

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

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Remuneration and incentive policies of the Banca Farmafactoring Banking Group

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1. INTRODUCTION

This “*Remuneration and incentive policy in favour of members of the Strategic Supervision, Management and Control Bodies, and Personnel of the Banca Farmafactoring Banking Group*” has been prepared in compliance with the provisions set out in Title IV, Chapter 2 of the Supervisory Provisions for Banks, contained in Circular no. 285 December 2013 of Bank of Italy, as subsequently updated (the “Policy”).

The Policy introduces the provisions of the delegated Regulations issued by EBA (European Banking Authority) regarding the RTS (Regulatory Technical Standards) for the identification of Most Significant Personnel, entered into force on the 24 June 2014.

The Policy is updated from the Board of Directors of the Parent Company and then submitted to the approval of the Shareholders’ Meeting of the Parent Company, in compliance with Laws and Regulations.

2. GENERAL PRINCIPLES

The Remuneration and incentive system of the Banca Farmafactoring Banking Group (hereafter, also the “Group”) is aimed at adhering to the following principles:

- to be coherent with the targets and business culture and the overall corporate governance structure and internal controls as well as the prudent risk management policies and long-term strategies;
- not to create conflict of interest situations;
- not to discourage, in the bodies and departments responsible for the same, control activity;
- to attract and retain persons having professionalisms and skills adequate to the Group's requirements, developing those persons through paths of professional growth;
- to base behaviours on the utmost diligence and correctness in relationships, in line with the Group's values;
- to identify and guide the achievement of targets:
 - linked to business results, appropriately adjusted to take account of risks,
 - coherent 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 acceptance of risks for the Group and the financial system as a whole.

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

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

3. DEFINITIONS

<i>Chief Executive Officer:</i>	The “management body” of the Parent Company, i.e. the Board member to whom the Parent Company Board of Directors delegates current management tasks, meaning implementation of policies approved by the strategic supervision function.
<i>Bank or Parent Company:</i>	Banca Farmafactoring S.p.A., Parent company of the Banca Farmafactoring Banking Group.
<i>Discretionary pension beneficiary:</i>	The benefit granted to the personnel or to a limited groups of the personnel, on individual or discretionary basis, excluding the right conferring immediate entitlement in accordance with the pension system adopted by the Bank or rather by the other Group companies for the entirety of the employees.
<i>Bonus:</i>	The monetary reward that follows within the variable remuneration, which is distributed as compensation towards the results accomplished under the incentive system adopted by the Bank or as compensation aimed to the retention of the resources.
<i>Circular 285:</i>	The 7 th update of Bank of Italy Circular no. 285 of December 17, 2013 “Banking supervisory disposals”, First Part, IV Title, Chapter 2.
<i>Manager:</i>	for the Bank, in Italy, reference is made to the provisions of the relevant Laws and Regulations and collective bargaining. The homologous qualification is expected, to the same extent, in the Subsidiaries.
<i>Executive:</i>	The roles responsible of organization units articulated or characterised by a high professional content that report to the Chief Executive Officer or to a Senior Executive, contributing significantly and with a broad autonomy for the achievement of the objectives of the belonging structure to provide qualified support/consultation to the Direction and the remaining part of the organization. They could fall within the Most Significant Personnel. The Executives are identified through specific Board of Directors decision.
<i>Corporate Control Functions:</i>	The Corporate Control Functions, as defined within the Bank of Italy Laws and Regulations in the field of Internal Control

	System ¹ . They are the Internal Audit Function, the Risk Management Function, the Compliance Function and, for the purpose of the current Policy – as indicated in the Circular n. 285 – Human Resources B.U..
Personnel:	The members of management, governing and controlling bodies, the employees and the Group associates.
Risk takers or Most Significant Personnel:	They are the persons whose professional activities have or could have a significant impact on the risk profile of the Group, as identified in chapter 8.1 of the Policy.
Stock Option Plan:	the Stock Option Plan approved by the BOD of 8 July 2016 and the Shareholders' Meeting of 5 December 2016.
Policy:	The current Policy.
Remuneration:	<p>Every payments or corresponded benefit, directly or indirectly, in cash, financial instruments or fringe benefits, in exchange for the provision of works or professional services provided by the Personnel to Banca Farmafactoring (hereafter the “Bank”) or to other Group companies. The main components of the Remuneration are:</p> <ul style="list-style-type: none"> • fixed component: preordained and definite part of the Remuneration • variable component of the Remuneration: <ol style="list-style-type: none"> i. every payment or benefit for which the recognition or the distribution depends on the performance, that is however measured (target profit, volumes etc.), or by other parameters (i.e. period of stay), excluding the severance rate as defined by the general regulation on the labour relations topic; ii. discretionary retirement benefits and the stipulation on the payment for the early termination of the employment relationship or rather of the appointment (so called golden parachute). <p>In particular, the incentive component is the possible component of the Remuneration that aims to recognise the reached results, establishing a direct connection between the effective and durable results of the Group and the Personnel</p>

¹ See Bank of Italy Circular no.285

	<p>payments related to the role and responsibilities undertaken within the corporate structure.</p> <p>They might not be revealed the payments or the marginal benefits, assigned to the Personnel on a non-discretionary basis, that follow within a general policy of the Bank and that do not produce any effects on hiring incentives perspective or rather on risk control.</p>
Senior Executives:	<p>Roles that report directly to the Chief Executive Officer or to the Board of Directors, contribute in a significant way to the achievement of the Group strategic objectives, they fall within the Most Important Personnel, they manage generally significant budget of resources and/or economics, in the field of formal delegation of powers. The Senior Executives are identified through specific Board of Directors decision.</p>
Risk takers:	<p>See the definition of most significant Personnel.</p>
Subsidiary/ies:	<p>The companies belonging to the Banca Farmafactoring Banking Group.</p>
By-Laws:	<p>The Corporate By-Laws of the Bank.</p>

4. RELEVANT LEGAL AND REGULATORY CONTEXT

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 goals of the stakeholders.

