

2012

# Report on Corporate Governance and Ownership Structure

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



BANCA POPOLARE  
DI MILANO

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# Report on Corporate Governance and Ownership Structure of Banca Popolare di Milano S.c.a.r.l.

*(drawn up pursuant to art. 123-bis, Decree 58/1998 and the indications of the  
Code of Conduct for Listed Companies, promoted by Borsa Italiana SpA –  
December 2011 version)*

Two-tier model of administration and control

Approved by the Management Board on 19 March 2013  
Available on BPM's website at [www.bpm.it](http://www.bpm.it)



BANCA POPOLARE  
DI MILANO

Co-operative Bank founded in 1865  
Parent Company of the BPM – Banca Popolare di Milano – Banking Group  
Share capital at 31.12.2012: Euro 2,865,708,586.15  
Milan Companies Register no. 00715120150  
Enrolled on the National Register of Co-operative Companies No. A109641  
Registered Office and General Management:  
Milan – Piazza F. Meda, 4  
[www.bpm.it](http://www.bpm.it)

Member of the Interbank Guarantee Fund

Registered Bank and Parent Bank of the  
BPM – Banca Popolare di Milano –  
Registered Banking Group

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## Year 2012

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## Glossary

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**Borsa:** Borsa Italiana S.p.A., the company that organises and runs the market on which the Issuer's shares are listed.

**Board of Directors:** the Board of Directors of the Issuer.

**Supervisory Board:** the Supervisory Board of the Issuer.

**Board of Statutory Auditors:** the Board of Statutory Auditors of the Issuer, which no longer exists as a result of the two-tier model being adopted by the Extraordinary General Meeting of 22 October 2011.

**Circular of the Bank of Italy no. 263/2006:** the Circular of the Bank of Italy no. 263 of 27 December 2006 (as subsequently amended).

**Code/Code of Conduct:** the new version of the Code of Conduct of Listed Companies, approved in December 2011 by the Committee for Corporate Governance and promoted by Borsa Italiana S.p.A..

**Issuer/Bank/Company/Institute:** Banca Popolare di Milano Scarl, the company to which the Report relates.

**Year:** The financial year to which the Report relates (1 January 2012 – 31 December 2012).

**Bank of Italy Governance Measures:** Bank of Italy Provision 264010 of 4 March 2008 regarding "Supervisory Instructions regarding the Organization and Corporate Governance of Banks" and the related "Clarification Note" of 19 February 2009 and the recent Note of the Bank of Italy dated 11 January 2012.

**Issuers' Regulations or IR:** the Regulations issued by Consob with resolution 11971 of 1999 (as subsequently amended) on issuers.

**Consob Regulation on Related Party Transactions:** the regulation adopted by Consob on related party transactions with resolution 17221 of 12 March 2010, and subsequently modified by resolution 17389 of 23 June 2010 (and related Consob interpretative communication DEM/10078683 of 24 September 2010).

**Report:** the Report on Corporate Governance and Shareholder Structure that companies are required to prepare under art. 123-bis Consolidated Finance Act (CFA).

**Articles of Association:** the Articles of Association of Banca Popolare di Milano Scarl.

**CFA:** Decree 58 of 24 February 1998 (Consolidated Finance Act).

**CBA:** Legislative Decree no. 385 of 1 September 1993 (Consolidated Banking Act).



## 1. Profile of the Issuer

Banca Popolare di Milano S.C.ar.l. – founded in 1865 – is a co-operative bank with head office in Milan, listed on the MTA (Mercato Telematico Azionario), the electronic equities market organised and run by Borsa Italiana S.p.A.. BPM is the parent company of the Banking Group and, in addition to its banking activity, it performs the functions of policy, governance and control over the banking, financial and near-banking subsidiaries.

The BPM Group is a multi-functional integrated banking group that operates in the various sectors of credit and financial intermediation with a predominantly retail vocation, in other words it focuses on individual customers and small and medium-sized enterprises (SMEs). The Group's organizational structure is divided into the following business lines: retail banking, investment banking, wealth management and corporate centre.

The Bank is required to adhere to rules laid down by the Italian Civil Code applicable to co-operative companies – with the exception of those specifically excluded for co-operative banks by the CBA – and, generally those laws applicable to limited liability companies (where compatible), as well as the laws contained in the CBA and CFA (and the related implementation instructions issued by the Bank of Italy, Consob and the Stock Exchange, each for their specific area of competence). The juridical nature of a co-operative bank means, in particular, that each shareholder has a right to only one vote, however many shares they own ("one-man-one-vote") and that no one can hold more than 1% of the share capital (as per art. 30 of the CBA, amended by Legislative Decree 179/12, converted into Law no. 221/12 of December 2012), without affecting the statutory right to introduce a lower limit, but, in any case, not less than 0.5 percent (so-called "limit on share ownership"). This limit does not apply to mutual investment funds; the relevant limits in such cases are those imposed by the rules of the fund concerned.

Banca Popolare di Milano has opted for – bearing in mind the cooperative nature of the Bank, and taking into account the characteristics of the shareholders, the size and operational complexity, as well as the medium and long-term strategic objectives of the BPM Group – a "two-tier" system of administration and control, while the related amendments to the Articles of Association were approved by the Extraordinary General Meeting of Members of 22 October 2011.

The two-tier system of administration and control system adopted by the Bank is aimed at ensuring, in particular:

- (i) **greater separation of the Bank's management with respect to the shareholder base**, in order to strengthen management's independence and efficiency in the interest of all of the stakeholders;
- (ii) **a clear division of duties and responsibilities between the governing bodies**: the Management Board, which is responsible for strategic oversight; the MD & CEO, who is responsible for running the business; the Supervisory Board, which is responsible for monitoring and supervisory functions;
- (iii) **a more incisive role on the part of the major shareholders**: undertakings for collective investment in transferable securities (UCITS) and the strategic partners of the BPM Group (Crédit Industriel et Commercial and Fondazione Cassa di Risparmio di Alessandria) under art. 63 of the Articles of Association have a right to representation on the Supervisory Board and on the Board's various sub-committees. In addition to having members on the Supervisory Board, these two major shareholders have also been given significant powers to voice their opinions on important corporate matters, such as decisions regarding the appointment and dismissal of members of the Management Board.

The corporate governance structure of the Bank takes account of the Governance Measures of the Bank of Italy and the principles of the Code of Conduct for Listed Companies adopted by BPM back in 2001 (including subsequent versions issued in July 2002, March 2006 and most recently in December 2011). These principles, and in particular those that refer to the Board of Directors and the Board of Statutory Auditors, have been applied, as a rule, to the Management Board and Supervisory Board, respectively. In this regard, it is worth pointing out immediately that the Bank has applied to the Supervisory Board some of the provisions of the Code that refer to the Board of Directors, because of the particular configuration of the governing bodies in terms of their composition and powers, and considering the options granted in the Code (art. 10.C.1.b, and related comments): they concern, in particular, principles relating to independence requirements for directors and the establishment of sub-committees.

Lastly, we wish to point out that – as has been done for a number of years – with a view to optimising the sharing and communication of the overall strategy being followed with our Members and stakeholders in general, the Bank will again make available to its Members and the general public (also on its website) a “social responsibility report” for 2012, which describes the Group’s current profile, its performance during the year, its relationship and initiatives undertaken with stakeholders and the objectives for improvement during the current year (together with information on the achievement of previous objectives).

Having said this by way of introduction, the following is the annual “Report on Corporate Governance and Ownership Structure” of BPM, prepared in accordance with art. 123-bis, CFA. It will be made available to the general public in Italian and English at the offices of Borsa Italiana and in the Governance section of the Bank’s website ([www.bpm.it](http://www.bpm.it)).

The Report has been prepared taking into account, among other things, the indications given in the “Format for the Report on Corporate Governance and Ownership Structure” (IV edition, January 2013) issued by Borsa Italiana. This document is not binding, but it was considered a useful instrument for the preparation of a Report that is as complete as possible, in line with the regulations and with best practice.

## **2. Information on the ownership structure (art. 123-bis, paragraph 1, CFA)**

### **a) Structure of the share capital (art. 123-bis, paragraph 1a, CFA)**

Given BPM’s co-operative nature, the Bank’s share capital is variable and at 31 December 2012 amounts to Euro 2,865,708,586.15 (fully subscribed and paid-in) entirely represented by 3,229,621,379 ordinary shares with no par value, identified by ISIN code IT0000064482 and listed on the Milan Stock Exchange in the FTSE MIB segment of the Screen-Based Equities Market (MTA) run by Borsa Italiana S.p.A. There are no classes of BPM shares other than the ordinary stock. At the date of this Report, there are also in circulation 4,062,851 “Warrants for BPM ordinary shares 2009/2013”, identified by ISIN code IT0004497902 (hereinafter, the “Warrants”), issued in 2009 and traded from 10 July 2009 in the Blue Chip segment of the MTA run by Borsa Italiana SpA. The Warrants give the holders the right to subscribe – for a period of 30 calendar days from 1 May 2013 to 1 June 2013 – for 9 BPM ordinary shares, at a price of 6.811 euro for each Warrant held. It should also be noted that no share-based incentive plans have been implemented (stock options, stock grants, etc.) that could have involved increases in capital; as regards the allocation of variable elements of remuneration to employees in the form of shares, see the Report pursuant to art. 123-ter CFA, which is available on the Bank’s website.

The following two tables summarise (at 31/12/2012) the structure of the share capital and the situation of the financial instruments issued by the Bank that could vary the share capital.

### **Structure of the share capital (31.12.2011)**

	No. of shares	% of the share capital	Listed/Not listed	Rights and obligations
Ordinary shares	3,229,621,379	100%	Listed on the MTA run by Borsa Italiana (FTSE MIB segment)	– For those in the Members’ Register: Normal administrative and capital rights of Members in a listed co-operative. – Only capital rights for those not in the Members’ Register.
Shares with limited voting rights	0	0	—	—
Shares without voting rights	0	0	—	—

### **Other financial instruments (31.12.2012) (giving the right to subscribe newly issued shares)**

	Listed / Not listed	No. of instruments in circulation	Type of shares servicing conversion/exercise	No. of shares servicing conversion/exercise
Warrants	Listed	4,062,851 <sup>(*)</sup>	BPM ordinary shares	36,565,659 shares
Shares without voting rights	—	—		—

<sup>(\*)</sup> “Warrant azioni ordinarie BPM 2009/2013”, linked to the Convertendo Bond Loan.

**b) Restrictions on the transfer of shares (art. 123-bis, paragraph 1.b), CFA**

Given that each Member has the right to a single vote, however many shares they own ("one man, one vote"), art. 30 of the CBA and art. 21 of the Articles of Association provide that no one can hold shares in excess of 0.50% of the share capital ("share owning limit"). This limit does not apply to mutual investment funds (UCITS); the relevant limits in such cases are those imposed by the rules of the fund concerned. Inclusion in the Register of Members is subject to the approval of the Bank's Management Board ("approval clause" – see art. 30 of the CBA and art. 11 of the Articles of Association). Members have the normal administrative and capital rights. The Shareholders (i.e. those who have not applied for admission as Members or who have not received the required approval under art. 30 of the CBA and art. 11 of the Articles of Association) can only exercise the capital rights relating to the shares that they hold.

It should also be noted that, pursuant to art. 19 of the CBA, the acquisition, in whatever capacity, of a substantial shareholding in a bank (that gives control of or the possibility to exercise significant influence over the bank or which attributes at least 10% of the voting rights or of the share capital, taking into account the shares or quotas already held) is subject to prior authorisation by the Bank of Italy.

**c) Significant shareholdings (art. 123-bis, paragraph 1.c), CFA**

Based on the communications received pursuant to art. 120, CFA, significant shareholdings in the Bank at 31 December 2012 were as follows:

SIGNIFICANT SHAREHOLDINGS (*)		
Declaration by	Direct shareholder	% held on share capital
<b>BI Invest Gp Ltd</b>		<b>8.605%</b>
(As manager of the closed-end private equity fund Investindustrial Lv Lp, which controls the companies that directly hold the equity investments)	Global Financial and Commercial Holdings Crimson Srl	0.308%
	Global Financial znd Commercial Holdings Turquoise Srl	0.477%
	Global Financial and Commercial Holdings Teal Srl	0.477%
	Global Financial and Commercial Holdings Cobalt Srl	0.394%
	Global Financial and Commercial Holdings Ivory Srl	0.150%
	Global Financial and Commercial Holdings Coral Srl	0.375%
	Global Financial and Commercial Holdings Sienna Srl	0.299%
	Global Financial and Commercial Holdings Jade Srl	0.401%
	Global Financial and Commercial Holdings Silver Srl	0.477%
	Global Financial and Commercial Holdings Emerald Srl	0.477%
	Global Financial and Commercial Holdings Sapphire Srl	0.477%
	Global Financial and Commercial Holdings Brown Srl	0.477%
	Global Financial and Commercial Holdings Pink Srl	0.477%
	Global Financial and Commercial Holdings Yellow Srl	0.477%
	Global Financial and Commercial Holdings Orange Srl	0.477%
	Global Financial and Commercial Holdings Blue Srl	0.477%
	Global Financial And Commercial Holdings White Srl	0.477%
	Global Financial And Commercial Holdings Red Srl	0.477%
	Global Financial and Commercial Holdings Green Srl	0.477%
	Global Financial and Commercial Holdings Black Srl	0.477%
<b>CAPITAL INVESTMENT TRUST LLC</b>		<b>8.267%</b>
(Trust governed by the law of Jersey the trustee of which is Ifg Trust Company – Channel Islands – Limited)	Time And Life Sa	8.267%

(Cont.)

SIGNIFICANT SHAREHOLDINGS (*)		
Declaration by	Direct shareholder	% held on share capital
<b>CAISSE FEDERALE DU CREDIT MUTUEL</b>		<b>6.867%</b>
	Acm lard	0.024%
	Acm Vie Sa	0.246%
	Pargestion 2	0.035%
	Sofiholding 2	0.035%
	Upigestion 2	0.035%
	Valimar 2	0.035%
	Societe D'etudes Economiques Et Financieres Internationales	0.035%
	Gestunion 2	0.009%
	Vtp-5 Investissements Sas	0.434%
	Cic Migrations Sas	0.222%
	Ugepar Services	0.035%
	Marsovalor	0.035%
	Cicoval Sas	0.478%
	Impex Finance Sas	0.434%
	Gestunion 3 Sas	0.424%
	Sofiholding 3 Sas	0.440%
	Sofiholding 4 Sas	0.457%
	Gestunion 4 Sas	0.457%
	Valimar 4 Sas	0.061%
	Pargestion 4 Sas	0.457%
	Adepi Sas	0.483%
	Sofinaction	0.035%
	Cicor Sas	0.471%
	Cic Participations Sas	0.483%
	Placinvest Sa	0.483%
	Vtp1-Investissments	0.035%
	Credit Industriel Et Commercial Sa	0.489%

(\*) Compared with the "Borsa Format", figures for the percentage held versus the voting capital are not provided; this is because, as you know, in co-operative banks voting is "by head" and not "by capital" and is restricted to the Members (i.e. those shareholders who have been approved by the Bank and included in the Members' Register).

#### d) Securities that give special rights (art. 123-bis, paragraph 1.d), CFA)

As far as BPM is concerned, there are no securities that give special rights of control over the Bank.

#### e) Shares held by employees: mechanism for exercising voting rights (art. 123-bis, paragraph 1.e), CFA)

Subject to the one-man, one-vote system, generally speaking each Member can ask to be represented at the General Meeting by another Member by means of a written proxy, within the limits laid down in art. 2372 of the Italian Civil Code.

Under the current Articles of Association, each Member can represent not more than five other Members and by law proxies cannot be given to members of the Management and Supervisory Board, employees of the company and of its subsidiaries.

Postal votes are not allowed.

As foreseen in art. 137 CFA, in listed co-operatives it is forbidden to solicit and collect proxy votes.

Lastly, it should be noted that the signature of the person giving the proxy needs to be authenticated by an official at the head office or branches of the Bank, or by the intermediary that issued the communication to attend the Meeting, or by a public official.

#### f) Restrictions on voting rights (art. 123-bis, paragraph 1.f), CFA)

Given the co-operative nature of the Bank, each shareholder who is in the Members' Register only has the right to one vote, however many shares they own ("one-man-one-vote").

### **g) Agreements between shareholders (art. 123-bis, paragraph 1.g), CFA**

Note that on 5 December 2011, Partenone S.r.l. (hereinafter, "Partenone"), G.B.PAR S.r.l., (hereinafter, "GBPAR") Viris S.p.A. (hereinafter, "VIRIS") and International Financial and Commercial Holdings 1 SA, a Luxembourg company wholly owned by the UK UCITS Investindustrial IV LP, which in turn is the sole shareholder of GFCH S. à r.l., a Luxembourg company that indirectly owns a total of 204,055,400 BPM ordinary shares representing 6.63% of BPM's share capital at 22 December 2011 (hereinafter referred to, respectively, as "IFCH 1", "Investindustrial" and "GFCH"), signed a co-investment agreement (hereinafter, the "Agreement") containing, among other things, a number of important arrangements pursuant to art. 122 of the CFA, relating to BPM.

In particular, the Agreement provides for Parthenon, GBPAR and VIRIS to make available to GFCH the financial resources for GFCH to buy the rights not exercised at the end of the option period for the increase in capital approved by BPM's Management Board on 27 October 2011, offered on the Stock Exchange by BPM, pursuant to art. 2441, para. 3, Civil Code, and therefore to subscribe for newly issued BPM shares representing:

- (a) 3.36% of BPM after the increase in capital, so that GFCH ends up holding (indirectly) 9.99% of BPM post increase (the "Target Investment"), or
- (b) a percentage of BPM, post increase, higher than 3.36%, subject to the consent of the Bank of Italy envisaged by applicable legislation to exceed the Target Investment.

An abridged version of the Agreement is published, inter alia, on Consob's website (to which you should refer for details) pursuant to art. 122 of the CFA.

Note that, on 9 September 2011, BPM and Fondazione Cassa di Alessandria (hereinafter "Fondazione CRAL") entered into an agreement that, in keeping with their relationship of mutual cooperation, enabled BPM to carry out extraordinary operations in relation to Cassa di Risparmio di Alessandria, including its merger with Banca di Legnano (which took place in February 2012). In particular, the agreement, which provided for the sale of certain assets by Fondazione CRAL to BPM, led to the stipulation of a shareholders' agreement containing arrangements for the governance of BPM Group companies.

In light of these agreements and the rules contained in BPM's Articles of Association, a representative nominated by the Fondazione currently sits on the Supervisory Board of BPM.

This shareholder agreement is published, inter alia, on Consob's website (to which you should refer for details) pursuant to art. 122 of the CFA.

There are no known shareholder agreements or other agreements between shareholders pursuant to art. 122 of the CFA.

### **h) Change of control clauses (art. 123-bis, paragraph 1.h of the CFA) and provisions contained in Articles of Association on takeover bids (art. 104, paragraph 1-ter and art. 104-bis paragraph of the CFA)**

As regards significant agreements to which BPM or its subsidiaries "are parties and which take effect, are modified or are terminated in the event of a change of control of a party to the agreement", it should be noted that there is an industry and commercial cooperation agreement between Banca Popolare di Milano and Crédit Industriel et Commercial (Crédit Mutuel Group), which includes a commitment to favour the appointment of a representative nominated by the counterparty on their respective boards and the right to terminate the agreement, among other things, in the event of a change of control or merger of either of the parties. With respect thereto, it should be noted that, on 28 December 2012, BPM gave notice to the French counterparty, in accordance with the agreed terms, of its wish to terminate the agreement, which will therefore cease to be effective as of its expiry date of 31 December 2013. As part of this communication, BPM also informed Crédit Industriel et Commercial that it was willing to consider ideas that would help continue the good relations and cooperation between the two groups even after the Agreement expired. With reference to Banca di Legnano SpA (which has absorbed Cassa di Risparmio di Alessandria SpA), note that the agreements between BPM and the Fondazione CRAL provide, among other things, rights of co-sale/transfer to the Fondazione CRAL in the event of a change of control of Banca di Legnano.

With respect to takeover bids, the Company's Articles of Association do not contain any provisions to opt-out of the passivity rule provided for under art. 104, paragraphs 1 and 1-bis of the CFA. It should also be noted that the right to include neutralisation rules in the by-laws, as provided for by art. 104-bis, paragraph 2 and 3 of the CFA, is not permitted for a cooperative company as per art. 104-bis, paragraph 1 of the CFA.

### **i) Agreements between the Company and Members of the Management or Supervisory Board**

The information required by art. 123-bis, paragraph 1.i), CFA (i.e. information concerning any "agreements between the company and the directors, the members of the management or supervisory board providing for compensation in the event of resignation or dismissal without just cause or if their employment ceases because of a takeover bid") is contained in the Remuneration Report published pursuant to art. 123-ter CFA.

## I) Appointment and replacement of Management Board Members – Amendments to the Articles of Association (art. 123-bis paragraph 1.l), CFA).

As regards the rules for amendments to the Articles of Association, it should be noted that, for certain types of resolutions, the text of the Articles of Association provides for quorums that are higher than those required by law.

In particular, as per art. 31 of the Articles of Association, amendments relating to mergers and/or absorptions, have to be approved by a vote in favour of at least two thirds of the Members involved in voting, but in no case by less than five hundred votes. Moreover, resolutions that involve amending art. 5 of these Articles of Association or the rules regarding who has the right to vote and how it should be exercised, or that concern the Company's transformation or its early winding up, or any change in art. 31.3 of the Articles (concerning the higher quorums needed to pass resolutions) have to be approved by at least one seventh of the Members with the right to vote.

Lastly, the last paragraph of art. 31 of the Articles of Association requires the application of the quorums required for Ordinary General Meetings in the event of resolutions to be taken to comply with instructions issued by the Supervisory Body in the interests of stability or to adjust to legislative requirements, i.e. an absolute majority of the votes of those taking part in the ballot.

In accordance with art. 2365.2 of the Civil Code, the Management Board can also pass resolutions to bring the Articles of Association into line with new regulatory or legislative requirements (art. 39, para. 2. letter u), of the Articles of Association). In these cases, the Management Board can ask the Supervisory Board for a prior non-binding opinion, indicating the deadline by which the opinion should be issued.

The additional information required by art. 123-bis, paragraph 1.l) CFA ("The rules governing the appointment and replacement of directors ... and amendments to the Articles of Association, if different from those laws and regulations applicable as an alternative") are outlined in Section 4.1 of this Report.

## m) Mandates for increases in capital and authorisations for the purchase of treasury shares (art. 123-bis, paragraph 1.m), CFA

### Mandates for increases in share capital

With reference to mandates for increases in share capital provided for by art. 17 of the Articles of Association, it should be noted that the powers granted – through an amendment to the by-laws under art. 2443 of the Civil Code – by the Extraordinary General Meetings of 25 April 2009 (in connection with the issue of the "BPM Convertendo Bond 2009/2013 – 6.75%" and the "Warrants on BPM ordinary shares 2009/2013") and 25 June 2011 (in relation to a cash rights issue and the restructuring of the Convertendo bond) have already been exercised by the management body (the Board of Directors up to 22 October 2011 and then the Management Board). At the date of this Report the Management Board has not been attributed any power to increase the share capital pursuant to art. 2443, Civil Code.

### Authorisations for the purchase of treasury shares

The General Meeting of 28 April 2012 gave a mandate to the Management Board, until the next General Meeting, to manage the "reserve for treasury shares", i.e. to buy and sell the Bank's shares on the MTA run by Borsa Italiana SpA in accordance with the procedures set out in article 144 bis, paragraph 1.b) of the Issuers' Regulations, within the limit imposed by the amount of the reserve and the part of it that gets freed up from time to time by selling shares in the course of normal trading activities designed to promote active trading in the stock; and – in compliance with the provisions contained in the Articles of Association or under schemes for the allocation of shares to employees or to collective funds in which employees have invested – to give shares to employees at prices, even below market value, to be fixed from time to time at the Board's discretion.

The Bank is holding 1,395,574 of its own shares ("treasury shares") at 31 December 2012.

## n) Management control and coordination (art. 2497 et seq. Civil Code)

Banca Popolare di Milano is the Parent Company of the BPM – Banca Popolare di Milano – Banking Group.

Given the co-operative nature of the Bank, which does not allow the formation of pre-established controlling majorities, it is not subject to management control and coordination in accordance with art. 2497 et seq. of the Italian Civil Code.

