

# Report on the 2020 Remuneration Policy and Compensation Paid in 2019

Prepared pursuant to article 3 of Legislative Decree no. 49 of 10 May 2019, which revised article 123-ter of Legislative Decree no. 58/1998, and to the 25th revision to the Bank of Italy's Circular 285

*Approved by the Shareholders' Meeting of illimity Bank S.p.A. on 22 April 2020  
and then amended by the same Shareholders' Meeting on 22 December 2020*

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## LETTER FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Shareholders,

I am pleased to present illimity's Report on Remuneration Policy and Compensation Paid.

In 2019 illimity laid the foundations for the path set out in its 2018–23 Business Plan, initiating Direct Banking operations and at the same time the passage to becoming a Banking Group, by acquiring companies specialising in the management of “distressed loans” through the use of innovative platforms (neprix S.r.l. and IT Auction S.r.l.) and forming a new entity for managing credit funds (illimity SGR S.p.A.).

On my own behalf and on behalf of the members of the Remuneration Committee I would like to thank all the illimiters, who have provided a significant contribution to the continuing success of illimity, for their dedication and commitment.

The growth path, which already led to the achievement of positive financial results in the fourth quarter of 2019, is the result of the contribution of each and every one of our people, the illimiters, and the confidence confirmed in us from the very start by our shareholders, our customers and the whole economic and social system in which we operate.

illimity is ***“the Bank for people and families”***.

In light of this, the Committee has worked together with illimity to develop the 2020 Remuneration Policy, taking into consideration our People Strategy, the evolution of the Business Model and the results for 2020 as forecast in the 2018–23 Business Plan, further reinforcing the alignment of the remuneration and incentive schemes to the interests of investors and all the stakeholders, as confirmation of our strong commitment to corporate social responsibility.

As a new item in 2020 I would like to highlight the introduction of the long-term incentive scheme for the Chief Executive Officer and Top Management, the 2020–23 LTIP Plan, based on achieving the results set out in the 2018–23 Business Plan and including a commitment to excellence in Customer Experience & People Engagement. The LTIP Plan is subject to a further period of deferral and lock-up.

The compensation strategy for all illimiters continues to be heavily based on alignment with all the stakeholders:

- all the illimiters are shareholders;
- management and key members of staff are provided with incentives for creating long-term value;
- all the illimiters are provided with incentives to maintain an excellent performance;
- sustainable incentives for sustainable levels of performance: the Bonus Pool is based on progress made compared to the planned objectives;
- compensation is strongly directed towards corporate welfare.

The commitment to corporate social responsibility is confirmed by the creation of the Sustainability Committee on 30 January 2020 and the inclusion of the maintenance of a high level of Customer Experience & People Engagement among the annual incentive schemes.

As confirmation of the desire to continue with a transparent exchange of views and constructive dialogue, you will find a clear representation of the objectives and related incentives also in the 2020 remuneration policy.

The Report is divided into two sections, remuneration policy and the compensation paid, implementing the requirements of Legislative Decree no. 49 of 2019 with relation to article 123-ter of the TUF (Legislative Decree no. 58/1998, the “Consolidated Law on Finance” applicable to listed companies) which introduced the Shareholder Rights Directive II into Italian law.

As a result, in addition to the binding vote on Remuneration Policy we are also requesting your opinion on the compensation paid in 2019.

Shareholders, we would like to thank you in advance for the attention you will dedicate to this report and trust that you will appreciate the work performed, the items making up the remuneration policy and the transparent approach we have taken in presenting these to you and to all the stakeholders.

Milan, 2 March 2020

With best wishes,

**Giancarlo Bruno**

Chair of the Remuneration Committee  
illimity Bank S.p.A.

## INTRODUCTION

This document, which contains the **Report on the 2020 Remuneration Policy and Compensation Paid in 2019**, has been prepared by illimity Bank S.p.A. (hereinafter also “illimity” or the “Issuer” or the “Bank”) pursuant to Legislative Decree no. 58/1998 (the “TUF”), amended for the changes made by Legislative Decree no. 49 of 10 May 2019 – articles 14-*bis* and 123-*ter* – and to the “Issuers’ Regulation” – article 84-*quater* – as well as in accordance with the Supervisory Provisions for banks as per the 25th revision of the Bank of Italy’s Circular no. 285 of 17 December 2013 on remuneration (“**Circular 285**”), and consists of two sections:

Section I (Report on the Remuneration and Incentive Policy) describes in a clear and comprehensible manner:

- a) the Company’s policy on the remuneration of members of the management bodies and control bodies (without prejudice to article 2402 of the Italian civil code), general managers and key management personnel, key personnel (material risk takers) and all other personnel with reference to 2020,
- b) the procedures used to adopt and implement such policy.

In addition, the first section describes the way the remuneration policy contributes to the Company’s business strategy, to the pursuit of its long-term interests and to its sustainability.

It is noted that pursuant to Consob Regulation no. 17221 of 12 March 2010 as amended on related party transactions (the “**Consob Regulation**”), as included in the “*Regulation for the management of transactions with parties forming part of the Bank’s Single Perimeter and transactions of personal interest*”, approved on 18 January 2018, the approval of the Policy by the Shareholders’ Meeting exempts the Company from the need to apply said procedure in the resolutions of the Board of Directors on matters regarding the remuneration of the directors and key management personnel when the latter are consistent with the Policy. Furthermore, pursuant to article 13, paragraph 1, of the Consob Regulation, the above-mentioned procedure does not apply to resolutions adopted by shareholders’ meetings pursuant to article 2389, paragraph 1, of the Italian civil code regarding the compensation due to members of the Board of Directors, nor to resolutions on the remuneration of directors with specific duties forming part of the overall amount determined in advance by the shareholders’ meeting pursuant to article 2389, paragraph 3, second sentence, of the Italian civil code. The above Regulation of the Bank is available on the Issuer’s website [www.illimity.com](http://www.illimity.com), under the section *Investor Relations*.

Section II (Report on Compensation Paid in 2019), in a clear and comprehensible manner and by individual name for members of the management and control bodies and the general managers and in a combined way for key management personnel:

- a) provides an appropriate presentation of each of the items making up the remuneration, including the schemes involved in case of termination of office or of the employment relationship, highlighting their consistency with the company’s remuneration policy for 2019;
- b) analytically describes the compensation paid in 2019 for whatever reason and in whatever form by the Bank or by its subsidiaries or associates, stating any components of this compensation that relate to work performed in years prior to 2019 and also indicating the compensation to be paid in one or more subsequent years for the work performed in 2019, possibly providing an estimate for the components relating to 2019 that are not objectively quantifiable.

In addition, Section II provides the disclosures of a qualitative and quantitative nature required by article 450 of the CRR on the application of the 2019 remuneration policy and contains information concerning the investments held in the Issuer by the members of the management and control bodies, by the Chief Executive

Officer and by Key Management Personnel, as well as by their non-legally separated spouses and minor children in accordance with the requirements of article 84-quarter, paragraph 4, of the Issuers' Regulation.

The Bank has adopted a remuneration and incentive policy for 2020 for the members of the bodies having a strategic supervision, management and control function and for the remaining personnel, including the Identified staff (Material Risk Takers) a (the "**Policy**" or the "**Remuneration Policy**" or also the "**Remuneration and Incentive Policy**"), prepared in accordance with the provisions of the mentioned Circular 285 as well as in light of the recommendations of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. (the "**Corporate Governance Code**").

This Policy was approved by illimity's Board of Directors on 5 March 2020 on the proposal of the Remuneration Committee and after consultation with the Risk Committee.

For the sake of completeness, it is recalled that the Shareholders' Meeting of 18 January 2019 appointed the Bank's Board of Statutory Auditors and determined the compensation payable to the Board of Directors and the members of the sub-committees formed within the board, already in office at the date of said Shareholders' Meeting, as well as the compensation due to members of the Board of Statutory Auditors.

Lastly, it is noted that such Policy concerns the Issuer and the banking group it heads (the "**Group**"). For subsidiaries subject to separate sector laws and regulations, such as illimity SGR, specific remuneration policies have been adopted in line with the present Policy, with the exception of the rules consistent with the laws and regulations applicable to such and in line with the requirements of the transitional and final discipline of the supervisory provisions on the remuneration and incentive policies and practices in banks and banking groups.

On 5 March 2020, on the proposal of the Remuneration Committee and after consultation with the Risk Committee, illimity's Board of Directors resolved to put (i) the first section of the Report on the 2020 remuneration policy to a binding vote of the Shareholders' Meeting called to approve the 2019 annual financial statements and (ii) the second section of the Report on compensation paid in 2019 to a consultative vote.

The text of this present document is publicly available at the Company's registered office and in the remuneration section of its website up to the twenty first day preceding the date of the Shareholders' Meeting called to approve the 2019 financial statements, in accordance with current law.

The information documents relating to the existing compensation plans based on financial instruments may be found on the Issuer's website [www.illimity.com](http://www.illimity.com), under the section *Investor Relations/Shareholders and BoD Meetings*.

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**DEFINITIONS**

<b>Board of Statutory Auditors</b>	illimity's Board of Statutory Auditors
<b>Bonus Pool</b>	The total amount of the variable remuneration deriving from the MBO scheme (as defined in paragraph 8 of this report), the estimate of which is based on the actual and long-term results taking into consideration quantitative and qualitative objectives and financial and non-financial objectives, depending on the Group's capital and liquidity targets.
<b>Business Plan or Plan</b>	The Issuer's business plan for the years 2018-2023.
<b>Chief Executive Officer</b>	The Chief Executive Officer of illimity Bank S.p.A. and "Corporate body with management functions" of such.
<b>Circular 285</b>	Circular no. 285 of the Bank of Italy dated 17 December 2013, as amended, which among other things governs the remuneration and incentive policies and practices of banks.
<b>Code of Ethics</b>	BIP's Code of Ethics.
<b>Consolidated Law on Banking or TUB</b>	Legislative Decree no. 385 of 1 September 1993 as amended.
<b>Group</b>	Gruppo illimity Bank S.p.A., registered at no. 245 in the Banking Group roll.
<b>illimity or the "Company" or the "Issuer"</b>	illimity Bank S.p.A., with registered office at Via Soperga 9, Milan, the parent company of Gruppo illimity Bank S.p.A..
<b>Italian Stock Exchange</b>	Borsa Italiana S.p.A., with registered office at Piazza degli Affari 6, Milan.
<b>Key Management Personnel</b>	Those persons who, pursuant to IAS 24 and the Corporate Governance Code of listed companies, have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
<b>Identified Staff</b> ( <i>Risk Takers or MRTs</i> )	Those persons whose professional activity has, or could have, a material effect on the Group's risk profile, identified in accordance with the criteria and by the means stated in Circular 285.
<b>RAF or Risk Appetite Framework</b>	The framework that defines – consistent with the maximum risk that may be assumed, the business model and the strategic plan – risk propensity, tolerance thresholds, risk limits, risk management policies and the processes needed to define and implement them.



<b>Remuneration Committee</b>	The Bank's Remuneration Committee set up pursuant to Circular 285 and the Corporate Governance Code.
<b>Risk Committee</b>	illimity's Risk Committee set up pursuant to Circular 285 and the Corporate Governance Code.
<b>Shareholders' Meeting</b>	The general meeting of the Issuer's shareholders.
<b>Top Management</b>	The following managers who report directly to illimity's Chief Executive Officer: Head of Distressed Credit Investment & Servicing; Head of SME; Head of Direct Banking and Chief Digital Operations Officer; Chief Financial Officer and Head of Central Functions.
<b>Total Reward</b>	The total remuneration package, consisting of skill development and training in addition to the fixed or variable components of remuneration governed by this Policy.

## SECTION I – REPORT ON THE 2020 REMUNERATION AND INCENTIVE POLICY

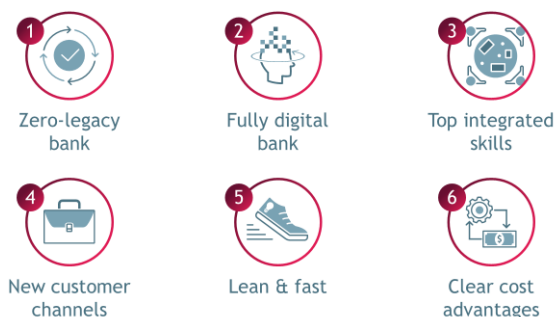
### 1. REMUNERATION POLICY AS SUPPORT FOR THE CREATION OF LONG-TERM VALUE FOR ALL STAKEHOLDERS

illimity is characterised by having a strongly innovative and highly technological business model.

illimity avails itself of people having long experience of both a banking and industrial nature dedicated to the development of a specialised Bank clearly focused on specific segments that are very broad, dynamic and little served by the Italian market. More specifically, the Bank:

- provides credit to high-potential Italian businesses with a non-optimal financial structure and/or with a low rating or without a rating, including the non-performing loans segment (Unlikely-To-Pay - UTP);
- sets its sights on becoming a leading operator in the secured and unsecured corporate distressed credit sector (non-performing exposures, whether these are classified as NPLs or UTPs);
- provides banking services and products to families and businesses via a digital platform (Direct Bank).

As part of its Business Plan, the illimity Banking Group sets out guidelines to growth that are based on 6 competitive advantages:



illimity is evolving into an intermediate size bank, maintaining the flexibility and agility needed to support highly dynamic customer segments.

The Remuneration and Incentive Policy sets out the objectives of the remuneration and incentive schemes in effect during the consolidation of the Bank's operations and activates the incentivising tools for aligning management to the strategic objectives established throughout the Plan.

The overall remuneration strategy (which among other things envisages a variable component of remuneration proportionate to the maintenance of capital and liquidity ratios and the achievement of performance objectives and which is, in part, serviced by shares of the Bank based on specifically-related capital increases) is established with the aim of providing a remuneration structure that can attract and retain the key skills functional to the development of the business and achievement of expected results, compatible with the Bank's capital and economic-financial sustainability.

In this context the key principles of the incentive scheme for management take importance, based as they are on a strong alignment with the Bank's shareholders, investors and in general all of its stakeholders:

- the introduction of a long-term incentive plan for the Chief Executive Officer and Top Management in order to align the remuneration structure with the Bank's shareholders, investors and other management, taking into account any applicable regulatory requirements;
- manager remuneration strongly centred on the variable component, in line with the expectations of profitability, taking into account the risk level assumed, detailed in the Plan, and without altering the gradual consolidation of the results themselves;
- "all the Issuer's employees are shareholders"<sup>1</sup>.

With this background the Policy identifies and awards the actions that direct everybody towards the very purpose of illimity, designed to support the "country as a system" through the development of the segment of the market served as the underlying driver of illimity's strategy, as confirmation of a responsibility towards investors, shareholders, employees and the economic system as a whole.

As evidence of the commitment towards corporate social responsibility, the Sustainability Committee was set up on 30 January 2020 with the aim of establishing the Group's sustainability strategy and monitoring the way it is carried out.

In this sense the remuneration policy is geared towards the creation of sustainable value over time for all the stakeholders and the eco-system in which the Group operates and introduces a focus on Customers & Colleagues in both the long-term incentives and among the priorities for 2020.

The Remuneration Policy is articulated in line with the business context and the purposes described, as well as with the applicable regulatory provisions and the expectations of growth set out in the Business Plan, summarised below with reference to 2023:



In line with the directional lines set out in the plan, illimity acquired neprix during the course of 2019 (included in the Banking Group's perimeter since 29 July), a company specialising in credit servicing, and completed its integration into the ownership structure of IT Auction S.r.l. (and the subsidiaries MADDO and ITA Gestioni Immobiliari), an operator specialising in the management and remarketing of operating assets and real estate via its online platforms. The acquisition of 70% of the quota capital of IT Auction was completed on 9 January 2020.

<sup>1</sup> See paragraph 16 below: Employee Stock Ownership Plan (ESOP).

During the course of the year it also initiated the authorisation procedures for the formation of an Asset Management Company (Illimity Sgr S.p.A.), whose operations, given the authorisation obtained on 25 February 2020, consist of the management of the assets of reserved closed-ended alternative investment funds (AIFs), set up with own funds and third party institutional investors. In particular, the first fund managed by illimity SGR will invest in Unlikely-to-Pay (UTP) loans with restructuring and return to performing status prospects through the contribution of these loans by the banks and financial operators that originated them and/or purchases of the UTP loans by the fund itself. Where functional to the strategy for restructuring and return to performing status, the fund may also invest in portions of the capital dedicated to turnaround projects and in the provision of new financing.

### **1.1 DISCUSSION ON THE PROPORTIONALITY PRINCIPLE**

In application of the proportionality principle the regulatory framework requires banks to establish remuneration and incentive policies that take into account their features and size, as well as the risk and complexity of the activities performed.

Considering the characteristics of its loans and the way the Group is structured, illimity categorises itself among the smaller intermediaries given its total assets and the operating complexity resulting from its business model, the sphere in which it operates and the type of risks it assumes.

On the other hand, the increase in assets, the integration of new companies in the Group and the fact that it is listed on a regulated market (the MTA) entail increased operating complexity as far as the governance of the Group is concerned, leading to the need to adapt its governance coverage through the establishment, amongst other things, of a remuneration committee.

In this context the present Remuneration Policy provides details of the relative rules and criteria for recognising and paying the variable component of remuneration by means that are more rigorous than those required for smaller banks by laws and regulations, consistent with the aim of alignment with the business's objectives and values, the strategic path undertaken and the policies of prudent risk management pursued by the Bank in accordance with applicable law.

## 2. LEGISLATIVE FRAMEWORK

The Remuneration Policy is established within the legislative framework on remuneration and incentive schemes represented by the following sources:

- at a European Union level:
  - Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“CRD IV”);
  - Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the “CRR”);
  - Commission Delegated Regulation (EU) no. 604/2014 of 4 March 2014 that supplements CRD IV with regard to technical regulatory standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (“risk takers”);
  - Commission Delegated Regulation (EU) no. 527/2014 of 12 March 2014 that supplements CRD IV with regard to regulatory technical standards, specifying the classes of instruments that adequately reflect the credit quality of an institution as a going concern and are appropriate to be used for the purposes of variable remuneration;
- at a national level:
  - article 123-*ter*, as amended by Legislative Decree no.49/2019, and article 114-*bis* of the TUF, which respectively govern the contents of the “Report on remuneration and compensation paid” and the “information to the market on the granting of financial instruments to company officers, employees and collaborators”;
  - Title IV, Chapter 1, of the 25th revision to Circular 285, on the remuneration and incentive policies and practices adopted to align national regulatory requirements to the guidelines on remuneration and incentives promulgated by the EBA, already effective from 1 January 2017 and reported in the following;
  - the revision published by the Bank of Italy on 19 March 2019 on the transparency of banking and financial transactions and services, with particular reference to the propriety of relations between intermediates and customers;
  - the Issuers’ Regulation;
  - with reference to the collective asset management sector, the provisions of the Regulation of the Bank of Italy implementing articles 4-*undecies* and 6, paragraphs 1b) and 1c-*bis*), of the TUF.