The domestic and international legal and regulatory context 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 awareness of the need to achieve a weighted balance between, on one side, companies equipping themselves with Remuneration mechanisms that are adequate to retain and attract strategic resources for their growth but, on the other side, these mechanisms being, at the same time, proportionate and coherent with the results achieved by the company.

The content of Circular no. 285 dated 17/12/2013 “*Supervisory Provisions for Banks*”², 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. 933³, incorporates the provisions contained in European Directive 2013/36/EU dated 26 June 2013 (hereinafter, the “CRD 4”), and the guidelines developed in the international framework (including those of the EBA and FBS).

The CRD 4 contains specific principles and criteria to 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 level of capitalisation and levels of liquidity of each intermediary; *iv*) increase the level of transparency towards the market; *v*) strengthen the control action by the supervisory authorities. Those goals are also accompanied by a general containment of operating costs, with the aim of not excessively limiting the autonomy of banks and respecting the fundamental principle of proportionality.

² See First Section, Title IV, Chapter 2.

³ Decree dated 27 December 2006, no. 933, issued urgently by the Minister of Economy and Finance in the capacity of President 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 urgently by the Minister of Economy and Finance in the capacity of President of the CICR, in relation to remuneration and incentive systems in banks and banking groups in compliance with international guidelines and European regulations.

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

One of the most delicate aspects governed by the *regulatory technical standards* (RTS) is the process of identifying the “Most Significant Personnel”, the so-called *material risk takers*, i.e. the categories of persons whose professional activity have 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. 604⁴ are applied; the process of identifying *risk takers* must allow the Group to graduate the application of the entire regulation on remuneration 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 the EBA (Guidelines - GL 2014/7 and 2014/8 dated 16 July 2014) which, in compliance with CRD 4, outline the data collection methods and the reporting forms that intermediaries must use to transmit information, on their remuneration systems, to the national supervisory authorities which then deal with forwarding the same information to the EBA.

In particular, guidelines concern:

- 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 annually (GL 2014/07, “*Guidelines on the data collection exercise regarding high earners*”);
- so-called benchmarking activity, aimed at monitoring and comparing remuneration trends and practices – particularly of so-called *risk takers* – in a sample of major European intermediaries, selected by the relevant supervisory authorities in accordance with the representation criteria provided by the EBA (GL 2014/08, “*Guidelines on the remuneration benchmarking exercise*”).

The objectives set by EU and domestic Laws & Regulations with reference to Remuneration and incentive policies are reflected in the identification of control systems oriented mainly at containing

⁴ 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.

risks. Those controls provide for the definition, in banks, of Remuneration systems that, as well as having to be aligned with the 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) coherent with:

- the framework for determining the maximum levels of risk that the Group intends to accept and, consequently, upon which the Remuneration can be based;
- the governance and risk management policies;
- the capital and liquidity required to cover the activities undertaken.

In general, the Remuneration systems must be structured in such a way as to avoid the incentives being in conflict with the Group's interests in a long-term perspective.

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 powers of management and coordination in order to ensure uniformity to the overall management of the system, therein including the Group's Remuneration and incentive system set out in the Policy.

The Parent Company develops the document on Remuneration policies for the entire Group, ensures its overall coherence, provides the guidelines required for its implementation and verifies its correct application.

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

In case the Parent Company identifies that the remuneration policies are not coherent with the guidelines indicated or compliant with the applicable provisions, it solicits, through formal interventions, the necessary amendments.

6. GOVERNANCE OF THE REMUNERATION AND INCENTIVE SYSTEM

The Group, through adequate Remuneration and incentive mechanisms, intends to encourage business competitiveness in respect of the principle of sound and prudent management and to strengthen the governance of the company, ensuring that decisions are taken independently, promptly and in an informed manner at an appropriate level, so as to avoid conflicts of interest and to 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, as specifically laid down by the Supervisory Provisions.

For the Subsidiaries, regarding what is not expressly referred to in this Policy, it is necessary to refer to the regulatory requirements of the country of each Subsidiary and to the governance structure adopted.

Shareholders' Meeting

In addition to its legal responsibilities, the By-Laws of Banca Farmafactoring, with reference to the Remuneration policies, establishes that the Ordinary Shareholders' Meeting:

- determines the compensations to be paid to the Directors, Statutory Auditors, Independent Statutory Auditor entrusted with the audit mandate;
- approves the Remuneration and incentive policies in favour of the strategic supervision, management and control bodies and Personnel;
- approves possible Remuneration plans based upon financial instruments;
- approves the criteria for determining the remuneration to be granted in the event of early conclusion of the employment relationship or early termination of the role, including therein the limits fixed to that remuneration in terms of annual fixed remuneration and the maximum amount that derives from their application;
- resolves, when approving the remuneration and incentive policies, on any proposal by the Board of Directors to establish a limit to the ratio between the variable and fixed component of individual remuneration above 1:1 – but, in any case, no higher than two hundred per cent

-, in accordance with the provisions of the Bank of Italy in that regard. That proposal is approved by the Shareholders' Meeting:

- i) with the favourable vote of at least two out of three of the share capital represented at the Shareholders' Meeting, when this is constituted with at least half of the share capital, or when it does not occur;
 - ii) with the favourable vote of at least three out of four of the capital represented at the Shareholders' Meeting, whatever amount of capital with which the Shareholders' Meeting is constituted;
- approves the Stock Option Plan, upon proposal of the Board of Directors;
 - takes vision, at least annually, of an information on the Remuneration and incentive policies adopted by the Bank, and implemented in accordance with the methods defined in the Supervisory provisions. That disclosure contains the same information regarding the remuneration and incentive systems and practices provided to the public, in compliance with the provisions of Circular 285.