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### **3. Compliance** (art. 123-bis, paragraph 2.a), CFA)

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Banca Popolare di Milano has voluntarily adopted the Code of Conduct for Listed Companies promoted by Borsa Italiana S.p.A.

As a result of its adoption, each year the Bank analyses its system of corporate governance and compares it with the recommendations contained in the Code of Conduct, which BPM introduced back in 2001.

The December 2011 edition of the Code is available to the general public on Borsa Italiana's website ([www.borsaitaliana.it](http://www.borsaitaliana.it)) as well as on the Bank's website ([www.bpm.it](http://www.bpm.it)).

Lastly, neither the Bank nor its significant or strategic subsidiary companies are subject to foreign laws that influence the Corporate Governance structure of BPM.

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## **4. Management Board**

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### **4.1. Appointment and replacement** (art. 123-bis, paragraph 1.l), CFA)

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The Management Board consists of 5 members appointed by the Supervisory Board, pursuant to art. 32 of the Articles of Association. The members of the Management Board remain in office as decided by the Supervisory Board, for a period of three years maximum; their term of office expires on the date of the Supervisory Board meeting called to approve the financial statements for their last year in office. In any case, they remain in office until the Management Board has been renewed and they can be re-elected.

In order to guarantee the high level of professionalism of the Management Board Members and a suitable composition, note that art. 32 of the Articles of Association states that:

- (i) all members of the Management Board must have at least five years' experience, in Italy or abroad, of management activities in banking, asset management companies or insurance, or in other types of companies providing they have shares traded on an Italian or foreign regulated market;
- (ii) at least four members must have gained the experience mentioned in point (i) above in banks, asset management companies or insurance companies or in other companies with shares traded on an Italian or foreign regulated market, having, in any case, a size comparable with that of the Bank and not belonging to the Group, and they must not be employees of the Bank or of other Group companies;
- (iii) at least one of the members has to satisfy the independence requirements as per art. 148, para. 3, CFA (these requirements and the one mentioned in point (ii) above may be satisfied by the same person);
- (iv) of the five members that make up the Management Board, two of them, including the Chairman, have to qualify as non-executive directors. Of the other three members, one becomes MD & CEO.

In addition to the requirements stated in the Articles of Association, all members of the Management Board have to have professionalism, integrity and independence, as required by law to hold such office. In particular, they have to have the requirements of professionalism and integrity established for bank directors by D.M. 161/1998, and the integrity requirements laid down in D.M. 162/2000 (in accordance with the combined requirements of arts. 147-quinquies and 148, para. 4 , CFA). The Chairman of the Management Board and the MD & CEO must also possess the professionalism required by D.M. 161/1998, for the offices of Chairman of the Board of Directors and Managing Director of banks.

Under the Articles of Association, the members of the Supervisory Board may not be appointed as members of the Management Board until at least three years have passed since they left office. Without prejudice to any other reasons for incompatibility envisaged in current regulations, those who are or become directors, employees or statutory auditors of other banks or their subsidiaries cannot act as a member of the Management Board, unless the entities concerned are centralised structures for the co-operative banking movement or banks or companies belonging to the BPM Group. If the reason for incompatibility is not removed within sixty days of the election or, if it arose subsequently, of the person communicating the circumstances, the member concerned will be understood as falling automatically from office.

Art. 32 of the Articles of Association establishes that if a board member no longer meets the independence requirements, pursuant to art. 184. para. 3 of CFA, he does not fall from office providing that the Management Board as a whole do meet them.

Within 30 days of appointment, the Management Board has to verify that each board member satisfies these requirements, in accordance with supervisory rules issued by the Bank of Italy, as well as the independence requirement pursuant to art. 148, para. 3, CFA. The results of this verification are communicated to the public in accordance with the provisions of art. 144-novies, para. 1-bis, Issuers' Regulation, providing the information required by it and by the current "Instructions to the Regulations of Markets organised and run by Borsa Italiana SpA" (in particular, art. IA.2.6.7).

The Management Board – in compliance with the Governance Measures of the Bank of Italy and in line with art. 32 of the Articles of Association – defines its ideal board composition with the support of the Nominations Committee, taking into account the need for its members to include persons:

- who are fully aware of the powers and obligations of the functions that each of them is expected to perform (i.e. supervision or management, executive or non-executive, independent or non-independent, etc.);
- who have expertise that is suitable for the role to be filled, also on any board sub-committees, and calibrated in relation to the operational characteristics and size of the Bank;
- with a variety of skills spread among all of the members, suitably diversified in such a way as to allow each of the members to help ensure effective governance of risks in all areas of the Bank, both on the sub-committees of which they may be part and in decisions that are taken collectively;
- who devote adequate time and resources considering the complexity of their role.

Upon a nomination being made, the results of the analysis performed, together with the opinion of the Nominations Committee, are forwarded to the Supervisory Board well in advance.

The Management Board, with the active contribution of the Nominations Committee, verifies ex post the correspondence between the ideal composition and the actual one resulting from the appointments process.

### **Replacement and termination**

If one or more members of the Management Board can no longer serve, the Supervisory Board has to replace them without delay, pursuant to art. 2409-duodecies, para. 5, of the Civil Code and art. 34 of the Articles of Association. The members that are appointed in this way fall from office at the same time as those that were in office when the former were appointed. If, for whatever reason, there is no longer a majority of the members originally appointed by the Supervisory Board, the entire Management Board is understood as resigning from the date that the new members just appointed take up office. The latter remain in office for the residual period that the Management Board would have had before it resigned.

### **Procedure for the appointment and dismissal of members of the Management Board**

The system of appointment and dismissal of the Management Board by the Supervisory Board is heavily regulated by the Articles of Association, which requires a qualified quorum to pass resolutions and the casting vote of the Supervisory Board members nominated by the "major shareholders" (UCITS and the BPM Group's strategic partners pursuant to art. 63 of the Articles of Association).

In particular, the Supervisory Board, pursuant to art. 49, para. 7 of the Articles of Association, decides on the appointment and dismissal of the management board members, with the favourable vote of at least three quarters (rounded, if necessary, to the lowest whole number) of the Board Members currently in office, providing that they include at least one Board Member taken from the lists submitted by UCITS and at least one Board Member taken from a list submitted by the Supervisory Board pursuant to Article 63 of the Articles of Association. However, after the third meeting of the Supervisory Board in which a quorum is not met as currently prescribed, even in the presence of different proposals, at its next meeting the Supervisory Board will be able to pass resolutions with the ordinary majorities, subject to the condition that one of the votes in favour is that of at least one Board Member drawn from lists submitted by UCITS and that of at least one Board Member from a list submitted by the Supervisory Board in accordance with art. 63 of the Articles of Association.

Moreover, the Supervisory Board is supported by the Nominations Committee, as per art. 53 of the Articles of Association, established as a sub-committee of the Board, to which is assigned the responsibility for selecting and proposing appointments to the Board, and the right to provide indications about the appointment of MD & CEO (see paragraph 12 of this Report).

Lastly, note that – in compliance with the Bank of Italy's Governance Measures (in particular the note of 11 January 2012) – upon nominations having been made for appointment to the Management Board, the Supervisory Board has to take into account the self-assessments carried out by the Management Board with regard to its ideal composition in qualitative and quantitative terms, as well as any needs that it has expressed or deficiencies found. This does not prevent the Supervisory Board from making its own assessments of the ideal composition of the management body and to nominate Management Board members in line therewith, setting forth the reasons for any differences with respect to the analysis performed by the Management Board.

### **Gender balance**

In relation to the composition of the current Management Board, it is hereby disclosed that the regulations concerning gender balance on corporate bodies of listed companies introduced by law no. 120 of 12 July 2011 and endorsed by the Issuers' Regulation will be applied on the first renewal of the bodies subsequent to 12 August 2012.

With respect thereto, a review is underway of proposed amendments to the Articles of Association aimed at bringing the process for the appointment of the Management Board and the Supervisory Board (and the procedure for replacement of members during the course of a mandate) into line with the gender balance criterion and these amendments will be adopted in accordance with the terms and conditions laid down by the regulations.

### **Succession Plans**

As things stand, BPM has not entered into any "succession plans" (i.e. structured plans for the succession of Executive Directors), nor are specific mechanisms foreseen in the event of early replacement.

With respect thereto, it should be noted that, in accordance with art. 5.C.2 of the Code of Conduct, the Management Board, during the course of the meeting of 27 March 2012 – considering that the process for the appointment and replacement of the members of the Management Board of the Bank is currently sufficiently detailed – did not deem it necessary to adopt a succession plan for its executive Board members.

## 4.2. Composition (art. 123-bis, paragraph 2.d), CFA)

### Composition and term of office of the Management Board

On the proposal of the Nominations Committee, on 26 October 2011, the Supervisory Board appointed the Bank's Management Board for the year 2011–2013 with Andrea C. Bonomi as Chairman and Davide Croff, Claudio De Conto, Alessandro Foti and Dante Razzano as the other members.

The Management Board verified the requirements of professionalism, integrity and independence of its members on 21 November 2011. In this context, the Management Board took note of the declarations of the persons concerned and, based on the information at its disposal, checked that its members met the legal and regulatory requirements for holding office, including those of the Articles of Association.

On 10 January 2012, the Supervisory Board of Banca Popolare di Milano – having accepted the resignation of Claudio De Conto as Member of the management board – appointed on the proposal of the Nominations Committee, Piero Luigi Montani as a member of the Bank's Management Board for the years 2012–2013. The Management Board's meeting of the same date took note of this appointment by the Supervisory Board and appointed Piero Montani as the Bank's MD & CEO, granting him the powers under art. 45 of the Articles of Association (see paragraph 4.4.1 of this Report); during its meeting of 7 February 2012, the Management Board checked that Piero Luigi Montani met the legal and regulatory requirements for holding office, including those of the Articles of Association.

The following table provides a complete list of the Management Board members currently in office, with an indication of the specific offices that some of them hold on the Board, the date that their mandate expires and whether or not they qualify as independent or executive directors (verified in February 2012 and confirmed by a further check in March 2013).

Name	Office	Date of appointment	Date of leaving office	*	**	***	****
<b>Andrea C. Bonomi</b>	Chairman	26 October 2011	App. fin. stats. 31.12.2013	NO	NO	NO	YES
<b>Piero Luigi Montani</b>	Managing Director and CEO	10 January 2012	App. fin. stats. 31.12.2013	NO	NO	YES	NO
<b>Davide Croff</b>	Board member	26 October 2011	App. fin. stats. 31.12.2013	NO	NO	YES	NO
<b>Alessandro Foti</b>	Board member	26 October 2011	App. fin. stats. 31.12.2013	YES	NO	NO	YES
<b>Dante Razzano</b>	Board member	26 October 2011	App. fin. stats. 31.12.2013	NO	NO	YES	NO

(<sup>1</sup>) Independent director, art. 148, c. 3, CFA.

(<sup>2</sup>) Independent director, Code of Conduct.

(<sup>3</sup>) Executive director.

(<sup>4</sup>) Non-executive director.

In accordance with art. 144-decies, IR, as regards the Management Board Members elected (reference should be made to the "Who we are" section of the Bank's website for each of their CVs) the following is a summary of their personal and professional characteristics.

**Andrea C. Bonomi:** After going to school in France (Institut International Chateaubriand, Cannes) and Great Britain (Lycée Français Charles de Gaulle, London), he graduated with a BSc in Business Administration at New York University in 1985. In 1990, Andrea C. Bonomi founded Investindustrial, the private equity division of BI-Invest Group, specializing in a strong industrial approach to the acquisition of shareholdings in companies ([www.investindustrial.com](http://www.investindustrial.com)). In 2008, Investindustrial endorsed the United Nations' "Global Compact Ten Principles" programme ([www.unglobalcompact.org](http://www.unglobalcompact.org)) and, in 2009, it endorsed the "Principles for Responsible Investment" initiative ([www.unpri.org](http://www.unpri.org)). Moreover, Investindustrial was certified as "carbon neutral" by the CarbonNeutral Company, a world provider of solutions to reduce global carbon emissions. It is also implementing several other measures to reduce carbon emissions. Furthermore, Andrea C. Bonomi has dedicated himself to initiatives of a social nature, in particular, with the formation in 2000 of the foundation Invest for Children ([www.investforchildren.org](http://www.investforchildren.org)), an international non-profit organisation set up with the intention of helping babies and young disabled people with the aim of improving their quality of life, with a particular focus on those with Down syndrome.

Currently, in addition to the position held of chairman of the Management Board of Banca Popolare di Milano, he holds office as non-executive director of Investindustrial Business Development Limited (general partner of Investindustrial V L.P. Fund), as non-executive director of Gruppo Illy S.p.A., RCS Mediagroup S.p.A. and the American Chamber of Commerce in Italy.

Davide Croff: he graduated in Economics and Business Studies at the Cà Foscari University of Venice and then specialised in Economics at Pembroke College, Oxford University. Among other things, he is Chairman of Permasteelisa S.p.A., the Italian Advisory Board of Roland Berger and Fondazione Ugo e Olga Levi, as well as Senior Advisor of TPG. He is a Cavaliere di Gran Croce della Repubblica Italiana.

Alessandro Foti: he graduated in Economics and Social Sciences at Bocconi University, Milan. From 1989 to 1996 he worked in the Investments and Special Affairs Office at Mediobanca S.p.A., from 1996 to 2002 he was Managing Director of Lehman Brothers, London. From 2002 to 2007 he was Managing Director and Chief Executive Officer and subsequently Deputy Chairman of the Board of Directors of UBS Corporate Finance (Italy). From 2007 to 2008 he was General Manager and Managing Director of Euraleo. He currently works as an independent consultant in the financial sector and is a director of important companies.

Piero Luigi Montani: He is Cavaliere dell'Ordine della Repubblica Italiana with vast top management experience in banks, including the position of: General Manager, and then Managing Director, of Banca Popolare di Novara and subsequently, General Manager of Banco Popolare di Verona e Novara S.c.r.l.; Managing Director of Banca Antonveneta S.p.A.; Managing Director of MedioCredito Centrale S.p.A.. In 2012 he left MedioCredito Centrale S.p.A. and all related positions when he was appointed Managing Director and Chief Executive Officer of BPM; he is also currently a director of Banca Akros SpA (BPM Group).

Dante Razzano: also currently a director of Investindustrial Advisors Ltd, of Investindustrial Inc. and Banca Akros SpA (BPM Group). He was Managing Director of Deutsche Morgan Grenfell Italia from 1992 to 2003, which he initially joined as one of the ten directors responsible for the Investment Banking Division in London. In this role, he helped establish Morgan Grenfell's investment banking activities in Italy. From 1986 to 1992 he was Managing Director (Senior Investment Officer) of Citigroup's investment banking division in New York, Managing Director of Citibank's merchant bank in Italy (Citinvest) and the Head of Citigroup's European Division. He began his career in 1970 at Manufacturers Hanover Trust, New York (now JP Morgan Chase) as Vice-President and Group Executive (Senior Lending Officer) in the Leveraged Lending and Mergers and Acquisitions Division.

For information, the following is the curriculum vitae of Claudio de Conto, who resigned from the board on 10 January 2012.

Claudio De Conto: after graduating in Corporate Finance at Bocconi University, Milan, he spent most of his career with the Pirelli Group. In 2000 he became Manager of Administration, Planning and Control of Pirelli SpA. In 2001 he was appointed General Manager of Administration and Control of Pirelli S.p.A., and in November 2006 Executive General Manager of Pirelli & C. He has been a member of the International Financial Reporting Interpretation Committee (IFRIC), part of the International Accounting Standards Board (IASB) since 2002. Since September 2010 he has been a senior advisor at McKinsey and CVC.

### **Maximum accumulation of offices that can be held in other companies**

Whereas each Board member – at the time of acceptance of office and during the course of the mandate – must assess if he/she has enough time to diligently perform the tasks entrusted, also taking account of his/her own work or professional commitments, it should be noted that the Management Board – in accordance with Governance Measures of the Bank of Italy and the Code of Conduct (art. 1.C.3.) – on 12 February 2013, set out its position on the maximum number of administration and control offices believed to be compatible with an effective performance of the office held.

In particular, the Management Board, without prejudice to the prohibition of interlocking directorates as per art. 36 of Legislative Decree 201/2011 (converted to Law no. 214/2011) as well as that provided for by art. 32 of the Articles of Association (which states "those who are or become members of administrative or control bodies or employees of other banks or their subsidiaries may not act as a member of the Management Board, unless the entities concerned are centralised structures for the co-operative banking movement or banks or companies belonging to the Group"), has approved that its members:

- (i) may not hold office as member of an administrative body of more than 5 issuers;
- (ii) may not hold other offices in companies limited by capital when the total burden of these offices exceeds 6.

For the purpose of the calculation for point (ii) above, the Management Board has defined, on a voluntary basis, detailed reporting criteria in line with those established by art. 144-duodecies and Attachment 5-bis of Consob's Issuers' Regulation.

On 13 March 2013, the Management Board concluded that the previously indicated limits to the accumulation of offices by each Board member had been complied with.

In accordance with the recommendations of art. 1.C.2. of the Code of Conduct, the following is a list of the positions held by the Bank's current directors – as members of the administrative and control bodies – in other companies (including offices held in BPM Group companies).

### **External activities and offices**

<b>Andrea C. Bonomi</b>	Director of Gruppo Illy S.p.A. Director of RCS Mediagroup S.p.A. Director of Investindustrial Business Dev. Ltd
<b>Davide Croff</b>	Chairman of the Board of Directors of Permasteelisa S.p.A. Director of Snam Rete Gas S.p.A. Director of Istituto Europeo di Oncologia Director of Venice Newport Director of Fiera Milano S.p.A.
<b>Alessandro Foti</b>	Chairman of the Board of Directors of ProFamily S.p.A. (BPM Group) Director of Dada S.p.A. Director of Camfin S.p.A.
<b>Piero Luigi Montani</b>	Director of Banca Akros SpA (Gruppo Bipiemme)
<b>Dante Razzano</b>	Director of Investindustrial Advisor Ltd Director of Investindustrial Inc. Director of Banca Akros SpA (Gruppo Bipiemme)

### **Induction Programme**

In consideration of the high level of professionalism and of the adequate knowledge of the banking-financial sector demonstrated by the current Management Board members and due to the absence of requests from the persons concerned, no specific training programmes were held in the year as per art. 2.C.2 of the Code.

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#### **4.3. Role of the Management Board** (art. 123-bis, paragraph 2.d), CFA

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##### **Responsibilities of the Management Board**

It is the responsibility of the Management Board to run the business, including strategic oversight. To this end, the Management Board carries out all operations, of both ordinary and extraordinary administration, that are necessary, useful or, in any case, opportune to achieve the Company's purpose.

In compliance with the Bank of Italy's Governance Measures, the Articles of Association identify precisely and analytically the tasks and responsibilities of the Management Board and of the MD & CEO, the former being called upon to decide the Bank's broad strategies and verify that they are implemented, the latter to manage the business on a day-to-day basis.

Pursuant to art. 39 of the Articles of Association, in addition to the powers that cannot be delegated by law, the Management Board is exclusively responsible for the following matters:

- a) definition of the general policies and strategies of the Company and of the Group;
- b) the appointment and dismissal of the MD & CEO, as well as the attribution, modification or revocation of the powers granted to him;
- c) the preparation of business and/or financial plans, as well as the budgets for the Company and the Group;
- d) risk management and internal controls, without prejudice to the powers and duties of the Supervisory Board;
- e) the granting, amendment or revocation of mandates and powers and the granting of specific duties or powers to one or more of its members;
- f) if consistent with the new system of corporate governance, the appointment and dismissal of the General Manager and the members of General Management, the definition of their emoluments, duties and powers, as well as the designation of the Group's top management;
- g) the appointment of members of the administrative and control bodies of the companies belonging to the Group;
- h) the acquisition or disposal of investments that involve changes in the Banking Group;
- i) the opening and closing of branches and representative offices;
- l) evaluation of the Company's organizational, administrative and accounting structure;
- m) the approval and amendment of Company and Group regulations, without prejudice to the mandatory powers and duties of the Supervisory Board;
- n) determining the criteria for the coordination and management of Group companies, as well as the criteria for implementing instructions from the Bank of Italy;
- o) the appointment and dismissal of the Financial Reporting Manager in accordance with Article 154-bis of Decree 58 of 24 February 1998 and determination of his resources, powers and remuneration, subject to the opinion of the Supervisory Board;
- p) the appointment and dismissal, subject to the opinion of the Supervisory Board, of the Head of Internal Control and the Compliance Officer, as well as the heads of the various corporate functions and structures that have control duties and responsibilities;
- q) preparation of the draft separate financial statements, draft consolidated financial statements and interim reports;
- r) exercising the mandate for increases in capital granted in accordance with Article 2443 of the Civil Code, as well as issuance of convertible bonds pursuant to Article 2420-ter of the Civil Code;
- s) the formalities relating to the Management Board referred to in Articles 2446 and 2447 of the Civil Code;
- t) drawing up merger or demerger plans;
- u) the adoption, pursuant to Article 2365, para. 2, of the Civil Code of resolutions concerning amendments to the Articles of Association to bring them into line with laws and regulations, as well as mergers and demergers in the cases provided for in Articles 2505 and 2506-ter of the Civil Code;
- v) the definition of criteria for the identification of related party transactions to be submitted for its approval.

Whenever it deems it appropriate, the Management Board can ask the Supervisory Board for a prior non-binding opinion in the cases foreseen in subparagraphs h), t) and u) of the preceding paragraph, indicating the deadline by which the opinion should be issued.

Definition of procedures for the admission and exclusion of members and decisions regarding the acceptance or rejection of applications for admission and exclusion of members are also the responsibility of the Management Board, in accordance with the current requirements of the Articles of Association and the organizational guidelines established by the Supervisory Board.

With respect to the responsibilities of the Management Board concerning the management and control of risks, reference should be made to paragraph 8 of this report.

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During the course of 2012, the Management Board, with respect to what is of interest here, in particular:

- (a) approved the 2012–15 Business Plan of the BPM Group (hereinafter “**Business Plan**”);
- (b) assessed the organisational, administrative and accounting structure of the Bank and of the BPM Group companies, with particular attention to the systems of internal control and risk management. In this regard, in line with the objectives set by the Business Plan, the Management Board has initiated: (i) processes for corporate simplification and an organisational review of the BPM Group; (ii) a revision of the Group’s organisational model to allow a timely and systematic update of internal policy on processes and procedures to bring it into line with developments in applicable primary and secondary regulations; (iii) a rigorous strategy for monitoring risks;
- (c) assessed the general performance, taking into consideration, in particular, information provided by the Managing Director and Chief Executive Officer, as well as by periodically comparing actual against budgeted results;
- (d) approved the transactions of BPM and its subsidiaries, considered to be significant from a strategic point of view and in terms of results, capital and financial position.

### How the Management Board functions

In accordance with art. 35 of the Articles of Association, meetings of the Management Board are chaired by the Chairman or, in his absence, by the oldest member present in terms of age (with reference to the role of the Chairman of the Management Board, please read paragraph 4.4.2. of this Report).

Pursuant to art. 36 of the Articles of Association, the Management Board meets at least once a month, and any time the Chairman considers it opportune, or whenever at least two members ask for a meeting. The functions of secretary are delegated by the Management Board to a member of the Management Board or to someone else, also from outside the Bank.

Without prejudice to the powers to call a meeting of the Management Board that are reserved by law to the Supervisory Board and to each member of it, the notice of calling, with a summary of the topics on the agenda, is issued by the Chairman and sent by any suitable means that allows proof of receipt, at least three days before the date set for the meeting, at the residence of each member, except in urgent cases for which the term is reduced to one day. Notice of all meetings has to be given to the Supervisory Board in the same way. The Chairman takes steps to ensure that adequate information regarding the matters on the agenda is provided to all the members and, assisted by the secretary of the Management Board, ensures that all the documentation that needs to be produced prior to Board meetings is provided to all members of the Management Board and the Internal Control Committee, at the time that notice is given of the Board meeting.

For meetings of the Management Board to be valid, more than half of the members currently in office have to be present and resolutions are passed in an open vote, if a majority of the members present vote in favour of them (arts. 36 and 38 of the Articles of Association). Remote participation in meetings of the Management Board is permitted through the use of appropriate equipment for audio-video and/or teleconferencing, providing that all those entitled to attend can do so and can be identified and that they are allowed to follow the meeting and to intervene in the debate in real time, as well as to receive, transmit or view documents, being in a position to review documents and to make decisions at the same time. In this case, the Management Board is considered held in the place where the person chairing the meeting and the Secretary are located.