The following complete the above provisions:

- “*Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosure under Article 450 of Regulation (EU) No 575/2013*”, designed to harmonise the way in which the European directive is effected in the various countries;

- “Guidelines on sound remuneration policies under the UCITS Directive and AIFMD”, designed to harmonise national transcription into national laws on remuneration and incentives in companies managing AIFs and UCITS funds;
- the ECB’s guidelines on non-performing loans (“NPLs”) published on 20 March 2017;
- Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (“Mifid II”), on the requirements for proper conduct with customers, in effect since January 2018.

### 3. OBJECTIVES OF THE REMUNERATION POLICY

The Remuneration and Incentive Policy is designed to motivate staff towards achieving illimity’s short- and medium/long-term objectives, in compliance with the Company’s values and the levers identified in the 2018-2023 Business Plan by contributing to:

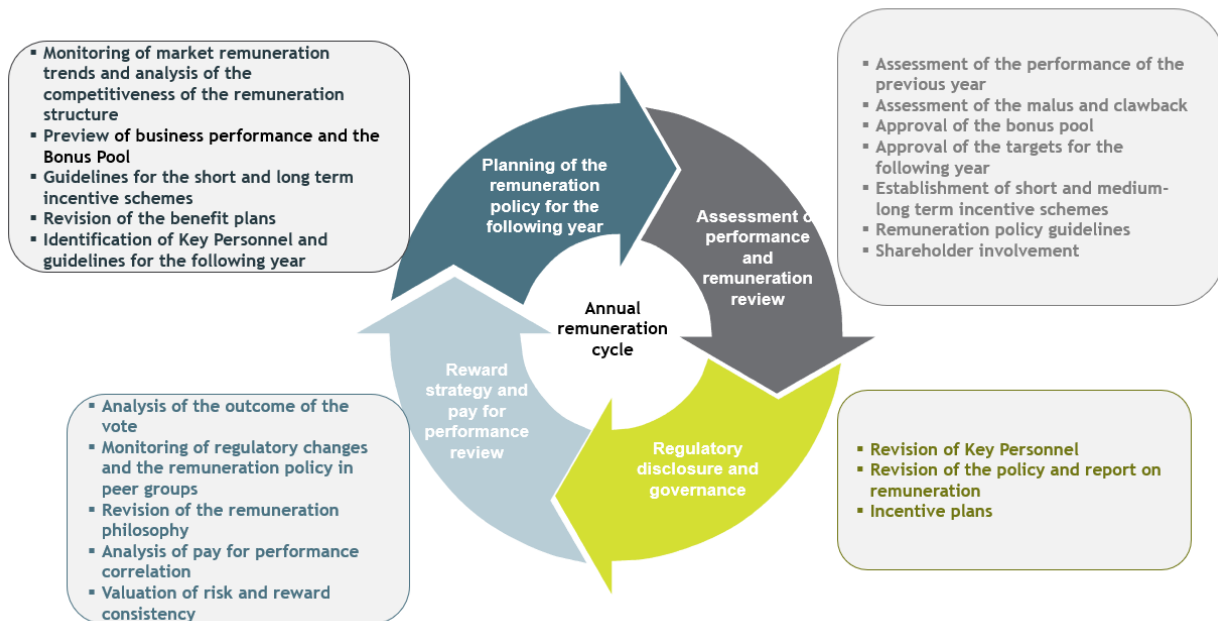
- the alignment of the interests of management and all employees, fully involved in the “value-building” process, to those of investors;
- the creation of value sustainable over time for all the stakeholders and the eco-system in which the Group operates, balancing the short- and long-term incentive plans by introducing a focus on Customers & Colleagues as one of the drivers for creating incentives;
- support of the gradual consolidation of the growth directives of the new bank, consistent with the plan presented to investors;
- the attraction, retention and motivation of the illimiters, with a focus on staff with distinctive skills for the pursuit of the Company’s growth and business objectives, in an increasingly challenging competitive context, thanks to a business culture increasingly focused on the Human Touch.

The Remuneration and Incentive Policy accordingly evolves in the ambit of clear and transparent governance, taking into account the overall principle of orientation towards the sound and prudent management of risks and regulatory compliance and towards principles of good professional conduct and the propriety of customer relations.

This Remuneration and Incentive Policy therefore reflects the significant changes that have taken place and/or will take place in the business and in the Group’s organisational structure in accordance with the provisions of the Business Plan, as well as any regulatory changes that may have occurred.

### 4. GOVERNANCE OF THE REMUNERATION POLICY

In accordance with the provisions of law, and regulatory and corporate governance requirements, the Remuneration and Incentive Policy is established as part of the annual cycle for the planning, management and control of remuneration in order to ensure that decisions are taken independently, thereby avoiding the risk of possible conflicts of interest and guaranteeing accurate disclosures in compliance with the requirements of law and regulatory provisions, as well as supervisory regulations, all following the process described below:



More specifically, the annual cycle for the revision of the Remuneration Policy involves the corporate bodies and business functions, consistent with regulatory provisions, the requirements of the bylaws, the organisational structure and the responsibilities assigned to the various functions, ensuring that each decision is taken by the bodies and functions delegated to take it.

In order to adopt effective remuneration practices that are capable of suitably supporting business strategies and resource management, together with regulatory evolution, illimity monitors general market trends and the practice in remuneration and incentive policies followed in the sectors in which it operates.

Set out in the following are the corporate bodies and persons involved in establishing and implementing the remunerative and incentive system.

It should be noted here that in order to draw up the Remuneration and Incentive Policy described in this Report, the Bank availed itself of the analyses and support of independent experts having specific expertise in remuneration policies and practices, namely Willis Towers Watson Italia S.p.A..

#### 4.1 SHAREHOLDERS' MEETING

Shareholders in general meeting have the responsibility for approving the remuneration and incentive policy.

More specifically, in addition to establishing the compensation due to the bodies it has appointed, the Shareholders' Meeting:

- i. expresses its opinion with a binding vote on the remuneration and incentive policy regarding members of the management body in its strategic supervision function, management and control and all other personnel;
- ii. expresses its opinion with a non-binding vote on the Report on Compensation Paid in 2019, pursuant to article 3 of Legislative Decree no. 49/2019;

- iii. approves the remuneration plans based on financial instruments (e.g. stock options);
- iv. approves the criteria for determining the any amounts to be agreed in case of the early termination of the employment relationship or the early termination of office (Severance payments), including the limits set on such compensation in terms of the number of annual amounts of fixed remuneration and the maximum amount that derives from their application;
- v. approves, in accordance with the increased quorums envisaged by applicable laws and regulations and by illimity's current bylaws, any proposal that may be made by a corporate body with a strategic supervision function to set a limit to the ratio between the variable and fixed components of individual remuneration exceeding 1:1 (in any case not exceeding 200%).

Clear and complete information on the Remuneration Policy that the Board of Directors proposes to adopt, on the proposal of the Remuneration Committee and after consultation with the Risk Committee, is submitted to the Shareholders' Meeting, as well as a report that such policy was effectively and properly followed during the course of the previous year.

It should be recalled that illimity's 2019 Remuneration Policy was approved by a 100% vote in favour by the shareholders in attendance, and therefore above the average for companies of similar size listed on the *FTSE Mid-Cap* index.

#### **4.2 BOARD OF DIRECTORS**

Availing itself of the fact that the Remuneration Committee acts in both a proposing and advisory capacity, the Board of Directors of illimity Bank S.p.A. ensures that the remuneration and incentive systems adopted are consistent with the overall decisions taken by the Bank in terms of risk assumption, strategies, long-term objectives, corporate governance structure and internal controls.

In this context, and without prejudice to the responsibilities assigned to the Shareholders' Meeting, the Board of Directors:

- submits the remuneration and incentive policy to the Shareholders' Meeting, re-examines it on at least an annual basis and is responsible for its proper implementation, in respect of which it ensures that the relative report has been prepared and that this is submitted to the Shareholders' Meeting;
- ensures that the remuneration and incentive policy is suitably documented and accessible within the corporate structure;
- establishes the remuneration and incentive schemes for at least the following persons: the executive directors; the general manager (if appointed); the heads of the main business lines; persons who report directly to the bodies with a strategic supervision, management and control function; persons in charge and staff of a level higher than the corporate control functions;
- ensures that the remuneration and incentive schemes are consistent with the overall decisions taken by the Group in terms of risk assumption, strategies, long-term objectives, corporate governance structure and internal controls;
- participates in, and has the final responsibility for, the preparation of the self-assessment conducted to identify Group Identified Staff (Group Material Risk Takers) and approves/supervises any exclusion of staff who despite having the quantitative requirements fail to satisfy the qualitative criteria



established by laws and regulations on the matter.

In application of article 123-ter, paragraph 3-bis of the TUF, in exceptional circumstances illimity may temporarily derogate from its remuneration and incentive policies, without prejudice to compliance with binding laws and regulatory requirements and with the Regulation for the management of transactions with parties falling within the Bank's Single Perimeter and transactions of personal interest.





















Exceptional circumstances shall mean those situations in which derogation to the remuneration policies is necessary for pursuing the long-term and sustainability interests of the Bank as a whole or ensuring its ability to stay on the market.

The derogation proposal is drawn up by the Chief Executive Officer and describes, with motivating reasons, the exceptional circumstances by virtue of which the derogation is considered necessary, the items from which derogation is planned among those below qualifying as "may be derogated from" and the effects on capital following the derogation, in accordance with the applicable prudent rules and capital restrictions to which the Bank is bound.

The proposal is approved by the Board of Directors after receiving the favourable opinion of the Remuneration Committee and after consulting with the Risk Committee and the Board of Statutory Auditors for the matters for which they are respectively responsible.

The items of the remuneration and incentive policy for which derogation is possible regard the provisions contained in Section 1, Chapters 13, 14 and 15 <sup>(2)</sup> of this report, with exclusive reference to the short-term variable components described therein.

The members of the Board of Directors having specific office within the sub-committees of the board are set out in the following diagram:

Consiglieri <sup>1</sup>	Appointments Committee	Remuneration Committee	Risk Committee	Related Party Committee	Sustainability Committee	Key:	
Massimo Brambilla						Chairman	Member
Giancarlo Bruno <sup>2</sup>							
Rosalba Casiraghi <sup>3</sup>							
Elena Cialliè <sup>2</sup>							
Alessandro Gennari							
Martin Ngombwa							
Luca Rovati <sup>2</sup>							
Maurizia Squinzi <sup>2</sup>							

<sup>1</sup> All directors are non-executive  
<sup>2</sup> Independent director pursuant to the combined provisions of article 147-ter, paragraph 4, anche article 148, paragraph 3, of the TUF and in accordance with the Corporate Governance Code  
<sup>3</sup> Chair of the Board of Directors

<sup>2</sup> In any case, derogation is not possible in the case of the provisions regarding the Stock Option Plan or the Long-Term Incentive Plan 2020-2023. In addition, it is noted that the Chief Executive Officer and Top Management of illimity are not beneficiaries of the MBO.

#### 4.3 CHIEF EXECUTIVE OFFICER

In his capacity as corporate body with functions to manage the Bank, the Chief Executive Officer:

- determines and approves the operational process to establish the criteria underlying the remuneration and incentive system, in accordance with the provisions of the remuneration and incentive policy;
- is responsible for applying the remuneration policy and setting out the objectives and proposals for the Bonus Pool and incentives consistent with the provisions of these present Policies.

#### 4.4 REMUNERATION COMMITTEE

The Board of Directors avails itself of the proposing and advisory capacity of the Remuneration Committee which consists of three directors, all non-executive, of which the majority are independent.

In accordance with the provisions of Circular 285 as well as those of the Corporate Government Code, in this context the Remuneration Committee:

- has the duty to make proposals on the compensation of personnel whose remuneration and incentive schemes are decided by the Board of Directors;
- has duties of an advisory nature in determining the criteria to be used for establishing the compensation of all Identified Staff (Material Risk Takers);
- directly supervises the proper application of the rules for the remuneration of the heads of the business control functions, in close cooperation with the Board of Statutory Auditors;
- looks after the preparation of the documentation to be submitted to the Board of Directors for the relative decisions;
- collaborates with the other sub-committees of the Board of Directors and in particular the Risk Committee;
- ensures the involvement of the business functions (Risk Management, Compliance, Human Resources, IR & Strategic Planning) in the process for the preliminary drafting and subsequent control of the remuneration and incentive policies and practices;
- expresses a view, as necessary using the information received from the competent business functions, on the achievement of the performance objectives to which the incentive plans are linked and on the satisfaction of the other conditions set for paying the compensation;
- provides suitable feedback on the activities performed to the corporate bodies, including the Shareholders' Meeting;
- expresses an independent opinion on the Group's remuneration policies and practices, in general, with reference to the reconciliation with resource retention objectives and the limitation of business risks;
- in relation to the provision of services and, in general, to the governance of the Bank's products, expresses an opinion on the effectiveness of the policies themselves in managing conflicts of interest and on the risk management requirements relating to the conduct of the staff, in order to ensure that the interests of customers are not jeopardised by the remuneration policies and practices adopted in the short, medium and long term.

In 2019, and up to the date of the preparation and establishment of this present remuneration policy, the Remuneration Committee met eight times, with 100% of its members in attendance on all occasions, in accordance with the governance of the Remuneration Policy described in paragraph 4.

#### **4.5 RISK COMMITTEE**

The Risk Committee performs an advisory position with respect to the approval of the remuneration policies for the purpose of ensuring that the incentives underlying the Bank's remuneration and incentive system are consistent with the RAF.

#### **4.6 HUMAN RESOURCES**

The Human Resources Function in illimity contributes to the preparation of the remuneration policy and looks after its application together with the Remuneration Committee, the CFO & Head of Central Functions and the Chief Executive Officer, in accordance with the Issuer's need to attract and retain the professional figures required to achieve its long-term objectives while at the same time ensuring sound and prudent risk management. In this respect the Human Resources Function:

- draws up and submits to the Remuneration Committee the proposed revision of the Remuneration Policy and Report on Compensation Paid;
- availing itself of the contribution of the Business Control Functions, ensures compliance with the regulations applicable to these present policies and that they have been correctly applied;
- coordinates the process for identifying and determining the Identified Staff (Material Risk Takers), taking account of regulatory provisions and the criteria set out in these present policies, availing itself of the contribution of the internal Control Functions, in particular the Chief Risk Officer (the "CRO") and the Compliance & AML Function;
- proposes a performance appraisal system, remuneration criteria and career paths consistent with the remuneration policy; in this respect it additionally coordinates the establishment and assignment of the performance objectives as part of the incentive schemes;
- availing itself of the contribution of the Chief Financial Officer (the "CFO") and the CRO, checks whether the objectives have been reached and whether the conditions exist for access to the forms of variable remuneration;
- monitors the trends and practices to be found on the reference labour market in order:
  - to formulate proposals for the revision of the Policy;
  - to formulate solutions for revising the remuneration and incentive system in terms of the instruments, means, operating mechanisms and parameters adopted by the Group.

#### **4.7 COMPLIANCE & AML**

The Compliance & AML Function of illimity performs a preventive scrutiny and monitoring of the Remuneration Policy to ensure it complies with the legislative framework; it additionally checks that the Company's incentive schemes are consistent with the objectives of complying with the law, the bylaws and the Code of Ethics and Conduct adopted by the Bank, as well as the standards of conduct applicable to the Bank, so that the legal and reputational risks inherent above all in customer relations are suitably contained.

The Compliance & AML Function:

- in conjunction with the internal Control Functions ensures that the present Policies are appropriate and respond to the requirements of laws and regulations and that they are working properly;
- checks that the Company's incentive scheme is consistent with the objectives of complying with the law, the bylaws and the Code of Ethics and Conduct, ensuring that the legal and reputational risks are suitably addressed, with particular regard to customer relations;
- checks consistency with the present Policy and internal regulations and procedures, reporting any risks of non-compliance to the corporate bodies in charge;
- checks the consistency of the process followed for identifying Material Risk Takers with applicable laws and regulations.

#### 4.8 CHIEF RISK OFFICER

The Chief Risk Officer of illimity, or CRO, supports the Risk Committee and the Remuneration Committee in ensuring that the remuneration schemes are consistent with the Bank's prudent risk management policies and that the Bank's incentives underlying the remuneration and incentive system are consistent with the RAF and with the management of the Bank's risk, capital and liquidity profiles. It additionally contributes to the process of identifying the Risk Takers for the aspects regarding the materiality of the contribution to risk made by the holders of authorisation powers. In particular, the CRO:

- supports the Human Resources Function in ensuring that the Policies are consistent with the risk propensity expressed in the Risk Appetite Framework and identifying any objectives designed to mitigate important risks;
- assesses consistency with the Risk Appetite Framework of the proposed Bonus Pool and access gates to variable remuneration *ex ante* and checks the levels reached *ex post*, with reference to the risk management objectives;
- ensures the suitability of the qualitative and quantitative assessments to be adopted for determining Material Risk Takers compared to the Group's risk profile, consistent with the recommendations made in the Risk Appetite Framework.

#### 4.9 INTERNAL AUDIT

At least on an annual basis, illimity's Internal Audit verifies that the remuneration practices respond to the requirements of the Bank's remuneration and incentive policy, approved from time to time, and to those of applicable laws and regulations, from the standpoint of risk control and the safeguarding of the Company's assets. The results of these verifications are brought to the attention of the Shareholders' Meeting and, where necessary, to the Supervisory Authorities.

### 5. IDENTIFICATION OF "GROUP MATERIAL RISK TAKERS" FOR 2020

In accordance with the provisions of the EBA guidelines and Circular 285, illimity has identified the Group's Material Risk Takers (MRT's) by means of a structured process and on the basis of criteria in line with the Risk Appetite Framework and with the system of powers of authorisation approved by illimity, consistent with the "**Guidelines for the identification of Material Risk Takers of the Banking Group**" approved by the Board

of Directors, after receiving the positive opinion of the Remuneration Committee, on 19 December 2019, and reported in full in annex 1 to this Report.

The identification of Group Material Risk Takers, meaning the category of staff whose professional activity has, or may have, a material effect on the Group's risk profile, in accordance with the above-mentioned guidelines, was based on the Bank's operational and organisational characteristics, taking into account both qualitative criteria, namely responsibilities and/or powers to assume risk, and quantitative criteria, namely remuneration levels.

It should be noted that an analysis of the quantitative criteria provided in Commission Delegated Regulation (EU) no. 604/2014 did not lead to the identification of any persons in addition those already identified as MRT within the meaning of the qualitative criteria of this regulation.

In accordance with the provisions of laws and regulations and the progressive articulation of the system of powers of authorisation to support the implementation of the directional lines of the Business Plan, the CRO and Human Resources have identified additional criteria for identifying persons that assume or may assume significant risks for the Bank or for the Group.

The additional criteria have been established in order to identify:

- holders of authorisation positions who, at the date on which the process for identifying MRT is completed, have originated Risk Weighted Assets ("**RWAs**") amounting to at least 10% of the Bank's total RWAs;
- staff who, although not identified by the application of the previous criterion and/or not having a formal organisational position, from the analyses and assessments conducted by the CRO may exercise significant future influence – in strategic and operational terms – on the Bank's operational processes and decisions.

