Policy-on-remuneration report and payouts awarded of BANCO BPM Banking Group's staff – 2020

Section I – 2020 Policy-on-remuneration report

Prepared in accordance with the Bank of Italy Supervisory Regulations (Circular no. 285/2013, update 25, First Part, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), with Art. 123-*ter*, Italian Legislative Decree 58/1998, as amended with Art. 84-*quater* of the Issuers' Regulation (CONSOB resolution no. 11971/1999, as amended).

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For approval, to the extent of their sphere of authority, by the Corporate Bodies of the Parent Company – Ordinary and Extraordinary General Shareholders' Meeting on 4th April 2020.

(This document is a translation into English of the original document. In case of any discrepancies between the English and the Italian version, the Italian version shall prevail).

Definitions

The following definitions are used in this document, notwithstanding that covered by the Supervisory Regulations:

- Parent Company, Banco BPM Parent Company of the Banco BPM Banking Group;

- Group companies, the Parent Company and subsidiary companies;

- subsidiary companies, Banca Akros, Aletti & C. Banca d'Investimento Mobiliare, Aletti Fiduciaria, Banca Aletti & C. (Suisse), ProFamily, Release, BPM Covered Bond[1], BPM Covered Bond 2[1], BP Covered Bond[1], Tiepolo Finance[1], Bipielle Bank (Suisse)[2], FIN.E.R.T.[1] [2], Ge.Se.So., Bipielle Real Estate, BP Trading Immobiliare[1];

- Group Banks, Banco BPM, Banca Akros, Aletti & C. Banca d'Investimento Mobiliare, Banca Aletti & C. (Suisse), Bipielle Bank (Suisse)[2];

- Subsidiary Banks, Banca Akros, Aletti & C. Banca d'Investimento Mobiliare, Banca Aletti & C. (Suisse), Bipielle Bank (Suisse)[2];

- Italian subsidiary banks, Banca Akros, Aletti & C. Banca d'Investimento Mobiliare;

- the Bank of Italy Supervisory Regulations, Circular no. 285/2013 "Supervisory provisions for banks", update 25 of the 23 October 2018, First Part, Title IV, Chapter 2 "Remuneration and incentive policies and procedures";

- Staff, where not otherwise specified, are the members of Bodies with supervisory, management and control functions, employees and non-employed staff (including financial agents, insurance agents and financial advisers available for outside offers);

- identified staff, people whose professional activity has, or can have, a material impact on the Group's risk profile;

[1] The Companies: BPM Covered Bond, BPM Covered Bond 2, BP Covered Bond, Tiepolo Finance, FIN.E.R.T. and BP Trading Immobiliare do not have any employees.
[2] Company in liquidation.

- top identified staff, CEO, General Manager (where appointed), Co-General Managers and Managers in the first line of management of the Parent Company, the CEO, General Manager, Co-General Manager and Deputy General Manager (where present) of Aletti & C. Banca d'Investimento Mobiliare, Banca Akros and ProFamily;

- senior identified staff, for the Parent Company the Chief Executive Officer, General Manager (where appointed), Co-General Managers, senior operational and executive managers and Managers in the first line of management not included amongst the internal control functions reporting directly to the Chief Executive Officer or the Board of Directors, for Aletti & C. Banca d'Investimento Mobiliare and Banca Akros the Chief Executive Officer;

- other staff, all those not included among the identified staff;

- internal control functions, the functions of each company: compliance with regulations (Compliance), anti-laundering, internal audit (Audit), Risk Control (Risks), validation (Internal Validation);

- functions with control tasks, internal control functions, Human Resources and Manager in charge of preparation of the company's financial reports;

- incentive, the amount of the variable remuneration linked to the short-term incentive plan (STI);

- long-term incentive, the amount of variable remuneration linked to a long-term incentive plan (LTI);

- bonus pool, the consolidated financial resources provided annually in the annual budget used to pay the incentive and the company bonus (National Labour Collective Agreement);

- award, means the granting of variable remuneration for a specific accrual period, regardless of the actual point in time where the awarded amount is paid;

- vesting, the effect by which the member of staff becomes the legal owner of the variable remuneration awarded, regardless of the instrument used for payment or of the fact that the payment is either subject to further maintenance periods or to return mechanisms;

- financial instruments assignment, the bank's commitment to a person to deliver financial instruments subject to the occurrence of specific conditions provided for in the short/long-term incentive systems;

- deferral, any form of postponement, in an established time frame, of the vesting of part of the variable remuneration;

- profit from current operating activities before tax (net of non-recurring items), the "profit from current operating activities before tax", without the non-recurring items identified for the purposes of compliance with Consob Communication no. DEM/6064293 of 28 July 2006 and reported in the Directors' Report on Group Management for the year 2020. The followings are considered non-recurring:
  - the results of disposal transactions relating to all fixed assets (holdings, tangible fixed assets excluding financial assets held to maturity and/or repurchase and fair value measurement of financial liabilities);
  - gains and losses on non-current assets and asset disposal groups held for sale;
  - the income statement components for a significant amount associated with improvements, reorganisations, etc. (e.g. expenses for use of the redundancy fund, leaving incentives, merger/integration charges);
  - income statement components for a significant amount which are not destined to reoccur frequently (e.g. penalties, impairments of tangible assets, goodwill and other intangible assets, extraordinary debits/credits by Resolution Funds and the Interbank Deposit Protection Fund, effects associated with legislative changes, exceptional results, etc.);
  - the economic impacts deriving from the fair value measurement of properties and other tangible assets (artworks);
  - the tax effects associated with the economic impacts referred to in the previous points;

- Risk Appetite Framework (RAF), the Group's reference framework that defines risk appetite, tolerance thresholds, limits of risk, risk management policies, reference processes necessary for defining and implementing them.