Meetings of the Management Board can only be attended by members of the Supervisory Board who are also members of the Internal Control and Audit Committee. At least one of these members of the Supervisory Board has to attend meetings of the Management Board. Pursuant to the current Articles of Association, the Management Board has the right to ask the General Manager and one or more Managers, who are experts on the matters under discussion, to attend Board meetings, with just a consultative vote.

### Information flows

The Management Board promptly provides the Supervisory Board, at least quarterly, with the information mentioned in art. 150 of the CFA. Information on the main operating data for the period and a comparison with the system is provided to the Supervisory Board on a monthly basis.

The MD & CEO reports at least quarterly to the Management Board on the performance, outlook and more significant transactions carried out by the Company and its subsidiaries. The MD & CEO also reports monthly to the Management Board on the financial results of the Company, the main subsidiaries and the Group as a whole.

The Bank's "Regulation on Information Flows" – which is currently being updated – regulates the information flows (periodic or event-related, for individual transactions) that have to be received by the governing bodies from the various corporate functions and from control bodies of BPM Group companies.

In 2012, the Management Board held 6 meetings, lasting 3 hours and 10 minutes on average with an overall participation of 91.23% (the percentage attendance of each member is shown in table no. 1).

The terms for giving notice and for the provision of documentation needed for Board meetings were normally complied with during the year.

In 2013, to date, there have been 9 Board meetings.

### **Self-assessment**

During the course of the meeting held on 11 April 2012, the Management Board undertook a review of its functionality.

The process of self-assessment was defined by the Board in compliance with the Bank of Italy governance measures, particularly the note of 11 January 2012 and was conducted by means of the verification and the consequent assessment of the adequacy:

- (i) of the proceedings in place to ensure the participation by the Board members at Board meetings (means used for giving notice of meetings, agenda, information supporting the matters on the agenda and preparation of minutes of decisions taken) compared with the proceedings envisaged by primary and secondary regulations and the Articles of Association;
- (ii) of the role performed in practice by the Board (decisions taken, verifications performed, measures taken and reporting) compared with that required by primary and secondary regulations and the Articles of Association.

The outcome of the self-assessment process was a positive assessment by the Management Board of its functionality, of the full awareness of the Board of its powers and obligations, also in consideration of the time spent, which proved to be sufficient for the performance of its role and of the adequacy of the professionalism of the individual Board members with respect to the operational and management characteristics of the business.

Note that the Management Board was assisted by the consulting firm Co.Ba.Co. S.r.l. for the purpose of the aforementioned board review. Co.Ba.Co. is currently providing assistance to the Bank for the revision of the Group's organisational model and, in particular, the principal processes that make up the individual business systems (organisational and corporate governance system; management system; system for measurement/assessment of risks; system for self-assessment of capital adequacy; and system of internal control).

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## **4.4. Delegated bodies**

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### **4.4.1 Managing Director and Chief Executive Officer**

In accordance with the provisions of law and the Articles of Association, the Management Board delegates its powers to one of its members, who takes on the title of Managing Director and Chief Executive Officer (MD & CEO) and who can also be the General Manager. For the appointment of the MD & CEO, the Management Board takes into consideration the indications of the Nominations Committee pursuant to art. 53 of the Articles of Association.

Pursuant to art. 45 of the Articles of Association, the MD & CEO is the business's chief executive and oversees its management within the powers granted by the Management Board and in accordance with the general policies and strategies established thereby.

By a resolution of 10 January 2012, the Management Board granted to the MD & CEO Piero Montani the following powers, as per art. 45 of the Articles of Association:

- a) to oversee management of the Company and the Group;
- b) to look after strategic coordination and management control of the Company and the Group;
- c) to ensure implementation of the organizational, administrative and accounting structure decided by the Management Board;
- d) to exercise, according to the rules and regulations, powers to propose and grant loans, within the limits established by the Management Board;
- e) to arrange for and supervise personnel management;
- f) to determine the operational guidelines for General Management;
- g) to oversee integration of the Group;
- h) to make proposals to the Management Board regarding the definition of general policies and strategies for the Company and the Group, as well as for the preparation of business and/or financial plans and budgets of the Company and the Group, ensuring that they are implemented by the General Manager;

- i) to propose fiscal policy and guidelines on optimising the use and enhancement of resources and to submit draft financial statements and interim reports to the Management Board;
- l) to propose top management appointments for the Company and the Group to the Management Board, in consultation with the Chairman of the Management Board and having heard the opinion of the General Manager;
- m) to promote integrated risk management;
- n) to redirect any requests for extraordinary inspections or investigations to the internal control function through the Internal Control Committee;
- o) to handle external communication of information concerning the Company, in agreement with the Chairman of the Management Board.

On 7 February 2012, the Management Board granted to the MD & CEO the power of ordinary management of the Bank, as integration and simplification of the powers attributed to him on 10 January 2012.

Without prejudice to the requirements concerning interlocking directorates laid down by art. 36 of Legislative Decree 201/2011 (converted to Law no. 214/2011), it is hereby disclosed that the Managing Director and CEO, Piero Luigi Montani does not hold office in any non Group companies and, accordingly, there are no cross directorships as contemplated by art. 2.C.5 of the Code.

#### **Information flows**

The MD & CEO reports at least quarterly to the Management Board on the performance, outlook and more significant transactions carried out by the Company and its subsidiaries. The MD & CEO also reports monthly to the Management Board on the financial results of the Company, the main subsidiaries and the Group as a whole (art. 46 of the Articles of Association).

During the course of 2012, the Managing Director and CEO promptly complied with the aforementioned disclosure requirements and constantly informed the Management Board of the main activities performed in the exercise of the powers granted.

#### **4.4.2 Chairman of the Management Board**

The current Articles of Association – considering the attribution to the Management Board of the duties and responsibilities of the strategic supervision function, and in compliance with the Bank of Italy's Governance Measures – clearly outline the duties and responsibilities of the Chairman of the Management Board, in his capacity as the guarantor of effective functioning of the system of corporate governance and of the balance of powers between the Management Board and the MD & CEO, as well as being the main interlocutor with the Supervisory Board. In detail, pursuant to art. 41 of the Articles of Association, the Chairman of the Management Board:

- a) is the Company's legal representative with signature power;
- b) convenes the Management Board, sets the agenda in view of the proposals made by the MD & CEO and coordinates its activities, ensuring that adequate information about the matters on the agenda are provided to all members;
- c) maintains relations with the Supervisory Authority, in consultation with the MD & CEO, as part of the Management Board's normal activities;
- d) handles relations with the Supervisory Board and its Chairman;
- e) ensures that the Supervisory Board is kept informed in accordance with art. 40 of the Articles of Association;
- f) exercises any other powers needed to perform his duties.

In justified cases of extreme urgency, when it is also impossible to convene the Management Board on a timely basis, the Chairman of the Management Board or, in the event of his absence or impediment, the MD & CEO, can make decisions on any type of operation pertaining to the Management Board, particularly with regard to lending, except for those matters that have to be decided exclusively by the Management Board. The decisions taken must be reported to the Management Board the next time it meets. The signature of the Chairman's deputy constitutes proof vis-à-vis third parties of the Chairman's absence or impediment (art. 41 of the Articles of Association).

Under art. 32 of the Articles of Association, the Chairman cannot hold individual management powers. The non-executive role of the Chairman of the Management Board is essential to ensure the proper functioning of BPM's system of Corporate Governance.

#### **4.4.3 General Management**

Under art. 57 of the Articles of Association, General Management consists of the General Manager, if appointed, and other persons appointed for this purpose by the Management Board, including one appointed to act as deputy – in the absence or impediment of the MD & CEO and of the General Manager – with full authority and powers, except for those that necessarily pertain to the MD & CEO. Under art. 58 of the Articles of Association, the General Manager supervises the activities of General Management within the limits of his powers and in accordance with the guidelines of the Management Board and the MD & CEO. Within such limits and according to the guidelines received, the General Manager manages the Bank's day-to-day affairs, exercises any powers vested in connection with the granting of loans, expenditure and financial transactions and implements the decisions of the Management Board and of the MD & CEO.

At the board meeting held on 17 May 2011, the Bank's Board of Directors appointed Enzo Chiesa as the Bank's General Manager and appointed Roberto Frigerio as Deputy General Manager, granting him the powers to stand in for Mr Chiesa in his absence. Subsequently, considering the different role of the General Manager under the Bank's new Articles of Association and to complete the transformation of BPM's corporate governance, which began with the General Meeting on 22 October 2011 and ended with the appointment of the MD & CEO, the Management Board agreed with Enzo Chiesa to terminate his employment with effect from 7 February 2012. Enzo Chiesa therefore resigned from all of the positions that he held within the BPM Group and the Management Board did not appoint a General Manager.

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#### **4.5 Executive directors**

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To ensure the presence on the Management Board of an adequate number of non-executive members, in compliance with the Bank of Italy's governance measures, art. 32 of the Articles of Association states that, of the five members of the Management Board, two of them, including the Chairman, should be non-executive directors.

On 13 March 2013, the Management Board assessed the executive or non-executive status of its members in accordance with the Code of Conduct. In this regard, the Board first laid down certain criteria and parameters for the practical application within BPM of the definition of "executive director" according to the Code of Conduct, taking into account the specific characteristics and operations of the Bank and the Group at a governance level. In particular, the Board noted that, in BPM:

- the Management Board includes the MD & CEO, to whom the Articles of Association attribute the role of "chief executive", whereas none of the other Directors holds individual management or operating powers;
- the Chairman of the Management Board is given the task of promoting effective functioning of the system of corporate governance, guaranteeing the balance of powers vis-à-vis the MD & CEO and any other executive directors. To perform his function correctly, he does not have any management functions, neither in theory nor in practice, except for the right, under exceptional circumstances, to perform management tasks (such as in the circumstances envisaged by art. 41, last paragraph, of the Articles of Association) without this meaning that he has taken on executive status;
- there is no Executive Committee within the Management Board;
- if one or more Board members attend meetings of committees with even limited operating powers in certain areas of the Bank's day-to-day management (credit and loans, in particular) could mean that such directors take on executive status (in this regard, for BPM it is relevant if directors attend meetings of the Credit and Loans Committee, set up by the Management Board on 28 November 2011);
- none of the members of the Management Board holds office as chairman or executive director in subsidiaries, except for Alessandro Foti, who is Chairman of the Board of Directors of ProFamily SpA, a subsidiary. However, he has not been vested, with powers of management and he does not have a specific role in preparing corporate strategy and, so, he qualifies as a non-executive chairman;
- no member of the Management Board forms part of the General Management of the Bank or of Group companies.

In line with the above criteria, the Management Board identified:

- (i) as executive directors:
  - the MD & CEO, Piero Luigi Montani, in his capacity as the Bank's chief executive;
  - Davide Croff and Dante Razzano, given their membership of the Credit and Loans Committee.
- (ii) as non-executive directors:
  - the Chairman, Andrea C. Bonomi and the Board Member Alessandro Foti.

## 4.6 Independent directors

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In consideration of the limited number of members of the Management Board, the Code's recommendations concerning the composition of the administrative body and of the committees were applied to the Supervisory Board in line with the Articles of Association and with that suggested by the application criteria of art. 10.C.1. b) of the Code.

In this regard, note that art. 32 of the Articles of Association does not demand that the independence requirements laid down in the Code of Conduct be met by the members of the Management Board and, in compliance with paragraph 1 of art. 147-quater of the CFA, states that at least one member of the Management Board must meet the independence requirements of the third paragraph of article 148 of the CFA.

In any case, note that, on 13 March 2013, the Management Board verified the independence requirements of its members pursuant to the third paragraph of art. 148 of the CFA and pursuant to art. 3 of the Code of Conduct. In this regard, the Management Board first laid down certain criteria and parameters for the practical application within BPM of the definition of "independent director" according to the Code of Conduct, taking into account the specific characteristics and operations of the Bank and the Group at a governance level.

In this context, the Board noted that:

- Andrea C. Bonomi is a key person for the Bank (Chairman of the Management Board);
- Alessandro Foti is a key person in a subsidiary of strategic importance (non-executive chairman of the Board of Directors of ProFamily S.p.A.). In accordance with the Code, the Board has identified as "companies of strategic importance" BPM Group companies that keep records pursuant to article 115-bis of the CFA, that is, those companies, which, based on specific internal regulations adopted at Group level, keep (or have kept in the previous three financial years) a so-called "Insiders register";
- no Board member holds (directly, indirectly or through third parties) a sufficient number of shares that would allow them to exercise control or significant influence over the Bank, nor are any of them members of a shareholders' agreement by which one or more persons could exercise control or significant influence over the issuer (art. 3.C.1.a);
- no Board member has or has had, directly or indirectly (comprising the companies for which he/she is a key person), commercial, financial and professional relationships with the Bank or its subsidiaries that could compromise their independence (art. 3.C.1.c). The Management Board mainly considered, among other things, the credit facilities granted as well as the professional relationships between the key person (or the companies controlled thereby) and the Group. In order to assess the materiality of the aforementioned relationships, the Board considered as relevant, generally and depending on the circumstances, the amount of the credit facilities or of the remuneration payable for the office held, bearing in mind the earnings and financial standing of the individual Board member (obviously based on a self-assessment by the person in question, underlying the declaration regarding "commercial, financial and professional relationships" with the Bank or its subsidiaries), as well as the size of the relationship, depending on the circumstances, with respect to the total loans granted by the Bank or by the Group or to the total costs incurred for the year by the Bank or by the Group for professional positions;
- no non-executive Board member received, in the previous three-year period, any significant supplementary remuneration in addition to the fixed emolument received as a director of BPM (art. 3.C.1.d). For the purpose of the related assessments, any supplementary remuneration to be considered as significant was that which exceeded twice the amount of the fixed emolument over the three year period;
- none of the Board Members has an executive role in a subsidiary company where another executive director of the Bank holds office (art. 3.C.1. letter f);
- none of the Board Members is a partner or director of a company or entity belonging to BPM's independent auditors or the same network (art. 3.C.1.g);
- none of the Board Members was an employee of the Bank (or Group companies) in the previous three-year period. In relation thereto, the Management Board has deemed it appropriate to establish, for the application of the general principles of the Code, which recommend the principle of substance over form, that a person may qualify as an independent director if that person ceased to be an employee of the Bank (or Group companies) more than three calendar years (as opposed to financial periods) beforehand.

During the course of the same meeting, the Management Board:

- (i) established that none of its members qualified as "independent" under the Code of Conduct, for the following reasons:
  - the Chairman, Andrea C. Bonomi, holds a key position in the Bank and has declared relationships with other members of the Management Board;
  - Piero Luigi Montani, Davide Croff and Dante Razzano, are executive directors;
  - Alessandro Foti, holds a key position, even if non-executive, in a subsidiary of strategic relevance (Chairman of ProFamily S.p.A.);
- (ii) concluded that Alessandro Foti qualified as a Board member, as he met the independence requirements in accordance with art. 148, third paragraph, of the CFA (also by taking account of the Consob Communication DEM/10046789 of 20.5.2010), whereas the other Board members failed to meet the independence requirements.

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#### **4.7 Lead independent director**

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To date, the circumstances envisaged by the Code of Conduct for the appointment to the Management Board of a lead independent director have not yet materialised.

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### **5. Confidential information**

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In accordance with art. 114 of CFA, during the year BPM adopted a specific set of guidelines for the internal management and external communication of documents and information concerning the Bank, with particular reference to "price sensitive" information (now called "privileged information").

In light of the changed legislative context – with particular reference to the Market Abuse Directive and in accordance with Consob approach to this matter (for the latest, see Consob Communication 6027054 of 28 March 2006) – in 2006 the Bank adopted a new set of Regulations of the Banca Popolare di Milano Group concerning communication obligations (updated on 7 February 2012 following the adoption of the two-tier system), regarding the Group's internal procedures designed to guarantee the confidentiality of privileged information (as defined in art. 181 CFA) during the period between the start of other activities and the moment when it is decided that the information has to be released to the market, as well as to guarantee timely and non-selective diffusion of the news. With reference to the duties and flow of information defined in these procedures, they specifically require that the Managing Director and CEO, with the agreement of the Chairman of the Management Board has the power to evaluate the extent to which a piece of news is to be considered privileged information under art. 114, CFA and, as a result, to authorise its disclosure.

In compliance with the provisions contained in article 115-bis of CFA (and related Consob rules), the Bank has created a Register of persons with access to privileged information relating to BPM and any third-party issuers by virtue of their employment or profession or the job carried out; at the same time, the Bank has adopted a Regulation concerning the Insider Register.

This Regulation with the definition of roles, responsibilities and conduct, governs the identification of persons with privileged information in BPM and the Group in order to register them in the appropriate register.

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## **6. Remuneration of Management Board Members**

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In compliance with art. 37 of the Articles of Association, in addition to reimbursement for any out-of-pocket expenses incurred in carrying out their duties, the members of the Management Board are entitled to remuneration decided by the Supervisory Board, taking into account whether they are members of sub-committees or hold particular positions of responsibility. They are also awarded attendance fees for participating in meetings of the Management Board and of the commissions and sub-committees established by the Management Board to the extent laid down by the Supervisory Board, as well as the remuneration set by the Supervisory Board for the members of the Management Board appointed to particular positions envisaged in the Articles of Association.

The Articles of Association – by saying that the general meeting of members approves the remuneration policies of the Management Board as required by applicable law and the Bank of Italy's Supervisory Provisions in force from time to time – give the Supervisory Board the power to establish the Management Board's compensation after consulting the Remuneration Committee.

Detailed information about the remuneration of members of the Management Board – as well as of managers of the Bank with strategic responsibilities – is provided in the report on BPM Group's remuneration and incentive policies, prepared in compliance with the Supervisory Regulations of the Bank of Italy of 30 March 2011 and with art. 123-ter of the CFA.

The report is available on BPM's website [www.bpm.it](http://www.bpm.it).

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## **7. Management Board Committees (as per art. 123-bis, paragraph 2.d), CFA)**

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The Articles of Association provide for the possibility for Management Board to set up a number of specialist sub-committees with the task of making an active and systematic contribution towards the exercise of its management role, with fact-finding, consultative and decision-making powers.

In this context, the Management Board set up, with a Board resolution of 28 November 2011, a Credit and Loans Committee with decision-making powers in connection with the granting of credit.

The committee consists of 2 Management Board members, one of which acts as chairman of the committee, and of Bank managers with relevant experience. The powers and duties of the Credit and Loans Committee are governed by a specific regulation.

The current members of the Credit and Loans Committee are the Board members Davide Croff and Dante Razzano.

During the course of 2012, the Credit and Loans Committee held 41 meetings – which were all minuted – with an overall 92.68% attendance rate.

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### **7.1 Control and risks committee**

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With reference to the principles of the Code of Conduct regarding the internal control and risk management system (art. 7 of the Code), the structure and functioning of the internal control and risk management system, the powers of the strategic supervision and management and control bodies, the internal audit, compliance and risk management functions, as well as internal flows (see paragraph 8 onwards of this report), are governed in detail by BPM Group policy in compliance with the supervisory regulations of the Bank of Italy (especially the Supervisory instructions for banks, Title IV, Chapter 11, the Supervisory regulations of 4.3.2008, Circular 263/2006, Title I, Chapter I, Part IV and the Note of 11.1.2012).

With regard thereto, in consideration of the fact that, on 4 September 2012, the Bank of Italy made available for public consultation the new prudent supervisory regulations for banks relating to the system of internal control, information systems and business continuity, any changes to the current internal control and risk management system of the BPM Group, including the setting up of a Control and risks committee, will be assessed at the end of the consultation process and after the publication of the related supervisory regulations.

## **8. Internal control system**

The Bank's system of internal control (hereinafter "ICS") reflects an articulated, systemic vision, which sets out the general principles that are designed to ensure the correct and effective management of the systems to be checked for risks, defining, in particular, how they function and the guidelines for the monitoring and coordination of the Group companies' control activities.

As part of a more general process of value creation for the Group, the correct functioning, formalisation and updating of the Organisational Model of the ICS are also essential conditions for the maintenance of this process, given that the methods of carrying out business processes always have to be suitably aligned with the processes of governance and control. This is a key factor to ensure the vitality and operational efficiency of BPM.

This Model constitutes a point of reference for a common, standard approach on the part of the entire Group, which presumes widespread knowledge of its contents, complete awareness of the underlying assumptions and common acceptance of the values on which it is based.

The Bank also favours the development of a suitable corporate culture based on customer assistance, providing them with adequate information also regarding complaints and matters that need reporting. This represents, above all, a means of protection for customers, while also supplementing the Bank's own ICS.

Based also on relevant generally accepted principles, on the Supervisory Regulations of the Bank of Italy (Circular 229/1999, Title IV, Chapter 11 and Circular 263/2006) and on the Code of Conduct, it is possible to affirm that the ICS consists of a set of rules, procedures and organisational structures that, through a suitable process of identification, permits:

- the measurement, management and monitoring of the principal risks;
- the company to be run in a healthy, correct and consistent way in line with objectives set by the governing bodies;
- the safeguarding of the company's assets, the efficiency and effectiveness of its operations, the reliability of the financial reporting process and compliance with all laws and regulations.

The adequacy, efficacy and effective functioning of the ICS are assessed, according to their respective areas of competence, by:

- (i) the Management Board, which is responsible for risk management and internal controls in accordance with art. 39, paragraph 2.d of the Articles of Association, without prejudice to the powers and duties of the Supervisory Board. In this context – in compliance with the regulations provided for by the Circular of the Bank of Italy no. 263/2006 – the Management Board:
  - identifies the strategic guidelines and policies for risk management, making sure they are regularly reviewed to ensure they remain effective. It is aware of the risks to which the Bank is exposed, it knows and approves the means by which the risks are identified and assessed;
  - continuously ensures that tasks and responsibilities are allocated in a clear and appropriate manner, with particular regard to mechanisms for the delegation of powers;
  - verifies that the structure of the control and risk functions is defined in accordance with strategic guidelines, that the functions have appropriate autonomy in forming opinions and that they are provided with resources that are qualitatively and quantitatively adequate;
  - ensures that the system developed for information flows for the management and control of risks is accurate, complete and prompt;
  - guarantees that the functionality, efficiency and effectiveness of the system for the management and control of risks is regularly verified and that the results of these checks are brought to the attention of the Board, in the event that weaknesses or anomalies arise, so that suitable corrective measures may be taken;
- (ii) the MD & CEO, who has been assigned the power to promote integrated risk management (art. 45, paragraph 2.m, of the Articles of Association). In this context – in compliance with the regulations provided for by the Circular of the Bank of Italy no. 263/2006 – the MD & CEO:
  - continuously verifies the overall efficiency and effectiveness of the system for the management and control of risks, making sure it is adapted in relation to weaknesses or anomalies that have arisen and to reflect changes in the frame of reference or following the introduction of new products, activities or key processes;
  - defines the responsibilities of the corporate structures and functions involved so that related tasks are clearly attributed and that potential conflicts of interest are avoided; also ensures that key activities are managed by qualified personnel, with an adequate degree of autonomy in forming opinions and with experience and knowledge in line with the tasks to be undertaken;
  - defines the information flows aimed at ensuring that the Management Board, the Supervisory Board and the control functions will have full knowledge and governance of risk factors;

- (iii) the Supervisory Board, which is responsible for the assessment of the level of efficiency and adequacy of the internal control system, with particular regard to risk control, the internal audit function and the accounting and reporting system; it also checks that the Bank properly performs its strategic and management control activities over the other Group companies (art. 51.e of the Articles of Association). In this context – in compliance with the regulations provided for by the Circular of the Bank of Italy no. 263/2006 – the Supervisory Board supervises the adequacy and compliance of the system for the management and control of risks, as well as the process for the assessment of the current and prospective capital adequacy of the BPM Group (ICAAP) with legislative requirements;
- (iv) the Internal Control and Audit Committee, the functions of which are reported in paragraph 14 of this report;
- (v) the Internal Audit and Compliance and Risk Management functions (see paragraphs 8.2, 8.3 and 8.4 of this report).

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With reference to art. 1.C.1.b of the Code of Conduct, each year – as part of the assessment of the current and prospective capital adequacy of the BPM Group (ICAAP process) – the related thresholds and the indicators of "risk appetite" adopted are reviewed by the Management Board and the Supervisory Board.

During the course of 2012, the Management Board approved the principal capital ratios, which have allowed a qualitative opinion to be given on the capital adequacy of the BPM Group to cover all the risks to which it is exposed.

