Report on Corporate Governance and Shareholder Structure
of Banca Popolare di Milano Scarl
Report on Corporate Governance and Shareholder Structure of Banca Popolare di Milano Scarl

(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 – March 2006 version)

Traditional model of administration and control

Approved by the Board of Directors on 29 March 2011
Available on BPM’s website at www.bpm.it

BANCA POPOLARE
DI MILANO

Co–operative Bank founded in 1865
Parent Bank of the BPM – Banca Popolare di Milano – Banking Group
Share capital at 31.12.2010: Euro 1,660,220,780
Milan Company Register no. 00715120150
Enrolment in the National Register of Cooperative Companies No. A109641
Head Office and General Management:
Piazza F. Meda 4, Milan – Italy
www.bpm.it – e–mail: bipiemme@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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**Glossary**

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

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

**Board of Statutory Auditors:** the Board of Statutory Auditors of the Issuer.

**Year:** the financial year to which the Report relates (1 January 2010 – 31 December 2010).

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

**Code/Code of Conduct:** the Code of Conduct for Listed Companies, in the version approved in March 2006 by the Committee for Corporate Governance and promoted by Borsa Italiana SpA.

**Civil Code:** the Italian Civil Code.

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

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

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

**Bank of Italy governance measures:** Bank of Italy Provision 264010 of 4 March 2008 regarding “Supervisory Instructions regarding the Organisation and Corporate Governance of Banks” and the related “Clarification Note” of 19 February 2009.

**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).

**Stock Exchange:** Borsa Italiana SpA, the company that organises and runs the market on which the Issuer’s shares are listed.
Introduction

As is generally known, following the various novelties introduced recently at legislative and EU level concerning the rules governing issuers and companies in general, as well as the regulation of banks’ activities and governance profile, 2010 was again characterised in Italy by numerous important interventions. These were above all regulatory and were designed to implement this primary legislation or to give greater effectiveness, transparency and homogeneity to governance systems and to the conduct of issuers (especially those of a financial or banking nature). They were also designed to give greater protection to shareholder minorities and to small investors and users (with reference to specific functions and markets).

This is the context for, among other things, Consob’s interventions on related parties (specifically aimed at strengthening the protection of minority shareholder and other stakeholders, by safeguarding against possible abuses that could result from transactions carried out with related parties) and corporate disclosure requirements (with the related amendments to the Issuer’s Regulations and, among these, the incisive measures introduced by Decree 27/2010, which enforced the EU Shareholders’ Rights Directive).

Specific attention has been paid, nationally and internationally, to the question of the remuneration of corporate officers. Talking of which, in addition to the interventions in this area by the major international bodies (Financial Stability Board, Basel Committee, European Commission, European Banking Authority), the approval at European level of Decree 2010/76/UE of 14 December 2010 (so-called “CRD III”) and at national level of numerous regulatory measures and rules of conduct (e.g. the introduction of art. 123-ter CFA and the enactment of Consob recommendation DEM/11012984 of 24 February 2011, both of which contain greater disclosure requirements prior to shareholders’ meetings regarding the remuneration policies of listed companies; the adoption of a revised Article 7 of the Code of Conduct for Listed Companies relating to the remuneration of directors and managers with strategic responsibilities; and, with specific reference to the banking sector, the adoption - as previously announced - of specific rules on remuneration and incentive policies and practices in banks and banking groups).

Within this complex legislative picture, in 2010 Banca Popolare di Milano continued to perform constant self-assessment of its system of corporate governance, well aware of the importance of effective governance to ensure that the Bank is run in a healthy and prudent way.

As regards the requirements of this report, we can confirm that the Bank has analysed its system of corporate governance and compared it with the recommendations contained in the Code, which BPM introduced back in 2001 (followed by the July 2002 version and then that of March 2006).

BPM, by its very nature as a bank and therefore under the supervision of the Bank of Italy, has always monitored and adjusted when necessary its organisational and control model. Accordingly, the review process mentioned above has confirmed that the Bank’s system of corporate governance complies with the regulatory instructions for the sector and is therefore in line with the principles contained in the Code, as well as the recommendations made by Consob and best practice observed both nationally and internationally.

From this point of view, BPM’s Articles of Association, which are consistent with the growing expectations of transparency required by markets and the participation of shareholders in business activity, provide for, among other things, significant representation of minorities on the Board and independent Directors ex art. 147-ter CFA, the presence in the Board of Statutory Auditors of two acting statutory auditors (of the five foreseen) elected by minorities, and the possibility of appointing an acting auditor (and one of the two alternate auditors) nominated by Undertakings for Collective Investment in Transferable Securities (UCITS).

Lastly, as in recent years, with a view to optimising the sharing and communication of strategy with our Members and stakeholders in general, the Bank will publish a “Social Responsibility Report” for 2010 (also on its website) which will describe 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), which in itself will be a further improvement on the previous social responsibility reports that we have prepared since 2004.
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).

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” (February 2009 edition) issued by Borsa Italiana with Assonime’s support. 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.
1. Profile of the issuer

Banca Popolare di Milano Scarl - founded in 1865 - is a co-operative bank with head office in Milan, the Parent Bank of the Banca Popolare di Milano Banking Group, and listed on the MTA (Mercato Telematico Azionario), the electronic equities market organised and run by Borsa Italiana SpA.

As such, 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, the each shareholder only has a right to one vote, however many shares they own (“one-man-one-vote”) and that no one can hold more than 0.50% of the share capital (“limit on share ownership”), except for UCITS which apply the limits set in their own rules.

The Bank has adopted a “traditional” system of administration and control, made up of a Board of Directors, with a strategic supervisory function, a Board of Statutory Auditors, with a control function (both appointed by the General Meeting of the Members), an Executive Committee (appointed by the Board of Directors) and a General Manager (appointed by the Board of Directors) who has a management function, though the Board of Directors retains overall power.

2. Information on the shareholder structure (art. 123-bis, paragraph 1, CFA) at 31.12.2010

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 2010 amounts to Euro 1,660,220,780 (fully subscribed and paid-in) entirely represented by 415,055,195 ordinary shares of par value Euro 4 each, which are listed on the Milan Stock Exchange in the FTSE MIB segment managed by Borsa Italiana S.p.A..

Under the mandate granted by the General Meeting of 25 April 2009, the Bank’s Board of Directors, at the meeting held on 26 May 2009, approved the issue of a bond loan with automatic conversion into ordinary shares of Banca Popolare di Milano (called “Convertendo BPM 2009/2013 - 6.75%”) with assignment free of charge of warrants (called “Warrant azioni ordinarie BPM 2009/2013”) at a ratio of 1:1 for each bond.

This bond, issued for a total of Euro 406,285,100 (4,062,851 bonds and 4,062,851 warrants), at 31 December 2010 amounts to Euro 406,138,300 because of the conversion of 1,468 bonds into 20,964 shares. These bonds will be converted into new BPM shares on the first occasion when it will be possible to reimburse at their initial par value the financial instruments as per art. 12, Decree 185/08 (so-called “Tremonti Bonds”), issued on 4 December 2009 by BPM in favour of the Economy and Finance Ministry for a total of Euro 500 million.

There are no share-based incentive plans (stock options, stock grants, etc.) that would entail increases in capital.

The following two tables summarise (at 31/12/2010) the structure of the share capital and the situation of the financial instruments issued by the Bank that could vary the share capital:

<table>
<thead>
<tr>
<th>Structure of the share capital (31.12.2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of shares</strong></td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Ordinary shares</td>
</tr>
<tr>
<td>Shares with limited voting rights</td>
</tr>
<tr>
<td>Shares without voting rights</td>
</tr>
</tbody>
</table>
Other financial instruments (31.12.2010)
(giving the right to subscribe newly issued shares)

<table>
<thead>
<tr>
<th></th>
<th>Listed/ not listed</th>
<th>No. of instruments in circulation</th>
<th>Type of shares servicing conversion/exercise</th>
<th>No. of shares servicing conversion/exercise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convertible bonds</td>
<td>Not listed</td>
<td>4,061,383 (*)</td>
<td>BPM ordinary shares</td>
<td>Max 175,000,000 shares</td>
</tr>
<tr>
<td>Warrants</td>
<td>Listed</td>
<td>4,062,851 (**)</td>
<td>BPM ordinary shares</td>
<td>Max 125,000,000 shares</td>
</tr>
<tr>
<td>Shares without voting rights</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Bond loan with automatic conversion into ordinary shares of Banca Popolare di Milano called “Convertendo BPM 2009/2013 - 6.75%”.  
(**) “Warrant azioni ordinarie BPM 2009/2013”, linked to the Convertendo Bond Loan.

b) Restrictions on the transfer of securities (art. 123-bis, paragraph 1, letter 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. From this point of view, during 2010 the Bank challenged 23 shareholders who had apparently exceeded the 0.50% limit, based on reports from intermediaries regarding the collection of dividends for 2009.

Inclusion in the Members’ Register is subject to approval by the Bank’s Board of Directors (“approval clause” - see art. 30 of the CBA and art. 11 of the Articles of Association). The admission of new Members is regulated by the Framework Resolution on “Rules for the admission of Members and management of relationships with Members” described in para. 14 of this report.

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

Based on the communications received pursuant to art. 120, CFA and other information in the hands of the Bank, the largest shareholdings at 31 December 2010 were as follows:

**Significant shareholdings at 31.12.2010 (*)**

<table>
<thead>
<tr>
<th>Declaration by</th>
<th>Direct shareholder</th>
<th>% of share capital held</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Société Générale (Paris)</strong></td>
<td></td>
<td>4.303%(**)</td>
</tr>
<tr>
<td></td>
<td>Société Générale (Paris)</td>
<td>(4.303%)</td>
</tr>
<tr>
<td><strong>Caisse Federale du Credit Mutuel Centre Est Europe - CM</strong></td>
<td></td>
<td>4.990% (***)</td>
</tr>
<tr>
<td></td>
<td>Cicor</td>
<td>(0.169%)</td>
</tr>
<tr>
<td></td>
<td>Adepi</td>
<td>(0.465%)</td>
</tr>
<tr>
<td></td>
<td>CIC Partecipations Sas</td>
<td>(0.465%)</td>
</tr>
<tr>
<td></td>
<td>Placinvest</td>
<td>(0.465%)</td>
</tr>
<tr>
<td></td>
<td>Credit Ind e Comm. [Cic]</td>
<td>(0.444%)</td>
</tr>
<tr>
<td></td>
<td>Sofiholding 3</td>
<td>(0.482%)</td>
</tr>
<tr>
<td></td>
<td>Gestunion 3</td>
<td>(0.464%)</td>
</tr>
<tr>
<td></td>
<td>Gestunion 4</td>
<td>(0.500%)</td>
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<tr>
<td></td>
<td>Pargestion 4</td>
<td>(0.500%)</td>
</tr>
<tr>
<td></td>
<td>Sofiholding 4</td>
<td>(0.500%)</td>
</tr>
<tr>
<td></td>
<td>Valimar 4</td>
<td>(0.067%)</td>
</tr>
<tr>
<td></td>
<td>ACM Vie SA</td>
<td>(0.293%)</td>
</tr>
<tr>
<td></td>
<td>ACM Iard</td>
<td>(0.029%)</td>
</tr>
<tr>
<td></td>
<td>ACM Mutuelle</td>
<td>(0.147%)</td>
</tr>
<tr>
<td><strong>Ubi Pramerica Sgr</strong></td>
<td></td>
<td>2.052%</td>
</tr>
<tr>
<td></td>
<td>Fondo Bil. Euro Rischio Contr.</td>
<td>(0.059%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Portafoglio Prudente</td>
<td>(0.090%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Portafoglio Moderato</td>
<td>(0.097%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Portafoglio Dinamico</td>
<td>(0.121%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Portafoglio Aggressivo</td>
<td>(0.034%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Azioni Italia</td>
<td>(0.797%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Azioni Euro</td>
<td>(0.793%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Total Return Dinamico</td>
<td>(0.006%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Azionario Etico</td>
<td>(0.019%)</td>
</tr>
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<td></td>
<td>Fondo Alpha Equity</td>
<td>(0.012%)</td>
</tr>
<tr>
<td></td>
<td>Fondo Long Short Euro</td>
<td>(0.024%)</td>
</tr>
<tr>
<td><strong>Norges Bank</strong></td>
<td></td>
<td>2.200%</td>
</tr>
<tr>
<td></td>
<td>Norges Bank</td>
<td>(2.200%)</td>
</tr>
<tr>
<td><strong>Dimensional Fund Advisors Lp</strong></td>
<td></td>
<td>2.002%</td>
</tr>
<tr>
<td></td>
<td>Dimensional Fund Advisors Lp [ownership split over 26 funds and various “separately managed accounts”]</td>
<td>(2.002%)</td>
</tr>
</tbody>
</table>

(*) 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 reserved to the Members (i.e. those shareholders who have been approved by the Bank and recorded in the Members’ Register).

(**) Figure updated for the 2009 dividend in accordance with art. 30, para. 2 of CFA.

(***) Figure confirmed by the payment of the 2009 dividend.
d) Securities that grant special rights (art. 123-bis, paragraph 1, letter d), CFA)

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

e) Shares held by employees: mechanism for exercising voting rights (art. 123-bis, paragraph 1, letter 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 (also in the new wording foreseen by Decree 27 of 27 January 2010 which introduces the “Shareholders’ Rights Directive” into Italian law).

Under the existing Articles of Association, any Member can act as a proxy, but for no more than two other Members. In this regard, it should be noted that at the Ordinary General Meeting to be held on 29/30 April 2011 (respectively at first and second calling) together with the Ordinary General Meeting for the approval of the financial statements, a proposal to modify the Articles of Association will be presented to increase the number of proxies that each Member can hold (from two to three).

According to the law, proxies cannot be given to Directors, members of the Board of Statutory Auditors or to employees of the company or 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 (ban confirmed by Decree 27/2010).

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, letter 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, letter g), CFA)

The Bank is not aware of any agreements between BPM shareholders in accordance with art. 122 CFA on how shareholder rights should be exercised or transferred.

In the interests of full disclosure, it is worth mentioning that on 14 September 2004 - following the integration of Cassa di Risparmio di Alessandria within the BPM Group - a shareholder agreement was signed by the Bank and Fondazione Cassa di Risparmio di Alessandria to regulate governance of the Cassa and which also foresees the presence of a nominee of the Fondazione on the boards of directors of Banca Popolare di Milano and of other Group companies (currently only Banca Akros SpA).

This agreement between the Bank and Fondazione Cassa di Risparmio di Alessandria, solely as regards BPM and on its initiative, was published at the time in accordance with art. 122 CFA by the legal deadline. Following its cancellation (published by public notice in the press on 26 March 2010), the agreement expired on 24 September 2010.

h) Change of control clauses (art. 123-bis, paragraph 1, letter h), CFA)

As regards major agreements to which BPM or its subsidiaries “are parties and which take effect, are modified or are extinguished in the event of a change of control of the company”, there is an industrial and commercial cooperation agreement between Banca Popolare di Milano and Crédit Industriel et Commercial (Crédit Mutuel Group), which foresees a commitment to favour the appointment of a representative nominated by the counterparty on their respective boards of directors and the right to cancel the agreement, among other things, in the event of a change of control or merger of either of the parties.

i) Agreements between the Company and the Directors - Succession Plans (art. 123-bis, paragraph 1, letter i) CFA and Consob Communication DEM/11012984 of 24 February 2011)

There are no agreements between the Company and its Directors that provide for indemnities in the event of them falling from office prior to the expiry date, nor the allocation or retention of any kind of benefit to former Directors or the stipulation of consulting agreements for a period after their termination of office, nor compensation to Directors for non-competition commitments.

Moreover, as things stand, BPM has not entered into any “succession agreements” (i.e. structured plans for the succession of Executive Directors), nor are specific mechanisms foreseen in the event of early replacement (excluding those for co-option and replacement as prescribed by law and by the Bank’s Articles of Association; see letter l below and paragraph 4.1 of this Report).
l) Appointment and replacement of Directors – Amendments to the Articles of Association (art. 123-bis, paragraph 1, letter l), CFA

The Articles of Association (arts. 32 and 33), the Regulations for General Meetings (arts. 21 et seq.) and paragraph 4.1 of this Report should be consulted for a full explanation of the procedures for appointing and replacing the members of the Board of Directors. The following is a summary of the Articles in question:

a) the Board is made up of a fixed number of Directors equal to 16, in addition to the Directors foreseen by art. 50 of the Articles of Association (see letter e) below);

b) the General Meeting appoints the Directors on the basis of lists of candidates presented by the Members, except in the case of a list presented by the Board (sub letter e). Each list has to be presented by at least three hundred Members or otherwise by Members representing in total at least 0.50% of the share capital, who have been included in the Members’ Register for at least ninety days;

c) only lists that have obtained least one hundred and fifty votes validly cast at the General Meeting will be taken into account for the purpose of appointing Directors;

d) half plus one of the number of Directors to be appointed are to be taken from the list that obtains a majority of the votes; the other Directors (excluding those to be elected in accordance with point sub e) are to be taken from the other lists, according to the so-called “quotient system”;

e) even if this makes the total number of Directors go over sixteen, the General Meeting appoints two Directors taken from the list that the Board of Directors has the right to present in order to fulfil the commitments taken with the Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial, for as long as the conditions for applying these agreements continue to exist;

f) Directors are replaced, if necessary, during the course of their three-year term in office maintaining - where possible - the proportion between the majority and any “minorities”. If the General Meeting has to replace Directors who were appointed from the majority list, the appointment takes place with a relative majority vote without any list requirement. If Directors belonging to minority lists have to be replaced, General Meeting chooses them with a relative majority vote, where possible, from among the candidates on the same lists as the Directors being replaced;

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, under art. 31 of the Bank’s current Articles of Association, amendments to the Articles, 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 the] Articles of Association [i.e. the corporate purpose] 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 this paragraph, have to be approved by at least one seventh of the Members with the right to vote”.

Last paragraph to art. 31 of the Articles of Association requires “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.

In accordance with art. 2365, the Board can also pass resolutions to bring the Articles of Association into line with new regulatory or legislative requirements.

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

Without altering the fact that the Bank’s share capital is variable, as mentioned previously, the General Meeting of 25 April 2009 delegated (under art. 2420-ter of the Italian Civil Code, amending art. 17 of the Articles of Association as a result) to the Board of Directors the power to issue a bond loan with automatic conversion in BPM ordinary shares, for a maximum total nominal amount of Euro 700,000,000, also cum warrant, to be offered under option to all those entitled, including the right to increase the share capital, for payment and in one or more tranches, to service the conversion of this loan and to service the potential exercise of the warrants for a maximum number of 300,000,000 ordinary shares (the issue of this loan has already been discussed in paragraph a) of this section 2, to which reference should be made for details).

The General Meeting of 24 April 2010 gave a mandate to the Board of Directors, until the next General Meeting, to manage the “reserve for treasury shares”, i.e. to buy and sell the Bank’s shares on the electronically traded market run by Borsa Italiana in accordance with the procedures set out in article 144 bis, paragraph 1, letter 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 487,473 of its own shares (“treasury shares”) at 31 December 2010.

2.1 Management control and coordination

Banca Popolare di Milano is the Parent Bank 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.

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

Banca Popolare di Milano has voluntarily adopted the Code of Conduct for Listed Companies promoted by Borsa Italiana S.p.A. As a result, each year the Bank analyses its system of corporate governance and compares it with the recommendations contained in the Code, which BPM introduced in its entirety back in 2001 (and subsequently in the version of July 2002 and now that of March 2006).

