



**BFF** BANKING  
GROUP

*COURTESY TRANSLATION*

**ANNUAL REPORT ON THE REMUNERATION AND  
INCENTIVE POLICIES OF  
BANCA FARMAFACTURING BANKING GROUP**

**FOURTH ITEM ON THE AGENDA OF THE GENERAL SHAREHOLDERS'  
MEETING**

**(CALLED FOR 5 APRIL 2018 IN SINGLE CALL)**

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## INTRODUCTION

Dear Shareholders,

We summoned You to:

A) inform You on the application of the remuneration policies in financial year closed on 31 December 2017;

B) submit to Your approval the remuneration policies of the Banca Farmafactoring Banking Group for financial year 2018, as approved by the Board of Directors of 28 February 2018.

The corporate bodies of Banca Farmafactoring continued to dedicate specific focus on the matter of staff remuneration policies even in light of the new documents published by Supervisory Authorities. In particular the EBA Guidelines in the matter of remuneration policies published on 21 December 2015 and the Opinion on the application of the criterion of proportionality addressed to the European Commission to be submitted to the Council and the European Parliament for a possible review of Directive CRD IV and Regulation (EU) no. 575/2013 have been taken into consideration.

**This Report transposes the disclosure obligations provided for by the supervisory rules of the Bank of Italy and the provisions of the TUF and Consob Issuers Regulation**

## LEGISLATIVE FRAMEWORK

The Annual Remuneration Report (hereafter, the “**Report**”) is drafted as part of the disclosures required under art. 123-*ter* of Legislative Decree 1998 no. 58 (hereafter, the “**TUF**”) and article 84-*quater* of Consob Regulation 11971/1999 (hereafter, “**Issuers Regulation**”). Furthermore, the Report is structured according to Scheme 7-*bis* of Annex 3A to the Issuers Regulation.

In particular, Annex 3A, Scheme 7-*bis*, of the Issuers Regulation allows to fulfil, in one single document, the obligations laid down in art.123-*ter* of the TUF and in the Supervisory Rules for banks, as per Circular no. 285 of 17 December 2013 in the matter of remunerations. Accordingly, in light of these regulations, this Report includes further information, in aggregate form, on the so called “Risk Takers” not included in the scope of the abovementioned TUF article.

As concerns the information required by article 114-*bis* of the TUF and 84-*bis* of the Issuers Regulation on security-based incentive plans, details are contained on BFF website, section *Investor Relations*.

The specific legislative context of the Policy, set out in Section I of the Report, is further analysed in chapter 4 of Section I.

## **SECTION 1**

### **2018 REMUNERATION AND INCENTIVE POLICY IN FAVOUR OF THE MEMBERS OF STRATEGIC SUPERVISION, MANAGEMENT AND CONTROL BODIES, AND THE PERSONNEL OF BANCA FARMAFACTURING BANKING GROUP**

#### **1. INTRODUCTION**

This “*2018 remuneration and incentive policy in favour of the members of Strategic Supervision, Management and Control Bodies, and the Personnel of BFF Group*” (the “**Policy**”) has been prepared in compliance with the provisions set out in Title IV, Chapter 2 of the Supervisory Rules<sup>1</sup>.

The Policy also transposes the provisions of delegated Regulations (EU) no. 604/2014 of the Commission of 4 March 2014 supplementing directive 2013/36/EU of the European Parliament and the Council with regard to regulatory technical 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, entered into force on 26 June 2014.

The Policy is updated and was approved with resolution of the Board of Directors of the Parent Company on 28 February 2018, subject to prior exam of the Remuneration Committee, and subsequently submitted to the approval of the Shareholders’ Meeting of the Parent Company on 5 April 2018, in compliance with legal and regulatory regime.

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<sup>1</sup> The Policy contained in this Report is relating to financial year 2018, in accordance with the regime laid down in art.123-ter of the TUF and scheme 7-bis of Annex 3A to the Issuers Regulation.

## 2. GENERAL PRINCIPLES<sup>2</sup>

The Remuneration and incentive system of the BFF Group draws inspiration from the following principles:

- being consistent with the objectives and business culture, the overall corporate governance structure and internal controls, as well as prudent risk management policies and long-term strategies;
- not creating conflict of interest situations;
- not discouraging, in the responsible bodies and departments, the control activity;
- attracting and retaining persons with professionalisms and skills adequate to the Group's needs, valorising said persons through paths of professional growth;
- basing behaviours on utmost diligence and correctness in relationships, in line with the Group's values;
- identifying and guiding the achievement of objectives:
  - linked to business results, appropriately adjusted to take account of risks,
  - consistent with the levels of capital and liquidity required to cover the activities undertaken,
  - such as to avoid distorted incentives that may lead to an excessive risk taking for the Group and the financial system as a whole.

In defining the remuneration policies, consideration was also given – in addition to size profiles and operational complexity – to the Group's business model and the consequent risk levels to which the same may be exposed.

The ultimate goal is to achieve, in the interest of stakeholders, remuneration systems, in line with long-term business values, strategies and targets, linked to business results adjusted to take account of the risks taken by the Group, and in particular the levels of capital and liquidity required to cover the activities undertaken, so to avoid distorted incentives that may lead to regulatory breaches or an excessive risk taking for the Group.

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<sup>2</sup> Legislative sources: Scheme 7-bis of Annex 3A to the Issuers Regulation, Circular no. 285, Section I, par. 5.

### 3. DEFINITIONS

<b><i>Chief Executive Officer:</i></b>	The “management body” of the Parent Company, i.e. the Board member to whom the Parent Company’s Board of Directors delegated current management duties, intended as implementation of the guidance resolved by the strategic supervision function.
<b><i>Meeting</i></b>	Shareholders’ meeting
<b><i>Bank, Parent Company or Banca Farmafactoring:</i></b>	Banca Farmafactoring S.p.A., parent company of the Banca Farmafactoring Banking Group.
<b><i>Intermediate Bank</i></b>	According to the definition of par. 3, Section I, Chapter 2 (“Remuneration and incentive policies and practices”), Title IV, First Part of the Supervisory Rules, the bank whose assets are between 3.5 and 30 billion euro or the bank belonging to a banking group whose consolidated assets are between 3.5 and 30 billion euro, which is not considered significant pursuant to Regulation (EU) no. 1024/2013.
<b><i>Discretionary pension beneficiary:</i></b>	The benefit granted to the Personnel or limited groups of personnel, on an individual or discretionary basis, excluding the rights accrued under the pension system adopted by the Bank or other Group companies for all employees.
<b><i>Benefit</i></b>	The so called fringe benefits represent complementary remuneration elements to the main remuneration. They specifically consist in the granting of the use of goods and services by the employer in favour of employees.
<b><i>Corporate Governance Code</i></b>	The Corporate Governance Code of listed companies prepared by the Corporate Governance Committee set up by Borsa Italiana S.p.A.
<b><i>Board of Statutory Auditors</i></b>	The “body with control functions”.
<b><i>Control and Risk Committee:</i></b>	The committee set up by the Board of Directors pursuant to and to the effects of paragraph 2.3.3 of Section IV, Chapter 1 (“Corporate Governance”), Title IV, First Part of the Supervisory Rules and art. 7 of the Corporate Governance Code.
<b><i>Remuneration Committee:</i></b>	The committee set up by the Board of Directors pursuant to and to the effects of paragraph 2.3.4 of Section IV, Chapter 1 (“Corporate Governance”), Title IV, First Part of the

	Supervisory Rules and art. 6 of the Corporate Governance Code.
<b>Board of Directors</b>	The “ <i>body with strategic supervision functions</i> ” of the Parent Company, to which the Bank’s management functions are entrusted, through, inter alia, the exam of and resolution on business or financial plans of strategic transactions.
<b>Circular no. 285 or Supervisory Rules:</b>	The 7 <sup>th</sup> update of the Bank of Italy’s Circular no. 285 of December 17, 2013 “Banking Supervisory Rules”.
<b>Executives:</b>	The managers of organizational units articulated or characterised by a high professionalism reporting to the Chief Executive Officer or Senior Executives, contributing significantly and with a broad autonomy to the achievement of the objectives of the structure they belong to, or providing qualified support/advisory to the Top Managers and the rest of the organization. They may belong to the Most Significant Personnel. Executives are identified through specific Board of Directors resolution.
<b>Corporate Control Functions:</b>	The Corporate Control Functions, as defined in the Bank of Italy regime in the matter of Internal Control System <sup>3</sup> , i.e. the Internal Audit Function, the Risk Management Function, the Compliance & AML Function and, for the purpose of the current Policy – as indicated in the Circular n. 285 – the HR B.U..
<b>BFF Group or Group</b>	The Banca Farmafactoring Banking Group.
<b>Personnel:</b>	The members of the bodies discharging strategic supervision, management and control functions, as well as the Group employees and collaborators.
<b>Most Significant Personnel or Risk takers:</b>	Those whose professional activity has or could have a significant impact on the Group risk profile, as identified according to the criteria laid down in chapter 8.1 of the Policy.
<b>Stock Option Plan:</b>	The Stock Option Plan approved by the Board of Directors of 8 July 2016 and the Meeting of 5 December 2016, as updated by the Board of Directors of 29 March 2017.
<b>Policy:</b>	This Policy.

<sup>3</sup> See Bank of Italy Circular no.285

<b>RAF</b>	“Risk Appetite Framework”, namely the framework which defines – in accordance with the maximum risk that can be taken, the business model and the business plan – the risk appetite, tolerance thresholds, risk limits, risk management policies and reference processes necessary to define and implement them, even at Group level.
<b>Remuneration:</b>	<p>Every form of payment or benefit paid, directly or indirectly, in cash, financial instruments or fringe benefits, in exchange for the provision of work or professional services rendered by the Personnel to the Bank or other Group companies. The main components of the Remuneration are:</p> <ul style="list-style-type: none"> <li>• fixed component: predefined and certain Remuneration component</li> <li>• variable Remuneration component: <ul style="list-style-type: none"> <li>i. every payment or benefit the granting or disbursement of which depends on the performance, howsoever measured (profit, volumes targets etc.), or other parameters (e.g. retention period), excluding the severance treatment as provided for by the general regime on labour relations;</li> <li>ii. discretionary pension benefits and arrangements on payments for the early termination of the employment relation or office (so called golden parachute).</li> </ul> </li> </ul>
<b>Senior Executives:</b>	Roles directly reporting to the Chief Executive Officer, contributing in a significant way to the achievement of the Group strategic objectives, belonging to the Most Significant Personnel, usually managing significant HR and/or economic budgets, in the context of formal delegations and proxies. Senior Executives are identified by specific Board of Directors resolution.
<b>Subsidiary/ies:</b>	The companies belonging to the BFF Group, excluding the Bank itself.
<b>By-Laws:</b>	The Corporate By-Laws of the Bank.
<b>T.U.I.R.</b>	Consolidated law on Income Taxes.

#### **4. LEGISLATIVE CONTEXT OF THE POLICY**

Remuneration and incentive processes are a key element of the organisation and corporate governance systems of banks, representing one of the main drivers through which it is possible to achieve the stakeholders objectives.

The domestic and international legislative framework on remuneration policies in the banking sector has, over the last decade, undergone a strong evolution, leading to a series of legal and regulatory interventions on the topic; that process was mainly caused by the awareness of the need to achieve a weighted balance between, on the one side, companies adopting remuneration mechanisms that are adequate to retain and attract strategic resources for their growth but, on the other side, these mechanisms shall, at the same time, be proportionate and consistent with the results achieved by the company.

The content of Circular no. 285 dated 17 December 2013 “*Supervisory Rules for Banks*”<sup>4</sup>, as well as being adopted on the basis of Articles 53 and 67 of the Consolidated Banking Law (“**TUB**”) and Italian Ministerial Decree dated 27 December 2006, no. 933<sup>5</sup>, incorporates the provisions contained in European Directive 2013/36/EU dated 26 June 2013 (hereinafter, the “**CRD 4**”), and the guidelines developed at international level (including those of EBA and FBS).

The provisions of Circular no. 285 are applied to the employment contracts of the Bank employees and the relations with directors, statutory auditors and members of the supervisory body. The Policy, which transposes said provisions, is binding for the Bank employees and directors, statutory auditors and members of the supervisory body, by virtue of the acceptance of the office and the obligations deriving therefrom. As a consequence, any amendment to the Policy and/or legislation – even in the delays of the consequent and necessary amendments to the Policy – are applied to the employment contracts of the Bank employees as well as to the relations with the relevant directors, statutory auditors and members of the supervisory body.

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<sup>4</sup> See First Section, Title IV, Chapter 2.

<sup>5</sup> Decree dated 27 December 2006, no. 933, issued with urgency by the Minister of Economy and Finance in its capacity of Chairman of the CICR, in relation to capital adequacy, risk containment and public disclosure of banks and banking groups, as amended by Decree dated 27 July 2011, no. 676, issued with urgency by the Minister of Economy and Finance in its capacity of Chairman of the CICR, in relation to remuneration and incentive systems in banks and banking groups in compliance with international guidelines and European regulations.

In particular, in the case of the BFF Group, the regime of Circular no. 285 dedicated to Intermediate banks is relevant, being the Bank eligible for said category for the purpose of the remuneration regime.

In particular, the First part, Title IV, Chapter I of Circular no. 285, relating to remuneration and incentive policies and practices, defines as Intermediate banks, those banks whose assets are between 3.5 and 30 billion euro or the bank belonging to a banking group whose consolidated assets are between 3.5 and 30 billion euro, which is not considered significant pursuant to art. 6(4) of the RMVU<sup>6</sup>.

Based on the parameters included in the above definition, the Bank is accordingly, as mentioned, eligible as Intermediate bank for the purpose of the application of the regime on remuneration and incentive policies and practices<sup>7</sup>.