2020 Remuneration Policies

main features summary

Guiding principles

guarantee an adequate remuneration for lasting performance

Pourposes

The remuneration policies represent an important management lever, for the purpose of a correct orientation of the management and the staff towards a logic of containment of the risks assumed by the institution (including legal and reputational risks) and of customer protection and retention, with a view to the correctness of the behavior and management of the conflicts of interest; in fact, remuneration policies that are not carefully set can increase the conflict of interest between the institution and the customer, encouraging the implementation of opportunistic behavior by the operators, even to the detriment of the saver.

2020 Policy defines - in the interest of all stakeholders - the guidelines of the Group Staff remuneration and incentive systems with the aim, on the one hand, of encouraging the pursuit of long-term strategies, objectives and results, in keeping with the general framework of governance and risk management policies and with the levels of liquidity and capitalisation, on the other hand, to attract and retain in the Group persons with professionalism and skills suited to the needs of the business, to the advantage of competitiveness and good governance, pursuing internal equity and towards the external labor market.

It is also the purpose of the Group's remuneration policies to guarantee an adequate remuneration for lasting performance, which allows, at the same time, to enhance the Staff, recognise the individual contribution to the achievement of results and discourage behaviours not based on fairness in relations with customers and not compliant with regulations or that tend towards excessive risk exposure or lead to regulatory violations.

Parent Company

Management bodies

- Shareholders' Meeting
- Board of Directors
- Board of Statutory Auditors
- Chief Executive Officer
- Remuneration Committee
- Internal Control and Risks Committee

Corporate functions

- Human Resources
- Planning and Control
- Administration and Accounts
- Secretariat Corporate Affairs
- Participations

Internal control functions

- Risk
- Compliance
- Audit

Governance

The approval of the remuneration policies is reserved to the Shareholders' Meeting; the process of elaboration, preparation and approval of the same involves the management bodies, the corporate functions and the internal control functions, each by field of competence.

IDENTIFIED STAFF

189	persons
0,9%	of Group staff
9	new persons compared to 2019
Of which	
150	Banco BPM
24	Banca Akros
11	Banca Aletti
4	other subsidiary companies

Top Identified Staff

- For ParentCo: Chief Executive Officer, General Manager (where appointed), Co-General Managers and the Head of the first managerial line
- For Aletti & C. Banca d'Investimento Mobiliare, Banca Akros e ProFamily: Chief Executive Officer, General Manager, Co-General Manager and Deputy General Manager (where present)

Main new features of the 2020 remuneration policy

The 2020 Policy, in alignment with the main pillars of the new 2020/2023 business plan, includes new elements aimed at further increasing the alignment of staff interests with those of all stakeholders; the main drivers of change are attributable to pay for performance and the integration of ESG criteria (Environmental, Social, Governance):

- ✓ strengthening of the profit conditions for access to the variable components of remuneration;
- ✓ activation starting from 2020, subject to the necessary company assessments, of a long-term incentive plan, which will have a duration consistent with that of the new business plan; this system will be represented in its details on the occasion of a Shareholders' Meeting, that will be called to express itself on the matter;
- ✓ new method for calculating the Group's reputational risk among the main stakeholders, with the integration of artificial intelligence and machine learning technologies; this indicator, within which Corporate Social Responsibility is also relevant, can act in reduction of the economic resources of the annual incentive system;
- ✓ introduction into the incentive system of mechanisms aimed at promoting a corporate culture oriented towards ESG criteria;
- ✓ strengthening of the framework for the awarding of amounts for early termination of employment, which is related to the assessment of the positive performances achieved both at individual and company level;
- ✓ implementation of what is required by the regulation on transparency of operations and services.

Pay for performance (short-term incentive plan focus)

Consolidated entry gates

- CET1 ratio "phased-in",
- LCR regulatory
- Profit from current operating activities

Company entry gates

in addition to the consolidated ones
- Profit from current operating activities

The awarding of the incentive linked to the short-term incentive plan (STI) takes into account the profitability, the necessary level of capital resources and liquidity (entry gates), specifically:

- ✓ consolidated capital adequacy indicator: Common Equity Tier1 (CET1) ratio "phased in", greater than the Risk Trigger threshold defined in the Risk Appetite Framework;
- ✓ consolidated liquidity adequacy indicator: Liquidity Coverage Ratio (LCR) regulatory, higher than the Risk Trigger threshold defined in the scope of the Risk Appetite Framework;
- ✓ consolidated profitability indicator: profit from current operating activities before tax (net of non-recurring items), greater than zero.