In order to render the bodies with a strategic and management supervisory function more aware of the risks inherent in all the operating profiles of the Bank, a new management tool (risk appetite framework) is in course of definition, which will allow, by sharing a set of indicators, to define thresholds of risk tolerance, to continuously monitor them and to convert the risk objectives into restrictions and incentives for the corporate structure.

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## **8.1 Management Board member in charge of supervising the internal control system**

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As regards the role of the Management Board member in charge of supervising the functionality of the internal control system, we would point out that – it being understood that the Management Board will consider assigning the powers and functions envisaged by art. 8.C.5 of the Code to one of its Members as a result of the consolidation of external and internal regulations relating to the system of internal control – the current skills of the MD & CEO, particularly those indicated in paragraph 8 above, are deemed to be substantially compatible with those attributed by art. 7.P.3 of the Code of Conduct to the Board member in charge.

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## **8.2 Internal Audit function**

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The internal audit function reports to the MD & CEO and is coordinated by the Supervisory Board and the Board Sub-Committees responsible for monitoring controls; the function has not been vested with responsibilities for other areas of operations.

In accordance with the combined provisions of art. 39.p and art 51.d of the Articles of Association, on 8 May 2012, the Management Board, on having sought the opinion of the Supervisory Board (the Bank's control body), appointed Angelo Pellegatta as head of Internal Audit, with the task of assessing the functionality of the overall system of controls and, in general, the adequacy of the system of internal control of the Group, intended as the system of rules, procedures and organisational structures aimed at guaranteeing compliance with corporate strategies, safeguarding asset values, the reliability of accounting and management data and compliance with all laws and regulations.

The Bank's policy requires approval by the Supervisory Board of the remuneration policies of all personnel, including the head of Internal Audit.

The head of internal audit is provided with adequate resources and means for the performance of his duties, particularly through the allocation of funds for the engagement of external advisors, if deemed necessary and does not have any restrictions on access to data, archives and corporate assets.

The operational audit approach is laid down by the Internal Audit Department through a risk-based, process-oriented methodology that tends to establish common patterns of reporting and anything else needed for coordinated, smooth functioning of operations.

The methodology is supported by a specific IT application (SPHERA) which is shared by the internal auditing function and certain second level control functions, according to a set system of differentiated access.

More specifically, Internal Audit verifies, both on an ongoing basis and to meet specific needs, and in compliance with international standards, the operation and suitability of the internal control and risk management system for all business processes, by means of an audit plan based on a structured process for the analysis and prioritisation of the main risks.

The audit plan, which is drawn up each year, is approved by the Management Board, after having consulted the Internal Control and Audit Committee set up as part of the Supervisory Board.

The findings and the results of the audit work are periodically brought to the attention, first of all, of the Internal Control and Audit Committee, then to the Management Board and Supervisory Board, through regular reports containing adequate information on the work performed, on the methods employed for risk management and compliance with plans for their containment as well as an assessment of the suitability of the internal control and risk management system.

Furthermore, areas for improvement identified during the course of the audit work are systematically reported to the corporate structures so that they may take appropriate corrective measures, the implementation of which is subject to subsequent monitoring.

Set out below are details of the main activities of the function:

- to assist the Internal Control and Audit Committee in the assessment, at least once a year, of the adequacy, effectiveness and effective functioning of the system of internal control;
- to carry out audit activities, both in the field and on a remote basis (helping to design suitable control support systems), designed to identify anomalous trends, violations of procedures and of internal and external regulations;
- to prepare information flows for the administrative and executive bodies of the Bank, as foreseen by the regulations;
- to maintain relations with the supervisory bodies, assisting them in the event of inspections and providing the information requested;
- to guarantee the preparation and constant updating, with the help of the functions in question, of the Organisational Model for the System of Internal Control and, on an autonomous basis, of the operating procedures for Internal Audit in accordance with internal regulations;
- to report to the function in question the need for training to ensure an adequate level of knowledge and professional skills.

BPM's Internal Audit department also covers all the subsidiaries, both by undertaking audit work directly and by coordinating the annual planning of all of the Group companies' auditing functions, so as to achieve the best possible results for the lowest possible cost, putting to common advantage the specific technical skills of individual auditors or departments.

### **8.3 Compliance function**

In accordance with the Supervisory Provisions of the Bank of Italy (decision no. 688006 of 10 July 2007) and the Joint Regulation issued on 29 October 2007 by the Bank of Italy and Consob for the organisation and procedures of intermediaries who provide investment or asset management services, by resolution of the Board of Directors of 18 December 2007, BPM established the Compliance Function with effect from 1 March 2008.

Subsequently, certain organisational changes took place. Firstly, in order to strengthen second-level controls, as from 2010, compliance and network controls activities were transferred to the newly established Network Controls and Compliance Department, while, as from 2012, the head of the department reports to the Chief Risk Officer.

Following the introduction of the Bank of Italy's measures on "provisions implementing the organisation, procedures and internal control aimed at preventing the use of intermediaries and other parties that are involved in money laundering and the financing of terrorism (pursuant to art. 7 paragraph 2 of Legislative Decree no. 231 of 21 November 2007)", as from 1 September 2011, an anti-money laundering function was set up within this department.

To summarise, the responsibility for the Compliance function lies with the head of the Network Controls and Compliance Department, currently assigned on an interim basis to the Chief Risk Officer. The head of the department has also been given responsibility for the Compliance function of the subsidiary Banca Popolare di Mantova S.p.A. (hereinafter "BM"), for which the resources used are those of BPM's structure. This department also performs, by means of an outsourcing agreement, compliance activities for the subsidiary Banca di Legnano S.p.A. (hereinafter "Bdl") with respect to legislation not related to investment services. In any event, the department coordinates the corresponding functions of subsidiaries, with the objective of guaranteeing a common approach to the activities undertaken thereby, naturally taking account of the specific nature of the operations and organisational decisions of each entity.

The deputy head of the department has been vested with:

- responsibility for the anti-money laundering function, both for the Parent Company and for the Group's commercial banks: Bdl, BM and WeBank S.p.A. (as well as the task of coordination of the other subsidiaries);
- the authority to report suspected money laundering transactions, for the Parent Company as well as BM and WeBank S.p.A..

In the performance of its activities, the Compliance function is not responsible for any business area, nor does it report to any person responsible for areas of operations, but, rather, as previously indicated, reports to the Chief Risk Officer and functionally to the Management Board and the Internal Control and Audit Committee for issues in its sphere of competence and, in any case, at its request.

With the aim of ensuring an assessment of compliance with the rules on the part of the Bank, avoiding the risk of non-compliance and events (resulting from regulatory non-compliance) that could potentially jeopardize the Bank's reputation, BPM's Compliance Function performs the following tasks:

- it prepares the annual compliance plan of the various activities to be performed;
- it identifies the rules applicable to the Bank and carries out the assessment of their impact on corporate processes and procedures;
- it ensures the control and assessment of the adequacy and effectiveness of the internal procedures and measurements through assessments or compliance tests;
- it proposes organizational and procedural changes to improve protection against the risk of non-compliance, asking for them to be introduced and making sure that they are implemented;
- it guarantees the activities of consulting and assistance to the Bank's corporate bodies, top management and other functions in all matters where the risk of non-compliance takes on a certain importance;
- it keeps the Conflict of Interest Register in accordance with the specific regulations issued jointly by the Bank of Italy and Consob;
- it makes every effort to ensure that training courses are developed to make all of the staff more aware about non-compliance risk;
- it is assisted by staff from the Operational Control and Judiciary Research Area and Internal Audit for work to be performed on the commercial network;
- it prepares an annual report on the work performed for submission to the Internal Control Committee and to the corporate bodies;
- it monitors the overall situation of complaints received by the Bank, on investment services as well as on operations and banking and financial services, based on the data provided by the function in charge of processing them.

The Compliance Function has access to all of the Bank's activities, both at head office and at the branches, as well as any other information that may be relevant to carry out its duties, also through a direct relationship with the related personnel.

To carry out the duties assigned to him, the Function is given a reasonable amount of financial resources, which can be increased if the need arises from regulatory obligations.

#### **8.4 Risk management function**

The Risk Management Function also forms part of BPM's internal control system, in its broadest sense, given that it monitors risks centrally at Group level and carries out the following processes:

1. risk management, understood as the identification, measurement, evaluation, monitoring, reporting, control and mitigation of the risks to which the Group is exposed;
2. assessing the adequacy of capital and liquidity, in relation to the Group's risk appetite and risk profile and the macroeconomic and market conditions.

It has to ensure on a timely basis that:

1. any significant risk at Group level is correctly identified and effectively managed, according to an integrated approach;
2. complete, comprehensible and integrated information is given to the Governing Bodies and to the competent Corporate Functions so that they can be fully aware of the Group's risk profile;
3. corporate policies on risk management are in place and regulatory reports required by the Company and/or the law are prepared.

The Risk Management function is responsible for ensuring compliance with the corporate limits established for the various lines of business and for making certain of the process that involves determining the adequacy of the Group's capital and liquidity.

In order to perform its duties in an effective manner – distinctly separate from those corporate functions which assume the risks – the Risk Management function has free access to all the information that is functional to the achievement of the objectives assigned to it, both for BPM and for Group companies and it operates independently, reporting on risk exposures and on capital adequacy and liquidity directly to the Bank's corporate bodies (Supervisory Board, Management Board and Managing Director and Chief Executive Officer).

The Risk Management Function operates with reference to the entire BPM Group according to the complexity and effective risk exposure of the individual subsidiaries. The decentralised units performing risk management activities – to the extent required by specific organizational complexities – report functionally to the Parent Company's risk management office. The Parent Company's Risk Management Department is headed up by the Chief Risk Officer.

## 8.5 Organizational model (Decree 231/01)

Banca Popolare di Milano, with the approval of the Board of Directors on 19 April 2005, has adopted an "Organisation, Management and Control Model" for the prevention of crime, pursuant to Legislative Decree 231/2001 (hereinafter, the "**Model**"). This Model:

- sets out the relevant regulatory context;
- identifies activities at risk in relation to the types of crime envisaged by Legislative Decree 231/2001 and indicates the "control standards" aimed at monitoring the risk of crimes being committed, together with principles of ethical conduct set out in the Code of Ethics;
- indicates the relevant regulations and documentation, the disciplinary procedures and persons to be trained on the Decree and the Model.

By nature, the Model is a dynamic document which is subject to change and thus to supplements or amendments rendered necessary by the various activities performed by the Bank.

The Model was updated during the course of 2012; in particular, it has been added to for criminal offences aimed at preventing "231 risk" consequent to the inclusion in the category of predicate offences of crimes pursuant to art. 25-undecies (so-called "environmental crimes") and criminal offences pursuant to art. 25-duodecies (so-called "crimes for the use of illegally staying third country nationals"); in January 2013, the Model was also updated for crimes envisaged by Law no. 190 of 6 November 2012, embodying the "Rules for the prevention and suppression of corruption and illegality in public administration", a law which has further expanded the list of offences that can lead to entities being held responsible under the aforementioned Legislative Decree 231/2001.

The Supervisory Committee has been entrusted with the task of supervising the functioning of, of observing and of updating the Model, as well as staff training.

With a motion passed on 13 January 2004, the Board of Directors of Banca Popolare di Milano set up a Supervisory Committee. During the course of 2012, the Management Board redesigned the Supervisory Committee, appointing as its members Gherardo Colombo (chairman), Gabriella Chersicla, Federico Maurizio d'Andrea and Angelo Pellegatta (as interim head of the Internal Audit function).

The Chairman of the Internal Control and Audit Committee and the head of the Compliance function of the Bank are permanently invited to attend the meetings of the Supervisory Committee.

All major Group companies have adopted a Model of Organisation, Management and Control as per Decree 231/2001 and have formed an internal Supervisory Committee. The Bank, without prejudice to the autonomous powers of initiative and control of each Group company with respect to the adoption and effective implementation of its own model pursuant to the Decree, has issued Group guidelines on the appointment and composition of Supervisory Committees.

The composition and function of the Committee are governed by a specific Regulation, which was last modified on 13 November 2012.

During the course of 2012, the Supervisory Committee met 11 times and the average length of the meetings was around 2 hours.

The Organisation, Management and Control Model and the Code of Ethics are available in a specific section of the Bank's website ([www.bpm.it/vigilanza/chi\\_siamo.shtml.vigilanza](http://www.bpm.it/vigilanza/chi_siamo.shtml.vigilanza)).

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## **8.6 Independent auditors**

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The General Meeting of the Members of BPM of 21 April 2007 appointed Reconta Ernst & Young S.p.A. to audit the separate financial statements of the Bank, the consolidated financial statements and the interim report of the BPM Group for the years 2007-2015.

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## **8.7 Financial Reporting Manager**

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During the meeting of 14 May 2007, the Board of Directors, based on the favourable opinion of the Board of Statutory Auditors, took steps to implement art. 154-bis CFA by appointing the "Financial Reporting Manager" in the person of Roberto Frigerio, taking account of his overall professional experience and the fact that he was at the time Manager in charge of the Administration, Planning and Control Department of the Bank.

The Financial Reporting Manager was assigned adequate powers and resources – including a specific expense budget, which for 2012 was of Euro 50,000 – to carry out his legal duties within the Group.

For a description of the principal characteristics of current risk management and internal control systems in relation to the process of financial reporting (as per art. 123-bis, 2, b) CFA), reference should be made to the next paragraph (8.8) of this Report.

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## **8.8 Principal characteristics of current risk management and internal control systems in relation to the process of financial reporting**

(as per art. 123-bis, paragraph 2, b) CFA)

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### **8.8.1. Introduction**

The risk management and internal control systems relating to financial reporting, integrated in the Internal Control System (SCI), is governed by a specific organizational model called the "Control Model as per Law 262/05 – Financial Reporting Manager".

This model permits ongoing verification of the adequacy and effective application of the administrative and accounting procedures at Group level and is designed to ensure the credibility, accuracy, reliability and timeliness of financial reporting and governance controls.

### **8.8.2. Principal characteristics of the internal control model used for financial reporting**

#### **8.8.2.1. The reference model**

From a methodological point of view, the model used to address financial reporting risk and the evaluation of adequacy and effective application of administrative and accounting procedures for the preparation of such information has been defined by the Bank and inspired by the "Internal Control – Integrated framework" – approved by the Committee of Sponsoring Organizations of the Treadway Commission (CoSo) – which is a generally accepted international framework for analysing internal control systems.

The methodology used in evaluating IT procedures (IT – General Controls) is inspired by the "Control Objectives for Information and Related Technology" (COBIT), developed by Information System Audit and Control Association (ISACA).

As regards the evaluation of the potential riskiness of sensitive processes for the purpose of accounting and financial reporting, different approaches are used to ensure:

- detailed analysis of the processes considered to be high risk in terms of their potential impact on accounting and financial reporting;
- a less detailed analysis of all of the other processes that are considered lower risk/impact, making use of the main corporate functions with control responsibilities with a view to maximising organizational synergies.

Following these analyses, bearing in mind that these processes that have been assessed are periodically monitored, an action plan is prepared to resolve any critical areas found.

### **8.8.2.2. Operating macro-processes**

The control model adopted consists of the following operating macro-processes:

- a) definition of the "sensitive" scope of application;
- b) monitoring the macro-system of company-level controls;
- c) monitoring of sensitive processes for accounting and financial reporting purposes (Process Level Controls) and for the general rules of governance of technologies and application software development (IT General Controls);
- d) assessment of the internal control system for accounting and financial reporting purposes.

These operating macro processes are briefly explained below:

#### **a) definition of the "sensitive" scope of application**

The scope of applicability is defined according to the following operating steps:

- identification of the Group companies that are relevant for accounting and financial reporting purposes, selected on the basis of certain parameters (such as total assets, gross profit) to which qualitative and quantitative thresholds are applied. The selection is done by quantitative parameters, possibly supplemented by a qualitative analysis that highlights possible factors (e.g. heterogeneity of the business, use of specific systems or processes) that could increase or decrease financial reporting risk;
- selecting financial statement items and significant accounts for each of the companies identified by means of materiality limits;
- associating such accounts and information in the financial statements with the underlying corporate processes through appropriate "account/process" matrices.

Once selected, sensitive processes are evaluated in terms of their potential risk, in order to apply methodologies that entail a greater or lesser degree of analysis.

Periodically, the scope of application and the assessment of critical processes is updated, making sure that the Corporate Bodies are adequately informed.

#### **b) monitoring the macro-system of company-level controls**

Company-level controls are designed to verify that there is a corporate environment that in general is geared to reducing the risks of errors and incorrect behaviour for accounting and financial reporting purposes. Company-level controls refer to elements of the Internal Control System as identified in the CoSO Framework and include elements such as: adequate systems of governance, standards of behaviour based on ethics and integrity, effective organizational structures, clear allocation of powers and responsibilities, appropriate risk policies, systems, staff disciplinary systems, effective codes of conduct and fraud prevention systems.

The detection of company-level controls makes it possible to assess the adequacy of the size of the internal control model, which is not directly analysed through process analysis.

The monitoring of the macro internal control system at company level is based on the maintenance and management of the documentation system and on checking the efficiency and effectiveness of the control system. The Bank and Group company functions involved in maintaining and managing the documentation system have to maintain company documents, regulations and policies regarding the internal control system.

The detection of company-level controls is regularly executed through assessments; an action plan is also prepared for the resolution of any critical issues that arise.

#### **c) monitoring of sensitive processes for accounting and financial reporting purposes (Process Level Controls) and for the general rules of governance of technologies and application software development (IT General Controls)**

The processes being monitored, having been selected according to the methods explained earlier (see point a), relate to the macro aggregates resulting from each process;

- business (*loans, finance, commercial banking*);
- governance (including risk management, risk and managing control);
- transversal and support (including accounting processes and the preparation of financial statements, HR management);
- governance of the technology infrastructure and IT applications (including IT strategic planning, the provision of IT services).

After selecting the processes, the next step is to verify the adequacy and effective application of the controls through the following processes:

- periodic verification that corporate processes considered sensitive for financial reporting purposes are adequate in terms of mapping the risks and designing controls (Risk Control Analysis);
- verification of the effective application of the controls (Tests of Control) by testing their correct execution and documentation;
- identification of any critical issues arising from the assessment of processes and testing, with the consequent preparation of a corrective action plan (Remediation Plan);
- monitoring of the status of the corrective actions that have been taken.

#### **d) Assessment of the internal control system for accounting and financial reporting purposes**

The final assessment of the system of internal control for financial reporting is made based on the evidence relating to:

- the macro system of company-level controls;
- sensitive processes for accounting and financial reporting purposes, the tests carried out and the status of the remediation plans introduced.

The assessment is made by consolidating the aforementioned results at Group level and by identifying, on the basis of specific qualitative and quantitative methodologies, any anomalies in the control system to be reported to the pertinent corporate and governance structures and, where required by law, to the market.

### **8.8.3 Roles and Functions involved in the control model for financial reporting purposes**

The following is an overview of the organization set up by the Bank to ensure that the system explained previously functions properly.

#### **8.8.3.1 The Financial Reporting Manager**

The Financial Reporting Manager defines and monitors the Model described in the preceding paragraphs using his own dedicated structure and, when necessary, making use of other corporate functions in order to:

- identify and formalise the processes, risks and controls that are considered sensitive for accounting and financial reporting purposes;
- verify the adequacy of the related processes and controls, making sure that the latter are effectively applied on an ongoing basis by the operating structures;
- define and monitor any corrective action to be taken;
- carry out a conclusive assessment of the control system for financial reporting purposes and its effective application, which allows him, together with the administration and control bodies, to issue the declarations to be attached to the financial statements and interim reports, certifying that they agree with the balances on the books of account and accounting entries.

The Financial Reporting Manager has adequate powers and instruments to carry out the activities mentioned above, in particular:

- he has his own staff that report to him and their specific objective is to support him in monitoring the internal control system for financial reporting purposes and in maintaining relations with the other corporate functions of the Parent Company and subsidiaries;
- he exercises a policy and coordination role for Group companies in administrative and accounting matters and monitors the internal control system for financial reporting purposes;
- he defines the communication flows versus the Corporate Bodies and exchanges of information with the Independent Auditors;
- in accordance with their respective missions and maintaining the necessary level of independence laid down in the reference legislation and corporate regulations, he collaborates with the other functions of the Bank in order to make as efficient as possible his assessment of the internal control system for financial reporting purposes and to obtain all of the information needed for this purpose.

#### **8.8.3.2 The Financial Reporting Manager's Staff**

The Financial Reporting Manager's Staff supports the Financial Reporting Manager in his policy activity and overall coordination at Group level on matters of control for financial reporting purposes. In particular:

- they analyse regulatory requirements and identify ways in which the model has to evolve;
- they assist the Manager by:
  - (i) defining the guidelines and the scope of application of the model, identifying the processes with an impact on accounting and financial reporting and the related level of risk;
  - (ii) planning the various activities involved in risk analysis and the tests of controls;
  - (iii) carrying out the final assessment of the internal control system and its effective application, which makes it possible to issue the certifications required by law;
- performing the various activities involved in the assessment of risks and controls and the test of adequacy and effective application of the controls;
- defining the methods of summarising and evaluating risk for reporting the results of the activities involved in the assessment of risk and controls and the test of adequacy and effective application of the controls to permit overall consolidation of the evidence;
- supporting the corporate functions in charge of managing processes that have an impact on accounting and financial reporting in identifying the corrective action deriving from the tests, requiring opportune interventions, also with the help of the organization and IT functions;
- monitoring the effective implementation of the remediation plans;
- coordinating the summarised information for the Financial reporting Manager and the Parent Company's Corporate Bodies for periodic reporting of the stage of completion and preparation of the certifications.

### **8.8.3.3 Internal Auditing Department**

In compliance with the principle of autonomy and independence from the other functions of the Bank, the Internal Auditing Department collaborates with the Financial Reporting Manager in order to:

- agree how they are going to exchange information of mutual interest;
- discuss critical areas found in the Group during internal audits, providing opinions on the adequacy of the various Group entities and any improvements that may be needed;
- evaluate together with the Financial Reporting Manager the methods of intervening in sensitive processes.

### **8.8.3.4 Organization Department**

The Organization Department makes sure that the Financial Reporting Manager is able to publish and update company documents and regulations needed at Parent Company level, communicating the related guidelines for their application at Group companies. It coordinates with the Financial Reporting Manager's Staff to identify the specific needs in terms of the mapping, updating and formalisation of the processes involved in accounting and financial reporting and to acquire important information deriving from the analysis of risk and controls carried out by his Staff.

### **8.8.3.5 Risk Management Department**

The Risk Management Department, as part of its risk monitoring activities, identifies elements to be used in assessing the potential risk that are useful for the definition of the scope of application of the control model.

### **8.8.3.6 IT Department**

The IT Department makes sure that the IT systems operate properly and that measures are adopted to safeguard the security and integrity of data and programs. It coordinates with the Financial Reporting Manager's Staff to help the latter carry out the analyses and related tests on IT processes and automatic controls embedded in business and transversal processes.

## **8.8.4 Information flows and communications to corporate bodies**

The internal control model used for financial reporting provides for a structured system of information flows and relations between the Financial Reporting Manager and the other corporate functions and companies of the Group, which put him in a position to know all of the data and information needed for financial reporting purposes. As part of this, the system provides for a flow of internal certifications from the subsidiaries to the Financial Reporting Manager at the time that the annual financial statements and half-year interim reports are being prepared, which confirm that their compliance:

- the administrative and accounting procedures and controls laid down by internal regulations for the preparation of accounting documents and any other communications of a financial nature;
- timely and complete reporting of all relevant information needed to give a true and fair view of the Group's assets and liabilities, results and financial position.

As regards communications versus corporate bodies, every six months the Financial Reporting Manager provides the Corporate Bodies with:

- a report on his activities, any critical areas that have emerged and the action taken to resolve them;
- the results of the assessments of the internal control system used for financial reporting with a view to issuing the certifications required by law.

Lastly, the Financial Reporting Manager holds meeting and exchanges information with the Independent Auditors.

## **9. Interests of Management Board Members and related party transactions**

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By means of a motion passed on 26 June 2012, the Management Board approved the "Rules for related parties and associated persons" which govern the procedures of the BPM Group for the management of related party transactions (hereinafter "RP Regulations") in accordance with the prudent supervisory regulations of the Bank of Italy concerning related parties (Circular no. 263/2006, Title V, Chapter 5) and with the Consob regulations dealing with related parties (Consob resolution no. 17221 of 12.3.2010 and subsequent amendments).

