting, the following shall apply, in any case in compliance with the provisions on independence and gender balance provided by the law, applicable regulations and the Bylaws:

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- a) for the replacement of the director taken from the list obtaining the highest number of votes, the Shareholders' Meeting shall vote by relative majority vote on the candidates originally submitted in the same list from which the ceased member had been taken, who have confirmed their candidacy. If this is not possible, the Shareholders' Meeting votes with relative majority vote without list restrictions.
- b) for the replacement of a director taken from the List of Employee-Shareholders, the Shareholders' Meeting votes by relative majority vote on the candidates originally indicated in the same list from which the ceased member had been taken, who have confirmed their own candidacy, or, failing that, from candidates proposed, in case, by employee shareholders of the Company or of controlled companies at the Shareholders' Meeting in compliance with the By-laws provisions relating to the submission of Lists of Employee-Shareholders. This not being possible, the Shareholders' Meeting votes by relative majority vote without list restriction;
- c) for the substitution of the director that has been taken from a List of Shareholders other than that obtaining the majority of votes, the Shareholders' Meeting shall vote by relative majority vote among the candidates presented in the same list from which the ceased member had been taken, who have confirmed their candidacy, or, failing that, among the candidates of the other Lists of Shareholders other than the List of Shareholders that has obtained the majority of votes, and different from the Lists of Employee Shareholders. This not being possible, the Shareholders' Meeting shall proceed with the substitution voting by relative majority vote without list restriction, in compliance with the requirement on minority representation;
- d) for the substitution of the director taken from the List of the Board, in the event that such list has not obtained the majority of votes, the Shareholders' Meeting shall resolve by relative majority vote on the candidates originally submitted by the same list of the ceased director who have confirmed their candidature. If that is not possible, the Shareholders' Meeting shall resolve by relative majority vote without list constraints.

20.11.3. Board Members called to replace missing members remain in office until the original expiry of those they replaced.

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20.11.4. In the event of early termination from office of the Chairman of the Board of Directors and/or of the Deputy Vice Chairman, or of the Vice Chairmen, or of one of them, appointed until the First Expiration pursuant to article 45, they shall be replaced by the Board of Directors with the ordinary majorities provided for by Article 23.4.1 of the Bylaws. At the following appointment at the Shareholders' Meeting, voting shall take place by relative majority vote of the share capital represented at the Shareholders' Meeting having the right to vote without list restriction.

20.11.5. If, due to resignation or other cause, prior to expiry of the term, more than half of the directors appointed by the Shareholders' Meeting no longer hold office, the whole Board shall be considered to have resigned and a Shareholders' Meeting shall be convened to resolve upon the new appointments. The Board shall however remain in office until the Shareholders' Meeting has adopted appropriate resolutions for its establishment and at least half of the new Board Members have accepted.

20.12. - Appointment of the Secretary and secretary structure

20.12.1 The Board of Directors appoints a Secretary, to be chosen amongst its members or from the Company's executives, and also sets up a secretary's office appropriate for the performance of its duties.

Art. 21. - Remuneration of the members of the Board of Directors

21.1. In addition to refund of the expenses incurred in performance of their office, members of the Board of Directors are entitled to an annual remuneration established, in a fixed amount, for their entire period of office by the Shareholders' Meeting at the time of their appointment. The division of the compensation resolved by the Shareholders' Meeting, where the same has not been specified, is established by the Board of Directors.

Art. 22. - Remuneration of Members of the Board of Directors entrusted with special offices or duties

22.1. Without prejudice to Article 11.3 of the Bylaws, the Board of Directors, upon proposal of the Remunerations Committee referred to in Article 24.4 and after having heard the Board of Statutory Auditors, establishes

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the remuneration of its members entrusted with special offices or special duties or powers of attorney or who are assigned to committees in accordance with the Bylaws.

Art. 23. - Meetings and Resolutions of the Board of Directors

23.1. - Venue and Convocation

23.1.1. The meetings of the Board of Directors of the Company shall take place, on a rotating basis, in the municipalities of Verona and Milano. At least one meeting of the Board of Directors per year takes place in the municipalities of Lodi or Novara; where possible, one meeting of the Board of Directors per year takes place in the municipalities of Bergamo, Lucca and Modena.

23.1.2. The Chairman of the Board of Directors or, in the event of his/her absence or incapacity, whoever substitutes him/her pursuant to Article 29.2, convenes the Board of Directors.

23.1.3. The Board of Directors generally meets once a month and in any case whenever the Chairman of the Board of Directors deems it necessary.

23.1.4. The Board of Directors may be convened in the other cases provided for by the law.

In the cases and with the modalities provided for under applicable law, subject to notice to the Chairman of the Board of Directors, the Board of Directors may also be convened by the Board of Statutory Auditors or by its members, also individually.

23.2. - Notice of Call

23.2.1. The Board of Directors is convened by notice containing the agenda of the matters to be discussed, sent – at least 3 (three) days prior to the meeting and, in urgent circumstances, at least 12 (twelve) hours beforehand, using any means that can provide proof of receipt – to each member of the Board of Directors and of the Board of Statutory Auditors. The notice may also contain the indication of the places in which it is possible to participate at the meeting through remote connection systems pursuant to the following Article 23.3.

23.3. - Meetings

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23.3.1. Meetings of the Board of Directors may also be validly held through use of remote connection systems, provided that it is possible to guarantee, through verification by the Chairman of the meeting, the precise identification of the persons entitled to attend and the possibility for all participants to intervene in real time in discussion of all the business and to view, receive and transmit documents. At least the Chairman and the Secretary must however be present at the venue at which the Board meeting is convened, where the meeting shall be considered to be held.

23.4. - Attendance and deliberative majorities

23.4.1. Resolutions of the Board of Directors are valid when the majority of its members are present at the meeting. Without prejudice Article 23.5. below, resolutions are adopted by absolute majority vote of those present.

23.5. - Resolutions adopted by Qualified Majority

23.5.1. Without prejudice to the provisions set forth under Article 44.2 of the Bylaws relating to the period until the First Expiration, exclusively the resolutions concerning, directly or indirectly, the matters listed below are validly adopted by the favorable vote of at least 11 members in office of the Board of Directors (the “**Qualified Majority of the Board**”):

- i. approval of the List of the Board;
- ii. sale, contribution and acts of disposition and restructuring in general (even if carried out in one or more phases) of banking businesses or business branches which have a value exceeding 20% of the Company’s consolidated regulatory capital, as resulting from the most recently approved consolidated annual financial statements, with the exception of cases in which said transactions are the result of instructions issued by Regulatory Authorities as well as of transactions regarding the banking company controlled by the Company in favor of which the contribution in kind of branches belonging to BPM has been made, the approval of which by Qualified Majority of the Board is not required.