Board of Directors

The Board of Directors:

- develops, submits to the Shareholders' Meeting and re-examines at least annually the remuneration and incentive policy and is responsible for its correct implementation, ensuring that said policy is adequately documented and accessible within the corporate structure;
- defines the remuneration and incentive systems for the Chief Executive Officer, the directors in charge of specific roles, the Senior Executives, the Executives, and also – regarding the Parent Company – for the Head of Corporate Control Functions of the Parent Company. Particularly, the Board of Directors ensures that said systems are compliant with the overall decisions of the Bank in terms of risks-taking, strategies, long-terms objectives, corporate governance structure and internal controls;
- defines the Remuneration assigned to the executive directors and, to the directors in charge of specific roles, for the Parent Company;

- defines Remunerations at a Group level , and also – on the basis of the proposal by the Chief Executive Officer – the annual goals, and the related evaluation, of: Senior Executives, Executives that directly report to the Chief Executive Officer, Heads of the Corporate Control Functions of the Parent Company, in compliance with Laws & Regulations and the current Policy;
- identifies, having heard the Remuneration Committee, the Bank and the Group “Managers” beneficiaries of the Stock Option Plan.

Chief Executive Officer

The Chief Executive Officer:

- submits to the Board of Directors the review of the Remuneration and incentive policy;
- defines and approves the operative process of the definition of the criteria on which the Remuneration and incentive system is based, in compliance with what provided for in the Policy;
- defines the Remuneration for:
 - a) the Executives that do not directly report to the Chief Executive Officer;
 - b) the Bank Personnel not included, in terms of Remuneration, in the competence of the Shareholders’ Meeting and/or the Board of Directors.
- defines the remuneration system for the Group's subsidiaries, within the limit of the domestic applicable Laws and Regulations of reference;
- identifies the Bank and the Group non-“Managers” employees, beneficiaries of the Stock Option Plan.

Remuneration Committee

The Board of Directors, on 25 January 2013, established the Remuneration Committee, a body with advisory and proactive function on the Remuneration and incentive of Personnel policies towards the Board of Directors. The Committee is composed of three not executive members of the Board of Directors, two of them independent, with the following tasks:

- proposal of the Remunerations of the Personnel, whose remunerations and incentive systems are defined by the Board of Directors, and
- advisory regarding the determination of the criteria of remuneration of the Most Significant Personnel and in the matter of identification of the Bank and the Group “Managers”, beneficiaries of the Stock Option Plan.

Control and Risk Committee

The Board of Directors, on 24 July 2014, set up the Risk Committee, subsequently renamed Control and Risk Committee, whose functions include that of assuring that the incentives underlying the Group's Remuneration system are coherent with the maximum level of risk that the Group intends to adopt.

Corporate Control Functions

The Corporate Control Functions, each to the extent of their competence, ensure, amongst other things, the conformity and adequacy of the Remuneration policies adopted by the Group in respect of existing regulations as specified above.

The Compliance Function verifies, *inter alia*, that the corporate Bonus system is coherent 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, to the purpose of limit the legal and reputational risks inherent particularly to the relationships with customers.

The Risk Management Function verifies, *inter alia*, the achievement of the gate for the access to the variable component of the Remuneration.

The Internal Audit Function verifies, *inter alia*, at least on an annual basis, the compliance of the remuneration practices with the Remuneration and incentive policies.

B.U. HR

The HR Business Unit:

- applies the provisions contained in the Policy translating them in an operational perspective;
- ensures the correct application of the remuneration and incentive system criteria and parameters within the Group;

- performs the benchmark analysis on the reference labour market and the fairness analysis within the company in order to determine:
 - proposals for the Policy review
 - review of the Remuneration and incentive system for what relates to the instruments, manner, operational mechanism and parameters adopted by the Bank
- coordinates the process for identification and definition of the Most Significant Personnel provides support to the Remuneration Committee.

7. CORPORATE BODIES AND SUPERVISORY BODY

The remuneration system of Corporate Bodies is based upon compliance with existing regulations, therein including the regulatory provisions in relation to the remuneration policy and practices issued by the Bank of Italy.

7.1 Directors

All Directors

- receive a fee fixed by the Shareholders' Meeting in addition to the reimbursement of costs actually incurred for the exercise of their functions;
- for those who are Chairmen of Committees, a fee 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.

In no case the non-executive Directors are recipients of Remuneration against the achievement of profitability ratios or earnings of the Group.

Chairman of the Board of Directors:

To the Chairman of the Board of Directors is paid 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 coherent with the role attributed to them, in an amount no higher than the fixed, gross annual, remuneration received by the Chief Executive Officer.

Chief Executive Officer

The Chief Executive Officer, receives as Remuneration:

- a fixed component consisting of a fee established by the Board of Directors in accordance with Art. 2389, Third Paragraph, and possible benefits;
- a variable component linked to achieving and exceeding the economic target identified in the budget, adjusted for risk as indicated in the *risk appetite framework*, as well as maintaining the minimum standards of regulatory capital and liquidity. The malus and claw back mechanism are applied to the variable remuneration, as defined in the next chapter 8.2.

- a possible allocation of the stock options in case of the listing of the Bank.