This process led to the identification of the following figures that may qualify as persons forming part of the category of Material Risk Takers:

- executive and non-executive members of the Board of Directors, including the Chief Executive Officer;
- Top Management and in particular: the Head of Distressed Credit Investment & Servicing, the Head of SME, the Head of Direct Banking and Chief Digital Operations Officer, the Chief Financial Officer and the Head of Central Functions and the Chief Executive Officer of neprix S.r.l.;
- the heads of the internal Control Functions and in particular: the Chief Risk Officer, the Head of Compliance & AML and the Head of Internal Audit;
- the General Manager of neprix and, in application of the additional criteria established by illimity, the Head of Crossover, the Head of Turnaround, the Head of NPL Senior Financing and the Head of Portfolios;
- the heads of the support functions and in particular: General Counsel – Head of Corporate & Legal Affairs, the Head of Human Resources, the Head of Administration & Accounting, the Chief Communication Officer, the Head of Investors Relations & Strategic Planning, the Head of Budget & Control, the Head of ALM & Treasury and the Chief Information Officer.

The identification process was concluded in February 2020 and the results were submitted to the Remuneration Committee and the Risk Committee, and then to the Board of Directors at its meeting of 5 March 2020, following verification by the control functions in charge, in particular the Compliance & AML function with

reference to the verification of alignment of the criteria applied to regulatory requirements, and the CRO regarding the possibility of a material effect occurring on the Bank's various risk categories.

The updating of the process led to the identification of 6 additional positions compared to the process carried out in 2019, given the evolution of the Bank's organisational model in the meantime.

The identified resources represent approximately 7% of the number of the Group's employees at 31 January 2020.

Key Management Personnel, with the exclusion of the parent company's statutory auditors, are all included in the perimeter of the Group Material Risk Takers

In line with legislative requirements, the process will be updated at the latest by the end of the first half of October 2020 in order to identify any further persons who have the possibility of having a material effect on the Bank's risk profile during 2020 for at least three successive months.

## 6. REMUNERATION

By "remuneration" is meant compensation in any form – in cash, financial instruments or fringe benefits – or compensation in the form of other benefits (for example: pension benefits on an individual and discretionary basis, golden parachutes, etc.) – disbursed directly or indirectly as the consideration for employment or professional services rendered in favour of the Bank.

In accordance with the provisions of Circular 285, total remuneration is divided into a fixed component and a variable component, ensuring that there is a clear distinction between the two.

The ratio between the fixed component and the variable component is suitably balanced, accurately determined and carefully assessed in relation to the characteristics of the Bank and the various categories of staff, in particular persons falling within the category of the Identified Staff (MRT)

In this respect illimity has established the maximum ratios for the various categories of staff as follows (ratio of variable to fixed):

- for the Group's MRT belonging to the business function: 200%;
- for the Group's MRT belonging to the support function: 150%;
- for the Group's MRT belonging to the internal Control Functions: 33%;
- for the remaining staff, variable remuneration is in all cases limited to 200% for the business functions and 100% for the other functions.

With particular reference to the Material Risk Takers of the business functions and support functions, the above limits represent the maximum ratios relating to the progressive consolidation of the results of the Business Plan.

In this respect, 2020 is seeing the consolidation of the directional lines included in the Business Plan and will accordingly be characterised by considerably more contained actual ratios for the variable components, consistent with the path towards a strengthening of the economic and financial conditions forecast in the 2020 budget.

It should be noted that the Chief Executive Officer and the other members of the Group's Top Management maintain a theoretical limit of variable remuneration compared to fixed remuneration of 1:1 (in accordance with the statements made to stakeholders, the request to raise the ratio of variable remuneration to fixed

remuneration above the legal limit of 100% does not include the Chief Executive Officer and the remainder of the Group's Top Management as possible beneficiaries).

It is also noted that the request to extend the raising of the maximum ratio of variable to fixed remuneration to other potential staff belonging to the Group's SGR is also being submitted to the meeting of illimity's shareholders called to approve this remuneration policy, with the aim of encompassing them in the Group's remuneration policy, albeit in accordance with the relative specifics of the sector.

## 7. FIXED REMUNERATION

The purpose of fixed remuneration is to attract and retain key professional figures for the execution of the Bank's directional lines.

The fixed component of staff remuneration consists of the following components:

- gross annual salary (GAS), linked to the dimensions and complexities governed;
- possible position/function allowances designed to reward the professional expertise contributed, linked to maintaining the position and adjusted in line with applicable regulatory provisions;
- possible compensation of a recurring nature for collaborators not having a formal employment relationship;
- benefits whose value is detailed by category of beneficiary and granted on the basis of predetermined criteria, not linked to performance, designed to increase the appeal of the remuneration package and therefore the motivation and loyalty of the employee. The benefits are granted on the basis of a flexible policy which, given a predetermined amount, allows the beneficiary to adjust the enjoyment of the additional benefits over the base components as a function of individual needs and requirements. The relative means of assignment and enjoyment are governed by a specific regulation. A series of examples follows:
  - personal use of company car;
  - lodging;
  - additional contribution to the supplementary pension fund;
  - health insurance;
  - extra-professional insurance policy.

In addition, a Directors and Officers ("D&O") insurance policy is included for all of the company's directors and officers (i.e. members of the Board of Directors and of the Board of Statutory Auditors), which is also extended to managers and function heads that may be exposed to risks, with the exclusion of any fraudulent conduct or gross negligence.

## 8. VARIABLE REMUNERATION

Variable remuneration is the component of remuneration linked to performance and/or other factors that is not included in fixed or recurring remuneration and granted and paid in line with the regulatory provisions on variable remuneration.

The components that according to the Remuneration Policy may be classified as variable remuneration are as follows:

- the “Long-term Incentive Plan” (the “**LTIP**”) introduced in 2020 following approval by the same Shareholders’ Meeting called to resolve on the present remuneration policy, relating to the Chief Executive Officer and the 5 members of illimity’s Top Management with the aim of aligning their interests to those of the shareholders and of the remaining management and accordingly having objectives linked to the priorities established in the Business Plan;
- the long-term “Stock Option Plan” (il “**SOP**”) introduced in 2019 and having as its members a maximum of 40 employees of the Issuer and/or any subsidiaries (“key staff”) having the aim of aligning the interests of management and of employees in general to those of the long-term shareholders and accordingly linked to the objectives set out in the Business Plan;
- the incentive scheme (“**MBO**”) based on an appraisal of individual performance of staff of the Issuer and/or the Group compared to the assigned objectives with the following beneficiaries:
  - Material Risk Takers of the Issuer and/or Group with the exception of the CEO of illimity and the other members of Top Management;
  - the remainder of the Group’s staff,.
- the “Employee Stock Ownership Plan” (the “**ESOP**”), whose first cycle began in 2019, designed to motivate all employees towards the creation of value, making them participants in the growth of the Issuer and/or the Group over the timescale of the Business Plan;
- retention bonuses, having an exceptional nature, subject to a decision-making process, designed to retain specific expertise and paid in line with legislative and regulatory provisions on variable remuneration;
- possible entry bonuses or buyouts, only awarded within one year of hiring and subject to applicable regulations. Any entry bonuses awarded on hiring are not included in the calculation of the ratio of variable to fixed remuneration, since in accordance with Circular 285/13 of the Bank of Italy they are paid in a lump sum on hiring;
- possible specific components of remuneration designed to preserve the value of commercial know-how and/or specialist skills (agreements for the extension of notice and/or non-competition agreements awarded during the employment relationship). In accordance with regulatory provisions on remuneration, non-competition agreements are not included in the calculation of the ratio of variable remuneration to fixed remuneration with reference to determined compensation for the part not exceeding the latest annual amount of fixed remuneration.

In general, the variable component is subject to verification of the conditions for access/activation (gates) which, for all the components described, with the exception of the entry bonuses awarded on hiring or non-competition agreements and/or agreements for the extension of notice for which the compensation does not exceed the latest annual amount of fixed remuneration, provide for the maintenance of capital stability and liquidity ratios at least equal to the tolerance levels set in the RAF, in addition to specific conditions and objectives defined for the single incentive plans.

With the exception of the components explicitly indicated in that sense (any entry bonuses awarded on hiring or non-competition agreements and/or agreements for the extension of notice for which the compensation does not exceed the latest annual amount of fixed remuneration), the whole of variable remuneration is subject



to compliance with the maximum ratio with respect to fixed remuneration<sup>3</sup> as approved by the Shareholders' Meeting for the specific category.

Variable remuneration granted by way of any of the above-defined incentive schemes (with the exception of any entry bonuses awarded on hiring or non-competition agreements and/or agreements for the extension of notice for which the compensation does not exceed the latest annual amount of fixed remuneration) is additionally subject to claw-back clauses that may be activated in the event of remuneration already paid, in the cases and by the means governed by the applicable regulations.

Variable remuneration is additionally subject to deferral and *malus* mechanisms as well as settlement partially by cash and partially by financial instruments, in line with the strictest regulatory provisions established for key personnel and, prudently, for the heads of business functions who report to Top Management.

## 9. COMPENSATION OF THE BOARD OF DIRECTORS

The system for remunerating corporate bodies is based on compliance with applicable legislation and observance of the policies whose aim is to ensure a sound and prudent management of the Bank, given its long-term strategies.

In accordance with the Remuneration Policy approved by the same meeting, the Shareholders' Meeting of 18 January 2018 resolved to set the compensation for 2019 and 2020 of the members of the Board of Directors of illimity Bank which remains in office until the approval of the financial statements for the year ending 31 December 2020, *pro-rata temporis*, in a fixed amount, and from 1 January 2019 (plus reimbursement for any expenses incurred in exercising office) as follows:

- Chair of the Board of Directors: EUR 120,000 per annum gross;
- Directors: EUR 40,000 per annum gross.

The same meeting also resolved to establish the following additional compensation for the positions held by directors in sub-committees of the board<sup>4</sup>, for 2019 and 2020 and from 1 January 2019:

- Chair of the Committee: EUR 15,000 per annum gross;
- Member of the Committee: EUR 10,000 per annum gross.

Attendance fees are not envisaged.

In addition, any expenses incurred in exercising office are reimbursed.

The possibility is also included of allocating a budget of up to EUR 30,000 a year to the Board of Directors for use in situations for which it is necessary to assign specific duties to corporate officers which are neither predicted nor predictable in advance.

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<sup>3</sup> As noted at 31 December 2019.

<sup>4</sup> In this respect it is noted that a Sustainability Committee has recently been created within the board, required among other things to express an opinion, in coordination of the Remuneration Committee and the Risk Committee, on the sustainability objectives assigned in the incentive plans.

**Boards of Directors of subsidiaries**

After consultation with the Remuneration Committee, the Board of Directors of the parent company proposes compensation for the members of the Boards of Directors of the Company's subsidiaries. As far as non-executive directors are concerned, this compensation is set in a fixed amount.

Members with executive powers receive an amount of variable remuneration calculated in accordance with the provisions governed by these present remuneration policies.

Members of the Board of Directors of subsidiaries who are employees of the Group receive no emoluments for their position on the Board of Directors unless in respect of specific positions.

**10. COMPENSATION OF THE BOARD OF STATUTORY AUDITORS**

The regulations introduced by Ministerial Decree no. 169/2010 have been taken as the basis for determining the compensation of the members of the Board of Statutory Auditors. These establish that compensation should be calculated in relation to:

- the activities performed pursuant to article 2403, first paragraph, and article 2404 of the Italian civil code;
- the preparation of the report on the financial statements of the previous year;
- participation at the meetings of the Board of Directors or shareholders, and those of the Board of Statutory Auditors, excluding those relating to the annual financial statements and the periodic meetings required by law, taking into account the indicators specifically identified in the same article.

The Shareholders' Meeting of BIP of 18 January 2019 that appointed the new control body following the resignation of all the standing and substitute members of the Board of Statutory Auditors also determined the compensation due to the statutory auditors for the three-year period of activity, *pro-rata temporis*, in accordance with the Remuneration Policy approved by the same Shareholders' Meeting. More specifically, the remuneration of the control body was determined in the following way (plus reimbursement for any expenses incurred in exercising office) as follows:

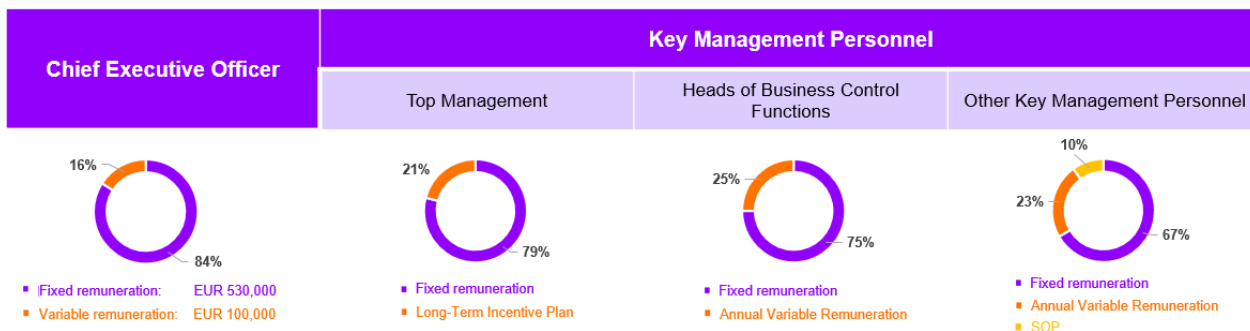
- Chair: EUR 70,000 per annum gross;
- Standing auditors (each): EUR 50,000 per annum gross.

Attendance fees are not envisaged.

In addition, any expenses incurred in exercising office are reimbursed.

## 11. PAY-MIX OF THE CHIEF EXECUTIVE OFFICER AND OTHER KEY MANAGEMENT PERSONNEL

The following diagram sets out the annual pay-mix for the Chief Executive Officer and Key Management Personnel<sup>5</sup>, a category which also includes members of Top Management<sup>6</sup>, Heads of Control Functions<sup>7</sup> and other Key Management Personnel<sup>8</sup> in consideration of the annual and long-term incentive plans governed by this present Policy:



## 12. REMUNERATION OF ILLIMITY'S CHIEF EXECUTIVE OFFICER AND TOP MANAGEMENT

In line with the information disclosed to the financial community on the presentation of the Business Plan and in the context of the merger and listing, illimity's Chief Executive Officer and the other members of Top Management are not beneficiaries of the short-term incentive plan<sup>9</sup>.

The Shareholders' Meeting called to approve these remuneration policies will also discuss the long-term plan in financial instruments, the "*Long-term Incentive Plan 2020-2023*", whose beneficiaries are the Chief Executive Officer and the other members of Top Management, set up to align these to the interest of the shareholders, other members of management and best practice in terms of the balance between fixed remuneration and variable remuneration, taking into account the regulatory provisions for the sector.

The fixed remuneration of the Chief Executive Officer and Top Management also includes the benefit policy for the category to which they belong<sup>10</sup>.

### Long-Term Incentive Plan 2020-2023

The *Long-Term Incentive Plan 2020-2023* (hereinafter the "LTIP Plan"), drawn up and proposed by the Board of Directors on the proposal of the Remuneration Committee to the extent of its responsibility, has the following aims:

- to strengthen the alignment between the interests of the beneficiaries and those of the shareholders and all the stakeholders;

<sup>5</sup> The remuneration package also includes the benefits attributed on the basis of a general policy and, for employees, the *Employee Stock Ownership Plan*. Further details are provided in paragraph 14 below.

<sup>6</sup> Head of SME, Head of Direct Banking, Head of Distressed Credit & Investments, CFO & Head of Central Functions.

<sup>7</sup> Chief Risk Officer, Head of Internal Audit, Head of Compliance & AML and Data Protection Officer.

<sup>8</sup> General Counsel and Head of Administration & Accounting.

<sup>9</sup> The Chief Executive Officer and Top Management are holders of ordinary illimity shares, as well as special illimity shares. Further details can be found in Section II.

<sup>10</sup> As managers of the Bank, they can be also included among the beneficiaries of the *Employee Stock Ownership Plan*. Further details can be found in paragraph 16.

- to motivate the beneficiaries to achieve the objectives of the Business Plan;
- to support the creation of value and corporate social responsibility in the long term, in line with both Circular 285/13 on remuneration and incentive policies and practices and the recommendations included in article 6 of the Corporate Governance Code.

The LTIP Plan, which regards illimity's Chief Executive Officer and the other members of Top Management (in total 5 beneficiaries) provides for the awarding of an incentive, granted subject to achieving the objectives set in the Business Plan (see Table1).

The theoretical opportunity for total long-term variable remuneration for the four-year period, equal to a maximum of EUR 400,000 for each participant, provides for an equal balance between a component in illimity shares and a component in cash (50% cash/50% shares).

The annual impact of the reference variable remuneration for each year compared to fixed remuneration is, therefore, in absolute values, EUR 100,000, well below the annual amount of remuneration that constitutes the legal limit for variable remuneration, given that the variable remuneration of the persons concerned in the present plan has in any case not been the object of a request for an increase.

The vested incentive is calculated at the end of the four-year performance period, on the basis of the extent to which the performance objectives, set out in the following table, have been reached:

Table 1 – Performance in the LTI Plan – 2020-2023			
Objectives	Performance	% of incentive vested (100% = maximum)	Weight
<b>ROE at 31/12/2023</b>	≥25% 20.1% – 24.9% 20% <20%	100% 61%-99% 60% 0%	60%
<b>Cost/Income ratio at 31/12/2023</b>	≤30% 30.1% – 34.9% 35% >35%	100% 61%-99% 60% 0%	15%
<b>Gross Organic NPE ratio at 31/12/2023</b>	≤8% 8.1% – 9.9% 10% >10%	100% 61%-99% 60% 0%	15%
<b>Customer Experience</b> ( <i>illimity's position in the Net Promoter Score ranking as the average for 2022-2023</i> )	≤ 3 <sup>rd</sup> between 9 <sup>th</sup> and 4 <sup>th</sup> 10 <sup>th</sup> > 10 <sup>th</sup>	100% 61%-99% 60% 0%	5%
<b>People Engagement</b> ( <i>illimity's position in the Great Place to Work ranking as the average for 2022-2023</i> )	≥75 <sup>th</sup> ile Median – 75 <sup>th</sup> ile Median <Median	100% 61%-99% 60% 0%	5%

For each objective the respective incentive vests on reaching a performance of at least 60% and increases on a linear basis to 100% on achieving 100% of the objective.