Intermediate banks apply to all personnel the entire regime on remuneration and incentive policies and practices of the Supervisory Rules; the provisions under Section III, par. 2.1, items 3 and 4, and par. 2.2.1, apply to the Most Significant Personnel, with percentages and deferral and retention periods at least equal to half of those specified therein, and increasing depending on the characteristics of the bank and the banking group.

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<sup>6</sup> Art. 6(4) of the RMVU: “The significance shall be assessed based on the following criteria:

i) size;

ii) importance for the economy of the Union or any participating Member State;

iii) significance of cross-border activities.

With respect to the first subparagraph above, a credit institution or financial holding company or mixed financial holding company shall not be considered less significant, unless justified by particular circumstances to be specified in the methodology, if any of the following conditions is met:

i) the total value of its assets exceeds EUR 30 billion;

ii) the ratio of its total assets over the GDP of the participating Member State of establishment exceeds 20 %, unless the total value of its assets is below EUR 5 billion;

iii) following a notification by its national competent authority that it considers such an institution of significant relevance with regard to the domestic economy, the ECB takes a decision confirming such significance following a comprehensive assessment by the ECB, including a balance-sheet assessment, of that credit institution .

The ECB may also, on its own initiative, consider an institution to be of significant relevance where it has established banking subsidiaries in more than one participating Member States and its cross-border assets or liabilities represent a significant part of its total assets or liabilities subject to the conditions laid down in the methodology.

Those for which public financial assistance has been requested or received directly from the EFSF or the ESM shall not be considered less significant. [...]”.

<sup>7</sup> The listing of the Bank did not determine a qualification as major bank for the purpose of the application of the regime on remuneration and incentive policies and practices. The listing is in fact not included among the elements of the definition of major banks contained in the section of Circular no. 285 dedicated to remuneration policies (section I par. 3 – while it is included among the elements of the different definition given for governance purposes by the same Circular no. 285 in title IV, Chapter I, Section I).

As concerns the EU regime, the CRD 4 contains specific principles and criteria which banks must comply with in order to: *i)* ensure the correct development and implementation of remuneration systems; *ii)* effectively manage possible conflicts of interest; *iii)* ensure that the remuneration system takes appropriate account of current and future risks, the degree of capitalisation and levels of liquidity of each intermediary; *iv)* increase the level of transparency towards the market; *v)* strengthen the control action by Supervisory Authorities. Those goals are also accompanied by a general containment of operating costs, with the purpose of not excessively limiting the autonomy of banks and respecting the fundamental principle of proportionality.

Said regulation must be read jointly with the regulatory technical standards (RTS), issued by the European Commission, upon EBA proposal, again in accordance with the CRD 4, which are binding and directly applicable to all member states.

The regulatory technical standards (RTS) govern the identification process of the Most Significant Personnel, so-called Risk takers, i.e. the categories of persons whose professional activity has or may have a substantial impact on the Group's risk profile. To identify the “Most Significant Personnel”, in fact, the rules defined by (EU) Delegated Regulation dated 4 March 2014, no. 604<sup>8</sup> are applied; the identification process of Risk takers must allow the Group to graduate the application of the entire remunerations regime based upon the actual capacity of the individual corporate figures to affect the Group's risk profile.

Reference is also made to the guidelines issued by EBA (Guidelines - GL 2014/7 and 2014/8 dated 16 July 2014) which, in compliance with CRD 4, outline the data collection methods and reporting schemes to be used by intermediaries to transmit information, relating to their remuneration systems, to the national supervisory authorities which then take care of forwarding the same information to the EBA.

In particular, those guidelines concern:

- the collection activity from all banks and investment companies of data on high earners, i.e. persons whose total Remuneration amounts to at least 1 million Euros on a yearly basis (GL 2014/07, “*Guidelines on the data collection exercise regarding high earners*”);

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<sup>8</sup> Delegated Regulation (EU), adopted on 4 March 2014 in accordance with Article 94 of the CRD 4 at the proposal of the EBA, which supplements Directive 2013/36/EU of the European Parliament and Council as regards the regulatory technical standards relating to qualitative and quantitative criteria adequate for identifying the categories of Personnel whose professional activities have a substantial impact on the institution's risk profile.

- the so-called benchmarking activity, aimed at monitoring and comparing remuneration trends and practices – particularly of risk takers – in a sample of significant European intermediaries, selected by the relevant supervisory authorities in accordance with the representativeness criteria provided by EBA (GL 2014/08, “*Guidelines on the remuneration benchmarking exercise*”).

The objectives set by EU and domestic legislation with reference to remuneration and incentive policies are reflected in the identification of control systems mainly oriented at containing risks. Those controls provide for the definition, within banks, of remuneration systems that, as well as having to be aligned with business targets and values, long-term strategies and prudent risk management policies, are characterised by incentive systems (based upon financial instruments or linked to business performances) consistent with:

- the reference framework for determining the maximum levels of risk the Group intends to take and, accordingly, upon which the remuneration can be linked;
- governance and risk management policies;
- capital and liquidity required to cover the activities undertaken.

## **5. BANCA FARMAFACTURING BANKING GROUP**

The Banca Farmafactoring Banking Group consists of the Parent Company, Banca Farmafactoring, and its Subsidiaries.

The Parent Company exercises its direction and coordination powers in order to assure uniformity to the overall system management, therein including the Group's Remuneration and incentive system as set out in the Policy.

The Parent Company develops the Policy, which constitutes the document on Remuneration policies for the entire Group, ensures its overall consistency, provides the guidance necessary for its implementation and verifies its correct application.

The single members of the Group, however, remain responsible for complying with the regulations directly applicable to them, for the correct implementation of the guidance provided by the Parent Company and compliance with the Policy.

In case the Parent Company finds that the implementation of the Policy by the Subsidiaries is not consistent with the guidance indicated or compliant with the applicable provisions, it encourages the necessary amendments.

## **6. GOVERNANCE OF THE REMUNERATION AND INCENTIVE SYSTEM**

The Group, through adequate remuneration and incentive mechanisms, intends to encourage business competitiveness attracting and retaining its talents, in respect of the principle of sound and prudent management and to strengthen the company governance, ensuring that decisions are taken independently, promptly and in an informed manner at an appropriate level, so as to avoid conflicts of interest and ensure full disclosure as required by the relevant authorities.

Set out below are the roles of the corporate bodies and Corporate Control Functions of the Parent Company, in the definition and implementation of the remuneration and incentive system, as laid down by the Supervisory Provisions.

### **Meeting**

In addition to its legal responsibilities, according to the By-Laws of Banca Farmafactoring, with reference to remuneration policies, the Ordinary Meeting:

- determines the degree of remuneration to be payed to Directors, Statutory Auditors, Independent Auditors entrusted with the audit engagement;
- approves remuneration and incentive policies in favour of the strategic supervision, management and control bodies and the personnel;
- approves possible security-based remuneration plans;
- approves the criteria for determining the remuneration to be granted in the event of early termination of the employment relation or early termination of the office, including therein the limits set to that remuneration in terms of annuities of the fixed component and the maximum amount deriving from their application;
- acknowledges, at least annually, a disclosure on remuneration and incentive policies adopted by the Bank, and their implementation in accordance with the methods defined in the Supervisory Rules. That disclosure contains the same information regarding Remuneration and incentive systems and practices provided to the public, in compliance with the provisions of Circular no. 285.

Furthermore, the regulatory provisions laid down in Circular no. 285 assign to the Meeting the competence to approve the possible increase of the limit to the ratio between variable component

and fixed component of the Remuneration from 1:1 up to a maximum of 2:1. Said competence found its concrete implementation with the meeting resolution of 5 December 2016 through which the proposal of the Board of Directors to increase the limit to the ratio between variable and fixed Remuneration component from 1:1 up to a maximum of 2:1 except for the Personnel belonging to the Control Corporate Functions, was approved.

The abovementioned meeting resolution, was adopted:

- in compliance with the qualified majorities required by Circular no. 285<sup>9</sup>;
- after completion of the preliminary consultation procedure provided for by the rules of Circular no. 285<sup>10</sup>.

The approval resolution of the increase of the limit to the 2:1 maximum was sent to the Bank of Italy within the deadline provided for in Circular no. 285<sup>11</sup>.

### **Board of Directors**

The Board of Directors:

- develops, submits to the Meeting and re-examines at least annually the Policy, and is responsible for its correct implementation, ensuring that said policy is adequately documented and accessible within the corporate structure;
- defines remuneration and incentive systems for the Chief Executive Officer, Directors vested with specific offices, Senior Executives, Executives directly reporting to the Chief Executive Officer, and also – with reference to the Parent Company – for the Heads of the Corporate Control Functions of the same Parent Company. Particularly, the Board of Directors ensures that said systems are compliant with the overall Bank decisions in terms of risks-taking, strategies, long-terms objectives, corporate governance structure and internal controls;

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<sup>9</sup> Circular no. 285 provides for the approval by the Meeting to require the favourable vote of at least two thirds of the share capital represented at the Meeting, when the latter is constituted with at least half of the share capital, or, should this not be the case, with the favourable vote of at least three quarters of the share capital represented at the Meeting, regardless of the share capital with which the Meeting is constituted.

<sup>10</sup> The procedure provides for the transmission to the Bank of Italy or the European Central Bank, at least 60 days prior to the date for which the meeting resolution is scheduled, of the proposal intended to be submitted to the Meeting, together with the relating indications and evidences to prove that the higher limit or limits, for the most significant personnel or certain categories thereof, are not prejudicial to compliance with prudential rules and, in particular, that concerning own funds requirements.

<sup>11</sup> Circular no. 285 provides that within 30 days of the date on which the Meeting adopted the resolution increasing the limit, the same decision with indication of the limit/s approved for each concerned personnel category.

- defines remunerations at a Group level, and also – upon proposal of the Chief Executive Officer – annual targets, and the related assessment, of: Senior Executives, Executives directly reporting to the Chief Executive Officer, and the heads of the Group’s Corporate Control Functions, in compliance with applicable regulations and this Policy;
- identifies, having heard the Remuneration Committee, the Bank and the Group managers, as defined by the Stock Option Plan<sup>12</sup>, beneficiaries of the same Stock Option Plan;
- grants stock options to the Group managers and Senior Executives, as defined by the Stock Option Plan<sup>13</sup>;
- determines the maximum number of Options to be granted overall to all beneficiaries, pursuant to the Stock Option Plan, in respect of each tranche.

### **Chief Executive Officer**

The Chief Executive Officer:

- submits to the Board of Directors the review proposals of the Policy;
- defines and approves the operative definition process of the criteria on which the remuneration and incentive system shall be based, in compliance with what provided for in the Policy;
- defines the Remuneration for:
  - the Group Executives not directly reporting to the Chief Executive Officer;
  - the remaining Bank personnel not included, in terms of Remuneration, among the competence of the Meeting and/or the Board of Directors.
- defines for the Group's Subsidiaries, the remuneration systems not included among the competences of the Parent Company’s Board of Directors and Remuneration Committee, taking account of possible other limits pursuant to the reference applicable domestic

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<sup>12</sup> The Stock Option Plan defines as “managers”, “*the managers of the Bank and its subsidiaries (including foreign subsidiaries’ employees who qualify as senior executives or in any case with equivalent qualification, under the applicable regulations, to that of manager) included in the relating payrolls as at the date on which they will be identified as Beneficiaries*”.

<sup>13</sup> See note 8.

regulations in force from time to time. In cases of possible non consistency between the provisions of the Policy and the regulations of the Subsidiaries' Countries, it preliminarily acquires an opinion of the Compliance & AML Function for the purpose of solving the regulatory dispute and fully execute the Policy;

- identifies the Bank and Group employees, beneficiaries of the Stock Option Plan who are not Group managers and Senior Executives according to the relating definition contained in the Stock Option Plan<sup>14</sup> and grants them with their options.

### **Remuneration Committee**

The Remuneration Committee is a body with advisory and proactive function towards the Board of Directors on remuneration and incentive policies of Personnel. The Remuneration Committee is composed of three non-executive members of the Board of Directors, at least two of whom shall be independent. The Chairman of the Remuneration Committee is identified from among independent board members. The Remuneration Committee:

- has proposal duties on the remunerations of the personnel, whose remuneration and incentive systems are defined by the Board of Directors, and
- has advisory duties regarding the determination of the remuneration criteria of the Most Significant Personnel and in the matter of identification of the Bank and Group “managers<sup>15</sup>”, beneficiaries of the Stock Option Plan.

As part of those functions the Remuneration Committee:

- a) contributes to the definition of the guidelines on the policies and principles in the matter of Remuneration as contained in the Policy to be submitted for approval to the Meeting, in accordance with the provisions of Circular no. 285;
- b) expresses proposals and/or opinions to the Board of Directors on the Remuneration of the following persons (i) the Chairman of the Board of Directors, (ii) the Chief Executive Officer, and the other directors holding particular offices and/or mandates (therefore including Committee members), including the setting of the performance targets linked to the variable Remuneration component of executive directors, (iii) Senior Executives, (iv)

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<sup>14</sup> See note 8.

<sup>15</sup> See note 8.

Executives directly reporting to the Chief Executive Officer, and (v) the heads of the Parent Company's Control Corporate Functions.