7.2 Statutory Auditors

Statutory Auditors:

- receive a fee established by the Shareholders' Meeting;
- do not receive any variable remuneration or remuneration linked to the results of the Bank, or of the Group;
- have a “civil liability” insurance policy.

In accordance with the provisions of paragraph 16 of IAS 24, the information on fees paid to the Directors and Statutory Auditors are set out in part H of the Explanatory Notes to the Financial Statements as part of the information on the remuneration of Managers with strategic responsibilities.

7.3 Supervisory Body established in accordance with Italian Legislative Decree no. 231/2001

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

In no case, they can receive variable remuneration linked to the results of the Group.

8. ADOPTION AND CONTROL PROCESS OF REMUNERATION POLICIES IN FAVOUR OF THE CHIEF EXECUTIVE OFFICER AND THE MOST SIGNIFICANT PERSONNEL

The Group's Remuneration and incentive policies have been defined in coherence with the principle of prudent risk management and the long-term strategies of the Group and its members, establishing a correct balance between the fixed and variable components of Remuneration and, with regard to the latter, risk weighting systems and mechanisms aimed at ensuring the link between the variable component and actual and lasting results.

The Group's Remuneration and incentive policies pursue the dual goal of attracting and retaining, within the companies of the Group, persons having professionalisms and skills adequate to business requirements and to provide an incentive aimed at increasing their commitment to improve business performances.

The economic treatment paid to the Personnel is established by the relevant Bodies based upon applicable contractual regulations⁵. It consists of a fixed share, i.e. fixed and standardised, and a variable share, which may be reduced or zeroed even in relation to the dynamic of the Group's economic and capital results. The incidence of the gross variable annual Remuneration compared to the gross fixed annual Remuneration must be appropriately balanced, to ensure the correct inclination towards results, efficiency and to guarantee adequate flexibility in the costs structure.

In order to avoid possible circumventions of the applicable regulations and the Group policy, the Remuneration must not be paid by way of vehicles, instruments or methods that are in any way elusive. The Personnel cannot use strategies of personal or insurance cover on Remuneration or on other aspects that may alter or undermine the effects of alignment to the risk inherent in the Remuneration mechanisms.

The general criteria of the Remuneration policy are accessible to all the Personnel to which they apply, in compliance with the right of confidentiality of each person and in a logic of continuity. The parameters used to determine the variable component of the Remuneration are clearly identified and shared with those affected. The criteria on which the valuations are based are clear

⁵National Collective Labour Agreement for executives and Personnel of professional areas employed by credit, financial and instrumental companies and National Collective Labour Agreement for managers employed by credit, financial and instrumental companies and similar collective contracts of the Spanish legal system.

and predetermined and the decision-making process is adequately documented and made clear to every interested party.

The B.U. HR is the corporate structure in charge for the compliance with the provisions set in the Policy through instruments of HR management, ensuring their implementation on a Group level.

The adherence of the Remuneration system to the founding values of the Group is additionally and significantly verified and confirmed in the control exercised in that area by the Company Control Functions.

In particular, at least on an annual basis, based on market analysis, organizational improvements or strategic guidelines of the Group, the B.U. HR verifies the necessity to update the Remuneration and incentive policies. Moreover, the B.U. HR verifies the incentive system of the Personnel, in terms of instruments, measures, operative mechanisms and parameters adopted by the Group in order to implement the provisions of the Policy.

The implementation of the adopted Remuneration policies is verified, at least on an annual basis, by the Compliance Function and Internal Audit Function, each insofar as it is responsible, in order to ensure the adequacy and compliance of the adopted remuneration policies and practices with existing regulations and their correct operation. In particular:

- the Compliance Function provides an assessment in advance in relation to the compliance of the Remuneration policies with the relevant legal and regulatory context and later verifies, amongst other things, that the company bonus system is coherent with the objectives of compliance of Laws and Regulations, the By-Laws, the Code of Ethics of the Bank, or any other applicable standards of conduct, so that legal and reputational risks are properly contained;
- the Internal Audit Function verifies, at least annually, the correspondence of the Remuneration practices with the approved policies and the relevant Laws and Regulations.

The planning of the activities of the two Functions takes into consideration the cited duties of verification. In order for the necessary corrective measures to be adopted, both Functions must report any anomalies to the Corporate Bodies and the relevant departments, which assess their significance for the purposes of prompt information to the Bank of Italy.

The outcomes of the verification conducted by the Internal Audit Function are notified annually to the Board of Directors and the Shareholders' Meeting.

The process of formation of the Group's Remuneration policies also involves:

- Risk Management Function: supports the identification of Most Significant Personnel providing indications on the current and future risk profile in line with the ICAAP analysis, also at consolidated level;
- Organization, ICT & HR Department: supports the identification of the Most Significant Personnel, providing indications on the current and future risk profile in line with the internal regulation regarding the tasks of the corporate structures and the corporate procedures;
- Planning, Administration and Control Department: ensures the truthfulness and the correctness of the accounting documents supporting of the final balance sheet proposals of economic-financial performances.

8.1 Definition of “Most Significant Personnel” and classification of the company roles

The Remuneration and incentive policies are based upon a classification system of company roles coherent with the definition of “Most Significant Personnel” established by the Group. In particular, the Group has identified the Most Significant Personnel, by way of an assessment process – entrusted to the B.U. HR in collaboration with the B.U. Organization and Regulation and the Risk Management Function – performed on the basis of the provisions of existing applicable law, the Group internal regulation, the corporate procedure, the job description and the 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.

