



# 2022 Remuneration Framework

*March 2022*

# Executive summary



<b>Responsiveness</b>	<ul style="list-style-type: none"><li>▪ Following the non-approval of the Remuneration policy and Report, BFF has intensively engaged with the market to gather feedback and align its framework with best practices.</li></ul>	Slide 2
<b>General Principles</b>	<ul style="list-style-type: none"><li>▪ New pillar: Diversity Neutrality to be managed and monitored through a dedicated governance framework.</li></ul>	Slide 3
<b>What is new?</b>	<ul style="list-style-type: none"><li>▪ Reinforced disclosure, new LTI, alignment of practices with market recommendations.</li></ul>	Slide 4
<b><i>GCEO Compensation</i></b>	<ul style="list-style-type: none"><li>▪ Comprehensive and balanced remuneration package focused on performance-based pay.</li></ul>	Slide 8
<b><i>Employees Compensation</i></b>	<ul style="list-style-type: none"><li>▪ Retention and attractiveness enhanced through share awards to support the alignment of employees' interests with those of shareholders.</li></ul>	Slide 10
<b><i>2022 LTI</i></b>	<ul style="list-style-type: none"><li>▪ New LTI to incentivize Group CEO and employees following the integration with Depobank, resulting in updated structure and KPIs.</li></ul>	Slide 11

# Responsiveness



- Following the non-approval of the Remuneration Policy and Report at the 2021 AGM, **intensive relational activities with institutional investors and proxy advisors** have been conducted in liaison with the IR and the Group HR & Organizational Development involving of the Chairwoman of the Remuneration Committee.
- The **dialogue** with BFF's main investors and proxy advisors has been started to enhance awareness on Group's remuneration practices and to receive feedback, which provide useful input for the continuous internal evaluation and review process.

September – October 2021

## Off-Season Engagement Goal:

- Look back at the key features of the 2021 Remuneration Policy ("Policy"), which was not approved at the AGM, and gather a constructive feedback on them
- Understand the rationale of negative votes
- Obtain relevant feedbacks for 2022 Remuneration Policy and the New LTI Plan

March 2022

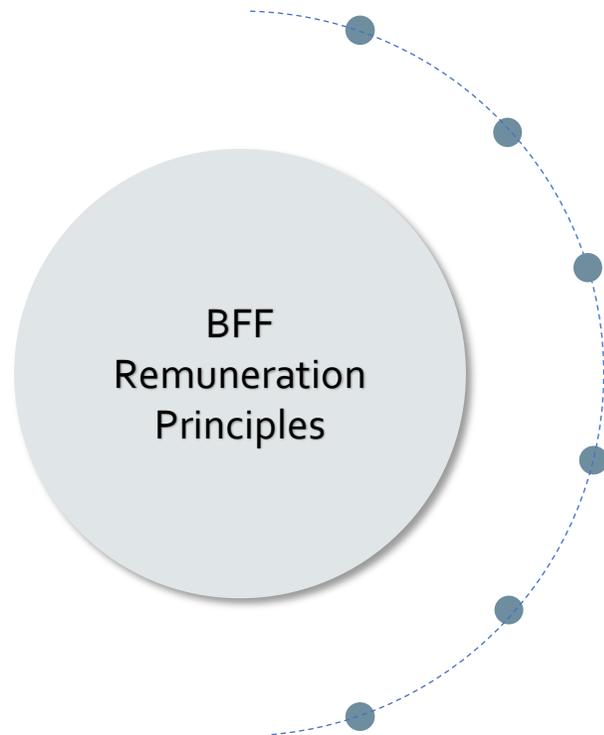
## Pre-AGM Engagement Goal:

- Present the main features of the 2022 Remuneration Policy and the New LTI Plan
- Ensure the transparent and complete disclosure on Group's remuneration practices
- Gather relevant feedback
- Clarify potential concerns prior to the AGM

AGM  
31-3-2022

# General Principles

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



NEW

Guarantee neutrality with respect to any sort of **diversity**, gender included, through dedicated governance framework

Be **consistent** with business objectives, business culture and the overall corporate governance structure in respect of sustainability

Attract and retain human resources with adequate skills to the Group's needs, further enhancing their **development and performance** also through a competitive remuneration system

Identify and guide the **achievement of objectives** linked to business results and consistent with the levels of capital and liquidity required

Align incentives with the Group's **risk taking** as well as **ESG performance**

Enhance retention by stretching **deferral and share-based** awards

# Remuneration Framework: What is new? (1/2)



## How our remuneration framework will improve if approved by the AGM

### 1 GCEO's STI: New Performance Criteria whilst Cap remains Unchanged

(i) ESG metric: Customer Satisfaction; (ii) Volumes of Credit Factoring; (iii) Volume of new AUD. Cap remains at 100% of fixed remuneration. EBTDA RA overperformance mechanism limited to 90% of STI award.