Opinion and proposals are expressed taking account, inter alia, of the following parameters:

- the materiality of the responsibility in the corporate organisational structure;
- the achievement of specific targets previously identified by the Board of Directors;
- possible requirements imposed by regulations,

and, for individuals other than the heads of the Parent Company's Control Corporate Functions, also of the following parameters:

- impact on the company results;
- economic results achieved by the Bank;

- c) expresses to the Board of Directors non-binding opinions and proposals on the adoption (and possible subsequent integration) of possible incentive plans (stock option, stock grant, "dispersed ownership" etc.), the targets linked thereto, as well as the assessment criteria of their achievement;
- d) expresses to the Board of Directors opinions in the matter of determination of indemnities to be paid in case of early termination of the employment or cessation of the office (so called golden parachutes); assesses the possible effects of the termination on the rights granted in the context of security-based incentive plans;
- e) directly oversees the correct application of the rules relating to the Remuneration of the heads of the Control Corporate Functions, in close cooperation with the Board of Statutory Auditors;
- f) takes care of the preparation of the documents to be submitted to the Board of Directors on occasion of meetings called to discuss remuneration-related topics, in particular, prepares the Report, in accordance with the deadlines provided for its presentation at the Meeting;
- g) examines the vote expressed by the Meeting on the Report drafted pursuant to art 123-ter of the TUF<sup>16</sup>, and submits the relating analysis to the Board of Directors;

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<sup>16</sup> Art. 123-ter of the TUF: "(*Omissis*). The first section of the remuneration report illustrates:

- h) cooperates with the other internal committees of the Board of Directors, in particular with the Control and Risk Committee, on matters concerning remuneration and incentive policies; the Control and Risk Committee, in turn, examines, in coordination with the Remuneration Committee, whether incentives provided by the remuneration system are consistent with the RAF, also with the possible support of the Risk Management function;
- i) assures the involvement of the competent corporate functions, each for the relating competences, (HR, Group Planning & Control, Risk Management, Compliance & AML and Internal Audit) in the preparation and control process of remuneration and incentive policies and practices;
- j) expresses itself, also using the information received from the competent corporate functions, on the achievement of the performance targets to which incentive plans are linked and on the verification of the other conditions set for the payment of remunerations;
- k) periodically assesses the adequacy, overall consistency and correct application of the Remuneration Policy as regards directors, Senior Executives, Executives not directly reporting to the Chief Executive Officer, and the Corporate Control Functions, using in this letter respect the information provided by the Chief Executive Officer and expresses proposals on the matter to the Board of Directors;
- l) monitors the application of the decisions adopted by the Board of Directors on the basis of the proposals submitted by the same Committee in the matter of Remuneration, verifying, in particular, the actual achievement of performance targets;
- m) monitors the evolution and application over time of the incentive plans approved by the Board of Directors;
- n) provides an adequate feedback on the activity carried out thereby to the corporate bodies, to be rendered in accordance with the applicable regulations. In particular, through the Chairman of the Committee or another member designated thereby, reports to the Meeting called to approve the annual financial statement on the exercise modalities of its functions;

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- a) the company's policy on the remuneration of the members of the administrative bodies, general managers and managers with strategic responsibilities with reference to at least the following year;
  - b) the procedures used to adopt and implement this policy. (*Omissis*)”

- o) carries out the other duties possibly entrusted by the Board of Directors with specific resolutions.

No director attends the meetings of the Remuneration Committee where proposals to the Board of Directors relating to his or her remuneration are expressed.

In case the Board of Directors has not determined the annual expense budget available to the Committee for the performance of its activities, the Committee will submit an approval request of the relating expense items to the Board of Directors.

### **Control and Risk Committee**

The functions of the Control and Risk Committee include that of verifying that incentives underlying the Group's remuneration system are consistent with the maximum level of risk the Group intends to take.

In exercising said function, it cooperates with the other internal committees of the Board of Directors, specifically with the Remuneration Committee. The Control and Risk Committee reviews, in coordination with the Remuneration Committee, whether the incentives provided by the Remuneration system are consistent with the RAF, also with the support of the Risk Management function.

### **Corporate Control Functions**

Corporate Control Functions, each to the extent of competence, ensure, among other things, the compliance and adequacy of the remuneration policies adopted by the Group with the existing regulations as specified below.

The Compliance & AML Function verifies that the company's reward system is consistent with the objectives of compliance with the rules, the By-Laws, as well as any codes of ethics or other standards of conduct applicable to the Bank, so that legal and reputational risks inherent particularly in the relationships with customers are assessed and limited, and informs the Chief Executive Officer, the Remuneration Committee and, in the context of periodic reports, the Board of Directors and Board of Statutory Auditors thereof. The Meeting is informed of said findings through the Board of Directors.

The Compliance & AML Function further verifies that Subsidiaries fully and correctly implement the Policy, assessing possible further limits imposed by local regulations. Should any conflict

emerge with the local regulations, the Compliance & AML Function provides an opinion to the Chief Executive Officer on the solution of the legislative conflict, and identifies the operating solutions capable of correctly implementing the Policy.

The Risk Management Function verifies the achievement of the gate to access the variable remuneration component and consistency of the incentive system with risk management methodologies.

The Internal Audit Function verifies at least annually, compliance of the Remuneration practices with Remuneration and incentive policies, in particular, on the basis of the Audit Plan, developed with a risk-based logic. The findings of the verifications conducted are disclosed to the Meeting. The Internal Audit Function also collaborates with the HR B.U. in the activation of the *malus* and claw-back mechanisms carrying out the necessary investigations and analyses upon request of the HR B.U. or the Chief Executive Officer, for the establishment of facts that may entail the activation of *malus* or claw back mechanisms.

### **HR B.U.**

The HR B.U.:

- applies the provisions contained in the Policy translating them under an operational point of view, within the limits provided for by the office and delegations granted;
- ensures the correct application of Remuneration and incentive system criteria and parameters within the Group;
- performs benchmark analyses on the reference labour market and the fairness analyses within the company in order to determine:
  - review proposals of the Policy
  - review of the remuneration and incentive system in terms of instruments, modalities, operational mechanism and parameters adopted by the Bank
- coordinates the identification and definition process of the Most Significant Personnel, according to the process described under chapter 8 below;

- provides support to the Remuneration Committee, and where appropriate, to the Control and Risk Committee;
- monitors the legislative evolution in labour-law related matters and the regime on the remuneration system;
- launches the verification process on the *malus* and claw back conditions with the support of the Internal Audit Function for the appropriate assessments.

## **7. CORPORATE BODIES, SUPERVISORY BODY AND REMUNERATION COMMITTEE**

The remuneration system of corporate bodies is based upon compliance with existing regulations, inclusive of regulatory provisions in the matter of policy and practices issued by the Bank of Italy.

### **7.1 DIRECTORS**

#### All Directors

- receive a remuneration set by the Meeting in addition to the refund of costs actually incurred in the exercise of their functions, as well as, where resolved, a remuneration linked to possible offices held in the context of board committees;
- for those who are Chairmen of Committees and their members, a remuneration may be determined by the Board of Directors pursuant to Art. 2389, third paragraph of the Italian Civil Code;
- have a “civil liability” insurance policy, the cost of which is paid by the Bank.

Except for what provided for the Chief Executive Officer, under no circumstances Directors are recipients of a variable remuneration component.

The information on the remunerations paid to Directors are set out in part H of the Notes to the annual Financial Statements as part of the information on the remuneration of managers with strategic responsibilities.

#### Chairman of the Board of Directors:

The Chairman of the Board of Directors receives a fixed component established by the Board of Directors in accordance with Art. 2389, third paragraph of the Italian Civil Code determined in advance and consistent with the office entrusted thereto.

#### Chief Executive Officer

The Chief Executive Officer receives:

- a fixed component consisting of a remuneration established by the Board of Directors in accordance with Art. 2389, third paragraph of the Italian Civil Code, and a Benefit package;
- a variable Remuneration component including:

- in incentive plan linked to the achievement and exceeding of the economic target identified in the budget, adjusted for risk as indicated in the RAF, as well as to the maintaining of the minimum standards of regulatory capital and liquidity;
- options granted under the Stock Option Plan;
- golden parachute, including a non-competition covenant.

To the aforementioned variable component the following shall apply:

- ✓ the limits provided for by Circular no. 285 in terms of ratio between fixed and variable component and balance between cash and financial instruments;
- ✓ *malus* and claw back mechanisms as per chapter 8.2 below.

#### Independent directors<sup>17</sup>

Independent directors, as the other directors, receive the remuneration set established the Meeting for all directors in addition to the refund of expenses actually incurred in exercising their functions. No further remuneration is provided for, except for that granted due to the offices held within board committees.

## **7.2 STATUTORY AUDITORS**

Statutory Auditors:

- receive a remuneration established by the Meeting;
- do not receive any variable Remuneration component or linked to the results of the Bank, or the Group;
- have a “civil liability” insurance policy, the cost of which is paid by the Bank.

Furthermore, the Chairman of the Board of Statutory Auditors receives an addition remuneration determined by the Meeting.

The information on remunerations paid to Statutory Auditors are set out in part H of the Notes to the Financial Statement as part of the information on the remuneration of managers with strategic responsibilities.

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<sup>17</sup> Independent directors are those members of the Board of Directors who possess the independency requirements laid down in art. 148, subsection 3, of the TUF, and/or art. 3 of the Corporate Governance Code, save where otherwise provided for by the law..

### **7.3 SUPERVISORY BODY SET UP PURSUANT TO LEGISLATIVE DECREE NO. 231/2001**

The members of the Supervisory Body who are not employees of the Group receive a fixed remuneration established by the Board of Directors, based upon market conditions and the responsibilities accepted, in guarantee of the independence and autonomy of the function and the diligent performance of the office.

The members of the Supervisory Body who are employees of the Group, instead, receive no remuneration for the office.

The members of the Supervisory Body under no circumstance can receive a variable Remuneration component linked to the Group results.

### **7.4 REMUNERATION COMMITTEE AND OTHER BOARD COMMITTEES**

The chairman and members of the Remuneration Committee and other board committees may receive an additional remuneration pursuant to art. 2389, third subsection of the Italian Civil Code, determined by the Board of Directors for those offices.

## 8. ADOPTION AND CONTROL PROCESS OF THE POLICY<sup>18</sup>

### *Adoption process of the Policy*

The Parent Company adopts the Policy setting out the Remuneration policies for the entire Group through the following process which takes place at least annually.

- a) The HR B.U. prepares the Policy text. The Policy preparation process also provides for the involvement:
  - ✓ of the Risk Management Function which provides support in the identification of the Most Significant Personnel providing indications relating to the current and prospective risk profile in line with the RAF, also at consolidated level. Furthermore, it proposes the founding parameters of the incentive system and verifies compliance with the access gates to the variable component;
  - ✓ the Organization, ICT & HR Department which provides support in the identification of the Most Significant Personnel providing indications relating to the current and prospective risk profile in line with the regulations in the matter of duties of corporate structures and corporate procedures.
- b) Once the Policy is drafted, the Compliance & AML Function verifies it and expresses possible observations. In this case, the HR B.U. transposes the observations of the Compliance & AML Function, updates the Policy text accordingly and resubmits it to the Compliance & AML Function which, after a further verification, if there are no further observations, attests the compliance thereof with the applicable legislation by issuing a compliance note.
- c) The HR B.U. then transmits the Policy, together with the compliance note, to the Remuneration Committee.
- d) The Remuneration Committee reviews the Policy and expresses possible observations. In this case, the Policy is retransmitted to the HR B.U. which, with the support of the Compliance & AML Function, transposes the observations of the Remuneration Committee, taking care of updating the Policy which is then retransmitted to the Remuneration Committee. The Policy is submitted, for the verifications of competence, to the Internal

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<sup>18</sup> Legislative references: art. 123-ter TUF, Scheme 7-bis of Annex 3A to the Issuers Regulation.

Audit Function, which provides a specific report. If there are no further observations, the Remuneration Committee submits the Policy to the Board of Directors for its approval.

- e) The Board of Directors in turn resolves to submit the Policy to the approval of the Meeting.
- f) The Meeting resolves the approval of the Policy.

### ***Application and implementation control process of the Policy***

The HR B.U. is the corporate structure in charge for applying the content of the Policy through HR management instruments, assuring its implementation at Group level.

The control exercised by the Company Control Functions is an additional and significant verification and confirmation step in the monitoring of the adherence of the remuneration system to the Group values.

In particular, at least annually, on the basis of labour market analyses, Group organizational improvements or strategic guidelines, the HR B.U. verifies the need to update the Policy. Moreover, the HR B.U. verifies the incentive system of the Personnel, in terms of instruments, modalities, operative mechanisms and parameters adopted by the Group, in order to implement the Policy provisions.

The implementation of the Policy is verified, at least annually, by the Compliance & AML Function, and the Internal Audit Function, each according to the respective competences, in order to ensure the adequacy and compliance of the adopted remuneration policies and practices with existing regulations and their correct functioning. In particular:

- the Compliance & AML Function verifies that the company incentive system is consistent with the Bank's provisions, By-Laws, code of ethics and any other applicable conduct standards, so that legal and reputational risks are properly contained;
- the Internal Audit Function verifies the correspondence of the Remuneration practices with the approved Policy and the relevant legislation.

The planning of the activities of the two Functions takes into consideration the mentioned verification duties. In order for the necessary corrective measures to be adopted, both Functions must report any anomalies to the corporate bodies and the relevant Functions, which assess their significance for the purposes of promptly informing the Bank of Italy.

The findings of the verification conducted by the Internal Audit Function are annually notified to the Meeting.

### ***Subsidiaries***

The Policy is applicable to all Subsidiaries. They adopt and transpose the Policy, and take care of and verify its implementation in line with the local regulations.

### **8.1 DEFINITION OF MOST SIGNIFICANT PERSONNEL AND CLASSIFICATION OF COMPANY OFFICES<sup>19</sup>**

The Policy is based on a classification system of company offices consistent with the definition of “Most Significant Personnel” established by the Group. In particular, the Group identifies the Most Significant Personnel, by way of an annual assessment process – entrusted to the HR B.U. in collaboration with the Organization and Regulation B.U. and the Risk Management Function – performed on the basis of the qualitative and quantitative criteria provided for by Regulation (EU) no. 607/14, the Group internal regulation, corporate procedures, the job description and individual powers of attorney. Therefore, taken account of the autonomy levels among various roles and of the impact thereof on the business, the Board of Directors identifies, with a specific resolution, the Most Significant Personnel subject to prior assessment by the HR B.U. with the support of the Risk Management and Compliance & AML functions, and having heard the opinion of the Remuneration Committee.