The vesting of the Bonus is dependent on passing through the following gates:

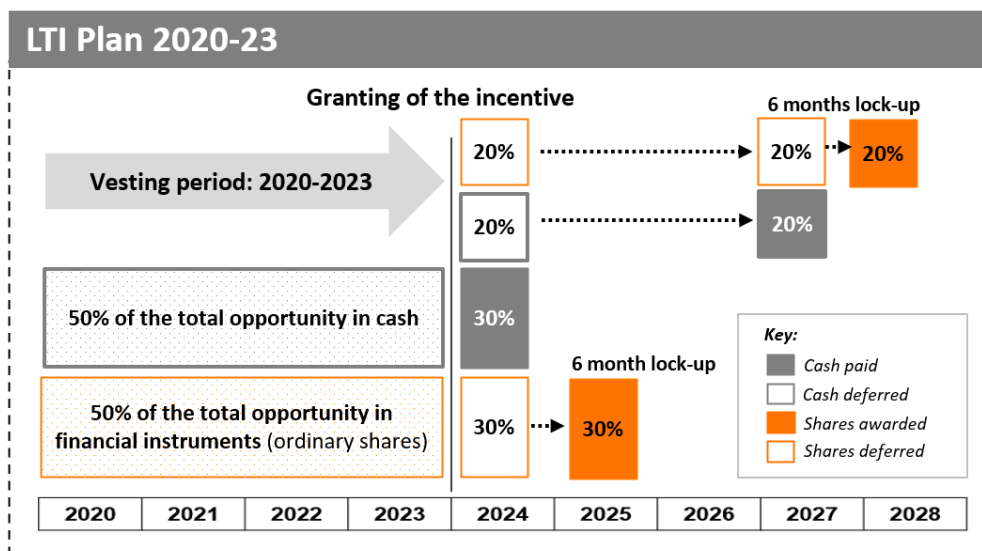
- CET1 ratio greater than or equal to the tolerance threshold defined in the Risk Appetite Framework in force for each year of the plan's term, for two consecutive quarters in each year, as well as the figure at 31 December 2023;

- LCR greater than or equal to the tolerance threshold defined in the Risk Appetite Framework in force for each year of the plan's term, for two consecutive quarters in each year, as well as the figure at 31 December 2023;
- net profit for 2022 and 2023 greater than or equal to zero;
- no violation of laws, regulations or corporate governance codes at an individual level.

The incentive vested at the end of the vesting period on the basis of the extent to which the individual objective have been reached is granted, in illimity shares and in cash, in the following way:

- 60% up-front, 50% in shares and 50% in cash;
- 40% deferred for 3 years, 50% in shares and 50% in cash.

#### Structure of the pay-out of the LTIP Plan 2020-23



The portion of the incentive in shares is subject to another period of non-availability (lock-up) of 6 months, thus establishing an overall timescale that is far longer than the provisions set out in the regulatory framework applicable to illimity's size and operating complexity.

On the opinion of the Remuneration Committee (and after consultation with the Risk Committee), the Board of Directors may reduce the vested incentive down as far as zero taking into account, among other things, the overall risk, the performance of the markets and the company's overall reputation.

Lastly, ex post adjustment mechanisms exist (*malus* and *claw-back*). More specifically, depending on the extent to which the objectives have been achieved, the incentive can be reduced to zero.

A request for revocation or return may be made for the whole of the incentive granted, wholly or in part, in case of the verification of one of the following events within 5 years of the grant date:

- conduct that has caused the Bank to incur a significant loss;

- breach of the conditions and limits for assuming risk activities with respect to parties that may exercise an influence on the management of the Bank and related parties (pursuant to article 53, paragraph 4, and following of the TUB);
- breach of remuneration and incentive obligations;
- with reference to Key Management Personnel who are beneficiaries of variable remuneration, in case of data relating to the gates or vesting conditions that subsequently turn out to be manifestly wrong;
- in case of fraudulent conduct or gross negligence.

For further information on the features of the LTIP Plan reference should be made to the respective Information Document, prepared and published by the Bank pursuant to Schedule 7 of Annex 3A of the Issuers' Regulation and available on the Bank's website [www.illimity.com](http://www.illimity.com) under the section *Investor Relations/Shareholders and BoD Meetings*.

### **13. VARIABLE REMUNERATION OF OTHER GROUP MATERIAL RISK TAKERS AND OF KEY STAFF**

The following section provides a description of the Long-term Incentive Scheme, the Stock Options Plan 2019-2023, set up in 2019, and the MBO scheme for 2020, the latter with details for Key Management Personnel and the heads of business functions who report directly to Top Management:

#### **Stock Option Plan ("SOP")**

The SOP has the following objectives:

- to align the interests of management with those of the long-term shareholders;
- to support the growth of the Issuer and/or its subsidiaries in the long-term;
- to build loyalty in key staff<sup>11</sup> to achieve the strategic directional lines.

The Plan, set up in 2019, the year in which the Company's was listed, provides for the awarding of option rights (the "**Option Rights**"), the vesting of which is conditional upon reaching the targets set in the Business Plan, as described below (Table 2). Performance is measured at 31 December 2023, consistent with the timescale of the Strategic Plan.

Targets linked to the specific responsibilities of their positions are set for the head of human resources and the financial reporting officer, replacing the profitability objective, in accordance with regulatory provisions.

For each target, the relative incentive vests on reaching a performance of at least 60% and increases on a linear basis to 100% on achieving 100% of the objective set in the Business Plan for 2023.

The Board of Directors may increase or decrease the number of instruments granted, within a ceiling of 20%, and in any case within the maximum limit of the total Option Rights that may be awarded, depending on the overall results achieved and the risks assumed, after receiving the positive opinion of the Remuneration Committee and the Risk Committee.

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<sup>11</sup> Key staff coincide with the beneficiaries of the SOP as defined in the Plan Regulation ("*SOP - Stock Option Plan 2019-2023*").

Table 2 – Performance targets in the SOP – 2019-2023				
Targets	Target level	Target performance 2023	% of entitlement granted (100% = maximum)	Weight
<b>Cost/Income ratio<sup>12</sup></b>	Target not reached	> 35%	0%	15%
	Target minimum	= 35%	60%	
	Target partially reached	30.1 – 34.9%	61% - 99%	
	Target fully reached	≤ 30%	100%	
<b>ROE<sup>13</sup></b>	Target not reached	< 20%	0%	60%
	Target minimum	= 20%	60%	
	Target partially reached	20.1% - 24.9%	61% - 99%	
	Target fully reached	≥ 25%	100%	
<b>Gross organic NPE ratio<sup>14</sup></b>	Target not reached	> 10%	0%	15%
	Target minimum	= 10%	60%	
	Target partially reached	8.1% - 9.9%	61% - 99%	
	Target fully reached	≤ 8%	100%	
<b>CET1 capital ratio<sup>15</sup></b>	Target not reached	< 12%	0%	10%
	Target minimum	= 12%	60%	
	Target partially reached	12.1% - 14.9%	61% - 99%	
	Target fully reached	≥ 15%	100%	

The granting of option rights, calculated on a pro-rata basis with respect to the ceiling of the ratio between variable remuneration and fixed remuneration and in accordance with the provisions of the Bank of Italy's recent provisions, is additionally dependent on passing through the following gates:

- CET1 ratio greater than or equal to the tolerance threshold defined in the Risk Appetite Framework in force for each year of the plan's term, for two consecutive quarters in each year, as well as the figure at 31 December 2023;
- LCR greater than or equal to the tolerance threshold defined in the Risk Appetite Framework in force for each year of the plan's term, for two consecutive quarters in each year, as well as the figure at 31 December 2023;
- net profit for 2022 and 2023 greater than or equal to zero;
- no violation of laws, regulations or corporate governance codes at an individual level.

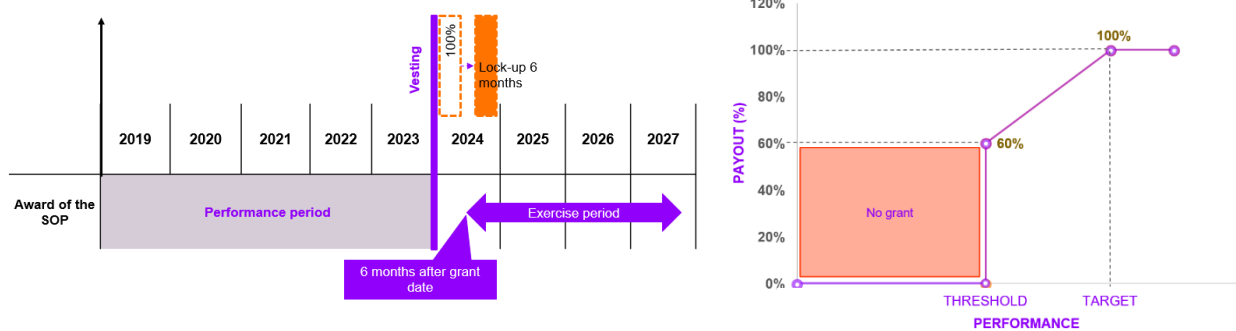
In addition, the instruments granted on the basis of the extent to which each target has been reached are subject to another period of non-availability (lock-up) of 6 months, thus establishing an overall timescale that is far longer than the provisions set out in the regulatory framework applicable to illimity's size and operating complexity. The Option Rights awarded by way of membership of the SOP contribute annually, pro-rata, to the definition of the level of total variable remuneration whose incidence with respect to fixed remuneration cannot exceed the maximum limits set in this present Policy.

Lastly, there are also ex post adjustment mechanisms (*malus* and *claw-back*). More specifically, depending on the extent to which the targets have been achieved, the number of instruments can be reduced to zero.

During the exercise period, the Option Rights granted may be used to subscribe illimity shares on the basis of the exercise price determined on award.

A request for revocation or return, wholly or in part, may be made for the Option Rights granted, or the relative amount (in cash or in shares) for shares already subscribed, in case of the verification of one of the following events within 5 years of the grant date:

- conduct that has caused the Bank to incur a significant loss;
- breach of the conditions and limits for assuming risk activities with respect to parties that may exercise an influence on the management of the Bank and connected parties (pursuant to article 53, paragraph 4, and following of the TUB);
- breach of remuneration and incentive obligations;
- with reference to Key Management Personnel who are beneficiaries of variable remuneration, in case of data relating to the gates or vesting conditions that subsequently turn out to be manifestly wrong;
- in case of fraudulent conduct or gross negligence.



For further information on the features of the SOP reference should be made to the respective Information Document, prepared and published by the Bank pursuant to Schedule 7 of Annex 3A of the Issuers' Regulation and available on the Bank's website [www.illimity.com](http://www.illimity.com) under the section *Investor Relations/Shareholders and BoD Meetings*.

**MBO incentive scheme:**

As noted above, the MBO scheme – applicable to all of the Bank's employees except for Top Management, albeit structured in different ways - seeks to reward the progress made in reaching the annual targets and the adoption of conduct consistent with long-term planning, while at the same time supporting the dissemination of a "value building" culture in accordance with the risk management objectives set out in the Bank's Risk Appetite Framework, consistent with applicable regulatory provisions.

Granting of the variable remuneration arising from the MBO scheme for 2020 is dependent on achieving the targets and lines of conduct contained in the individual schedule given to each beneficiary. The assessment of individual performance is based on role and organisational position and may therefore include, with different weightings:

- a) Group objectives (financial & risk);



- b) Customers & Colleagues objectives, in line with the Group's Customer Experience & People Engagement;
- c) individual contributions (objectives assigned on the basis of individual responsibilities compared to the implementation of the plan's directional lines);
- d) conduct consistent with illimity's leadership model.

Targets are solely linked to the specific responsibilities and illimity's leadership model for the Group's key personnel with business control functions as well as for the head of human resources and the financial reporting officer of illimity Bank S.p.A.

Targets are consistent with the type of business conducted by the Group company in which the beneficiaries work and with any specific provisions of law applicable to the sector.

No breach of internal or external regulations is acceptable and no exceptions are made to this rule.

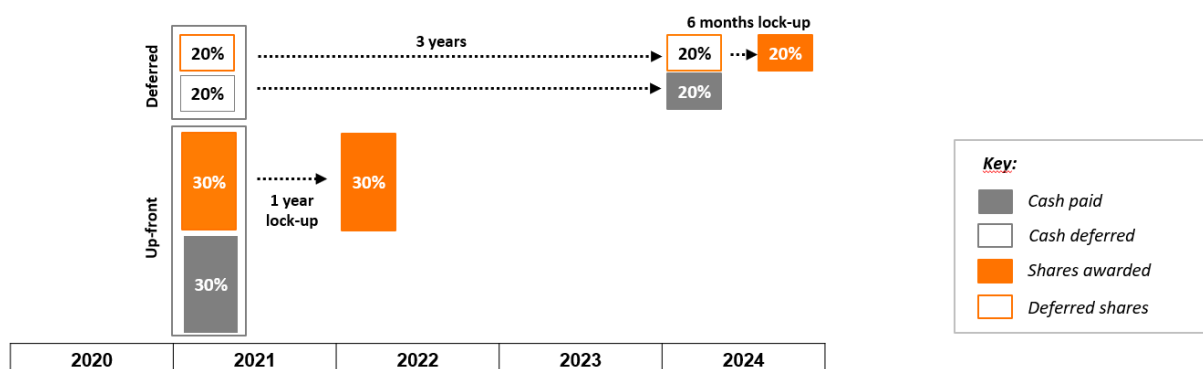
The target incentive is contained for all beneficiaries, consistent with the alignment of the remuneration strategy to the business strategy, focused on adaptation to the opportunities of variable potential in a progressive manner, in line with the consolidation of the results of the Plan. The actual Bonus is determined, subject to the availability of the Bonus Pool, on the basis of the extent to which the assigned targets have been reached.

The granting of the corresponding variable remuneration is dependent on overcoming the following gates:

- CET1 Ratio  $\geq$  tolerance threshold defined in the RAF 2020 for the measurement at 31/12/2020.
- LCR Ratio  $\geq$  tolerance threshold defined in the RAF 2020 for the measurement at 31/12/2020.
- net income  $>0$  at 31/12/2020.
- no breach of laws, regulations or business codes at an individual level.

In addition, with regard to Key Personnel, alongside the risk assessment already provided on the approval of the "vested" Bonus Pool at an overall level, an "individual risk assessment" is also envisaged with regard to the business areas, in case of the definition of any significant individual Bonuses, designed to identify any potential inconsistency between the results achieved, their sustainability with respect to the RAF and the remuneration levels attained.

With regard to Key Group Personnel and business heads reporting directly to Top Management, settlement is as follows: 60% up-front (of which 50% in cash and 50% in the Bank's ordinary shares) and 40% deferred for three years (to be settled, in the absence of any *malus*, by 50% in cash and 50% in the Bank's ordinary shares). The component in illimity ordinary shares is subject to a lock-up period of 12 months for the part settled up-front and of 6 months for the deferred portion.



The Bonus is however paid wholly up-front and in cash in the case of annual variable remuneration of less than EUR 80,000.

The single deferral scheme, stricter than the legislative requirements applicable to illimity, is moreover consistent with the regulatory provisions that require particular importance to be given to the deferred component in the presence of high variable remuneration. It should be noted that the presented scheme also leads to the application of the deferrals required in case of variable remuneration lower than EUR 424,809, the legislative threshold identified as the lower of 25% of the remuneration of the Italian high earners, as per EBA data at 31 December 2017, and 10 times the average total remuneration of the Group's employees.

Lastly, there are also ex post adjustment mechanisms (*malus* and *claw-back*). More specifically, depending on the extent to which the targets have been achieved, the number of instruments can be reduced to zero.

Recognition of the deferred portions is also dependent on satisfying the capital and liquidity requirements as of 31 December of the year in question, in line with the limits defined from year to year in the gates of the remuneration and incentive policies in force at the time.

The portion of the vested Bonus to be settled up-front will be paid out on condition that at the time of the actual payment the employment relationship is still in force, meaning that it has not already been terminated or that notice has not been given.

In the case of the termination of the employment relationship, the provisions described in the relative Regulation will apply to any deferred portions and/or shares in lock-up, with respect to the various cases of "good leaver"/"bad leaver".

It is additionally noted that ex post adjustment mechanisms are also envisaged with reference to MBO, in accordance with the provisions of Circular 285. More specifically, a request for revocation or return, wholly or in part, may be made for the whole of the variable remuneration recognised in case of the verification of one of the following events within 5 years of the payment of the up-front portion or the deferred portion: (i) conduct that has caused the Bank to incur a significant loss; (ii) breach of the conditions and limits for assuming risk activities with respect to parties that may exercise an influence on the management of the Bank and related parties (pursuant to article 53, paragraph 4, and following of the TUB); (iii) breach of remuneration and incentive obligations; (iv) with reference to Key Management Personnel who are beneficiaries of variable remuneration, in case of data relating to the gates or vesting conditions that subsequently turn out to be manifestly wrong; (v) in case of fraudulent conduct or gross negligence.

#### **14. VARIABLE REMUNERATION OF OTHER MEMBERS OF STAFF**

All the Group's other employees are members of the ESOP (see paragraph 16 below).

In addition, all the Group's personnel, with the exclusion of those of illimity SGR S.p.A., are involved in the MBO scheme for 2020, with the aim of rewarding an individual's contribution to the implementation of the Plan's directional lines and the achievement of the annual targets and incentivise the adoption of conduct consistent with long-term planning, while at the same time supporting the dissemination of a "value building" culture in accordance with the risk management objectives set out in the Bank's Risk Appetite Framework, consistent with applicable regulatory provisions.

The granting of variable remuneration is dependent on achieving the profitability targets and alignment with Group level risk, function targets and conduct consistent with illimity's system of values. The objectives are structured as follows:

- Group objectives (financial & risk), in line with the targets set for 2020 in the Business Plan;
- Customers & Colleagues objectives, in line with the Group's Customer Experience & People Engagement strategy
- individual contributions (objectives assigned on the basis of individual responsibilities compared to the implementation of the plan's directional lines);
- conduct consistent with illimity's leadership model.

No breach of internal or external regulations is acceptable and no exceptions are made to this rule.

Targets are consistent with the type of business conducted by the Group company in which the beneficiaries work and with any specific provisions of law applicable to the sector.

The target incentive is contained for all beneficiaries, consistent with the alignment of the remuneration strategy to the business strategy, focused on adaptation to the opportunities of variable potential in a progressive manner, in line with the consolidation of the results of the Plan. The actual Bonus is determined, subject to the availability of the Bonus Pool, on the basis of the extent to which the assigned targets have been reached.

The granting of the corresponding variable remuneration is dependent on overcoming the following gates:

- CET1 Ratio  $\geq$  tolerance threshold defined in the RAF 2020 for the measurement at 31/12/2020;
- LCR Ratio  $\geq$  tolerance threshold defined in the RAF 2020 for the measurement at 31/12/2020;
- net income  $>0$  at 31/12/2020.
- no breach of laws, regulations or business codes at an individual level.

In addition, with regard to personnel for whom the ratio between variable remuneration and fixed remuneration is greater than or equal to 100% and who belong to the business functions, the introduction of an "individual risk assessment" is also envisaged in case of the definition of any significant individual Bonuses, designed to identify any potential inconsistency between the results achieved, their sustainability with respect to the RAF and the remuneration levels attained.

The Bonus vested on achieving the set targets and after ensuring that the access conditions have been satisfied is settled in cash up-front.

The portion in cash of the vested Bonus will be paid out on condition that at the time of the actual payment the employment relationship is still in force, meaning that it has not already been terminated or that notice has not been given.

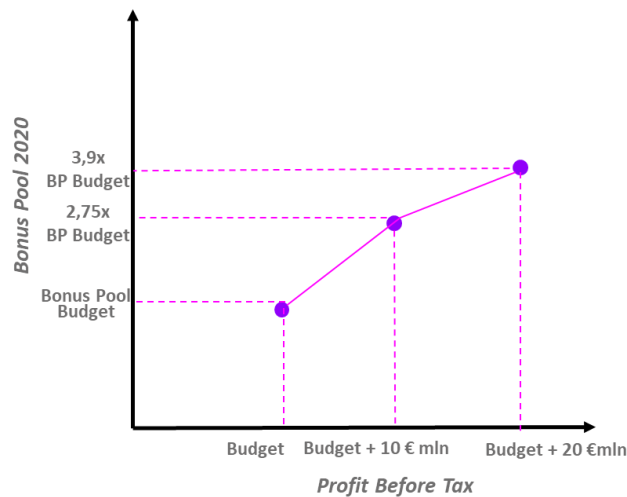
In the case of the termination of the employment relationship, the provisions described in the relative Regulation will apply to any deferred portions and/or shares in lock-up, with respect to the various cases of "good leaver"/"bad leaver".