### 2 Significant Deferral in STI Payout

**GCEO:** shift from 30% to 60% of STI payout to be deferred and from 3 years to 5 years of deferral period, while the quantum remains unchanged.  
**Other managers with strategic responsibilities:** from 30% to 40% of STI payout to be deferred and from 2 years to 4 years of deferral period.

### 3 Severance Lower than 2 Times Pay

**GCEO:** max. 180% of pay, calculated as the sum of fixed pay and the average variable pay in the three-year period before. No further payments due to notice period since the GCEO is not an employee of the bank and thus he is not a beneficiary of any additional indemnity<sup>(1)</sup>. Payment is not guaranteed but subject to performance and clawback. **Other Personnel:** max. 24 months' pay.

### 4 Clarified that Bonuses are linked only to Performance

**GCEO** and **other managers with strategic responsibilities** will be eligible to receive bonuses only linked to performance objectives.

(1) BFF GCEO is not a BFF employee, he does not have any other indemnity (i.e., the one-year notice period for other Executives with his seniority in the Company) provided by national collective bargain agreements and his social security is very low.

# Remuneration Framework: What is new? (2/2)



## 5 New Performance-based Long-Term Incentive Plan

GCEO will be eligible to participate in the new equity-based LTI. Potential maximum dilution limited to 2.29% of share capital, 4.9% if including all outstanding options from past plans. The stock option plan entails both financial and non-financial (ESG) performance indicators. Strike price is calculated on the basis of the average share price of 30 days preceding the allocation of options, net of dividends paid during the same 30 days.

## 6 New Disclosure Variable Pay vs. Performance

The Report on compensation paid in 2021 provides details on:

- the performance indicators attached to the 1<sup>st</sup> tranche of the Integration Bonus<sup>(1)</sup> paid to the GCEO;
- results of performance indicators attached to the Integration Bonus and the STI.

## 7 Employees Average Remuneration Disclosure

Updated disclosure to introduce the annual change of the total pay of the Board of Directors and Statutory Auditors vs. average pay of BFF employees, in line with best international practices.

## 8 New Disclosure on Deviations

Improved disclosure and explanation of process for the derogation clause the Board or Remuneration Committee could use in the interests of the bank.

(1) **Not in the 2022 Policy:** 1<sup>st</sup> tranche, assigned in 2020, has already been paid and 2<sup>nd</sup> tranche, assigned in 2021, will be paid during 2022. The two-year incentive was aimed at ensuring effective integration of DEPObank into BFF Group based on gate criteria and performance metrics (integration roadmap, budget, synergies plan, group structure, people and management structure).

# Remuneration Framework: Proposed vs. Current



Topic		New Framework	Current Framework
Principles	<ul style="list-style-type: none"> <li>Gender Neutrality</li> </ul>	✓	×
STI (GCEO)	<ul style="list-style-type: none"> <li>Multiple performance criteria in addition to EBTDA RA</li> </ul>	✓	Single metric
	<ul style="list-style-type: none"> <li>ESG performance</li> </ul>	✓	×
	<ul style="list-style-type: none"> <li>Deferred component</li> </ul>	60%	30%
	<ul style="list-style-type: none"> <li>Deferral period</li> </ul>	5 years	3 years
Other bonuses	<ul style="list-style-type: none"> <li>Presence of Integration Bonus</li> </ul>	No	Yes
	<ul style="list-style-type: none"> <li>Granted only in case of performance to GCEO and top management</li> </ul>	✓	✓
LTI	<ul style="list-style-type: none"> <li>Exercise price setting in line with market practice</li> </ul>	✓	×
	<ul style="list-style-type: none"> <li>Deferral period</li> </ul>	3 years + 3 years	3 years + 18 months
	<ul style="list-style-type: none"> <li>Multiple performance criteria</li> </ul>	✓	×
	<ul style="list-style-type: none"> <li>ESG performance</li> </ul>	✓	×
Severance	<ul style="list-style-type: none"> <li>Calculated based on effective performance</li> </ul>	✓	×
Disclosure	<ul style="list-style-type: none"> <li>Ex-post disclosure of performance criteria for Integration Bonus (1<sup>st</sup> tranche)</li> </ul>	✓	×
	<ul style="list-style-type: none"> <li>Ex-post disclosure of performance results for STI</li> </ul>	✓	×
	<ul style="list-style-type: none"> <li>Employees Average Remuneration</li> </ul>	✓	×
	<ul style="list-style-type: none"> <li>Details on exceptional deviations from Policy</li> </ul>	✓	×
	<ul style="list-style-type: none"> <li>ESG Materiality Matrix</li> </ul>	✓	×