Furthermore, every time the Bank establishes a new employment relation and/or collaboration, the HR B.U. carries out an assessment relating to the identification of the most significant personnel to verify whether said individual belongs to the Risk Taker category.

### **8.2 REMUNERATION STRUCTURE BY SINGLE COMPANY OFFICE<sup>20</sup>**

Without prejudice to the specificities relating to the nature of the remuneration of directors, statutory auditors, the Chief Executive Officer and the Chairman already described in chapter 7 above (which are specifically regulated based on the office held), the Personnel Remuneration provides for a balanced package composed of a fixed component, rewarding the office held and the width of responsibilities, and a variable incentive component, recognising the results achieved, establishing a direct link between remuneration and actual results of the Group as a whole, the

<sup>19</sup> Legislative references: Circular no. 285, Section I par. 6, Delegated regulation EU 604/2014.

<sup>20</sup> Legislative references: Scheme 7-bis of Annex 3A to the Issuers Regulation.

company and the individual.

The payment of the variable component, both up front and deferred, is in any case subject to compliance with economic, liquidity and capital parameters.

i) ***Fixed component***

The fixed component is related to the experiences and professional skills of the persons who work in the company, also based on the offices held.

In particular, for the Group's Executives and Senior Executives, also Benefits granted by the Bank (among which, without limitation, the company car) fall under the fixed Remuneration component.

For the remaining personnel each Group company is free to establish Benefit packages, in line with the provisions of the local regulations, based on the materiality and complexity of offices held, as well as according to principles of fairness and alignment to the local labour market, and in any case in compliance with the Group guidelines, in accordance with the Policy principles.

The determination of the fixed Remuneration component is based upon some principles, consistent with the code of ethics adopted and which can be summarised as follows:

- ✓ fairness, meaning the attribution or recognition of what is due to the individual resource, in terms of professional growth, based upon possession of the required characteristics and the offices and responsibilities held, with no discrimination whatsoever, granting everyone with the same career opportunities;
- ✓ competitiveness, meaning the analysis of the remuneration positioning of each position with respect to specific market benchmarks;
- ✓ meritocracy, which consists in the valorisation of individuals based on the recognition of their merit;
- ✓ consistency over time, with reference to medium to long-term targets and to the risk management policies pursued.

As a consequence and in application of the foregoing, the general guidelines for Remuneration provide that:

- the fixed component must be balanced among positions of analogous complexity, impact and responsibility levels;

- the value paid reflects the experience achieved, the expertise acquired and the performance realized;
- the Remuneration of a position is consistent with the value of market salaries for positions of similar complexity, taking account of the performance in the office held.

ii) ***Variable component***

**General Principles**

Variable Remuneration components are comprised of each payment or benefit whose disbursement is not stable and/or whose amount is not predetermined.

The granting of the Remuneration is linked to various parameters consistent with the function of the specific instrument adopted for the payment of the variable component (e.g. individual and/or Bank performance, howsoever measures, retention period, etc.).

Payments or marginal benefits, assigned to the Personnel on a non-discretionary basis, falling within a general Bank policy and producing no effects under a hiring incentive or risk control perspective, may be disregarded.

Guaranteed forms of payment of the variable component are not permitted, unless in exceptional cases, for the recruitment of new personnel and with limitation to the first year of employment.

Said forms of guaranteed variable component:

- may not be paid more than once to the same individual,
- are not subject to the rules on the structure of the variable component,
- participate in the determination of the limit to the ratio between fixed and variable component of the first year Remuneration.

Forms of Remuneration linked to the retention of Personnel (*retention bonus*) may be provided for: said possible Remuneration forms constitute a variable Remuneration components and as such are subject to all the rules applicable thereto, including those on the limit to the variable/fixed ratio.

**Structure of the variable Remuneration components**

The variable Remuneration component is structured in various components, among which:

- **Management By Objective (“MBO”)**

The MBO is a formalised incentive system which provides for a possible payment of annual incentive proportional to the annual gross remuneration, against the achievement of qualitative business and individual targets. The mix of quantitative and qualitative targets is appropriately balanced in function of the offices and responsibilities of the eligible Personnel.

By the first quarter of each year in accordance with the guidance provided by the Chief Executive Officer, and through a process aiming at a full alignment and wider sharing, all the heads of Business Units/Functions/Departments communicate to their employees the quantitative and qualitative targets, according to which, at the end of the year, the individual performance will be assessed and the MBO variable remuneration component linked thereto will be determined. As per Senior Executives and Executives directly reporting to the Chief Executive Officer, their MBO targets are discussed with the Chief Executive Officer, and subsequently approved by the Board of Directors, in compliance with the legislation and this Policy, also with regard to the heads of the Control Functions. For the other employees, MBO targets are determined by the Chief Executive Officer.

With regard to the determination of the MBO, an initial phase is provided for during which, depending on the achievement of individual targets, the basic amount of the Bonus is determined; subsequently, in order to ensure the payability of the MBO, the verification of economic, capital and liquidity gates, defined at the beginning of the year, is performed. Moreover, the Bank may identify business parameters capable of increasing the amount of the variable component accrued by each one on the basis, inter alia, of the individual performance. In particular, without limitation, as regards the Parent Company in case the gates provided for by the Policy are complied with, the MBO is then calculated also on the basis of two “multipliers”:

1. a profitability multiplier, calculated on the basis of the EBTDA<sup>RA</sup>, which can increase the MBO up to 40% for middle managers, Executives and Senior Executives, and up to 30% for employees. Said multiplier may also be decrementing in case results are below the EBTDA target<sup>RA</sup> and allow in any case for the payment of the MBO for the middle manager and employee categories, even if the EBTDA<sup>RA</sup> target was not achieved. In particular, the MBO will be paid upon the achievement of the following percentages of the EBTDA<sup>RA</sup> target:
  - a. to Executives and Senior Executives qualified as managers: 100%;

- b. to middle managers: at least 90%; and
- c. to employees: at least 88%;

Said multiplier shall not apply for the calculation of the MBO of the personnel of Corporate Control Functions.

- 2. a Customer Satisfaction linked multiplier. Said individual performance indicator is calculated on the basis of a survey conducted by the Sales B.U.. Depending on the outcome, the MBO may increase up to a maximum of 9%. Said indicator can be used only as incrementing multiplier.

Those multipliers operate as second level parameters, i.e. as quantification parameter which is triggered only where the gates provided for by the Policy, in implementation of the applicable regulatory provisions, are actually satisfied.

During the verification of profitability gates, incremental costs deriving from the application of such mechanisms will be deducted from the results achieved so as to ensure the full self-financing of the MBO incentive system. In any case, the final MBO amount is payable in accordance with the conditions and limits provided by the Policy.

As regards in particular Executives and Senior Executives directly reporting to the Chief Executive Officer and the heads of the Parent Company's Control Functions, targets assigned and the relevant evaluation are subject to the approval of the Board of Directors, which avails itself of the support and contribution of the Remuneration Committee and Risk Management function to verify the achievement of targets and gates relating to the liquidation of MBOs in accordance with the RAF.

The MBO provides for the entire Personnel a focus on annual targets a retention mechanisms (e.g. payment conditional upon the continuation of the employment relation or office).

In relation to annual targets, the application of three "gates" in the accrual year is provided for, linked to the achievement of the economic target provided in the budget for that year, risk-adjusted as provided in the Risk Appetite Framework, associated with compliance with the capital and liquidity limits:

- 1. the liquidity indicator adopted is the Liquidity Coverage Ratio (LCR), equal to the minimum value time to time provided for by the supervisory regulation in force;
- 2. the adopted capital indicator corresponds to a level of Total Capital Ratio equal to at least

the value determined as a result of the SREP process carried out by the Supervisory Authority;

- the performance parameter identified is the Risk Adjusted EBTDA (EBTDA<sup>RA</sup>); such parameter is defined as EBTDA net of income statement item line 130 a and of a correction mechanism which takes account of the risks taken by the Group, in consistency with the capital targets defined in the RAF and in accordance with the strategic/budget plan. In particular:

$$EBTDA^{RA} = EBTDA + \text{Item line 130 a} - (RWA^A * TCR \text{ Target} * Ke)$$

Where:

**Item line 130 a:** represented by the income statement item line corresponding to “Net value adjustments/recoveries due to credit deterioration”;

**RWA<sup>A</sup>:** the average in the year of total risk-weighted assets, on a single company and Group basis<sup>21</sup>;

**Target TCR:** consists of the risk appetite threshold defined for the Total Capital Ratio (15%). In case of existence of a subordinated eligible Tier 2, the TCR Target value to be applied in the formula is equal to the difference between 15% and the percentage of Tier 2 over the Group's Total Capital;

**Ke:** cost of capital is set at 10%.

EBTDA<sup>RA</sup> is determined in respect of the RWAs' monthly average, calculated by the Planning, Administration and Control Department based on the monthly closing statements and through the repetition of the mandatory prudential final statement activities for quarterly supervisory reporting.

For the purpose of fully implementing the correction mechanism which takes into account the risks taken by the Group, the calculation of the EBTDA<sup>RA</sup> is made considering the value of Adjustments/Recoveries on accounting loans (Item line 130a).

For Subsidiaries, additional "gates" related to the profitability of the single companies are provided for.

In order to ensure a long-term sustainability for Risk Takers and some individuals holding

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<sup>21</sup> RWA means the risk adjusted assets pursuant to Circular no. 285 of Bank of Italy.

managerial positions and/or highly professional positions, the MBO possibly accrued will be paid as follows:

- 70% after the approval of the relevant financial statements by the Meeting;
  - 30% with a three-years deferral<sup>22</sup> from accrual. For instance, for the financial year closing on 31.12.2018, the deferred MBO is subject to a further “gate” determined by the achievement during the financial year prior to payment period (which will occur in 2021), that is the financial year closing on 31.12.2020, of a positive profitability net of risk, associated with compliance with regulatory capital and liquidity minimum limits;
  - for subordinated personnel, in particular, the presence in the Group at the time of payment and a service seniority of at least 6 month, in the reference financial year is usually required.
- **Company bonus**

For the Parent Company employees subject to the collective credit agreement applicable in Italy, except for managers, a company bonus (“VAP”) is provided for, based on the national collective agreement applied, which provides for an economic award in relation to the achievement of specific performance Bank targets.

The company bonus may be paid in cash or company welfare goods and services on the basis of the relating supplementing agreements.

- **Stock Option Plan**

With resolution dated 5 December 2016 the Meeting approved a Stock Option Plan.

The Stock Option Plan is based on the granting of options entitling to the subscription or purchase of the Bank’s ordinary shares.

The Plan purposes are:

- a) facilitating the integration of the employees and managers, providing for their participation in the company results;
- b) raising employees’ awareness on the creation of value for the Group and shareholders;

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<sup>22</sup> Considering that the Bank is qualified, for the purpose of the remuneration policy regime, as Intermediate bank, a retention period lower than the one specified, and up to one half, would be applicable. The Bank decided to adopt a more conservative approach adopting a retention period longer than that required by Circular no. 285 for Intermediate banks.

- c) increasing the retention capacity (retention of key resources) decreasing the appetite for resignations from the Group by valuable professionals;
- d) increasing the Group competitiveness on the labour market making it more attractive for the best talents, possessing professionalisms and skills adequate for the Group needs.

The value of options granted to the beneficiaries constitutes one of the variable Remuneration components of the reference year as much as the MBO with which it contributes for the purpose of determining the 2:1 limits and the 50/50 ratio (between cash and financial instruments) where applicable.

- ***Golden parachute***

The remunerations agreed upon in view or on occasion of the early termination of the employment relation or for the early termination of the office (so called golden parachute) constitute a variable Remuneration component.

Golden parachutes also include the remunerations paid on the basis of non-competition covenants.

Golden parachutes are not included in the calculation of the 2:1 limit to the variable/fixed ratio approved with meeting resolution of 5 December 2016. They are linked to the performance realized and the risks taken by the individual and the Bank and are agreed upon in accordance with the criteria set by the Meeting, as better detailed in chapter 8.5 below.

- **Discretionary pension benefits**

The Bank's Board of Directors has the right to grant discretionary pension benefits, as defined above and provided for in Circular no. 285 of Bank of Italy. In this case, in applying the provisions on the variable Remuneration component to discretionary pension benefits, the following criteria<sup>23</sup> shall be complied with:

- ✓ if the Personnel terminates its employment or collaboration relation prior to having acquired the right to retire, discretionary pension benefits are invested in financial instruments, held in custody by the Bank for a period of five years and subject to ex-post adjustment mechanisms in compliance with the provisions of chapter 8.7. Prior to the end of the deferral period, no dividend or interest may be paid on such financial instruments. Therefore, interests and dividends accrued during the deferral period, will be set aside and

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<sup>23</sup> See First Part, Title IV, Chapter 2, Section III of Circular n. 285 of Bank of Italy.

paid at the end of that period;

- ✓ if the employment or collaboration relation ends after the accrual of pension right, discretionary pension benefits are recognized to the employee in the form of financial instruments and subjected to a five-year retention period;
- ✓ discretionary pension benefits are not included in the calculation of the limit to the 2:1 ratio between fixed and variable component.

The aforementioned rules, and the provisions of chapter 8.5 below, are not applied in the case of golden parachutes and redundancy incentives, under the terms provided for by Title IV Chapter 2 Section III Paragraph 2.2.2 of the 7th update of Circular no. 285.

*iii) Other components*

In case the Meeting approves a specific capital increase without consideration, or grants a specific delegation to the Board of Directors pursuant to art. 2443 of the Italian Civil Code, or decides to purchase stocks on the market, it will also be possible to grant for free to the Bank's employees shares thereof within the limits of art. 51, subsection 2, lett. g) of the Italian Consolidated Tax Act (T.U.I.R.).