Moreover, in addition, for Italian subsidiary banks

- ✓ company profitability indicator: profit from current operating activities before tax (net of non-recurring items), greater than zero.

Pay for performance (short-term incentive plan focus)

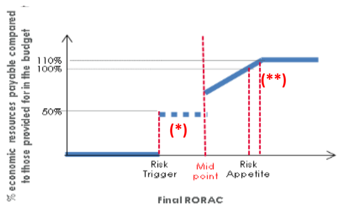
The economic resources actually available are determined by:

- ✓ **financial adjustment factor** whose measure is proportional to the value of the risk-adjusted indicator Return on Risk Adjusted Capital (RORAC) consolidated achieved at the end of the year in comparison to the applicable Risk Trigger and Risk Appetite thresholds defined within the Risk Appetite Framework for the same year. In the presence of the positive verification of the entry gates and at the same time in case of loss, the economic resources provided for in the operating budget are reduced by the amount of the loss up to a maximum of 20% of the same, in advance of the application of the financial adjustment factor; in this circumstance, the possibility that the application of the financial adjustment factor determines the increase in economic resources is precluded.
- ✓ **non-financial adjustment factor** whose measure is correlated to the values of the consolidated ECAP Reputational Risk and Anti Money Laundering (AML) indicators achieved at the end of the year in comparison to the applicable Alert thresholds defined within the Risk Appetite Framework for the same year.

The **ECAP Reputational Risk indicator** represents the amount of economic capital against estimated reputational risk through a model developed internally. The Group's reputation status is monitored through the recording and analysis of indicators, both of quantitative and qualitative nature, which can influence, in their dynamics, the reputation of the Group among the main stakeholders (customers, shareholders, market counterparties, regulator, employees, financial community) in a final, prospective and stressed viewpoint. The selected indicators, corresponding to the macro-areas of Market, Litigation/Sanctioning, IT Services, Corporate Social Responsibility, Regulatory Affairs, are both internal (deriving from company processes) and external to the Group, i.e. constituted by market data and they are systematically measured quantitatively and, where not possible, qualitatively. In order to detect the Group's reputation expressed on the platforms widespread on the internet (e.g. Twitter, Facebook, blogs, press agencies, etc.), the internal model has been integrated with a further measure relating to sentiment in the social media sphere. Appropriate engines, based on machine learning and artificial intelligence techniques and tools, monitor the discussions widespread on the main social platforms, evaluate the relevance and significance of the opinions expressed, associate the messages to the affected stakeholders and measure the sentiment expressed towards the Group; this sentiment, appropriately classified, is considered to integrate the reputational measure obtained with traditional models.

The **AML** represents the ratio between the total of high-risk customers (maximum classification within the internal model for the management of the Money Laundering risk) and the total of customers.

Financial factor



(*) The maximum availability of 50% of the economic resources is subject to resolution by ParentCo Board of Directors, which also determines the exact measure. Any payment may not concern the identified staff.

(**) The increase of the budgeted economic resources by over 100% and up to 110% is subject to resolution by ParentCo Board of Directors, which also determines the exact measure; this possibility is precluded in case of loss

Non-financial factor

acts exclusively as a possible malus on the economic resources

		Reputational Risk	
		R < *Alert*	R ≥ *Alert*
AML	R < *Alert*	no reduction	-10%
	R ≥ *Alert*	-10%	-20%

Variable and fix ratio

The limit of 2:1 to the ratio between the variable and fixed component of the remuneration for selected figures deemed strategic remains confirmed (increase approved by the Shareholders' Meeting of 7 April 2018).

2:1	Selected persons deemed to be strategic belonging to top identified staff and to Finance, Corporate, Investment Banking, Private Banking
1/3	staff belonging to internal control functions
1:1	other staff

Identified staff pay out

The identified staff incentive is divided into an up-front portion and deferred portions.

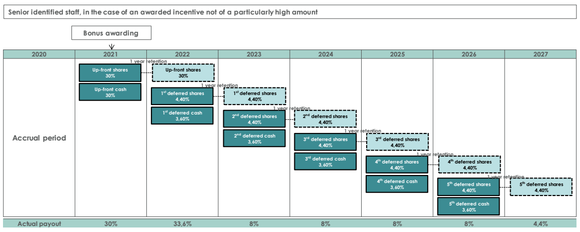
The **up-front portion** is 60% of the incentive awarded, in cases where it is less than 430,000 Euros; 40% of the incentive awarded, in cases where it is equal to or greater than 430,000 Euros. The 50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.