With reference to this Code, on 3 March 2010 the Corporate Governance Committee promoted by the Italian Stock Exchange revised the content of art. 7 of the Code as regards the remuneration of directors and managers with strategic responsibilities, implementing the EU recommendations in this area. Companies are invited to apply the revised Article 7 before the end of 2011, disclosing information to the public via the Corporate Governance Report which is to be published during 2012.

The Code and the text of the new art. 7 are available on the website of Borsa Italiana (www.borsaitaliana.it) and in the “Governance” section of the Issuer’s website (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.

4. Board of Directors

4.1. Appointment (art. 123-bis, paragraph 1. letter l), CFA)

Procedures for the appointment and replacement of Directors

The “list voting system” introduced by the Extraordinary General Meeting held on 19 December 2002 for the appointment of the Board of Directors, which more or less followed the system already used for appointing the Board of Statutory Auditors, with suitable adjustments to take account of the particular composition of the Board of Directors, has since been refined in line with changes in the law (Law 262/05, Decree 303/06 and Consob’s rules for its implementation), also following the recommendations of the Bank of Italy (Provision of 4 March 2008 and the Note of 19 February 2009) on the mechanisms needed to ensure adequate representation of the various components of the shareholder base on the administrative and control bodies, also considering the high degree of fragmentation in the case of co-operative banks.

As already illustrated in section 2.1) of this Report and inviting you to read the full explanation of the procedures for appointing and replacing the members of the Board of Directors in the Articles of Association (art.32 and 33) and of the Regulations for General Meetings (art. 21 and subsequent). The following is a summary of the Articles in question:

- the Board is made up of a fixed number of Directors equal to 16, in addition of Directors foreseen in art. 50 of the Articles of Association [see below], appointed by the Members’ Meeting in a single ballot;
- the General Meeting appoints the Directors on the basis of lists of candidates presented by the Members, except in the case of a list presented by the Board [art. 50 of the Articles of Association]. The lists of candidates, signed by those presenting them, have to be deposited at the Bank’s head office at least fifteen days before the date scheduled for the meeting at first calling, in
accordance to the ruling Articles of Association. Note that the Extraordinary Shareholders’ Meeting which is to be held on 29/30 April 2011 (at first and second calling respectively) will be called upon to resolve, among other things, the changes proposed to Articles 32 and 33 of the Articles of Association relating to the terms for filing the lists of candidates for the position of Director. In December 2010 Consob in its resolution relating to listed cooperatives (no. 17592 of 14 December 2010) foresaw a filing date for candidates of “at least 13 days before the Shareholders’ Meeting was called to resolve on the appointment”. At BPM’s General Meeting, the same filing terms will be proposed for lists of candidates for the position of Director to standardise deadlines and facilitate the election:

- each list has to be presented by at least three hundred sponsoring Members representing in total at least 0.50% of the share capital, who have been included in the Register of Members for at least ninety days (as established by Consob in art. 144- quater, paragraphs 3 and 4, IR);
- to be admitted, each list has to contain at least two candidates [four if only one list is being presented] who meet the independence requirements laid down in art. 147-ter, paragraph 4, of CFA;
- only lists that have obtained least one hundred and fifty votes validly cast at the General Meeting will be taken into account for the purpose of appointing Directors (see also art. 147-ter, paragraph 1, CFA);
- half plus one of the number of Directors to be appointed are to be taken from the list that obtains a majority of the votes; the other directors, excluding those appointed according to art. 50 of the Articles of Association, are taken from the other lists that have obtained the said minimum representation quorum according to the so-called “quotient system”;
- in accordance with art. 50 of the Articles of Association, even if this makes the total number of Directors go over sixteen, the General Meeting appoints two Directors taken from the list that the Board of Directors has the right to present in order to fulfill the commitments taken with the Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial, as long as the conditions for applying these agreements continue to exist;
- at least four members of the Board of Directors have to meet the independence requirements laid down in art. 147-ter, paragraph 4, CFA. If a Director no longer meets the independence requirements, as defined above, they do not fall from office providing at least four other Directors do meet them;
- Directors may not be appointed for a period of more than three financial years; their term of office expires on the date of the general meeting that approves the financial statements for their last financial year in office and they can be re-elected;
- the first, second and third candidates on the majority list are elected Chairman and Deputy Chairmen respectively;
- Directors are replaced, if necessary, during the course of their three-year term in office maintaining - where possible - the proportion between the majority and any “minorities”. If one or more Directors can no longer serve during the course of the year, the others have to take steps to replace them by a resolution approved by the Board of Statutory Auditors and providing the majority is still made up of Directors appointed by the General Meeting, choosing, where possible, from among those that were not elected on the same lists as the Directors no longer serving. Directors appointed in this way remain in office until the next General Meeting;
- if the General Meeting has to replace Directors who were appointed from the majority list, the appointment takes place with a relative majority vote without any list requirement. If Directors belonging to minority lists have to be replaced, the General Meeting chooses them with a relative majority vote, where possible, from among the candidates on the same lists as the Directors being replaced;
- if both these Directors can no longer serve, replacements have to be co-opted to ensure compliance with the said agreements. The General Meeting passes the resolution with a relative majority in an open vote on the proposal of the Board.

**Publishing the lists of candidates and related documents**

Art. 32 prescribes that the lists 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 they meet the requirements prescribed by law or by the Articles of Association for holding office; hence, also whether or not they qualify as “independent” (in the two meanings of the word art. 147-ter, paragraph 4. CFA and art. 3 of the Code), as expressly requested in the notice of calling to the Bank’s General Meetings that have board elections on the agenda. Art. 22 of the current Regulations for General Meetings requires that “the lists (...) together with their curriculum vitae, are available to the shareholders at the Bank’s head office and summarised by the Chairman at the general meeting before the polling stations are opened”.

On this subject, it should be noted that, prior to General Meetings of BPM with the election of corporate bodies on the agenda, the Bank has since 2003 sent shareholders and the market a specific press release containing details of the lists presented for each office and a complete list of candidates.
From this point of view, in addition to what BPM usually does in terms of publishing the lists, it now also does what Consob expressly requests (in art. 144-octies, IR).

On the occasion of the General Meeting on 25 April 2009, which was held to discuss, among other things, the renewal of corporate bodies, on 14 April 2009 (i.e. “at least 10 days before” the Meeting to resolve the appointment of Boards of Directors and Statutory Auditors as foreseen in art. 144-octies, RE), the Bank made available to the public at head office, the Stock Exchange and on its website, the lists of candidates validly filed by the Members, accompanied by the list of sponsoring Members, the curriculum vitae of each candidate and, in the case of candidates for directorship, a declaration that they met the requisites of independence (as defined by Art. 147-ter, co. 4, CFA and Art. 3, Code).

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

Composition and term in office of the Board of Directors - Profile of the Directors

Art. 32 of the Articles of Association of the Bank lays down that the Board of Directors - appointed by the General Meeting of Members for a period not exceeding three years - is composed of a fixed number of sixteen Directors (including the Chairman and two Deputy Chairmen).

This number of sixteen can be increased by another two members in order to comply with the commitments taken on by the Bank with Fondazione Cassa di Risparmio di Alessandria and Crédit Industriel et Commercial (Crédit Mutuel Group) as part of the strategic and commercial partnership agreements approved at the time by the Board of Directors and for as long as such agreements last (see art. 50 of the Articles of Association).

The Board currently in office was appointed for three years (2009-2011) by the General Meeting held on 25 April 2009. The entire Board will therefore expire at the General Meeting called to approve the financial statements at 31 December 2011.

The General Meeting in April 2009 was asked to choose the Directors from the following four lists of candidates:

List no. 1: presented by 739 Members (their names were published on the websites of the Bank and of Borsa), representing a total of 1,212,260 shares, equal to 0.29% of the share capital, whose candidates as Directors were the following: Massimo Ponzellini (lead candidate), Mario Artali, Graziano Tarantini, Beniamino Anselmi, Antoniogiorgio Benvenuto, Giovanni Bianchini, Giuseppe Coppini, Enrico Corali, Marcello Priori and Michele Zefferino;

List no. 2: presented by 336 Members (their names were published on the websites of the Bank and of Borsa), representing a total of 429,108 shares, equal to 0.10% of the share capital, whose candidates as Directors were the following: Franco Del Favero (lead candidate), Leone Spozio, Paolo Troiano, Alberto Bertoni, Angelo Fedegari, Giordano Pelosato and Enrico Sisti;

List no. 3: presented by 334 Members (their names were published on the websites of the Bank and of Borsa), representing a total of 322,167 shares, equal to 0.08% of the share capital, whose candidates as Directors were the following: Antonello Polita (lead candidate), Andrea Monorchio, Francesco Arcucci, Raffaele Ferrara, Alberto Gambino, Maurizio Farina, Marina Gasparotto Curti, Claudio Mazzesi, Enrico Bernasconi, Federico Cortiana, Vittorio Pessina and Cristina Finocchi Mahne;

List no. 4: presented by 559 Members (their names were published on the websites of the Bank and of Borsa), representing a total of 538,261 shares, equal to 0.13% of the share capital, whose candidates as Directors were the following: Roberto Mazzotta (lead candidate), Piero Lonardi, Roberto Fusilli, Franco Debenedetti, Enrico Airaghi, Paola Piccinini Tosato, Enrico Marcara, Guido Castoldi, Claudio Danelon, Giovanni Massimello, Giuseppe Bernoni and Marco Antonio Bergamaschi.

During the course of this General Meeting, all of the lists presented managed to exceed the threshold of 150 votes validly expressed, obtaining the following results:

- list no. 1 obtained 5,294 votes;
- list no. 2 obtained 1,363 votes;
- list no. 3 obtained 391 votes;
- list no. 4 obtained 2,633 votes.

Under art. 50 of the Articles of Association, the General Meeting also appoints (unanimously with an open vote) the two Directors presented by the Board of Directors to comply with the commitments taken on by BPM with Fondazione Cassa di Risparmio di
Alessandria and Crédit Industriel et Commercial - the voting list system resulted in the appointment to the Board of 10 Directors on the list that obtained the highest number of votes (list no. 1) and 6 Directors on two different minority lists (lists no. 2 and no. 4). As regards the current composition of the Board of Directors - bearing in mind that under art. 32 of the Articles of Association, all of them have to be Members - the following is a complete list of the Directors, 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 Directors according to art. 147-ter, paragraph 4, CFA and art. 3 of the Code.

<table>
<thead>
<tr>
<th>Name</th>
<th>Office held</th>
<th>Expiry (a)</th>
<th>Executive</th>
<th>Requisite of independence</th>
<th>Requisite of independence (*)</th>
<th>Requisite of independence (**)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massimo Ponzellini (1)</td>
<td>Chairman</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Mario Artali (1)</td>
<td>Deputy Chairman</td>
<td>2011</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Graziano Tarantini (1)</td>
<td>Deputy Chairman</td>
<td>2011</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Antoniogiorgio Benvenuto</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Francesco Bianchi (1) [4]</td>
<td>Director</td>
<td>2011</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Giovanni Bianchini</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Giuseppe Coppini</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Enrico Corali</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Franco Debelledetti (3)</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Franco Del Favero (1) [2]</td>
<td>Director</td>
<td>2011</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Roberto Fusilli (3)</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Piero Lonardi (1) [3]</td>
<td>Director</td>
<td>2011</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Marcello Priori</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Leone Spozio (2)</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Jean-Jacques Tamburini (5)</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Michele Zeffirino</td>
<td>Director</td>
<td>2011</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

Directors who left in 2010

<table>
<thead>
<tr>
<th>Name</th>
<th>Office held</th>
<th>Date of leaving office</th>
<th>Requisite of independence</th>
<th>Requisite of independence (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beniamino Anselmi (1)</td>
<td>Director</td>
<td>29.06.2010</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Roberto Mazzotta (3)</td>
<td>Director</td>
<td>25.05.2010</td>
<td>Requisites not verified in 2010 as he had resigned in the meantime.</td>
<td></td>
</tr>
</tbody>
</table>

Directors co-opted in 2010

<table>
<thead>
<tr>
<th>Name</th>
<th>Office held</th>
<th>Date co-opted</th>
<th>Requisite of independence</th>
<th>Requisite of independence (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claudio Danelon (3-bis)</td>
<td>Director</td>
<td>8.06.2010</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Carlo Dell’Aringa (1)</td>
<td>Director</td>
<td>9.11.2010</td>
<td>YES</td>
<td>NO</td>
</tr>
</tbody>
</table>

(a) At the General Meeting that approves the financial statements indicated.

(*) Requisites of independence in accordance with art. 147-ter, paragraph 4, CFA (relevant under art. 32 of the Bank’s Articles of Association).

(**) Requisites of independence in accordance with art. 3 of the Code of Conduct for Listed Companies (March 2006 version).

(1) Member of the Executive Committee.
(2) Minority Director (List no. 2).
(3) Minority Director (List no. 4).
(3-bis) Director chosen, when co-opted, from among the candidates not elected on the list of the Minority Director who had resigned (List no. 4).
(4) Director elected under art. 50 of the Articles of Association [Fondazione Cassa di Risparmio di Alessandria].
(5) Director elected under art. 50 of the Articles of Association [Crédit Industriel et Commercial].

NB: List no. 1 is the majority list. Applying the quotient mechanism meant that no Director was elected from List no. 3.
In accordance with art. 144-decies, IR, as regards the Directors 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.

**Massimo Ponzellini:** after numerous prestigious appointments, including Vice President and Managing Director of the EIB and of the Istituto Poligrafico e Zecca dello Stato, he is currently Chairman of Impregilo SpA and Deputy Chairman of INA Assitalia SpA and a member of the Supervisory Board of Crédit Industriel et Commercial (Crédit Mutuel Group); from 2009 he is the Chairman of Banca Popolare di Milano.

**Mario Artali:** he graduated in Law, then did a post-graduate degree in Business Studies at Milan’s Bocconi University. He has been a councillor of the Municipality of Milan and a member of Parliament. He has held various important positions in industrial groups and, among other things, he is Chairman of Wise Venture SGR SpA and Deputy Chairman of Banca Akros SpA (BPM Group). Since 2003 he is a member of the Board of Directors of BPM (from 2006 as Deputy Chairman).

**Graziano Tarantini:** he is a lawyer, an expert in financial and commercial law, founder and partner of the Studio Professionale Associato GFT & Partners. He has been legal advisor to the Holy See at the WTO and a visiting professor at the University of Bologna. He is the author of numerous articles and publications on economics and commercial and financial law. At present, among other things, he is Chairman of the Supervisory Board of A2A SpA and Chairman of Banca Akros SpA (BPM Group); since 1998 he is a member of the Board of Directors of BPM (from 2009 as Deputy Chairman).

**Antoniogiorgio Benvenuto:** he graduated in Law and has been a trade unionist, politician and journalist;

**Francesco Bianchi:** he graduated in Economics and Business Studies after working abroad for Morgan Grenfell and subsequently Banca Intesa; he currently operates as an chartered accountant, mainly providing advice in matters of corporate finance. He is now a member of the Board of Directors of Cassa di Risparmio di Alessandria SpA (BPM Group).

**Giovanni Bianchini:** up until 2000, he worked for Banca Popolare di Milano in various management roles; he has been a member of the Board of Directors of various BPM Group companies.

**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. He is now the Chairman of the Board of Directors of SelmaBipiemme Leasing SpA (Group Mediobanca) and a Director of Cassa di Risparmio di Asti SpA.

**Enrico Corali:** he graduated in Law and now teaches Public Law at Bergamo University; is currently Chairman of Banca di Legnano SpA (BPM Group) and a member of the Board of Directors of important industrial companies (such as, Finlombarda SpA and BAS-Servizi Idrici Integrati SpA).

**Claudio Danelon (in office from 8 June 2010):** he graduated in Mathematics and has worked for IBM Italia SpA, among others; up to June 2010, he was a member of the Board of Directors of Anima SGR SpA, formerly BPM Gestioni SGR SpA (BPM Group).

**Franco Debenedetti:** he graduated in Electronic Engineering, specialising in nuclear engineering; he writes for various important Italian newspapers and is a Senator of the Republic; he is currently a member of the Board of Directors of CIR SpA, Piaggio & C. SpA and Cofide SpA, among others.

**Franco Del Favero:** he graduated in Economics and Business Studies; after a long career in BPM, he has also been a member of the Board of Directors of BipiemmeVita SpA; he is now a member of the Board of Directors of Banca Akros SpA (BPM Group).

**Carlo Dell’Aringa (in office from 9 November 2010):** 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. He is currently a member of the Board of Directors of WeBank SpA (BPM Group).
Roberto Fusilli: he graduated in Economics and Business Studies and has worked in IBM Italia SpA, among others; he is now a member of the Board of Directors of Banca di Legnano SpA (BPM Group).

Piero Lonardi: he graduated in Economics and Business Studies and qualified as a Chartered Accountant and Official Auditor; he is currently a Director in various real estate and finance companies; since 2003 he has been a Director of BPM and since 2004 of Cassa di Risparmio di Alessandria (BPM Group), as well as being a Statutory Auditor in various companies, including AMSA SpA.

Marcello Priori: he graduated in Business Studies and is a Chartered Accountant; he acts as director and statutory auditor in various companies in the financial and industrial sectors. He is also Chairman of the Board of Directors of ProFamily SpA (a BPM Group company operating in the consumer credit segment) and Director of Cassa di Risparmio di Alessandria SpA (BPM Group).

Leone Spozio: after many years’ experience at BPM, he was a member of the board of Banca di Legnano (BPM Group) from 2002 to 2009.

Jean-Jacques Tamburini: he is a graduate of the Institut d’Etudes Politiques di Paris and of the Etudes Supérieures de Droit and holds important administrative and management positions with various companies of the French Crédit Industriel et Commercial Group - Crédit Mutuel, as well as being a Director of Banca di Legnano (BPM Group).

Michele Zefferino: he graduated in Political Science from Milan University and has spent his working life in BPM, taking on positions of increasing responsibility. He is currently a member of the Board of Directors of various companies of the BPM Group in the banking/insurance segments.

The following is a brief summary of the personal and professional attributes of the Directors who were appointed at the Members’ Meeting in April 2009 and who resigned during 2010.

Beniamino Anselmi (resigned on 29 June 2010): he has held numerous management posts and board positions in various companies operating in the banking sector. He is now a Director of Banca Akros SpA (BPM Group).

Roberto Mazzotta (resigned on 25 May 2010): he graduated in Economics from Bocconi University and has been an MP, Undersecretary of State and Minister and, after other important appointments including Chairman of Cariplo, he was a Director of BPM from 2000 to 2010 (and Chairman from 2001 to 2009).

Maximum accumulation of offices that can be held in other companies
Without prejudice to the fact that under art. 32 of the Articles of Association those who are or become directors, employees or statutory auditors of other banks or their subsidiaries cannot act as a Director of BPM, unless the entities concerned are centralised structures for the co-operative banking movement or banks, affiliates or members of an affiliated banking group, the Articles of Association lay down that “a specific regulation sets limits on the accumulation of offices that can be held simultaneously by the Directors, taking account of the nature of the office and the characteristics and size of the companies concerned”.