8.2 Remuneration structure by individual company role

The Remuneration structure involves a “balanced package” composed of a fixed component, which compensates the role covered and the width of responsibilities, and by an incentive component, which aims to recognise the results achieved, establishing a direct link between the remuneration and the actual results of the Group as a whole, the company and the individual.

The payment of the variable component, both *up front* and deferred, is in any case subject to

compliance with the parameters of salary, liquidity and capital requirements.

i) Fixed component

The significance of the fixed component within the overall Remuneration is aimed at discouraging initiatives focused on short-term results that could jeopardise the sustainability and the creation of value in the long-term and at allowing for a flexible approach to the variable incentive.

In any case, that component is related to the experiences and professional skills of the persons who work in the company.

The guidelines of the Group's remuneration policies are based upon some key principles, consistent with the Code of Ethics and which can be summarised in the principles of:

- ✓ 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 roles and responsibilities covered, with no discrimination whatsoever, giving to everyone the same career opportunities;
- ✓ competitiveness, meaning the analysis of the remuneration positioning of each position with respect to specific market benchmarks;
- ✓ meritocracy, which is expressed by placing value in individuals based upon the recognition of their merit;
- ✓ coherence over time, with reference to medium to long-term objectives 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 of the Remuneration must be balanced between positions that have similar complexity, impact and levels of responsibility;
- the value paid reflects the experience accrued, the expertise acquired and the performance achieved;
- the Remuneration of a position is coherent with respect to the value of market salaries for positions of similar complexity, taking account of the performance in the role covered.

ii) Variable component

The variable remuneration is related to the activation of an incentive system based on two principles:

- the allocation of business goals linked to the achievement of economic results and the respect of “gates” identified and defined by the Board of Directors. In this field, for the activation of the incentive system, appropriate levels of access have been identified which can be customized based on the country and business lines, and,
- the assigning of individual goals (quantitative). The mix of quantitative and qualitative objectives is appropriately balanced in function of the roles and responsibilities of eligible personnel.

By the first quarter of each year in accordance with the guidelines provided by the Chief Executive Officer, and through a process aiming to a full alignment and a wider sharing, all the Heads of Business Units/Functions/Departments communicate to their employees the quantitative and qualitative targets, under which, at the end of the year, they shall evaluate the individual performance and the incentive connected to it shall be given. As for the Senior Executives and Executives who are directly reporting to the Chief Executive Officer, they identify their goals with the Chief Executive Officer, which are subsequently approved by the Board of Directors, in compliance with the law and Policy, also with regard to the Heads of the Control Functions. For the Executives not directly reporting to the Chief Executive Officer, the objectives are determined by the latter.

With regard to the determination of such Bonus, it is provided an initial during which, in relation to the achievement of the individual objectives, the basic amount of the Bonus is determined; subsequently, in order to ensure the deliverability of the accrued Bonus, the verification of economic capital and liquidity "gates", defined at the beginning of the year, is performed. Moreover, the Bank may identify corporate parameters able to increase the amount of the Bonus based on individual performance. During the verification of the gates of profitability, the incremental costs arising from the application of such mechanisms will be deducted from the achieved results so as to ensure the full self-financing of the incentive system. In addition, the final Bonus is payable under the conditions and the limits provided by the Policy.

As regards in particular the Executive and Senior Executives directly reporting to the Chief Executive Officer, the assigned objectives and the relevant evaluation are subject to the approval of

the Board of Directors with the support and contribution of the Remuneration Committee.

The variable remuneration system provides:

A) for the Most Significant Personnel:

1. a focus on annual targets for the bonus;
2. mechanisms of long-term sustainability, also through the potential assignment of stock options;
3. for employees, retention mechanisms.

In relation to the annual targets, three “*gates*” are applied in the year of accrual, linked to achievement of the economic target provided in the budget for that year adjusted to the risks, as provided in the *Risk Appetite Framework*, associated with respect of the limits of capital and liquidity:

1. the liquidity indicator used is the Liquidity Coverage Ratio (LCR), equal to the minimum expected value applicable by the current supervisory regulation;
2. the adopted capital indicator corresponds to a level of Total Capital Ratio at least of the ; value determined as a result of the SREP process carried out by the Supervisory Authorities.
3. the performance parameter identified is EBITDA Risk Adjusted (EBITDA^{RA}); such parameter is defined as EBITDA subject to a correction mechanism considering the risks assumed by the Group, in consistency with capital targets defined in the Risk Appetite Frameworks and in connection with the strategic/budget plan. In particular:

$$EBITDA_{RA} = EBITDA - (RWA_A * TCR Target * Ke)$$

In which:

RWA^A: the average in the year of total risk-weighted assets, on a single company and Group level⁶;

Target TCR: consists of the risk appetite threshold defined for the Total Capital Ratio

(15%). In the case of existence of a subordinate eligible Tier 2, TCR Target value to be

⁶ RWA meaning the activities adjusted to the risk pursuant to the Circular .n 285 of Bank of Italy.

applied in the formula is equal to the difference between 15% and the percentage of Tier 2 on the Group's RWA;

Ke: cost of capital (in line with current market conditions is defined as 10%).

EBITDA^{RA} is determined in relation with the monthly average of the RWA, calculated by Planning, Administration and Control Department based on the monthly closing statements and through the repetition of the activities of prudential final balance sheet mandatory for the quarterly supervisory reporting.

For subsidiaries, additional "gates" related to the profitability of individual companies are provided for.

For the Heads of the Corporate Control Functions, the ratio between the variable and fixed component of Remuneration must not exceed the limit of one-third. For them, the attribution of the variable part is subject ("gate") to business sustainability objectives, particularly to compliance with the gates of regulatory capital and liquidity; there are not provided variable components linked to income parameters and not coherent with the duties assigned to them, the respective responsibilities and the targets achieved⁷.