23.6. - Minutes and Copies

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23.6.1. The minutes of the resolutions of the Board of Directors are drawn up and recorded in the register of the minutes by the Secretary and shall be signed by who has chaired the meeting and by the Secretary.

Such minutes are transcribed in the relevant mandatory corporate books and shall be duly signed by the chairman of the meeting and by the Secretary.

Copy and extracts of the minutes, which have not been prepared by a Notary Public, are certified by a declaration of conformity signed by the Director chairing the meeting and by the Secretary. The register of minutes and extracts thereof provide full proof of the meetings and of the resolutions adopted.

Art. 24. - Powers and competences of the Board of Directors – Intra-Board Committees

24.1. - Strategic supervision and management of the Company

The Board of Directors is responsible for the strategic supervision and management of the Company. To this end, the Board of Directors may carry out all the transactions that prove necessary, useful or in any way appropriate for attaining the corporate purpose, be they ordinary or extraordinary business transactions, and has the power to allow cancellation and reduction of mortgages, even against partial payment of the credit, including through specially delegated persons.

Directors shall inform the Board of Directors and the Board of Statutory Auditors of every interest that they may have, on their own behalf or on that of third parties, with regard to a specific transaction to be carried out by the Company, indicating the nature, terms, origin and extent of said interest. If the person concerned is the Chief Executive Officer, he must also abstain from carrying out the transaction, entrusting it to the board.

24.2 Non delegable competences

24.2.1. The Board, as indicated below, delegates the ongoing management of the Company to the Chief Executive Officer, who exercises it according to the general programmatic and strategic guidelines put forth by the Board of Directors. The Board of Directors may delegate specific functions also to the Executive Committee, as provided in the following Article 27.

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24.2.2. Further to the matters not delegable under the law and those listed in Article 23.5 of the Bylaws, and without prejudice to the competences of the Shareholders' Meeting, the following matters are reserved to the competences not delegable of the Board of Directors:

- a) the approval of general policy and strategic guidelines and of risk governance and management policies of the Company and of the Group, as well as their periodic review to guarantee that they remain effective over time;
- b) the resolutions provided for by Article 3.3;
- c) industrial and financial planning, approval of the budget of the Company and the Group, definition of the geographical structure of the Territorial Divisions and expansion plans for the Company and Group territorial networks (including any general changes);
- d) definition and approval: (i) of the risk appetite framework; (ii) of guidelines for the internal control system, so that the main risks affecting the Company and its controlled companies and the most significant transactions are correctly identified and appropriately measured, managed and monitored, also establishing criteria of compatibility of said risks with sound and proper management of the Company; the Board of Directors shall also be responsible for the approval (i) of the setting up of the corporate control functions, determining their duties and responsibilities and coordination and collaboration procedures, the information flows exchanged among these functions and between them and the corporate bodies; (ii) the process of approval of new products and services, the start of new activities, the entry into new markets; (iii) of the corporate policy on the outsourcing of corporate functions; (iv) the adoption of internal risk measurement systems. The Board of Directors also performs any other duty assigned to it by the prudential supervisory provisions with regard to the internal control system in force at the time;
- e) at least yearly assessment of the adequacy, effectiveness and proper working of the internal control system;
- f) appointment and revocation of members of the Executive Committee with the powers established by the related bylaws' provision and determination of any further powers;
- g) assignment of special duties or powers to one or more Board Members and determination, modification and revocation of

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related powers, including the appointment and revocation of the Chief Executive Officer and the assignment, modification and revocation of related powers;

- h) upon the Chief Executive Officer's proposal, having heard the Chairman of the Board of Directors, the appointment, revocation and replacement of the General Manager and the Co-General Managers, the determination or the modification of the assignments, functions and competences of the General Manager, and, on proposal of the Chief Executive Officer, the appointment of the Company's executives of the Company and the determination of their powers and remuneration;
- i) assessment of the adequacy and approval of the Company and Group's organizational, administrative and accounting structure and approval of the corporate governance structure of the Company and of the Group and of the reporting systems;
- j) establishing the criteria for coordination and management of Group companies and the criteria for carrying out the Bank of Italy's instructions and every other competent Regulatory Authorities;
- k) subject to obligatory, non-binding opinion of the Board of Statutory Auditors, appointment and revocation of the Executive responsible for preparing the financial reports, pursuant to Article 154-*bis* of Italian Legislative Decree no. 58 of 24 February 1998 and determination of his/her powers, means and remuneration, and appointment and revocation of the Chief Risk Officer (CRO), if provided for, the Head of the Compliance Function (Compliance Manager) and the Head of the Risk Management Function (Risk Manager);
- l) without prejudice to the following letter (m), the appointment and revocation of the heads of functions, carried out pursuant to legislative and regulatory provisions;
- m) on proposal of the Chairman of the Board of Directors in accordance with the Chief Executive Officer, with the non-binding opinion of the Internal Control Committee and the Board of Statutory Auditors, the appointment of the Head of the Internal Audit function, who shall be at the direct disposal of and report to the Board of Directors, after informing the Chairman of the Board of Directors, without prejudice to the assignment to the Chief

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Executive Officer of the responsibility of the internal control and risk management;

- n) preparation of the draft financial statements and the draft consolidated financial statements, and preparation and approval of the interim reports required by applicable regulations;
- o) acquisition and disposal of interests held by the Company for any amount, including the acquisition and disposal of interests entailing variations of the Group and/or those having strategic importance;
- p) capital increases delegated pursuant to Article 2443 of the Civil Code and issuance of convertible bonds delegated pursuant to Article 2420-ter of the Civil Code, including the power to adopt resolutions with exclusion or limitation of the pre-emption right referred to in Article 2441, Paragraph 4 and 5, of the Civil Code;
- q) the approval of: (i) programs concerning the issuance and the single issuance of bonds and other financial instruments, as well as the relevant repayment, with the power to approve their amount, terms and conditions; (ii) the purchase and sale of securities for investment purposes, for liquidity purposes or to meet clients' needs, in accordance with any applicable law; (iii) the participation of the Company to underwriting and placement syndicates concerning securities and bonds; (iv) transactions on derivatives, all the foregoing in compliance with specific internal regulation;
- r) approval of collective national and company labor agreements and any other agreements with trade unions;
- s) the performance of the obligations upon the Board of Directors set forth by Articles 2446 and 2447 of the Civil Code;
- t) drafting of merger or de-merger plans;
- u) approval and amendment of a special Regulation governing information flows;
- v) adoption, revocation or amendment of internal procedures which, in immediate implementation of legislative or regulatory provisions, concern the prevention or the regulation of cases of conflict of interest, with the possibility of derogations, also in urgent circumstances;