The Group's RP Regulations – available in the Governance section of the Bank's website [www.bpm.it](http://www.bpm.it) – has replaced, with effect from 31 December 2012, the previous "Regulation of the BPM Group on related party transactions and rules of conduct regarding the interests of directors and managers".

The Group's RP Regulations:

- i. set out the criteria for the identification of the BPM Group's related parties (hereinafter "Related Parties");
- ii. define the quantitative limits for the assumption by the Banking Group of risk-weighted assets of Related Parties, determining the relevant means for their computation;
- iii. establish the manner in which transactions with Related Parties are approved, differentiating between lesser and more significant transactions and defining in this context the role and the duties of an independent Member of the Management Board, assisted by a competent independent expert;
- iv. set out cases for exemptions and exceptions for certain types of transactions with Related Parties;
- v. lays down the disclosure (and accounting) requirements as a result of entering into related party transactions.

## **10. Supervisory Board**

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The current Articles of Association govern in detail the composition, appointment, powers and functioning of the Supervisory Board, in accordance with the Bank of Italy's Governance Measures and the principles of the Code of Conduct, with regard to which the following should be noted.

With reference to the composition of this body, the Articles of Association provide for at least 5 Board Members who meet the Code's independence requirements. Special requirements in terms of professional experience have also been established for Supervisory Board Members before they can take office and at least 3 of the Board Members have to be listed in the Register of Auditors.

With regard to the appointment procedure, the Articles of Association detail how the Supervisory Board is to be elected by means of voting lists; this voting mechanism ensures adequate representation of the various components of the shareholder base, reserving for minorities a significant level of representation on the Board (up to 6 Board Members) and, under certain conditions, the Articles also envisage the appointment of 2 Supervisory Board Members (out of a total of 6 assigned to minorities) by institutional investors and UCITS.

With reference to the powers and functions of the Supervisory Board, we would point out, inter alia, that:

- (i) the Supervisory Board has not been given the task of strategic supervision according to art. 2409-terdecies, lett.f-bis) of the Civil Code, a function that belongs exclusively to the Management Board under the current Articles of Association;
- (ii) there is a particular mechanism for the appointment and dismissal of the Management Board by the Supervisory Board (providing there is a "qualified quorum", i.e. a higher quorum than is normally required to pass resolutions), and a casting vote for the Board Members nominated by the "major shareholders" (undertakings for collective investment in transferable securities (UCITS) and the strategic partners of the BPM Group pursuant to art. 63 of the Articles of Association, Crédit Industriel et Commercial and Fondazione Cassa di Risparmio di Alessandria);
- (iii) the provisions of the Code of Conduct with regard to the setting up of the Remuneration, Nominations and Internal Audit Committees are applied to the Supervisory Board. The composition and responsibilities of these committees are governed directly by the Articles of Association, including detailed instructions about the presence and significance of the votes cast by the Board Members nominated by the minorities and by the BPM Group's strategic partners.

Details are as follows.

## 10.1. Appointment of Supervisory Board Members

The Supervisory Board consists of 17 Board Members (except as provided by art. 47 of the Articles of Association). Another one or two members can be appointed by the General Meeting, in accordance with Article 63 of the Articles of Association, to meet BPM's commitments with Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial.

All members of the Supervisory Board have to satisfy the legal and regulatory requirements of professionalism, integrity and independence, as laid down in:

- art. 148, paragraph 3, CFA which establishes the independence requirement for the members of the Board of Statutory Auditors of listed companies; requirements which also apply to the members of the Supervisory Board under the provisions of art. 148, paragraph 4 -bis, CFA;
- Regulation 161 dated 18 March 1998 of the Treasury, Budget and Economic Planning Ministry which establishes the requirements of integrity and professionalism for bank directors pursuant to art. 26 CBA;
- Regulation 162 dated 30 March 2000 of the Ministry of Justice, which establishes the requirements of integrity and professionalism for members of the Board of Statutory Auditors of listed companies (including requirements that apply to the members of the Supervisory Boards of listed companies under the provisions of art. 1, paragraph 6-quater, CFA).

In any case, in addition to the legal and regulatory requirements of professionalism, integrity and independence for holding office, art. 47 of the Articles of Association require that:

- (i) all of the members, including those appointed under art. 63 of the Articles of Association, must have at least three years' experience, in Italy or abroad, of administration, management or control activities in banking, asset management or insurance, or management activities in other types of companies providing they have a turnover of more than 1 billion euro in the year prior to their election or shares traded on an Italian or foreign regulated market. Candidates can be elected without this experience as long as they are or have been full-time university professors of law or economics;
- (ii) at least five of the members have to meet the independence requirements laid down in the Code of Conduct promoted by Borsa Italiana S.p.A.;
- (iii) at least three members have to be chosen from persons listed in the Register of Auditors, who have worked in the field of auditing for not less than three years these requirements and the one mentioned in point (ii) above may be satisfied by the same person).

Those who do not meet the requirements cannot be elected, and if they have been elected, they immediately fall from office. If a director no longer meets the requirements indicated in subparagraphs (ii) and (iii) above, this does not result in their disqualification, providing there are still enough members in office who meet the requirements.

Within 30 days of appointment, the Supervisory Board verifies that each Board member satisfies these requirements, in accordance with supervisory rules issued by the Bank of Italy, as well as the independence requirement pursuant to art. 148, para. 3, of the CFA and also checks that the independence requirements of the Code of Conduct have been met. The results of this verification are communicated to the public in accordance with the provisions of art. 144-novies, para. 1-bis, Issuers' Regulation, providing the information required by it and by the current "Instructions to the Regulations of Markets organised and run by Borsa Italiana S.p.A." (in particular, art. IA.2.6.7).

In particular, note that – in compliance with the Bank of Italy's Governance Instructions and in line with art. 47 of the Articles of Association – the Supervisory Board defines its ideal board composition with the support of the Nominations Committee, taking into account the need for its members to include persons:

- who are fully aware of the powers and obligations of the functions that each of them is expected to perform;
- who have expertise that is suitable for the role to be filled, also on any board sub-committees, and calibrated in relation to the operational characteristics and size of the Bank;
- with a variety of skills spread among all of the members, suitably diversified in such a way as to allow each of the members to help ensure effective governance of risks in all areas of the Bank, both on the sub-committees of which they may be part and in decisions that are taken collectively;
- who devote adequate time and resources considering the complexity of their role.

When the Supervisory Board comes to the end of its term of office, the results of these analyses are to be brought to the attention of the Members on a timely basis, so that the candidates to be included on the voting lists as per art. 47 of the Articles of Association can be selected taking into account the professional skills that are required.

The Supervisory Board, with the support of the Nominations Committee, verifies ex post the correspondence between the ideal composition and the actual one resulting from the appointments process.

## **Presentation and composition of lists of candidates**

The election of members of the Supervisory Board at the General Meeting takes place by means of ballot forms based on lists of candidates presented by the Members, following the methods and terms laid down in art. 47 of the Articles of Association.

To avoid the risk of refusal:

- a) if a list is presented with a number of candidates equal to or higher than eleven, the list must contain at least five candidates who meet the independence requirements laid down in the Code of Conduct of Listed Companies approved by Borsa Italiana S.p.A., and at least three candidates who are listed in the Register of Auditors and have at least three years' audit experience, subject to the possibility of overlapping;
- b) if the number of candidates is lower than eleven and more than three, the list must contain at least two candidates who meet the independence requirements laid down in the Code of Conduct of Listed Companies approved by Borsa Italiana S.p.A., and at least one candidate who is listed in the Register of Auditors and has at least three years' audit experience, subject to the possibility of overlapping;

Each list has to be presented by at least three hundred Members or otherwise by Members representing in total at least 0.5% of the share capital, who have been included in the Members' Register for at least ninety days prior to the date set for the General Meeting at first calling and who can document their right to do so in the prescribed manner. UCITS may also submit a list, providing they hold at least 0.5% of the share capital and can document their possession at the time of submission of the lists in the prescribed manner. Each Member or UCITS can only submit one list; if this rule is not respected, the signature of the member in question will not be taken into account for any of the lists.

The lists of candidates, duly signed, have to be deposited – pursuant to legislation applicable to listed companies – at the Company's head office at least twenty five days prior to the date of the General Meeting at first calling and have to be accompanied by each candidate's curriculum vitae and the declarations by which they individually accept their candidacy and confirm, under their own responsibility, that there are no reasons for ineligibility or incompatibility, and that all or some of the Board members meet the requirements of law or of the Articles of Association to hold office.

Lists that are presented in ways that do not comply with these instructions or that do not follow subparagraphs a) and b) above will not be taken into consideration. However, irregularities that relate to individual candidates do not automatically lead to the exclusion of the entire list, but only of the candidates to whom the irregularities refer, providing the list to which they belonged still meets the requirements of subparagraphs a) and b).

Each candidate can only be included on one list; otherwise, the person will be considered ineligible.

In order to allow the Members to know in advance the names of the candidates and their professional profile, the lists of candidates, accompanied by the required documents: the candidates' curriculum vitae and related declarations, the list of members sponsoring them and the total percentage of share capital held – are made available to the general public, by the twenty-first day prior to the date of the General Meeting of Members, at the head office of the Bank, at the offices of Borsa Italiana S.p.A. and on the Bank's website (see art. 147-ter, c. 1-bis, art. 148, c. 2 and 4-bis of the CFA and art. 144-octies and art. 144-decies of the Issuers' Regulation).

## **Voting and the criteria for allocation of Board Members to the various lists**

Given that each person entitled to vote can only vote for one list, the election of Board Members, the Chairman and Deputy Chairmen proceeds as follows.

If two or more lists have been submitted according to the above indications:

- a) eleven Board Members are taken from the list that won the most votes, in the order in which they are listed, including at least two who meet the requirement of being listed in the Register of Auditors with three years' experience in the field of auditing, and at least three who meet the independence requirements required by the Code of Conduct, subject to the possibility of overlapping;
- b) the other Board Members are taken from the other lists (excluding those to be elected in accordance with Article 63 of the Articles of Association and except as provided in art. 47 herein for the submission of lists by UCITS). To this end, the votes obtained by these lists are subsequently divided by one, two, three, four, five and six. The results obtained from this division are then progressively assigned to the candidates on each of these lists, in the order in which they are listed. The results attributed in this way to the candidates on the various lists are then ranked all together in declining order: the candidates that are elected are those with the highest scores. In the event that several candidates have the same score, the one to be elected is the candidate on the list that has not yet elected any Board Member or that has elected the lowest number of Board Members.

If lists have the same number of votes, and hence the same result, Board Members are attributed to the lists by drawing lots. If at the end of voting, and taking into account the Board Members elected in accordance with Article 63 of the Articles of Association and those taken from any lists submitted by UCITS, there have not been elected a sufficient number of Board Members who meet the independence requirement of the Code of Conduct promoted by Borsa Italiana S.p.A. and/or the requirement of being listed in the Register of Auditors with three years' audit experience, the candidate with the lowest score who meets neither of the two requirements just mentioned will be excluded; the candidate excluded will then be replaced by the unelected candidate who, in the ranking, obtained the highest score and meets at least one of the requirements that are lacking; if necessary, this procedure will be repeated until the number of Board Members to be elected has been reached; if, having adopted this method, it was not possible to complete the number of Board Members to be elected, those that are missing will be elected as laid down in the last paragraph of art. 47 of the Articles of Association (see below);

- c) the Board Member who features as the leading candidate on the list that won the highest number of votes is elected Chairman;
- d) the second and third candidates on the list that won the most votes are elected Deputy Chairmen.

If only one list has received votes, the first seventeen candidates on that list get elected. The first, second and third candidates on the list are elected Chairman and Deputy Chairmen respectively.

If more than two lists are presented, including one by a UCITS, the latter will provide two members of the Supervisory Board, even if it has not obtained a sufficient number of votes for a candidate to be elected, providing it has obtained at least one hundred votes or, alternatively, that it has obtained a number of votes representing at least 2% of the share capital. As a consequence, this will exclude the two candidates that obtained the lowest scores in the ranking. If several UCITS present more than one list that obtains a number of votes that is not sufficient to elect a candidate, providing they obtain at least one hundred votes or, alternatively, that they have obtained a number of votes representing at least 2% of the share capital, the two members of the Supervisory Board are to be taken from the two of these lists that obtained a number of votes representing the higher percentage of share capital.

Pursuant to the last paragraph of art. 47 of the Articles of Association, if seventeen board members are not achieved, the members that are lacking are taken, where possible, from the first unelected candidates on the list that obtained the highest number of votes and who meet the requirements needed for the Supervisory Board to have the correct composition. If seventeen board members are still not reached even in the manner indicated above, the Supervisory Board will be deemed validly constituted, until the natural expiration of its term, providing it is composed of at least eleven members (without taking into consideration those appointed under Article 63 of the Articles of Association, if any) and they meet the requirements specified in the fifth paragraph of this article. Failing this, the appointment has no effect and a General Meeting must again be called, without delay, to appoint the entire Supervisory Board.

#### **Method of appointment of Supervisory Board Members as per art. 63 of the Articles of Association**

Pursuant to art. 63 of the Articles of Association, even if this makes the total number of Board Members go over seventeen, the General Meeting appoints two Supervisory Board Members taken from the list that the Board has the right to present in order to fulfil the Bank's commitments with Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial, for as long as the conditions for applying these agreements continue to exist.

To this end, the General Meeting passes resolutions with a relative majority in an open vote.

The Board Members appointed under art. 63 of the Articles of Association have the same rights, powers and duties as any other member of the Supervisory Board and they have to meet the requirements of applicable laws and regulations to hold office, as well as the requirements of the Articles of Association.

Unless expressly stated otherwise, any reference in the Articles of Association to the number of members of the Supervisory Board, also for the purpose of calculating quorums for setting up the meeting or passing resolutions, is understood as referring to the number of members of the Supervisory Board including those appointed under art. 63 of the Articles of Association.

### **Procedure for replacing Members of the Supervisory Board**

The Supervisory Board consists of less than eleven members (without taking into consideration those appointed under Article 63 of the Articles of Association).

If the Chairman or the Deputy Chairmen are no longer serving, assuming that the number of Board Members is reintegrated as envisaged previously, the procedure is as follows:

- a) if it is the Chairman that is no longer serving, his functions are to be taken over by the more senior of the Deputy Chairmen in terms of age up to the next General Meeting that can elect a new Chairman;
- b) if one or both of the Deputy Chairmen, are no longer serving, they have to be replaced at the next General Meeting;
- c) if both the Chairman and the Deputy Chairmen are no longer serving, the Chairman's function is to be taken by the Board Member who was elected in the majority list designated by the Supervisory Board.

Specific provisions are laid down in the event of termination or non-acceptance of the post by the Board Members under art. 63 of the Articles of Association, in which case, the Supervisory Board will proceed by co-option to ensure compliance with the agreements with the Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial. Board Members appointed in this way remain in office until the next General Meeting, which confirms them with a relative majority in an open vote on the proposal of the Supervisory Board.

### **Gender balance**

In relation to the composition of the current Management Board, it is hereby disclosed that the regulations concerning gender balance on corporate bodies of listed companies introduced by law no. 120 of 12 July 2011 and endorsed by the Issuers' Regulation will be applied on the first renewal of the Management Board and bodies Supervisory Board subsequent to 12 August 2012.

### **Dismissal of Supervisory Board Members**

Members of the Supervisory Board can be dismissed by the General Meeting at any time – by a resolution adopted with the majority required by law – without prejudice to their right to compensation for damages if the revocation took place without true and just cause.

## **10.2 Composition and role of the Supervisory Board** (art. 123-bis, paragraph 2.d) CFA)

The Supervisory Board currently in office was appointed for three years (2011–2013) by the General Meeting held on 22 October 2011, and will remain in office until the General Meeting to be held in 2014, as per art. 2364-bis, para. 2 of the Civil Code, to approve the 2013 financial statements.

The General Meeting of Members of October 2011 was called to appoint the seventeen Members of the Supervisory Board from the following five lists of candidates:

- **List 1**, with Ulrich Weiss as lead candidate, presented by UCITS no. 1 (Investindustrial IV L.P.), owner of 0.5% of the Bank's share capital, with the following candidates: Ulrich Weiss, Stefania Chiaruttini, Cesare Piovene Porto Godi, Anna Maria Pontiggia and Roberto Spada.
- **List 2**, with Roberto Perotti as lead candidate, presented by UCITS no. 8 (Fideuram Gestions S.A. – Fonditalia Euro Financials; Fideuram Gestions S.A. – Fonditalia Euro Defensive; Fideuram Gestions S.A. – Fonditalia Flexible Europe; Fideuram Gestions S.A. – Fonditalia Fund Equity Europe; Fideuram Gestions S.A. – Fonditalia Equity Europe; Prima SGR; Pioneer Investment Management SGR.p.A. – Azionario Crescita; Pioneer Asset Management S.A.), together the owner of 0.88% of the Bank's share capital, with the following candidates: Roberto Perotti, Lucia Calvosa and Francesca Cornelli.
- **List 3**, with Piero Lonardi as lead candidate, presented by 555 members (the list is published on the websites of the Bank and of Borsa Italiana), together the owner of 0.21% of the Bank's share capital, with the following candidates: Piero Lonardi, Roberto Fusilli, Giovanni Massimello, Emilio Luigi Cherubini, Claudio Danelon, Maurizio Pisati and Guido Castoldi.
- **List 4**, with Filippo Annunziata as lead candidate, presented by 680 members (the list is published on the websites of the Bank and of Borsa Italiana), together the owner of 0.36% of the Bank's share capital, with the following candidates: Filippo Annunziata, Umberto Bocchino, Giuseppe Coppini, Giovanni Bianchini, Francesco Giaretta, Mario Benito Mazzoleni, Maria Luisa Mosconi, Marcello Priori, Ezio Maria Simonelli, Michele Zefferrino, Maurizio Cavallari, Ruggiero Cafari Panico, Alberto Balestreri, Maurizio Dalocchio and Guido Nori.
- **List 5**, with Marcello Messori as lead candidate, presented by 416 members (the list is published on the websites of the Bank and of Borsa Italiana), together the owner of 0.22% of the Bank's share capital, with the following candidates: Marcello Messori, Carlo Dell'Aringa, Mauro Paoloni, Massimo Tezzon, Carmine De Robbio, Giovanna Nicodano, Alfredo Malguzzi, Massino De Felice, Andrea Perrone, Raoul Pisani, Enrico Castoldi and Serenella Rossano.

Under art. 63 of the Articles of Association, the same General Meeting of Members was called upon to appoint another two candidates for the office of Member of the Supervisory Board presented by the Bank as indicated by Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial. They are: (i) Federico Fornaro (nominated by Fondazione Cassa di Risparmio di Alessandria); (ii) Jean-Jacques Tamburini (nominated by Crédit Industriel et Commercial).

These five lists of candidates and those under art. 63 of the Articles of Association, accompanied by the prescribed documentation, were made available to the general public at the Bank's head office, at the offices of Borsa Italiana S.p.A. and on the Bank's website on 11 October 2011, and their publication was communicated by means of a press release on the same date.

Once the votes had been counted, the lists had achieved the following results:

- list no. 1 obtained 143 votes;
- list no. 2 obtained 27 votes;
- list no. 3 obtained 1,375 votes;
- list no. 4 obtained 4,246 votes;
- list no. 5 obtained 2,274 votes.

Therefore, applying the quotient system for the election of board members taken from the minority lists – considering that the same General Meeting appointed the two Supervisory Board Members pursuant to art. 63 of the Articles of Association – the voting list mechanism permitted the appointment, within the Supervisory Board, of eleven board members on the list that obtained the highest number of votes (list no. 4), four board members taken from two different minority lists (of which three taken from list no. 5 and the other from list no. 3) and two board members taken from the minority list presented by a UCITS (list no. 1).

Subsequently, the Bank took note of the declaration of Marcello Messori that he did not accept the appointment; he was therefore replaced, under art. 48 of the Articles of Association, by Enrico Castoldi, a candidate taken from the same list (no. 5), who under the Articles of Association will remain in office – like the other members of the current Supervisory Board – until the date of the General Meeting to be held in 2014, as per art. 2364-bis, para. 2 of the Civil Code, to approve the 2013 financial statements.

The following is a full list of the board members elected as a result of the members' voting at the General Meeting on 22 October 2011, indicating any specific positions held on the Board, the end of their term of office and their eligibility to qualify as independent directors pursuant to art. 3 of the 2006 Code of Conduct (as declared at the time the lists were presented).

Name	Office	Date of leaving office	*	**
Filippo Annunziata <sup>(1)</sup>	Chairman	2014 General Meeting of Members	YES	YES
Umberto Bocchino <sup>(1)</sup>	Deputy Chairman	2014 General Meeting of Members	YES	YES
Giuseppe Coppini <sup>(1)</sup>	Deputy Chairman	2014 General Meeting of Members	YES	NO
Giovanni Bianchini <sup>(1)</sup>	Board member	2014 General Meeting of Members	YES	NO
Maurizio Cavallari <sup>(1)</sup>	Board member	2014 General Meeting of Members	NO	NO
Stefania Chiaruttini <sup>(4)</sup>	Board member	2014 General Meeting of Members	YES	YES
Carlo Dell'Aringa <sup>(2)</sup>	Board member	2014 General Meeting of Members	NO	NO
Federico Fornaro <sup>(5)</sup>	Board member	2014 General Meeting of Members	YES	NO
Francesco Giaretta <sup>(1)</sup>	Board member	2014 General Meeting of Members	YES	NO
Piero Lonardi <sup>(3)</sup>	Board member	2014 General Meeting of Members	NO	YES
Mario Benito Mazzoleni <sup>(1)</sup>	Board member	2014 General Meeting of Members	NO	NO
Marcello Messori <sup>(2) (7)</sup>	Board member	–	YES	NO
Maria Luisa Mosconi <sup>(1)</sup>	Board member	2014 General Meeting of Members	YES	YES
Mauro Paoloni <sup>(2)</sup>	Board member	2014 General Meeting of Members	YES	YES
Marcello Priori <sup>(1)</sup>	Board member	2014 General Meeting of Members	NO	YES
Ezio Maria Simonelli <sup>(1)</sup>	Board member	2014 General Meeting of Members	YES	YES
Jean-Jacques Tamburini <sup>(6)</sup>	Board member	2014 General Meeting of Members	NO	NO
Ulrich Weiss <sup>(4)</sup>	Board member	2014 General Meeting of Members	YES	NO
Michele Zeffirino <sup>(1)</sup>	Board member	2014 General Meeting of Members	YES	NO

<sup>(\*)</sup> Candidate qualified as independent under art. 3 Code of Conduct for Listed Companies (2006 version).

<sup>(\*\*)</sup> Candidate declared that listed in the Register of Auditors and worked in the field of auditing for not less than three years.

<sup>(1)</sup> Taken from list no. 4, which gained a majority of the votes (4,246).

<sup>(2)</sup> Taken from list no. 5, which gained a minority of the votes (2,274).

<sup>(3)</sup> Taken from list 3, which won a minority of the votes (1,375 votes).

<sup>(4)</sup> Taken from list no. 1, presented by UCITS (143 votes).

<sup>(5)</sup> Appointed under art. 63 of the Articles of Association (Fondazione Cassa di Risparmio di Alessandria).

<sup>(6)</sup> Appointed under art. 63 of the Articles of Association (Crédit Industriel et Commercial).

<sup>(7)</sup> Board member replaced under art. 48 of the Articles of Association by Enrico Castoldi.

On 22 November 2011, the Supervisory Board verified the requirements of professionalism, integrity and independence of its members. In this context, the Board took note of the declarations of the persons concerned and, based on the information at its disposal, checked that its members met the legal and regulatory requirements of professionalism, integrity and independence for holding office, including those of the Articles of Association, also taking note that the composition of the Board complies with the law and the Articles of Association.

During the course of 2012:

- following the resignation on 26 April 2012 of the Board member Ezio Simonelli, he was replaced, in accordance with art. 48 of the Articles of Association, by the Board member Ruggiero Cafari Panico with effect from 7 May 2012, a candidate taken from the same list of the Board member who resigned (list no. 4);
- following the resignation on 4 May 2012 of the Board member Stefania Chiaruttini, she was replaced, in accordance with art. 48 of the Articles of Association, by the Board member Cesare Piovene Porto Godi with effect from 9 May 2012, a candidate taken from the same list of the Board member who resigned (list no. 1);
- following the resignation on 30 October 2012 of the Board member Ulrich Weiss, he was replaced, in accordance with art. 48 of the Articles of Association, by the Board member Anna Maria Pontiggia with effect from 31 October 2012, a candidate taken from the same list of the Board member who resigned (list no. 1);
- following the resignation from office on 14 November 2012 of the Board member Francesco Giaretta, he was replaced, in accordance with art. 48 of the Articles of Association, by the Board member Alberto Balestreri with effect from 15 November 2012, a candidate taken from the same list of the Board member who resigned (list no. 4);
- During the course of the meetings held on 29 May and 27 November 2012, the Supervisory Board concluded that the directors Ruggiero Cafari Panico, Cesare Piovene Porto Godi, Anna Maria Pontiggia and Alberto Balestreri met with the requirements of professionalism, integrity and independence, laid down by primary and secondary regulations for the office.