### **8.3 RATIO BETWEEN FIXED AND VARIABLE COMPONENT**

The calculation basis for the ratio between fixed and the variable component is composed of the fixed annual gross component plus Benefits according to their annual gross value for tax purposes.

The incidence limit of the variable Remuneration component over the fixed one is 2:1, as determined by the resolution of the Meeting of 5 December 2016, in accordance with the procedure imposing a preliminary disclosure to the Bank of Italy.

The incidence limit was determined with a total Remuneration logic taking into account the legislation in force, consistency between different roles and responsibilities and comparison with the reference external market.

For the Heads of the Corporate Control Functions, the ratio between variable and fixed Remuneration component shall not exceed the limit of one third. For those latter, the granting of the variable component is subject to business sustainability targets ("gates"), in particular, to compliance with the supervisory capital and liquidity gates; no variable components linked to economic parameters and components not consistent with the duties entrusted thereto, the relating

responsibilities and targets achieved are provided for.<sup>24</sup>

#### **8.4 REMUNERATION PAYMENT MODALITIES<sup>25</sup>**

The Remuneration and incentive structure provides for a portion of the variable component, both up front and deferred, to be paid through financial instruments. On the basis of the current applicable parameters, also the portion paid through financial instruments is considered for the purpose of compliance with the 2:1 limit to the fixed/variable component ratio, as identified in chapter 8.3. Furthermore, the full variable Remuneration component shall be balanced, as regards the Most Significant Personnel, for a portion equal to at least 50%<sup>26</sup>, between:

- (i) Bank shares and instruments linked thereto, including Stock Options; and
- (ii) where possible, the other instruments identified in Delegated Regulation (EU) no. 527 of 12 March 2014.

Such proportion applies both to the up-front variable component portion and to the deferred portion.

In order to align incentives with the Bank long-term interests, the instruments envisaged in the Policy are subject, as regards Most Significant Personnel, to a retention period. The retention period both for financial instruments paid up-front and for deferred ones, is not lower than 1 year<sup>27</sup>. In case of deferred financial instruments, the retention period starts from the time at which deferred Remuneration (or a portion thereof) is paid (or, in case of granting of options for the purchase or subscription of shares from the time at which options exercise conditions are met).

Prior to the end of the deferral period, no dividends or interests may be paid on the financial instruments under this chapter. Accordingly, dividends possibly accrued during the deferral period, will be set aside and paid at the end of said period.

The provisions concerning ex-post correction mechanisms (*malus* and claw back), as per chapter 8.6 of the Policy, are applicable also to the variable component part paid in form of financial instruments.

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<sup>24</sup> The rules and limits of the variable component are also applicable to the personnel of Subsidiaries control functions, as provided for by the legislation.

<sup>25</sup> Legislative references: Circular no. 285, Section III.

<sup>26</sup> The maximum limit for Intermediate banks is 25%. The Bank, in this case, establishes a more conservative minimum limit, provided for larger banks.

<sup>27</sup> Being the Bank eligible as Intermediate bank, pursuant to Circular no. 285, the retention period, usually not lower than 2 years, may be reduced by not more than one half.

The payment of the variable component is conditional upon the continuation of the employment relation with the Bank or the office, at the time of the payment. Derogations may be provided for in specific cases, which shall be precisely identified (so called good leaver provisions), in which, although this condition is no longer satisfied, the variable component under exam may in any case be paid in whole or *pro rata temporis* depending on the time of the year in which the relation with the Bank terminates.

#### **8.5 TREATMENT IN THE EVENT OF DISSOLUTION OF THE RELATIONSHIP OR TERMINATION OF THE OFFICE**

The treatment applied in case of termination of the employment relation is that provided by the respective category agreements.

The Board of Directors of the Parent Company may determine some golden parachutes for the Most Significant Personnel in the event of early dissolution of the employment relation or termination of the office, in compliance with the conditions provided by the regulations in force and the below criteria.

Usually, golden parachutes:

- a) are not included in the calculation of the 2:1 limit to the variable and fixed component ratio;
- b) are subject a 50% balancing between cash and financial instruments;
- c) are linked to the office, risks taken by the person to whom they refer and the Bank, in accordance with the principles laid down in this Policy.

The rules set out in items a), b) and c) above, shall not apply:

- ✓ to golden parachutes agreed upon in the context of extraordinary transactions (e.g. mergers) or corporate restructuring processes, as long as they comply with both the following conditions: i) they shall obey solely to operating cost reduction logics and rationalisation of the personnel structure, ii) their amount shall not exceed Euro 100,000; iii) they shall provide for claw back mechanisms laid down in chapter 8.6 of the Policy with reference to the cases of fraudulent or gross negligence behaviours in detriment of the Bank.

- ✓ to redundancy incentives, also associated with extraordinary transactions (e.g. mergers) or corporate restructuring processes, and granted to non-relevant personnel, as long as they comply with both the following conditions: i) they shall obey solely to operating cost reduction logics and rationalisation of the personnel structure; ii) they shall favour the adhesion to support measures provided for by the law or collective bargaining, for employees in general; iii) they shall not produce *ex ante* distortion effects on the behaviours of the personnel; iv) they shall provide for claw back mechanisms laid down in chapter 8.6 of the Policy with reference to the cases of fraudulent or gross negligence behaviours in detriment of the Bank.

*Ex post* (*malus* and claw back) correction mechanisms shall apply to golden parachutes, according to the provisions of chapter 8.6 below. A retention period of at least one year applies to the abovementioned remuneration, for the part paid in financial instruments.

In any case, the amount agreed for golden parachutes may be an absolute amount or a multiple of the last fixed, annual, gross, component received, with the maximum amount of 400% thereof (with reference to the last year).

## **8.6 EX-POST CORRECTION MECHANISMS (MALUS AND CLAW BACK)**

The variable component, including golden parachutes, is subject to *ex-post* correction mechanisms (*malus* and claw back), which can lead to a reduction, even significant, or elimination of the variable component. Correction mechanisms, suitable to reflect performance levels adjusted to capital risks actually taken or acquired, as well as to take into consideration individual behaviours shall be identified to the extent permitted by the law and collective agreements applicable to employment relations.

For the purpose of granting the deferred variable component, all other legal and contractual conditions being satisfied, the application of a specific gate, in the year of accrual of the payment right, determined by the achievement of a Group's positive risk-adjusted profitability, associated with compliance with minimum liquidity and capital requirements (the "*Malus*" condition) is provided for.

The granting of the variable portion of the Remuneration fails or, if already paid, shall be returned, in presence of individual behaviours of the concerned individual, held in the context of the Bank activity or in any case of the professional activity thereof, referred to one or more of the following

cases (hereinafter, the “**Claw Back**” conditions):

- a) behaviours from which a significant loss derived to the Bank or Group companies; in this regard, please note that the Board of Directors determined the minimum threshold for this loss corresponding to the “medium” risk indicated in “Risk and Control Matrix”, adopted by the Bank, equal to € 1 million;
- b) with regard to executive directors, BFF managers and Group foreign companies’ Senior Executives, possibly general managers, the loss of one or more requirements of art. 26 TUB;
- c) infringement of the obligations provided for by art. 53, paragraph 4 et seq. of the TUB by the individuals indicated therein, in relation to the acquisition by the Bank of risk activities towards those who may exercise, either directly or indirectly, influence over the management of the Bank or banking Group and those connected thereto, as well as in situations of conflict of interest and/or in breach of conditions and limits identified by the Bank of Italy pursuant to the aforementioned art. 53 of the TUB;
- d) infringement of the obligations and provisions of Circular no. 285 (Section III, e.g. undue receipt of considerations);
- e) specific behaviours put in place with gross negligence or wilful misconduct, which resulted in financial or image damages to the Bank or Group companies;
- f) infringement with gross negligence or wilful misconduct, of obligations provided for by Legislative Decree no. 231/2001 or the code of ethics adopted by the Bank;
- g) fraudulent behaviours, put in place with gross negligence or wilful misconduct, implemented in detriment of the Bank or Group companies.

If a Claw back condition occurs, the Board of Directors, in the less serious cases, has the possibility to determine a proportional deduction, instead of total elimination, of the affected variable component. Such amount may be deducted by set-off against the Remunerations and/or severance indemnities of the beneficiary.

For the operation of *Malus* and Claw Back mechanisms the time at which the Bank ascertains the fact integrating the *Malus* and Claw Back, with the procedure specified in chapter 8.7, shall be taken into consideration.

In any case, the variable component is not recognized in case of defaults such as to justify the

withdrawal from the employment relation by the Bank in accordance with legal and collective agreement regulation possibly applicable. Furthermore, the termination of the employment relation and/or termination of the office does not prevent the activation of Claw Back mechanisms, which take in any case into account legal, contribution and fiscal aspects, as well as the time limits prescribed by the applicable local regulations.

## **8.7 ACTIVATION PROCESS OF *MALUS* AND CLAW BACK MECHANISMS**

The activation of *Malus* or Claw Back mechanisms follows the process summarized below.

The Internal Audit Function, even upon request of the HR B.U. or the Chief Executive Officer, carries out the necessary investigations to establish the facts that may lead to the activation of *Malus* and Claw Back mechanisms. Investigations are carried out by the Head of Internal Audit Function, making use of its structure to complete the phase of initial analysis of the information.

The Internal Audit Function prepares a report on the events under investigation and forwards it to Head of the HR B.U. and the Chief Executive Officer.

If the necessary conditions exist, before activating the *Malus* or Claw Back mechanisms:

- a) against an employee, the disciplinary procedure pursuant to art. 7 of Law n. 300/1970 and the applicable collective agreement is activated. With the communication that concludes the disciplinary procedure (or with separate communication), the concerned person is informed of the activation of *malus* or claw back mechanisms;
- b) against a person with a relation other than a subordinated relation, or to a person who no longer has any relation with the Bank, the following procedure is activated:
  - i) the facts assumed to be suitable to activate *Malus* or Claw Back mechanisms shall be notified in writing to the concerned person, who is entitled to the right to submit own defences in writing within a deadline, which shall be reasonable and proportional to the complexity of the charges, in any case not lower than 5 calendar days;
  - ii) once the defences of the concerned person have been heard (or after the expiry of the deadline with the concerned person not having submitted any defences), the Chief Executive Officer (or the Board of Directors, if the Chief Executive Officer is investigated), keeping the Supervisory Board informed, may proceed with possible measures.

The decision shall be communicated to the concerned person in writing and shall be justified. The measure referring to the facts committed, identifying the provisions which are assumed to have been breached and the reasons why the concerned person's defences may not be upheld, is considered justified.

## **8.8 NON-COMPETITION CLAUSES**

In case the employee signs a "non-competition covenant" binding such person not to tie himself under a professional point of view with specific companies for a predetermined period commencing from the termination date of the employment relation, the relevant Group company will pay thereto an amount, whose determination will be based on the gross fixed annual remuneration received in the last year.

*Ex post* correction mechanisms (*Malus* and Claw Back), within the limits permitted by the collective agreements applicable to the employment relation, as provided by the regulatory provisions and, in any case, in compliance with the limits and requirements of legal and regulatory provisions on the matter are applicable to the consideration for the non-competition covenant.

The payment of the non-competition covenant consideration occurs after the termination of the relationship. For Risk Takers, said consideration is subject to the deferral and financial instrument balancing rules provided for the variable Remuneration component. The consideration provided for the non-competition covenant, in any case, may never exceed 120% of the total gross fixed, annual component received, including Benefits (with reference to the last year).

## **8.9 DISCLOSURE AND COMMUNICATION OBLIGATIONS TO THE BANK OF ITALY.**

For the purposes of public disclosure, as provided by Circular no. 285 which incorporates the provisions contained in Art. 450 of the CRR<sup>28</sup>, among the other information requested, the Bank publishes on its website, in the context of the document "III Pillar – Public Disclosure":

- information on the link between remuneration and performance;
- the most relevant characteristics of the Remuneration system, among which the information on the criteria used for the assessment of performances and the adjustment to risks, deferral policies and the granting criteria;
- aggregate quantitative information on Remuneration, broken down by business lines;

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<sup>28</sup> Regulation (EU) no. 575/2013 dated 26 June 2013.

- aggregate quantitative information on Remuneration, broken down by top managers and members of personnel whose actions have a significant impact on the Group's risk profile;
- the number of persons remunerated with Euro 1 million or more per financial year, for Remunerations between Euro 1 and 5 million broken down into payment groups of Euro 500,000 and for Remunerations equal to or greater than Euro 5 million broken down into payment groups of Euro 1 million.

The same information made available to the public is provided, at least annually, to the Meeting.

The Bank furthermore, as Parent Company, sends annually, by the 30<sup>th</sup> of June in each year, to the Bank of Italy the information regarding the so-called high earners, i.e. persons whose total Remuneration amounts to Euro 1 million on an annual basis. Depending on the consolidated asset levels achieved, the Bank falls within the survey sample of the Bank of Italy for benchmarking purposes, in implementation of EBA guidelines<sup>29</sup>. The Bank will send to the Bank of Italy, by the above deadline, also information relating to: *i*) the Remuneration of all Personnel, considered as a whole; *ii*) the Remuneration of the Most Significant Personnel only, with specific regard to the analytical structure of the variable component; *iii*) the number of Most Significant Personnel divided by Remuneration groups.

The information, denominated in Euro, refers to the financial year preceding the year of the survey and is sent to the Bank of Italy via the “INFOSTAT” platform.

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<sup>29</sup> Banking groups with consolidated assets above Euro 40 billion for benchmarking purposes, and, banks and banking groups with assets exceeding Euro 3.5 billion for national supervision purposes, are subject to survey obligations. Assets triggering the obligation to send the information are those resulting at the end of the financial year prior to that to which survey data refer.