On the basis of this article, which reflects the indications on this subject by the Bank of Italy (which in its “Governance Measures” provides that banks have to ascertain and assess the number of offices of a similar nature, paying particular attention to those that require greater involvement in the day-to-day activities of the company”) and in compliance with art. 1.C.3 of the Code, the Board of Directors has taken steps to define - based on a points system previously developed by the Bank’s Board of Statutory Auditors and adopted by the board - its thoughts regarding the maximum number of positions as director or statutory auditor that is considered compatible with acting effectively as a Director of the Bank.

Different points are necessarily allocated according to the commitment involved in each position, also in relation to the nature and size of the companies in which the positions are held, and whether or not they belong to a group. Based on this system and after confirming the criteria and limits established at the time, and using special forms filled in by the officers concerned, the Board decided in 2009 that the number of positions held in other companies by the current members of the Board was compatible with the general criteria that it had laid down.

In accordance with art. 1.C.2 of the Code, the following is a list of the positions held by directors - either as directors or statutory auditors - in listed companies, in Italy and abroad, and in finance companies, banks, insurance or other large companies (including companies of this kind belonging to the Group). From this last point of view, we would point out that companies have been considered
“of a significant size” if they exceed certain size criteria (in particular, if they exceed at least two of the following three parameters: 250 employees; 50 million euro of revenues; 43 million euro of total assets), as well as other companies that are considered “of a significant size” by the persons concerned, even if they do not satisfy strictly quantitative criteria.

Massimo Ponzellini
- Chairman of Impregilo S.p.A.
- Deputy Chairman of INA Assitalia S.p.A.
- Member of the Supervisory Board of Crédit Industriel et Commercial (CIC)

Mario Artali
- Deputy Chairman of Banca Akros S.p.A. (BPM Group)
- Chairman of Wise Venture SGR S.p.A.
- Director of Sigma Tau Finanziaria S.p.A.

Graziano Tarantini
- Chairman of Banca Akros S.p.A. (BPM Group)
- Chairman of the Supervisory Board of A2A S.p.A.

Antoniogiorgio Benvenuto

Francesco Bianchi
- Director of Cassa di Risparmio di Alessandria S.p.A. (BPM Group)

Giovanni Bianchini

Giuseppe Coppini
- Chairman of SelmaBipiemme Leasing S.p.A.
- Director of Cassa di Risparmio di Asti S.p.A.

Enrico Corali
- Chairman of Banca di Legnano S.p.A. (BPM Group)
- Chairman of BAS – Servizi Idrici Integrati S.p.A.
- Director of Finlombarda S.p.A.

Claudio Danelon

Franco Debenedetti
- Director of CIR S.p.A.
- Director of COFIDE S.p.A.
- Director of Piaggio & C. S.p.A.

Franco Del Favero
- Director of Banca Akros S.p.A. (BPM Group)

Carlo Dell’Aringa
- Director of Webank S.p.A. (BPM Group)

Roberto Fusilli
- Director of Banca di Legnano S.p.A. (BPM Group)
<table>
<thead>
<tr>
<th>Name</th>
<th>Positions</th>
</tr>
</thead>
</table>
| Piero Lonardi         | - Director of Cassa di Risparmio di Alessandria S.p.A. (BPM Group)  
|                       | - Acting Auditor of AMSA S.p.A. |
| Marcello Priori       | - Chairman of ProFamily S.p.A. (BPM Group)  
|                       | - Director of Cassa di Risparmio di Alessandria S.p.A. (BPM Group)  
|                       | - Director of Asset Management Holding S.p.A.  
|                       | - Director of Prima Holding S.p.A.  
|                       | - Director of Dexia Crediop S.p.A.  
|                       | - Director of Alerion Clean Power S.p.A.  
|                       | - Director of Vivigas S.p.A.  
|                       | - Director of Monzino S.p.A.  
|                       | - Chairman of the Board of Statutory Auditors of Carrefour Italia Finance S.p.A.  
|                       | - Statutory Auditor of Lucchini S.p.A.  
|                       | - Statutory Auditor of Fomas Finanziaria S.p.A.  
|                       | - Statutory Auditor of Key Client Cards & Solutions S.p.A.  
|                       | - Statutory Auditor of Carrefour Italia S.p.A.  
|                       | - Acting auditor of Carrefour Property Italia S.r.l.  
|                       | - Acting auditor of Bracco Imaging S.r.l. |
| Leone Spozio          | -                                        |
| Jean-Jacques Tamburini| - Director of Banca di Legnano S.p.A. (BPM Group)  
|                       | - Member of the Executive Board of Crédit Industriel et Commercial  
|                       | - Président Directeur General de CIC Sud Ouest  
|                       | - Président de CIC Participations SAS  
|                       | - Président ADEPI SAS  
|                       | - Chairman of the Supervisory Board of CIC Capital Privé  
|                       | - Chairman of the Board of Directors of S.F.F.P.  
|                       | - Deputy Chairman of the Supervisory Board of CM–CIC Asset Management  
|                       | - Director of CIC Finance  
|                       | - Director of Institut de Partécipation de L’Ouest (IPO)  
|                       | - Director of CIC Est  
|                       | - Director of S.F.A.P.  
|                       | - Director of Assurances du Crédit Mutuel – IARD SA  
|                       | - Member of the Audit Committee of Banque Marocaine du Commerce Extérieur |
| Michele Zefferino     | - Director of Bipiemme Vita S.p.A. (BPM Group)  
|                       | - Director of Cassa di Risparmio di Alessandria S.p.A. (BPM Group)  
|                       | - Director of Webank S.p.A. (BPM Group) |
4.3. Role of the Board of Directors (art. 123-bis, paragraph 2, letter d), CFA

How the Board of Directors functions
At the meeting held on 25 June 2009, the Board of Directors adopted a specific set of regulations that govern, among other things, how the board is meant to function (obviously in compliance with the law and the Articles of Association).

Board meetings are to be chaired by the Chairman or, in his absence, by the oldest Deputy Chairman in terms of age or, in turn, the other Deputy Chairman; if both the Chairman and the Deputy Chairmen are absent, by the oldest Director in terms of age, unless otherwise indicated by the Chairman.

Each year the Board chooses a Secretary, who does not have to be one of its members. At present, this position is held by Luciano Galimberti, Assistant Head of BPM’s Equity Investments, Regulatory Advice and Corporate Affairs Department.

The Board of Directors normally meets once a month at the head office (as per art. 34 of the Bank’s Articles of Association).

In 2010 the Board of Directors held 19 meetings, lasting 3 hours and 20 minutes on average with an overall participation of 90% (the percentage attendance of each member is shown in table no. 1).

Up to now, 5 board meetings have been held in 2011 and, based on available information, another 14 meetings are foreseen during the year.

Board meetings are called by the Chairman (or by the Secretary on his behalf) by means of a notice accompanied by a detailed agenda of the matters to be discussed, 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 (e.g. e-mail) at least two days prior to the meeting.

Depending on the type and importance of the matters to be discussed and the urgency of the decisions that have to be taken, the members of the Board of Directors and of the Board of Statutory Auditors should normally be sent in advance all of the documentation and information needed to give them adequate background knowledge of the matters being discussed at board meetings, as well as periodic information on the company’s main trends, particularly in connection with any changes in the regulatory framework. In this connection, art. 34 of the Articles of Association says that “the Chairman coordinates the work of the Board of Directors and makes sure that the Directors receive adequate information on the matters on the agenda”.

The General Manager can take part, with a consultative vote, in meetings of the Board of Directors, to which members of management of the Bank and/or the Group can be invited to participate so that they can speak on particular topics being discussed, if required.

Powers of the Board of Directors
The Board of Directors of the Bank is invested with all the powers over the Bank’s ordinary and extraordinary management except those that the law or Articles of Association reserve for the General Meeting.

Under these powers, in addition to the matters that cannot be delegated by law or by regulatory dispositions and in light of the exclusive powers indicated in the Articles of Association, in the Regulations of the Board of Directors, the Group Regulation and in the usual management of the Bank, the Bank’s Board of Directors is granted the powers to decide the matters listed in art. 1.C.1. of the Code.

In particular, the Board has the power, among other things, with regard to:

- the review and approval of the Bank’s and Group’s strategic/business/financial plans;
- the corporate governance system and the corporate structure of the Group;
- establishing the criteria for management control and coordination of Group companies and for implementation of the directives issued by the Bank of Italy;
- the lines of strategy for risk management and control of the BPM Group in order to implement an integrated and consistent risk management policy, taking account of the types of operations and related risk profiles of each Group company;
- assessment of the adequacy of the organisational/administrative/accounting structure of the Company and the Group (especially that of strategically important subsidiaries, currently identified as the Group’s banks, asset management companies and securities houses), with particular reference to the internal control system and the handling of conflicts of interest;
- determination of the general policies regarding management, organisation and the granting of loans;
- any attribution and revocation of decision-making powers after defining the limits and methods of exercising them, without affecting the quarterly timing of the information to be provided to the Board on such matters;
- the remuneration of directors who hold particular positions and allocation of the global compensation provided for the directors under art. 47 of the Articles of Association - on the proposal of the Remuneration Committee and after hearing the Statutory Auditors - without affecting the power of the General Meeting to approve the remuneration for the office of Director and member of the Executive Committee;
- the evaluation of general business performance, periodically comparing the actual results against the budget;
- transactions of the Bank (and of its subsidiaries) that are of particular importance from a strategic, economic, balance sheet or financial point of view (paying particular attention to situations in which one or more Directors have an interest on their own account or that of third parties, and more generally for related party transactions) and in general those transactions that require
the Bank to make available to the general public an information document drawn up in accordance with Consob’s instructions;
- all related party transactions as defined by internal procedures, of “greater relevance” (see Chapter 12 of this Report);
- the appointment of General Management and the Financial Reporting Manager, as well as those in charge of the internal auditing and compliance functions;
- approval and amendment of internal regulations;
- buying and selling of property and major shareholdings (namely, those that alter the Banking Group’s scope or, in the case of non-Group shareholdings, those worth more than 20 million euro).

Pursuant to art. 150 of CFA and the last paragraph of art. 36 of the Articles of Association, the Board of Directors must notify the Board of Statutory Auditors of operations with a significant impact on the balance sheet, income statement and financial position of the Bank and its subsidiaries (with particular reference to operations in which the directors have an interest on their own account or that of third parties). This requirement is satisfied through the participation by BPM’s Board of Statutory Auditors at all the meetings of the Board of Directors and Executive Committee. Furthermore, its members are on the Board of Statutory Auditors of the Group’s principal subsidiaries, to the extent that this is compatible with the expiry and renewal of the various terms of office.

The Board of Statutory Auditors of BPM is therefore promptly informed of the Bank’s activities on a continuous basis. All of the documentation examined from time to time by the Executive Committee and by the Board of Directors at their respective meetings is sent simultaneously to the Board of Statutory Auditors for their review.

At the end of each quarter, the Board of Statutory Auditors issues a statement on the information received from the Board of Directors regarding the activities of the Bank, particularly with regard to the more important economic and financial transactions carried out by the Bank and its subsidiaries, and with particular reference to operations involving potential conflicts of interest.

**Self-assessment**

During the course of 2010, the Board of Directors performed a detailed self-assessment of the size, composition and functioning of the Board and its Committees. This was carried out in accordance with the recommendations of art. 1.C.1. letter g) of the Code, as well as on the basis of the results that emerged from the questionnaire filled in by each Director. This had 26 questions (as well as one open question at the end), with points being attributed to the answers in order to establish the degree of adequacy and the priority of any interventions that might have to be made afterwards.

As a result of this assessment, the Board of Directors decided that there were certain areas that required improvement, particularly with reference to the significant number of arguments discussed at board meetings (finding it hard to discuss all of them in depth); this gave rise to the need for more board meetings (perhaps also focusing on the more important items) and the possibility of carrying out in-depth analyses by other bodies instead of the full board (such as the various board sub-committees, increasing their duties, if necessary).

**4.4. Chairman, Executive Committee and General Management**

**Managing Directors**

In BPM, the role of Managing Director does not exist and none of the members of the Board has individual executive powers, nor do they effectively carry out functions regarding the day-to-day running of the business.

**Chairman of the Board of Directors**

Pursuant to art. 37 of the Articles of Association, “the Chairman and each of the Deputy Chairmen has the power to represent the Bank vis-à-vis third parties and in court; they also have powers to sign on their own; each of the directors may also represent the Bank jointly with the General Manager or with one of the directors so designated by the Board. For certain operations, the Board may also give single or joint signature power to individual directors and managers, and grant powers of attorney for specified matters. The Chairman or, in the event of his impediment, either of the Deputy Chairmen, can appoint proxies to implement board resolutions”; the Chairman of the Board of Directors has not been delegated any individual executive powers.

Without prejudice to the Chairman’s important role of representation versus institutional, social and financial entities and the banking system in general, as well as his role in handling relationships between the Members (and their related associations) and in coordinating Group companies, his duty to foster fair debate internally and externally and the specific functions attributed to him within the Board of Directors (especially as regards the organisation of board proceedings and the circulation of information), the Chairman does not have a specific role in developing corporate strategies.
Executive Committee

An efficient corporate governance system, based on a balance of powers, requires clear identification and separation of duties, roles and responsibilities among the corporate bodies.

To this end, bearing in mind the Bank of Italy’s “Governance Measures” the Bank has in recent years carried out a profound review of its system of governance in order to have a clearer and more balanced division of roles and responsibilities among the various corporate bodies, with specific reference to the distinction between the functions of the Board of Directors and the management activity which is up to the senior ranking officers of the Bank’s organisation (in BPM, this means General Management and, within it, the General Manager).

The amendments to the Articles of Association decided in December 2008 involved, among other things, the composition of the Executive Committee and the determination of its powers. As a result of these amendments, the role of General Management has also been strengthened in his role, and within it that of the General Manager as “Head of the Company”, remodulating the powers attributed to him as a result.

The current Articles of Association provide that the Board of Directors delegate part of its powers each year to an Executive Committee; the power delegated to the Executive Committee can involve in particular “matters relating to personnel, organisation and the buying and selling of minor shareholdings” (art. 36 of the Articles of Association).

In addition to matters that cannot be delegated by law or by instructions from the Supervisory Authorities, the powers delegated may not concern general policies regarding management, organisation and the granting of loans, strategic operations, business and financial plans, buying and selling of property and major shareholdings (namely, those that alter the Banking Group’s scope or, in the case of non-Group shareholdings, those worth more than 20 million euro), the approval and amendment of internal regulations, the matters discussed in art. 44 (namely the appointment of the General Manager and the Financial Reporting Manager) and the appointment of the Officer responsible for internal audit and compliance functions.

With reference to the composition of the Executive Committee, art. 36 envisages a Committee made up of the Chairman, the two Deputy Chairmen and other Directors, so that the total number of members of the Committee is not less than five and not more than seven.

The Executive Committee appointed by the Board of Directors for a year on 11 May 2010 until the approval of the 2010 financial statements (and integrated on 9 November 2010 after the resignation of a Director member of the Committee), is made up of seven members, including the Chairman and the two Deputy Chairmen, as well as two Directors elected in the two minority lists and one Director representing one of the two strategic partners.

The Committee is chaired by the Chairman of the Board of Directors.

Each year, the Board appoints the Secretary of the Executive Committee, who is normally the same person as the Secretary to the Board of Directors.

Committee meetings are attended by all members of the Board of Statutory Auditors and the General Manager.

On 25 June 2009, the Board of Directors approved a set of regulations for the Executive Committee, which lays down, among other things, how it is to function, including the fact that, in principle, it has to meet once a week.

In 2010 the Executive Committee held 42 meetings, lasting one hour on average with an overall participation of around 87% (the percentage attendance of each member of the Executive Committee is shown in table no. 1).

In 2011 up to now 12 meetings of the Executive Committee have been held, which will be followed by weekly meetings for the rest of the year, excluding the holiday period.

The Executive Committee has a quorum of at least five of its members are present, including at least one from the Chairman’s office (i.e. the Chairman himself or one of the two Deputy Chairmen) and resolutions can only pass with the favourable vote of at least five of its members; otherwise, resolutions have to be referred to the Board of Directors for a decision.

During the meeting on 11 May 2010 (confirming the resolution taken on 28 April 2009), the Board of Directors resolved to grant the Executive Committee the following decision-making powers:
- on the proposal of the General Manager of the Bank, it can choose the General Manager of Group companies and other affiliates;
- it can authorise the purchase and sale of property and make any kind of arrangements regarding businesses or business units and
equity investments, which do not involve a change in the banking group, for a unit value not exceeding Euro 20 million;
- it can approve expenditure, whether for ordinary operations or for capital investment not included in the budget, up to a maximum of Euro 2 million per project and up to an overall annual limit of 5% of the budget approved by the Board of Directors;
- it can resolve upon any matter in cases of urgency or other special need when it is not possible to call an immediate meeting of the Board of Directors, subject to ratification by the latter at its next meeting;

and the following investigatory, propositional and implementation powers:
- it can review on a preliminary basis the proposals and indications of the Chairman and the General Manager to be submitted to the Board of Directors regarding the general strategy and policy of the Bank and the Group, and the resulting proposals for final decisions;
- it can review on a preliminary basis the proposals of the General Manager for the organisational structure of General Management and the various departments of the Bank;
- it can review on a preliminary basis the draft consolidated and separate financial statements, as well as the interim reports of the Bank and the Group;
- it can conduct preliminary reviews of budgets of the Bank and of the Group, with particular reference to costs and capital expenditure, making any proposals to be submitted to the Board of Directors;
- it can review on a preliminary basis the proposals of the General Manager to be submitted to the Board of Directors for approval, relating to the appointment, removal and granting of powers to the persons responsible for managing the various departments of the Bank, as well as any disciplinary measures that might involve dismissal.

The Executive Committee has to report to the Board on a timely basis (at the next board meeting) on any urgent resolutions that it had to take, as well as any decisions that it made on the basis of the powers delegated to it. At least once every three months, the Committee reports to the Board of Directors and the Board of Statutory Auditors on the Bank’s performance (including the trend in risks) and outlook, as well as on the more important transactions, by size and nature, carried out by the Bank and its subsidiaries.

General management
As mentioned previously, with a view to a clearer distinction between roles and in compliance with the principle of balancing powers between corporate bodies, at the time that it made the amendments to the Articles of Association regarding the powers that can be delegated to the Executive Committee, the Bank also took steps to define more clearly in the Articles of Association, the powers and duties of the General Manager.

Articles 44 and 45 of the Articles of Association spell out the functions of the General Manager as the “Head of the entire structure of the Bank”; as such, he manages all of the Bank’s day-to-day affairs, he is responsible for coordinating Company and Group operations and implements resolutions adopted by the Board of Directors and Executive Committee.

The same articles envisage a new structure for General Management for which another person is appointed by the Board of Directors to act as deputy – in the General Manager’s absence or impediment – with full authority and powers. This has in fact already taken place, even without express provision in the Articles of Association, from 1 August 2008 when the Board of Directors appointed Mr. Fiorenzo Dalu and Mr. Enzo Chiesa, respectively as General Manager and Co-General Manager.

Moreover, at the meeting on 16 December 2009, the Board of Directors appointed - from 1 January 2010 - as Deputy General Manager Roberto Frigerio, the Bank’s current Head of Administration, Control and Corporate Governance.

As a result of the remodulation of the powers of General Management in the Articles of Association, the Board of Directors passed a resolution on 19 January 2010 to delegate specific policy, governance and management powers to the General Manager, in the following terms.