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- w) designation of candidates for the Group subsidiary banks and the main non-banking Group subsidiaries;
- x) attendance to (and determination of the vote to be cast in) the Shareholders' Meeting of the subsidiary banks and the main non-banking subsidiaries of the Group, and prior consent to amendments to the Bylaws of the Group's companies, when the resolution is to be adopted by a corporate body other than the Shareholders' Meeting, and the approval of the exercise of the pre-emption rights concerning share capital increases of Group subsidiary banks and the main non-banking Group subsidiaries; the approval of the amendments to the regulation of the investment funds (or similar entities) subscribed by the Company;
- y) approval of proposals to call the Shareholders' Meeting to resolve on amendments to the Bylaws of the Company;
- z) approval and amendment of the main internal regulations;
- aa) appointment of the members of the bodies of the territorial Foundations already existing or to be incorporated as per the preceding Article 5;
- bb) resolutions concerning amendments to the Bylaws required to comply with the law;
- cc) supervision of the Company's public disclosure and communication process;
- dd) regulation of the selection processes of the members of the consulting Territorial Committees, which, if established, shall have mere consulting roles, in connection with/in each Territorial Division;
- ee) adoption, with adequate means, of measures to facilitate the attendance of Shareholders' Meetings by shareholders-employees and small shareholders, also by way of proxies.

24.2.3. In accordance with Article 2436 of the Civil Code, the Board of Directors is also entrusted with the responsibility to adopt resolutions regarding mergers, in the cases provided for by Articles 2505 and 2505-bis of the Civil Code, de-mergers, in the cases provided for by the last Paragraph of Article 2506-ter of the Civil Code, reduction of share capital in case of a shareholder's withdrawal, pursuant to the second Paragraph of Article 2365 of the Civil Code, setting up and closing down of secondary headquarters other than those indicated in the

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Bylaws, excluding in any case the setting up of new administrative headquarters and the closing down of the headquarter provided for by the Bylaws.

24.3 - Delegations

24.3.1. For certain categories of acts and affairs, the Board of Directors may delegate specific powers, according to the law, to executives, to the persons in charge of branches and to other personnel, determining the limits and the modalities of exercise of the delegation, providing that the delegated persons may act disjointly or through committees.

Save as otherwise provided for in the delegation, the delegating body shall be informed of the decisions taken by the delegated bodies. The relating superior body shall be informed of the decisions taken by other delegated bodies according to the modalities set out in the Regulation adopted by the Board of Directors.

24.4 - Nomination Committee, Remunerations Committee, Internal Control and Risk Committee, Related Party Committee and other Committees

24.4.1. The Board of Directors establishes within itself, in compliance with the provisions applicable from time to time, the following Committees, as regulated below. The Committees are entrusted with the functions and roles provided in respect to each of them under applicable laws, and applicable regulations, and by the Code of Corporate Governance of Borsa Italiana S.p.A.

Nomination Committee

The Board of Directors establishes within itself a nomination committee (the “**Nomination Committee**”), approving the Regulation that determines its competences and functioning, in accordance with surveillance regulations. The Committee is composed of 4 (four) directors, all non-executives, and the majority of which (among which the person to be elected as chairman) holding the independence requirements of Article 20.1.6.

Remunerations Committee

The Board of Directors establishes within itself a remunerations committee (the “**Remunerations Committee**”), approving the Regulation that determines the competences and functioning, in

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accordance with surveillance regulations. The Committee is composed of a minimum of 4 (four) members, all non-executives and the majority of which (among which the person to be appointed as chairman) holding the independence requirements of Article 20.1.6.

Internal Control and Risk Committee

The Board of Directors establishes within itself, preparing the Regulation, an “**Internal Control and Risk Committee**”, approving the Regulation that determined and competences and functioning in accordance with surveillance regulation. The Internal Control and Risk Committee is composed of 4 (four) members, all non-executives and the majority of which (among which the person to be appointed as chairman) holding the independence requirements of Article 20.1.6.

Related Party Committee

The Board of Directors establishes within itself a related party Committee (the “**Related Party Committee**”), approving the regulation that determines the competences and functioning in accordance the applicable legal and regulatory framework. The Committee is composed of 4 (four) members, all holding the independence requirements of Article 20.1.6.

Other Committee

The Board of Directors has, in any case, the power to establish, approving the relating Regulations, additional committees with consulting, structuring and proposing powers.

Each committee shall include at least a component holding the independence requirements of Article 20.1.6.

Article 25 - Information to the Board of Statutory Auditors

- 25.1.** The information to the Board of Statutory Auditors on the activity carried out by the Board of Statutory Auditors and on the most significant economic, financial and patrimonial transactions carried out by the Company and its controlled companies, and in particular on the transactions in respect of which the directors have an interest, on their own, or for third parties, shall be given also by the delegated bodies pursuant to Article 2381 of the Italian Civil Code, to the Board of Statutory Auditors at least on a quarterly basis, and in any case, on an ordinary basis, upon the meetings of the Board of Directors and of the Executive Committees.

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The information to the Board of Statutory Auditors outside the meetings of the Board of Directors and of the Executive Committee shall be given by the Chairman of the Board of Statutory Auditors.

SECOND SECTION - THE EXECUTIVE COMMITTEE

Art. 26 - The Executive Committee: number and composition

- 26.1. The Board of Directors appoints an Executive Committee composed of 6 (six) directors, establishing its powers in accordance with Article 27 of the Bylaws.
- 26.2. In all the cases in which it is necessary to integrate the Executive Committee, that is done by the Board of Directors in accordance with the regulations on the composition of the Executive Committee.
- 26.3. The Chairman of the Board of Directors, to ensure an effective information flow between the functions of strategic supervision and the management function, participates, without right to vote, to the meetings of the Executive Committee.
- 26.4. The Executive Committee shall remain in office for all the duration of the Board of Directors that has appointed it.
- 26.5. The Board of Statutory Auditors shall participate to the meetings of the Executive Committee.
- 26.6. The Executive Committee appoints, within its members, the Chairman. The functions of Secretary of the Executive Committee are performed by the Secretary of the Board of Directors.

Article 27 - Functions of the Executive Committee and modalities of functioning

- 27.1. Within the powers that the law and the Bylaws do not reserve to the collegial competence of the Board of Directors or that are not otherwise delegated to the Chief Executive Officer, the Executive Committee shall be entrusted with the following matters on which it resolves, by general rule, upon proposals put forth by the Chief Executive Officer:

A. Loans

- (1) decisions, according to the general policy and strategic guidelines adopted by the Board of Directors, relating to the granting of loans

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within the autonomies conferred and the powers for the granting and management of loans provided by the relating internal regulation adopted by the Company in respect of loans;

- (2) resolutions falling within the competence of the Board of Directors in regards of loans granted in cases of urgency, according to the modalities provided for in the relating internal regulation adopted by the Company in relation to loans and with the obligation to report to the Board of Directors in the first following meeting of such body;
- (3) approval of the credit policies within the guidelines and directions established by the Board of Directors.