In order to ensure the long-term sustainability of the Remuneration and incentive system, the Bonus accrued will be paid as follows:

- 70% after approval of the relevant financial statements by the Shareholder's meeting;
- 30% deferred for three years from its accrual. For instance, for the accounting period closing on the 31.12.2016, the differed variable component is subject to a further "gate" determined by the achievement during the accounting period preceding the period of payment, that is the accounting period closing on the 31.12.2018, of a positive profitability adjusted to the risk, associated with respect of the minimum limits of regulatory capital and liquidity;
- for employees, in particular, the presence in the Group at the time of payment is required for the purposes of that payment.

No forms of guaranteed variable remuneration are permitted, except for exceptional cases, for the

⁷ The rules and the thresholds of the variable component are applicable to the Personnel of the Control Function of the Subsidiaries pursuant to the applicable law.

recruitment of new Personnel and limited to the first year of employment. In that case, it cannot be paid more than once to the same person and it is not subject to the rules on the structure of variable Remuneration, but it contributes to determining the limit of the ratio between fixed and variable remuneration of the first year.

Remuneration linked to the retention of the Personnel, *retention Bonuses*, are forms of variable remuneration and as such are subject to all the provisions applicable thereto, including those on the limit of the variable/fixed ratio.

The Board of Directors of the Bank has the power to attribute discretionary pension benefits, as defined above and provided by the Circular 285 of Bank of Italy. In this case, as to the provisions on variable remuneration with discretionary pension benefits, the following criteria⁸ shall apply:

- if the Personnel terminates its employment before having acquired the right to retire, the discretionary pension benefits shall be invested in financial instruments, held in custody by the Bank for a period of five years and subject to mechanisms of ex-post adjustments in compliance with the provisions in the chapters 8.7. Before the end of the period of deferment, on such financial instruments dividends or interests cannot be paid. Consequently, interests and dividends accrued during the period of deferment, will be saved and paid at the end of that period;
- if the employment relation ends with the entitlement to a pension, the discretionary pension benefits are recognized to the employee in the form of financial instruments and subject to a retention period of five years;
- discretionary pension benefits are not included in the calculation of the limit on the ratio of 2:1 between fixed and variable remuneration.

The aforementioned rules, and the provisions of Chapter 8.5 below, are not applied in the case of *golden parachutes* and redundancy incentives which fall within the terms provided by Title IV Chapter 2 Section III Paragraph 2.2.2 of the 7th update of Circular 285..

B) For the Remaining Personnel:

the Group companies apply, based upon the specific characteristics of the organisation, the business targets and the relevant context, forms of incentives, coherent with the significance and

⁸ See First Part, Title IV, Chapter 2, Section III of the Circular n. 285 of Bank of Italy.

complexity of the roles, principles of fairness and alignment to the local labour market and, in any case, in respect of the guidelines of the Group set out above. Those incentive systems are in any case coherent with what emerges from the process which, every year, is begun for the purposes of the analysis and appraisal of the performance of employees.

C) For all Personnel (including the Most Significant Personnel):

For all of the employees of Banca Farmafactoring, except for Directors, a company bonus ("VAP") is provided represented by the distribution of a cash bonus in relation to the achievement of specific performance targets. Moreover, it is also provided for all the personnel, in general, the return/non-payment of variable remuneration in the event of fraudulent behaviours or in breach of the Code of Ethics and the provisions of the Italian Legislative Decree 231/2001 based upon the system of sanctions in force.

It should be noted that, in order to accrue the variable remuneration, it is expected from employees to have been employed in the company for at least 6 months in the accounting period, and, for the purpose of the payment of the accrued Bonuses, to be still employed in the Group at the time of the payment.

iii) Benefits

For the Executives and the Senior Executives of the Group, it is provided a package of benefits (among other, for instance, the company car).

For the rest of the Personnel, each Group company is given the right to establish benefit packages, in line with the provisions of local regulations, the significance and complexity of the roles covered, principles of fairness and alignment to the local labour market, and in any case in respect of the Group guidelines set out above.

8.3 Ratio between the fixed and variable component

The calculation basis for the ratio between the fixed and the variable component is composed of the fixed annual gross Remuneration and the benefits according to their annual gross value for fiscal purposes.

The incidence limit of the variable component against the fixed one has been defined by adopting a total remuneration logic and in accordance with the Laws and Regulations in force, the principles of continuity with past and the coherence between different roles and responsibilities, without neglecting the comparison with the market.

The Shareholders' Meeting, pursuant to the By-Laws, on the occasion of the approval of the policy, has the authority to increase up to a maximum of 2:1 the ratio between variable and fixed Remuneration component.

8.4 Remuneration payment modalities

The remuneration and incentive structure provides for a portion of the variable remuneration, both up front and deferred, to be paid through financial instruments and through Bank treasury shares. On the basis of the current applicable parameters, also the portion disbursed through financial instruments is considered in order to comply with the 2:1 limit for the ratio between fixed and variable remuneration, as identified in the above 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%, between:

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

Such proportion is applicable both to the up-front variable remuneration portion as well as to the deferred portion.

The vesting of rights connected to financial instruments is subject to a performance assessment period that takes into account the levels of capital resources and liquidity necessary to face the activities undertaken. The performance assessment takes place on the basis of parameters such as Return on Risk Adjusted Capital, coupled up with compliance with capital and liquidity requirements.