## **15. DETERMINATION OF THE BONUS POOL FOR THE ANNUAL INCENTIVE SCHEME (MBO)**

In accordance with the relevant supervisory provisions, the total amount of variable remuneration that may be paid at a Group level (Bonus Pool) is determined on the basis of 2020 earnings, risk parameters compared to the Risk Appetite Framework, the extent to which the plan objectives have been reached for the year in question and performance at a function and individual level.

The connection between profitability, risk and remuneration is established via the direct link between the Bonus Pool and the results of the performance of the business, measured by the use of profit before tax in accordance

with the following scheme approved by the Board of Directors on 15 January 2020, after receiving the favourable opinion of the Remuneration Committee and the Risk Committee:



After receiving the opinion of the Remuneration Committee and consulting with the Risk Committee, the Board of Directors may confirm the Bonus Pool, increase it by up to 20% or reduce it to zero, taking into consideration the results of the risk & financial assessments performed by the CRO and the CFO.

## 16. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The aim of the ESOP is to motivate and engage all employees over the period of the Plan by giving them the opportunity to become shareholders of the Company.

The ESOP is intended for all the employees of the Bank and/or the Group and provides for the awarding of a maximum number of the Bank's ordinary shares for each annual cycle.

More specifically, the ESOP's beneficiaries are employees who have either (i) an outstanding permanent employment contract with the Bank or one of the Group companies, or (ii) a fixed-term contract, in being for at least 6 months and with a remaining term of at least 6 months with respect to the award date of each annual cycle (the "**Employment Relationship**").

The implementing regulation approved by the Board of Directors of Banca Interprovinciale S.p.A. on 18 January 2018 provides, in accordance with the resolution adopted by the Shareholders' Meeting of 18 January 2019 and in line with the regulatory and supervisory provisions applicable to the Bank, that the value of the ordinary shares of the Bank to be awarded to beneficiaries as a whole, with the exception of persons having an Employment Relationship under which they qualify as managers (the "**Managers**"), shall amount to EUR 2,000. For beneficiaries who are Managers, the value of the Bank's ordinary shares is EUR 100.

Further information on the features of the ESOP may be found in the Information Document on the ESOP, prepared and published by the Bank pursuant to Schedule 7 of Annex 3A of the Issuers' Regulation and available on the Bank's website [www.illimity.com](http://www.illimity.com) under the section *Investor Relations/Shareholders and BoD Meetings*.

## **17. RISK ALIGNMENT (MALUS AND CLAW-BACK)**

The variable remuneration awarded as part of the described schemes may be reduced to zero in case of evidence of a breach of individual compliance, following the reporting of serious matters by the control functions or by the Supervisory Authority. More specifically, on the occurrence of such a situation, the Chief Executive Officer, after consulting with the Head of Human Resources, may assess the need for a possible reduction of the Bonus, even down to zero.

In the event such findings relate to persons belonging to the control function or to Key Personnel, the relative decisions are taken after receiving the opinion of the Remuneration Committee.

In line with current provisions, all employees shall mandatorily return the whole of the variable remuneration paid in case of the verification of one of the following events within 5 years of the payment date, in terms of both the up-front component and the deferred component:

- conduct by the employee during the period of reference of the variable remuneration that has caused the Bank to incur a significant loss;
- breach of the obligations set pursuant to article 26 of the TUB or, if the employee is the party concerned, breach of the conditions and limits for assuming risk activities with respect to parties that may exercise an influence on the management of the Bank and related parties pursuant to article 53, paragraph 4, and following of the TUB;
- breach of remuneration and incentive obligations;
- with reference to Key Management Personnel who are beneficiaries of variable remuneration, in case of data relating to the gates or vesting conditions that subsequently turn out to be manifestly wrong;
- in case of fraudulent conduct or gross negligence.

## **18. PROHIBITION OF HEDGING STRATEGIES**

Personnel are required not to use strategies for personal hedging or insurance on their remuneration that may alter or invalidate the effects of risk alignment inherent in the remuneration mechanisms governed by this present Policy.

In accordance with the provisions introduced by Title IV, Chapter 2, Section 1, paragraph 5, of Circular 285, illimity requires Key Personnel to communicate any financial investments they may have made which may affect risk alignment mechanisms and, more generally, the objective of prudent risk management, in order to take them into account in establishing the mechanisms for alignment to the incentive scheme risk, as well as to the existence or opening of custody and administration accounts with other intermediaries.

The Compliance & AML function conducts sample tests to ensure compliance with this prohibition, informing Human Resources of the outcome.

## **19. COLLABORATION AND PROFESSIONAL ENGAGEMENTS**

The criteria underlying the granting of professional and collaboration engagements are based on the principles of expertise, cost-effectiveness, transparency and propriety.

All compensation and/or amounts paid for whatever reason to the above parties shall be appropriately documented and, in any case, proportionate to the work performed, also taking into consideration market terms and conditions and applicable laws and regulations.

More specifically, with reference to members of professional institutes, fees shall be agreed in advance with reference to the most advantageous conditions for the Bank, taking into account the nature of the engagement and market terms and conditions.

Relations with collaborators are governed on the basis of a “standard contract” in which the work to be performed and the agreed fee are specified.

In accordance with regulatory provisions, collaborators are assessed as part of the process for identifying Key Personnel, and if identified as a “Risk Taker” are subject to the relative rules and regulations.

## **20. THE DIRECT BANK: THE CUSTOMER AT THE CENTRE**

In performing its activity of placing banking and payment products, as governed by the provisions of the Consolidated Law on Banking and the Consolidated Law on Finance, illimity pays constant attention to the interests and needs of its customers, and accordingly makes the transparency of the contractual conditions and the correctness of conduct priority values for its employees, making reputation an integral part of its business model. Total reward, including the variable component of remuneration and the training and development offer, establishes customer satisfaction and loyalty as one of the Bank’s priority objectives. In addition, the organisational and procedural structure is designed to prevent risks of a legal and reputational nature connected with customer relations.

The Direct Bank’s incentive schemes are based on the same principles that guide the schemes of all illimiters:

- Group objectives (financial & risk), in line with the targets set for 2020 in the Business Plan;
- Customers & Colleagues objectives, in line with the Group’s Customer Experience & People Engagement strategy;
- individual contributions (objectives assigned on the basis of individual responsibilities compared to the implementation of the plan’s directional lines);
- conduct consistent with illimity’s leadership model.

The objectives linked to the individual contributions comply with the following principles:

- they are determined in accordance with business objectives and values and long-term strategies;
- they are inspired by the criteria of diligence, transparency and propriety in customer relations, the containment of legal and reputational risks and customer protection and loyalty;
- they are not exclusively based on commercial objectives and do not act as an incentive to place products that are unsuitable for the needs and financial requirements of customers;
- remuneration does not cause incentives that may induce personnel to pursue their own interests or those of the intermediary to the detriment of customers;
- account is taken of any risk that may constitute a harm for customers, adopting suitable precautions;
- any variable component of remuneration:
  - is, therefore, based on quantitative and qualitative criteria;

- does not constitute an incentive for offering a specific product or a specific category or combination of products if this may lead to harming customers;
- is suitably balanced compared to the fixed component of remuneration;
- is subject to adjustment mechanisms that allow for the reduction (also significantly) or elimination of the component.

In particular, the parties for whom these guidelines are intended (hereinafter the “key parties”) are identified as the customer relations personnel and anyone who creates, develops and launches products and services for customers, as well as those to whom they report hierarchically.

## **21. AGENTS, MEDIATORS AND FINANCIAL CONSULTANTS**

As things currently stand, for agents in financial activity, financial consultants and mediators, other than the Bank’s employees, remuneration is generally “recurring” and relates to the typical operations performed by the agent/consultant/mediator, and accordingly does not include any incentive mechanisms (by way of example recurring fees include those paid on the basis of a “fixed” percentage of the volumes contributed and/or the earnings generated by the referred business).

In addition, in accordance with regulatory provisions, financial agents, financial consultants and mediators are assessed as part of the process for identifying Key Personnel, and if identified as such are subject to the relative rules and regulations.

If the activity of the agent/consultant/mediator can be classified as the placement of banking products and services, any non-recurring compensation is governed by the provisions of paragraph 20.

## **22. REMUNERATION OF THE PERSONNEL OF ILLIMITY SGR**

The authorisation process for the formation of an Asset Management Company (SGR) within the Banking Group has been completed.

The company is subject to the laws and regulations governing the sector that derive from the transposition into Italian law of the AIFMD Directive, as included in the Bank of Italy’s Regulation issued on 5 December 2019 in implementation of articles 4-*undecies* and 6, paragraph 1b) and 1c-bis), of the TUF), taking into account the specifics envisaged in case of membership of a Banking Group and the transitional and final provisions of Circular 285 on remuneration and incentive policies and practices.

The SGR has a remuneration and incentive policy for its personnel that is consistent with the principles and aims of the Group’s Remuneration Policy and takes into account applicable regulatory provisions, with particular reference to:

- the role of the shareholders’ meeting and the corporate bodies, providing for governance processes consistent with the size and complexity of the SGR, within the ambit of the parent company’s coordination and control role<sup>16</sup>;
- the identification of Material Risk Takers at an SGR level and the contribution to the process of identifying the Group Material Risk Takers;

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<sup>16</sup> The parent company prepares the document on the remuneration and incentive policies of the whole banking group, ensures these are consistent as a whole, provides the necessary guidelines for them to be implemented and verifies that they have been properly applied, without prejudice to the responsibility of the Asset Management Company to comply with directly applicable laws and regulations and the proper implementation of the guidelines provided by the parent company.

- a clear distinction between fixed remuneration and variable remuneration, the latter including any incentive schemes based on “carried interest”;
- the establishment of an upper limit to variable remuneration of 2:1 compared to fixed remuneration;
- incentive schemes parameterised to the performance indicators of the SGR and the AIFs managed and measured excluding the risks concerning their operations and taking account of the level of capital and of the liquidity needed to deal with the assets and investments undertaken in the SGR and the funds established, through the determination of SGR “entry gates”, in addition to the conditions established at a Group level, and of mechanisms for determining the “Bonus Pool”;
- specific provisions for malus conditions at an SGR level (in addition to the conditions established at a Group level) and clawback mechanisms;
- specific provisions for the termination of the employment relationship or termination of office;
- requirements for remuneration disclosures.

By way of its “*Guidelines for Identifying the Material Risk Takers of the Banking Group*” (annex 1) the Group also includes the personnel of the Asset Management Company in the process of identifying MRT. The qualitative criteria provided by the EBA technical standards are also adopted in performing the relative analysis, with particular reference to the possibility of significantly affecting the Group’s risks within the ambit of material operating units and/or taking into account the impact on the economic, financial and reputational risk to which they may expose the Group. The quantitative criteria provided by the laws and regulations governing any exclusion mechanisms and parameters are also adopted for inclusion in the perimeter

The deferral rules envisaged at a Group level are activated for the personnel of the SGR included as “Group Material Risk Takers” (percentages and timescale of deferral), without prejudice to the provisions of laws and regulations applicable to the sector.

### **23. COMPENSATION FOR EARLY TERMINATION OF THE EMPLOYMENT RELATIONSHIP AND/OR EARLY TERMINATION OF OFFICE (SEVERANCE PAYMENTS)**

On termination of the employment relationship, illimity may make additional payments to individual employees of the Group exceeding the amounts due by law and under any applicable national and local company collective bargaining agreements (including the employees’ leaving entitlement (TFR), compensation in lieu of notice, compensation in lieu of accrued vacation not taken, etc.).

Such compensation represents “Golden Parachutes” within the meaning attributed by Circular 285 for persons to whom this regulation is applicable.

Golden Parachutes are incentives that may be agreed by the Bank or other Group companies with individual employees or collaborators in view of or on the occasion of the early termination of the employment relationship (in the case of a fixed-term contract before the natural end of the term of that contract) or on the early termination of office on condition that there is an initiative and/or an interest of the Bank in that direction.

As a result, in the case of resignation or in any other situation where payment does not comply with the Group’s interests, the conditions for negotiations between the parties for said agreements do not exist.

The amount resulting from applying such clauses/agreements may not, however, exceed a ceiling of 24 monthly tranches of fixed remuneration, established on initiating the agreement by taking into consideration



the Group's overall results and the employee's individual performance and also taking into account the duration of the employment relationship.

Such amount may in any case not exceed the ceiling of EUR 1,100,000.00.

Such ceilings shall include any amounts attributed to non-competition agreements.

For professionals having key characteristics which are such that the termination of the relationship may lead to risk, the Bank reserves the right to establish non-competition agreements from time to time that provide for the recognition of compensation commensurate with the duration and extent of the restriction determined by such agreement on conclusion of the employment relationship and/or termination of office.

In accordance with regulatory provisions, if the relative fees are determined in an amount of up to one year's fixed remuneration there is no need to ascertain whether such are in line with the Bank's overall results, individual performances or the duration of the employment relationship, or with the rules on the way in which the payment is made, with particular reference to deferral, malus and the division between cash and financial instruments.

"Golden Parachutes" are included in the calculation of the ratio between the variable and fixed remuneration of the most recent year of the employment relationship or of holding office, with the exception of:

- amounts agreed and recognised within a non-competition agreement for the portion which, for each year of the agreement's term, does not exceed the most recent annual amount of fixed remuneration;
- amounts agreed and recognised as part of an agreement between the Bank and the personnel, howsoever reached, for the settlement of a current or potential dispute determined by multiplying 3 monthly portions of annual global remuneration (gross annual remuneration for the most recent year with the addition of the average of the amounts recognised under the annual incentive scheme, whether upfront or deferred, for the previous two years) by the number of years of seniority, or, with reference to the Material Risk Takers identified within the internal control functions, 12 monthly portions of annual global remuneration determined by the same means, and in any case within the ceiling set by the Shareholders' Meeting.

Any compensation recognised as a Golden Parachute shall be paid in cash generally within one year of the termination of the employment relationship and/or termination of office, or, with reference to any components regarding non-competition agreements, on the basis of the timetable established by such agreements.

In case such compensation is recognised for Material Risk Takers, with the exception of any amount recognised within a non-competition agreement which is fully payable in cash and on the basis of the timetable established by such agreements, if the amount exceeds EUR 80,000 settlement is made as to 60% in cash and 40% in financial instruments. The cash component is all paid up-front. Fifty per cent of the component in financial instruments is settled up-front and 50% is deferred for two years and subject to verification of the capital and liquidity requirements in the year of settlement. Both the up-front component and the deferred component of financial instruments are subject to a lock-up period of 6 months.

The means by which the above are determined and settled may be varied over time on the basis of the evolution of the characteristics and complexity of the Bank and considering the evolution of the applicable regulatory framework.

Any compensation disbursed is subject to the malus and claw-back rules provided for variable remuneration. In particular, the Bank will take action to obtain the refund of any amounts paid, in terms of both the up-front component and the deferred component, in case of the verification of one of the following events within 5 years

of the payment date: conduct during the employment relationship by the employees, directors or collaborators who are beneficiaries of such, that is in breach of internal or external laws or regulations and has caused the Bank to incur a loss that is considered “significant”; breach of the conditions and limits for assuming risk activities with respect to parties that may exercise an influence on the management of the Bank and connected parties (pursuant to article 53, paragraph 4, and following of the TUB); breach of remuneration and incentive obligations or fraudulent conduct or gross negligence; with reference to Key Management Personnel who are beneficiaries of variable remuneration, in case of data relating to the gates or vesting conditions that subsequently turn out to be manifestly wrong.

There are no outstanding agreements that bind the Bank to the payment of compensation for the early cessation from office, compared to the end of the term for which they have been mandated, of members of the Board of Directors or the Board of Statutory Auditors.

The above rules are not applicable to the amounts agreed in view of or on the occasion of early termination of the employment relationship or termination of office of either Key Personnel or other personnel as part of extraordinary operations (such as mergers) or business restructuring processes. In these cases they respond to a logic of business cost containment and the rationalisation of the personnel structure and shall not exceed EUR 100,000.00.

In the same way, with the exception of compliance with the ceiling in absolute terms or as the number of months' remuneration approved by the Shareholders' Meeting, the rules described do not also apply to leaving incentives connected with extraordinary operations (such as mergers) or business restructuring processes and paid to non-key personnel, provided they respond exclusively to a logic of business cost containment and the rationalisation of the personnel structure and encourage acceptance of the support measures, envisaged by law or collective bargaining agreements, for employees as a whole and do not produce distortionary effects ex ante on the conduct of the staff.

In both cases the amounts recognised are subject to clawback mechanisms in case of fraudulent conduct or gross negligence to the detriment of the Bank.

**ANNEX 1 – GUIDELINES FOR IDENTIFYING THE MATERIAL RISK TAKERS OF THE BANKING GROUP**<sup>17</sup>

The current regulatory framework on remuneration and incentives at a European Union and national level (respectively Directive 2013/36/EU (CRD IV) and Circular 285 of the Bank of Italy dated 17 December 2013) provide that banks and banking groups must carry out an annual process to identify the staff whose activity has, or may have, a material effect on the risk profile of the bank or banking group (“Material Risk Takers” (MRTs) or “Identified Staff”). Banks are also required to establish a policy regarding the process of identifying MERs which forms an integral part of the remuneration and incentive policy approved annually by the Shareholders’ Meeting.

The aim of these Guidelines is to determine the roles and responsibilities within the process for identifying illimity’s Material Risk Takers and the relative implementation criteria, taking into account the legislative framework represented by:

- at a European Union level:
  - Commission Delegated Regulation (EU) no. 604/2014 (hereinafter also the “Delegated Regulation”) that establishes:
    - **qualitative criteria**, in that these regard the role, decision-making power and managerial responsibility of staff members, also taking into consideration the Group’s internal organisation and the nature, extent and complexity of the activities performed;
    - **quantitative criteria**, in that these regard the thresholds for the level of the total gross remuneration paid, in absolute and relative terms, and the parameters that enable staff to be placed in the same remuneration band as top management and persons that assume risk. The possibility is, however, envisaged of excluding certain members of staff, identified only by applying quantitative criteria on the basis of objective conditions and consistent with specific limitations provided by the Regulation itself;
- at a national level:
  - Circular 285 of the Bank of Italy of 17 December 2013 (hereinafter Circular 285 of the Bank of Italy), which for the identification of Key Personnel cross-references to the criteria provided in the above-mentioned Delegated Regulation, also noting the opportunity to identify and apply, if necessary, additional criteria for identifying other persons who assume material risks. The same Circular points out that the parent company of a banking group is responsible for the identification of Key Personnel for the whole of the Group having regard to all group companies, regardless of whether they are subject to banking regulations at an individual level or not.