B. Write-offs

- (1) approval of the write-off of the cash/accounting difference regularly signaled and of any damages to the bank and the clients deriving from operating errors for amounts determined by the Board of Directors;
- (2) approval of the write-off of amounts relating to credits *vis-à-vis* the clients that are objectively uncollectable for the amount determined by the Board of Directors.

27.2. Among the competences of the Executive Committee, there are not those relating the valuation and management of the *“non performing loans”*, being the *“sofferenze”*, the situations of *“unlikeliness to pay”* and the *“expired exposures and/or deteriorated and breached exposures”*, including any decision connected to the management of the same (e.g. settlement and litigation). The *“sofferenze”* shall be entrusted to a specific management unit reporting directly to the Chief Executive Officer, without prejudice for the competences of the Board of Directors.

27.3. The Executive Committee is convened on initiative of its Chairman; subject to notice to the Chairman of the Board of Directors, it may be convened by the Board of Statutory Auditors or by each of its members, with the modalities provided for under applicable law. The call of the Executive Committee is made by means of a notice, to be drawn up and delivered with the modalities set out under Article 23.2, at least 2 (two) days before the meeting, and in the case of urgency, at least 12 (twelve) hours before. The Executive Committee may validly resolve also in case of lack of formal call if all of its members and all of the statutory auditors attend it.

27.4. The Executive Committee shall meet, by general rule, at least once per month and in any case all the times that its Chairman deems it necessary.

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The meetings of the Executive Committee shall take place also through distance communication means, with the modalities provided for by Article 23.3.1. The Executive Committee shall resolve with the participation and favorable vote of the majority of its members.

- 27.5. Minutes shall be drafted in regards of the meetings and resolutions of the Executive Committee, in compliance with Article 23.6.1.
- 27.6. The Board of Directors shall be given notice in its first meeting of the decisions taken by the Executive Committee.

THIRD SECTION - CHAIRMAN OF THE BOARD OF DIRECTORS AND DEPUTY VICE-CHAIRMAN

Art. 28 - Appointment of the Chairman of the Board of Directors and of the Deputy Vice-Chairman

- 28.1. The Chairman of the Board of Directors and the Deputy Vice-Chairman of the Board of Directors are appointed among the board members in accordance with Article 20.8.

Art. 29 - Powers and competences of the Chairman of the Board of Directors

- 29.1. The Chairman of the Board of Directors:
- a) has a role of impulse in the functioning of the Board of Directors and in the organization and coordination of the relating works, proposing, to this end, to the Board the appointment of the secretary. In particular, the Chairman convenes and chairs the meetings of the Board of Directors, sets the agenda also taking into account the proposals of resolution put forward by the Chief Executive Officer and by the Executive Committee as well as the opinion of the intra-board committees (if required), introduces the discussion on the same and coordinates the works, ensuring, inter alia, that: (i) the matters having strategic relevance are treated with priority; and (ii) all directors receive adequate information on the matters of the agenda; ensures that the self-assessment procedure be carried out effectively. For an effective performance of its duties, the Chairman has access to the company information and of the Group, necessary to this end, giving information to the Chief Executive Officer;

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- b) entertains the necessary and appropriate relationships with the Chief Executive Officer;
- c) promotes the effective functioning of the governance, guaranteeing the balance of powers in respect of the Chief Executive Officer, representing the point of reference for the internal control bodies and of the internal committees. Furthermore, it puts forward to the Board of Directors the proposal regarding the establishment of intra-board committees;
- d) promotes the implementation of the prerogatives reserved to the Board of Directors, favoring the effectiveness of the Board discussion, with particular attention to the conditions for a sustainable development in the long-term and to the corporate social responsibility;
- e) represents a guarantee and oversees the relationships with the shareholders and in this respect, entertains relationships with the generality of the same, together with the Chief Executive Officer. For the performance of such task, the Chairman avails himself/herself of the competent internal functions;
- f) in agreement and in coordination with the Chief Executive Officer, takes care of the institutional relationship with bodies and Authorities as well as the external communication of the information regarding the Company, availing himself/herself of the competent company structures;
- g) participates in the works of the Executive Committee, without right to vote;
- h) chairs the Shareholders' Meeting and oversees its execution and works;
- i) without prejudice for Article 33, has the right, in case of urgency and upon proposal of the Chief Executive Officer, to put forth legal action or challenge any lawsuit in any judicial venue or administrative venue, lodge complaints, as well as to retain counsel for litigation including giving general mandate, with the obligation to refer to the Board of Directors on the decisions adopted in the first following meeting;
- j) exercises the other powers functional to the exercise of his/her office.

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- 29.2. In case of absence or impediment of the Chairman of the Board of Directors, his/her functions are exercised by the Deputy Vice Chairman or, in case of absence or impediment also of the latter, in the following order, by the eldest Vice Chairman or by the other Vice Chairman appointed until the First Expiration pursuant to article 45. Vis-à-vis third parties, the signature of the person substituting the Chairman of the Board of Directors gives evidence of the absence or impediment of the Chairman.

SECTION IV - THE CHIEF EXECUTIVE OFFICER

Art. 30 - The Chief Executive Officer

- 30.1. The Board of Directors appoints among its members a Chief Executive Officer, by conferring to the same certain attributions and powers of the Board of Directors in accordance with Article 2381, Paragraph 2, of the Civil Code.
- 30.2. Without prejudice to the preceding Article 24.2 and without prejudice to the powers and authorities conferred by the Board of Directors, the Chief Executive Officer:
- (a) supervises the management of the bank and the Group taking care of its current affairs, in accordance with the general strategic programs and guidelines established by the Board of Directors, also overseeing their development;
 - (b) submits proposals, having heard the Chairman of the Board of Directors, on the strategic guidelines, projects and objectives, extending beyond the short term and/or that are not ordinary in nature, of the Company and the Group;
 - (c) of its own initiative and responsibility, prepares the plans and forecast documents of strategic or extraordinary nature (budget and multi-annual plans) of the Group and the Company, for approval by the Board of Directors, taking care of their implementation through the General Management office;
 - (d) in agreement with the Chairman of the Board of Directors, takes care of the study, the preparation of documents and the sending of confidentiality letters relating to transactions or agreements having extraordinary nature, to be submitted to the Board of Directors;