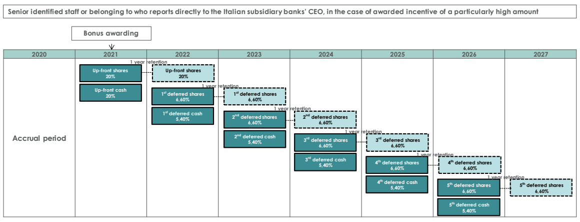
The **deferred portions** consist of:

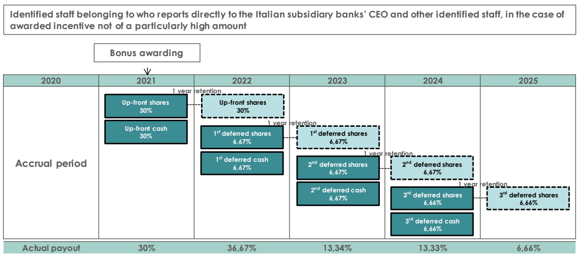
- ✓ five annual portions of the same amount deferred in the five-year period following the year in which the up-front portion vests, 55% in Banco BPM ordinary shares, for the senior identified staff, regardless of the amount of the incentive awarded, and for the identified staff reporting directly to the Chief Executive Officer of the Italian subsidiary banks, in the event that the amount of the incentive awarded is equal to or greater than 430,000 Euros;
- ✓ three annual portions of the same amount deferred over the three-year period following the year of vesting of the up-front portion, for 50% in Banco BPM ordinary shares, for the identified staff not indicated in the previous point.

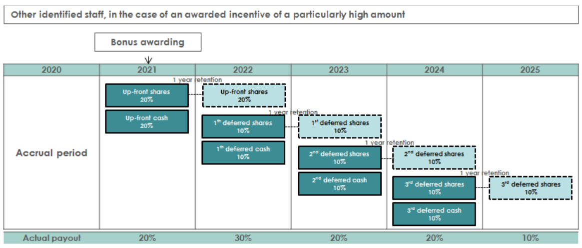
For the vested shares, a one-year retention period is envisaged for both up-front and deferred portions. The vesting of each of the deferred portions is subject to compliance with the consolidated entry gates envisaged for the incentive system of the financial year preceding the vesting of the same (malus mechanism).

In cases where the awarded bonus is lower than or equal to 50,000 Euros and, at the same time, lower than or equal to a third of the fixed remuneration, this would be paid in cash and on a one-time basis (excluding top identified staff and those whose variable to fixed remuneration ratio exceeds 100%).









Misconduct behaviors

- suspension from office
- non-compliant behavior which resulted in a loss deemed significant
- breaches of the requirements stated pursuant to article 26 or, when the entity is an interested party, pursuant to article 53 of the Consolidated Bank Law
- violation of the obligation not to use personal hedging strategies or insurances on remuneration
- fraudulent or grossly negligent conduct or which resulted in a significant damage to customers

Malus and claw-back provisions

If a misconduct behavior is ascertained during the year, the measure of the provision to be adopted is assessed (which can act in reduction or zeroing) in relation to the variable remuneration for the year and it is possible the activation of restitution mechanisms of variable remuneration amounts already vested (claw-back clause), from the time of their vesting up to the next five years.

Governance system dedicated to the ESG strategy with specific objectives on 4 key areas

	Consolidated indicators	LCR regulatory		
		R > Risk Tolerance	Midpoint (*) ≤ R ≤ Risk Tolerance	R < Midpoint (*)
CET1 ratio "phased-in"	R > Risk Tolerance	Proceed with reward.	The Parent company BoD decides the potential availability of economic resources.	No award.
	Midpoint (*) ≤ R ≤ Risk Tolerance	The Parent company BoD decides the potential availability of economic resources.	The Parent company BoD decides the potential availability of economic resources.	No award.
	R < Midpoint (*)	No award.	No award.	No award.

(*) Midpoint between the Risk Capacity and Risk Tolerance thresholds

Long-term incentive (LTI)

Starting from 2020, a long-term incentive plan (LTI) will be activated, subject to the necessary company assessments, which will have a duration consistent with that of the new business plan. This system intends to give a concrete signal of enhancement of the corporate culture aimed at aligning the interest of the staff with the long-term interest of the shareholders, by giving the recipients, at maturity, an incentive related to the appreciation of the Banco BPM share during the plan, if the Group has achieved positive performances. In any case, the system will be consistent with the reference framework for determining risk appetite, with governance and risk management policies and with the aim of pursuing sound remuneration policies; it will be related to financial and non-financial indicators, within which ESG objectives will be included. The system, which could include the use of leveraged financial instruments having the Banco BPM share as underlying, will be represented in its details on the occasion of a Shareholders' Meeting, that will be called to express itself on the matter.

Severance payments

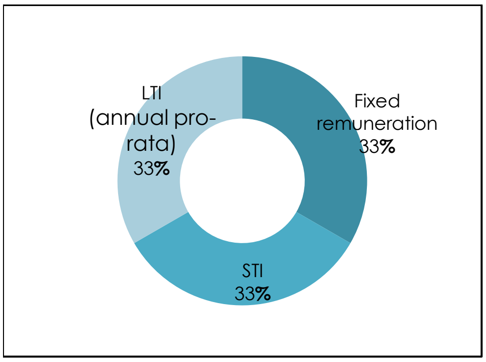
Amounts for early termination of employment can be awarded up to a maximum limit of 24 months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provisions) and for up to a maximum value of 2.4 million Euros (employee gross amount).The awarding of amounts for early termination of employment is subject to the ascertainment of conditions, with reference to the previous year and pertaining to the capital adequacy indicator at a consolidated level Common Equity Tier1 (CET1) ratio "phased-in" and the liquidity adequacy indicator at a consolidated level Liquidity Coverage Ratio (LCR) regulatory. The amount is determined considering each element deemed relevant, and in any case

- the positive results achieved over time;
- circumstances which led to termination, taking into account company interest, also with the purpose of avoiding the threat of legal proceedings;
- roles covered and/or offices held during employment, also in terms of risks assumed by the person;
- duration of employment and role;
- savings as a result of early termination of employment.