The parent company also ensures the overall consistency of the identification process for the whole group as well as coordination between the provisions contained in the Circular and any other rules that may be applicable to each company, also as a result of the specific sector to which a company belongs, taking into account the results of the assessments conducted by the single components of the Group that are required to do this on an individual basis.

<sup>17</sup> These guidelines were approved by the Board of Directors of illimity on 19/12/2020 and subsequently supplemented on 17/02/2020 with the identification of the perimeter of the Group’s Key Personnel.

These present Guidelines govern:

- i. the roles and responsibilities of the business functions and corporate bodies involved in the process for identifying the Group Material Risk Takers;
- ii. the regulatory and additional criteria used for identifying the Group Material Risk Takers

The following are therefore reported in an annex as an integral part of the Guidelines:

- i. the matrix summarising the responsibilities, the timing, the activities and the inputs and outputs for each stage in the process of identifying Material Risk Takers (annex 1);
- ii. the rationale used for identifying the illimity Banking Group Material Risk Takers pursuant to the qualitative and quantitative criteria envisaged by the above-mentioned Regulation (annex 2);
- iii. annex A to Circular 285 of the Bank of Italy that establishes the information to be sent for the exclusion of personnel from the list of Risk Takers.

## **1.2 - SCOPE**

This document establishes the Guidelines applicable to the whole of the illimity Banking Group.

In accordance with supervisory provisions, as parent company of the illimity Banking Group, illimity has the responsibility for identifying the persons having a material impact on the Group's risk profile, having regard to all the companies in the Group, regardless of whether they are subject to a prudent supervisory framework or not.

By way of these guidelines, the parent company ensures overall consistency of the identification process for the whole group as well as coordination between the provisions relating to the banking perimeter (Circular 285/2013 of the Bank of Italy) and any other rules that may be applicable to each company of the same group, also as a result of the specific sector to which a company belongs.

Group companies play an active part in the process for identifying Group Material Risk Takers carried out by the parent company, providing the latter with the information required and abiding by the indications received.

The parent company is responsible for the implementation of the process for identifying MRT's with reference to all the companies of the Group, even if they operate in jurisdictions other than Italy.

If required to carry out the identification of the Risk Takers on an individual basis, these companies adopt similar criteria to those included in this document, compatibly with local or sector laws and regulations, coordinating with the parent company, which looks after the overall consistency of the identification process having regard to the Group as a whole.

In any event the individual companies are always responsible for compliance with the laws and regulations directly applicable to them.

## **2 – ROLES AND RESPONSIBILITIES**

### **SHAREHOLDERS' MEETING**

On the proposal of the Board of Directors the Shareholders' Meeting approves the Remuneration Policy including the criteria for the identification of the members of staff having a material impact on the Group's risk profile as part of its approval of the Report on Remuneration Policy and Compensation Paid.

### **BOARD OF DIRECTORS**

The Board of Directors is responsible for the process for identifying staff who have or may have a material effect on the Banking Group's risk profile. As a consequence:

- i. it approves the criteria for identifying the Risk Takers of the Group and ensures these are subject to a periodic review;
- ii. it is responsible for the proper implementation of the process;
- iii. it approves the results of the process for identifying Material Risk Takers, including any exclusions.

### **REMUNERATION COMMITTEE**

The Remuneration Committee provides its opinion to the Board of Directors on the periodic review of the criteria for identifying Material Risk Takers, also using the information received from the competent business functions.

In addition, the committee expresses its view on the results of the process for identifying Key Personnel carried out annually on the basis of these present Guidelines, including any exclusions.

### **HUMAN RESOURCES**

The Human Resources function of illimity Bank, responsible for all the Group companies, coordinates the implementation of the process for identifying Material Risk Takers at a Group level, in line with the criteria and timing established in this document, and as a consequence:

- i. it prepares and looks after the periodic review of the Guidelines on the process for identifying MRTs and submits these periodically to the Remuneration Committee for its opinion and to the Board of Directors for its approval;
- ii. on determination of the Group's Remuneration and Incentive Policies (or on interim revision) it coordinates the implementation of the process for identifying Material Risk Takers at a Group level, obtaining the required information from the other functions involved and also checking the consistency of the identifications at a level of individual company subject to specific laws and regulations;
- iii. it ensures the identification on a continuing basis of the holders of the roles explicitly identified by the qualitative criteria at the beginning of the year or on interim revision;
- iv. it submits the outcome of the implementation of the process to the CRO and the Compliance function and highlights any proposals for exclusion, in order to obtain the relative assessments;
- v. it submits the results of the process for identifying Material Risk Takers and any proposals for exclusion to the Remuneration Committee and the Board of Directors;
- vi. it coordinates and supervises the identification process at a Group level with reference to the companies of the Group. Regarding companies belonging to specific sectors, such as the asset management sector, the Human Resources function coordinates and supervises that the identification of Material Risk Takers is carried out in compliance with laws and regulations applicable to the sector and looks after overall consistency over the Group as a whole.

### **GENERAL COUNSEL**

As far as relations with the Supervisory Authorities are concerned, General Counsel notifies or files authorisation requests for the exclusion of the Material Risk Takers identified pursuant to the criteria provided in Commission Delegated Regulation (EU) no. 604/2014.

### **CRO DIVISION**

The CRO Division of illimity Bank contributes to the provision of the annual information to the Human Resources function that is needed for the process of identifying Key Personnel, with reference to:

- a) the criteria stated in articles 3 and 4 of Commission Delegated Regulation (EU) no. 604/2014.
  - o qualitative, with particular reference to criteria 5), 11), 12) and 13);
  - o quantitative, contributing to the verification as to whether the staff identified by virtue of their remuneration levels and not included as part of the Risk Takers identified by means of qualitative criteria, may or may not assume “material” risk positions for the Group.
- b) additional criteria<sup>18</sup> (see chapter 5).

With reference to the results of the process for identifying Key Personnel, the CRO expresses a view on the consistency between the positions identified, any exclusion proposals and the Group’s Risk Appetite Framework.

The results of the consistency checks performed are formalised as part of the opinion sent to the Remuneration Committee and the Board of Directors on determining the Remuneration and Incentive Policies or on the interim revision of the perimeter of Key Personnel.

### **COMPLIANCE & AML**

The Compliance & AML function of illimity Bank checks the compliance of these Guidelines and the results of the process for identifying Material Risk Takers and, therefore, the rationale underlying any proposals for exclusion, with internal and external rules and regulations.

The results of these verifications are formulated as part of the opinion sent to the Remuneration Committee and the Board of Directors on determining the Remuneration and Incentive Policies or on the interim revision of the perimeter of Material Risk Takers.

## **3 – PROCESS TO IDENTIFY MATERIAL RISK TAKERS**

In accordance with the criteria adopted by the Banking Group the perimeter of Key Personnel is updated by activating the relative process on the basis of the following sequence:

1. at the **beginning of each year**, in order to identify the perimeter of Key Personnel for submission to for approval to the Shareholders’ Meeting as part of the annual determination of the Remuneration and Incentive Policy;
2. **in October of every year**, for the purpose of the interim review, to ensure that the following are actually considered as part of the perimeter of Key Personnel for the year of reference:

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<sup>18</sup> Reference should be made to chapter 5 of this present document in which it is stated that pursuant to Circular 285 of the Bank of Italy of 17 December 2013, in order to identify key personnel, banks should apply Commission Delegated Regulation (EU) no. 604 of 4 March 2014 and identify and apply criteria additional to those established in such regulation, if necessary in order to identify other persons who assume material risks for the Bank.

- a) all persons who have held one of the positions identified using the qualitative criteria for at least three months;
  - b) all persons identified using the quantitative criteria on the basis of the remuneration for the previous year's performance who are not subject to an exclusion request or for whom such a request has not been accepted;
3. **during the year**, in case of the assignment of a new position holder as part of the positions solely identified by the qualitative criteria.

On updating the perimeter of Material Risk Takers, the Human Resources function, together with the contribution of the CRO, ensures the consistency of the underlying rationale with the criteria adopted in respect of the Risk Appetite Framework as updated from time to time.

The result of the identification process is formalised by the Human Resources function in a document containing:

- i. the positions identified by applying the qualitative criteria and the relative rationale;
- ii. the names of the persons identified by way of the quantitative criteria, the details of those that have been identified by way of the qualitative criteria and the rationale for any exclusion proposals;
- iii. the names of the key persons identified, their relative positions and responsibilities and the differences compared to the previously-determined list (including the number of people identified as Key Personnel – with details of the number of persons identified for the first time).

#### 4 – IDENTIFICATION CRITERIA

The criteria used for the process for identifying Key Personnel and updating the related list are those, of a qualitative and quantitative nature as stated in articles 3 and 4 of Commission Delegated Regulation (EU) no. 604/2014.

The way in which these criteria are applied in the illimity Group can be found in annex 2 to this document.

In accordance with the possibility envisaged by supervisory provisions, illimity identifies the following criteria in addition to those stated in the Delegated Regulation:

- i. holders of organisational positions who, at the date of the conclusion of the process for identifying Key Personnel, have originated Risk Weighted Assets (RWAs) equal to at least 10% of the Bank's total RWAs<sup>19</sup>;
- ii. persons, not identified by using the application of the preceding criterion and/or not having a formal organisational role, who from the analyses and assessments performed by the CRO may exercise a significant influence in the future – in strategic and operational terms - on the Bank's processes and operational decisions.

#### 5 – REVISION OF ADDITIONAL CRITERIA

On the periodic preparation of the Remuneration and Incentive Policies the Human Resources function, together with the contribution of the CRO, assesses the need to revise the criteria for identifying personnel having a material impact on the Group's risk profile in order to ensure their continuing consistency with the

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<sup>19</sup> This criterion reinterprets the legislative provision on the mandatory limits of internal capital for intermediaries having internal risk-measuring models. The indicator is measured at the beginning of the year of reference ( $t_1$ ) on the basis of the most updated information available for the purpose of making a preliminary identification of key personnel. It is then measured subsequently during the year, on a quarterly basis; the average of the actual quarterly measurements (31/12/ $t_0$ , 31/03/ $t_1$ , 30/06/ $t_1$ , 30/09/ $t_1$ , 31/12/ $t_1$ ) for the year of reference ( $t_1$ ) is used to consolidate the perimeter of key personnel. A threshold of 10% was identified by the CRO Division in a specific opinion issued on 11 February 2020.

ownership structure, the organisational structure, the Group's business model and the relative means by which these work. Any changes in these items could, in fact, lead to the need to modify the way in which the qualitative/quantitative criteria adopted are applied, as well as introduce and/or revise any additional criteria.

In this case, the function prepares a revision to these present Guidelines and submits it to the Compliance & AML function, in good time to enable this structure to carry out the relative compliance checks, and subsequently to the Remuneration Committee and the Board of Directors.

## 6 – EXCLUSION PROCEDURE

If, after receiving the opinion of the Remuneration Committee, the Board of Directors intends to activate the procedure of exclusion from the perimeter of Material Risk Takers as part of the quantitative criteria 1 or 2 stated in article 4 of the Delegated Regulation, the Bank must:

- i. on a timely basis, and in any case no later than six months after the end of the previous year, send to the Bank of Italy, by way of the General Counsel, the exclusion notification for staff members awarded total remuneration greater than or equal to EUR 500,000 but less than EUR 750,000.

Such notification is accompanied by the reasons underlying the exclusions, providing clear evidence of the assumptions on which these are based and clearly distinguishing between staff members who carry out professional activities and only have authorities in a business unit which is not a material business unit and staff members who have no material impact on the risk profile of a material business unit through the professional activities carried out.

The exclusion is valid for the year in which the notification is sent and for the following year. The Bank is not required to file a new application for staff already excluded in the preceding year, on condition that it has ensured that there have been no changes to the assumptions on the basis of which the exclusion was applied;

- ii. on a timely basis, and in any case no later than six months after the end of the previous year, file with the Bank of Italy, by way of the General Counsel, the application for advance authorisation for the exclusions for staff members awarded total remuneration greater than or equal to EUR 750,000 or staff members who form part of the 0.3% of personnel who have been awarded the highest total remuneration in the preceding financial year.

The application for advance authorisation shall be accompanied by the detailed reasons, as reported in Annex A of Circular 285 of the Bank of Italy (included in annex 3 to this present document). The Bank of Italy is required to reply to the application for authorisation filed by the Bank within 3 months of receiving the complete documentation. The authorisation is valid for the year in which the application is made and the following year. The Bank is not required to file a new application for staff already excluded in the preceding year,

The notification as per paragraph (i) above and the application for authorisation as per paragraph (ii) may regard several members of staff or different categories of staff whose exclusion is based on the same assumptions, on condition that the persons for whom exclusion is requested are clearly identifiable and that the same level of information is assured.

The applications for authorisation for exclusion for members of staff who have been awarded total remuneration equal to or greater than EUR 1 million shall however be filed individually for each member of staff.



## **7 – APPLICATION OF THE REGULATION AT GROUP COMPANY LEVEL**

Any companies individually subject to prudent supervision are required to apply these present Guidelines on an individual basis and notify the parent company of the relative results on a timely basis, and in any case by the end of the phase for identifying the Group Material Risk Takers.

If on the other hand there are companies subject to specific sector regulations, such as for example those of the managed asset sector, Material Risk Takers are identified in accordance with the Combined Consob-Bank of Italy Regulation of 27 April 2017, which implements Directives 2014/91/EU (UCITS V) and 2011/61/EU (AIFMD) on the remuneration policies for the asset management sector.

## 8 – RESULTS OF THE PROCESS FOR IDENTIFYING KEY PERSONNEL FOR 2020

ID	Article 3 - Qualitative criteria – COMMISSION DELEGATED REGULATION NO. 604/2014	Result
1	The staff member is a member of the management body in its management function;	The Chief Executive Officer of illimity Bank SpA (there are no other executive members of the Board of Directors).
2	The staff member is a member of the management body in its supervisory function;	Seven non-executive members of the parent company's Board of Directors have been identified: Massimo Brambilla - Director Giancarlo Bruno - Director Elena Cialliè - Director Martin Ngombwa - Director (appointed by the Shareholders' Meeting of 10 September 2019) Alessandro Gennari - Director Sigieri Diaz della Vittoria Pallavicini - Director Maurizia Squinzi - Director
3	The staff member is a member of the senior management;	The heads of the main functions and business areas who report directly to the Chief Executive Officer, identified as senior management: the CFO & Central Function; Head of Direct Banking and Digital Operations; Head of Distressed Credit Investment & Servicing (DCIS); Head of SME. In addition, for consistency with internal rules and regulations: General Counsel – Head of Corporate & Legal Affairs; Financial Reporting Officer - Head of Administration & Accounting; Chief Executive Officer of neprix S.r.l..
4	The staff member is responsible and accountable to the management body for the activities of the independent risk management function, compliance function or internal audit function;	The heads of the parent company's control functions: Chief Risk Officer; Head of Compliance & AML; Head of Internal Audit.
5	The staff member has overall responsibility for risk management within a business unit as defined in article 142(1)(3) of Regulation (EU) No 575/2013 which has had internal capital distributed to it in accordance with Article 73 of Directive 2013/36/EU that represents at least 2% of the internal capital of the institution (a 'material business unit');	Capital is currently allocated at the level of banking parent company and as a consequence no material business units are noted.
6	The staff member heads a material business unit;	Not applicable.
7	The staff member has managerial responsibility in one of the functions referred to in point (4) or in a material business unit and reports directly to a staff member identified pursuant to point (4) or (5);	Not applicable.
8	The staff member has managerial responsibility in a material business unit and reports directly to the staff member who heads that unit;	Not applicable.
9	The staff member heads a function responsible for legal affairs, finance including taxation and budgeting, human resources, remuneration policy, information technology, or economic analysis;	Head of Human Resources; General Counsel; Head of Administration & Accounting and Financial Reporting Officer; Head of Budget & Control; Head of ALM & Treasury; Head of IT & Innovation; Head of Strategic Planning and Investor Relations.
10	The staff member is responsible for, or is a member of, a committee responsible for the management of a	Article 80 – Residual risk Not applicable.

	risk category provided for in Articles 79 to 87 of Directive 2013/36/EU other than credit risk and market risk;	Article 81 – Concentration risk	<p>The permanent members with voting rights of the Credit and Investment Committee (executive) and therefore already included in preceding criteria 1) and 3):</p> <ul style="list-style-type: none"> <li>- Chief Executive Officer;</li> <li>- Head of the SME Division;</li> <li>- Head of the DCIS Division;</li> <li>- Head of the CFO Division.</li> </ul> <p>In addition, the four positions identified on the basis of additional criterion 1):</p> <ul style="list-style-type: none"> <li>Head of Crossover;</li> <li>Head of Turnaround;</li> <li>Head of Portfolios;</li> <li>Head of Senior Financing.</li> </ul>
		Article 82 – Securitisation risk	<p>The permanent members with voting rights of the Finance Committee (executive) and therefore already included in preceding criterion 3):</p> <ul style="list-style-type: none"> <li>Head of the CFO &amp; Central Functions Division;</li> <li>Head of the Retail e Digital &amp; Operations Division;</li> <li>Head of the DCIS Division;</li> <li>Head of the SME Division.</li> </ul>
		Article 84 – Interest rate risk from non-trading book activities	<p>The permanent members with voting rights of the Finance Committee (executive) and therefore already included in preceding criterion 3):</p> <ul style="list-style-type: none"> <li>Head of the CFO &amp; Central Functions Division;</li> <li>Head of the Retail e Digital &amp; Operations Division;</li> <li>Head of the DCIS Division;</li> <li>Head of the SME Division.</li> </ul>
		Article 85 – Operational risk	<p>General Manager of neprix S.r.l. (appointed 11/02/2020)</p>
		Article 86 – Liquidity risk	<p>The permanent members with voting rights of the Finance Committee (executive) and therefore already included in preceding criterion 3):</p> <ul style="list-style-type: none"> <li>Head of the CFO &amp; Central Functions Division (who acts as Chair);</li> <li>Head of the Retail e Digital &amp; Operations Division;</li> <li>Head of the DCIS Division;</li> <li>Head of the SME Division.</li> </ul>
		Article 87 – Risk of excessive leverage	<p>The permanent members with voting rights of the Finance Committee (executive) and therefore already included in preceding criterion 3):</p> <ul style="list-style-type: none"> <li>Head of the CFO &amp; Central Functions Division (who acts as Chair);</li> <li>Head of the Retail e Digital &amp; Operations Division;</li> <li>Head of the DCIS Division;</li> <li>Head of the SME Division.</li> </ul>
11	<p>With regard to credit risk exposures of a nominal amount per transaction which represents 0.5% of Common Equity Tier 1 capital and is at least EUR 5 million, the staff member:</p> <p>(a) is responsible for initiating credit proposals, or structuring credit products, which can result in such credit risk exposures; or (b) has authority to take, approve or veto a decision on such credit risk exposures; or (c) is a member of a committee which has authority to take the decisions referred to in point (a) or (b);</p>		<p>No staff members identified in addition to those already identified in criteria 1), 3), 4) and 10).</p>
12	<p>In relation to an institution to which the derogation for small trading book business provided for in article 94 of Regulation (EU) No. 575/2013 does not apply, the staff member:</p> <p>(a) has authority to take, approve or veto a decision on transactions on the trading book which in aggregate meet one of the following thresholds: (i) where the standardised approach is used, an own funds requirement for market risks which represents 0.5 % or more of Common Equity Tier 1 capital; or (ii) where an internal model-based approach is approved for regulatory purposes, 5% or more of the internal value-at-risk limit for trading book exposures at a 99th percentile (one-tailed confidence interval); or</p> <p>(b) is a member of a committee which has authority to take the decisions set out in point (a).</p>		<p>This criterion identifies the CFO and the Head of ALM &amp; Treasury, already identified in criteria 3) and 9).</p>