As regards the policy and governance powers, the General Manager:
- can, together with the Chairman, define proposals to be made to the Board of Directors on questions of strategic policy and options of the Bank and the Group;
- he supervises the planning process of the Bank and Group and helped by the Co-General Manager and the Deputy General Manager, formulates the strategic plans and budget of the Bank and Group. To this end, he submits guidelines and targets for the Group to the Bank’s Board of Directors;
- after informing the Chairman, he can make proposals to the Board of Directors concerning the organisational structure of General Management and the persons in charge of the various departments of the Bank, implementing the structure decided by the Board of Directors;
- helped by the Co-General Manager and the Deputy General Manager, he ensures implementation of the Bank’s organisational,
administrative and accounting structure as decided by the Board of Directors;
- after having informed the Chairman, he proposes to the Board of Directors the appointment, removal from office and the attribution of powers to the persons in charge of the various departments of the Bank. He handles the appointment, removal, attribution of powers and functions, level and remuneration of the persons in charge of the various operating units, both at head office and at the branches, subsequently informing the Board of Directors;
- he can submit to the Board of Directors the policy guidelines for the Bank’s personnel and the general human resources policies for the Group in line with the objectives of BPM’s long-term plans and budgets, implementing the policies decided by the Board of Directors;
- he can make proposals to the Board of Directors, after informing the Chairman and having heard the opinion of the Remuneration Committee, concerning the emoluments of the Head Office Managers;
- he decides on the fixed emoluments for the Managers in charge of the various corporate function (i.e. Co-Head Office Managers, Head Office Assistant Managers and Members of Central Management) and proposes to the Board of Directors, after informing the Chairman and heard the opinion of the Remuneration Committee, the overall amount to be set aside for their bonus system and how it should be applied;
- he can submit to the Board of Directors proposals of disciplinary measures that might involve dismissal;
- in agreement with the Chairman, he can propose to the Board of Directors the nomination of the General Manager of Group companies and exercise the powers pertaining to the Parent Bank under Group Regulations to authorise proposals for appointments to the Board of Directors, top management and operational management of subsidiary companies;
- in agreement with the Chairman and assisted by the Co-General Manager and the Deputy General Manager, he maintains and follows dealings with senior representatives of the Bank of Italy;
- he ensures implementation of Group Regulations by issuing specific instructions on how they are to be applied.

As regards management powers, except as foreseen in legislation and current in-house regulations on conflict of interest and related party transactions, the General Manager:
- manages the Bank’s day-to-day affairs in accordance with the guidelines laid down by the administrative bodies (Board of Directors and Executive Committee);
- he can take part in meetings of the Board of Directors and Executive Committee, and, in accordance with the related regulations, in any other board committee meeting, with a consultative vote; in addition, he can attend meetings of the Board Financing Committee with full voting power;
- he supervises management of the Bank and of the Group, as well as their strategic coordination and operational control, making use of the Operational Management Committee;
- assisted by the Financial Reporting Manager, he submits to the Board of Directors the draft separate and consolidated financial statements and interim reports;
- he is responsible for new hires, dismissals, promotions, salaries and transfers involving managers in accordance with the staff regulations approved by the Board of Directors;
- he can grant or authorise loans and guarantees, take on financial debt and carry out or authorise financial transactions of any kind, according to the pertinent regulations approved by the Board of Directors;
- in addition to obligatory expenses without limit of amount, he can authorise any expense according to the pertinent regulations approved by the Board of Directors;
- he can make any kind of arrangements regarding properties, businesses or business units and equity investments, which do not involve a change in the banking group, for a unit value not exceeding Euro 2 million;
- he has full powers to instigate independently any legal proceedings considered appropriate to protect the Bank’s assets;
- as part of the powers delegated to him, the General Manager can independently carry out all of related and consequent acts, including the conferral of specific powers of attorney and making professional appointments.

The General Manager, helped by the Co-General Manager and the Deputy General Manager and, if necessary, other Managers for the matters involving their areas of responsibility, reports to the Board of Directors at least once a month on the key figures for the period, and at least quarterly on the Bank’s and Group’s operational performance (especially on matters such as liquidity, profitability, risks and capital adequacy), as well as on the outlook for the future.

The General Manager also reports to the Board of Directors once a quarter on how he has exercised the powers attributed to him. The General Manager can make proposals and provide information on internal control matters exclusively to the Board of Directors. The General Manager makes sure that the resolutions passed by the Board of Directors and Executive Committee are implemented. The Co-General Manager has full powers and authority to act as the General Manager’s deputy in the event of his absence or impediment.
4.5. Executive directors

As regards the executive or non-executive status of the individual directors, at the board meeting on 25 May 2010 - based on the specific characteristics of governance system and the effective activity of the Bank and the Group, also taking account of the new rules introduced recently by the Bank of Italy regarding the composition of the corporate bodies - the Board of Directors made the following assessments:

- the position of Managing Director does not exist and none of the members of the board is granted individual operating or management powers, nor are any of them effectively involved in running the business;
- none of the Directors who hold office in subsidiary companies (including the Chairmen of these companies) have individual management responsibilities in them, nor do they have a pre-established role in developing corporate strategies;
- no Director has responsibility for supervising particular operational areas of the Bank or the Group;
- no member of the General Management of the Bank or of Group companies is a member of BPM’s Board of Directors;
- the executive profile given in previous years to the “Director in charge of supervising the internal control system” was essentially based on a literal interpretation of the Code. Once applied, the Code then became subject to various interpretations and as a result of this process, it became obvious that the genuine (and not just formal) existence of an executive profile had to be verified case by case, based on the type of powers effectively delegated. This was particularly true of co-operative banks, where traditionally the role of Managing Director is not envisaged, bearing in mind that the Code generally expects the Managing Director to be given this particular responsibility. Considering that the “Director responsible for supervising the internal control system” is only granted the powers foreseen by the Code (i.e. limited to the power to interface with various structures and to highlight where action needs to be taken) and not management powers (given that the person concerned is not granted operational powers), it is clear that the Director in charge of supervising the internal control system is not an executive;
- regarding the Members of the Executive Committee – bearing in mind the process of demarcation of the roles and responsibilities among the various bodies in the best way possible, with specific distinction being made between the functions of the Board of Directors and those of top management (i.e. the General Manager), in relation to the powers delegated to the Executive Committee, which have also been attributed with decision-making powers – it is evident that they have executive powers (as also foreseen by the Bank of Italy, which explicitly identifies the members of the Executive Committee as Executive Directors);
- considering the important role of the General Manager in running the business, as well as the power that he has to make proposals to the Executive Committee, giving the chair of the Executive Committee to the Chairman of the Board of Directors (without giving him a casting vote in the event of a tie) does not mean that the Chairman is involved in managing the company, nor does he have an executive profile (as expressly indicated by the Bank of Italy in the Clarification Note of 19 February 2009).

In light of these considerations, the Board of Directors proceeded at the meeting on 25 May 2010 to assess the executive profile of the individual Directors, as a result of which the following qualified as Executive Directors of BPM: Mario Artali, Graziano Tarantini, Beniamino Anselmi (who subsequently resigned on 29 June 2010), Francesco Bianchi, Franco Del Favero and Piero Lonardi, as Members of the Executive Committee co-opted with effect from 9 November 2010 (as a substitute for Beniamino Anselmi).

Similarly, and for the same reasons, the Board of Directors at the meeting on 30 November 2010, identified an executive profile for Carlo Dell’Aringa, a Director and member of the Executive Committee co-opted with effect from 9 November 2010 (as a substitute for Beniamino Anselmi).

4.6. Independent directors

As regards the “independence” of Directors, this requirement is now generally dealt with in law by art. 2387 C.C., and with reference to banks, by art. 26 of the CBA, which makes reference to the implementation instructions which are still to be issued by the Economy and Finance Ministry.

In the case of listed companies, art. 147 ter paragraph 4, CFA states that “at least one member of the Board of Directors, or if the Board of Directors has more than seven members, at least two of them must satisfy the independence requirements established for statutory auditors in art. 148.3 of this decree [CFA]”.

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In response to a specific question on this topic from a listed issuer, Consob announced on 24 May 2010 that “anyone who acts as an executive director in a company belonging to the same group as a listed company” is to be classified as a non-independent director of the listed company. “On the other hand, an independent director’s status would not in itself be comprised if he acted as an independent director of other companies in the same group”.

As regards the independence requisites of bank officers, the Bank of Italy’s Governance Measures now require the boards of directors of banks to ensure the presence of independent members who can monitor management with a certain autonomy of judgement. This should help make sure that the company is run in the interests of the shareholders and in line with the objectives of healthy and prudent administration. The Bank of Italy also points out that until the ministerial regulation implementing art. 26 CBA is adopted, the banks “will have to indicate in their articles of association the definition of independence that they intend to adopt (...) as well as the number of board members to which it has to apply”.

This is the context for BPM’s Articles of Association, which require at least four members of the Board of Directors to have the requisites of independence laid down in art. 147-ter, paragraph 4, CFA, with mechanisms to ensure that there is this minimum number of independent directors, both at the time that lists of candidates are presented, and during their term of office.

The “independent” nature of directors of co-operative banks is a direct consequence of the one-man-one-vote system that does not allow the formation of pre-established controlling syndicates. The Bank’s Board of Directors has nonetheless reviewed the independence of its members, at the meeting on 25 May 2010, both on the basis of the Articles of Association (as required by the CFA) and on the basis of the recommendations contained in the Code, which, in confirming the principle of “substance over form”, prescribed that, in general, Directors are considered “independent” when “they do not entertain, directly or indirectly or on behalf of third parties, nor have recently entertained business relationships with the Issuer or its subsidiaries of such a size as to influence their independence of judgement”, giving examples of situations (art. 3.C.1.) which, if recurring, have to form the basis of the assessment of a Director’s independence.

On the result of that assessment, the Board noted (verifying the individual hypotheses of “non-independence” art. 147-ter, CFA. the related Consob’s interpretation of May 2010 and art. 3 of the Code based on the forms filled in and signed by the persons concerned that:

- Mario Artali, Graziano Tarantini, Beniamino Anselmi (who resigned on 29 June 2010), Francesco Bianchi, Franco Del Favero and Piero Lonardi cannot be considered independent neither under the CFA nor under the Code as they are considered “executive directors” for the reasons given in paragraph 4.5 of this Report (from this point of view, it was decided not to qualify an executive director as independent for CFA purposes, even if this is not foreseen in art. 147-ter, CFA). Similarly, and for the same reasons, the Board of Directors, in their meeting held on 30 November 2010 did not consider the independence requisites to be met by Carlo Dell’Aringa (Director and Member of the Executive Committee from 9 November 2010), neither in terms of the CFA nor in terms of the Code;

whereas the other Directors qualify as “non-executive”:

with reference to the requisites of independence for CFA purposes (as referred to in the Articles of Association):

- Enrico Corali, Roberto Fusilli, Marcello Priori and Michele Zefferino hold offices in companies controlled by BPM and cannot therefore qualify as independent directors under art. 147-ter, CFA and art. 32 of the Articles of Association, because of the terms of art. 148.3.b), CFA;
- Massimo Ponzellini, Antoniogiorgio Benvenuto, Giovanni Bianchini, Giuseppe Coppini, Claudio Danelon (who was co-opted in June 2010 and assessed for independence by the Board on 8 June 2010), Franco Debenedetti, Leone Spazio and Jean-Jacques Tamburini qualify as independent directors under the CFA and the Articles of Association according to the Board of Directors, given that none of them are subject to any of the impediments laid down by Art. 148.3, CFA, also taking into consideration Consob’s recommendations issued in May 2010;

with reference to art. 3 of the Code:

- no Director holds (directly or indirectly or on behalf of third parties) a quantity of shares enabling them to control or exercise a considerable influence over the Bank nor participate in shareholders’ agreements to control or exercise a considerable influence over the Issuer (art. 3.C.1.a);
- Massimo Ponzellini holds a key position (Chairman) in the Bank;
- Enrico Corali holds a key position (Chairman) in a subsidiary company of strategic importance, given that the Board considers all of the Group banks and finance companies as being of strategic importance (as per Art. 3.C.1.b). ProFamily Spa, a credit consumer company and subsidiary of the Bank is one of these subsidiaries that are of strategic importance, but as far as 2010
was concerned, the Board of Directors decided that the company was not of strategic importance as defined in the Code, given that the company was not yet fully operational during that period. Consequently, the appointment of Marcello Priori as Chairman of the Board of Directors (and therefore in a key position) of ProFamily did not in itself override his requisites of independence under the Code;

• with reference to commercial, financial and professional transactions with subsidiary banks or companies carried out even indirectly by Directors (including with companies where they hold a key position), which could jeopardise their independence (art. 3.C.1.c), BPM considers particularly important, among other things, lines of credit between the Group and the Directors (and/or companies controlled by them). In assessing the relevance of such dealings, BPM generally took into account the amount of the credit lines, bearing in mind the economic and financial situation of the individual Director and what they represented in proportion to the overall activities of the Bank and/or the Group;

• in the previous three-year period, no Director received significant supplementary remuneration in addition to the fixed emolument received as a director of BPM (art. 3.C.1.d);

• while Marcello Priori and Michele Zafferino are Members of the Executive Committee (and therefore qualify as “Executive Directors”) in a subsidiary company where Piero Lonardi also holds office (as Executive Director of the Bank), a situation that in theory could reflect a lack of independence according to a formal interpretation of the Code (Art. 3.C.1.f), the Board has decided that it is irrelevant considering the limited operating powers that each of them has been given;

• none of the Directors is a member or a director of a company or an entity belonging to BPM’s external auditors (art. 3.C.1.g);

• Roberto Fusilli and Leone Spozio are close members of the family of certain employees of the BPM Group (art. 3.C.1.h);

• as regards the application criterion of the Code (art. 3.C.1.) which, among other things, does not normally allow someone to qualify as an independent director if they have been an employee of the company in the last three years, the Bank considers it opportune - applying the principle of substance over form - to qualify as independent any director who is no longer an employee of the Bank (or Group company) for a period of time to be measured in (three) calendar years rather than financial periods.

• therefore, in the opinion of the Board of Directors, Antoniogiorgio Benvenuto, Giovanni Bianchini, Giuseppe Coppini, Claudio Danelon (who was co-opted in June 2010 and assessed for independence by the Board on 8 June 2010), Franco Debenedetti, Marcello Priori, Jean-Jacques Tamburini and Michele Zafferino qualified as independent directors under art. 3 of the Code.

As part of this review, the Board of Statutory Auditors - pursuant to art. 3.C.5. - have declared that the criteria established in the Code were applied correctly, as were the assessment procedures used for this purpose. The Directors who qualified as independent have not so far deemed it necessary to meet without the other Directors (art. 3.C.6. of the Code).

4.7. Lead independent director

Note that, in the absence of the requirements of art. 2.C.3., the Board did not consider it necessary to appoint an independent director as “Lead Independent Director”.
5. Confidential information and internal dealing

Processing of privileged information
In accordance with art. 114 of CFA, the Board of Directors, meeting on 25 February 2003, 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) - the Board of Directors passed a resolution on 25 July 2006 to give the Bank a new set of Regulations of the BPM Group concerning communication obligations pursuant to art. 114 CFA (updated on 15 February 2011), 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 not selective diffusion of the news.

With reference to the duties and flow of information defined in these procedures, they specifically require that the Board of Directors, if possible, or the Chairman of the Board (or a person delegated by him) have 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.

With specific reference to the publication of privileged information, while the authorisation process remains as above, the internal procedure requires coordinated intervention on the part of the “External Relations” and “Corporate Affairs” functions, in connection with the other competent internal functions.

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, updated by resolution of 14 January 2011, 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.

Regulation on Information Flows
As regards the circulation of information, in June 2009 the Bank introduced a specific regulation concerning information flows, also in compliance with the indications of the Bank of Italy’s Governance measures. Its purpose is to identify and regulate:

- the flows towards the corporate bodies: in other words, the information flows between the various functions of the Bank and its corporate bodies;
- the flows within the individual bodies: in other words, the “intrabody flows”, including in this category the tasks and duties of the chairmen of the various corporate bodies relating to the advance information that they provide members of the body prior to a meeting on the topics on the agenda and the availability of such documentation after the event;
- the flows between corporate bodies: in other words, the “interbody flows” foreseen in the Civil Code, in the instructions issued by the Supervisory Authority and in the Articles of Association;
- intraGroup flows: in other words, the flows between the bodies/structures of the Parent Bank and those of its subsidiaries (also regulated in the Group Regulations, approved on 26 October 2010).

Code of Conduct on Internal Dealing
In compliance with the “Regulations governing the markets organised and run by Borsa Italiana S.p.A.”, the Bank adopted its own Code of Conduct on Internal Dealing by resolution of the Board of Directors on 10 December 2002.

Further to the introduction of the rules on market abuse, this Code was partly amended to bring it into line with the new Consob rules. These amendments were approved by the Board of Directors on 14 March 2006.

This Code of Conduct (updated with Board’s resolution of 8 June 2010) governs, with immediate effect, the disclosure requirements and any limitations on transactions in listed financial instruments issued by Banca Popolare di Milano and on financial instruments linked to them, carried out by “Relevant Persons” and by “Persons closely associated with Relevant Persons”.

The purpose of the Code (and the associated disclosures) is to ensure the utmost transparency and consistency of information reported to the market on the conduct of Relevant Persons by virtue of their access to privileged information regarding the Bank and the Group.
Transactions involving the purchase, sale, subscription or exchange of BPM shares (or financial instruments related to BPM shares) by "Relevant Persons" and "Persons closely associated" with them must be reported to the market if their amount is equal to or greater than Euro 5,000 by the end of the year.

Relevant Persons must report these transactions to Consob and to BPM within 5 trading days of being carried out. BPM itself may provide the relevant notification to Consob within this same term on behalf of the Relevant Persons. The Bank shall then publish this information (through a statement sent to Borsa Italiana SpA, to two press agencies and to Consob) by the end of the trading day after receiving notice from the Relevant Person.

The Bank’s Code of Conduct also bans Relevant Persons from carrying out the transactions in the above-mentioned financial instruments during the 30 days prior to approval of the draft financial statements by the Board of Directors (as shown in the “Calendar of corporate events”) and during the 30 days prior to any ordinary or extraordinary general meetings not involving approval of the financial statements or, if earlier, from the date the general meeting is called by the Board of Directors (so-called “black out periods”).

The text of this Code and the individual communication of transactions carried out may be consulted on the Bank’s website in the “Governance/Internal Dealing” section (in accordance with Consob recommendations on this matter, see Consob Communication 6027054 of 28 March 2006).

During 2010, internal dealing transactions were communicated to the market and to Consob (and posted on the Bank’s website) on nine occasions.

6. Board committees (art. 123-bis.2.d, CFA)

Considering the collegial nature of the Board of Directors’ activity, the setting up of specific committees with investigatory, consultative and propositional functions within the Board of Directors allows it to make decisions with a greater awareness of what is involved. In fact, these committees provide useful support for the Board’s work, above all in relation to decisions concerning areas of activity where there is a greater risk of conflicts of interest.

Having said this, BPM’s Board of Directors has created the following permanent sub-committees:
- Executive Committee (paragraph 4.4 of this Report);
- Board Financing Committee (paragraph 7 of this Report);
- Remuneration Committee (paragraph 8 of this Report);
- Internal Control Committee (paragraph 10 of this Report);
- Related Parties Committee (paragraphs 10 and 12 of this Report);
- Members’ Relations Commission (paragraph 14 of this Report).