# Remuneration Framework: alignment with Corporate Governance Code



## Updates to comply with new Italian Corporate Governance Code

- Alignment with the principle that the remuneration of the members of the **control body** is commensurate with the competence, professionalism and commitment required by the significance of the position held and with the scale, business area and position of the company.
- Addition of **clawback** provisions for Variable Remuneration paid on the basis of data subsequently revealed to be manifestly incorrect.
- Presence of objectives and tools related to the **Sustainable Success** of the company.
- Majority of share awards subject to total **deferral and holding of at least 5 years**.

Aligned

Article



**Art. 30**



**Art. 27**



**Art. 27**



**Art. 28**

# GCEO Compensation Package



COMPONENT	DESCRIPTION
FIXED	The GCEO receives a Fixed Remuneration 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.
MBO	<p>MBO's maximum opportunity is equal to 100% of the Fixed Remuneration (excluding Benefits), subject to and conditional upon the:</p> <ul style="list-style-type: none"> <li>▪ <b>Gate criteria:</b> (i) LCR compliant with RAF; (ii) TCR compliant with RAF; (iii) EBTDA Risk Adjusted &gt; 0</li> <li>▪ <b>Performance criteria:</b> <ul style="list-style-type: none"> <li>➢ EBTDA RA above Target (weight 70%) -&gt; overperformance <math>\geq 110\%</math> target (additional weight 20%)</li> <li>➢ Factoring receivables (weight 15%)</li> <li>➢ Depository bank's new AUD volume (weight 15%)</li> <li>➢ ESG: Customer Satisfaction (weight 20%)</li> </ul> </li> </ul>
LTI	New LTI to incentivize GCEO and employees following the integration with Depobank. More details at slides 9-10.

Overall max. 200% of fixed pay

## Termination Payments

### Severance

- limited to 1.8 times the GCEO pay<sup>(1)</sup>
- 51% of severance paid in shares
- 40% upfront, 60% deferred over a six-year period
- Linked to performance and subject to clawback mechanism

**Non-compete agreement:** two-year length limited to 35% of the GCEO fixed pay. The GCEO non-compete agreement was signed prior to BFF's IPO.

**BFF Group CEO is not a company's employee "Dirigente", therefore the termination pay has not hidden costs because there are no further indemnity due to notice period.**

(1) calculated as the sum of the fixed pay and the average value of the variable pay received over the last 3 years.

# GCEO Compensation - Mitigation Factors



## Significant Deferral

Increase from 30% to 60% of the Variable Remuneration of the GCEO is subject to a deferral period of 5 years from its accrual.

BFF Bank must establish a threshold to define high earners: Variable Remuneration above €435,011 for the period 2022-2024 is considered "particularly high".

## Malus and Clawback

Variable Remuneration and termination pay are subject to ex-post adjustment mechanisms (Malus and Clawback), which can result in the variable component being reduced, significantly reduced or even eliminated.

The correction mechanisms must reflect performance levels net of the risks actually assumed or achieved and capital levels, as well as take into account individual conduct.

## Increased Share Component

Increase to at least 51% of the GCEO's Variable Remuneration to be granted in shares of the bank and related instruments, including stock options.

Such balancing between cash and shares applies to the entire Top Management.