Chief Executive Officer

Total remuneration

The remuneration of the Chief Executive Officer provides for a suitably balanced mix between fixed and variable components, the variable component can reach a maximum of 200% of the fixed component and is equally divided between the short-term one (short-term incentive plan STI) and the long-term one (long-term incentive plan LTI, see next page).



Short-term incentive (STI)

The same provisions of the identified staff not belonging to the internal functions with control tasks are applied to the variable remuneration of the Chief Executive Officer of the Parent Company.

The objectives assigned to the Chief Executive Officer for 2020 concern the areas relating to profitability, productivity, credit quality, liquidity, capital adequacy and the qualitative aspects relating to the management activity with particular reference also in the sphere related to the achievement of ESG objectives and operational risk; they also represent a combination of quantitative and qualitative criteria, referring to the results of the Group. The risk-based indicators represent 55% of the total. The achievement levels required are correlated to the value of the Risk Appetite approved by the Parent Company's Board of Directors for the year.

Consolidated entry gates

- CET1 *ratio "phased-in"*
- LCR regulatory
- Profit from current operating activities

Financial factor

- RORAC with prior reduction in case of loss

Non-financial factor

- ECAP Reputational risk
- AML

Area	Objective	Weight	Minimum	Target	Maximum
Profit	Consolidated ROTE (*)	15%	-20%	Risk Appetite	+20%
	Consolidated RORAC (*)	15%	-20%		+20%
Productivity	*Consolidated Cost to Income ratio* (*)	10%	+3%		-3%
Credit and assets quality	*Credit Policies Indicator (%)* (*)	10%	-5%	2019 + buffer	+5%
Liquidity	ConsolidatedLiquidity Coverage Ratio (LCR) regulatory (*)	20%	-15%	Risk Appetite	+5%
Capital adequacy	*Maximum Distributable Amount* (MDA) *buffer fully phased* (*)	20%	-5%		+5%
Qualitative aspects related to management	Qualitative assessment of Chief Executive Officer management activities, formulated by the Board of Directors, after hearing the opinion of the Remuneration Committee. The assessment is related not only to the economic results, but also to the implementation of the business plan, with particular reference also to the areas related to the achievement of ESG objectives and operational risk	10%	in line with expectations	above expectations	excellent

(*) calculated according to RAF methodology

1. Reference Legislative Framework

On 23rd October 2018 the Bank of Italy issued new provisions on remuneration policies and practices in Banks and banking groups (update 25 of Circular no. 285/2013, hereinafter Bank of Italy Supervisory Provisions), with the purpose of implementing the essential contents of the "Guidelines on sound remuneration policies" in turn issued by the *European Banking Authority* (EBA) in December 2015[3] pursuant to directive 2013/36/EU (CRD IV)[4] in consideration of the evolution of market practice and experience acquired by supervisory authorities in this field.

On 19 March 2019, the Bank of Italy published the "Provisions regarding the transparency of banking and financial transactions and services. Correctness of relations between intermediaries and customers", with which, among other things, the "Guidelines on remuneration policies and practices for staff responsible for offering banking products and for third parties employed in the banking network sale" have been implemented, issued by the EBA in September 2016[5].

The Legislative Decree 49/2019 in force since 10 June 2019, in transposition of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 (SHRD2) which in turn had amended Directive 2007/36/EC in regard to the long-term encouragement of shareholders, introduced, with reference to the remuneration report, renamed on the occasion "Policy-on-remuneration report and payouts awarded", the binding vote of the Shareholders' Meeting on the first section and non-binding on the second one.

The 2020 Policy complies with the Regulatory Provisions of the Bank of Italy and transposes the Delegated Regulation (EU) 604/2014 of 4th March 2014, published on 26th June 2014, concerning technical regulation standards for the identification of identified staff.

2020 Policy also complies with the “Provisions regarding the transparency of banking and financial transactions and services. Correctness of relations between intermediaries and customers"; in this regard, we point out the sections that implement the regulations, to which reference is made: par. 2 Purpose of 2020 Policy, par. 5.3 Remuneration of external non-employed staff, par. 6.5 Short-term incentive plan, par. 6.7 Malus and claw-back provisions.

[3] The Italian version was issued in June 2016.
[4] The CRD IV directive was already implemented in Italian legislation in update 7 of circular no. 285/2013 18th November 2014.
[5] In December 2016 in the Italian version.

2. Purpose of the 2019 Policy

Remuneration policies provide important managerial leverage, for the purposes of the correct positioning of management and staff to the limitation of risks taken by the intermediary (including legal and reputational risks) and for customers protection and retention, in a spirit of correct conduct and management of conflicts of interest; remuneration policies not set up with care can, in fact, exacerbate conflict of interest between intermediary and customer, incenting employees to behave opportunistically, to the investor's detriment.