In designing share-based remuneration plans, it is necessary to ensure that:

- a) shares, options and any other right granted to Directors to purchase shares or be remunerated on the basis of the stock price performance have a retention period equal to at least three years;
- b) Directors hold a portion of the shares granted or purchased through the exercise of the rights under item a) until natural expiry of the office.

Rules under items a) and b) shall apply, as long as compatible, also to Senior Executives.

In order to align incentives with the Bank long term interests, the instruments envisaged in this chapter are subject, as regards Most Significant Personnel, to a retention period. The retention period for financial instruments paid up-front is not lower than 1 year⁹. For deferred financial instruments, the retention period may be shorter, taking into account that – besides the performance assessment period – there is also the deferral period. In these cases, 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, interests and dividends possibly accrued during the deferral period, will be set aside and paid at the end of said period.

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

Long-term incentive plans based upon a performance assessment time period equal to or greater than 3 years, linked to the targets and duration of the Bank strategic plan, may include correction mechanisms over the performance assessment time period and in the retention period.

In case the Shareholders' Meeting approves a specific capital increase without consideration, or grants specific delegation to the Board of Directors pursuant to art. 2443 of the Italian Civil Code, it will also be possible to grant for free to Bank employees shares thereof within the limits of art. 51, subsection 2, lett. g) of the Italian Consolidated Tax Act (T.U.I.R.) or for the purpose of complying, as regards the Most Significant Personnel, with the ratio between Variable

⁹ Being the Bank qualified as intermediate bank, pursuant the Circular 285, the retention period, usually not less than 2 years, could be subjected to a maximum reduction of half.

Remuneration paid in cash and Variable Remuneration paid through financial instruments.

In case of granting of Tier II subordinated debt instruments, the Board of Directors shall govern the vesting, deferral, malus and claw back rules applicable to said instruments, conforming to the guidelines set by the Policy.

8.5 Treatment in the event of dissolution of the relationship or termination of the office

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

The Board of Directors of the Parent Company may determine for the Most Significant Personnel some “*golden parachutes*” in the event of early dissolution of the employment relationship or termination of the office, in respect of the conditions provided by the regulations in force and the criteria indicated below.

In order to determine such fees, qualitative and quantitative indicators are applied that reflect the recorded performance and the risks assumed by the person and the Bank, as well as the *ex-post* correction mechanisms (*malus* and claw back), to the extent permitted by the collective agreement applicable to the employment relationship, as required by the Supervisory Provisions for Banks and, in any case, within the limits and the requirements set by the reference Laws and Regulations.

To the abovementioned limits, for the part paid in financial instruments, a retention period of not less than one year applies.

The limits set out in Title IV Chapter 2 Section 3 par. 2.2.2 of the Circular 285 are established as follows: the agreed amount may be an absolute sum or a multiple of the last fixed, yearly, gross, remuneration received, with the maximum amount of 400% of the same (with reference to the last year).

8.6 Ex-post correction mechanisms (*malus* and claw back)

The variable component is subject to *ex-post* correction mechanisms (*malus* and claw back), which can lead to a reduction, although significant, or clear the variable remuneration.

Correction mechanisms should be identified to the extent permitted by law and by collective agreements applicable to employment relationships, such as to reflect the performance level adjusted to the risk achieved or actually taken and capital, as well as taking into consideration

individual behaviour.

For the recognition of deferred variable remuneration component, met all other legal and contractual conditions, it is provided the application of a particular gate, in the year of payment maturation, determined by the achievement of a Group positive risk-adjusted profitability, associated with the compliance with liquidity and capital adequacy requirements (“*malus* condition”).

The recognition of the variable part of the Remuneration fails or, if already paid, must be returned, in presence of individual behaviour of the interested person held as part of Bank activity or in the professional activity of such person, arising from one or more of the following events (hereinafter, “Claw Back Conditions”):

- a) behaviours from which a significant loss occurred to the Bank or to Group companies; in this regard, it is specified that Board of Directors has determined the minimum threshold of this loss corresponding to “medium” risk indicated in “Risk and Control Matrix”, adopted by the Bank, equal to €1 million;
- b) with regard to executive directors, BFF executives and Group foreign companies’ Senior Executive, possible General Managers, the loss of one or more requirements of art. 26 TUB;
- c) violation of the obligation provided by art. 53, paragraph 4 and following of the TUB by the persons therein indicated, in relation to the assumptions by the Bank of risky activities towards those who may exercise, directly or indirectly, influence over Bank or banking Group management and persons related to them, as well as in situation of conflict of interest and/or violation of conditions and limits provided by Bank of Italy in the aforementioned art. 53 of the TUB;
- d) violation of the obligations and provisions of Title IV, Chapter 2, Section III of Circular 285 (e.g. undue receipt of Retribution);
- e) specific behaviours acted with intent or severe negligence, which resulted in financial loss or image damage of the Bank or of Group companies;
- f) violation with intent or severe negligence, of obligations provided under the Legislative Decree n. 231/2001 or under Code of Ethics adopted by the Bank;
- g) fraudulent behaviours, put in place with intent or severe negligence, implemented at the

expense of the Bank or of Group companies.

If a Claw back Condition occurs, the Board of Directors, in the less serious cases, has the possibility of determine a proportional deduction, instead of total elimination, of the interested variable component. If the return involves quantifying problems or if it is expensive and not immediate, it may be required, instead of the return, the payment of an amount commensurate with the value of the benefit subject to claw back, without prejudice to any greater damages. Such amount can be deducted off against the Remuneration and/or the amount of severance indemnities of the beneficiary.

The claw back and *malus* mechanisms can be enforced, when it is established by the Bank the fact set as a condition for the malus and claw back as provided by the procedure specified in chapter 8.7.