13	<p>The staff member has managerial responsibility for a group of staff members who have individual authorities to commit the institution to transactions and either of the following conditions is met: (a) the sum of those authorities equals or exceeds a threshold set out in point 11(a), point 11(b) or point 12(a)(i); (b) where an internal model-based approach is approved for regulatory purposes those authorities amount to 5% or more of the institution's internal value-at-risk limit for trading book exposures at a 99th percentile (one-tailed confidence interval). Where the institution does not calculate a value-at-risk at the level of that staff member the value-at-risk limits of staff under the management of this staff member shall be added up;</p>	<p>No staff members identified in addition to those already identified in criteria 1), 3), 9) and 12).</p>
14	<p>With regard to decisions to approve or veto the introduction of new products, the staff member:          (a) has the authority to take such decisions; or          (b) is a member of a committee which has authority to take such decisions;</p>	<p>In addition to the members of the Board of Directors identified in criteria 1) and 2) there are: i) members with voting rights of the Product Committee (executive) in any case included in preceding criteria; ii) members with voting rights of the Risk Committee (within the board) included in in criterion 2).          The following are permanent members of the Product Committee:  <b>Heads of Proposing Divisions:</b>          Head of CFO &amp; Central Functions (Chair);          Head of SME;          Head of DCIS;          Head of Direct Banking.  <b>Other heads:</b>          Head of CRO;          Head of Compliance &amp; AML;          Head of Digital Operations;          General Counsel.</p>
15	<p>The staff member has managerial responsibility for a staff member who meets one of the criteria set out in points (1) to (14).</p>	<p>No staff members identified in addition to those already identified in points 1) to 14).</p>

ID	Article 4 - Quantitative criteria - COMMISSION DELEGATED REGULATION NO. 604/2014	Result
1	<p>Subject to paragraphs 2 to 5, staff shall be deemed to have a material impact on an institution's risk profile where any of the following quantitative criteria are met:          (a) the staff member has been awarded total remuneration of EUR 500,000 or more in the preceding financial year;          (b) the staff member is within the 0.3% of the number of staff, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year; (c) the staff member was in the preceding financial year awarded total remuneration that is equal to or greater than the lowest total remuneration awarded in that financial year to a member of senior management or meets any of the criteria in points (1), (3), (5), (6), (8), (11), (12), (13) or (14) of article 3.</p>	<p>No staff members identified in addition to those already identified for the qualitative criteria.</p>

ID	Additional criteria pursuant to Circular 285/2013 established in "Guidelines for the Identification of the Material Risk Takers of the Banking Group" approved by the Board of Directors on 19/12/2019	Result	Rationale
1	<p>Holders of organisational positions who, at the date of the conclusion of the process for identifying Key Personnel, have originated Risk Weighted Assets (RWAs) equal to at least 10% of the Bank's total RWAs.</p>	<p>Head of Crossover            Head of Turnaround            Head of Senior Financing            Head of Portfolios</p>	<p>Opinion of the CRO Division issued 11/02/2020.</p>

2	<p>Staff who, although not identified by the application of the previous criterion and/or not having a formal organisational position, from the analyses and assessments conducted by the CRO may exercise significant future influence – in strategic and operational terms – on the Bank's operational processes and decisions.</p>	Not applicable.	
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## SECTION II – REPORT ON COMPENSATION PAID IN 2019

### INTRODUCTION

In accordance with applicable regulatory provisions on listed companies, this Section provides information on compensation for 2019 on an individual name basis for the Board of Directors and the Board of Statutory Auditors and in combined form for Key Management Personnel.

In addition, regarding the qualitative and quantitative disclosures required by article 450 of the CRR, it provides information analysed into top management and members of staff whose actions have a material impact on the Bank's risk profile.

More specifically,

- the first part provides an appropriate representation of each of the items making up remuneration, including the compensation due on termination of office or the employment relationship, noting the consistency of this with the remuneration policy of illimity approved in the preceding year;
- the second part provides analytical details of the compensation paid during the year of reference for whatsoever reason and in whatsoever form by the Company and its subsidiaries and associates, using the tables contained in Annex 3 – Schedule 7-bis of the Issuers' Regulation;
- the third part sets out, as required by article 84-quarter, paragraph 4 of the Issuers' Regulation – using the criteria established in Annex 3 – Schedule 7-bis of that Regulation – the holdings in illimity held by members of the management and control bodies, as well as by the non-legally separated spouses and minor children, directly or by way of a controlled company, a trust company or intermediary, that are recorded in the shareholders' register or arise from information that has been received in communications or from the members of the management and control bodies themselves.

## FIRST PART

### 1 – REMUNERATION OF THE MEMBERS OF ILLIMITY’S BOARD OF DIRECTORS

#### **1.1 – The provisions of the 2019 Remuneration Policy:**

On 18 January 2019, the Shareholders’ Meeting<sup>20</sup> of Banca Interprovinciale S.p.A. approved the proposal included at item 2 of the agenda concerning the revision of the compensation of the members of the Board of Directors appointed at the Shareholders’ Meeting of 4 September 2018.

Following this, the same Shareholders’ Meeting of 18 January 2019 approved the Group’s Remuneration and Incentive Policy for 2019 that included the matters that had just been resolved on the compensation of the directors:

- Chair of the Board of Directors: EUR 120,000 per annum gross;
- Chief Executive Officer: EUR 530,000 per annum gross; and
- Directors: EUR 40,000 per annum gross.

The same Shareholders’ Meeting also resolved to establish the following additional compensation in relation to the positions held by directors on the board’s sub-committees for 2019 and 2020, effective from 1 January 2019:

- Chair of a board sub-committee: EUR 15,000 per annum gross;
- Member of a board sub-committee: EUR 10,000 per annum gross.

Any expenses incurred in exercising office are reimbursed.

Attendance fees are not envisaged.

#### **1.2 – The activity of illimity’s Board of Directors in 2019<sup>21</sup>:**

illimity’s Board of Directors met 23 times in 2019 with an average attendance of 87%.

The board’s sub-committees met on 29 occasions with an average attendance of 100%.

#### **1.3 – Compensation paid to members of the Board of Directors in 2019:**

Compensation paid for 2019 was in line with the provisions of the resolutions adopted by the Shareholders’ Meeting of 18 January 2019, with a total for the year of EUR 549,000.

In accordance with the provisions of the 2019 Remuneration Policy no variable remuneration components were granted during the year and no compensation was paid to any member of the Board of Directors for early termination of office.

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<sup>20</sup> The same Shareholders’ Meeting, acknowledging the resolution adopted by the extraordinary Shareholders’ Meeting held on the same date which approved the proposal for the merger of SPAXS S.p.A. into Banca Interprovinciale S.p.A. (the “Merger”) with the relative change of name to “illimity Bank S.p.A.”, also approved the proposal for admission to trading on the Electronic Stock Market, which took place on 5 March 2019.

<sup>21</sup> Details of the activities performed by the Remuneration Committee can be found in annex 1.

The director Gennari received EUR 100,000 during the year as variable remuneration relating to a previous position as General Manager of Banca Interprovinciale S.p.A.<sup>22</sup> that was formally terminated on 31 December 2018.

Reference should be made to Table 1 of the Second Part for a description by individual name of the compensation paid to each member of the Board of Directors in 2019 in accordance with the provisions of the Issuers' Regulation.

## **2 – REMUNERATION OF ILLIMITY'S CHIEF EXECUTIVE OFFICER<sup>23</sup>**

In accordance with the provisions of the 2019 Remuneration and Incentive Policy for the Group, the Chief Executive Officer of illimity only received the fixed emolument in 2019 resolved by the Shareholders' Meeting of 18 January 2019, equal to EUR 530,000 gross.

As part of the Company's benefit policy, the Chief Executive Officer also made use of the benefits envisaged for the category to which he belongs.

## **3 – REMUNERATION OF THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS**

### ***3.1 – The provisions of the 2019 Remuneration Policy:***

Following the resignation of all its members (standing and substitute) the Shareholders' Meeting of 18 January 2019 appointed the new Board of Statutory Auditors, and in accordance with the Remuneration Policy approved by the same Shareholders' Meeting additionally determined the compensation due to its members for the three-year term:

- Chair: EUR 70,000 per annum gross;
- Standing auditors (each): EUR 50,000 per annum gross.

Attendance fees are not envisaged.

Any expenses incurred in exercising office are reimbursed.

### ***3.2 – The activity of the Board of Statutory Auditors in 2019:***

The parent company's Board of Statutory Auditors met 25 times in 2019 with an average attendance of 98%. The average attendance of its members at the 23 meetings of the Board of Directors was 100%.

### ***3.3 – Compensation paid to the members of the parent company's Board of Statutory Auditors in 2019***

The compensation paid for 2019, only of a fixed nature, was in line with the provisions of the resolutions adopted by the Shareholders' Meeting of 18 January 2019, with a total for the year of EUR 174,054<sup>24</sup>.

<sup>22</sup> Deferred portions relating to the 2016 and 2017 incentive schemes vesting in the year.

<sup>23</sup> It is noted that together with Top Management, the Chief Executive Officer holds a portion of the 1,440,000 illimity special shares. illimity's bylaws also provide that such illimity special shares (before the Merger, SPAXS special shares), held by the Chief Executive Officer and by Top Management shall be automatically converted to illimity ordinary shares (i) at a conversion ratio of 1:8 in the case in which, by 20 September 2022, the average price of illimity ordinary shares traded on the Electronic Stock Market, is greater than or equal to EUR 13.9663866 for at least 22 consecutive open stock market days; or (ii) at a conversion ratio of 1:1 in the case in which, by 20 September 2022, the automatic conversion assumption at point (i) has not occurred.

<sup>24</sup> The figure includes EUR 12,000 as a lump-sum expense reimbursement.



Reference should be made to Table 1 of the Second Part for a description by individual name of the compensation paid to each member of the Board of Statutory Auditors in 2019.

#### **4 – REMUNERATION OF OTHER KEY MANAGEMENT PERSONNEL<sup>25</sup>**

The other Key Management Personnel, all included within the perimeter of Key Personnel 2019 and Top Management, mostly received fixed remuneration in the year.

In accordance with the provisions of the 2019 Remuneration Policy, two managers classified in this category were beneficiaries of the 2019-2023 Stock Option Plan (“the SOP”) with the granting of a total of 79,561 shares on 5 March 2019.

No compensation was paid to a member of such category in 2019 for the early termination of the employment relationship or early termination of office.

As part of the Company’s benefit policy, these managers made use of the benefits envisaged for the respective category to which they belong (Top Management, Division Managers, Managers).

Reference should be made to Table A and Table 1 of the Second Part of this Section for the aggregates of the compensation paid in 2019, in accordance with the provisions of the Issuers’ Regulation.

#### **5 – REMUNERATION OF MATERIAL RISK TAKERS AND OTHER PERSONNEL**

This section of the Report describes the variable remuneration paid during 2019 to:

- Key Personnel 2019<sup>26</sup>
- the other personnel of the Group.

In particular, as far as the former category is concerned, it is recalled that the 2019 Remuneration Policy provides that the Chief Executive Officer and the members of Top Management, all included within the perimeter of Material Risk Takers, are not the beneficiaries of any incentive scheme. This has already been stated in paragraph 2 above for the Chief Executive Officer and in paragraph 4 for Top Management<sup>27</sup>.

No compensation was paid to a member of Material Risk Takers in 2019 for the early termination of the employment relationship or early termination of office.

In accordance with applicable supervisory provisions reference should be made to Table A of the Second Part of this Section for the relative aggregate disclosures regarding Material Risk Takers .

##### **5.1 – MBO for 2019 – Annual incentive scheme**

The MBO annual incentive scheme for 2019, approved by the Shareholders’ Meeting of 18 January 2019 and intended, albeit by different means, for all the Bank’s employees with the exception of the Chief Executive Officer and Top Management, provides for the granting to its beneficiaries of the right to receive, under the terms and conditions envisaged by the relative implementation Regulation and internal rules and regulations

<sup>25</sup> This category consists of Key Management Personnel with the exclusion of the Chief Executive Officer and the parent company’s directors and standing statutory auditors, whose remuneration is discussed separately in this Report. In accordance with the requirements for Annex 3 – Schedule 7-bis of the Issuer’s Regulation, details of remuneration are provided on an aggregated basis for this residual category of Key Management Personnel.

<sup>26</sup> It is recalled that only the staff of illimity Bank S.p.A. are included in the perimeter of the 2019 MRTs.

<sup>27</sup> The 4 members of Top Management (see: Definitions) are all identified as Key Management Personnel.

in force from time to time, a variable component of remuneration (the “Bonus” determined on the basis of satisfying the access conditions and performance objectives assigned to each potential beneficiary).

As moreover envisaged in the budget, on 5 March 2019, on the basis of the information provided by the Remuneration Committee, the Board of Directors ascertained that both the preliminary and joint figures at 31 December 2019 had failed to satisfy the access conditions (“gates”) set by the 2019 Remuneration Policy as an assurance of economic equilibrium and the capital stability and liquidity requirements established as part of the procedures for assessing the Company’s risk propensity (see Table 5a):

Indicator	Target at 31/12/2019 (gates)	Results <sup>28</sup> at 31/12/2019
CET1 ratio	18%	21.35%
LCR ratio	130%	3528%
Net income	> 0	-16.14 MI

The Board of Directors acknowledged these results and hence the impossibility to activate the relative Bonus Pool.

As a result, no bonus for the MBO scheme for 2019 was paid to either Key Personnel or any other member of staff.

### 5.1 – Stock Option Plan 2019-2023 (the “SOP”)

The long-term incentive scheme – the Stock Option Plan 2019-2023 – approved by the Shareholders’ Meeting of 18 January 2019, sets the objective of i) aligning the interests of management to those of the long-term shareholders, ii) to support the growth of the Issuer and its subsidiaries in the long term and iii) build loyalty in key members of staff<sup>29</sup> in order to achieve the strategic directional lines that have been established.

The Plan, started up in 2019, the year in which the Company was listed; provides for the granting of option rights (the “**Option Rights**”) whose vesting depends on achieving the targets of the Business Plan and passing through the gates identified in the implementation Regulation of the Plan and the relative information document<sup>30</sup>.

In particular, option rights were awarded in 2019 to the following staff categories:

Staff category	Number of beneficiaries	Total number of option rights awarded in 2019
Material Risk Takers 2019	8	397,807
Other staff	34	1,133,030
<b>Total</b>	<b>42</b>	<b>1,530,837</b>

<sup>28</sup> Results at a Group consolidated level.

<sup>29</sup> Key members of staff coincide with the beneficiaries of the SOP as qualified in the Stock Option Plan 2019-2023 Regulation; in particular, pursuant to article 2.1 of the Regulation, the beneficiaries are selected by the Chief Executive Officer from the employees whose compensation is not reserved to the decision of the Board of Directors, consistent with illimity’s strategies, the targets to be reached, the strategic importance of each role and the impact of the role on the pursuit of the targets as per paragraph 5 and the Regulation.

<sup>30</sup> Further information on the features of the SOP can be found in the Information Document on the SOP, prepared and published by the Bank pursuant to Scheme 7 of Annex 3A of the Issuers’ Regulation and available on the Bank’s website [www.illimity.com](http://www.illimity.com) under the section *Investor Relations/Shareholders and BoD Meetings*.

A total number of 1,530,837 option rights were awarded free of charge, equal to 1.92% of total fully diluted shares, in accordance with the characteristics of a capital increase being at the service of the SOP approved by the ordinary Shareholders' Meeting of 18 January 2019<sup>31</sup>.

Reference should be made to Table A and Table 2 of the Second Part of this Section for the aggregates of the stock options awarded, in accordance with the provisions of the Issuers' Regulation.

## 5.2 – Employee Stock Ownership Plan (“ESOP”)

In accordance with the resolutions adopted by the Shareholders' Meeting of 18 January 2019 and in line with the regulatory and supervisory provisions applicable to the Bank, the implementing regulation for the ESOP<sup>32</sup> approved by the Board of Directors of Banca Interprovinciale S.p.A. on 18 January 2019 provide for the awarding of a maximum number of ordinary shares of illimity Bank S.p.A. to all the employees of the Bank and/or Group for each annual cycle.

In accordance with the resolution adopted by the board on 18 January 2019<sup>33</sup>, on 10 May 2019 the Chief Executive Officer therefore approved the free-of-charge award to 230 Beneficiaries, identified under the criteria as per paragraph 3 of the Regulation<sup>34</sup>, of a total of 43,022 of the Bank's shares, issued by the Board of Directors at its meeting of 10 May 2019 in execution of the delegated powers to increase share capital free-of-charge pursuant to article 2443 of the Italian civil code and as per article 5, paragraph 5 of the Company's bylaws.

In accordance with the provisions included in the Plan Regulation and in the information document, the number of shares awarded to each Beneficiary was made dependent on their position vis-à-vis their employment contract; more specifically, this was determined in order to pay an amount of: (i) EUR 2,000 to all non-managerial employees and (ii) EUR 100 to Beneficiaries who are managers of the Company.

Staff category	Number of beneficiaries	Total number of shares awarded in 2019
Material Risk Takers 2019	14	154
Other staff	216	42,868
<b>Total</b>	<b>230</b>	<b>43,022</b>

<sup>31</sup> The Shareholders' Meeting approved an increase in share capital, to service the SOP, of a maximum nominal value of EUR 1,496,671.34 (corresponding to the nominal value implicit in the maximum number of shares to be issued at the effective date of the Merger), for consideration, separable, pursuant to and in accordance with article 2441, paragraph 8, of the Italian civil code, and accordingly with the exclusion of option rights, through the issue of 2,100,000 new ordinary illimity shares without nominal value having the same features as the ordinary illimity shares outstanding at the issue date of such new ordinary shares, with regular dividend rights.

<sup>32</sup> For further details on the features of the ESOP reference should be made to the Information Document on the ESOP prepared and published by the Bank pursuant to Schedule 7 of Annex 3A to the Issuers' Regulation and available on the Bank's website [www.illimity.com](http://www.illimity.com) under the section *Investor Relations/Shareholders and BoD Meetings*.

<sup>33</sup> On 18 January 2019 the Shareholders' Meeting of Banca Interprovinciale S.p.A. approved, in ordinary session, the proposal of the Board of Directors on the setting up of the Employee Stock Ownership Plan (“ESOP”), reserved to employees of illimity Bank S.p.A. and its direct and indirect subsidiaries. The same Shareholders' Meeting additionally delegated all the powers considered necessary and/or appropriate to the Board of Directors to implement the ESOP (including the definition and issue of the relative regulation) with the possibility of delegating its powers, duties and responsibilities in respect of the execution and application of the plan to the Chair of the Board of Directors and the Chief Executive Officer, also separately, and with the possibility of sub-delegation. On the basis of this delegation, at the same meeting of 18 January 2019 the Board of Directors: i) approved the Regulation for the ESOP; and ii) gave mandate to the Chief Executive Officer to implement the plans according to the procedures and time limits approved at the Shareholders' Meeting of 18 January 2019.