BPM’s Board of Directors decided that it was not necessary to set up an “Appointments Committee”, even though one is foreseen in the Code, albeit on a voluntary basis. This decision was reached as:

- the Bank is a co-operative with a broad base of shareholders who take an active and proportionately significant part in its corporate life, meaning that no problems have been encountered to date in making suitable nominations that can then freely group themselves together in lists that then compete on an equal basis and without any prior intervention by the current directors to form the future composition of the corporate boards;
- among other things, as BPM is a company that is authorised to do business as a bank, the professional and ethical characteristics of the candidates for director (and statutory auditor) are laid down in detail in the law. In particular, reference is made as regards the rules governing the banking sector to art. 26 of the CBA and the related instructions (in particular Regulation 161/98 of the Treasury, Budget and Economic Planning Ministry and which will have to be integrated by the independence requisite), while in relation to the rules governing issuers, we would mention arts. 147-ter of quinquies CFA (awaiting complete implementation with the usual ministerial provisions). The absence of the requirements for holding the office as prescribed by law leads to forfeiture.
In compliance with the recommendations of the Code (art. 5.C.1) and the Provisions of the Bank of Italy, at BPM all of the Committees with consultative, investigatory and propositional powers:

- these include Independent Members and are made up of three to five members, depending on the tasks given to them;
- 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;
- if these Committees need resources for third-party consulting support or any other kind of activity connected with their function, it is up to the Board to make them available.

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 the sections in this Report on the various topics that they handle, as well as in summary form in the specific table 1 included in the attachments.

### 7. Board Financing committee

On the subject of granting credit, art. 38 of the Articles of Association provides that “the Board of Directors can:

a) delegate particular powers to the Executive Committee, or rather to a Financing Committee, comprising the Chairman, a representative of the Board of Directors and general management, laying down year by year the extent of its powers and the frequency with which it has to meet;

b) delegate power of approval, within pre-established limits, to the general manager and to other employees invested with particular powers, to branch managers and to members of their staff;

c) delegate powers of approval to internal committees made up of managers and/or other company employees”.

This area is currently governed by specific Credit Line Regulation (and relevant Application Instructions and Delegated Powers), the latest version of which was approved by the Board of Directors on 21 December 2010.

This Regulation governs, among other things, the duties and operation of the Board Financing Committee, made up of the Chairman and two Deputy Chairmen, seven directors nominated for this purpose by the Board of Directors (including one director representing each “minority” list) and the General Manager (or his nominee). The Board of Statutory Auditors is invited to attend this committee’s meetings, which are also attended by senior managers in charge of credit and loans, internal auditing and commercial matters.

The Board Financing Committee is currently made up of the following directors: Massimo Ponzellini, Mario Artali, Graziano Tarantini, Giovanni Blanchini, Giuseppe Coppini, Enrico Corali, Carlo dell’Aringa (from 9 November 2010, to replace Beniamino Anselmi, who had resigned), Roberto Fusilli, Leone Spozio and Jean-Jacques Tamburini.

The Board Financing Committee generally meets once a week. During the course of 2010, the Board Financing Committee held 45 meetings, with overall attendance of 83% (the attendance record of each member is shown in table 1).
8. Remuneration Committee

The Remuneration Committee was set up by resolution of the Board of Directors on 22 May 2001 (and is now foreseen in the Articles of Association as well).

Composition and functioning of the Remuneration Committee (art. 123-bis.2.d, CFA))

The Regulation approved by the Board of Directors on 25 June 2009 and amended most recently on 25 May 2010 with resolution of the Board, states that the Remuneration Committee consists of a minimum of 3 and a maximum of 5 directors, all of them non-executive, the majority independent and at least one of them a director elected on a minority list.

The duration of the Committee, which cannot be longer than three years, is established by the Board of Directors when the Committee is appointed.

The Board of Directors proceeded to appoint the members of this Committee at the board meeting of 29 June 2010. The Committee was appointed for one year (until approval of the 2010 financial statements) and is currently made up of the following directors (all non-executive, the majority independent as per the Code and the CFA, and with a member taken from a minority list): Michele Zeffirino (Chairman), Giovanni Bianchini, Giuseppe Coppini, Roberto Fusilli and Leone Spazio.

Having said this, note that this Committee held 16 meetings in 2010 lasting an average of around two hours each and an attendance record of around 92% (the participation of each member is shown in table 1).

In 2011, 9 Committee meetings have been held up to today.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor nominated by him is always invited to meetings, for which minutes are prepared.

In accordance with the Bank’s “Regulation on Information Flows”, the Committee has adequate instruments to carry on its duties with information flows provided periodically by the structures of the Bank involved in matters concerning remuneration. These include the Human Resources Department for the remuneration of managers and the Equity Investments, Regulatory Advice and Corporate Affairs Department for the remuneration of those holding key positions. The Committee can also call on the services of other structures and functions of the Bank and/or of other Group companies, also during the investigatory stage, as well as those of external consultants within the terms and spending limits laid down by the Board of Directors.

Lastly, 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 this during the discussion and if the director declares that he has a personal interest in the outcome, he has to leave the meeting.

Functions of the Remuneration Committee

As envisaged by the Code (art. 7 text 2006) and by the Bank of Italy, according to its Regulations, the functions of the Remuneration Committee are as follows:

a) to make proposals to the Board of Directors regarding the fixed compensation of the Directors that hold particular positions (Chairman of the Board of Directors, Deputy Chairmen of the Board of Directors, the Secretary to the Board of Directors and the Director responsible for supervising the internal control system);
b) to make proposals to the Board of Directors regarding the emoluments of the members of the Supervisory Committee under Decree 231/01;
c) to make proposals to the Board of Directors regarding the emoluments of the members of General Management of the Bank;
d) to make proposals to the Board of Directors regarding the remuneration of the directors of subsidiaries;
e) to express an opinion to the Board of Directors as to how the portion of pre-tax earnings reserved for the Board of Directors should be split between the members of the board in accordance with art. 47 of the Articles of Association;
f) to express an opinion to the General Manager on the emoluments of the Head Office Managers, as well as the overall amount and criteria for the application of the bonus system for the managers in charge of corporate functions (Head Office Managers, Co-Head Office Managers, Head Office Assistant Managers and Members of Central Management);
g) to evaluate periodically the criteria adopted for the remuneration of managers with strategic responsibilities in BPM and the subsidiaries and to collect the evidence;
h) to make general recommendations on remuneration to the Board of Directors;
i) to monitor the application of board resolutions concerning management’s remuneration;
j) to assist the Board of Directors 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;
k) to make proposals, express opinions and assist the Board of Directors in the cases laid down by regulations and the articles of association.

During 2010, in addition to performing the above functions, the Remuneration Committee also presented a proposal to the Board of Directors at the meeting on 11 May 2010 regarding the emoluments of Directors with specific responsibilities (Chairman, Deputy Chairmen and the Director in charge of supervising the internal control system), as well as a proposal concerning the equal distribution among the members of the Board of Directors - taking into account each Director’s effective period of office – of the amount attributed to the Board under art. 47 of the Articles of Association (based on the gross profit).

The Board of Directors delegated to the Remuneration Committee to update the “Document on the remuneration policies of the Bank” (see paragraph 9 of this Report) which is to be presented for approval at the next General Meeting of Members. As part of this activity and in order to ensure proper application of the principles and criteria envisaged in the regulations, the Committee involved the relevant corporate functions in the process of defining the remuneration policies (inviting the heads of function to the Committee meetings).

9. Remuneration of Directors and Senior Management

The Bank adopts remuneration systems that do not conflict with the healthy and prudent management of risk, or with the long-term strategies of the business.

In addition, the remuneration systems are consistent with the objectives and co-operative values that have inspired the Bank since its foundation, in line with the tradition of Italian co-operative banks.

In accordance with the guidelines of the Bank of Italy, incorporated at the time into the Bank’s Articles of Association (art. 26), the Ordinary General Meeting of Members has the power to approve the remuneration policies for directors, employees or external consultants, as well as any share-based payment plans. The General Meeting has to be given adequate information regarding the implementation of remuneration policies.

Having said this, the General Meeting called for 29/30 April 2011 will be asked to approve a “Document on the Remuneration Policies of Banca Popolare di Milano” containing, among other things, all the necessary information on pay mechanisms, as well as an indication of the criteria chosen to define the Bank’s remuneration policies (this document also reflects the contents of the supervisory instructions regarding the remuneration and incentive policies and practices of banks” issued by the Bank of Italy). Reference should therefore be made to this document (available on the Bank’s website, www.bpm.it) for a detailed explanation of the Bank’s policies for remunerating key members of management. The following is a summary of the system used to remunerate the Bank’s directors and managers with strategic responsibilities (art. 7 of the 2006 version of the Code).

Directors

Directors receive fixed fees, which differ according to whether they are members only of the Board of Directors or of the Executive Committee as well, and reimbursement of out-of-pocket expenses incurred in the line of duty.

Based on the resolution of the General Meeting of 25 April 2009, the gross annual fees of the directors were set for the three-year period 2009-2011 at Euro 32,000 for each member of the Board of Directors, in addition to Euro 26,000 for each member of the Executive Committee.

The same General Meeting also granted the Directors an attendance fee of Euro 250 gross for each meeting of the Board of Directors and of the Board Commissions and Committees, set up under the Articles of Association (arts. 36.7, 36.8 and 38). Moreover, those Directors who are members of the Bank’s Supervisory Committee, set up under Decree 231 of 8 June 2001, are granted, in addition to the above, a fixed fee and an attendance fee of an amount that is decided by the Board of Directors.

The specific responsibilities that, under art. 35.2 of the Articles of Association, entitle BPM directors to additional fixed remuneration are: the Chairman, Deputy Chairman, Director responsible for supervising the internal control system and the Secretary to the Board of Directors, if appointed from among the Directors.

This additional remuneration is decided by the Board of Directors - acting on a proposal for the Remuneration Committee and after
hearing the opinion of the Board of Statutory Auditors - taking into account the responsibilities, commitment and role as representative of the Bank involved in each position.

Moreover, art. 47 of the Bank’s Articles of Association provides that the Board has the right to 0.25% of the pre-tax profit (understood as the “profit from current operations before tax”, calculated before deducting this quota and the other quota of 5% reserved for the Bank’s staff, again under art. 47 of the Articles of Association). This is a particular custom that is widespread among co-operative banks and is a reflection of the mutualistic spirit that is their main characteristic. This remuneration, which is not awarded to the directors individually, but more democratically to the entire Board, does not depend in any way on the achievement of particular objectives set in advance.

At present, the Directors do not have any share-based payment plans, nor are there any agreements between the Bank and the Directors that provide for indemnities in the event of them losing office prior to the natural expiry, nor the allocation or retention of any kind of benefit to former Directors or the stipulation of consulting agreements for a period after their termination of office, nor compensation to Directors for non-competition commitments.

Pursuant to art. 78 IR, the remuneration paid to Directors, Statutory Auditors and the General Manager for offices held in BPM and, in aggregate, in other Group companies is disclosed for each individual under the section entitled “related party transactions” in the explanatory notes to the separate financial statements of the Bank.

General Management and managers with strategic responsibilities
The annual remuneration of the members of General management is established by the Board of Directors, acting on a proposal from the Remuneration Committee. This comprises a fixed element and a variable element (“bonus”).

As regards the variable element paid in 2010 on the basis of the work performed in 2009, we would point out that – in accordance with what was established in the “Remuneration Document” approved by the General Meeting of Members on 24 April 2010 – it did not exceed 50% of the fixed element of annual compensation, it is not based on financial instruments and takes into account medium-long term risks for the Bank.

The fixed and variable annual remuneration of other managers, with strategic responsibilities, is determined by the Board of Directors, acting on a proposal from the General Manager (after informing the Chairman and having heard the opinion of the Remuneration Committee). The variable element paid in 2010 on the basis of the work performed in 2009, was not based on financial instruments and was determined on the basis of an assessment of the general performance of the individual manager, taking account of the overall performance of their department or function during the year, without setting specific objectives to be achieved.

Given the content of the Bank of Italy’s Instructions on remuneration, the General Meeting of Members of 29/30 April 2011 will be called upon to approve the new management compensation schemes that foresee, among other things, the definition of more objective and prudent criteria regarding the quantification and payment of the variable element, and the possibility to defer such payment over several years.

10. Internal Control Committee and Executive director in charge of supervising the internal control system

The Internal Control Committee was set up by Board resolution on 13 November 2001, which also established its functions in accordance with the guidelines laid down in the Code. It is now envisaged in the Articles of Association of BPM as well.

Composition and functioning of the Internal Control Committee (art. 123-bis.2.d) CFA
According to the Regulations of the Internal Control Committee – approved by the Board of Directors on 25 June 2009 and amended most recently on 21 December 2010 - the Committee consists of a minimum of 3 and a maximum of 5 directors, all of them non-executive, the majority independent and at least one of them a director elected on a minority list.

The duration of the Committee, which cannot be longer than three years, is established by the Board of Directors when the Committee is appointed. The members’ term of office expires on the date of approval of the financial statements for the last year of their mandate and until new members have been appointed.

In 2010, the Board of Directors proceeded to appoint the members of this Committee at the board meeting of 29 June 2010. The Committee was appointed for one year (until approval of the 2010 financial statements).
The Committee is currently made up of the following five Directors (all non-executive and independent as per the Code and the majority independent as per CFA, and with a member taken from a minority list): Marcello Priori (Chairman), Antoniogiorgio Benvenuto, Giovanni Bianchini, Giuseppe Coppini and Claudio Danelon (a member of the Committee from 29 June 2010 when he replaced Franco Debenedetti).

At the time that the Committee was appointed, the Board of Directors ascertained that the composition guaranteed adequate experience in accounting and financial matters. This it did by vetting the professional characteristics of the Chairman, though it also made sure that all of the members were suitable, both personally and professionally.

Normally the Committee meets at least once a month, and in any case, frequently enough to make sure that it can carry out its functions effectively, as stated in its regulation.

Having said this, note that this Committee held 21 meetings in 2010 lasting an average of around two hours each and an attendance record of around 88% (the participation of each member is shown in table. 1).

20 meetings have been scheduled for the first half of 2011 (of which 6 have already been held).

The meetings held by the Internal Audit Committee - as foreseen by the Regulation which governs its operations, approved by the Board of Directors on 25 June 2009 and last updated on 21 December 2010 - are minuted by the Secretary, who is designated by the Committee outside of its members and who provides appropriate assistance to the Chairman, also with functions of a technical and administrative nature.

Permanent invitations to attend the Committee meetings are sent to the General Manager, Internal Control Manager (who is the Head of Internal Auditing Department), Compliance Manager, Head of Risk Management and the Board of Statutory Auditors.

In accordance with the Bank’s “Regulation on Information Flows”, the Committee has adequate instruments to carry on its duties with information flows provided periodically by the Bank’s Internal Auditing, Compliance and Risk Management Departments and by the Financial Reporting Manager.

During 2010, the Chairman also invited pertinent key managers of the Bank and of the Group, as well as the Independent Auditors, to take part in discussions on specific agenda items.

In compliance with the stringent requirements of confidentiality when acting as a director of a bank that has shares listed on the stock exchange, the members of the Committee have to maintain all of their activities and any information they may acquire when performing their duties strictly confidential.

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

When carrying out its duties, the Internal Control Committee can call on the services of other structures and functions of the Bank and/or of other Group companies, also during the investigatory stage. The Internal Control Committee can also delegate one or more of its members to perform in-depth analyses on specific items and can make use of external consultants within the terms and expenditure limits established by the Board of Directors.

The Internal Control Committee did not make use of any external consultants in carrying out its activities in 2010.

The Committee has propositive, consultative and investigatory functions with regard to the internal control system, risk management and the IT system.

For example, to:

a) assist the Board of Directors in the definition of guidelines for the internal control system, so that the principal risks of the Parent Bank and Group companies are correctly identified and suitably measured, managed and monitored, also deciding on criteria of compatibility of these risks with healthy and correct business management;

b) ensure that the Compliance Officer applies the Board of Directors’ policies for managing non-compliance risk and that the Internal Audit Department implements the Board of Directors’ policies on how third-level controls are to be carried out;

c) analyse the guidelines for internal audit activities and evaluate the annual control plan drawn up by the Head of Controls whose periodic reports it receives and who it can ask to carry out specific audit checks not foreseen in the annual plan;

d) assess any observations that may arise from the reports received from the Head of Controls and Compliance Officer of the Parent Bank and of Group companies or from investigations and/or examinations carried out by third parties;

e) evaluate, together with the Financial Reporting Manager and the Independent Auditors, the correct use of the accounting policies and their consistency for the purposes of the consolidated financial statements;

f) consider the work performed by the Independent Auditors and the results mentioned in their report(s) and in any management letters; it also has to monitor the effectiveness of the audit process;

g) examine, in accordance with the responsibilities assigned by law to the Board of Statutory Auditors, the criteria and methods that will be used to select the Independent Auditors;
h) report to the Board of Directors, at least once every six months, on its activities and on the adequacy of the internal control system.

The Internal Control Committee has to:
- express an opinion on the appointment and/or revocation of the persons carrying out internal controls;
- carry out any other tasks assigned to it by the Board of Directors;
- carry out the tasks assigned to the Related Parties Committee by the internal regulations of the BPM Group on related parties, particularly with regard to issuing opinions and, when required, involving the Committee in the negotiation stage as well as in the preparatory stage (see paragraph 12 of this Report).

As part of the overall activities performed by the Internal Control Committee, which are briefly mentioned above, the following were of particular importance in 2010:
- it received and considered the information flows received from the Internal Audit Department and the Compliance Function, making comments where appropriate to General Management and the Board of Directors;
- it received and examined the reports prepared each year by the Internal Audit Department and the Compliance Function, making an assessment of their planning books;
- it evaluated the process used to assess capital adequacy (ICAAP);
- it analysed the findings of the market risk management and control system review;
- it examined the objectives, rules and roles for the conduct and monitoring of the 2010-2012 Strategic Plan;
- it analysed the findings of the market risk management and control system review;
- it examined the objectives, rules and roles for the conduct and monitoring of the 2010-2012 Strategic Plan;
- it verified correct application of the principles contained in the cash management policy, analysing the internal and external environment, also in relation to the Bank of Italy’s “Instructions on the governance and management of liquidity risk by banks and banking groups”;
- it checked the controls over the transparency of the Group’s banking and financial services and monitoring of its pricing policies;
- it examined, as part of a wider investigation, the process of granting credit and loans, the evolution of doubtful loans at Group level and synergies between the credit and loans division and the risk management function;
- it received information regarding inspections by the Supervisory Authorities at the Parent Bank and its subsidiaries and analysed the documentation prepared in response to the observations made by the inspectors;
- it issued its opinion on the rules and criteria adopted for approving related party transactions as well as the operational guidelines; related party transactions are governed by a specific Group Regulation, which for larger transactions requires a prior opinion from the Internal Control Committee;
- it held several meetings with the Independent Auditors, Reconta Ernst & Young, to discuss the progress made on the planned audit work;
- it held meetings with the Financial Reporting Manager, as prescribed by Law 262/2005, to obtain periodic reports on the preparation of the separate and consolidated financial statements;
- it met with top management of certain subsidiary companies to analyse their organisational structures, focusing on their internal control systems;
- it followed the evolution of the Business Continuity Plan in the event of an emergency and examined the methodology applied in monitoring IT performance.