It should also be noted that, on 4 February 2013, Prof. Carlo Dell'Aringa resigned from his position of member of the Supervisory Board of the Bank. In relation thereto, note that it was not possible to appoint a new member to the Board under the automatic replacement mechanism pursuant to art. 48 of the Articles of Association, because there were no candidates belonging to the same list as the member who resigned. Consequently, the next General Meeting of Members will be called upon to replace – pursuant to the same art. 48 of the Articles of Association – the member of the Supervisory Board who has resigned.

The following is a complete list of the Management Board members currently in office, with an indication of the specific offices that some of them hold on the Board, the date that their mandate expires and whether or not they qualify as independent or executive directors. The same information is also given for Board members who left office during the course of 2012 and during the current financial year (up to the date of this report).

NAME	Office	Date of Appointment	Date of leaving office	*	**
Filippo Annunziata <sup>(1)</sup>	Chairman	22.10.2011	2014 General Meeting of Members	YES	YES
Umberto Bocchino <sup>(1)</sup>	Deputy Chairman	22.10.2011	2014 General Meeting of Members	YES	YES
Giuseppe Coppini <sup>(1)</sup>	Deputy Chairman	22.10.2011	2014 General Meeting of Members	YES	NO
Alberto Balestreri <sup>(1) (7)</sup>	Board member	15.11.2012	2014 General Meeting of Members	YES	YES
Giovanni Bianchini <sup>(1)</sup>	Board member	22.10.2011	2014 General Meeting of Members	YES	NO
Ruggiero Cafari Panico <sup>(1) (7)</sup>	Board member	07.05.2012	2014 General Meeting of Members	YES	YES
Enrico Castoldi <sup>(2) (7)</sup>	Board member	22.10.2011	2014 General Meeting of Members	YES	YES
Maurizio Cavallari <sup>(1)</sup>	Board member	22.10.2011	2014 General Meeting of Members	YES	NO
Federico Fornaro <sup>(5)</sup>	Board member	22.10.2011	2014 General Meeting of Members	YES	NO
Piero Lonardi <sup>(3)</sup>	Board member	22.10.2011	2014 General Meeting of Members	NO	YES
Mario Benito Mazzoleni <sup>(1)</sup>	Board member	22.10.2011	2014 General Meeting of Members	NO	NO
Maria Luisa Mosconi <sup>(1)</sup>	Board member	22.10.2011	2014 General Meeting of Members	YES	YES
Mauro Paoloni <sup>(2)</sup>	Board member	22.10.2011	2014 General Meeting of Members	YES	YES
Cesare Piovene Porto Godi <sup>(4) (7)</sup>	Board member	09.05.2012	2014 General Meeting of Members	YES	YES
Anna Maria Pontiggia <sup>(4) (7)</sup>	Board member	31.10.2012	2014 General Meeting of Members	YES	YES
Marcello Priori <sup>(1)</sup>	Board member	22.10.2011	2014 General Meeting of Members	NO	YES
Jean-Jacques Tamburini <sup>(6)</sup>	Board member	22.10.2011	2014 General Meeting of Members	NO	NO
Michele Zefferrino <sup>(1)</sup>	Board member	22.10.2011	2014 General Meeting of Members	NO	NO

**Directors who left office**

Name	Office	Date of appointment	Date of leaving office	*	**
Stefania Chiaruttini <sup>(4)</sup>	Board member	22.10.2011	04.05.2012	YES	YES
Carlo Dell'Aringa <sup>(2)</sup>	Board member	22.10.2011	04.02.2013	NO	NO
Francesco Giaretta <sup>(1)</sup>	Board member	22.10.2011	14.11.2012	NO	NO
Ezio Simonelli <sup>(1)</sup>	Board member	22.10.2011	26.04.2012	YES	YES
Ulrich Weiss <sup>(4)</sup>	Board member	22.10.2011	30.10.2012	YES	NO

<sup>(1)</sup> Independent director as per art. 3 Code of Conduct.

<sup>(\*\*)</sup> Listed in the Register of Auditors with at least three years' audit experience.

<sup>(1)</sup> Taken from list no. 4, which gained a majority of the votes (4,246).

<sup>(2)</sup> Taken from list no. 5, which gained a minority of the votes (2,274).

<sup>(3)</sup> Taken from list 3, which won a minority of the votes (1,375 votes).

<sup>(4)</sup> Taken from list no. 1, presented by UCITS (143 votes).

<sup>(5)</sup> Appointed under art. 63 of the Articles of Association (Fondazione Cassa di Risparmio di Alessandria).

<sup>(6)</sup> Appointed under art. 63 of the Articles of Association (Crédit Industriel et Commercial).

<sup>(7)</sup> Appointed under art. 48 of the Articles of Association (automatic replacement mechanism).

\* \* \*

In accordance with art. 144-decies, IR, as regards the members of the Supervisory Board in office at the date of this Report (reference should be made to the "Who we are" section of the Bank's website for their CVs), the following is a summary of their personal and professional characteristics.

Filippo Annunziata: he graduated in Economics and Business Studies and qualified as a Chartered Accountant and Official Auditor. He is an Associate Professor of Financial Market Law at Bocconi University and a member of the steering committee of the "Paolo Baffi Centre" at the same university. He is a founding member of the "Annunziata Associati" law firm.

Umberto Bocchino: he graduated in Economics and Business Studies and qualified as a Chartered Accountant and Official Auditor. Professor of Accounting at the Faculty of Economics of Turin University. He has held office as director and statutory auditor in various companies operating in the industrial and financial sectors.

Giuseppe Coppini: he began his career at Banca del Monte di Credito di Pavia, subsequently holding various management positions at Banca Agricola Milanese (absorbed by BPM in 1997). Over the years, he has been on the Board of Directors of numerous companies belonging to the BPM Group.

Alberto Balestreri: has a degree in economics and business studies, a professional accountant, an official auditor and is the owner of Studio Balestreri.

Ruggiero Cafari Panico: Professor of European Union law and internal market and competition law with the faculty of political science of Milan University. Founding partner of Kstudio Associato, a legal and tax advisory practice belonging to KPMG Group's international network. Admitted to the Milan Bar and a member of the Court of Cassation; and an official auditor.

Giovanni Bianchini: up until 2000, he worked for Banca Popolare di Milano in various management roles; he was a member of the Board of Directors of BPM and of other Group companies, including Banca di Legnano S.p.A..

Enrico Castoldi: Professional accountant and official auditor, has held office in the administration and control of industrial and financial companies (belonging to the BPM Group).

Maurizio Cavallari: Adjunct Professor of "Banking Information Systems and Computer Science" at the Università Cattolica del Sacro Cuore of Milan and Visiting Lecturer at Oxford University (UK). In addition to teaching and researching, he is a member of the Board of Directors of several financial and industrial companies.

Federico Fornaro: has a degree in political science and has held management positions in editorial companies. Has been a senator of the Republic since 15 March 2013.

Piero Lonardi: has a degree in economics and business studies, is a professional accountant and official auditor and currently holds office as director and statutory auditor of various industrial companies. He was a director of BPM and of other Group companies.

Mario Benito Mazzoleni: he graduated in Economics and is an Associate Professor of Business Studies at the Università degli Studi di Brescia. In addition to his scientific and teaching activities, he has held numerous directorships in financial and industrial companies.

Maria Luisa Mosconi: has a degree in business studies, is an official auditor and a professional accountant. In addition to the performance of her professional duties, she has held and holds office as a member of control bodies in a number of industrial and financial groups.

Mauro Paoloni: has degrees in economics and business studies and law and has been a professor in business studies at the Università degli Studi of Roma tre since 2000.

Cesare Piovene Porto Godi: has a degree in economics and business studies and is an official auditor. Acts in an advisory capacity for companies and groups, some of which are foreign, operating in various industrial sectors. Holds and has held office as a member of control bodies in a number of important industrial and banking groups.

Anna Maria Pontiggia: has a degree in business studies. Professional accountant and official auditor. Expert witness for the Court of Milan and official receiver. Has been a registered Consob arbitrator since 30 November 2010.

Marcello Priori: holds a degree in business studies, a professional accountant and official auditor, lecturer at the Bocconi University, holds office as director and statutory auditor of domestic and multinational groups operating in financial and industrial sectors. He was a director of BPM and of other Group companies.

Jean-Jacques Tamburini: holds a diploma in political science from the Institut d'Etudes Politiques of Paris and an advanced diploma in law from Paris University, holds important administrative and management positions with the French banking group CM-CIC.

Michele Zefferrino: he graduated in Political Science from Milan University and has spent his working life in BPM, taking on positions of increasing responsibility. He has been a Member of the Board of Directors of Banca Popolare di Milano and of the Boards of Directors of various companies in the banking and insurance sectors of the BPM Group.

\* \* \*

Set out below, for information purposes, is the curriculum vitae of the members of the Supervisory Board who left office during the course of 2012 and in 2013.

Stefania Chiaruttini: graduated in Economics and Business Studies, Chartered Accountant and Official Auditor, she holds positions of director and statutory auditor in various companies in the financial and industrial sectors.

Carlo Dell'Aringa: he graduated in Political Science and is Professor of Economics at the Cattolica University in Milan. He is the author of numerous publications and alongside his academic activity he has also carried out research assignments in the economic field.

Francesco Giaretta: until 1995 he was employed by Banca Popolare di Milano, taking on positions of increasing responsibility. He has been a member of the Board of Directors of various companies in the BPM Group.

Ezio Maria Simonelli: graduated in Economics and Business Studies and is a Chartered Accountant, Official Auditor and journalist. He also holds office as a member of control bodies of important industrial and financial companies.

Ulrich Weiss: he worked for the Deutsche Bank Banking Group until 1998, taking on positions of increasing responsibility. He has held directorships in various companies (including listed ones) operating in the financial and industrial sectors.

## **Limits to the accumulation of offices**

Subject to the fact that each Board member – at the time of acceptance of office and during the course of the mandate – must assess if he/she has enough time to diligently perform the tasks entrusted, also taking account of his/her own work or professional commitments, it should be noted that the rules on limits to the accumulation of administration and control positions that members of the Supervisory Board of the Bank may hold are directly governed by primary and secondary legislation. The members of the Supervisory Board are not allowed to hold or accept directorships or auditorships (or as members of management or supervisory boards) in more companies and other entities than as laid down in arts. 144-duodecies et seq. and Annex 5-bis of Consob's Issuer Regulations, implementing art. 148-bis CFA (as amended).

During the course of the meeting held on 5 March 2013, the Supervisory Board performed a periodic review of the limits to the accumulation of offices of its members, concluding that each member of the Supervisory Board had complied with the limits laid down by primary and secondary legislation.

## **Responsibilities and Functioning of the Supervisory Board**

### **Powers of the Supervisory Board**

The Supervisory Board takes over some of the tasks that under the traditional system of corporate governance are the responsibility of the General Meeting of Members, such as the determination of the remuneration of the members of the Management Board, as well as the initiation of liability actions. The Supervisory Board also has the task of approving the separate and consolidated financial statements.

The Supervisory Board is vested with the control functions foreseen by law, being given all of the powers granted by law and the Articles of Association for this purpose.

The Supervisory Board has not been given the task of strategic supervision according to art. 2409-terdecies, lett.f-bis) of the Civil Code, a function that belongs exclusively to the Management Board under the current Articles of Association.

Without prejudice to the additional mandatory powers foreseen in the Articles of Association and in provisions required by applicable laws or regulations, the Supervisory Board:

- (i) approves the separate and consolidated financial statements prepared by the Management Board;
- (ii) on the proposal of the Nominations Committee, appoints and dismisses the Members of the Management Board, as well as its Chairman; also determines, on the proposal of the Remuneration Committee, the compensation for Members of the Management Board, the Chairman of the Management Board, the MD & CEO and the Members of the Management Board who are assigned to sub-committees, or that have specific responsibilities, duties or powers;
- (iii) initiates liability actions against the members of the Management Board;
- (iv) performs the supervisory functions provided for in art. 149, first and third paragraphs, of Legislative Decree 58 of 24 February 1998, and in particular:
  - performs the control function by monitoring compliance with laws and the Articles of Association, respect for the principles of proper management, the adequacy of the Company's organizational structure to carry out its duties, the system of internal control and the accounting system, including the fact that it can be relied on to present a true and fair view of the Company's affairs;
  - supervises the methods of implementing the governance rules laid down in codes of conduct drawn up by companies that run stock markets or trade associations, which the Company has announced publicly that it has adopted;
  - supervises the adequacy of the instructions given by the Bank to its subsidiaries pursuant to art. 114, para. 2, CFA;
  - informs Consob without delay of any irregularities found during its supervisory activity and sends it the minutes of meetings and of any investigations that it has carried out, as well as any other relevant documentation;
- (v) evaluates the efficiency and adequacy of the internal control system, particularly with regard to control over risk, the functioning of the Internal Audit Department and the accounting and reporting system: it also checks that the Bank, as the Parent Company, performs its strategic and management control activities properly over the other Group companies, cooperating with the corresponding bodies at the subsidiaries;
- (vi) reports cases of maladministration to the Bank of Italy pursuant to art. 70, paragraph 7, CBA;
- (vii) reports in writing to the General Meeting convened pursuant to Article 2364-bis of the Italian Civil Code about its supervisory activities and about omissions or reprehensible situations that may have been found; it also reports in writing to any other Meeting convened in ordinary or extraordinary session about matters that it considers within its competence;
- (viii) makes reasoned proposals to the General Meeting on the appointment and revocation of the Independent Auditors;

- (ix) expresses the compulsory but non-binding opinion with regard to the Financial Reporting Officer referred to in Article 154-bis of CFA, the Head of Internal Control and the Compliance Officer, as well as the heads of the various corporate functions and structures that have control duties and responsibilities;
- (x) approves, as required by applicable law, the remuneration policies for employees and collaborators who are not employees of the Bank;
- (xi) expresses its non-binding opinion on the decisions of the Management Board referred to in subparagraphs h), t) and u) referred to in art. 39, paragraph 2, of the Articles of Association, when required by the Management Board;
- (xii) informs the Bank of Italy without delay of all acts or facts, of which the Board becomes aware during the exercise of their duties, which may constitute a management irregularity or a violation of the rules that govern the banking industry;
- (xiii) establishes, in accordance with the current Articles of Association, the general guidelines that the Management Board has to follow in laying down procedures for the admission and exclusion of Members.

In the interests of a more efficient and functional exercise of the Supervisory Board's powers of acquisition of information from Management Board Members under art. 151-bis of the CFA, as a rule, requests are addressed to the Chairman of the Management Board and to the Managing Director through the Chairman of the Supervisory Board or the Chairman of the Internal Control and Audit Committee. Any news has to be given to all members of the Supervisory Board.

The powers of inspection and control assigned to the Supervisory Board by art. 151-bis, para. 4, CFA will be exercised by the Internal Control and Audit Committee pursuant to art. 52 of the Articles of Association. The Supervisory Board is entitled to provide information to the Internal Control and Audit Committee about the exercise of these powers. This Committee can also perform the functions mentioned in art. 19 of Decree 39/2010.

The Supervisory Board's participation in meetings of the Management Board, pursuant to Article 2409-terdecies, paragraph 4, of the Civil Code, is restricted to members of the Internal Control and Audit Committee, at least one of whom must attend meetings of the Management Board.

### **Chairman of the Supervisory Board**

With reference to the powers granted to the Chairman of the Supervisory Board, art. 54 of the Articles of Association provides that, subject to the additional duties provided by law and other provisions in the Articles, the Chairman:

- a) coordinates the work of the Supervisory Board;
- b) receive proposals from the Management Board concerning matters to be submitted to the Supervisory Board;
- c) activates the information tools needed to monitor the accuracy and adequacy of the organizational structure and accounting system adopted by the Company and the Group;
- d) maintains relations with the Management Board and, in particular, with its Chairman;
- e) requests and receives information on specific aspects of the Company's and Group's operations and on their results, both current and forward-looking;
- f) after consulting the Chairman of the Management Board, plans and oversees implementation of charitable initiatives and projects of public benefit by the Company and the Group, to be submitted to the Supervisory Board;
- g) maintains relations with the Supervisory Authorities as part of the routine activities of the Supervisory Board;
- h) exercises any other powers needed to perform his duties.

In the event of the absence or impediment of the Chairman of the Supervisory Board, one of the Deputy Chairmen performs his functions. In the absence or impediment of the Chairman and of the Deputy Chairmen, the meeting is chaired by the Board Member who has been in office the longest, or, in the case of a tie, by the oldest member.

## **How the Supervisory Board functions**

In accordance with the provisions of law and the Articles of Association, at its meeting of 13 December 2011, the Supervisory Board adopted a specific set of regulations that govern, among other things, how the board is meant to function.

The Supervisory Board meets at least once every two months and Board meetings are called by the Chairman with a specific detailed agenda, which has to be sent out at least one week prior to the meeting or, in an emergency, by telegram, fax, telex or similar method at least two days prior to the meeting.

A board meeting has to be called with the same amount of notice, indicating the matters to be discussed, on the request of at least five Directors, who in case of necessity can call the meeting themselves.

The Chairman coordinates the proceedings of the Supervisory Board and takes steps to ensure that all Board Members are provided with adequate information regarding the matters on the agenda. In particular, well in advance of board or committee meetings, each Board Member will be provided with the information needed for an effective, thorough and non-formal preparation for such meetings. During the course of board meetings, and within the ambit of the agenda, all Board Members have the right to ask for any clarification and information they deem necessary or appropriate for a complete evaluation of the matter to be decided.

Remote participation in meetings of the Supervisory Board is permitted through the use of appropriate equipment for audio-video and/or teleconferencing, providing that all those entitled to attend can do so and can be identified and that they are allowed to follow the meeting and to intervene in the debate in real time, as well as to receive, transmit or view documents, being in a position to review documents and to make decisions at the same time. In this case, the Supervisory Board is considered held in the place where the person chairing the meeting and the Secretary are located.

Pursuant to art. 49 of the Articles of Association, for Board resolutions to be valid, a majority of the Board Members currently in office has to be present at the meeting, including the Members mentioned in art. 63 of the Articles of Association, and resolutions are passed by an absolute majority of votes, though resolutions are considered approved even if the vote was split 50/50, providing the person chairing the meeting voted in favour of the motion.

At the time of board meetings, any Board Members who on their own account or for third parties have an interest in a particular transaction of the Bank have to provide timely and exhaustive information regarding the nature, terms, origin and extent of their interest.

## **Information flows**

In carrying out its duties, the Supervisory Board makes use of the information flows from the internal control functions and structures; internal audit reports on compliance, risk management and money laundering have to be sent directly by the heads of the respective functions to the Chairman of the Internal Control Committee and the Chairman of the Supervisory Board. The Chairman of the Supervisory Board ensures that such information is made available to the Supervisory Board at its next meeting.

The Supervisory Board receives the information mentioned in art. 150 CFA from the Management Board promptly and at least once a quarter.

The Bank's "Regulation on Information Flows" – which is currently being updated – regulates the information flows (periodic or event-related, for individual transactions) that have to be received by the governing bodies from the various corporate functions and from control bodies of BPM Group companies.

In 2012, the Supervisory Board held 31 meetings, lasting 3 hours and 50 minutes on average with an overall participation of 90.03% (the percentage attendance of each member is shown in table no. 2).

In 2013, to date, there have been 7 Board meetings.

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## **Self-assessment**

During the course of the Board meeting held on 12 April 2012, the Supervisory Board undertook a review of its functionality. The process of self-assessment was defined by the Board in compliance with the Bank of Italy governance measures, particularly the Note of 11 January 2012 and was conducted by means of the verification and the consequent assessment of the adequacy:

- (i) of the proceedings in place to ensure the participation by the directors at board meetings (means used for giving notice of meetings, agenda, information supporting the matters on the agenda and preparation of minutes of decisions taken) compared with the proceedings envisaged by primary and secondary regulations and the Articles of Association;
- (ii) of the role performed in practice by the Board (decisions taken, verifications performed, measures taken and reporting) compared with that required by primary and secondary regulations and the Articles of Association.

The outcome of the self-assessment process was a positive assessment by the Supervisory Board of its functionality as well as that of the Nominations, Remuneration and Internal Control and Audit Committees, of the full awareness of the Board of its powers and obligations, also in consideration of the time spent, which proved to be sufficient for the performance of its role and of the adequacy of the professionalism of the individual Directors with respect to the operational and management characteristics of the business.

Note that the Supervisory Board was assisted by the consulting firm Co.Ba.Co. S.r.l. for the purpose of the aforementioned board review. Co.Ba.Co. is currently providing assistance to the Bank for the revision of the Group's organisational model and, in particular, the principal processes that make up the individual business systems (organisational and corporate governance system; management system; system for measurement/assessment of risks; system for self-assessment of capital adequacy; and system of internal control).

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## **10.3 Independent directors**

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During the meeting of 5 March 2013, the Management Board of Banca Popolare di Milano, verified the independence requirements of its members pursuant to the third paragraph of art. 148 of the CFA and pursuant to the recommendations contained in the Code of Conduct.

With reference to the independence requirements under art. 3 of the Code, the Supervisory Board took note that:

- no Board Member holds (directly, indirectly or through third parties) a sufficient number of shares that would allow them to exercise control or significant influence over the Bank, nor are any of them members of a shareholders' agreement by which one or more persons could exercise control or significant influence over the issuer (art. 3.C.1. letter a);
- no Board Member holds directorships in subsidiaries (art. 3.C.1.b & f), given that this is prohibited by law;
- no Board member has or has had, directly or indirectly (comprising the companies for which he/she is a key person), commercial, financial and professional relationships with the Bank or its subsidiaries that could compromise their independence (art. 3.C.1.c). The Supervisory Board mainly considered, among other things, the credit facilities granted as well as the professional relationships between the key person (or the companies controlled thereby) and the Group. In order to assess the materiality of the aforementioned relationships, the Board considered as relevant, generally and depending on the circumstances, the amount of the credit facilities or of the remuneration payable for the office held, bearing in mind the earnings and financial standing of the individual Board member (obviously based on a self-assessment by the person in question, underlying the declaration regarding "commercial, financial and professional relationships" with the Bank or its subsidiaries), as well as the size of the relationship, depending on the circumstances, with respect to the total loans granted by the Bank or by the Group or to the total costs incurred for the year by the Bank or by the Group for professional positions;
- none of the Board members is a partner or director of a company or entity belonging to BPM's independent auditors or the same network (art. 3.C.1. lett. g);
- none of the Board members has been an employee of the Bank (or Group companies) in the last 3 (three) years (application criteria 3.C.1. of the Code). The Supervisory Board considered, for the application of the general principles of the Code, which recommend the principle of substance over form, that a person may qualify as an independent director if that person ceased to be an employee of the Bank (or Group companies) more than three calendar years (as opposed to financial periods) beforehand.

In this connection – without prejudice to the fact that all of the Supervisory Board Members meet the independence requirements of art. 148, paragraph 3, CFA – based on the principles of the Code, the following 13 Members could be considered independent: Filippo Annunziata (Chairman), Umberto Bocchino and Giuseppe Coppini (Deputy Chairmen), Alberto Balestreri, Giovanni Bianchini, Ruggiero Cafari Panico, Enrico Castoldi, Maurizio Cavallari, Federico Fornaro, Maria Luisa Mosconi, Mauro Paoloni, Cesare Piovene Porto Godi and Anna Maria Pontiggia.

The remaining Board members did not meet the independence requirements of the Code of Conduct, for the following reasons:

- Piero Lonardi and Jean-Jacques Tamburini have held key positions in the Bank during the last three years (as members of the Executive Committee);
- the Board members Mario Benito Mazzoleni, Marcello Priori and Michele Zefferino have held key positions in strategic subsidiaries during the last three years. In particular, the Board member Mazzoleni has held office as Chairman of the Board of Directors of Bipiemme Private Banking Sim S.p.A.; the Board member Priori has held office as Chairman of the Board of Directors of ProFamily S.p.A. and as member of the Executive Committee of Cassa di Risparmio di Alessandria S.p.A.; the Board member Zefferino has held office as member of the Executive Committee of Cassa di Risparmio di Alessandria S.p.A..