# Other Employees Compensation Package



COMPONENT	DESCRIPTION
FIXED	Fixed Remuneration is related to the experience and professional skills of the people working in the company and is also based on the roles held. <b>Principles:</b> Fairness, Competitiveness, Market benchmarks, Meritocracy and Consistency over time.
MBO	<ul style="list-style-type: none"> <li>▪ <b>Max Award:</b> 100% of the Fixed Remuneration (excluding Benefits) for all Personnel, with different levels for seniority.</li> <li>▪ <b>Gate criteria:</b> (i) LCR compliant with RAF; (ii) TCR compliant with RAF; (iii) EBTDA Risk Adjusted = Target (&gt; 0 for deferred portion)</li> <li>▪ <b>Performance criteria (Senior Executives or Executives):</b> <ul style="list-style-type: none"> <li>➢ individual scorecard (quantitative 70% and qualitative 30%)</li> </ul> </li> <li>▪ <b>Multiplier:</b> <ul style="list-style-type: none"> <li>➢ EBTDA RA - Guarantees economic sustainability paying attention to risk and cost of capital;</li> <li>➢ Customer Satisfaction - as long-term element of business sustainability.</li> </ul> </li> </ul>
LTI	New LTI to incentivize GCEO and employees following the integration with Depobank. More details at slides 9-10.

Overall max.  
200% of  
fixed pay<sup>(1)</sup>

## Termination Payments (unchanged vs. 2021)

**Severance** does not exceed the limit of 24 months of the Overall Remuneration. In any event, these amounts may not exceed:

a) for Employees, €1,100,000

b) for Personnel other than employees, €4,500,000

The amounts recognised in compliance with legal obligations (e.g. severance pay, indemnity in lieu of notice) or for court settlements are excluded from the calculation of the aforementioned limits.

**Non-compete agreement** can be signed depending on the employee profile.

(1) Except for the Heads of Corporate Control Functions (33%) and Human Resources and Organisational Development Function and the Chief Financial Officer (50%).

- **Max Award:** 200% of fixed remuneration in aggregate with other variable remuneration.
- **Recipients:** The Plan is reserved for employees and executive directors of the Company, GCEO included.
- **Dilution:** The Plan consists of three tranches and provides for the allocation of options, up to a maximum of 9,700,000. Potential maximum dilution stemming from the plan corresponds to 2.29% of share capital, determined thanks to the cash-less formula<sup>(1)</sup> and assuming that 100% of the assignable options of the plan are Options A (equity-settled). Considering all outstanding options from past plans, dilution corresponds to maximum 4.9% of share capital.

The plan provides for two types of options:

- **Options A.** "Equity-settled", upon exercise the Beneficiary receives a number of ordinary shares of BFF determined in accordance with the following formula:

$$(Total\ Market\ Value\ of\ the\ Opted\ Shares - Total\ Exercise\ Price\ of\ the\ Opted\ Shares - Withholding\ Tax) / Unit\ Market\ Value$$

- **Options B.** "Cash-settled", upon exercise the Beneficiary is entitled to receive a bonus equal to the value of the phantom shares corresponding to the number of the accrued options convertible in cash in accordance with the following formula:

$$Total\ Market\ Value\ of\ the\ Opted\ Phantom\ Shares - Total\ Exercise\ Price\ of\ the\ Opted\ Phantom\ Shares$$

- **Exercise Price:** calculated on the basis of the average share price during the 30 days preceding the Grant Date, adjusted to take into account the dividends paid during the same 30 days.
- **Recovery Provision:** Malus and clawback clauses, potentially resulting in the withdrawal of the rights granted by the Plan.

(1) All three tranches envisage the cashless formula as the only mode to exercise the options; hence, the option-share ratio is always less than 1 and, in any case, the formula provides for a maximum limit (maximum theoretical market value) determined by the board, which, in fact, constitutes an additional cap to the number of issuable shares.

# 2022 LTI (2/3)



- **Gate criteria:** based on the Look Back Period<sup>(1)</sup> (i) individual performance criteria as per STI (MBO) and (ii) BFF's performance as follows:

KPI	DESCRIPTION
<b>Liquidity Coverage Ratio (LCR)</b>	> <i>risk tolerance</i> approved by the Board of Directors, and defined within the RAF (Risk Appetite Framework) in place at the closing date of the Look Back Period
<b>Total Capital Ratio (TCR)</b>	> <i>risk tolerance</i> approved by the Board of Directors, and defined within the RAF (Risk Appetite Framework) in place at the closing date of the Look Back Period
<b>EBTDA<sup>RA</sup></b>	positive

- **Option exercise and accrual conditions:** (i) permanence of employment and (ii) performance criteria, which serve as accrual conditions, set by the Board and weighted as follows:

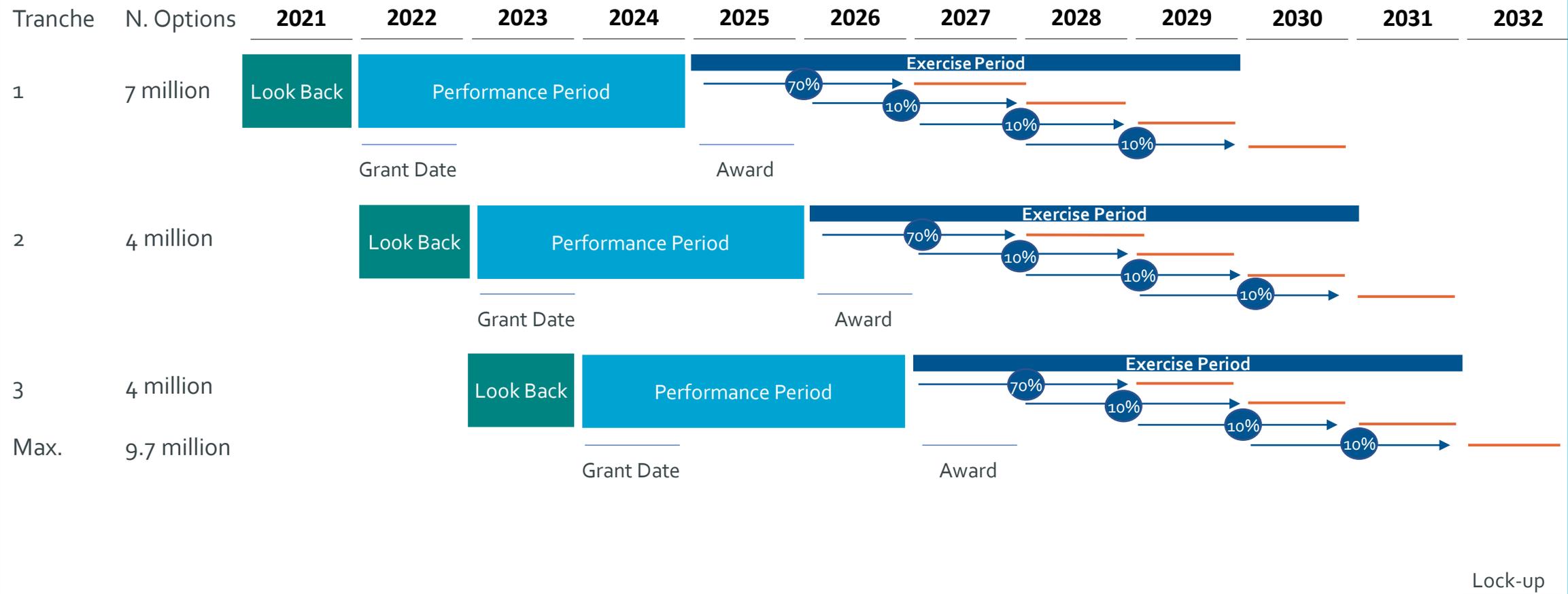
TYPE	KPI	WEIGHT	DESCRIPTION
Financial	<b>EBTDA RA</b>	50%	$EBTDA\ RA = EBTDA - (RWA\ M * TCR\ Target * Ke)$
	<b>EPS</b>	20%	Adjusted consolidated net income divided by share outstanding
	<b>C/I</b>	20%	OPEX and D&A / Net Banking Income and Other operating income
ESG	<b>Carbon Footprint</b>	5%	Direct CO <sub>2</sub> Emissions in the last year of the Performance Period / (Direct CO <sub>2</sub> Emissions Look Back Period - 1%)
	<b>Customer Satisfaction</b>	5%	Survey's result on the "Degree of Satisfaction" of the Bank's customers

(1) The Look Back Period corresponds to the year before the Grant Date (e.g., 2021, for the first Tranche to be allocated in 2022) in relation to which the individual performance of the Beneficiary and the Bank is assessed.

# 2022 LTI (3/3)



- **Vesting conditions:** 3 years of vesting, overall 6-year deferral period for Risk Takers (3 years for Non-Risk Takers) running from the date of granting of the Options, 1-year lock-up period running from the end of the deferral period.



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