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- (e) submits proposals to the Board of Directors on the geographical articulation of the Divisions and of the Group banks as well as the related plans for expansion and reorganization of the networks of the Group companies;
- (f) submits proposals to the Board of Directors on the accounting policy and the guidelines on the optimization of the use of, and on how to give value to, resources and submits the draft annual balance sheet and interim reports to the Board of Directors;
- (g) prepares and submits to the Board of Directors, for approval, the annual budget also of the individual companies of the Group, consistently with the higher level planning and proceeds to the periodic monitoring of the results, approving any corrective measures deemed necessary;
- (h) coordinates the executive activities of the Company and the Group, issuing guidelines and instructions in order to ensure that the functioning of the operating units is in accordance with the resolutions of the relevant company bodies and the activities of the controlled companies are consistent with the instructions and strategies set out by the Company;
- (i) within the guidelines established by the Board of Directors, guides and oversees the organizational, administrative and accounting structure of the Company and the Group, in compliance with the set of values recognized by the Company;
- (l) supervises the organization and integration of the Group and the functioning of the network of sales channels, operations and services managed by the Company and the Group companies;
- (m) exercises, in accordance with regulatory standards, powers of proposal and granting of credit, within the limits established by regulations on lending from time to time in force;
- (n) supervises and provides for the management of personnel, giving value to the policies on the personnel of the Company and the Group with the aim of pursuing the integration and managerial continuity and favoring an appropriate motivational environment;
- (o) determines the instructions and guidelines for the General Management office;

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- (p) submits to the Chairman of the Board of Directors and the Chairman of the Executive Committee, as the case may be, matters to be included in the agenda of the meetings of the Board of Directors and Executive Committee;
- (q) performs the functions delegated on an ad hoc basis by the Board of Directors – within the assigned limits – with the relevant regulations;
- (r) reports periodically to the Board of Directors on the activities performed in the exercise of the powers conferred to him/her and – availing himself/herself of the General Manager, Co-General Managers and those responsible for management according to the respective competence – on the performance of the activities and the overall progress of the management of the Company and the Group, as well as on the adherence of the results to the forecast and planning documents;
- (s) submits proposals to the Board of Directors on the guidelines of the internal control system in compliance with regulatory regulations; submits to the internal control functions, through the committee of internal control, extraordinary requests for inspections and/or investigation;
- (t) submits proposals regarding policies on risk assumption and management, as well as on capital adequacy in compliance with the perimeters, limitations and indications of the regulatory regulations;
- (u) submits proposals to the Board of Directors on policies concerning assumption and management of liquidity risk, setting its limits in compliance with regulatory regulations;
- (v) submits proposals to the Board of Directors regarding the appointment of senior operational and executive managers of the company and the Group (excluding the head of the Internal Audit function) and, having heard the Chairman of the Board of Directors, on the appointment and dismissal of the General Manager and the Co-General Managers;
- (w) manages, in agreement and coordination with the Chairman of the Board of Directors, the external communication of the information regarding the bank and the other Group companies as well as the relations with the Regulatory Authorities;

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- (z) oversees the valuation and management of the “sofferenze”, including any decision or matter related thereto (settlements, litigations, etc.), availing himself/herself to this end of a management unit established specifically for such purpose and which shall report directly to the Chief Executive Officer.
- 30.3.** In case of exceptional urgency, the Chief Executive Officer, having heard the Chairman of the Board of Directors, may adopt resolutions regarding any transaction falling under the competence of the Board of Directors and of the Executive Committee, unless attributed by mandatory provision of law or by the Bylaws to the collegial competence of the Board of Directors and of the Executive Committee and even if they constitute transactions regulated by the procedures mandated by Article 2391-bis of the Italian Civil Code, without prejudice in such cases for the complying with special provisions prescribed by said procedures for the urgent operations. In any case, the resolutions so adopted shall be brought to the attention of the Board of Directors and of the Executive Committee in the first following meeting.
- 30.4.** The Chief Executive Officer reports, with the General Manager and the Co-General Managers, if appointed and to the extent falling under their competence, to the Board of Directors and to the Executive Committee, at least quarterly, on the general trend of the management and on its foreseeable evolution, as well as on major transactions carried out by the Company and its controlled companies.

SECTION V - THE GENERAL MANAGER OFFICE - THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY’S FINANCIAL REPORTS

Art. 31 - General Manager Office

- 31.1.** Save as otherwise resolved by the Board of Directors, the Company appoints a General Manager and two Co-General Managers, determining their attributions, competences and functions to be exercised in accordance with directives given, according to the respective competences, by the Board of Directors, by the Executive Committee and by the Chief Executive Officer.
- 31.2** The appointment, the revocation or the substitution of the General Manager and/or of each Co-General Manager (as well as its

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determination or the modification of the attributions, functions and competences pertaining to each of them) is approved by Board of Directors, upon proposal put forward by the Chief Executive Officer, having heard the Chairman of the Board of Directors. Without prejudice to the foregoing, the Chief Executive Officer, in case of termination of the General Manager, shall put forth the proposal, having heard the Chairman of the Board of Directors, except when the Board of Directors has resolved by majority vote not to have a General Manager.

- 31.3. The General Manager participates, without right to vote, to all the meetings of the Board of Directors, and of the Executive Committee. The Co-General Managers participate, without right to vote, to the meetings of the Board of Directors, and of the Executive Committee with respect to the matters falling under their competence.

Art. 32. - Manager Responsible for Preparing the Company's Financial Reports

- 32.1. Upon opinion of the Board of Statutory Auditors, the Board of Directors appoints and revokes the Manager Responsible for Preparing The Company's Financial Reports, in compliance with the law, establishing his/her powers, means and remuneration.
- 32.2. The Manager responsible for preparing the Company's financial reports carries out the functions regulated by Article 154-bis of Legislative Decree 24 February 1998 n. 58 as well as the applicable legal framework.
- 32.3. In addition to the requirements prescribed under applicable law for those performing administration and management duties, the Manager Responsible for Preparing the Company's Financial Reports must also satisfy professional requirements in terms of specific administrative and accounting expertise in the lending, finance, securities and insurance sectors. This expertise must have been acquired through professional experience in positions of appropriate responsibility for a suitable length of time and in companies of similar size to the Company. Verification of the existence of these requirements is left to the discretion of the Board of Directors.
- 32.4. The Manager Responsible for Preparing the Company's Financial Reports is assigned adequate powers and means to perform the duties established by law and other applicable provisions, as well as powers

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and functions that may be established by the Board of Directors at the time of appointment or through subsequent resolutions.

- 32.5. The Board of Directors ensures that the Manager Responsible for Preparing the Company's Financial Reports is provided with all of the above in order to perform his/her duties.