During the first quarter of 2011, the Committee, among other things:
- requested information on the major initiatives aimed at strengthening the security of internal control systems and prevention of computer crimes and examined the final 2007-2009 Strategic Security Plan and guidelines on the new 2011-2013 Security Plan;
- analysed the main strengths and the areas of intervention of the Internal Rating System;
- examined and expressed a favourable opinion on the MiFID (conflict of interest) policy on personal transactions;
- held one meeting as the “Related Parties Committee”.

**Director in charge of supervising the internal control system**

During the board meeting of 28 April 2009, the Board of Directors appointed Marcello Priori as the Director responsible for supervising the internal control system, given the positive experience he has gained in this position in previous years. He will also chair the Internal Control Committee.

As regards the question of the same person being simultaneously Chairman of the Internal Control Committee and Director responsible for supervising the internal control system, at the time of the appointment the Board acknowledged that the two bodies held different opinions on certain matters while the Director responsible for supervising the internal control system obviously had greater power of intervention. However, it also decided that there were no points of conflict between the two positions; indeed, on the contrary, it noted that there would be a constant, positive liaison between the two bodies which would make for greater coordination between the various internal functions called upon to perform control activities.
The powers of Mr. Priori under art. 8 of the Code, which he also carried out as Chairman of the Internal Control Committee, were therefore confirmed.

During the year, Priori was the reference person for the organisational structures of the Bank and Group who perform control activities and who, through the Internal Control Committee, coordinated and interacted with the Board of Statutory Auditors in order to share the operational guidelines for the conduct of their respective areas of competence. Special attention was devoted to streamlining controls in order to have a more efficient and effective system of internal controls and information flows properly structured and comprehensive towards the strategic supervisory body (who is actively involved in internal control), the control body and between the various control functions.

On the initiative of this Director, management was asked to launch a project to identify mechanisms for the coordination and harmonization of the various internal control functions at Group level, making comparisons with the benchmark and developing operational synergies with those already available, ensuring a strong commitment and constant monitoring of the project stages that began in the second half of 2010 and will continue throughout 2011.

The Director in charge of supervising the internal control system has periodically reported back to the Board of Directors on the overall adequacy, effectiveness and efficiency of the Internal Control System.

11. The internal control system

The Bank’s system of internal control reflects an articulated, systemic vision, which defines the general principles that are designed to guarantee correct and effective management of the systems to be checked, defining in particular how they function and laying guidelines for the strategy, monitoring and coordination of 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 Internal Control System (the latest version is dated November 2010) 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 the entire Bank.

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.

Banca Popolare di Milano 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 is above all a means of protection for the clientele, while also supplementing the Bank’s own system of internal control.

Based on the principles that are generally accepted in this area, from the instructions of the Supervisory Authorities, in particular the Supervisory Instructions of the Bank of Italy (Circular 229, Title IV, Chapter 11) and the Code itself, it is possible to affirm, as far as BPM is concerned, that:

- the system of internal control consists of a set of rules, procedures and organisational structures that through a suitable process of identification, measurement, management and monitoring of the principal risks, is designed to permit the company to be run in a healthy, correct and consistent way in line with set objectives.
- the system of internal control helps to safeguard the company’s assets, to ensure that it operates efficiently and effectively, that it produces reliable financial data and complies with all laws and regulations.

11.1 Internal audit function (internal auditing department)

The Board of Directors has identified the Head of the Internal Auditing Department as the Head of Controls. Internal Audit is an independent function within BPM, which is already governed by detailed rules that comply with the primary and secondary regulations on this matter.

More specifically, the Internal Auditing Department maintains functional relations with the Board of Directors, the Board of Statutory...
Auditors, the Director responsible for supervising the internal control system, the Board Committees involved in matters of control and with the Independent Auditors. Its task is to develop an internal control system that allows the Parent Bank to exercise effective control of the overall risk exposure of the Group, through a process of independent supervision.

In particular, BPM’s Internal Auditing Department:

- assists the Director responsible for supervising the internal control system in evaluating, at least once a year, the adequacy, effectiveness and functioning in practice of the internal control system;
- it evaluates the effectiveness of the overall system of controls and, more in general, the adequacy of the Group’s internal control system;
- it prepares, applies and maintains the annual audit plan to review and assess the adequacy and effectiveness of all control systems, processes, procedures and mechanisms, also to fulfil the MiFID requirements [Directive 2004/39/CE];
- it provides analyses, observations, recommendations and advice regarding the activities examined in order to improve the efficiency and effectiveness of existing controls;
- it carries out audit activities, both in the field and on a remote basis, designed to identify anomalous trends, violations of procedures and of internal and external regulations, having access to all of the information and documentation needed to perform its duties;
- it prepares information flows for the administrative and executive bodies of the Bank, as foreseen by the regulations;
- it provides internal auditing services to Group companies, on request and based on specific contracts, to provide support for their boards and management as part of their operational and control activities;
- it maintains relations with the supervisory bodies, assisting them in the event of inspections and providing the information requested;
- it guarantees the preparation and constant updating, on an autonomous basis, of the Model for the Internal Auditing Manuals in accordance with internal regulations and with the help of the functions in question;
- it reports to the function in question the need for training to ensure an adequate level of knowledge and professional skills;
- it periodically assess the adequacy and effectiveness of the Compliance Function,
- to the extent of its duties, it provides consultative support to the various organisational functions on matters concerning the provision of services, conflicts of interest and the approach to be taken;
- it keeps the Complaints Register in accordance with the reference legislation, providing data on any complaints to the Compliance Function so that it can report on the overall situation to the General Manager and the Board of Directors.

Audit results are reported periodically, firstly to the Internal Control Committee, which makes its assessment of the situation, and then to the Board of Directors and the Board of Statutory Auditors.

Having checked the adequacy of the Internal Control System, the Internal Auditing Department makes proposals for possible improvements to the risk management policies, measurement tools and procedures. The Parent Bank’s Internal Auditing Department also operates on behalf of all the subsidiaries, 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 the individual auditor or office.

To this end, the auditing functions of the individual Group companies send to the Parent Bank’s Internal Auditing Department an advance copy of its annual audit plan with any requests for support from inside or outside the Group.

The entire Group adopts the same approach to internal auditing, which is defined by the Parent Bank’s Internal Auditing Department through the METOPA Project. This also establishes common planning periods, common reporting models and anything else needed to perform their work in a coordinated and standard fashion.

The methodology is supported by a specific IT application (SPHERA) which is shared by the internal auditing functions of the Parent Bank and of the subsidiaries according to a set system of differentiated access.

## 11.2 Compliance function

Following the legislative changes introduced by the Bank of Italy’s Supervisory Instructions (Prov. 688006 of 10 July 2007) and the Bank of Italy and Consob Joint Regulation on the organisation and procedures of intermediaries that provide investment or collective asset management services dated 29 October 2007, the Bank’s Board of Directors passed a resolution on 18 December 2007 which set up a Compliance Function from 1 March 2008.

Subsequently, in April 2008, the Bank formalised the role of the Compliance Function as part of the Organisation Model, defining the duties of this function in accordance with the primary and secondary regulations. The Model was subsequently revised in November 2010, with the objective of clarifying the responsibilities of the Parent Bank versus its subsidiaries.
It guarantees compliance on the part of the Bank with all rules and regulations, avoiding the risk of non-compliance and any events (deriving from non-compliance with the rules) which could potentially jeopardise the Bank’s reputation. This involves carrying out the following tasks:

- it ensures the performance of all of the tasks laid down in the Bank of Italy’s supervisory rules, as well as the Bank of Italy/Consob Joint Regulation that implemented the MIFID Directive;
- it ensures the control and assessment of the adequacy and effectiveness of the procedures and internal measurements used to fulfil the legal obligations of the intermediary and the related measures of prevention and minimisation of the risk of non-compliance;
- 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 also monitors the overall situation of complaints received by the Bank, as well as operations and banking and financial services, based on the data provided by the function in charge of processing it;
- it keeps the Conflict of Interest Register in accordance with the specific regulations issued jointly by the Bank of Italy and Consob in connection with the MIFID Directive;
- it prepares the annual compliance plan and the annual compliance report for the Board of Directors on its activities;
- it carries out compliance checks on corporate behaviour.

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.

The Compliance Function collaborates with the other bodies or functions that form part of the corporate controls system; in particular, it cooperates with the Risk Management Department to define the measurement methods for non-compliance risk. In carrying out its activities, it makes use of the support of the References of the Compliance Officer (known as RECOs) at the various corporate functions. It makes every effort to ensure that training courses are developed to make all of the staff, both internal and external, more aware about non-compliance risk, with particular regard to the operating lines. The person responsible for the Compliance Function is appointed Compliance Officer and MIFID Compliance Officer, as per the law, with a specific mandate from the Board of Directors. In carrying on its activity, the Compliance Function reports hierarchically to the General Manager and functionally to the Board of Directors.

The Compliance Officer is also given functions and responsibility for coordinating the subsidiaries, to ensure compliance there as well. Based on an agreement with the Parent Bank and a resolution passed by their Board of Directors, the subsidiaries have the right to delegate, by means of a specific contract, to BPM’s Compliance Function all or part of the general and MIFID compliance activities, as defined in this model. Each of the banking/finance companies under the control of the Parent Bank has to appoint a Compliance Officer, who in addition to his own responsibilities and duties as part of this function, as defined in the internal and external regulations, also reports functionally to the Parent Bank’s Compliance Officer. In order to reinforce second-level controls, since 1 December 2009, Compliance activities and those of Network Controls have been combined in the new Network Controls and Compliance Department.

11.3 Risk Management Function

The Risk Management Function also forms part of BPM’s internal control system, in its broadest sense, given that it centrally monitors the second-level controls over financial, credit and operational risk. It is also responsible for the methods of measuring risk and the quantification of the overall amount of internal capital needed to safeguard the Bank’s stability. This function is charged with monitoring the Bank’s overall risk profile and seeing that it respects the limits of tolerance set by the Board of Directors. It is therefore responsible for organising and managing the processes of identifying and measuring the various types of risk within the Bank. To do this, it is responsible for the methodology used for measuring risk and for quantifying the overall internal capital requirement and risk-adjusted profitability. Identification and measurement differ depending on the type of risk, distinguishing between market risk (trading book, credit risk (both as the development of the internal rating system and as a portfolio model), interest risk (banking book), operational risk and liquidity risk. It also develops methodological control systems for measuring and managing overall internal capital. The Risk Management Function, which reports to the Parent Bank’s Planning, Management Accounting and Risk Management
Department, 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 organisational complexities - report functionally to the Parent Bank’s risk management office.

11.4 Supervisory Committee (Decree 231/01)

The Supervisory Committee - set up by board resolution on 13 January 2004 pursuant to Decree 231/01 - during the course of 2010 carried on its activity, as always, having as its purpose that of preventing the commission of the crimes mentioned in the Decree (and subsequent amendments). This it did by implementing and verifying the adequacy of the Model of organisation, management and control and of the Code of Ethics adopted by the Bank, as well as by checking compliance with their provisions.

The composition and functioning of this Committee are governed by a specific regulation approved by the Board of Directors during the meeting of 25 June 2009, the latest update of which was made on 21 December 2010. According to this regulation, the Supervisory Committee is composed of 4 members appointed by the Board of Directors (which also nominates its chairman).

The members remain in office for the entire duration of the Board of Directors that appoints them and expire on the date of approval of the financial statements for the last year of their mandate.

The Committee members come from both inside and outside the BPM Group (with at least one coming from the Parent Bank) in order to achieve a balance of professional skills from inside and outside the Board of Directors, which assesses the independence of the Committee and at the same time guarantees that a suitable link is maintained between the Committee and the Board of Directors of the Parent Bank.

The current Head of the Parent Bank’s Internal Auditing Function is an ex ufficio member of the Committee; the other members have to have non-executive status.

The Supervisory Committee was given its own budget for 2010 of Euro 50,000. Following the appointments made by the Board of Directors at the meeting of 12 May 2009, the Committee is currently made up of Raffaele Ferrara (Chairman), Eugenio Crosta, Michele Zeffirino and Carlo Cesare Farma (the Bank’s Head of Internal Auditing).

The Chairman of the Board of Statutory Auditors (or another Statutory Auditor nominated by him), the Chairman of the Internal Control Committee and the Compliance Officer of the Bank have a permanent invitation to meetings of this Committee.

During the course of 2010, the Supervisory Committee took steps:

- to follow developments in the law, promoting updates of the Model of organisation, management and control and of the Code of Ethics;
- check staff training - in line with the above changes made to the Model of organisation and the Code of Ethics - by means of a course delivered through the corporate intranet to all BPM staff, followed by a test to check what they had learnt;
- to review reports on important matters received from Internal Auditing and Network Controls.

Note that since January 2005, a specific section of the Bank’s website is dedicated to the Supervisory Committee as per Decree Law 231/01 (http://www.bpm.it/vigilanza/chi_siamo_vigilanza.shtml). This section – to which reference should be made for further information on this matter - gives, among other things, the composition, regulation and principle functions of the Body, the Model of Organisation, Management and Control (as per Decree 231/01), the Code of Ethics and the related legislation.

During 2010, the Committee held 10 meetings lasting an average of around 3 hours each and an overall attendance record of around 90%.

Finally, all major Group companies have adopted a Model of Organisation, Management and Control as per Decree 231/01 and have formed an internal Supervisory Committee.

11.5 Independent Auditors

The General Meeting of Members of BPM of 21 April 2007, backed by the Board of Statutory Auditors, appointed Reconta Ernst & Young SpA as independent auditors of the Bank’s annual financial statements, consolidated annual financial statements and the BPM Group’s interim report for the years 2007-2015.
11.6 Financial Reporting Manager

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 and art. 44 of the Articles of Association - 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 (now the Administration, Control and Corporate Governance Division); subsequently, Roberto Frigerio was appointed Deputy General Manager with effect from 1 January 2010.

Art. 44 of the Articles of Association provides that a Financial Reporting Manager should be “chosen from the senior managers of the Bank who have carried out management functions for at least five years in the accounting and administrative field”.

The Financial Reporting Manager was assigned adequate powers and resources - including a specific expense budget for 2010 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 (11.7) of this Report.

11.7. 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)

1. Introduction
The system of internal control of the BPM Group defines the general principles that are designed to guarantee correct and effective management of the systems to be checked, explaining in particular how they function and laying guidelines for the strategy, monitoring and coordination of Group companies’ control activities.

The risk management and internal control systems relating to financial reporting are an integral part of this system, being governed by a specific organisational 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.

2. Principal characteristics of the internal control model used for financial reporting

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), on the other hand, is inspired by the “Control Objective for Information and Related Technologies” (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 organisational 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.
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 sensitive processes for accounting and financial reporting purposes;
d) assessment of the internal control system for accounting and financial reporting purposes, which 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 qualitative and quantitative thresholds;
- selection, for each of the companies previously identified, of the accounts and other balance sheet information considered significant according to qualitative and quantitative criteria;
- association of such accounts and information with the underlying corporate processes.

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. 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, such as: the control environment, information and communication, and the monitoring and evaluation of risks.

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.

Once this periodic assessment has been carried out, leading to summarised judgements regarding the various elements of the internal control system, an action plan is drawn up to improve the system and resolve any critical areas.

c) monitoring of sensitive processes for accounting and financial reporting purposes
The processes being monitored, having been selected according to the methods explained earlier, relate to the macro aggregates resulting from each process:
- business (loans, finance, commercial banking);
- governance (including risk management);
- 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 key controls (“Risk Control Analysis”);
- verification of effective application of key controls, testing for correct execution and documentation (“Tests of Control”);
- identification of critical areas and corrective action plans (“Remediation Plans”);
- monitoring the stage of completion and effectiveness of the corrective action taken.

d) assessment of the internal control system for accounting and financial reporting purposes
The last stage of the process consists of the final evaluation of the internal control system for financial reporting purposes, based on the evidence relating to:
- the macro system of company-level controls;
- sensitive processes for accounting and financial reporting purposes, taking into account the Risk Control Analysis and Tests of
Control carried out and the stage of completion of the remediation plans introduced, on a half-yearly basis. The assessment is completed by consolidating all of the results of the risk analyses and process control tests at Group level, identifying on the basis of 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.

3 Roles and Functions involved in the control model for financial reporting purposes

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

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 Board of Directors, 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 means to carry out these activities, 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 Bank 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;
- and lastly, in accordance with their respective missions and maintaining the necessary level of independence laid down in the reference legislation and corporate regulations, 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.

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. For example:

- they analyse regulatory requirements and identify ways in which the model has to evolve;
- they assist the Manager by:
  - 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;
  - planning the various activities involved in risk analysis and the tests of controls;
  - 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;
- they perform the various activities involved in the assessment of risks and controls and the test of adequacy and effective application of the controls;
- they define 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;
- they support 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 organisation and IT functions;
- they monitor effective implementation of the remediation plans;
- they coordinate 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.
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.

3.4. Organisation Department
The Organisation Department makes sure that the Financial Reporting Manager is able to publish and update company documents and regulations needed at Parent Bank 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.

3.5. Risk Management Department
The Risk Management Department supports the Financial Reporting Manager in defining the scope of application of the control model, identifying elements to be used in assessing the potential risk in its own area of risk management.

3.6. IT and Operations Department
The IT and Operations 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.

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 they have complied with:
- 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 Board of Directors 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.

This information is also presented to the Director in charge of supervising the internal control system, to the Board Controls Committee and to the Board of Statutory Auditors.
Lastly, the Financial Reporting Manager holds meeting and exchanges information with the Independent Auditors.
12. Directors’ interests and related party transactions

As you know, the rules governing related party transactions aim to limit the risk that the proximity of certain people (so-called “related parties”) to the company’s decision-making bodies might compromise the objectivity and impartiality of business decisions, with possible distortions in the resource allocation process, exposure of the company to risks which are not adequately measured or controlled and potential damage to the company and its stakeholders.

Ever since December 2002, following the introduction of the disclosure requirements of art. 71-bis of Consob’s Issuers’ Regulations applicable at that time and in compliance with the recommendations of the Code of Conduct of Listed Companies, the BPM Group adopted specific and detailed internal procedures for related party transactions, which have subsequently been updated as a result of legislative changes.

In particular, this procedure – details of which are provided in previous years’ “Corporate Governance Report”, and which are also available on the Bank’s website - has the objective of identifying “significant” transactions of BPM (and those of the entire BPM Group) and, in particular, those with related parties, and to disclose to all parties concerned the Bank’s standards of conduct in communicating with the Bank (or at least to the company of which they are members), their stance regarding “related parties” in conducting transactions with the Company and to regulate the authorization process of such transactions to ensure their substantial and procedural fairness and to monitor possible conflicts of interest.

In order to implement Article 2391-bis of the Italian Civil Code, Consob issued a special regulation entitled “Regulation on related party transactions” (see Consob resolution no. 17221 of 12 March 2010 and no. 17389 of 23 June 2010), after which Consob laid down specific instructions and application guidelines (Communication DEM/10078683 of 24 September 2010).

In this situation, on 30 November 2010 Banca Popolare di Milano replaced the previous internal procedure and approved - by a unanimous board resolution passed with the advance approval of a committee formed by totally independent directors - the “Regulation of the BPM Group on related party transactions and rules of conduct regarding the interests of directors and managers”, which is available in the “Governance” section of Bank’s website: (http://www.bpm.it/governance/scheda_parti_correlate.shtml).