In the interests of all stakeholders the 2020 Policy defines guidelines for Group Staff remuneration and incentive systems, for the pursuit of long-term strategies, objectives and results, in accordance with the general framework of governance and risk management policies, levels of liquidity and capital strength, as well as to attract and retain individuals within the Group with professionalism and abilities suited for the Group's needs, in the interests of competitiveness and good governance, in the pursuit of fairness within the business and on the external labour market.

Another purpose of the Group's remuneration policies is to ensure suitable remuneration in view of long-lasting performance. This enables staff enhancement, the recognition of individual contributions in the achievement of results and discourages conduct detrimental to diligence, transparency and fairness criteria in relationships with customers and compliance with regulations, which generate excessive risk exposure or lead to regulatory breaches.

3. Process of adoption and monitoring of policy-on-remuneration

3.1. Adoption process

The approval of remuneration policies is reserved for the Shareholders' Meeting for companies that adopt the traditional system of management and supervision, such as Banco BPM.

Information on the decision-making process for the definition of the policy-on-remuneration is provided here below. Bodies and parties involved in the preparation and approval thereof are specified along with bodies and parties responsible for their correct implementation.

3.1.1 Shareholder's Meeting

For companies governed with the traditional management and supervision model, the law (articles 2364 and 2389 of the Italian Civil Code) gives the Shareholders' Meeting the power to establish the remuneration of the members of the Board of Directors and of the Executive Committee, as well as remuneration of Statutory Auditors (art. 2402 of the Italian Civil Code). The Shareholders' Meeting is also responsible for approving remuneration and incentive policies for members of the Board of Directors, statutory auditors and other staff.

Specifically, in compliance with Bank of Italy Supervisory Provisions and pursuant to art. 11.3 letter (g) of the Bylaws, for Directors, Auditors and staff the Meeting resolves to adopt: (i) remuneration and incentive policies, including the Board of Directors' potential proposal to fix a limit to the relationship between the variable and fixed components of individual remuneration of identified staff, higher than 1:1 and within the limit established by the regulations in force from time to time; (ii) remuneration and/or incentive plans based on financial instruments; (iii) criteria for determining payment to be agreed in the case of early termination of employment or office, including fixed limits such as payment in terms of annuity of fixed remuneration and the maximum amount that derives from implementation thereof.

Pursuant to the Bank of Italy Supervisory Regulations, the Shareholders' Meeting also receives a report, sent at least annually, on remuneration systems and procedures as well as the way in which remuneration policies are implemented.

The Shareholders' Meeting must also give an opinion, in favour or against on the first section (with a binding decision) and on the second section (with a non-binding decision) of the Report pursuant to art. 123-ter of the Consolidated Finance Act.

3.1.2 Parent Company Board of Directors

Pursuant to art. 24.1 of the Bylaws, the Board of Directors is responsible for supervising business strategy and management.

With particular reference to issues relating to remuneration, the Board of Directors must establish, pursuant to art. 22.1 of the Bylaws and subject to the Shareholders' Meeting's responsibilities according to art. 11.3 of these Bylaws,- at the suggestion of the Remuneration Committee and taking account of the Board of Statutory Auditors' opinion – the remuneration of members of the Board of Directors appointed to particular offices or responsibilities or delegated responsibilities, or those that are assigned to committees in accordance with the Bylaws.

Without prejudice to the Remuneration Committee's advisory and proposal powers as outlined in paragraph 3.1.4 below, the Board of Directors: (i) shall draw up at least annually, submit to the Shareholders' Meeting and re-examine the remuneration and incentive policies, and is responsible for their correct implementation (additionally ensuring that (a) the remuneration policy is suitably documented and accessible within the corporate structure and that all staff are aware of the consequences of any breaches of regulations or of the ethical code or code of conduct; (b) remuneration and incentive systems suitably guarantee compliance with legislation, statutory regulations and any ethical code or code of conduct, promoting the adoption of behavior in compliance with the aforementioned; (ii) shall define the remuneration and incentive systems, at least for the executive directors, members of general management (and similar bodies), those responsible for main business lines, corporate functions or geographical areas, those who report directly to the Corporate bodies, the management and staff of higher level control functions (and, specifically, ensure that these systems are consistent with the Bank's overall decisions in terms of risk-taking, strategy, long-term objectives, framework of corporate governance and internal control).

3.1.3 Parent Company Chief Executive Officer

Pursuant to art. 30.1. of the Bylaws, the Board of Directors appoints a Chief Executive Officer from among its members and confers specific responsibilities and powers upon the appointed person.