In any case, variable remuneration is not recognized in case of breaches such as to justify the termination of the employment by the Bank in accordance with legal regulation and collective agreement eventually applicable. In addition, the resolution of the employment and/or the termination of the office do not prevent the activation of the claw back mechanisms, which in any case takes into account legal, contributions and fiscal aspects, and the time limits prescribed by the regulations and by applicable local practices.

8.7 Activation process of *malus* and claw back mechanisms

The activation of *malus* or clawback mechanisms follows an internal disciplinary process.

The Bank carries out 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 carry out stages of initial analysis of the information.

At the end of the investigation, Internal Audit Department fills in a report on the events under investigation, on the signalling mode, on the conduct of the investigation and on any evidence collected (hereinafter, the “Report”). The Report is addressed to Head of B.U. HR, to the Head of the department in which person under investigation operates and to the CEO. In case the following are under investigation:

- Head of B.U. HR, the Report will be addressed only to the CEO;

- an Executive or Senior Executive, the Report will be addressed only to the CEO and to the Head of B.U. HR;
- the CEO, the Report will be addressed only to Chairman of the Board of Directors that notices other members of the Board of Directors.

The subject or subjects above mentioned, addressees of the Report, ask for a legal opinion in order to assess the relevance of the facts, as established in the Report, for the activation of malus or claw back mechanisms.

In the event that the processed information are deemed insufficient or unsuitable to the characterization of the facts as malus or claw back conditions, the Report is filed.

Conversely, if the necessary conditions exist, before activating the malus or claw back mechanisms:

- a) against an employee, disciplinary proceedings are triggered pursuant to art. 7 Law n. 300/1970 and to the applicable collective agreement. With the communication that concludes disciplinary proceedings (or with separate communication), the concerned person is informed of the activation of malus or claw back mechanisms;
- b) against a person who owns a different relationship from the employee, or to any person who no longer have a relationship with the Bank, the following procedure is activated:
 - i) the facts considered suitable to activate the mechanisms of malus or claw back must be notified in written form to the concerned person, to whom it is guaranteed the right to provide for their own defence in written form within a deadline, reasonable and proportionate to the complexity of the facts at issue, in any case not less than 5 calendar days;
 - ii) Once heard the concerned person in relation to their defence (or after expiry of the deadline with the concerned person not having submitted their defences), the CEO (or the Board of Directors, if the CEO is investigated), having informed the Supervisory Board, may proceed with possible actions.

The decision must be communicated to the concerned person in written form and must be motivated. It is considered motivated the measure referring to the acts committed, that individuates the regulations supposed to be violated and the reasons why the defences of the concerned person cannot be accepted.

8.8 Non-competition clauses

In case the employee, who falls into the category of risk takers, signs a “non-competition agreement” which binds such person not to connect professionally with specific companies for a set period commencing from the date of interruption of the employment relationship, the relevant Group company will pay to that employee an amount, whose determination will have as its calculation base the fixed gross annual remuneration received in the last year.

In order to determine the fee for the non-competition agreement, qualitative and quantitative indicators are applied which reflect the performance achieved and the risks accepted by the person and by the Group, as well as the *ex post* correction mechanisms (*malus* and claw back), within the limits permitted by the collective agreements applicable to the employment relationship, as provided by the regulatory provisions and, in any case, in respect of the limits and requirements of the legal and regulatory provisions in that regard.

The payment of the non-competition agreement fee occurs after the termination of the relationship, during the validity of the restrictive obligation accepted by the individual.

The limits set out in Title IV, Chapter 2, Section 3, par. 2.2.2 of the 7th update of Circular 285 are established as follows: 120% of the fixed remuneration; with the maximum amount equal to 120% of the total yearly gross fixed remuneration 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 285 which incorporates the provisions contained in Art. 450 of the CRR¹⁰, among other information requested, the Bank publishes on its website:

- information on the link between remuneration and performance;
- the characteristics of major significance of the Remuneration system, including information on the criteria used for performance appraisal and the adjustment to risks, the deferment policies and the criteria of attribution;
- aggregate quantitative information on Remuneration, broken down by business lines;

¹⁰ Regulation (EU) no. 575/2013 dated 26 June 2013.

- aggregate quantitative information on Remuneration, broken down for senior management and members of Personnel whose actions have a significant impact on the Group's risk profile;
- the number of persons remunerated with 1 million Euros or more per financial year, for Remuneration between 1 and 5 million Euros broken down into payment brackets of 500,000 Euros and for remuneration equal to or greater than 5 million Euros broken down into payment brackets of 1 million Euros.

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

The Bank also, in the capacity of Parent Company, sends annually, by 30 June of each year, to the Bank of Italy information regarding the so-called *high earners*, i.e. persons whose total Remuneration amounts to 1 million Euros on an annual basis. Where the Group, in relation to the levels of consolidated assets achieved, falls within the survey sample for the purposes of benchmarking by the Bank of Italy, in implementation of the guidelines of the EBA¹¹, it will send to the Bank of Italy, by the deadline set out above, also information relating to: *i*) the Remuneration of all the Personnel, considered as a whole; *ii*) the fees of only the Most Significant Personnel, with particular regard to the analytical structure of the variable remuneration; *iii*) the number of the Most Significant Personnel divided into Remuneration brackets.

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

¹¹ Banking groups with consolidated assets above 40 billion Euros are subject to survey obligations for the purposes of *benchmarking*, as well as, for purposes of national supervision, banks and banking groups with financial statements assets exceeding 3.5 billion Euros. The financial statements assets that determine the obligation to send the information are those identified at the end of the financial year preceding that to which the survey data refer.