SECTION VI

THE COMPANY REPRESENTATION

Art. 33. - Company Representation

- 33.1. Active and passive representation of the Company before third parties and in court, in judicial or administrative proceedings, including appeals for cassation and motions for new trial, as well as sole corporate signing powers are entrusted to the Chairman of the Board of Directors and, in the event of even temporary absence or incapacity of the latter, to the Vicar Deputy Chairmen or, in the event of absence or incapacity even of the latter, in the order, to the eldest Deputy Chairman or to the other Deputy Chairman appointed until the First Expiration pursuant to article 45.
- 33.2. Before third parties, the signature of the person replacing the Chairman provides proof of his/her absence or incapacity.
- 33.3. Active and passive representation of the Company vis-à-vis third parties and in lawsuits, within the terms of Article 33.1, and the company signing powers are attributed also to the Chief Executive Officer, and may be attributed by the Board of Directors also to the General Manager, and to the Co-General Manager.
- 33.4. Representation of the Company and corporate signing powers may also be entrusted by the Board of Directors to individual Board Members in relation to the powers and duties assigned to them by the Board of Directors.
- 33.5. For certain actions or categories of actions the Board of Directors may also assign corporate signing powers to employees, establishing limits to the powers of attorney.
- 33.6. If necessary, the Board of Directors may also appoint agents not included in the Company's employees to perform certain actions.

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- 33.7. The Chairman of the Board of Directors, or his deputy pursuant to Article 33.1, and the Chief Executive Office, the General Manager and the Co-General Managers may issue proxies for performance of single actions or categories of actions.

Art. 34. - Performance of Delegated Duties

- 34.1. Managers and other employees entrusted with powers of attorney or with certain tasks in the discharge of their duties to be performed within the operating unit to which they have been assigned, are responsible for strict compliance with general and special laws, the Bylaws and resolutions of corporate bodies.

TITLE VII -

BOARD OF STATUTORY AUDITORS

Art. 35. - Composition and Number

- 35.1. The Board of Statutory Auditors is composed of 5 (five) standing and 3 (three) alternate statutory auditors who remain in office for three financial years. They expire at the date of the Shareholders' Meeting convened to approve the financial statements relating to the last financial year of their office and may be re-appointed. Statutory Auditors must meet the eligibility, independence, professional and honorability requirements established under the applicable laws.
- 35.2. The composition of the Board of Statutory Auditors ensures balance between the genders in accordance with the provisions of Italian Law 120 of 12 July 2011 and subsequent amendments as well as in applicable law and regulations in force for the period provided for in the same law.
- 35.3. Members of the Board of Statutory Auditors must comply with the limits to the holding of multiple administration and control offices, established by Consob regulations and other applicable provisions of the law.
- 35.4. Furthermore: (i) the Statutory Auditors may not hold offices in company bodies other than those having controlling functions in other companies of the Group as well as in companies in which the Company holds, also indirectly, a participating interest of strategic relevance (also

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if not belonging to the Group); and (ii) candidates holding the office of Member of the Board of Directors, executive or officer in companies or entities directly or indirectly performing banking activity in competition with that of the Company and of the relating Group, with the exception of that related to trade associations, may not be appointed and, if appointed, shall cease to hold office.

- 35.5. For the full duration of their office, the Chairman and the standing members of the Board of Statutory Auditors are entitled to the annual compensation decided by the Shareholders' Meeting.

Art. 36. - Appointment by Lists

- 36.1. Without prejudice to any other mandatory provisions of laws and regulations, the Board of Statutory Auditors is appointed on the basis of lists submitted by shareholders.
- 36.2. The lists, divided into two sections, one for candidates to the office of Standing Auditor and one for candidates to the office of Alternate Auditor, must indicate a number of candidates not exceeding the number of Statutory Auditors to be appointed, listed with a consecutive number.
- 36.3. Lists which, considering both sections, have a number of candidates equal to or higher than three must also include candidates of different gender, so as to ensure that the composition of the Board of Statutory Auditors complies with the applicable provisions of laws in respect of gender balance.
- 36.4. Each list must be submitted by one or more shareholders with voting right who hold, either individually or together, shareholdings equal to at least 1% (one per cent) of the Company's capital or a different percentage determined by the provisions of applicable laws which will be communicated from time to time in the notice of call of the Shareholders' Meeting convened to resolve upon the appointment of the Board of Statutory Auditors. The ownership of the minimum portion of the share capital required for the submission of the lists shall be determined taking into account the shares recorded in favor of the single shareholder or the relevant group of shareholders jointly considered on the date upon which the lists are filed with the Company. The ownership of the number of shares required for the submission of the lists shall be certified pursuant to the applicable law in force; such certification may be delivered to the Company even

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following the deposit as long as it is delivered at least twenty-one days before the date of the Shareholders' Meeting in compliance with the applicable law in force.

- 36.5.** A shareholder may not submit or vote for more than one list, even if through a third party or fiduciary company. Shareholders belonging to the same corporate group – meaning the parent, the subsidiaries and the companies subject to common control – and shareholders that are party to a shareholders' agreement provided by Article 122 of Italian Legislative Decree 24 February 1998 No. 58 regarding the Company's shares cannot submit, and shareholders with voting rights cannot vote for, more than one list, even if through a third party or fiduciary company. In the event of failure to comply, the shareholder's signature shall not be counted for any of the lists.
- 36.6.** Under penalty of forfeiture, the lists of candidates must be deposited with the Company's registered office within the twenty-fifth day prior to the date of the Shareholders' Meeting, also by means of distance communication determined by the Board of Directors according to modalities set out in the notice of call of the Shareholders' Meeting, enabling those who deposit to be identified and made available to the public at the Company's registered office, on the Company's website and with the forms established by the applicable laws in force within the twenty-one days before the date of the Shareholders' Meeting. They must be accompanied, unless otherwise specified by the applicable laws in force: (i) by information on the identity of shareholders submitting the lists, with specification of the total percentage of shareholding held; (ii) by comprehensive information on each candidate's personal and professional characteristics, with specification of the administration and control offices held in other companies; (iii) by statements by which each candidate accepts the nomination, certifying under his own responsibility, the absence of causes of ineligibility and incompatibility, as well as the existence of the requirements established by the law or by the Bylaws for the office; and (iv) by a statement of the shareholders who have submitted the list, other than those holding, even jointly, a controlling or relative majority, attesting the absence (or the existence) of relationships of affiliation with the latter, as provided under Article 144-*quinquies*, first paragraph, of Consob Regulation No. 11971/1999 and applicable laws.
- 36.7.** If at the expiry date of the time limit set forth in Article 36.6, only one list has been deposited or only lists submitted by shareholders who,

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according to the statements made under Article 36.6, prove to be interrelated according to regulations in force at the time, the Company shall immediately provide notice in accordance with the procedures established by applicable laws, and then act in accordance with the law.

- 36.8. Lists submitted without complying with the above provisions shall be considered as not submitted, even if any differences or shortcomings concern the documentation regarding individual candidates.
- 36.9. Each candidate may only be included in one list, under penalty of ineligibility.
- 36.10. Candidates who do not meet the requirements established by the law and by the Bylaws cannot be appointed and if appointed shall fall from office.
- 36.11. Each person with voting right may vote for one list only.