<sup>34</sup> In accordance with the provisions of paragraph 3 of the Regulation, the beneficiaries of the ESOP are all the persons having an employment relationship with the Company or any subsidiaries at the Share Award Date which at that date is (i) based on a permanent employment contract or (ii) based on a fixed-term employment contract of whose term at least 6 months' has passed at the award date and at least 6 months remains, and in any case in line with the requirements of fiscal legislation for the purposes of tax and social security benefits. The award date must not fall within a notice period for the resignation or dismissal of the beneficiaries.

**Annex 1 – Summary of the work performed by the Remuneration Committee in 2019**

Date	Activities on the agenda	Percentage attendance of the members of the committee
14/01/2019	<ul style="list-style-type: none"> <li>• Appointment of the Head of Compliance</li> <li>• Discussion on SOP and ESOP incentive plan regulations</li> </ul>	100%
18/01/2019	<ul style="list-style-type: none"> <li>• Appointment of Head of Compliance</li> </ul>	100%
08/02/2019	<ul style="list-style-type: none"> <li>• Performance Management Model 2019</li> </ul>	100%
26/02/2019	<ul style="list-style-type: none"> <li>• Variable remuneration of the Bank’s staff for 2018; obtaining the opinion on the payment of the bonuses relating to the incentive schemes</li> </ul>	100%
29/07/2019	<ul style="list-style-type: none"> <li>• Information on the changes to the gates in the SOP Plan</li> </ul>	100%
11/09/2019	<ul style="list-style-type: none"> <li>• Reward Value Proposition – positioning and scenarios 2019-2020</li> </ul>	100%
19/11/2019	<ul style="list-style-type: none"> <li>• Presentation of the LTI incentive scheme for the CEO and Top Management</li> <li>• Presentation of changes to the conditions applying to credit facilities for employees</li> <li>• Salary review: focus on staff whose remuneration and incentive schemes are decided by the corporate body with a strategic supervision function</li> <li>• Presentation of the “Target policy for the remuneration components of illimity”</li> </ul>	100%
17/12/2019	<ul style="list-style-type: none"> <li>• Presentation of the “Target policy for the remuneration components of illimity”</li> <li>• Salary review: Staff whose remuneration and incentive schemes are decided by the corporate body with a strategic supervision function</li> <li>• Presentation of the long-term incentive policy for the CEO and Top Management</li> <li>• Guidelines for the MRT identification process</li> </ul>	100%

## SECOND PART

**Bank of Italy Circular 285/2013 - Section VI – Disclosure and data transmission requirements– Paragraph 1 Public disclosure requirements:** *Aggregate quantitative data on remuneration, broken down by business area (article 450, paragraph 1g, of the CRR), broken down by senior management and members of staff whose actions have a material impact on the Bank’s risk profile (article 450, paragraph 1h, of the CRR)*

Category	Type	Number	Fixed 2019 (EUR)	Variable 2019 (EUR)				Variable deferred from other years (EUR)				Payments for employees' leaving entitlement (TFR) made during the year (EUR)	
				Up-front		Deferred		Vesting in 2019		Not vested			
				Cash	Shares	Cash	Shares	Cash	Shares	Cash	Shares		
Key personnel from 01/01/19 to 31/12/19	Chief executive officer	1	530,000										
	Senior management <sup>1</sup>	6	1,899,349										
	Heads of control functions	3	458,791										
	Other Material Risk Takers	18	1,817,106					100,000		125,000 <sup>2</sup>			

<sup>1</sup> Including the 4 members of illimity's Top Management reporting directly to the Chief Executive Officer (Head of Distressed Credit Investment & Servicing; Head of SME; Head of Direct Banking and Chief Digital Operations Officer; Chief Financial Officer and Head of Central Functions)

<sup>2</sup> This amount refers to the deferred components of the variable schemes for 2017 and 2018 of the General Manager of Banca Interprovinciale, now a director of illimity Bank, that have not yet vested.

**Issuers' Regulation - Annex 3A - Schedule 7-bis: Remuneration report**

TABLE 1 <sup>35</sup>												
Compensation paid to members of the management and control bodies, general managers and other key management personnel (EUR)												
A	B	C	D	1	2	3		4	5	6	7	8
First and last name	Office held	Period for which office held	End of term of office	Fixed compensation	Compensation for participation in committees	Non-equity variable compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Indemnity for termination of office or the employment relationship
						Bonuses and other incentives <sup>1</sup>	Profit participation					
<b>Rosalba Casiraghi</b>	Chair of the Board of Directors	04/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				120,000	20,000							
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>120,000</b>	<b>20,000</b>	-	-	-	-	<b>140,000</b>		
<b>Massimo Brambilla</b>	Member of the Board of Directors	04/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				40,000	10,000					50,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>40,000</b>	<b>10,000</b>	-	-	-	-	<b>50,000</b>		

<sup>35</sup> This table discharges the requirements for the disclosures required by Bank of Italy Circular 285/2013 – Section VI – Disclosure and data transmission requirements – paragraph 1 Public disclosure requirements: Information on the total remuneration of the chair of the corporate body having a strategic supervision function and of each member of the corporate body with a management function, the general manager, co-general managers and deputy general managers.

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<b>Sigieri Diaz Della Vittoria Pallavicini</b>	Member of the Board of Directors	04/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				40,000	25,000					65,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>40,000</b>	<b>25,000</b>	-	-	-	-	<b>65,000</b>		
<b>Maurizia Squinzi</b>	Member of the Board of Directors	04/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				40,000	35,000					75,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>40,000</b>	<b>35,000</b>	-	-	-	-	<b>75,000</b>		
<b>Elena Ciailliè</b>	Member of the Board of Directors	04/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				40,000	25,000					65,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>40,000</b>	<b>25,000</b>	-	-	-	-	<b>65,000</b>		
<b>Robert E. Diamond Jr</b>	Member of the Board of Directors	04/09/2018	10/09/2019									
(I) Compensation in the company that prepares the financial statements				28,000						28,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>28,000</b>	-	-	-	-	-	<b>28,000</b>		

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<b>Martin Ngombwa</b>	Member of the Board of Directors	10/09/2019	2021									
(I) Compensation in the company that prepares the financial statements				12,000						12,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>12,000</b>	-	-	-	-	-	<b>12,000</b>		
<b>Giancarlo Bruno</b>	Member of the Board of Directors	04/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				40,000	25,000					65,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>40,000</b>	<b>25,000</b>	-	-	-	-	<b>65,000</b>		
<b>Alessandro Gennari</b>	Member of the Board of Directors	04/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				40,000	10,000	100,000				150,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>40,000</b>	<b>10,000</b>	<b>100,000</b>	-	-	-	<b>150,000</b>		
<p><sup>1</sup> Portions vesting in 2019 arising from the 2016-2017 incentive schemes regarding his previous position as General Manager of Banca Interprovinciale S.p.A.</p>												
<b>Corrado Passera</b>	Chief Executive Officer	20/09/2018	2021									
(I) Compensation in the company that prepares the financial statements				530,000						530,000		
(II) Compensation from subsidiaries and associates										-		
<b>(III) Total</b>				<b>530,000</b>	-	-	-	-	-	<b>530,000</b>		



SCHEDULE 7-BIS: Remuneration report - TABLE 1												
Compensation paid to members of the management and control bodies, general managers and other key management personnel (EUR)												
A	B	C	D	1	2	3		4	5	6	7	8
First and last name	Office held	Period for which office held	End of term of office	Fixed compensation	Compensation for participation in committees	Non-equity variable compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Indemnity for termination of office or the employment relationship
						Bonuses and other incentives	Profit participation					
<b>Stefano Caringi</b>	Chair of the Board of Statutory Auditors	24/05/2015	18/01/2019									
(I) Compensation in the company that prepares the financial statements				2,289	4,800							
(II) Compensation from subsidiaries and associates												
<b>(III) Total</b>				<b>2,289</b>	<b>4,800</b>	-	-	-	-	<b>7,089</b>		
<p><sup>1</sup> This is based on a pro-rata allocation of resolved annual compensation (from 01/01/2019 until the shareholders' meeting of 18/01/19) plus attendance fees received for meetings of the BoD and the relative reimbursement of expenses.</p> <p><sup>2</sup> Attendance fees for committee meetings (an amount of EUR 3,600 refers to the attendance fees for 9 committee meetings relating to December 2018).</p>												
<b>Claudio Gandolfo</b>	Statutory Auditor	24/05/2015	18/01/2019									
(I) Compensation in the company that prepares the financial statements				1,275	800							
(II) Compensation from subsidiaries and associates												
<b>(III) Total</b>				<b>1,275</b>	<b>800</b>	-	-	-	-	<b>2,075</b>		
<p><sup>1</sup> The figure refers to the pro-rata portion of annual compensation resolved (from 01/01/2019 until the shareholders' meeting of 18/01/19) plus attendance fees for BoD meetings and the reimbursement of expenses.</p> <p><sup>2</sup> Attendance fees for committee meetings.</p>												
<b>Matteo Tiezzi</b>	Statutory Auditor	24/05/2015	18/01/2019									

Report on the 2020 Remuneration Policy and Compensation Paid in 2019

(I) Compensation in the company that prepares the financial statements	1,275	800							
(II) Compensation from subsidiaries and associates									
<b>(III) Total</b>	<b>1,275</b>	<b>800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,075</b>		

<sup>1</sup> The figure refers to the pro-rata portion of annual compensation resolved (from 01/01/2019 until the shareholders' meeting of 18/01/19) plus attendance fees for BoD meetings and the reimbursement of expenses.  
<sup>2</sup> Attendance fees for committee meetings.

**SCHEDULE 7-BIS: Remuneration report - TABLE 1**

**Compensation paid to members of the management and control bodies, general managers and other key management personnel (EUR)**

A	B	C	D	1	2	3		4	5	6	7	8
First and last name	Office held	Period for which office held	End of term of office	Fixed compensation	Compensation for participation in committees	Non-equity variable compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Indemnity for termination of office or the employment relationship
						Bonuses and other incentives	Profit participation					
<b>Ernesto Riva</b>	Chair of the Board of Statutory Auditors	18/01/2019	2022									
(I) Compensation in the company that prepares the financial statements				75,562								
(II) Compensation from subsidiaries and associates												
<b>(III) Total</b>				<b>75,562</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,562</b>		

<sup>1</sup> The figure refers to the pro-rata portion of annual compensation resolved by the shareholders' meeting of 18/01/19 plus the reimbursement of expenses.

<b>Nadia Fontana</b>	Statutory Auditor	18/01/2019	2022									
(I) Compensation in the company that prepares the financial statements				52,459								
(II) Compensation from subsidiaries and associates												
<b>(III) Total</b>				<b>52,459</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,459</b>		

<sup>1</sup> The figure refers to the pro-rata portion of annual compensation resolved by the shareholders' meeting of 18/01/19 plus the reimbursement of expenses.

<b>Stefano Caringi</b>	Statutory Auditor	18/01/2019	2022									
(I) Compensation in the company that prepares the financial statements				51,270								
(II) Compensation from subsidiaries and associates												
<b>(III) Total</b>				<b>51,270</b>	-	-	-	-	-	<b>51,270</b>		

<sup>1</sup> The figure refers to the pro-rata portion of annual compensation resolved by the shareholders' meeting of 18/01/19 plus the reimbursement of expenses.

**SCHEDULE 7-BIS: Remuneration report - TABLE 1**

**Compensation paid to members of the management and control bodies, general managers and other key management personnel (EUR)**

A	B	C	D	1	2	3		4	5	6	7	8
First and last name	Office held	Period for which office held	End of term of office	Fixed compensation	Compensation for participation in committees	Non-equity variable compensation		Non-monetary (fringe) benefits	Other compensation <sup>1</sup>	Total	Fair value of equity compensation	Indemnity for termination of office or the employment relationship
						Bonuses and other incentives	Profit participation					
Other key management personnel (12)				2,345,000	30,000			17,999	30,000		31,922	
(I) Compensation in the company that prepares the financial statements												
(II) Compensation from subsidiaries and associates												
<b>(III) Total</b>				<b>2,345,000</b>	-	-	-	<b>17,999</b>	<b>30,000</b>	-	<b>31,922</b>	-

<sup>1</sup> This refers to the payment of 1 entry bonus

SCHEDULE 7-BIS: Remuneration report - TABLE 2																	
Stock options awarded to members of the management and control bodies, general managers and other key management personnel (EUR)																	
A	B	1	Options held at the beginning of the year			Options awarded during the year						Options exercised during the year			Options expiring during the year	Options held at the end of the year	Options relating to the year
			2	3	4	5	6	7	8	9	10	11	12	13			
First and last name	Office held	Plan	Number of options	Exercise price	Exercisable from - to	Number of options	Exercise price	Exercisable from - to <sup>1</sup>	Fair value at the award date	Award date	Market price of the underlying shares on award of the options	Number of options	Exercise price	Market price of the underlying shares on the exercise date	Number of options	Number of options	Fair value
<b>Other key management personnel (2)</b>																	
(I) Compensation in the company that prepares the financial statements		<b>Stock Option Plan 2019-2023 (SOP) approved by the Shareholders Meeting of 18/01/2019</b>				79,561	6.94	from 13/11/2024 to 31/12/2027	2.23	05/03/2019	7.29					79,561	31,134
(II) Compensation from subsidiaries and associates																	
(III) Total			-			79,561			2.23			-			-	79,561	31,134

<sup>1</sup> The figure at the beginning of the period is estimated on the basis of the provisions of the Plan Regulation.

<b>SCHEDULE 7-BIS: Remuneration report - TABLE 3A</b>													
<b>Incentive plans based on financial instruments other than stock options in favour of members of the management and control bodies, general managers and other key management personnel (EUR)</b>													
			Financial instruments awarded in preceding years and not vesting during the year		Financial instruments awarded during the year					Financial instruments vesting during the year and not granted	Financial instruments vesting during the year and grantable		Financial instruments relating to the year
A	B	1	2	3	4	5	6	7	8	9	10	11	12
First and last name	Office held	Plan	Number and type of financial instruments	Vesting period	Number and type of financial instruments	Fair value at award date	Vesting period	Award date	Market price on award <sup>1</sup>	Number and type of financial instruments	Number and type of financial instruments	Value at the vesting date	Fair value
<b>Other key management personnel (8)</b>													
(I) Compensation in the company that prepares the financial statements		ESOP plan (shareholders' meeting of 18/01/2019 and BoD meeting of 10/05/2019) ordinary illimity shares			88	787.78	-	10/05/2019	8.952		88	787.78	787.78
(II) Compensation from subsidiaries and associates													
(III) Total					88								788

<sup>1</sup>Average of the official share prices in the 30 days preceding the date on which the BoD resolved the awarding of the shares (10/05/2019).

**SCHEDULE 7-BIS: Remuneration report**

<b>TABLE 3B</b>									
<b>Monetary incentive plans in favour of members of the management body, general managers and other key management personnel</b>									
A	B	1	2			3			4
First and last name	Office held	Plan	Bonuses of the year			Bonuses of previous years			Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
<b>Alessandro Gennari</b>	Director <sup>1</sup>		Payable/paid	Deferred	Deferral period	No longer payable	Payable/paid	Still deferred	
(I) Compensation in the company that prepares the financial statements		Variable scheme 2018 (BoD resolution of 11/03/2019)						75,000	
		Variable scheme 2017 (BoD resolution of 13/04/2017)					50,000	50,000	
		Variable scheme 2016 (BoD resolution of 29/04/2016)					50,000		
(II) Compensation from subsidiaries and associates									
(III) Total			-	-	-	-	<b>100,000</b>	<b>125,000</b>	-

<sup>1</sup> This refers to the previous position held as General Manager.

**THIRD PART**

**SCHEDULE 7-TER** Schedule of information on the holdings of members of the management and control bodies, general managers and other key management personnel

**TABLE 1: Holdings of members of the management and control bodies and general managers**

First and last name	Office held	Company in which investment held	Number of shares held at the end of the preceding year (2018) <sup>36</sup>	Number of shares purchased	Number of shares sold	Number of shares held at the end of 2019
Rosalba Casiraghi	Chair	.	0	0	0	0
Corrado Passera	Chief Executive Officer	illimity Bank S.p.A. through Tetis S.p.A. and Metis S.p.A.	Ordinary shares: 2,138,400 Special shares: 1,425,600	0	0	Ordinary shares: 2,138,400 Special shares 1,425,600
Massimo Brambilla	Director		0	0	0	0
Giancarlo Bruno	Director		0	0	0	0
Elena Cialli�	Director		0	0	0	0
Robert E. Diamond	Director in office until the Shareholders' Meeting of 10.09.2019	Illimity Bank S.p.A. through AMC Metis Sarl	4,600,000	0	0	5,060,000 (post warrant) <sup>37</sup>
Sigieri Diaz della Vittoria Pallavicini	Director		0	0	0	0
Alessandro Gennari	Director	illimity Bank S.p.A.	4,500	360 <sup>38</sup>	0	4,860
Martin Ngombwa	Director appointed by the Shareholders' Meeting of 10.09.2019	illimity Bank S.p.A.	0	1,349 <sup>39</sup>	0	1,349
Maurizia Squinzi	Director		0	0	0	0

<sup>36</sup> illimity Bank S.p.A. was formed on 5 March 2019 following the merger of SPAXS S.p.A. into Banca Interprovinciale S.p.A.. Accordingly the figures at 31.12.2018 refer to the shares of SPAXS S.p.A..

<sup>37</sup> Number of shares held by Robert E. Diamond on 10 September 2019, the date on which his resignation as a director became effective.

<sup>38</sup> Shares awarded free-of-charge.

<sup>39</sup> Shares purchased by Martin Ngombwa before becoming a director.

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Ernesto Riva	Chair of the Board of Statutory Auditors		0	0	0	0
Stefano Caringi	Standing Auditor		0	0	0	0
Nadia Fontana	Standing Auditor		0	0	0	0
Riccardo Foglia Taverna	Substitute Auditor		0	0	0	0
Michela Zeme	Substitute Auditor		0	0	0	0



**TABLE 2: Holdings of other key management personnel**

Key management personnel (number)	Company in which investment held	Number of shares held at the end of the preceding year (31.12.2018) <sup>40</sup>	Number of shares purchased	Number of shares sold	Number of shares held at the end of the current year (31.12.2019)
1	illimity Bank S.p.A. through AC Valuecreation S.r.l.	21,600 ordinary shares 14,400 special shares	11 <sup>41</sup>	0	21,611 ordinary shares 14,400 special shares
8	illimity Bank S.p.A.		3,588 <sup>42</sup>	0	3,588

<sup>40</sup> illimity Bank S.p.A. was formed on 5 March 2019 following the merger of SPAXS S.p.A. into Banca Interprovinciale S.p.A.. Accordingly the figures at 31.12.2018 refer to the shares of SPAXS S.p.A...

<sup>41</sup> Free-of-charge ordinary shares deriving from the ESOP.

<sup>42</sup> Of which 88 ordinary shares deriving from the ESOP (free-of-charge shares).