## SECTION 2

### **IMPLEMENTATION OF REMUNERATION POLICIES IN FINANCIAL YEAR 2017**

#### **1. INTRODUCTION**

This Report section provides information on the implementation of “*Remuneration and incentive policies in favour of the members of Strategic Supervision, Management and Control Bodies, and the Personnel of Banca Farmafactoring Banking Group*” as approved by the Meeting respectively on 9 March 2017 (in the version preceding the listing on the MTA, hereafter, the “**Pre-IPO 2017 Policy**”) and 9 March 2017 (in the version following the listing on the MTA, “**Post-IPO 2017 Policy**”) (the Pre-IPO 2017 Policy and the Post-IPO 2017 Policy, the “2017 Policies”).

In particular, we provide:

- nominal data on the remuneration of the members of management and control bodies, and the Chief Executive Officer of the Bank.
- aggregated data regarding the remaining most significant personnel (“**Risk Takers**”)<sup>30</sup> because no Risk Taker receives a higher Remuneration than the Chief Executive Officer<sup>31</sup>.

This section consists of two parts.

The first part contains:

- a representation of the items composing the Remuneration (including the treatments provided in case of termination of the office or termination of the employment relation) of the above-mentioned persons, in compliance with the 2017 Policies;

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<sup>30</sup> The Issuers Regulation requires aggregated data of “managers with strategic responsibilities”. For the banking sector, to avoid the duplication of remuneration documents required by the listed companies regime and that of banks, the Issuers Regulation in Annex 3A, scheme 7-bis provides for the possibility to provide aggregate data of Risk takers, according to the definition provided by the banking regulations, which category includes that of “managers with strategic responsibilities”.

<sup>31</sup> The reference regulations (Art. 123-ter of the TUF and scheme 7-bis of Annex 3A to the Issuers Regulation) imposes to illustrate by name:

- a. the remuneration of the members of management and control bodies;
- b. the remuneration of any other manager with strategic responsibilities who received, during the financial year, total remuneration (obtained by adding monetary remunerations and security-based financial instruments) exceeding the highest total remuneration granted to the persons listed in the letter a, in the case of the Bank, the Chief Executive Officer.

- general information on the implementation of remuneration policies in financial year 2017 and the assessments provided by the Bank's control functions, each for the aspects of competence.

The second part:

- analytically illustrates the remuneration paid in the reference financial year, for any reason and in any form, by the Bank and Subsidiaries, pointing out any components of the above remuneration, referred to activities carried out in financial years previous to the reference one;
- highlights the remuneration to be paid in one or more subsequent financial years, for the activity carried out in the reference year, possibly indicating an estimate value for components that cannot be objectively quantified in the reference financial year.

## **2. FIRST PART**

### **2.1 GENERAL INFORMATION ON THE IMPLEMENTATION OF THE 2017 POLICIES**

In the course of 2017, the fixed part of the economic treatment was paid to directors and employees, in accordance with the 2017 Policies, individual contractual arrangements and in compliance with the Collective Labour Agreements applied.

The Remuneration Committee verified on 21 February 2018 the performance of the three "gates"<sup>32</sup> provided for by the 2017 Policies of the reference financial year for the MBO accrual. The final value of this variable remuneration component was calculated according to the provisions of the 2017 Post-IPO Policy.

Following the Group size growth and its classification as intermediate bank, the Bank uses financial instruments for the payment to Risk Takers of a share of at least 50% of the variable Remuneration component, both for the up-front and the deferred part.

For the Most Significant Personnel, the quotas and deferral periods, the quotas and retention periods of financial instruments were applied to all accrued items of the variable component, in line with the 2017 Policies.

From the above outcomes, it can also be inferred that the Group, as at 31 December 2017, achieved a positive EBTDA RA, complying with the minimum supervisory capital and liquidity limits. Furthermore, since no ascertained infringements were found in relation to the adopted code of ethics and/or infringements such as to trigger the application of claw back mechanisms, the Bank will proceed with the payment to Risk takers of the variable deferred component relating to performance year 2015, overall equal to Euro 425.228,01.

Please note that, with reference to financial year 2017, the "VAP" company award, envisaged for employees of the Parent Company subject to the credit collective agreement applicable in Italy was also finally calculated.

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<sup>32</sup> Liquidity Coverage Ratio (LCR), Total Capital Ratio, EBTDA<sup>RA</sup>.

With regard to the information required relating to remuneration plans based on financial instruments relevant under art. 114-bis TUF active during financial year 2017, please refer to BFF website, section *Investor Relations* .

Furthermore, during the reference financial year, no discretionary pension benefits were paid (i.e. no pension benefits were paid beyond the plans provided for by National Labour Agreements and the provisions of law).

In the course of 2017, two Risk Takers ceased: one within the Parent Company, one within the Polish Subsidiary.

## **2.2 REPRESENTATION OF REMUNERATION ITEMS**

### **Remuneration of members of the Board of Directors**

For the members of the Board of Directors, the following remuneration items were paid:

- a fixed remuneration for the office as board member, equal to Euro 35,000.00;
- an additional fixed remuneration for the Chairmen of the Board internal committees, of maximum amount equal to Euro 15,000.00;
- for the Chairman of the Board of Directors, an additional remuneration based on paragraph 3 of art. 2389 of the Italian Civil Code, equal to Euro 170,000.00;

no variable component was paid to board members. No agreements relating to the treatment in the event of end of office, or variable Remuneration components are provided for the members of the Board of Directors.

### **Remuneration of the Chief Executive Officer**

For the Chief Executive Officer, the following remuneration items have been paid:

- a fixed remuneration for the office of board member, equal to Euro 35,000.00;
- the gross annual remuneration as Chief Executive Officer, equal to Euro 667,000;
- a package of non-monetary benefits, equal to Euro 71,617.97;

- the deferred share of the annual variable component referred to financial year 2015, equal to Euro 160,114.28.
- no. 1,344,000 options, relating to the first allocation tranche envisaged in the Stock Option Plan for a value corresponding to Euro 524,160.00. This amount is a component of the 2017 variable part 2017, as much as the MBO incentive system, pursuant to the 2017 Post-IPO Policy.

An arrangement is provided for regarding the treatment in the case of end of office and/or termination of the employment relation, determined according to the modalities and criteria referred to in chapter 2.3 of this Section.

The Remuneration of the Chief Executive Officer is consistent with the Bank's Remuneration policies, as it is:

- in line with the pursuit of the Group's long-term objectives;
- compliant with the balancing between variable and fixed component;
- compliant with the balancing of the variable component between financial instruments and cash;
- compliant with the deferral and retention periods.

### **Remuneration of members of the Board of Statutory Auditors**

For the members of the Board of Statutory Auditors, the following remuneration elements are provided for:

- a fixed remuneration for the office as Statutory Auditor, equal to Euro 50,000.00;
- a fixed remuneration for the Chairman of the Board of Statutory Auditors, equal to Euro 70,000.00.

The Remuneration of the members of the Board of Statutory Auditors is consistent with the Bank's Remuneration policies, because:

- it is in line with the pursuit of the Bank's long-term objectives;

- no variable component was paid to Statutory Auditors<sup>33</sup>

### **Remuneration of members of the Supervisory Body**

For the members of the Supervisory Body the following remuneration elements are provided for:

- a fixed remuneration for members other than the Chairman of the Supervisory Body, who are not Bank employees, equal to Euro 10,000.00;
- a fixed remuneration for the Chairman of the Supervisory Body, equal to Euro 30,000.00;
- no variable component was paid to the members of the Supervisory Body.

No additional remuneration is foreseen for the members of the Supervisory Body who are also Bank employees.

### **Remuneration of the Group's Most Significant Personnel**

The Most Significant Personnel, excluding the Chief Executive Officer, was identified and classified in:

- top Management: includes the Group Senior Executives, for a total of 7 persons.
- Corporate Control Functions: includes the Group's most significant personnel belonging to the Risk Management, Compliance & AML, Internal Audit and HR functions, for a total of 4 persons.
- other Most Significant Personnel: includes the Group's Most Significant Personnel not belonging to the above categories, for a total of 11 persons.

The Remuneration of the Most Significant Personnel consists of the following components:<sup>34</sup>

- the Gross Annual Remuneration, equal to Euro 3,083,920.37;
- a package of non-monetary benefits, equal to Euro 375,932.24;
- an annual variable component referred to financial year 2017 of Euro 181,371.24, of which an up-front portion of Euro 126,959,87 (70%) and a deferred portion of Euro 54,411.37 (30%);

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<sup>33</sup> In compliance with article 3 of Section III of Circular no. 285, which bans every form of variable remuneration to members of the body discharging control functions.

<sup>34</sup> The amounts are shown in aggregate form, as required by Scheme 7-bis of Annex 3 to the Issuers Regulation.

- the deferred portion of the annual variable component referring to financial year 2015, equal to Euro 259,114.11;
- no. 4.831.922 options, relating to the first allocation tranche envisaged in the Stock Option Plan for a value corresponding to Euro 1.884.450. This amount is a component of the 2017 variable component, as much as the MBO incentive system, pursuant to the Policy in force at the time of the granting of the same options.

For some members of the Most Significant Personnel, agreements are provided for concerning the treatment in the case of end of office and/or termination of the employment relation.

The Remuneration of the remaining Most Significant Personnel is consistent with the Bank's Remuneration Policy in force in 2017 because:

- it is in line with the pursuit of the Bank's long-term objectives;
- it complies with balancing between variable and fixed component;
- it complies with the balancing of the variable component between financial instruments and cash;
- it complies with deferral and retention periods.

### **2.3 AGREEMENTS RELATING TO THE CASES OF EARLY TERMINATION OF THE WORKING RELATION OR END OF OFFICE**

As specified in chapter 8.5 of Section I of the Report, the Board of Directors of the Parent Company may determine for the Most Significant Personnel some “golden parachutes” in the case of early termination of the working relation or end of office.

The golden parachute remunerations are quantified and paid by the Bank in accordance with the regulations in force from time to time and the below criteria.

The determination of these remunerations is linked to the performance achieved and the risks taken by the person and the Bank and it is subject to *ex post* correction mechanisms (*malus* and claw back), within the limits allowed by the collective agreements applicable to the employment relation, as required by the Supervisory Provisions for Banks and, in any case, in compliance with the limits

and requirements of the relevant legal provisions. To the abovementioned remunerations, in the part paid in financial instruments, a retention period of at least one year applies<sup>35</sup>.

To the amounts relating to golden parachutes the limits laid down in Title IV Chapter 2 Section 3 par. 2.2.2 of Circular n. 285 apply: the agreed amount may be an absolute amount or a multiple of the last fixed, annual, gross, remuneration received, with maximum amount equal to 400% thereof (with reference to the last year). The amount, therefore, is calculated by valuing the fixed Remuneration component excluding the value of Benefits, and the variable Remuneration elements.

No. 3 golden parachutes (individual arrangements relating to early termination cases of the employment relation) for some members of the Bank's Most Significant Personnel, among which the Chief Executive Officer, are active for a total aggregate of Euro 3,657,330.58.

#### **2.4 VERIFICATIONS ON THE REMUNERATION SYSTEM BY CONTROL FUNCTIONS AND BOARD INTERNAL COMMITTEES**

The Control Functions and any other person responsible for supervising the Group's incentive system participated in the compliance assessment of the remuneration policies implemented in 2017.

##### **Compliance & AML**

The Compliance & AML Function verified compliance of the remuneration policies with the reference regulatory framework and believes that they are consistent with the applicable reference legislation, the adopted Code of Ethics and the By-Laws.

##### **Risk Management**

The Risk Management Function provided the opinions on the adequacy of the indicators used to take into account the risks taken by the Bank in relation to incentive systems. The Risk Management Function also verified the final figure of said indicators for 2017.

##### **Internal Audit**

In line with the provisions of Circular 285, the Internal Audit Function carried out an annual verification on compliance of the Group's Remuneration and incentive practices with the Policy.

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<sup>35</sup> The minimum limit provided for Intermediate banks is thus complied with. The minimum limit for larger banks is 2 years.

## **Control and Risk Committee**

The Control and Risk Committee ascertained that incentives underlying the Group's Remuneration system are consistent with the maximum risk level the Group intends to take.

## **Composition and activities carried out by the Remuneration Committee**

In the course of 2017 the Remuneration Committee<sup>36</sup> met 9 times. The main activities carried out concerned:

- Reporting of the 2016 performance results relating to the offices of Chief Executive Officer, Senior Executives and Executives directly reporting to the Chief Executive Officer and Heads of Group Control Functions for the definition of the MBOs of competence;
- Definition of the 2017 quantitative targets relating to the offices of Chief Executive Officer, Senior Executives, Executives directly reporting to the Chief Executive Officer and Heads of the Group Control Functions;
- Definition of the Report;
- Analysis and approval of the remuneration packages for the recruitment of new Executives and Senior Executives;
- Update of the *Remuneration and incentive policy in favour of the members of Strategic Supervision, Management and Control Bodies, and the Personnel of Banca Farmafactoring Banking Group*;
- Identification of the Beneficiaries of Stock Options in the categories of competence of the Board of Directors;
- Updates to the Chief Executive Officer' Contract;
- Proposal to amend the Remuneration Committee Regulation.

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<sup>36</sup> For a description of the composition, function and functioning of the Remuneration Committee, see chapter 6, par. *Remuneration Committee*, pg. 20 and ss.

Please note that in carrying out its functions, the Remuneration Committee had the possibility to consult the competent internal structures as well as to avail itself of external consultants. We set out below two descriptive tables, respectively:

- ✓ of the meetings of the Remuneration Committee during 2017
- ✓ of its composition, pursuant to art. 123 *bis*, para. 2 of the Consolidated Financial Act, with nominal indication of the members, of the possible executive role, of the person appointed as chairman and of the meeting attendance percentage.