Art. 37. - Voting

- 37.1. The Board of Statutory Auditors is appointed as follows.
- 37.2. Two Standing Auditors and one Alternate Auditor are taken, in the order in which they are listed in the related section of the list, from the list obtaining the highest number of votes.
- 37.3. Two Standing Auditors and one Alternate Auditor are taken, in the consecutive order in which the candidates are listed in the related section of the list, from the list obtaining the second highest number of votes and that is not related, even indirectly, in accordance with applicable laws, to the shareholders who submitted or voted for the list obtaining the highest number of votes.
- 37.4. One Standing Auditor (who will be the Chairman of the Board of Statutory Auditors) and one Alternate Auditor are taken, in the consecutive order in which the candidates are listed in the related section of the list, from the list obtaining the third highest number of votes and that is not related, even indirectly, in accordance with applicable laws, to the shareholders who submitted or voted for the lists resulted first and second for number of votes.
- 37.5. If any lists obtain equal votes, the Shareholders' Meeting shall repeat the voting procedure, only voting for the lists obtaining equal votes. The candidates from the list obtaining the relative majority of votes shall be appointed.

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- 37.6. If only one list is submitted, and that list obtains the majority required by the law for the ordinary Shareholders' Meeting, all the Standing and Alternate Auditors shall be taken from said list. In such case, the Chairman of the Board of Statutory Auditors shall be the person indicated at the first place of the section of candidates to the office of Standing Auditor in the list submitted.
- 37.7. If only two lists are submitted, (a) three Standing Auditors and two Alternate Auditors are taken, in the order in which they are listed in the related section of the list, from the list obtaining the highest number of votes; and (b) two Standing Auditors and one Alternate Auditor are taken, in the order in which they are listed in the related section of the list, from the remaining list that is not related, not even indirectly, as per applicable laws with the shareholders that have submitted or voted the list that classified first for number of votes. The office of chairman of the Board of Statutory Auditors shall be held by the person indicated at the first place in the section of candidates for standing Auditor of the list referred to under this letter b).
- 37.8. If the composition of the board or of the category of alternate auditors, as resulting from the provisions set forth above, does not allow compliance with the gender balance criteria, taking into account the order in which they are listed in the respective section, the last candidates appointed from the list that obtained the highest number of votes of the more represented gender shall forfeit office in the number required to ensure compliance with the requirement, and shall be replaced by the first candidates not appointed from the same list and from the same section of the less represented gender. In the absence of a sufficient number of candidates of the less represented gender within the relevant section of the list that obtained the highest number of votes to fill the places, the Shareholders' Meeting shall appoint the missing standing or alternate auditors with the legal majorities, thus ensuring the requirement is met.
- 37.9. If no lists are submitted, the Board of Statutory Auditors shall be appointed by the Shareholders' Meeting by relative majority vote, in compliance with applicable laws on gender balance and with the requirements on eligibility, independence, professionalism and honorability set out for Statutory Auditors.
- 37.10. If the Chairman of the Board of Statutory Auditors is no longer able to hold office, the office shall be taken, until integration of the Board

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pursuant to Article 2401 Italian Civil Code, by the Alternate Auditor taken from the list from which the Chairman was taken.

- 37.11.** If one or more Standing Auditors are no longer able to hold office, they shall be succeeded by the Alternate Auditors taken from the same list, in order of age. The succeeding Auditors shall remain in office until the next Shareholders' Meeting, which shall take the necessary steps to integrate the Board.
- 37.12.** When the Shareholders' Meeting must appoint the Standing and/or Alternate Auditors required to integrate the Board of Statutory Auditors pursuant to the previous Article 37.11 or pursuant to law, they proceed as follows:
- (i) when it proves necessary to replace Auditors taken from the list obtaining the highest number of votes, election shall occur by relative majority vote without list restriction, in compliance, however, with legal provisions on gender balance;
 - (ii) if, on the contrary, it proves necessary to replace Auditors taken from the list obtaining the second or third highest number of votes and that is not related, even indirectly, to the shareholders who submitted or voted for the list obtaining the highest number of votes, the Shareholders' Meeting, in compliance with legal provisions on gender balance, shall replace them, by relative majority vote, choosing where possible from the candidates indicated in the list to which the Auditor to be replaced was taken, who confirmed their candidature at least fifteen days prior to the date set for the Shareholders' Meeting in first call, by filing at the Company's registered office, the statements regarding the absence of causes of ineligibility and incompatibility and the existence of the requirements established for the office and providing an updated indication of the administration and control offices held in other companies. If it is not possible to proceed in such way, the Shareholders' Meeting shall resolve by relative majority vote among single candidates submitted by shareholders who, by themselves or together with other shareholders, hold the minimum percentage referred to by the preceding Article 36.4, without list restriction, in compliance, in any case, with applicable laws on gender balance. In such case, in ascertaining the results of voting, the votes expressed by shareholders who hold, also indirectly, or together with other shareholders adhering to a shareholders' agreement provided by Article 122 of Legislative

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Decree 24 February 1998 no. 58, the relative majority of the votes exercisable in the Shareholders' Meeting as well as of the shareholders that control, are controlled by, of are under a common control with the same, shall not be computed; the foregoing, in any case, subject to the applicable laws regarding gender balance.

- 37.13. Application of the above provisions must in any case ensure the appointment of at least one Standing and one Alternate Auditor by minority shareholders who are not related, even indirectly, to the shareholders who submitted or voted for the list obtaining the highest number of votes.

Art. 38. - Functions and powers of the Board of Statutory Auditors

- 38.1. The Board of Statutory Auditors performs the tasks and carries out the control duties prescribed by applicable laws and specifically monitors:
- a. compliance with provisions of the law, regulations and the by-laws and observance of principles of sound administration;
 - b. adequacy of the Company's organisational and administrative-accounting structure and financial reporting process, in respect of the aspects under its competence;
 - c. effectiveness and adequacy of the risks' management and control and internal audit system and the functionality and adequacy of the overall internal control system;
 - d. the process of statutory audit of the annual accounts and the consolidated accounts;
 - e. the modalities of actual implementation of the corporate governance rules which the Company has declared to follow;
 - f. the adequacy of the directives submitted by the Company to controlled companies in the exercise of its direction and coordination activity;
 - g. independence of the external auditing firm, with specific regard to the performance of non-auditing services.
- 38.2. The Board of Statutory Auditors is vested with the powers established by legislative and regulatory provisions and reports to the Regulatory Authorities pursuant to the applicable regulations in force.