Pursuant to art. 30.2. of the Bylaws, the Chief Executive Officer is responsible, among other things, for supervising and ensuring staff management by applying the Company's and the Group's human resource policies. In this regard, and with particular reference to the interests of this report, on the basis of powers given to the Chief Executive Officer by the Board of Directors, they are vested with the following powers and the capacity to delegate them: (i) draw up proposals in accordance with the development and management of staff policies as well as for the Parent Company and subsidiary companies incentive systems for submission for approval of the Parent Company's Board of Directors; (ii) for all staff of the Parent Company and the subsidiary companies of all types and levels, including managers (with the exception of positions reserved for approval by the Parent Company's Board of Directors) to proceed with recruitment, promotion of staff and define the remuneration and incentive systems in force from time to time.

3.1.4 Parent Company Remuneration Committee

Pursuant to art. 24.4.1. of the Bylaws, the Board of Directors shall arrange a Remuneration Committee internally, approving the Regulations which determine its responsibilities and operation in accordance with the Supervisory Regulations.

The Remuneration Committee shall be composed of four directors, all non-executive and the majority of whom (one is elected as Chairman) having the independence requirements provided by art. 20.1.6. of the Bylaws. At least one member of the Committee must have suitable knowledge and experience in the financial field or of remuneration policies.

The Remuneration Committee, established with formal resolution issued on 10th January 2017, consists of the following four directors on the date of this report (and until the approval of the 2019 financial statements): Fabio Ravanelli (Chairman), Emanuela Soffientini (Vice Chairman), Paola Galbiati and Cristina Zucchetti.

The Remuneration Committee is responsible for the functions and tasks assigned to it by the Self-Regulation Code of the Italian Stock Exchange (Borsa Italiana) and by applicable supervisory regulations (see Section 2 of Bank of Italy Supervisory Provisions).

In accordance with the provisions of the Supervisory Regulations of the Bank of Italy currently in force, the Bylaws and specific Regulation, the Remuneration Committee, has the following duties for the Parent Company, subsidiary banks and the Group's main non-bank companies:

- advisory status and the task of making proposals regarding payment of directors, statutory auditors, general managers, co-general managers and deputy general managers;
- advisory status and the task of making proposals regarding payment to the executive responsible for preparing corporate accounting documents according to Art. 154-*bis* of the Consolidated Finance Act, the heads of the internal control functions – and therefore the Head of the Internal Audit Function, the Chief Risk Officer (CRO), where applicable, the Head of compliance function, the Head of the risk control function, the Head of the Anti-Money Laundering function and the Head of Internal Validation function – and the Head of the Human Resources Function;
- advisory status and the task of making proposals regarding payment of other staff whose remuneration and incentive systems are decided by the Board of Directors, as well as regarding determination of criteria for remuneration of other identified staff identified using the methods provided by the Bank of Italy Supervisory Regulations;
- advises, making use of information received from competent company functions, on the outcome of the identified staff identification process, including any exclusions pursuant to Section I par. 6.1 of Bank of Italy Supervisory Provisions;
- directly supervises the correct application of rules relating to remuneration of the heads of the internal control functions – as mentioned above – in close co-operation with the Board of Statutory Auditors;
- handles the preparation of documentation to submit to the Board of Directors for decisions relating to remuneration and incentive;
- collaborates with other committees within the Board of Directors and, specifically, with the Internal Audit and Risks Committee and the Appointments Committee;
- ensures the involvement of specialist corporate functions in the process of developing and inspecting remuneration and incentive policies and practices;
- advises, making use of information received from specialist corporate functions and, specifically, the Human Resources function, on achievement of performance objectives linked to incentive plans and on the inspection of other conditions established for payment;
- provides adequate reflection on activity carried out by the Board of Directors, the Board of Statutory Auditors and the Shareholders' Meeting.

Referring, then, to their specific functions provided by the Self-Regulation Code of Borsa Italiana, the Committee performs, among other things, the following additional tasks:

- it periodically evaluates the suitability, overall consistency and practical implementation of remuneration policies regarding directors, statutory auditors and executives with strategic responsibilities, using information provided by the Chief Executive Officer and makes proposals in the area to the Board of Directors;
- presents proposals on remuneration of directors who perform particular offices, including setting performance targets relating to the variable component of this remuneration to the Board of Directors; it monitors in this respect the application of decisions adopted by the Board itself verifying, specifically, the actual attainment of performance targets;
- whenever it intends to use the services of a consultant to obtain information on market practices regarding remuneration policies, the Committee verifies in advance that it will not be faced into situations that compromise independence of judgement.

Each additional attribution to the Committee provided by the legislation and regulations, or supervisory bodies or approved by the Board of Directors is without prejudice.

The Committee shapes the conduct of its own duties in accordance with principles of autonomy and independence. Regarding remuneration, it performs its functions with the support of experts in the areas of risks, capital and liquidity management. To this end, it ensures that the incentives underlying the system and remuneration policies are consistent with the methodology adopted by the Bank for regulatory and internal risk management, making use of corporate risk control structures and, specifically, the Chief Risk Officer, where required, the Head of the risk control function and the Head of the compliance function who, together with the Head of the human resources function, attend meetings, unless otherwise determined.

In the performance of its duties, the Committee also has access to all areas of activity and corporate functions of the Group companies, both through central offices and peripheral structures, and has the right to obtain any information or data deemed necessary for the performance of its task. In any case, the Board of Directors ensures that the Committee is suitably equipped with resources to fulfil its task and exercise its powers, approving an annual budget within the limits of which the Committee may make use of specialist external consultants and acknowledged experts in the subject matter.