<b>1. DESCRIPTION OF THE MEETINGS OF THE REMUNERATION COMMITTEE IN 2017 AND FORESEEN NUMBER OF MEETINGS IN 2018.</b>	
<b>Have works been regularly minuted?</b>	YES
<b>Has the Chairman of the Remuneration Committee reported thereon at the first useful Board of Directors meeting?</b>	YES
<b>Average duration of meetings.</b>	1 hour
<b>Were there any meetings of the Remuneration Committee attended also by external members?</b>	YES, by invitation. In 2017 the Chief Executive Officer, the Heads of Internal Audit, Compliance & AML, and General Counsel attended some meetings of the Remuneration Committee on some items on the Agenda
<b>Were there any meetings of the Remuneration Committee attended also by the chairman of the board of statutory auditors or other members?</b>	YES, the Chairman of the Board of Statutory Auditors attended some meetings
<b>At least one member of the remuneration</b>	YES

committee has knowledge and experience in accounting and finance matters, and/or in the matter of remuneration policies, deemed adequate by the Board at the time of appointment?	
Number of meetings of the Remuneration Committee scheduled for 2018 (and number of meetings already held in the current financial year).	In the current financial year, indicatively no. 8 meetings are scheduled, no. 3 of which were already held

We set out below a table summarizing the information relating to the members of the Remuneration Committee.

<b>2. INFORMATION RELATING TO THE MEMBERS OF THE REMUNERATION COMMITTEE</b>				
<b>Until 6 April 2017</b>				
<b>First name and surname</b>	<b>Is he/she an independent member?</b>	<b>Is he/she a non-executive member?</b>	<b>Was he/she appointed Chairman?</b>	<b>meeting attendance %</b>
Elisabetta Oliveri	yes	yes	yes	100%
Salvatore Messina	Yes(*)	yes	no	100%
Luigi Sbrozzi	no	yes	no	100%
<b>Since 7 April 2017</b>				
<b>First name and surname</b>	<b>Is he/she an independent member?</b>	<b>Is he/she a non-executive member?</b>	<b>Was he/she appointed Chairman?</b>	<b>meeting attendance %</b>
Elisabetta Oliveri	yes	yes	yes	100%
Giampaolo Zambeletti Rossi	yes	yes	no	80%

		<i>COURTESY TRANSLATION</i>
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Luigi Sbrozzi	no	yes	no	100%
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(\*) pursuant to the TUB and the TUF.

### 3. SECOND PART

In this second part of Section II, the remunerations paid in the reference financial year to the persons identified by the reference legislation, i.e. the members of management and control bodies, general managers and other managers with strategic responsibilities are analytically illustrated. It should be noted that:

- there are no general managers within the Group;
- in the context of this second part of Section II, all references to "other managers with strategic responsibilities" refer to persons who, within the Group, fall within the definition of Senior Executive as set out in the 2017 Policies.

The remunerations paid during the reference financial year but referring to activities carried out in previous financial years (deferred portions of variable Remunerations referred to previous financial years) and those to be paid in subsequent financial years for the activity carried out in the reference financial year (deferred portions of the variable component of the reference financial year) are also illustrated.

The data provided are by name with regard to the remuneration of the members of management and control bodies, and the Chief Executive Officer, and aggregate with regard to managers with strategic responsibilities since none of them receives a higher Remuneration than the Chief Executive Officer<sup>37</sup>.

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<sup>37</sup> As per the provisions quoted in note 25.

Dear Shareholders,

in light of the above, we invite You to approve the following resolution proposal (on which three separate votes will be proposed depending on the topic, one for each deliberative item, each with its own executive mandate):

“The Meeting

Having seen the “2018 *Remuneration and incentive policy in favour of the members of Strategic Supervision, Management and Control Bodies, and the Personnel of Banca Farmafactoring Banking Group*” for financial year 2018 as illustrated in the Board of Directors' Report

RESOLVES

**Resolution 1:** the approval of the new “2018 *Remuneration and incentive policy in favour of the members of Strategic Supervision, Management and Control Bodies, and the Personnel of Banca Farmafactoring Banking Group*” illustrated in Section I of the Board of Directors' Report.

**Resolution 2:** the specific approval of the provision laid down in chapter 8.3 of the new “2018 *Remuneration and incentive policy in favour of the members of Strategic Supervision, Management and Control Bodies, and the Personnel of Banca Farmafactoring Banking Group*” referred to in Section I of this Board of Directors' Report, relating to the confirmation of the ratio between variable remuneration and fixed remuneration to the maximum extent of 2:1, already increased with resolution of 5 December 2016, without prejudice to the fact that this ratio may under no circumstances exceed the maximum extent permitted by the legislation, also regulatory, in force.

**Resolution 3:** the specific approval of the provisions – as laid down in chapter 8.5 of the new “2018 *Remuneration and incentive policy in favour of the members of Strategic Supervision, Management and Control Bodies, and the Personnel of Banca Farmafactoring Banking Group*” - of Section I of the annual Report on the remuneration and incentive policies of the BFF Group, relating to the policies for the determination of compensations in the case of early end of office or termination of the employment relation, including the limits established for this remuneration in terms of annuities of fixed remuneration and maximum amount resulting from their application;

and to grant the Board of Directors and on its behalf the Chief Executive Officer with the broadest powers to perform all actions, fulfilments and formalities necessary for the implementation of each one of the three prior resolutions and accordingly also the power to make any changes to the new personnel remuneration policies that may prove necessary to adjust them to the legislation, even regulatory, from time to time in force".

Milan, 28 February 2018

The Board of Directors

**3.1 ANALYTICAL TABLES ON “COMPENSATION PAID TO MEMBERS OF THE ADMINISTRATIVE AND AUDITING BODIES, TO GENERAL MANAGERS AND TO OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES”**

(A)	(B)	(C)	(D)	-1	-2	-3		-4	-5	-6	-7	-8
Name and surname	Office	Period for which office was held	Office expiry	Fixed	Compensation for committee participation	Variable non-equity compensation		Non-monetary benefits	Other remuneration	Total	Fair Value of equity compensation	Severance indemnity for end of office or Termination of employment
				compensation		Bonuses and other incentives	Profit sharing					
Salvatore Messina	Chairman of BoD	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				205,000.00						205,000.00		
(II) Compensation from subsidiaries and associates												
(III) Total				205,000.00						205,000.00		
Luigi Sbrozzi	Chairman of BoD	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				-	-	-	-	-	-	-		
(II) Compensation from subsidiaries and associates												
(III) Total				-	-	-	-	-	-	-		
Massimiliano Belingheri	Chief Executive Officer	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				702,000.00	-	160,114.28	-	71,617.97	-	933,732.25	524,160.00	
(II) Compensation from subsidiaries and associates												
(III) Total				702,000.00	-	160,114.28	-	71,617.97	-	933,732.25	524,160.00	

(A)	(B)	(C)	(D)	-1	-2	-3		-4	-5	-6	-7	-8
Name and surname	Office	Period for which office was held	Office expiry	Fixed	Compensation	Variable non-equity		Non-monetary benefits	Other remuneration	Total	Fair Value of equity compensation	Severance indemnity for end of office or Termination of employment
				compensation	for committee	compensation						
					participation	Bonuses and other incentives	Profit sharing					
Michaela Aumann	Director	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				35,000.00	15,000.00	-	-	-	-	50,000.00		
(II) Compensation from subsidiaries and associates												
(III) Total				35,000.00	15,000.00	-	-	-	-	50,000.00		
Mark John Arnold	Director	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				-	-	-	-	-	-	-		
(II) Compensation from subsidiaries and associates												
(III) Total				-	-	-	-	-	-	-		
Federico Fornari Luswergh	Director	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				35,000.00	15,000.00	-	-	-	-	50,000.00		
(II) Compensation from subsidiaries and associates												
(III) Total				35,000.00	15,000.00	-	-	-	-	50,000.00		

(A)	(B)	(C)	(D)	-1	-2	-3		-4	-5	-6	-7	-8
Name and surname	Office	Period for which office was held	Office expiry	Fixed	Compensation	Variable non-equity		Non-monetary benefits	Other remuneration	Total	Fair Value of equity compensation	Severance indemnity for end of office or Termination of employment
				compensation	for committee	compensation						
					participation	Bonuses and other incentives	Profit sharing					
Ben Carlton Langworthy	Director	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				-	-	-	-	-	-	-		
(II) Compensation from subsidiaries and associates												
(III) Total				-	-	-	-	-	-	-		
Elisabetta Oliveri	Director	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				35,000.00	26,055.00	-	-	-	-	61,055.00		
(II) Compensation from subsidiaries and associates												
(III) Total				35,000.00	26,055.00	-	-	-	-	61,055.00		
Marco Riccardo Rabuffi	Director	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				35,000.00	-	-	-	-	-	35,000.00		
(II) Compensation from subsidiaries and associates												
(III) Total				35,000.00	-	-	-	-	-	35,000.00		

(A)	(B)	(C)	(D)	-1	-2	-3		-4	-5	-6	-7	-8
Name and surname	Office	Period for which office was held	Office expiry	Fixed	Compensation for committee participation	Variable non-equity compensation		Non-monetary benefits	Other remuneration	Total	Fair Value of equity compensation	Severance indemnity for end of office or Termination of employment
				compensation		Bonuses and other incentives	Profit sharing					
Giampaolo Zambelletti Rossi	Director	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				35,000.00	-	-	-	-	-	35,000.00		
(II) Compensation from subsidiaries and associates												
(III) Total				35,000.00	-	-	-	-	-	35,000.00		
Francesco Tabone	Chairman Board of Statutory Auditors + SB Member	from 01.01.2017 to 06.04.2017	-									
(I) Compensation in the company preparing the financial statements				21,041.10	-	-	-	-	-	21,041.10		
(II) Compensation from subsidiaries and associates												
(III) Total				21,041.10	-	-	-	-	-	21,041.10		
Marco Lori	Chairman Board of Statutory Auditors + Statutory Auditor + SB Member	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				72,109.59	-	-	-	-	-	72,109.59		
(II) Compensation from subsidiaries and associates												
(III) Total				72,109.59	-	-	-	-	-	72,109.59		

(A)	(B)	(C)	(D)	-1	-2	-3		-4	-5	-6	-7	-8
Name and surname	Office	Period for which office was held	Office expiry	Fixed	Compensation	Variable non-equity		Non-monetary benefits	Other remuneration	Total	Fair Value of equity compensation	Severance indemnity for end of office or
				compensation	for committee participation	Bonuses and other incentives	Profit sharing					Termination of employment
Patrizia Paleologo Oriundi	Statutory Auditor	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				50,000.00	-	-	-	-	-	50,000.00		
(II) Compensation from subsidiaries and associates												
(III) Total				50,000.00	-	-	-	-	-	50,000.00		
Sabrina Pugliese	Statutory Auditor	from 07.04.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				36,849.32	-	-	-	-	-	36,849.32		
(II) Compensation from subsidiaries and associates												
(III) Total				36,849.32	-	-	-	-	-	36,849.32		
Gianmaria Garegnani	Chairman of SB	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				30,000.00	-	-	-	-	-	30,000.00		
(II) Compensation from subsidiaries and associates												
(III) Total				30,000.00	-	-	-	-	-	30,000.00		

(A)	(B)	(C)	(D)	-1	-2	-3		-4	-5	-6	-7	-8
Name and surname	Office	Period for which office was held	Office expiry	Fixed	Compensation	Variable non-equity		Non-monetary benefits	Other remuneration	Total	Fair Value of equity compensation	Severance indemnity for end of office or Termination of employment
				compensation	for committee	compensation						
					participation	Bonuses and other incentives	Profit sharing					
Marina Corsi	Member of SB	from 01.01.2017 to 31.12.2017	Appr. financial Statements 31/12/17									
(I) Compensation in the company preparing the financial statements				-	-	-	-	-	-	-		
(II) Compensation from subsidiaries and associates												
(III) Total				-	-	-	-	-	-	-		
Managers with strategic responsibilities (n. 7)		from 01.01.2017 to 31.12.2017	-									
(I) Compensation in the company preparing the financial statements				1,375,192.84	-	141,110.99	-	172,395.91	-	1,688,699.74	497,952.00	
(II) Compensation from subsidiaries and associates												
(III) Total				1,375,192.84	-	141,110.99	-	172,395.91	-	1,688,699.74	497,952.00	

**Salvatore Messina – Notes:**

The Remuneration indicated refers to the office of Chairman of the Board of Directors of Banca Farmafactoring Spa € 170,000.00

Member of the Board of Directors of Banca Farmafactoring Spa € 35,000.00

		<i>COURTESY TRANSLATION</i>
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**Luigi Sbrozzi – Notes:**

Waives the remuneration for the office of Member of the Board of Directors of Banca Farmafactoring Spa

**Massimiliano Belingheri – Notes:**

The Remuneration indicated refers to the office of Chief Executive Officer (Strategic Manager) € 667,000.00; variable remuneration € 160,114.28 (referred to the deferred 2015 MBO); non-monetary benefits € 71,617.97; value of the Stock Options relating to the first allocation tranche envisaged in the Stock Option Plan € 524,160.00.