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- 38.3. Without prejudice to the obligation set forth in the previous paragraph, the Board of Statutory Auditors reports shortcomings and irregularities found to the Board of Directors, requests adoption of suitable corrective measures and verifies their effectiveness over time.
- 38.4. Statutory Auditors are also entitled to carry out at any time, and even individually, inspections and controls and to request information from the directors, also regarding subsidiary companies, on the performance of corporate transactions or on specific business, or submit such requests for information directly to the subsidiaries' administration and control bodies.
- 38.5. The Board of Statutory Auditors may also exchange information with the subsidiaries' corresponding bodies on the administration and control systems and on the general performance of corporate business.
- 38.6. The minutes and deeds drawn up the Board of Statutory Auditors must be signed by all those who intervened.
- 38.7. The Board of Statutory Auditors, which shall meet at least any 90 (ninety) days, is convened by the Chairman of the Board of Statutory Auditors with notice to be communicated at least 3 (three) days before the meeting to each Standing Auditor, and in the case of urgency, at least 1 (one) day before. The notice may be drawn up on any paper or magnetic means and may be sent by any means of communication, including telefax and e-mail.
- 38.8. The Board of Statutory Auditors is validly formed and resolved with the majorities provided for by the law.
- 38.9. Meetings of the Board of Statutory Auditors may also be held by teleconference or videoconference, provided that all the participants may be identified and are able to follow the debate and intervene in discussion of the business handled in real time. If these requirements are met, the Board of Statutory Auditors is considered to have convened at the venue attended by the Chairman.

TITLE VIII -

AUDIT OF THE ACCOUNTS

Art. 39. - Audit of the Account

This document is a translation into English of the corporate By-laws. In case of any discrepancies between the English and the Italian version, the Italian version shall prevail.

- 39.1. The audit of the Company's accounts is entrusted, pursuant to law, to an external auditing firm appointed by the Shareholders' Meeting, upon motivated proposal of the Board of Statutory Auditors.

TITLE IX -

FINANCIAL STATEMENTS

Art. 40. - Financial Year and Financial Statements

- 40.1. The financial year closes on 31 December of each year.
- 40.2. The Board of Directors prepares the draft of the financial statement and the consolidated financial statement in compliance with applicable laws.

Art. 41. - Distribution of Profits

- 41.1. The net profit arising from the approved financial statements - deducted the quota to be allocated as legal reserve and the quota not available pursuant to the law - is allocated, by resolution of the Shareholders' Meeting, to the shareholders as dividend, or to set up and/or increase other reserves or provisions however they be named or to other purposes defined by the Shareholders' Meeting (including for the purposes set forth under Article 5.2).
- 41.2. The distribution of interim dividends may be approved during the financial year in compliance with applicable laws.

TITLE X -

WINDING-UP OF THE COMPANY

Art. 42. - Winding-Up of the Company

- 42.1. In all cases of winding-up the extraordinary Shareholders' Meeting appoints and revokes the liquidators, establishes their powers, the liquidation procedures and the allocation of the closing balance.

TITLE XI -

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TRANSITIONAL PROVISIONS

This Title XI sets out certain particular provisions that – also by way of derogation to the provisions contained in other sections, articles or paragraph of these Bylaws – shall apply transitionally as provided below.

Art. 43. - Venue of the meeting for the first five ordinary Shareholders' Meetings for the approval of the annual financial statement.

43.1 The meetings of the first five ordinary Shareholders' Meetings regarding the approval of the annual financial statement shall be held according to the following:

- (i) in a venue located in the province of Novara, the Shareholders' Meeting for the approval of the annual financial statement closing as of [●] ⁽⁴⁾;
- (ii) in a venue located in the province of Milan, the Shareholders' Meeting for the approval of the annual financial statement closing as of [●] ⁽⁵⁾;
- (iii) in a venue located in the province of Verona, the Shareholders' Meeting for the approval of the annual financial statement closing as of [●] ⁽⁶⁾;
- (iv) in a venue located in the province of Milan, the Shareholders' Meeting for the approval of the annual financial statement closing as of [●] ⁽⁷⁾;
- (v) in a venue located in the province of Lodi, the Shareholders' Meeting for the approval of the annual financial statement closing as of [●] ⁽⁸⁾.

⁽⁴⁾ Date that will be indicated afterwards and will coincide with the last day of the first financial year as of the date of effectiveness of the Merger.

⁽⁵⁾ Date that will be indicated afterwards and will coincide with the last day of the second financial year as of the date of effectiveness of the Merger.

⁽⁶⁾ Date that will be indicated afterwards and will coincide with the last day of the third financial year as of the date of effectiveness of the Merger.

⁽⁷⁾ Date that will be indicated afterwards and will coincide with the last day of the fourth financial year as of the date of effectiveness of the Merger.

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Art. 44. - Board of Directors

44.1. By way of derogation to Article 20.1.1 and without prejudice to Article 44.3, until the First Expiration, the Board of Directors of the Company shall be composed of 19 (nineteen) members, of which 9 (nine) holding the requirements of independence provided by the Bylaws.

Until the First Expiration and save for the case in which it is necessary to proceed with the substitution or appointment of the entire Board of Directors, in case of cooptation for the potential substitution of directors ceased from office, the Board of Directors shall proceed, where possible, following the same principles reflected in the Merger Plan.

44.2. Without prejudice to Article 44.3, at any time until the First Expiration the resolutions provided for by Article 23.5 of the Bylaws shall be validly adopted by the Board of Directors with the favorable vote of at least 14 (fourteen) directors.

44.3. If before the First Expiration the entire Board of Directors shall cease and/or it is necessary to proceed to its entire renovation, the Board of Director shall be composed by 15 (fifteen) directors in compliance with Article 20.1.1 and the appointment of the new Board of Directors shall take place, applying Article 20 of the Bylaws. In such case, the composition of the List of the Board shall be approved with the favorable vote of 14 (fourteen) directors in office. As a result of the entire renovation of the Board of Directors pursuant to this Article 44.3, the provisions set forth by Articles 44.1, 44.2 and 45 shall automatically cease.

It is understood that in any other case of substitution of the directors to be carried out before the First Expiration that shall not entail the cessation of the entire Board of Director, the Board of Director shall continue to be composed until the First Expiration by 19 (nineteen) members, and Articles 44.1, 44.2 and 45 shall apply to it.

Art. 45. – Vice Chairmen of the Board of Directors

45.1. Without prejudice to Article 44.3, first paragraph, until the First Expiration the Board of Directors appoints, among its members, also two

⁽⁸⁾ Date that will be indicated afterwards and will coincide with the last day of the fifth financial year as of the date of effectiveness of the Merger.

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Vice Chairmen. Until the First Expiration the two Vice Chairmen may be members of the Executive Committee.

Art. 46. - Requirements for the presentation of the List of Employees Shareholders

46.1. With exclusive reference to the appointment of the entire Board of Director provided at the First Expiration (or in the sole case of appointment of the entire Board of Directors referred to under Article 44.3), the right to submit the List of Employees Shareholders shall be attributed only to working employees of the Company and of its controlled companies, who have been, at the same time, "shareholders" ("soci") for at least 5 (five) years. For the purpose of computing such time period, the status as "shareholders" ("soci") of BP and BPM shall be taken into account for the period preceding the Merger by which the Company has been incorporated.