Lastly, the Board Members who are considered independent under art. 3 of the Code have not yet found it necessary to meet in the absence of the other Board Members (art. 3.C.6., Code of Conduct).

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## **10.4 Lead independent director**

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To date, the circumstances envisaged by the Code of Conduct for the appointment of a lead independent director have not yet materialised.

## 11. Supervisory Board Committees

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In accordance with arts. 52 and 53 of the Articles of Association, the Supervisory Board is to set up the following sub-committees, determining their duties and how they are to function:

- (i) Internal Control and Audit Committee;
- (ii) Nominations Committee;
- (iii) Remuneration Committee.

In accordance with the recommendations of the Code of Conduct (art. 5.C.1.) and the relevant instructions of the Bank of Italy, at BPM all of the Committees with consultative, investigatory and propositional powers:

- are made up of independent members in accordance with the Code of Conduct and have a minimum of 3 and a maximum of 5 members, in line with the tasks entrusted to them;
- their period of office is laid down by the Supervisory Board and they have a specific set of regulations, if necessary, integrated or amended by another board resolution, that govern, among other things, their composition, mandate, powers and how they are meant to function;
- in carrying out their functions, they have the right to access any corporate information or function they may need to perform their duties; if necessary, they can also make use of outside consultants;
- have adequate resources allocated to them should the above mentioned Committees need third-party consulting support or any other kind of activity connected with their function.

All meetings of each Committee, which can also be attended by non-members, if invited, are minuted and the minutes are filed in separate minute books.

Lastly, having said that BPM does not have any committees that simultaneously perform the functions of two or more committees (art. 5.C.1. c), we would also point out that the specific information required by the Code concerning each of them is available in later sections of this Report.

In fact, the Supervisory Board can set up other sub-committees required by applicable laws and regulations (Related Parties Committee), laying down how they should function; it can also set up technical committees or commissions with a consultative role. In this context, the Supervisory Board has deemed it appropriate to set up specific sub-committees, with investigatory and consultative powers, for "Strategies and financial statements", "Charity" and "Transactions as per art. 136 of the CBA".

In addition, on 24 January 2012 the Management Board and the Supervisory Board – each for the matters within their competence – approved the adoption of the "Framework resolution for rules concerning the admission and handling of members" (see paragraph 17) which, among other things, establishes the "Members' Relations Commission" made up of two members of the Management Board and the Chairman of the Supervisory Board, with investigatory powers in relation to applications for admission to Membership.

## 12. Nominations Committee

### Duties

The Nominations Committee is responsible for selecting and proposing candidates for appointment to the Management Board and in the cases established by the Articles of Association and the Code of Conduct promoted by Borsa Italiana S.p.A. In particular, the Committee:

- a) makes proposals to the Supervisory Board concerning the appointment and dismissal of the Chairman and other members of the Management Board;
- b) can provide indications about the appointment of the MD & CEO;
- c) can offer an opinion to the Supervisory Board regarding the size and composition of the Supervisory Board and Management Board, as well as on the professional figures whose presence on the Supervisory and/or Management Board is deemed appropriate;
- d) carries out any other tasks assigned to it by the Supervisory Board.

In accordance with the Bank of Italy's Note of 11 January 2012, the Nominations Committee also provides appropriate support to both the Supervisory and Management Board, by issuing opinions of a consultative nature on the following occasions:

- (i) periodic self-assessments made by the respective governing bodies about their ideal composition in terms of quality and quantity;
- (ii) ex-post reviews carried out by these bodies on the correspondence between the composition considered ideal from a quantitative and qualitative point of view (on completion of the self-assessment process) and the actual one resulting from the appointments process.

So, for the purposes mentioned in paragraphs (i) and (ii) above, the Nominations Committee takes part in meetings of the Management Board and provides the necessary liaison with the Supervisory Board.

In accordance with the Bank's "Regulation on Information Flows" (which is being updated), the Committee has adequate instruments to carry on its duties with information flows provided by the various relevant structures of the Bank. In any case, it is entitled to request information from the functions and structures of the Bank or other Group companies. The Committee can also call on the services of external consultants within the terms and spending limits laid down by the Supervisory and/or Management Board, each according to their respective powers.

The Committee's Regulations state that if a committee member has an interest in a particular matter being examined by the Committee, whether in his own right or on behalf of others, he has to declare it.

The Committee passes resolutions by a majority vote of its members, providing the votes in favour include those of the member elected from a list presented by UCITS and the member appointed under art. 63 of the Articles of Association.

### Composition

The Nominations Committee is made up of five Members, including: (i) the Chairman of the Supervisory Board, who chairs the committee; (ii) a member selected from among those taken from the list submitted by UCITS (it being understood that if both the Board Members taken from these lists fail to vote in favour, the Board shall appoint a Board Member from the list submitted or voted by the UCITS that had the largest number of shares at the time the Supervisory Board voted); (iii) a member taken from the list submitted by the Supervisory Board pursuant to art. 63 of the Articles of Association (it being understood that if both the Board Members taken from these lists fail to vote in favour, the Board shall appoint a Board Member appointed by Fondazione Cassa di Risparmio di Alessandria or Crédit Industriel et Commercial, depending on which had the highest number of shares at the time the Supervisory Board voted, taking associated entities into account as well). The other members are taken unconditionally from within the Supervisory Board.

The majority of the members of the Nominations Committee have to meet the independence requirements foreseen in the Code of Conduct promoted by the Borsa Italiana S.p.A., as well as the additional independence requirements provided for by applicable laws and regulations.

On 26 October 2011, the Supervisory Board appointed the following people as members of the Nominations Committee: Filippo Annunziata (Chairman), Maria Luisa Mosconi, Ezio Maria Simonelli, Jean-Jacques Tamburini and Ulrich Weiss.

During the course of the meeting held on 19 June 2012, the Supervisory Board appointed the Board member Ruggiero Cafari Panico as a member of the Nominations Committee following the resignation of Ezio Maria Simonelli from the Supervisory Board (vacated the position on 26 April 2012).

Then, during the course of the meeting held on 5 March 2013, the Supervisory Board appointed the Board member Anna Maria Pontiggia as a member of the Nominations Committee, following the resignation of Ulrich Weiss from the Supervisory Board (vacated the position on 30 October 2012).

As of the date of this report, the Nominations Committee is therefore made up of the following members: Filippo Annunziata (Chairman), Ruggiero Cafari Panico, Maria Luisa Mosconi, Anna Maria Pontiggia and Jean-Jacques Tamburini.

The Committee is made up of a majority of board members who meet the independence requirements of art. 3 of the Code of Conduct (4 out of a total of 5 members) and in accordance with the provisions of art. 53 of the Articles of Association and in line with the Bank of Italy's Governance Measures, the following are members of the Committee: (i) Filippo Annunziata, who chairs it; (ii) Jean-Jacques Tamburini, as a board member taken from the list presented under art. 63 of the Articles of Association, (ii) Anna Maria Pontiggia, as a board member taken from the list presented by UCITS.

During 2012, the Committee performed the duties delegated to it by the Articles of Association and the rules approved by the Supervisory Board on 13 December 2011. In particular, after having selected and examined the various candidates, the Committee submitted to the Supervisory Board the nomination for appointment to the Management Board of Piero Luigi Montani to replace Claudio De Conto, who had resigned, also suggesting his nomination for appointment to the office of MD & CEO of the Bank.

During 2012, the Committee held 3 meetings, both properly minuted, lasting an average of 2 hours and 5 minutes, with an overall attendance of 80% (the attendance of each member is indicated in table 2 attached).

In 2013, as of to date, 1 meeting has been held.

## 13. Remuneration Committee

### Duties

The Remuneration Committee is responsible for making proposals on the determination of remuneration in the cases established by applicable laws and regulations, the Articles of Association and the Code of Conduct promoted by Borsa Italiana S.p.A..

In particular, the Committee:

- a) has a consultative role in determining the criteria for the remuneration of employees as mentioned in the Bank of Italy's "Supervisory Provisions concerning remuneration policies and practices and incentives in banks and banking groups" applicable at the time;
- b) presents to the Supervisory Board proposals concerning the remuneration of the members of the Management Board, the Chairman of the Management Board, the MD & CEO and of Management Board Members who are assigned to Committees or Commissions, or who have been granted particular offices, duties or mandates;
- c) submits to the Supervisory Board proposals concerning the establishment of performance objectives linked to any variable element of the Management Board's compensation in accordance with the Bank of Italy's guidelines on remuneration policies and practices and incentives in banks and banking groups applicable at the time;
- d) expresses its opinion to the Supervisory Board on whether the Board should approve the remuneration policies and the policies relating to the adoption of incentive systems for employees and collaborators who are not employees of the Bank. If requested by the Supervisory Board, the Committee assists the Board in defining these remuneration policies;
- e) gives advice and makes proposals on the remuneration to be paid to the heads of internal control functions;
- f) ensures proper implementation of the rules on the remuneration of the heads of internal control functions, in close collaboration with the Internal Control and Audit Committee;
- g) prepares the documentation to be submitted to the Management Board for its decisions regarding remuneration, monitoring and verifying implementation of such decisions, in particular, the effective achievement of performance objectives, as well as the fact that the incentives that underlie the remuneration system are consistent with management of the risk, capital and liquidity, so that it is ensured that the incentive systems are properly adjusted to take account of all the risks assumed by the Bank, using methods that are consistent with those that the Bank uses to manage risk for domestic regulatory purposes;
- h) expresses its opinion, also on the basis of the information received from the relevant company departments, on the achievement of the performance objectives to which the incentive plans are linked and on the fulfillment of other conditions for the payment of remuneration;
- i) ensures the involvement of the pertinent corporate functions in the process of preparing and monitoring of remuneration policies and practices;
- j) provides adequate feedback on its activities to the governing bodies, including the General Meeting of the Members;
- k) makes recommendations and gives general advice on remuneration to the Supervisory and Management Boards;
- l) works together with the other Supervisory Board sub-committees;
- m) evaluates periodically – at least every six months – the adequacy, overall consistency and practical application of the general policy for the remuneration of the Management Board (with particular emphasis on its executive members and those with special duties) and managers of the Bank with strategic responsibilities, using the information provided by the Management Board in the latter case;
- n) assists the Supervisory Board and the Management Board, each according to the respective functions, in supervising, monitoring and updating the rules and principles underlying the Group's remuneration policies, so as to ensure compliance with the Supervisory Instructions issued from time to time by the Bank of Italy, as well as with the dispositions of law and regulations in force at the time;
- o) carries out any other tasks assigned to it by the Supervisory Board.

In accordance with the Bank's "Regulation on Information Flows", the Committee has adequate instruments to carry on its duties with information flows provided by the relevant structures of the Bank. In any case, it is entitled to request information from the functions and structures of the Bank or other Group companies. The Committee can also call on the services of external consultants within the terms and spending limits laid down by the Supervisory and/or Management Board, each according to their respective powers.

The Committee's Regulations state that if a committee member has an interest in a particular matter being examined by the Committee, whether in his own right or on behalf of others, he has to declare it.

## **Composition**

As per art. 53 of the Articles of Association, the Remuneration Committee consists of five members, including: (i) the Chairman of the Supervisory Board, who chairs the committee; (ii) a member selected from among those taken from a list other than that of the majority and different from those submitted by UCITS or by the Supervisory Board pursuant to Article 63 of the Articles of Association (it being understood that if the Board Members taken from these lists fail to vote in favour, the Board shall appoint the most senior of them); (iii) a member selected from among those taken from the list submitted by UCITS or by the Supervisory Board pursuant to Article 63 of the Articles of Association (it being understood that if the Board Members taken from these lists fail to vote in favour, the Board shall appoint a Board Member who represents the shareholders with the largest number of shares, based on the same criteria as mentioned previously for the Nominations Committee). The other members are taken unconditionally from within the Supervisory Board. The majority of the members of the Remuneration Committees have to meet the independence requirements foreseen in the Code of Conduct promoted by the Borsa Italiana S.p.A., as well as the additional independence requirements provided for by applicable laws and regulations.

On 26 October 2011, the Supervisory Board appointed the following people as members of the Remuneration Committee: Filippo Annunziata (Chairman), Enrico Castoldi, Giuseppe Coppini, Mario Benito Mazzoleni and Jean-Jacques Tamburini.

The Remuneration Committee is made up of a majority of board members who meet the independence requirements of art. 3 of the Code of Conduct (3 out of a total of 5 members) and in accordance with the provisions of art. 53 of the Articles of Association and in line with the Bank of Italy's Governance Measures, the following are members of the Committee: (i) Filippo Annunziata, who chairs it; (ii) Jean-Jacques Tamburini, as a board member taken from the list presented under art. 63 of the Articles of Association, (iii) Enrico Castoldi, as a board member taken from the list presented by UCITS and by the Supervisory Board as per art. 63 of the Articles of Association. It is also worth pointing out that, in line with the Principle 7.P.3 of the Code of Conduct, two members of the Committee, namely Filippo Annunziata (Chairman) and Enrico Castoldi, have adequate knowledge and experience in accounting and financial matters.

During 2012, the Committee performed the duties delegated to it by the Articles of Association and the rules approved by the Supervisory Board on 13 December 2011. In particular, the Committee makes proposals to the Supervisory Board regarding the remuneration of the members of the Management Board and expresses its opinion regarding the approval by the Supervisory Board of the "document on remuneration policies", which also contains the Remuneration Report as per art. 123-ter, CFA (available on the Bank's website: [www.bpm.it](http://www.bpm.it)).

In 2012, 14 properly minuted meetings were held, lasting an average of around 1 hour and 30 minutes, with an overall attendance of some 83% (the attendance of each member is indicated in the attached table 2).

In 2013, it has held 3 meetings to date.

## 14. Internal control and Audit Committee

### Duties

The Committee is the instrument through which the Supervisory Board performs its control functions; the Committee has to respond to it with up-to-date and timely information. The Internal Control and Audit Committee is an ongoing point of reference for the Company's organizational structures that perform control functions; it receives periodic information from these structures about specific situations or trends in the Company.

Within the Supervisory Board's sphere of competence the Committee has propositional, consultative and investigatory functions, also giving its opinion when this is foreseen by the law or by the Articles of Association, and supporting the Supervisory Board in the performance of the supervisory activities assigned to it.

In particular, the Committee Rules approved by the Supervisory Board on 13 December 2011 provide that:

- a. the Committee monitors (pursuant to art. 19 of Decree 39/2010): (i) the financial reporting process; (ii) the effectiveness of the systems of internal control, internal audit (if applicable) and risk management; (iii) the audit of the separate and consolidated financial statements; (iv) the independence of the Independent Auditors, especially as regards performing non-audit services for the Bank;
- b. it promptly informs the Supervisory Board of any significant act or fact under art. 52 of Decree 385 of 1 September 1993 and on any report or complaint made to the competent organs or authorities;
- c. using of the pertinent structures (Internal Audit and Compliance), it can at any time carry out inspections and controls, also on the recommendation of the Supervisory Board, and can exchange information with the supervisory bodies of BPM Group companies on their administration and control systems and general business trends;
- d. it is heard by the Supervisory Board on the proposed appointment of the auditors that it will make to the General Meeting;
- e. it is heard by the Supervisory Board with regard to the opinion that the Board gives to the Management Board on the appointment of the Financial Reporting Manager, the heads of the internal control and compliance functions, and with regard to the heads of corporate functions and structures with control duties and responsibilities;
- f. it assists the Supervisory Board in assessing the degree of efficiency and adequacy of the internal control system and related Group procedures, with particular attention to risk control, the functioning of internal audit and the accounting and reporting system, bringing the results of their checks to the attention of the Supervisory Board on a timely basis; in the event of weaknesses or anomalies, it must promptly inform the Supervisory Board by making proposals to it on the matters in question, including requests and proposals of recommendations to be made to the Management Board for the adoption of appropriate measures. It promptly informs the Supervisory Board about resolutions or initiatives taken by the Management Board that are not consistent with the objectives of capital allocation and the levels of risk and liquidity needed to finance the business;
- g. it examines the monthly reports prepared by the Financial Reporting Manager in support of the legal certifications;
- h. it monitors the effectiveness of the audit process, exchanging information with the auditors, also in accordance with art. 150, para. 3, CFA, and any data relevant to the performance of their duties;
- i. it examines the periodic reports sent in by the heads of internal control functions, as well as the reports on specific situations or on business trends, adding observations to the Supervisory Board and making proposals to it on the matters in question; in the event of weaknesses or anomalies, it must promptly inform the Supervisory Board by making proposals to it on the matters in question, including requests and proposals of recommendations to be made to the Management Board for the adoption of appropriate measures;
- j. it assesses any remarks contained in the reports received by the Head of Controls and the Compliance Department, as well as the reports about specific situations or business trends. It makes observations and submits to the Supervisory Board any proposals, including any proposals for recommendations to be addressed to the Management Board for the adoption of appropriate operational measures;
- k. it assesses, with the support of the Bank's Corporate Social Responsibility structure and, possibly, the internal audit function, compliance with the principles and values contained in the Bank's Code of Ethics and Charter of Values and Commitments;
- l. with the support of the relevant structures of the Bank, it collaborates with the Supervisory Board in preparing the report to be submitted to the General Meeting on the supervisory activities carried out, and on any omissions and wrongful acts found, as well as any other reports that the Supervisory Board is required to make to the General Meeting;
- m. it reports periodically to the Supervisory Board on its activities and on the adequacy of the internal control system;
- n. it supports and assists the Supervisory Board with regard to its supervision activities according to the Articles of Association and the law (or regulations) in force at the time;
- o. it carries out any other tasks assigned to it by the Articles of Association, by the law (or regulations) and by the Code of Conduct, as well as any tasks assigned to it by the Supervisory Board.

At least one of the members of the Committee has to attend meetings of the Management Board. This participation must take place with the physical presence of the Committee member(s) at the meeting; participation by means of appropriate audio-video conferencing and/or teleconferencing equipment can only occur under exceptional circumstances, in the event of emergency meetings or other situations which make it objectively impossible for one or more members to be physically present at the meeting. The Committee, through its Chairman or another member designated from time to time, informs the Supervisory Board about significant matters that emerged during the meetings of the Management Board at the next meeting of the Supervisory Board; when required for reasons of urgency, the Chairman of the Committee informs the Chairman of the Supervisory Board that it would be a good idea to hold a special meeting of the Supervisory Board or to update the agenda if a meeting has already been convened.

The Chairman of the Internal Control Committee has a permanent invitation to attend meetings of the Bank's Supervisory Committee set up under Decree 231/01.

The Committee, making use of the pertinent structures, may at any time carry out inspections and controls, also on the recommendation of the Supervisory Board, and can exchange information with the supervisory bodies of Group companies on their administration and control systems and general business trends.

The Internal Control and Audit Committee is an ongoing point of reference for the Company's organizational structures that perform control functions; it receives periodic information from these structures about specific situations or trends in the Company and informs the Supervisory Board on any relevant act or fact as per Article 52 of the CBA.

In accordance with its Regulation, the Internal Control Committee meets frequently enough to make sure that it can carry out its functions effectively. The Chairman of the Internal Control and Audit Committee is entitled to invite representatives of all relevant structures of the Bank to report on the agenda items; he can also make use of external consultants within any terms and spending limits established by the Supervisory Board. In this regard, the Chairman of the Committee can send specific requests in the name and on behalf of the Committee. Moreover, when carrying out its duties, the Committee can – already at the investigatory stage – ask through the Chairman for the collaboration of the functions and structures of the Bank or of other Group companies.

The Committee has adequate instruments to carry on its duties with information flows provided by the relevant structures of the Bank. In any case, it is entitled to request information from the functions and structures of the Bank or other Group companies. The Committee can make use of external consultants within any terms and spending limits established by the Supervisory Board.

The Committee's Regulations state that if a committee member has an interest in a particular matter being examined by the Committee, whether in his own right or on behalf of others, he has to declare it.

## **Composition**

The Internal Control and Audit Committee is made up of five members of the Supervisory Board.

At least four members of the Internal Control and Audit Committee have to meet the independence requirements foreseen in the Code of Conduct promoted by Borsa Italiana S.p.A., as well as the additional independence requirements provided for by applicable laws and regulations. At least three members have to be listed in the Register of Auditors and have to have at least three years' audit experience. At least one member must be a Board Member elected from a list other than that of the majority and different from those submitted by UCITS or by the Supervisory Board pursuant to art. 63 of the Articles of Association (it being understood that if the Board Members taken from these lists fail to vote in favour, the Board shall appoint the most senior of them). At least one member must be a Board Member elected from a list submitted by UCITS (it being understood that if both the Board Members taken from these lists fail to vote in favour, the Board shall appoint a Board Member from the list submitted or voted by the UCITS that had the largest number of shares at the time the Supervisory Board voted). Lastly, at least one member must be a Board Member taken from the list submitted by the Supervisory Board pursuant to art. 63 of the Articles of Association (it being understood that if both the Board Members taken from these lists fail to vote in favour, the Board shall appoint a Board Member appointed by Fondazione Cassa di Risparmio di Alessandria or Crédit Industriel et Commercial, depending on which had the highest number of shares at the time the Supervisory Board voted, taking associated entities into account as well). If there are no Board Members taken from the lists submitted by UCITS or by the Supervisory Board pursuant to art. 63 of the Articles of Association, the number of members of the Internal Control and Audit Committee to be chosen from the other minority lists increases correspondingly. The Chairman of the Internal Control and Audit Committee is chosen from among the members listed in the Register of Auditors. The Supervisory Board can replace members of the Internal Control and Audit Committee by a suitably motivated resolution. In the event of termination of a Member for whatever reason, he will be replaced by the Supervisory Board in accordance with the rules laid down in its Regulations.

On 26 October 2011, the Supervisory Board appointed the following people as members of the Internal Control and Audit Committee: Umberto Bocchino (Chairman), Stefania Chiaruttini, Federico Fornaro, Mauro Paoloni and Marcello Priori.

During the course of the meeting held on 19 June 2012, the Supervisory Board appointed the Board member Cesare Piovene Porto Godi as a member of the Committee, following the resignation of Stefania Chiaruttini from the Supervisory Board (vacated the position on 4 May 2012).

Accordingly, as of the date of this report, the Internal Control and Audit Committee is made up of the following members: Umberto Bocchino (Chairman), Federico Fornaro, Mauro Paoloni, Cesare Piovene Porto Godi and Marcello Priori.

The Committee currently consists of a majority of members who meet the independence requirements of art. 3 of the Code of Conduct (4 members out of a total of 5) and of 4 members listed in the Register of Auditors with at least three years' audit experience, including the Chairman. Moreover, in accordance with the provisions of art. 53 of the Articles of Association and in line with the Bank of Italy's Governance Measures, the following are members of the Committee: (i) Federico Fornaro, as a board member taken from the list presented under art. 63 of the Articles of Association, (ii) Cesare Piovene Porto Godi, as a board member taken from the list presented by UCITS, (iii) Mauro Paoloni, as a board member taken from a list other than those mentioned above and from the majority list.

During 2012, the Committee held 44 meetings, all properly minuted, lasting an average of 2 hours, with an overall attendance of 92% (the attendance of each member is indicated in table 2 attached).

In particular, during this period the Internal Control and Audit Committee:

- reviewed the work performed in 2011 by Internal Audit and the compliance function and the work planned for 2012;
- reviewed the results of planned and non planned audit work and the reports issued by the compliance function;
- reviewed the reports issued by the Financial Reporting Manager at 31 December 2011 and at 30 June 2012;
- reviewed the policy for impairment testing at 31 December 2012;
- reviewed the reports of the Independent Auditors and the content of management letters;
- assessed the outcome of monitoring the status of implementation of the corrective measures to resolve the matters raised by the Bank of Italy's inspectors;
- considered the outcome of the assessment requested concerning the input to and correct keeping of the Centralised Computer Archive and of monitoring the status of implementation of the corrective measures to address critical issues identified;
- reviewed the complaints received during the course of 2012 and verified the adequacy of the complaints office;
- reviewed the Bank of Italy consultation document entitled "Regulations for the prudential supervision of banks concerning internal control systems, information systems and business continuity";
- had several meetings with the credit and loans department to have a detailed and analytical overview of trends in impaired loans, provisions and adjustments;
- met with the Chief Risk Officer to obtain details of the criteria used for the assessment, management, measurement, monitoring and communication of credit risks, as well as the management of credit rating;
- followed developments concerning the "New Model for Financial Advisory Service" and the implementation status of measures adopted and communicated to Consob;
- followed the evolution of the initiatives undertaken for the transparency of banking and financial services, with particular reference to Directive 2008/48/EC on credit agreements for consumers (the "Consumer Credit Directive" or CCD);
- met with the Boards of Statutory Auditors and the heads of internal control functions of the subsidiaries;
- visited the Rome regional territory and a branch in Milan;
- examined the Business Continuity Plan in the event of an emergency and received information about the tests performed during the period;
- requested details of audit work performed on transactions that fall within the field of application of art. 136 of the CBA, inclusive of those involving senior management;
- followed developments concerning the ongoing Bank of Italy inspection.