Member of the Board of Directors of Banca Farmafactoring Spa € 35,000.00

**Michaela Auman – Notes:**

Remuneration as Director of Banca Farmafactoring Spa € 35,000.00

Remuneration as Chairman of the Control and Risk Committee of Banca Farmafactoring Spa € 15,000.00

**Mark John Arnold – Notes:**

Waives the remuneration for the office of Director of Banca Farmafactoring Spa

**Federico Fornari Luswergh – Notes:**

Remuneration as Director of Banca Farmafactoring Spa € 35,000.00

Remuneration as Chairman of the Appointment Committee of Banca Farmafactoring Spa € 15,000.00

		<i>COURTESY TRANSLATION</i>
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**Ben Carlton Langworthy – Notes:**

Waives the remuneration for the office of Director of Banca Farmafactoring Spa

**Elisabetta Oliveri – Notes:**

Remuneration as Director of Banca Farmafactoring Spa € 35,000.00

Remuneration as Chairman of the Remuneration Committee of Banca Farmafactoring Spa € 15,000.00

Remuneration as Chairman of the RPT Committee of Banca Farmafactoring Spa € 11.055,00 (since 7 April 2017)

**Marco Riccardo Rabuffi – Notes:**

Remuneration as Director of Banca Farmafactoring Spa € 35,000.00

**Giampaolo Zambelletti Rossi– Notes:**

Remuneration as Director of Banca Farmafactoring Spa € 35,000.00

**Francesco Tabone– Notes:**

Remuneration period from 01.01.2017 to 06.04.2017

Remuneration as Chairman of the Board of Statutory Auditors of Banca Farmafactoring Spa € 18,410.96

Remuneration as Member of the Supervisory Body of Banca Farmafactoring Spa € 2,630.00

**Marco Lori– Notes:**

Remuneration as Member of the Board of Statutory Auditors of Banca Farmafactoring Spa € 13,150.68 (period 01.01.2017 - 06.04.2017)

		<i>COURTESY TRANSLATION</i>
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Remuneration as Chairman of the Board of Statutory Auditors of Banca Farmafactoring Spa € 51,589.04 (period 07.04.2017 - 31.12.2017)

Remuneration as Member of the Supervisory Body of Banca Farmafactoring Spa € 7,370.00 (period 07.04.2017 - 31.12.2017)

**Patrizia Paleologo– Notes:**

Remuneration as Statutory Auditor of Banca Farmafactoring Spa € 50,000.00

**Sabrina Pugliese– Notes:**

Remuneration period from 07.04.2017 to 31.12.2017

Remuneration as Statutory Auditor of Banca Farmafactoring Spa € 36,849.32

**Gianmaria Garegnani – Notes:**

Remuneration as Chairman of the Supervisory Body of Banca Farmafactoring Spa € 30,000.00

**Marina Corsi – Notes:**

No remuneration is provided for the office of Member of the Supervisory Body of Banca Farmafactoring Spa, since she is an employee of the same Bank

**Managers with Strategic Responsibilities – Notes:**

Remuneration for Managers with Strategic Responsibility € 1,375,192.84; variable remuneration € 141,110.99 (referred to the deferred 2015 MBO); non-monetary benefits € 172,395.91; value of the Stock Options relating to the first allocation tranche envisaged in the Stock Option Plan € 497,952.00.

### 3.2 ANALYTICAL TABLES ON " STOCK OPTIONS ASSIGNED TO THE MEMBERS OF THE ADMINISTRATIVE BODY, TO GENERAL MANAGERS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES "

We set out below the instructions of Scheme 7-bis:

" If stock option plans are established for members of the administrative body, for general managers and other executives with strategic responsibilities, the issuer uses table 2.

In this table, the following are specified for each party involved and for each stock option plan intended for him:

- the options **held** at the beginning of the year, specifying exercise price and period of possible exercise;
- the options **assigned** during the year, specifying the exercise price, the period of possible exercise, the fair value on the assignment date<sup>38</sup>, the assignment date and the market price of the underlying shares on that date;
- the options **exercised** during the year, indicating the exercise price and market price of the underlying shares at the time of exercise;
- the options **expired** during the year;
- options **held** at the end of the financial year;
- the fair value of the options of the relevant year.

Notes: each option corresponds to the subscription or purchase of one share.

The total (III) is specified with reference to columns (2), (5), (8), (11), (14), (15) and (16).

If an aggregated representation criterion is adopted, the following information is provided in the Table:

- the total number of options held at the beginning of the year, specifying the total exercise price paid and average maturity;
- the total number of options assigned during the year, indicating the total exercise price paid, the average maturity, the total fair value and the average price of the underlying shares when the options are assigned;
- the total number of options exercised during the year, indicating the total exercise price paid during the year and the average price of the underlying shares on the date of exercise;
- the total number of options vesting during the year;
- the total number of options held at the end of the year;
- the total fair value of the options of the relevant year".

<sup>38</sup> The fair value on the assignment date is indicated with reference to all options assigned in relation to each Plan and not with reference to each option.

		Options held at the beginning of the year				Options assigned during the year						Options exercised during the year			Options vested during the year	Options held at the end of the year	Options of the year
A	B	-1	-2	-3	-4	-5	-6	-7	-8	-9	-10	-11	-12	-13	-14	(15) = (2)+(5)-(11)-(14)	-16
Name and surname	Office	Plan	Number of options	Exercise price	Period of possible exercise (from - to)	Number of options	Exercise price	Period of possible exercise (from - to)	Fair value on assignment date	Assignment date	Market value of underlying shares on the assignment date	Number of options	Exercise price	Market price of underlying shares on the exercise date	Number of options	Number of options	Fair value
Massimiliano Belingheri	Chief Executive Officer																
(I) Compensation in the company preparing the financial statements	Stock Option Plan of the BFF Group approved by the Meeting of 5/12/2016 (1st tranche)					1,344,000	(*)	From 2019 to 2021	0.39	07-apr-17	Share price on 7 April (listing day) = 4.7	-	-	-	-	1,344,000	524,160
(II) Compensation from subsidiaries and associates	Plan A (related date of resolution)																
	Plan B (related date of resolution)																
(III) Total						1,344,000										1,344,000	
Managers with strategic responsibilities (n. 7)																	
(I) Compensation in the company preparing the financial statements	Stock Option Plan of the BFF Group approved by the Meeting of 5/12/2016 (1st tranche)					1,276,800	(*)	From 2019 to 2021	0.39	07-apr-17	Share price on 7 April (listing day) = 4.7					1,276,800	497,952.00
(II) Compensation from subsidiaries and associates																	
(III) Total						1,276,800										1,276,800	

	 BFF BANKING GROUP	<i>COURTESY TRANSLATION</i>
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(\*) The exercise price is the listing price increased by 8% per annum minus dividends.

### 3.3 ANALYTICAL TABLES ON "INCENTIVE PLANS FOR MEMBERS OF THE ADMINISTRATIVE BODY, GENERAL MANAGERS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES"

We set out below the instructions of Scheme 7-bis:

“The total (III) is specified with reference to columns (5), (11) and (12).

In table 3A, for each party concerned and for each incentive plan intended for him, the following are specified:

- financial instruments assigned during previous years and not vested during the year, specifying the vesting period;
- financial instruments assigned during the year, indicating the fair value on the assignment date<sup>39</sup>, of the vesting period, the assignment date and the market price at the time of assignment;
- financial instruments vested during the year and not assigned;
- financial instruments vested during the year and assignable, with an indication of the value on the maturity date;
- the fair value of the financial instruments of the relevant year.

The term **vesting period** is used to refer to the period running from the time when the right to participate in the incentive plan is assigned to that when the right matures.

**Financial instruments vested during the year and not assigned** are financial instruments for which the vesting period concluded during the year and which have not been assigned to the addressee due to failure to fulfil the conditions to which assignment of the instrument was subject (e.g. failure to achieve performance objectives).

The **value on vesting date** is the value of the financial instruments vested, even if not yet paid (e.g. due to the inclusion of lock up clauses) at the end of the vesting period.

If an aggregated representation criterion is adopted, the following information is provided in the Table:

- the total number of non-vested financial instruments held at the start of the year, indicating average maturity;
- the total number of financial instruments assigned at the start of the year, indicating the total fair value, average maturity and average market price at the time of assignment;
- total number of financial instruments vested during the year and not assigned;
- the total number of financial instruments vested during the year and assignable, specifying the total market value;
- the total fair value of the financial instruments of the relevant year.”

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<sup>39</sup> The fair value on the assignment date is indicated with reference to all financial instruments assigned in relation to each Plan and not with reference to each instrument.

		Financial instruments assigned during previous years and not vested during the year			Financial instruments assigned during the year						Financial instruments vested during the year and not assigned	Financial instruments vested during the year and able to be assigned	Financial instruments of the year
A	B	-1	-2	-3	-4	-5	-6	-7	-8	-9	-10	-11	-12
Name and surname	Office	Plan	Number and type of financial instruments	Vesting period	Number and type of financial instruments	Fair value on assignment date	Vesting period	Assignment date	Market price on The assignment date	Number and type of financial instruments	Number and type of financial instruments	Value on the vesting date	Fair value
Massimiliano Belingheri	Chief Executive Officer												
(I) Compensation in the company preparing the financial statements		Phantom Share Plan of the BFF Group (2016)	52,275	2018						-	-	-	52,275
(II) Compensation from subsidiaries and associates	Plan A (date of relevant resolution)												
	Plan B (date of relevant resolution)												
(III) Total													

Managers with strategic responsibilities (n. 7)													
(I) Compensation in the company preparing the financial statements	Phantom Share Plan of the BFF Group (2016)	46,217	2018							-	-	-	46,217
(II) Compensation from subsidiaries and associates	Plan A (date of relevant resolution)												
	Plan B (date of relevant resolution)												
(III) Total													

		<i>COURTESY TRANSLATION</i>
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### 3.4 ANALYTICAL TABLES ON “MONETARY INCENTIVE PLANS FOR THE MEMBERS OF THE MANAGEMENT BODY, GENERAL MANAGERS AND OTHER MANAGERS WITH STRATEGIC RESPONSIBILITIES”

We set out below the instructions of Scheme 7-bis:

“It should be noted that the Table refers to all types of monetary incentive plans, both in the short term and in the medium-long term.

The total (III) is specified with reference to all columns apart from column (2C).

**Column 2A** specifies the bonus competent to the year accrued for the objectives achieved during the year and disbursed or able to be disbursed because not subject to any other conditions (upfront compensation).

**Column 2B** specifies the bonus linked to objectives to be achieved during the year, but which cannot be disbursed because it is subject to additional conditions (deferred bonus).

**Column 3A** specifies the sum of the bonuses deferred in previous years, still to be disbursed at the start of the year and no longer able to be disbursed due to failure to fulfil the conditions to which they are subject.

**Column 3B** specifies the sum of bonuses deferred in previous years, still to be disbursed at the start of the year and disbursed during the year or able to be disbursed.

**Column 3C** specifies the sum of the bonuses deferred in previous years, still to be disbursed at the start of the year and which are further deferred.

The sum of the amounts specified in columns 3A, 3B and 3C corresponds to the sum of the amounts indicated in columns 2B and 3C of the previous year.

**Other Bonuses** specifies the bonuses competent for the year, not specifically included in specific plans defined ex ante.

If an aggregated representation criterion is adopted, the following information is provided in the Table:

- total bonuses for the year, broken down into disbursed and deferred, specifying the average deferral period for the latter;
- total bonuses for previous years, broken down into no longer able to be disbursed, disbursed and still deferred;
- total other bonuses.

Name and surname	Office	Plan	Bonus of the year			Bonuses of previous years			Other Bonuses
			(A) Payable / paid	(B) Deferred	(C) Deferment period	(A) Not payable anymore	(B) Payable / paid	(c) Still deferred	
Massimiliano Belingheri	Chief Executive Officer	Plan 2017	-	-	-	-	-	-	
		Plan 2016						156,825.00	
		Plan 2015					160,114.28		
(II) Compensation from subsidiaries and associates		Plan A (date of relevant resolution)							
		Plan B (date of relevant resolution)							
(III) Total							160,114.28	156,825.00	

Managers with strategic responsibilities (n. 7)			(A)	(B)	(C)	(A)	(B)	(c)	
			Payable / paid	Deferred	Deferment period	Not payable anymore	Payable / paid	Still deferred	
(I) Compensation in the company preparing the financial statement	Plan 2017		-	-	-	-	-	-	
	Plan 2016							138,653.52	
	Plan 2015						141,110.99		
(II) Compensation from subsidiaries and associates	Plan A (date of relevant resolution)								
	Plan B (date of relevant resolution)								
(III) Total							141,110.99	138,653.52	

**3.5 ANALYTICAL TABLES ON “INFORMATION ON THE INVESTMENTS HELD BY THE MEMBERS OF THE ADMINISTRATIVE AND AUDITING BODIES, BY GENERAL MANAGERS AND BY OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES”**

We set out below the instructions of Scheme 7-bis:

“The disclosure on investments held by members of the administrative and auditing bodies, by general manager and by executives with strategic responsibilities in companies with listed shares and in companies it controls, is given in table form.

More specifically, the names are given of the members of the administrative and auditing bodies and the general managers and jointly for the other executives with strategic responsibilities, with regards to each subsidiary, the number of shares, divided up according to category:

- held at the end of the previous year;
- acquired during the reference year;
- sold during the reference year;
- held at the end of the reference year.

In this regard, the title and method of possession is also specified.

All parties are included who, during the course of the reference year, held the office of member of the administration and auditing body, general manager or executive with strategic responsibilities, even if only for part of the year.”

TABLE 1: Investments of the members of the administrative and auditing bodies and general managers

SURNAME AND NAME	OFFICE	INVESTEE COMPANY	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR	NUMBER OF SHARES ACQUIRED	NUMBER OF SHARES SOLD	NUMBER OF SHARES HELD AT THE END OF THE CURRENT YEAR
Belingeri Massimiliano	Chief Executive Officer	Banca Farmafactoring S.p.A.	-	5,883,835 (*)	-	5,883,835

(\*) The shares derive from an exchange between the shares of BFF Luxembourg (held by Mr. Belingeri) and the Bank's shares finalized in favour of Mr. Belingeri at the end of the listing transaction that involved the Bank.

TABLE 2: Investments of other executives with strategic responsibilities

NUMBER OF EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	INVESTEE COMPANY	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR	NUMBER OF SHARES ACQUIRED	NUMBER OF SHARES SOLD	NUMBER OF SHARES HELD AT THE END OF THE CURRENT YEAR
Managers with strategic responsibilities (n. 7)	Banca Farmafactoring S.p.A.	-	4,053,203 (**)	-	4,053,203

(\*\*) The shares derive from an exchange between the shares of BFF Luxembourg (held by Managers with strategic responsibilities) and the Bank's shares finalized in favour of Managers with strategic responsibilities at the end of the listing transaction that involved the Bank.