By generally providing that the transparency regime and new procedures regarding decision-making mechanisms were to take effect on 1 December 2010 and 1 January 2011 respectively, this “Regulation”:

- identifies related parties of the BPM Group;
- lays down how related party transactions are to be handled and approved, differentiating between transactions of greater or lesser relevance and those that are exempt; in this context, it identifies the criteria of “relevance” to be applied and cases of exemptions in line with Consob’s guidelines;
- identifies rules with respect to transactions with related parties carried out by its subsidiaries;
- identifies the concept of “independent director” as defined in the regulation and attributes the function of the Related Parties Committee to the Internal Control Committee in a separate capacity. The Related Parties Committee has a composition that varies according to the specific type of related party transaction. It is worth mentioning that the Chairman of the Board of Statutory Auditors and the other Acting Statutory Auditors are invited to meetings of this Committee; to carry out its duties, the Committee receives a full and timely flow of information from the relevant structures of the Bank or of the Group and, in the event of transactions “of greater relevance” as defined by the internal regulation, the Committee may request information and make comments to those responsible for the conduct of negotiations or investigations;
- defines the method and timing for which the information on related party transactions, together with any supporting documentation, is provided to the independent directors (on the Related Parties Committee) who express an opinion on the related party transactions, as well as to the administration and control bodies, prior to approval, as well as during and after execution of such transactions;
- lays down the disclosure (and accounting) requirements as a result of entering into related party transactions.

The Bank then drew up suitable “implementation instructions” to accompany these “Guidelines”. These are designed to define certain aspects regarding the correct management of transactions with related parties, to optimise the monitoring and management of the positions of related party transactions by operators, as well as the relevant powers of authorisation.

In addition to the potential conflicts of interest that arise from the counterparty being a “related party”, there may be situations - in particular within the decision-making body and its members - where someone about to pass a resolution may find that they have an interest in the transaction, which by law would have to be declared.
In this respect the internal rules that govern transactions with related parties also define the code of conduct concerning the interests of corporate officers.

In particular, if one or more directors or auditors have an interest, even potential or indirect in a transaction - an indirect interest being, for example, concerning close relatives of the Director or Statutory Auditor or a (direct or indirect) subsidiary or associated company of the Director/Statutory Auditor or close relatives - they must promptly and fully inform the Board of Directors and Board of Statutory Auditors of any interest held, personally or on behalf of third parties, in a certain transaction in which the Company is involved, so that the other Directors and Statutory Auditors can understand the full extent of these interests, regardless of whether there is a conflict of interest. In such cases, the Board’s resolution must adequately justify its decision and explain how the transaction benefits the company.

Once these information obligations of the director or statutory auditor concerned have been fulfilled, without affecting their right to abstain if they consider it opportune, the Board of Directors evaluates according to the type and importance of the transaction, as well as the nature and extension of the relations existing with the counterparties, whether to request the director or statutory auditor to leave the meeting temporarily, as in the case when there has been declared or found the presence of a “personal” interest on the part of the officer (i.e. an interest of their own or of a close relative or of companies controlled by them, for example in the field of credit lines); also taking into account that if there is not a serious risk of altering the way in which the Board reaches its decision, the participation of the director or statutory auditor in the discussion and possibly in the voting may be opportune as an element of “self-responsibilisation” with regard to transactions that the person concerned might know better than the other members (perhaps in intraGroup transactions involving a company where the person holds office).

13. Board of Statutory Auditors

13.1. Appointment of Statutory Auditors

The Articles of Association (arts. 40 and 41) and the Regulations for General Meetings (arts. 21 et seq.) should be consulted for a full explanation of the procedures for appointing and replacing the members of the Board of Directors. The following is a summary of the Articles in question.

**Procedure for the appointment of Statutory Auditors**

The Board of Statutory Auditors consists of the Chairman, four Acting Statutory Auditors and four Alternate Statutory Auditors; the election of two Acting Auditors and two Alternate Auditors (including the Chairman of the Board of Directors) is reserved for the minority shareholders.

The General Meeting appoints the Statutory Auditors on the basis of lists of candidates presented by the Members, in which the candidates are progressively numbered.

The lists of candidates, signed by those presenting them, have to be deposited at the Bank’s head office at least thirteen days before the date scheduled for the meeting at first calling, pursuant to art. 144-sexies para. 4-bis IR, introduced by Consob resolution 17592 of 14 December 2010. In this regard, note that the Extraordinary General Meeting of Members to be held on 29/30 April 2011 (respectively at first and second calling) together with the Ordinary General Meeting to be held for the approval of the financial statements, will be called to resolve on the amendment to Art. 41 of the Articles of Association (which currently sets the deadline for submission of lists of candidates to corporate bodies “at least 15 days before the General Meeting”, in line with the previous legislation).

Each list has to be presented by at least three hundred sponsoring Members representing in total at least 0.50% of the share capital, who have been included in the Register of Members for at least ninety days (this is also in line with the requirements of Consob for the presentation of lists for the election of corporate bodies under art. 144-quater, 3 and 4, IR).

In the event that more than one list is presented, the procedure for electing the Board of Statutory Auditors is as follows:

- three acting auditors and two alternate auditors are taken from the list that won the most votes, in the order in which they are listed;
- one auditor and one alternate auditor are taken from the list that obtains the second highest number of votes, in the order in which they are listed; the remaining auditor and alternate auditors are taken from the list that obtains the most votes after the second one, in the order in which they are listed;
- if only one list is presented, all of the acting auditors and alternate auditors are to be taken from it; if only two lists are presented,
the two acting auditors and two alternate auditors to be elected by minority shareholders are taken from the list that obtained the second highest number of votes;
- if more than two lists are presented, of which one by a mutual fund, this list will provide one acting auditor and one alternate auditor, providing it obtained at least 5% of the total votes cast; if several mutual funds each present their own list and they all obtain the minimum number of votes, the acting auditors and the alternate auditor are to be taken from the one that obtained the most votes;
- if two or more lists obtain the same number of votes and this is relevant for the composition of the Board of Statutory Auditors, another round of voting is held between such lists by all of the Members present at the meeting;
- the acting auditor who features as the leading candidate on the list that won the highest number of votes is elected Chairman of the Board of Statutory Auditors.

In the event that only one list is presented, the Meeting votes on that list; the first five candidates progressively numbered are elected as auditors and the next four candidates after them are elected as alternate auditors. In this case, the first person named on the list becomes the Chairman of the Board of Statutory Auditors.

If there are no lists, the Board of Statutory Auditors and its Chairman are to be appointed by relative majority vote of the General Meeting from among the candidates presented at the Meeting.

**Procedure for replacing Statutory Auditors**

In the event that a statutory auditor dies, resigns or falls from office, they are to be replaced by the alternate auditor belonging to the same list as the one no longer serving, giving preference to the senior one in terms of age if there is more than one alternate auditor on the same list.

If the Chairman of the Board of Statutory Auditors has to be replaced, the position is to be taken by the acting auditor from the same list as the chairman who is no longer serving or, if there is none, by the senior alternate auditor in terms of age taken from the same list; if it not possible to make replacements in this way, a General Meeting has to be called to integrate the Board of Statutory Auditors.

**Publishing the lists of candidates for the position of Statutory Auditor and related documents**

The lists of candidates, signed by those presenting them, have to be deposited at the Bank’s head office at least thirteen days before the date scheduled for the 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 they meet the requirements prescribed by law or by the Articles of Association for holding office. For this purpose, it is taken into account that the business sectors closely related to those of the Company are banking, finance and insurance.

As in the case of the Directors, art. 22 of the current Regulations for General Meetings requires that “the lists (..) together with their curriculum vitae, are available to the Members at the Bank’s head office and summarised by the Chairman at the General Meeting before the polling stations are opened”. On this subject, it is confirmed that, before General Meetings to appoint the Board of Statutory Auditors, the Bank sends its members and the market a specific press release containing details of the lists presented for each office and the complete list of the related candidates. The candidates’ curricula are usually published on the website before the General Meeting, as stated in the notice of calling.

We would also point out that the publication of the lists of candidates and suitable accompanying information on their personal and professional characteristics, is now also expressly regulated by Consob (arts. 144-octies & decies, IR).

On the occasion of the General Meeting on 25 April 2009, which was held to discuss, among other things, the renewal of the corporate bodies, on 14 April 2009 (i.e. “at least 10 days before” the Meeting to resolve the appointment as foreseen in art. 144-octies, RE), the Bank made available to the public at head office, the Stock Exchange and on its website, the lists of candidates validly filed by the Members, accompanied by the list of sponsoring Members and the curriculum vitae of each candidate.

**13.2. Composition and role of the board of Statutory Auditors (art. 123-Bis, 2.D) CFA**

The Board of Statutory Auditors, pursuant to art. 40 of the Articles of Association, is made up of the Chairman, four acting auditors and four alternate auditors, elected from among the Members. In particular, art. 41 of the Articles of Association the election of two acting auditors and two alternate auditors is reserved for minority interests.

The Board of Statutory Auditors currently in office was appointed for three years (2009-2011) by the General Meeting held on
25 April 2009; The entire Board will therefore expire at the General Meeting called to approve the financial statements at 31 December 2011.

The General Meeting in April 2009 was called to choose the Statutory Auditors from the following four lists of candidates:

List no. 1: presented by 739 Members (a list of them has been published on the websites of the Bank and of Borsa Italiana), in total representing 1,212,260 shares, equal to 0.29% of the share capital, with the following persons as candidates for the office of statutory auditor: Enrico Castoldi (lead candidate), Stefano Salvatori, Ezio Simonelli, Enrico Radice and Giuseppe Zanzottera;

List no. 2: presented by 336 Members (a list of them has been published on the websites of the Bank and of Borsa Italiana), in total representing 429,018 shares, equal to 0.10% of the share capital, with the following persons as candidates for the office of statutory auditor: Carlo Bellavite Pellegrini (lead candidate) and Giorgio Zoia;

List no. 3: presented by 334 Members (a list of them has been published on the websites of the Bank and of Borsa Italiana), in total representing 322,167 shares, equal to 0.08% of the share capital, with the following persons as candidates for the office of statutory auditor;

List no. 4: presented by 559 Members (a list of them has been published on the websites of the Bank and of Borsa Italiana), in total representing 538,261 shares, equal to 0.13% of the share capital, with the following persons as candidates for the office of statutory auditor: Salvatore Rino Messina (lead candidate), Emilio Luigi Cherubini, Luigi Manfredi, Claudio Solenghi and Paolo Donzelli.

Bearing in mind that no lists were presented by mutual funds (or UCITS) and that there is no minimum number of votes for the election of statutory auditors, the lists presented obtained the following results:

- list no. 1 obtained 5,046 votes;
- list no. 2 obtained 1,364 votes;
- list no. 3 obtained 369 votes;
- list no. 4 obtained 2,210 votes.

So applying the rules contained in the Articles of Association for the appointment of statutory auditors, list no. 1 was assigned three acting auditors and two alternate auditors; list no. 4, one acting auditor (who takes the chair) and one alternate auditor; list no. 2 one acting auditor and one alternate auditor.

The following are the current members of BPM ‘s Board of Statutory Auditors with the list that they belong to.

<table>
<thead>
<tr>
<th>Office held</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Salvatore Rino Messina (b)</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Carlo Bellavite Pellegrini (c)</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Enrico Castoldi (a)</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Stefano Salvatori (a)</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Ezio Simonelli (a)</td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Emilio Luigi Cherubini (b)</td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Enrico Radice (a)</td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Giuseppe Zanzottera (a) (d)</td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Giorgio Zoia (c)</td>
</tr>
</tbody>
</table>

(a) Auditor taken from List no. 1, which obtained the most votes.
(b) Auditor taken from List no. 4, a minority list.
(c) Auditor taken from List no. 2, a minority list.
(d) died on 31.07.2010.

In accordance with art. 144-decies, IR, as regards the members of the Board of Statutory Auditors (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:
Salvatore Rino Messina: he graduated in Economics and Business Studies and operates as a Chartered Accountant in Milan; he is also a Registered Expert of the Milan Court and an Official Auditor. He acts as statutory auditor in important companies (also listed companies).

Carlo Bellavite Pellegrini: he graduated in Economics and Business Administration and is a Chartered Accountant and Official Auditor; he lectures in Banking, Finance and Insurance at the Milan’s Università Cattolica.

Enrico Castoldi: he qualified as a Chartered Accountant and Official Auditor and acts as statutory auditor for various BPM Group companies.

Stefano Salvatori: he graduated in Business Administration, is a professor at Bocconi University and has run numerous masters and executive courses at this university.

Ezio Simonelli: he graduated in Economics and Business Studies and is a Chartered Accountant, Official Auditor and journalist. He also acts as statutory auditor in several companies in industry and finance.

Emilio Luigi Cherubini: he graduated in Economics and Business Studies, operates as an independent consultant and has been appointed by the Milan Court to work on bankruptcy proceedings and the application of “voluntary jurisdiction”.

Enrico Radice: he graduated in Economics and Business Administration, as well as acting as an auditor, and has held positions in management and auditing at several companies.

Giuseppe Zanzottera: died on 31 July 2010.

Giorgio Zoia: he graduated in Economics and Business Studies; after working for many years with the Cerrutti 1881 Group with management responsibilities, since 1997 he has operated as a Chartered Accountant and Official Auditor.

Role of the Board of Statutory Auditors
The Board of Statutory Auditors has given itself a specific regulation (which was approved at the meeting held on 25 June 2009 and last modified on 21 December 2010) – in line with the articles of associations and the provisions of law, most recently Legislative Decree no. 39/2010 - which governs, among other things, the composition, functioning and duties/powers of the Board of Statutory Auditors.

Under this regulation, the Board of Statutory Auditors:

- periodically verifies its own adequacy in terms of powers, functioning and composition, taking account of the size, complexity and the activities carried on by the Bank;
- the Board of Statutory Auditors monitors, among other things, compliance with the rules of law, regulations and the articles of association, correct administration, the adequacy of the organisational and accounting structures of the Bank;
- it also monitors the financial reporting system, the workings of the Bank’s complex system of internal controls, ascertaining the effectiveness of the structures and internal functions involved in the control system, ensuring that they are adequately coordinated and promoting remedial action to correct any weaknesses or irregularities that may have been found;
- it also monitors the adequacy of the risk management and control systems and the process for determining internal capital in accordance with the regulatory requirements;
- it also checks that the Bank exercises its role as the Parent Bank of Group companies properly in terms of its strategic and management control activities;
- it has all of the powers to carry out its duties according to the law and the Articles of Association, including the power/duty to inform and report to the Supervisory Authority any operating irregularities or regulatory infringements;
- it expresses its opinion on the appointment of the Financial Reporting Manager and has to be consulted on any decisions regarding the appointment of those in charge of internal control functions (internal auditing, compliance and risk management) or fundamental aspects of the internal control system (such as powers, responsibilities, resources, information flows and the handling of conflicts of interest);
- it has tasks in connection with the assessment of the adequacy and efficiency of the accounting structure, including the related IT systems, so as to ensure a true representation of the company’s affairs. In carrying out this task, the Board has asked for the
support and collaboration of other corporate functions, above all the administration, planning and control, compliance and internal auditing functions);
- the Board also supervises the methods of implementing the governance rules laid down in the codes of conduct adopted by the Bank;
- supervises the independent audit of annual and consolidated accounts as well as the independence of the Independent Auditors, particularly as regards their provision of non-audit services to BPM.

At the time of board meetings, any Statutory Auditor who on own account or for third parties has an interest in a particular transaction of the Bank has to provide timely and exhaustive information regarding the nature, terms, origin and extent of their interest and, if a personal interest emerges (i.e. on their part, that of a close relative or of companies controlled by them), they have to leave the meeting room temporarily.

**Limits to the accumulation of auditorships**
Under art. 41 of the Articles of Association and the Regulation of the Board of Statutory Auditors, the Statutory Auditors cannot hold or accept directorships or auditorships with third-party companies or entities in excess of the number laid down in the Consob rules implementing art. 148-bis, CFA (and subsequent amendments). Without affecting the limits to the accumulation of auditorships under current regulations, under the Articles of Association the members of the Board of Statutory Auditors cannot act as directors or statutory auditors of other banks, unless they are affiliates or centralised structures for the cooperative banking movement. In any case, the Statutory Auditors cannot accept positions in bodies other than as statutory auditors at other Group companies, as well as at companies in which the Bank directly or indirectly has a strategic investment (i.e. more than 10% of the affiliate’s share capital and 5% of the consolidated regulatory capital of the banking group).

The appendix attached to this report (Table 2) gives the number of directorships or auditorships which the members of the Bank’s Board of Statutory Auditors hold in other companies (or institutions, such as consortiums, foundations or pension funds).

**Requisites of Statutory Auditors**
During the board meeting of 26 May 2009, the Board of Directors checked whether the acting and alternate members appointed by the General Meeting of 25 April 2009 had the attributes required by law and the Articles of Association to be a Statutory Auditor. In accordance with art. 10.C.2. of the Code, the Board of Statutory Auditors also took steps to check that its members met the independence requirements prescribed by art. 3 of the Code in 2010. The result of this check was that each of the Acting Auditors satisfied the independence requirement of the Code.

**Meetings of the Board of Statutory Auditors**
During the course of 2010, the Board of Statutory Auditors held 73 meetings, which lasted an average of around two and a half hours with overall participation of around 82% (the attendance record of each Auditor at meetings is shown in table. 2). All of the Statutory Auditors can take part in the proceedings of the Board Committees/Commissions and to this end it is up to the Chairman to send the notices of calling to the other acting members of the Board (if it is not already foreseen in the regulations of the individual committees and commissions that all of the statutory auditors should be invited).

The Board of Statutory Auditors also takes part in person at meetings of the Board Financing Committee and the Supervisory Committee (set up under Decree 231/01).

**14. Relations with Shareholders and Members**
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 (this position is currently held by Roberto Peronaglio), a position created by the Board of Directors 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) 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 - allowing financial analysts and institutional investors to request information on the BPM Group’s strategy, financial information and results.

As regard relations with Members (also structured into a specific function of the Bank, the “Members’ Sector”) and the ways in which
the qualification of Member is acquired, they are governed by the framework resolution on “Rules for the admission of members and management of relationships with Members”, originally adopted in February 2002 and subsequently updated by the board resolutions of 1 April 2003, 3 June 2008, 20 January 2009 and, lastly, 18 January 2011.

The text of the resolution is available on the Bank’s website, in the section “Shareholders and Members”, where there are also all of the Bank’s press releases, corporate documents (in Italian and, usually, in English) and the guidelines for the participation of Members at General Meetings, as well as the instructions and forms needed to apply for admission as Member.

In particular, the resolution:

- confirms the setting up of a “Members’ Relations Commission” which reviews applications for admission to membership, cases of exclusion from the Register of Members and waivers on the part of the Bank of its preference guarantee on BPM shares. The Commission with its own regulation approved by the Board of Directors on 25 June 2009 (updated on 25 May 2010), is made up of a maximum of five members of the Board of Directors, the majority of independent directors and at least one elected in a minority list.

- defines requirements and procedures for the admission of new members, which depends on the prospective member’s effective espousal of the Bank’s aims, its objective interests and its co-operative spirit. This requirement is deemed to be satisfied if the application is presented by a Shareholder with a minimum holding of 100 shares and is accompanied by a written undertaking to maintain this number of shares over time;

- includes in the situations that do not permit admission to Membership not only the same conditions as those indicated in the Articles of Association for the declaration of exclusion, but also the verified condition of “intermediary” of the real applicant, where it is not possible to assess the existence of the requisites and the absence of situations that do not permit admission also in the case of the real shareholder who appointed the intermediary.