No external consultant were used in 2012.

In 2013, up to the date of approval of this report, 12 meetings have been held.

During this period the Internal Control and Audit Committee:

- prepared a work plan to organise its activities;
- reviewed the audit work performed in 2012, the 2013 audit plan and the annual reports issued by the compliance function and the person responsible for anti-money laundering;
- reviewed the new organisational model with specific focus on the Internal Audit function, as well as an overview of the various persons involved in first and second level controls and their related responsibilities;
- reviewed the report on disciplinary action for misconduct of employees in 2011 and 2012;
- requested details of training provided in 2012 on controls and the topics covered by the 2013 training catalogue;
- reviewed the impact on the structures of the implementation of the Solidarity Fund;
- met the Independent Auditors Ernst & Young and the Financial Reporting Manager.

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## **15. Related parties Committee**

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During the course of the meeting held on 6 March 2012, in accordance with the Consob Regulation on Related Party Transactions (Consob Reg. no. 17221/2010 and subsequent amendments) the Supervisory Board set up, as a sub-committee, the Related Parties Committee with the task of reviewing transactions between the BPM Group and related parties.

At the same meeting, the Supervisory Board appointed the following members of the Related Parties Committee: the Board member Giuseppe Coppini, as Chairman, and the Board members Federico Fornaro and Ezio Maria Simonelli, all of whom met the independence requirements of art. 3 of the Code.

Subsequently, on 30 October 2012, the Supervisory Board redesigned the above mentioned Committee by appointing the following Board members: Cesare Piovene Porto Godi (Chairman of the Committee), Maria Luisa Mosconi and Prof. Mauro Paoloni, all of whom met the independence requirements of art. 3 of the Code.

In 2012, the Related Parties Committee held 7 properly minuted meetings, with an average length of around 1 hour and 20 minutes and with an overall attendance of some 100%.

The Related Parties Committee ceased to be on 31.12.2012, following the introduction of the new "Rules for related parties and associated persons" (see paragraph 9 of this report) which assigned the related functions to an independent member of the Management Board, assisted by a competent independent expert.

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## **16. Remuneration of the Supervisory Board Members**

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The Articles of Association require the General Meeting to establish the remuneration of the Members of the Supervisory Board, including the remuneration of those with specific responsibilities in accordance with these Articles of Association.

The General Meeting also approves the remuneration policies for the Members of the Supervisory and Management Board, as required by applicable law and the Bank of Italy's Supervisory Provisions in force at the time.

The Ordinary General Meeting of Members of 22 October 2011 established the remuneration of the Supervisory Board for the three years 2011-2013, in accordance with art. 50 of the Articles of Association, as follows:

- Euro 50,000 gross for each member of the Supervisory Board;  
and the following amounts, in addition to the above, for the Members with specific responsibilities in accordance with the Articles of Association:
  - Euro 150,000 gross for the Chairman,
  - Euro 80,000 gross for each Deputy Chairman,

and in addition

- Euro 60,000 gross for the Chairman of the Internal Control and Audit Committee;

- Euro 30,000 gross for each Member of the Internal Control and Audit Committee;

all of this, plus reimbursement of any out-of-pocket expenses incurred, and the award of an attendance fee, which is not cumulative if several meetings are held on the same day, of Euro 450 gross for attending each meeting of the Supervisory Board, Management Board, Internal Control and Audit Committee, Nominations Committee, Remuneration Committee and other Board Sub-committees, technical committees, and commissions with consultative roles, if established under art. 53, last paragraph, of the Articles of Association.

In this regard, note that the Supervisory Board does not have any variable element of remuneration, in compliance with the Bank of Italy's Governance Measures.

Detailed information on the remuneration of members of the Supervisory Board is provided in the Report on the remuneration and incentive policies of the BPM Group, prepared in compliance with the Supervisory Regulations of the Bank of Italy of 30 March 2011 and with art. 123-ter of the CFA (available on the Bank's website [www.bpm.it](http://www.bpm.it)).

## **17. Relations with Shareholders and Members**

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In the interests of a constant dialogue with the shareholders in general, and with institutional investors in particular and in order to comply with its required reporting requirements, the Bank makes use of an Investor Relator function, a position created in May 2001. The main task of this person is to manage relations with institutional, domestic and international investors, rating agencies and financial analysts in order to ensure a constant, timely and transparent flow of information on the Group's performance and strategies.

A separate section of the Bank's website ([www.bpm.it](http://www.bpm.it)) is currently devoted to "Investor Relations" with a view to ensuring timely information for the market and facilitating access to information by institutional investors. This section provides a wide range of constantly updated financial and other documents concerning the Bank.

There is also a special e-mail address – [investor.relations@bpm.it](mailto:investor.relations@bpm.it) – allowing financial analysts and institutional investors to request information on the BPM Group's strategy, financial information and results.

As regards relations with Members (also structured into a specific function of the Bank) and the ways in which the qualification of Member is acquired, please read art. 11 of the Articles of Association, which states that.

The status of member is acquired through subscription to newly-issued shares, or the purchase or inheritance of existing shares. Prospective members must in any case apply to the Management Board in writing, according to the methods and terms laid down by the Board.

Resolutions to approve or reject applications for membership are taken by the Management Board following the guidelines laid down by the Supervisory Board. They have to be taken within sixty days of the application being submitted; they have to be motivated, bearing in mind the Bank's interests, the rules embodied in these articles and the spirit of the co-operative principle; they also have to be notified to the person concerned within ten days. If no decision is taken to approve or reject an application within sixty days of it being submitted, it is considered accepted. The Management Board must reconsider an application for membership when requested to do so by the Arbitration Committee established under these articles, supplemented by a representative of the prospective member.

A request for reconsideration must be submitted within thirty days of communication of the resolution for rejection. The Arbitration Committee must announce its findings within twenty days of receiving the request for reconsideration.

Those whose applications for membership have been refused by the Management Board continue to exercise the rights relating to the shares that they hold, subject to the current limits on ownership of interests in cooperative banks.

On 24 January 2012 the Management Board and the Supervisory Board – each for the matters within their competence – approved the adoption of the new "Framework resolution for rules concerning the admission and handling of members" (said document is available on the Bank's website). With the approval of the aforementioned framework resolution, among other things, a Members' Relations Commission was formed, made up of the Chairman of the Supervisory Board and two Management Board members, the tasks of which are to review applications for admission to membership and cases of exclusion of Members.

The persons appointed to the Members' Relations Commission are Prof. Filippo Annunziata (Chairman of the Supervisory Board), Chairman, the MD & CEO Piero Luigi Montani and the Management Board member Dante Razzano.

During the course of 2012, the Members' Relations Commission held 7 meetings (with an average length of around one hour and with an overall participation of some 95%) during which, in addition to ordinary business – in 2012, 1,498 applications for admission to membership were received and 1,040 were removed from the list of members as they no longer owned any shares – the Commission discussed matters relating to the shareholder base, which it had constantly monitored and checked.

At 31 December 2012, there are 55,662 Members; in addition there are 58,553 Shareholders not recorded in the Members' Register, for a total of 114,215 names.

## **18. General Meetings (art. 123-bis, paragraph 2.c), CFA)**

The General Meeting represents all Members and takes on a central role in company life, being the fundamental moment in the relationship among Members and between the Members and the administration bodies, especially in listed companies and even more so in co-operatives (where the individuality of the Member and his relationship with the company are of particular importance when contact is made at General Meetings).

General meetings are called, according to the rules laid down in current legislation, by publishing a notice of calling in the "Official Gazette" or in "Il Sole 24 Ore", a financial newspaper, pursuant to art. 28 of the Articles of Association. The notice of calling has to be published in any case in two daily newspapers with nationwide distribution to ensure that the Members are adequately informed. The notice of calling has to specify: a) the day, time and place of the Meeting; b) the matters to be discussed, including any proposals by Members, as per art. 25 of the Articles of Association; c) the day, time and place of the Meeting at second calling, if required, as per art. 30 of the Articles of Association.

An Ordinary General Meeting has to be called at least once a year, without 120 days from the end of the financial year, at the Company's head office or in another place indicated in the notice of calling, providing it is in Italy. Pursuant to art. 26 of the Articles of Association, the Ordinary General Meeting:

- a) appoints and dismisses the members of the Supervisory Board, establishes their remuneration and elect its Chairman and two Deputy Chairmen;
- b) decides on the responsibility of the members of the Supervisory Board and, pursuant to Article 2393 and Article 2409-decies of the Civil Code, also on the responsibility of the members of the Management Board, without prejudice to the concurrent powers of the Supervisory Board;
- c) decides on the distribution of profits, after presentation of the separate and consolidated financial statements, if approved by the Supervisory Board; if they have not been approved by the Supervisory Board, the Ordinary General Meeting decides on the distribution of profits at the same time as it approves the separate financial statements;
- d) appoints and dismisses the Independent Auditors on the basis of a reasoned proposal on the part of the Supervisory Board;
- e) appoints the Arbitrators;
- f) approves the Regulations for General Meetings;
- g) approves the remuneration policies for the members of the Management Board and Supervisory Board, as required by applicable law and the Supervisory Provisions in force at the time;
- h) decides on other matters delegated to it by law or the Articles of Association.

With regard to point c), the Articles of Association do not allow the General Meeting to approve the financial statements if this is requested by at least one third of the members of the Management Board or Supervisory Board; this power is given in the event that the financial statements are not approved by the Supervisory Board.

In addition, with reference to the determination of the remuneration of the Supervisory Board Members, art. 50 of the Articles of Association provides that the General Meeting determines the remuneration of the members of the Supervisory Board, including the remuneration of those with specific responsibilities in accordance with the Articles of Association.

An Extraordinary General Meeting has to be called whenever required by law and shall act in accordance with art. 27 of the Articles of Association, on matters in its sphere of competence, including any increase in capital when the issue of new shares is not done in the ordinary way.

In any case, a General Meeting has to be called without delay after receiving a written request, with authenticated signature, also by an officer of the Company, indicating the topics to be discussed, made by at least 2,000 Members entitled to vote as of the date that the request is presented.

General meetings are called by the Management Board and can also be called by the Supervisory Board or, according to art. 151-bis, CFA, by at least two of its Members, one of whom is a member of the Internal Control and Audit Committee.

The General Meeting, whether ordinary or extraordinary, is validly constituted and has a quorum at first calling when at least one tenth of the Members are present, even in those cases where the law requires a special majority. At second calling, the General Meeting is validly constituted and has a quorum however many Members are present at an ordinary meeting, and with the presence of at least 1,000 Members at an extraordinary meeting.

General Meetings can also be validly held on a remote basis by using teleconferencing facilities, providing they guarantee the identification of the Members entitled to participate and the possibility for them to follow the proceedings and to cast their votes in resolutions and, if expressly foreseen in the notice of calling, to join in the debate on the matters being discussed. In any case, the Chairman and the Secretary to the Meeting have to present in the place indicated in the notice of calling, which is considered the official location of the meeting. The Regulations for General Meetings establish the criteria and methods for holding General Meetings by means of remote communication systems.

The General Meeting passes resolutions by an absolute majority of votes of those taking part in the voting. As already mentioned in paragraph 2 lett. l of this report, the amendments to the Articles of Association, including those relating to mergers and/or absorptions, have to be approved by a vote in favour of at least two thirds of the Members involved in voting, but in no case by less than five hundred votes.

Moreover, resolutions that involve amending art. 5 of these Articles of Association or the rules regarding who has the right to vote and how it should be exercised, or that concern the Company's transformation or its early winding up, or any change in art. 31.3 of the Articles of Association (concerning the quorums needed to pass resolutions) have to be approved by at least one seventh of the Members with the right to vote.

A secret ballot is held for the appointment of board members and officers, without prejudice to the terms of art. 63 and art. 47 of the Articles of Association, regarding the favourable vote of lists presented by UCITS, for the purpose of calculating 2% of the share capital.

The resolutions to be taken to comply with the requirements of the Supervisory Authority, issued to maintain stability or to adjust to regulatory or legislative provisions, are passed with the quorums envisaged in these Articles of Association for Ordinary General Meetings.

General meetings are chaired by the Chairman of the Supervisory Board or, in the event of his absence or impediment, by one of the Deputy Chairmen of the Supervisory Board or, in case of their absence or impediment, the Chairman of the Management Board; if he too is absent or impeded, by another person appointed by the Meeting.

If approved by the Supervisory Board, the Chairman of the Supervisory Board can also delegate to the Chairman of the Management Board to preside over the General Meeting; the Chairman of the Management Board then has to explain the circumstances at the beginning of the Meeting. The Secretary to the Management Board also acts as the Secretary for the General Meeting, unless the Meeting decides otherwise.

The role of Secretary is taken on by a notary public at Extraordinary General Meetings or whenever the Chairman considers it opportune. The General Meeting can appoint two or more scrutineers.

It is up to the Chairman to ascertain that participants have the right to attend the Meeting, to run proceedings, lead the debate and organise the voting, laying down the methods, without prejudice to the provisions of law, the Articles of Association and the Regulations for General Meetings.

Members have the right to take part in General Meetings providing they have been included in the Register of Members for at least ninety days prior to the date of the Meeting at first calling and providing that he has complied with the obligations prescribed in art. 83-sexies of the CBA. In addition to such Members, the members of the corporate bodies and of the management of the Bank have the right to take part in the General Meeting.

General Meetings can be attended, without any right to speak or to vote, by professionals, consultants, experts, financial analysts, qualified journalists and persons other than Members, if expressly authorised.

Minutes are kept of the proceedings of General Meetings and are made available, in accordance with the law, at the head office and on the Bank's website [www.bpm.it](http://www.bpm.it).

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With reference to the information mentioned in art. 1.C.4. of the Code of Conduct, we hereby inform you that, in the period from 1 January 2012 to the date of this report, the General Meeting has not given any general and preventive authorisations in derogation of the non-compete provisions of art. 2390 of the Civil Code.

### **Regulations for General Meetings**

In compliance with the recommendations contained in the Code of Conduct, the general meeting of 20 April 2002 approved the "Regulations for General Meetings" which govern proceedings at ordinary and extraordinary meetings, ensuring that they are conducted in an orderly fashion.

These lay down in detail the terms and conditions for attendance at a General Meeting of Members, the Chairman's powers for running such meetings in full respect of each Member's right to take the floor to speak on the topics on the agenda and to make proposals, and how voting should take place. These Regulations – which have been fully institutionalised by being included in the Articles of Association – have been subject to constant updates during the course of General Meetings of Members (the latest amendment was made in April 2012).

The text of the Regulations for General Meetings of BPM can be read on the Bank's website, in the sections entitled "Shareholders and Members" and "Governance".

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## **19. Other corporate governance practices (art. 123-bis, paragraph 2.a), CFA)**

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### **Arbitration Committee**

Pursuant to art. 55 of the Articles of Association, the Arbitration Committee, made up of three acting and two alternate members chosen from among the Members by the General Meeting, evaluates any disputes deferred to it by the Articles of Association and seeks to resolve any disputes that might arise between Members or between Members and the Bank for reasons involving relations between shareholders.

The General Meeting of Members of 28 April 2012 appointed for the three year period 2012/2014, as Acting Arbitrators, Onofrio Amoruso Battista, Italo Ciancia and Anna Maria Sanchirico and, as Alternate Arbitrators, Guido Mina and Giancarlo Tarantola.

Following the resignation as Acting Arbitrator of Onofrio Amoruso Battista on 7 February 2013, he was replaced by Guido Mina (previously an Alternate Arbitrator), who will remain in office until the General Meeting of Members of 26/27 April 2013 (at first and second calling, respectively); this General Meeting of Members will be called upon to appoint an Acting Arbitrator and an Alternate Arbitrator to the Arbitration Committee.

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## **20. Changes since the end of the year**

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On 12 February 2013 (see press release issued on the same date) the Management Board of Banca Popolare di Milano decided to give the go-ahead to all of the analyses and studies needed to establish the operational aspects of a project that would allow the Bank to complete its process of change by being transformed into a joint-stock company that would conserve the underlying principles of the cooperative and mutual model.

The Project, which, as of the date of preparation of this report is still being studied, is based, in particular, on the following key elements:

- profit-sharing on the part of the Bank's employees by means of a free allocation of BPM shares which would represent a substantial shareholding, enabling the employees to become, jointly, the Bank's largest shareholder. At the same time, art. 60 of the Articles of Association, which reserves 5% of the pre-tax profit for current employees, would be eliminated;
- mutuality, to be implemented by establishing a foundation that would provide social services to the families of employees and former employees now in retirement, as well as incentives in the form of education and scholarships for deserving children of employees and former employees now in retirement (the "BPM Foundation"). One approach is for the BPM Foundation to receive an initial endowment from the Bank, while also having the right to receive an annual grant from the Bank. The BPM Foundation would have the right to appoint a certain number of members of the Bank's Supervisory Board;
- governance, taking steps to (i) transform the Bank into a joint-stock company (which would also give it easier access to capital markets) and (ii) redesign the corporate bodies, reducing the number of members of the Supervisory Board and increasing the number of members of the Management Board.

Suitable steps will also be taken to ensure that the Bank retains strong capital ratios over time.

The Project was then presented by the President of the Management Board, Andrea C. Bonomi, and the Managing Director, Piero Luigi Montani, to the Supervisory Board of the Bank, which also met on the same date; the Supervisory Board decided to proceed on a common course of study.

As regards the timing of the project, without affecting the prerogatives of the Supervisory Authorities, the Management Board hopes to be able to carry out all of the preliminaries with a view to calling a General Meeting of the Members to vote on these proposals, which will be developed by the end of this summer, also handling discussions with all of the stakeholders involved.

Milan, 19 March 2013

**The Management Board**

**Table 1 – Management Board**

Office	Members	In office from	In office up to	Management Board				Credit and Loans Committee	
				Exec.	Non-exec.	Indep. as per Code	Indep. as per CFA (%) *	No. of other offices held ***	(%) **
Chairman	Andrea C. Bonomi	26.10.2011	App. fin. stats. 31.12.2013	NO	YES	NO	NO	82.5	3
Managing Director and CEO	Piero Luigi Montani	10.01.2012	App. fin. stats. 31.12.2013	YES	NO	NO	NO	94.8	1
Board member	Davide Croff	26.10.2011	App. fin. stats. 31.12.2013	YES	NO	NO	NO	97.5	5
Board member	Alessandro Foti	26.10.2011	App. fin. stats. 31.12.2013	NO	YES	NO	YES	95	3
Board member	Dante Razzano	26.10.2011	App. fin. stats. 31.12.2013	YES	NO	NO	NO	82.5	3
<b>DIRECTORS WHO LEFT OFFICE</b>									
Board member	Claudio De Conto	26.10.2011	10 January 2012				YES		

**No. of meetings in 2012: 40**

NOTES:

(\* This column shows directors' participation at meetings of the Management Board [no. of times attended/no. of meetings held during the term of office of the person concerned].

(\*\*) This column shows directors' participation at meetings of the Management Board and of the Credit and Loans Committee [no. of times attended/no. of meetings held during the term of office of the person concerned].

(\*\*\*) This column indicates the number of other positions as a director or statutory auditor held by this person in other listed companies, in Italy or abroad, and in financial, banking, insurance or other large companies. This list of companies with reference to each director is included in the report, with an indication of whether or not the company belongs to the BPM Group.

(\*\*\*\*) This column indicates with an "X" the members of the Management Board on the Credit and Loans Committee.

Table 2 – Supervisory Board

Supervisory Board											
Supervisory Board	Members	In office from	In office up to	List (M/m/s)	Indep. as per Code	Indep. as per CFA	(%) **	No. of offices ***	**** (%) **	***** (%) **	***** (%) **
Nominations Committee	Internal Control and Audit Committee	Remuneration Committee	Related Parties Committee								
Chairman	Filippo Annunziata	22.10.2011	2014 General Meeting of Members	M	YES	YES	100	6	X	100	
Deputy Chairman	Umberto Bocchino	22.10.2011	2014 General Meeting of Members	M	YES	YES	100	12	X	100	
Deputy Chairman	Giuseppe Coppini	22.10.2011	2014 General Meeting of Members	M	YES	YES	100	1			
Board member	Alberto Balesteri	15.11.2012	2014 General Meeting of Members	M	YES	YES	100				100
Board member	Giovanni Bianchini	22.10.2011	2014 General Meeting of Members	M	YES	YES	100	3			
Board member	Ruggiero Caffari Panico	07.05.2012	2014 General Meeting of Members	M	YES	YES	87.10	1			
Board member	Enrico Castoldi	22.10.2011	2014 General Meeting of Members	m	YES	YES	88.89	6	X	–	
Board member	Maurizio Cavallari	22.10.2011	2014 General Meeting of Members	M	YES	YES	93.55	5			
Board member	Federico Fornaro	22.10.2011	2014 General Meeting of Members	s	YES	YES	96.77	1	X	100	
Board member	Piero Lonardi	22.10.2011	2014 General Meeting of Members	m	NO	YES	100	12			
Board member	Mario Benito Mozzoleni	22.10.2011	2014 General Meeting of Members	M	NO	YES	100	6			
Board member	Maria Luisa Mosconi	22.10.2011	2014 General Meeting of Members	M	YES	YES	96.77	18	X	100	
Board member	Mauro Paoloni	22.10.2011	2014 General Meeting of Members	m	YES	YES	93.55	16			
Board member	Cesare Piovene Porto Godi	09.05.2012	2014 General Meeting of Members	m	YES	YES	82.35	17			
Board member	Anna Maria Pontiggia	31.10.2012	2014 General Meeting of Members	m	YES	YES	100	16	X	93	
Board member	Marcello Priori	22.10.2011	2014 General Meeting of Members	M	NO	YES	100	14			
Board member	Jean-Jacques Tamburini	22.10.2011	2014 General Meeting of Members	s	NO	YES	48.39	7	X	98	
Board member	Michele Zeffirino	22.10.2011	2014 General Meeting of Members	m	NO	YES	100	2			
DIRECTORS WHO LEFT DURING THE YEAR											
Board member	Stefania Chiaruttini	22.10.2011	04.05.2012	m	YES	YES	84.62		X	78	
Board member	Carlo dell'Aringa	22.10.2011	04.02.2013	m	NO	YES	64.52				
Board member	Francesco Giaretta	22.10.2011	14.11.2012	M	NO	YES	96.30				
Board member	Ezio Simonelli	22.10.2011	26.04.2012	M	YES	YES	91.67		X	100	
Board member	Ulrich Weiss	22.10.2011	30.10.2012	m	YES	YES	46.15		X	33.3	

**Quorum required, as per the Articles of Association, for the submission of lists on the occasion of the last appointment:** each list has to be presented by at least three hundred Members or otherwise by Members representing in total at least 0.5% of the share capital, who have been included in the Members' Register for at least ninety days prior to the date set for the General Meeting at first calling and who can document their right to do so in the prescribed manner. UCITS may also submit a list, providing they hold at least 0.5% of the share capital and can document their possession at the time of submission of the lists in the prescribed manner. [art. 47, Articles of Association].

#### No. of meetings in 2012: 31

- NOTES:
- (\*) This column shows "M" or "m" or "s" depending on whether the member was elected from the list voted by the majority (M), by a minority (m) or under special clauses in the articles of association (s). The list to which they belonged or the articles of association relating to the appointment are detailed in the report.
  - (\*\*) This column shows directors' participation at meetings of the Supervisory Board and of the various Committees (no. of times attended/no. of meetings held during the term of office of the person concerned).
  - (\*\*\*) This column shows the number of directorships or auditiorships held by each director or auditor in other companies (including BPM). The list of offices considered relevant according to art. 148 bis CFA is published by Consob on its website ([www.consob.it](http://www.consob.it)).
  - (\*\*\*\*) This column indicates with an "X" the members of the Supervisory Board on the Committee.
- |        |       |        |        |        |
|--------|-------|--------|--------|--------|
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|--------|-------|--------|--------|--------|



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