- redefines the attachments and the declarations needed for the Members’ Commissions and the Board of Directors to assess applications;

- establishes the conditions and procedures for cancelling a member, confirming the cases envisaged under the Articles of Association, specifying that these include a member’s failure to retain the required number of shares over time or, in any case, the observation on the part of the Bank that the person no longer owns any shares;

- outlines the criteria for maintaining the Members’ Register and the Shareholders’ Register, envisaging the creation of a specific “Members Address File”, in which, after obtaining their express consent, we insert their addresses (as well as their other personal details, which are already contained in the Members’ Register) so that this information can be consulted (and extracts obtained) by other members wanting access, also to favour more acquaintances and interrelations among the shareholders;

- provides - following the said amendment of 18 January 2011 – an integration of the methods by which the request for admission to Member can be delivered through a delegated person.

In 2010, the Members’ Relations Commission held 19 meetings, lasting an average of around 1 hour each and an attendance record of around 94% (the participation of each member is shown in table 1).

Following the Board’s resolution of 29 June 2010, the Commission is now made up of the following Directors: Antoniogiorgio Benvenuto (Chairman), Giovanni Bianchini, Giuseppe Coppini, Piero Lonardi and Leone Spazio.

During 2010, in addition to the usual preparations for presentation to the Board of Directors of the resolutions for admission to and exclusion from membership (which in 2010 saw the acceptance of 2,418 applications for membership), the Commission dealt with a number of important projects approved by the Board of Directors during 2009:

- the “Members’ Project”, a long-term plan to relaunch a policy of paying particular attention to the members in order to expand the shareholder base and to increase the clientele and create greater customer loyalty. This plan aims to generate “more and better” content for the mutualistic nature of the Bank, as well as a to promote and facilitate participation in the life of the co-operative;

- the Charter of Values and Commitments, a document that the various structures of the Bank have devoted a lot of work to, focuses on the positive steps to be taken. It acts as a point of reference in terms of values and guidelines for the decision-making processes and day-to-day acts performed by those who operate in the Group to ensure that they are coherent with the culture, mission and Corporate Social Responsibility (CSR) of the Bank, thereby affirming the strategic and not contingent choice of the “Charter” and of CSR in BPM;

- the so-called “portability of proxies”: to encourage even greater Member participation at the AGM and accepting the recommendations of the Bank of Italy - which, under the provisions that are intended to strengthen the organisational standards and corporate governance of banks, foresees that “where the shareholding is highly fragmented (as is the case in cooperative banks) mechanisms must be provided to facilitate a meaningful participation of Members at General Meetings” - the Commission, on behalf of the Board of Directors, has prepared a series of proposals aimed at this (including the hypothesis of increasing the number of proxies and forms of remote participation and voting). At its meetings on 21 December 2010 and 18 January 2011,
the Bank’s Board of Directors resolved to submit, with the prior authorization of the Bank of Italy, to the Extraordinary Members’ Meeting – due to be held on 29/30 April 2011 (respectively at first and second calling) together with the Ordinary General Meeting to approve the financial statements – certain Amendments to the Articles of Association including an increase in the number of proxies that each Member can hold (increasing them from two to three), and introducing the possibility of holding the Bank’s AGM via teleconferencing.

In keeping with other co-operative banks, in January 2011, and based on the efforts of the Commission, the Board of Directors passed a resolution to cancel 1,241 names from the Register of Members, being people who no longer owned any shares. As communicated to the individual names, a Member could be reinstated in the Register of Members provided he was able to prove that he held at least one share on 31 December 2010, deposited with other banks or intermediaries or still held in the form of a paper certificate.

At 31 December 2010, there are 52,082 Members; in addition there are 45,017 Shareholders not recorded in the Members’ Register, for a total of 97,099 names.

15. General Meetings (art. 123-bis, paragraph 2, letter c), CFA)

General Meeting of Members

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 Board of Directors, 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).

A General Meeting of Members has to be called at least once a year within 120 days from the end of the financial year, at the head office or in another place indicated in the notice of calling providing it is in Italy. It is called by the Board of Directors in the terms laid down in current regulations by means of a notice of calling to be published in the Gazzetta Ufficiale della Repubblica or in Il Sole 24 Ore, a financial daily. 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.

In any case, the Directors have to call a General Meeting 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.

At least fifteen days prior to the General Meeting, the Bank makes available all of the documentation regarding the points on the agenda at the head office, on Borsa Italiana’s website and on its own website (www.bpm.it, in the section dedicated to General Meetings).

The Ordinary General Meeting:

a) discusses and votes on the financial statements, having heard the report of the Board of Directors and the report of the Statutory Auditors;

b) appoints the Chairman, two Deputy Chairmen and the other Directors and decides on their fees as laid down in these Articles of Association;

c) appoints the Board of Statutory Auditors, designating the Chairman and decides on their remuneration;

d) appoints the Arbitrators;

e) revokes the members of the corporate bodies (Board of Directors and Board of Statutory Auditors) according to specific methods laid down by law and by these Articles of Association;

f) approves the Regulations for General Meetings;

g) approves any compensation policies for the members of the Board of Directors, employees and external consultants, as well as any share-based payment plans;

h) decides on other matters on the agenda for which the Members are responsible.

The Extraordinary General Meeting decides on those matters for which it is solely responsible, including any increase in capital involving an issue of new shares not in the ordinary manner.

Members eligible to attend the Meeting and to exercise their voting right, are those who have been included in the Register of Members for at least ninety days before the day of the general meetings at first calling and who have met all of the obligations as per art. 83-sexies CFA (as introduced by D.Lgs. 27/2010).
In addition to such Members, the Directors, the members of the Board of Statutory Auditors and the members of General Management 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 by the Board of Directors or by the Meeting’s Chairman.

The Chairman of the Meeting directs proceedings and to ensure that the Meeting takes place properly, he makes use of technological instruments, also to record the proceedings, with the help of personnel made available by the Company. Each Member has the right to take the floor and to make proposals on any topic on the agenda. To this end, Members wanting to speak have to make a written request and have it delivered to the Chairman’s table, indicating the point on the agenda that they want to discuss before the debate on that point is declared closed. The members of the Board of Directors and the Statutory Auditors can ask to join the debate and, on the Chairman’s invitation, the managers of the Bank and the directors and managers of Group companies can also take the floor. Minutes are kept of the proceedings of General Meetings and have to be made available at the head office and on Borsa Italiana’s website by the legal deadline.

Regulations for General Meetings
In compliance with the recommendations contained in the Code, 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. The Regulations lay down in detail what Members have to do to attend a meeting and the deadlines by which they have to do it, the Chairman’s powers when running such meetings in full respect of each shareholder’s right to take the floor to speak on the topics on the agenda and to make proposals, how ballot papers should be arranged, how voting should take place and how votes should be counted. These Regulations, which are fully institutionalised by being included in the Articles of Association, were updated at the Ordinary General Meetings on 19 April 2008 and 13 December 2008, following the amendments to the Articles of Association relating to the method of appointing members of the Board of Directors. Following the proposed amendments to the Articles of Association – and subject to their approval at the same meeting – the Board of Directors resolved to refer certain related amendments to the Regulations for General Meetings to the AGM to be held on 29/30 April 2011 (at first and second calling). The text of the Regulations for General Meetings of BPM can be read on the company’s website, in the sections entitled “Shareholders and Members” and “Governance”.

16. Other Corporate Governance Practices (art. 123-bis, paragraph 2, letter A), CFA

Arbitration Committee
Pursuant to art. 42 of the Articles of Association, the Bank has an Arbitration Committee, made up of three acting and two alternate members chosen from among the members by the General Meeting, which reviews disputes referred to it under the Articles of Association and seeks to resolve all the disputes that might arise between shareholders or between the shareholders and directors concerning the conduct of the business. The General Meeting of 25 April 2009 appointed as Acting Arbitrators for the three-year period 2009-2011 Italo Ciancia (subsequently appointed chairman of the Committee), Anna Maria Sanchirico and Carlo Felice Varini, and as Alternate Arbitrators Guido Mina and Giuseppe Molinari (who subsequently resigned on 22 June 2009).
17. Changes since the end of the year

Proposed amendments to the Articles of Association

At its meetings on 21 December 2010 and 18 January 2011, the Board of Directors resolved to submit, with the prior authorization of the Bank of Italy, to the Extraordinary Shareholders’ Meeting - due to be held on 29/30 April 2011 (respectively at first and second calling) together with the Ordinary Shareholders’ Meeting to approve the financial statements – amendments to Articles 13, 17, 29, 32, 33, 36 and 41 of the Articles of Association.

The amendments concern:

- an increase in the number of proxies which each Member can hold (up from two to three);
- the possibility of holding the Bank’s AGM by using remote communication systems;
- giving the Board of Directors the authority to decide (as per art. 2365 of the Italian Civil Code) on mergers involving companies that are wholly owned by BPM;
- updating of Articles of Association to bring them into line with the legislation currently in force (adoption of the EU Shareholders’ Rights Directive regarding the requirements for attending and voting at General Meetings, and deadlines for the submission of lists of candidates for office) and the repeal of articles that are not longer effective (elimination of the mandate for an increase in capital as the period for conversion of the related bond loan has expired).
Change in share capital

The following number of bonds have been converted in 2011: 978 on 5 January (with a total nominal value of Euro 97,800), 110 on 9 February (with a total nominal value of Euro 11,000) and 10 on 9 March (with a total nominal value of Euro 1,000) of the “Convertendo BPM 2009/2013 6.75% bond loan” with “Warrants on BPM ordinary shares 2009/2013”.

As a result of these conversions, the Bank’s share capital has gone up from 1,660,220,780 euro to 1,660,283,512 (issuing a total of 15,683 ordinary shares of par value 4 euro each).

The market was informed of these transactions by means of press releases issued through Borsa Italiana, which were also posted on the Bank’s website.

* * *

Milan, 29 March 2011

The Board of Directors
Table 1: Structure of the Board of Directors and committees

<table>
<thead>
<tr>
<th>Office held</th>
<th>List</th>
<th>Exec.</th>
<th>Non Exec.</th>
<th>Indep. as per Code</th>
<th>Indep. as per CFA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>M</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Massimo Ponzellini</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Deputy Chairman</td>
<td>M</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Massimo Ponzellini</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>M</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Antoniogiorgio Benvenuto</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>M</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Giuseppe Coppini</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>M</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
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<tr>
<td>Enrico Corali</td>
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<td>2011</td>
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<td></td>
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<tr>
<td>Director</td>
<td>m</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Franco Debenedetti</td>
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<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
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<tr>
<td>Director</td>
<td>m</td>
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<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Franco Del Favero</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
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<tr>
<td>Director</td>
<td>m</td>
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<td>YES</td>
<td>NO</td>
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<tr>
<td>Carlo Dell'Aringa</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
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<tr>
<td>Director</td>
<td>m</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
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<tr>
<td>Roberto Fusilli</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
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<tr>
<td>Director</td>
<td>m</td>
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<td>YES</td>
<td>NO</td>
<td>NO</td>
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<tr>
<td>Piero Lonardi</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
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<tr>
<td>Director</td>
<td>m</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Marcello Priori</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
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<tr>
<td>Director</td>
<td>m</td>
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<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Leone Spozio</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>m</td>
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<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Jean-Jacques Tamburini</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
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<tr>
<td>Director</td>
<td>m</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Michele Zefferino</td>
<td>2009</td>
<td>2011</td>
<td>X</td>
<td>86</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
- (*) This column shows the letters "M" for those elected on a majority list, "m" for those on a minority list and "s" for those elected under special clauses of the Articles of Association. The list to which they belong and the special clauses of the articles of association regarding appointment are detailed in the Report.
- (**) This column shows the percentage participation of directors at meetings of the BoD and its committees (no. of presences/no. of meetings that have taken place during the effective period of office of the person concerned)
- (***) This column indicates the number of other positions as a director of statutory auditor held by this person in other listed companies, in Italy or abroad, and in financial, banking, insurance or other large companies. The list of these companies with a reference to the Board of Directors of each company, up to 29 June 2010, is included in this report.
- (****) An "X" in this column indicates that the director is a member of the committee in question.
- (a) Director co-opted on 9 November 2009, in office until the General Meeting for the approval of the 2010 financial statements. (b) Director co-opted on 2 June 2010, in office until the General Meeting for the approval of the 2010 financial statements.
- (c) Director who resigned during 2009.
- (d) Member of the Remuneration Committee from 11 June 2010. (e) Member of the Remuneration Committee from 29 June 2010. (f) Member of the Remuneration Committee from 29 June 2010.
Table 2: Structure of the Board of Statutory Auditors

<table>
<thead>
<tr>
<th>Office held</th>
<th>Members</th>
<th>In office from</th>
<th>In office to</th>
<th>List [M/m]</th>
<th>Independence as per Code</th>
<th>(%) **</th>
<th>No. of other offices held ***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Salvatore Rino Messina</td>
<td>2009</td>
<td>2011</td>
<td>m</td>
<td>YES</td>
<td>95</td>
<td>11</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Carlo Bellavite Pellegrini</td>
<td>2009</td>
<td>2011</td>
<td>m</td>
<td>YES</td>
<td>75</td>
<td>6</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Enrico Castoldi</td>
<td>2009</td>
<td>2011</td>
<td>M</td>
<td>YES</td>
<td>82</td>
<td>10</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Stefano Salvatori</td>
<td>2009</td>
<td>2011</td>
<td>M</td>
<td>YES</td>
<td>79</td>
<td>5</td>
</tr>
<tr>
<td>Acting Auditor</td>
<td>Ezio Simonelli</td>
<td>2009</td>
<td>2011</td>
<td>M</td>
<td>YES</td>
<td>79</td>
<td>23</td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Emilio Luigi Cherubini</td>
<td>2009</td>
<td>2011</td>
<td>m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Enrico Radice</td>
<td>2009</td>
<td>2011</td>
<td>M</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Giuseppe Zanzottera (1)</td>
<td>2009</td>
<td>31.07.2010</td>
<td>M</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternate Auditor</td>
<td>Giorgio Zoia</td>
<td>2009</td>
<td>2011</td>
<td>m</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Quorum required to present lists: Each list has to be presented by at least three hundred sponsoring Members representing in total at least 0.5% of the share capital, who have been included in the Register of Members for at least ninety days (art. 41.3, Arts of Assoc.).

No. of meetings held in 2010: 73

NOTES:
(*) This column shows the letters “M” for those elected on a majority list and “m” for those on a minority list. The list to which they belong is indicated in the Report.
(**) This column shows the percentage participation at meetings of the Board of Statutory Auditors (no. of presences/no. of meetings that have taken place during the effective period of office of the person concerned).
(***) This column shows the number of directorships or statutory auditor held by the person, at 31 December 2010, in companies or entities other than BPM. The updated list of relevant offices in accordance with art. 148 bis CFA, is published by Consob as per art, 144-quinquiesdecies of the Issuers’ Regulations.

(1) Giuseppe Zanzottera no longer holds office as Alternate Auditor as he died on 31 July 2010.
Report on the Corporate Governance and Ownership Structure of Banca Popolare di Milano S.c. a r.l.
This report, which was approved by the Board of Directors on 29 March 2011, explains the rules of Corporate Governance that have been adopted by the Company and the changes made during the course of 2010, as per arts 123-bis CFA and 89-bis of Consob’s Issuers’ Regulations.

By resolution of the Board of Directors on 19/12/2006 the Bank also adopted the latest version of the Code of Conduct of Borsa Italiana (March 2006), implementing all of the recommendations made in it.

Moreover, given the regulatory developments, during 2010 Banca Popolare di Milano carried out a constant process of self-assessment of its corporate governance system.

We can confirm, to the extent of our responsibilities and as per art. 149.1.c-bis) of Decree 58/98, that we have checked:

as regards the Board of Directors:
- that the requirements for Executive and Independent Directors are correctly assessed and observed (art. 147 ter CFA and Principles 2 and 3 of the Code);
- that a regulation has been drawn up, approved by the Board of Directors and implemented, limiting the number of appointments that Directors can hold in other companies (the new text of art. 32 of the Articles of Association now make direct reference to this regulation) and that in 2010 the Board of Directors carried out the self-assessment to check that the regulation was being respected (art. 147-ter CFA and principle 1 of the Code);
- it was not considered necessary to appoint a “Lead Independent Director” among the Independent Directors, nor have they held separate meetings;
- also during 2010 the Board carried out a self-assessment of the characteristics of the individual Directors, including their independence, concluding that the number of appointments that the current members of the Board hold in other companies is in compliance with the general guidelines;
- the subsidiaries of strategic importance have been identified; particular attention is also given to their systems of internal control;
- in accordance with the legal requirements, the Board has drawn up procedures to regulate flows of information, both inside and outside the Company; the same applies to the procedures on privileged information (art. 114–115 bis and 181 CFA and Principle 4 of the Code);
- the Board has received periodic information on the activities of the various Committees that it has set up: the Internal Control Committee, the Remuneration Committee, the Members’ Relations Commission (Principle 5 of the Code);
- the role of Financial Reporting Manager has been created (art. 154-bis CFA);
- the role of the director responsible for supervising the internal control system (Principle 8 of the Code) has also been provided for;
- it was not considered necessary to set up an Appointments Committee, which in any case was only suggested without being obligatory (Principle 5 of the Code);
- a Members’ Commission has been formed with a suitable structure to look after relations with the Members (Principle 11 of the Code);
as regards new regulations, we can confirm that, once prepared, they are constantly brought to the attention of those concerned, depending on their various needs, especially as regards specific operational or regulatory methods in the field of:

- the treatment of “privileged information” and “internal dealing” (Art. 114-115 bis and 181 CFA and Principle 4 of the Code);
- related party transactions (Art. 2391 bis of the Civil Code and Consob’s rules for implementation, as well as Principles 1 and 9 of the Code); in this connection, note the creation of a specific Committee for this as part of the Internal Control Committee;
- transactions in which the individual has an interest (Art. 2391 of the Italian Civil Code and Principles 1 and 9 of the Code);
- particularly large transactions;
- activity of the Internal Control Committee (Principle 8 of the Code);
- activity of the Remuneration Committee;
- particular attention has been paid to the system of internal control, as well as to the analysis of the various types of risk, to compliance, to the procedures for the gathering and analysis of accounting data and of the information for the Financial Reporting Manager (Art. 154 bis CFA, Principle 8 of the Code, Law 262/2005);
- the Regulations for the Admission of Members have been amended to simplify the procedure with a view to expanding the number of members, as indicated in the Business Plan.

as regards the Board of Statutory Auditors:
- we have monitored the methods of applying the rules of Corporate Governance, as per art. 149 letter c-bis CFA;
- we took part in meetings of the Internal Control Committee (Principles 8 and 10 of the Code);
- we also checked compliance with the rule that lays down a limit on the number of appointments that directors can hold, under art. 148 bis of the CFA, as well as the self-assessment of the legal requirements, including that of independence, according to the interpretation provided by the Code of Conduct (Principle 10 of the Code).

Milan, 13 April 2011

The Board of Statutory Auditors

Chairman
Salvatore Rino Messina

Acting Statutory Auditors
Carlo Bellavite Pellegrini
Enrico Castoldi
Stefano Salvatori
Ezio Simonelli