Further information relating to the Remuneration Committee, including information referring to its operation, is available in the "Report on Corporate Governance and Ownership Structures", published on the website gruppo.bancobpm.it.

With reference to activities carried out in fhe first months of 2020, the Committee met four times and carried out activities of its own competence, depending on the case at hand, including the pursuit of investigations, the provision of advice and/or proposals, specifically regarding: (i) for essential elements constituting the identified staff identification policy and positive valuation of the implemented process and relative outcomes for 2020; (ii) upon ascertainment that entry conditions are met by staff for variable components of remuneration vesting in 2020 with reference to results achieved in 2019, in implementation of provisions contained in reference policies; (iii) upon ascertainment that entry conditions for the 2017-2019 long-term incentive system and the results achieved in relation to the performance matrix, in implementation of provisions contained in reference policies; (iv) upon ascertainment of performance levels achieved by the Parent Company Chief Executive Officer with reference to objectives assigned for 2019, as well as in relation to the 2017-2019 long-term incentive system; (v) upon definition of proposal for remuneration policies for 2020 for Banco BPM banking group staff, as well as the remuneration plan based on shares of Banco BPM regarding the 2020 short-term incentive plan; (vi) upon proposal of criteria for determining any amounts to be agreed in case of early termination of employment of all staff, including limits set for said remuneration in terms of annuity of fixed remuneration and the maximum amount deriving from application thereof; (vii) upon objectives to be assigned to the Parent Company Chief Executive Officer for the 2020 short-term incentive plan and to his variable remuneration for the year.

3.1.5 Parent Company's Internal Audit and Risks Committees

Pursuant to art. 24.4.1. of the Bylaws, the Board of Directors shall internally establish Internal Audit and Risks Committees, approving the relative Regulation that determines their tasks and operation in compliance with the Supervisory Regulations.

The Internal Audit and Risks Committee shall be made up of four directors, all non-executives and the majority of whom (one elected as Chairman) having the independence requirements provided by the Bylaws. It is also expected that the members of the Committee must have the knowledge, abilities and experiences to be able to fully understand and monitor the Group's risk strategies and guidelines; at least one member of the Committee must have suitable experience in accounting and financial matters, or of risk management.

The Internal Audit and Risks Committee, set up on the date of this report with the formal resolution of 10 January 2017 and a deadline for the approval of the 2019 financial statements, is made up of the following four directors: Mario Anolli (Chairman), Costanza Torricelli (Vice Chairman), Rita Laura D'Ecclesia and Carlo Frascarolo.

The Internal Audit and Risks Committee is responsible for the functions provided by the Bank of Italy supervisory regulations (see, specifically, the First Part, Title IV, Chapter 1, Section IV of Circular 285/2013), the Bylaws, as well as the Self-Regulation Code, performing specifically duties of support of the Parent Company's Board of Directors on matters of risks and internal control systems, with responsibility for overseeing the entire Group.

With specific reference to the authority of the Committee regarding remuneration systems, it – notwithstanding the authority of the Remuneration Committee – verifies that the incentives submitted to the remuneration and incentive system are consistent with the RAF (Risk Appetite Framework) and formulates its own opinion on remuneration for the heads of the internal control functions, consistent with corporate policies.

Further information relating to the Internal Audit and Risks Committee, including information referring to its operation, is available in the "Report on Corporate Governance and Ownership Structures", published on the website gruppo.bancobpm.it.

In 2020, the Committee ascertained the consistency of the conditions proposed in the 2020 remuneration policies for access to the variable components of remuneration, with respect to the RAF approved by the Parent Company's Board of Directors.

3.1.6 Parent Company's Corporate functions involved in the process of definition of remuneration and incentive policies

The process of defining remuneration and incentive policies provides for the involvement of appropriate corporate functions: the Parent Company's Human Resources function ensures technical support to Bodies and arranges for support material prepared to draw up remuneration policies, in collaboration, each one according to its authorities, with the Risks, Compliance, Planning and Control, Administration and Accounts, Corporate Affairs Secretary and Participations functions.

In particular, the Risks function, in partnership with the Planning and Control function, identifies indicators and values to be compared relating to the strategic and performance objectives, which correlate the determination of variable components of remuneration and incentives in order to ensure coherence of the monitoring the suitability with respect to the Risk Appetite Framework approved by the Parent Company's Board of Directors, to the long-term corporate strategies and objectives, linked to the risk-adjusted business performances, consistent with the levels of capital and liquidity necessary to meet the business undertaken.

3.1.7 Subsidiary companies

Pursuant to the Bank of Italy Supervisory Regulations, the Parent Company shall establish the remuneration and incentive policies of the entire Group, it shall ensure its overall consistency, provide the guidelines necessary for their implementation and monitor their correct application; taking account therefore of policy-making and approval by the Parent Company as described in the previous paragraphs, the Board of Directors of each subsidiary recognises this Report, and the Shareholders' Meeting of each subsidiary bank approves it insofar as their authorities.

3.2 Monitoring Process

The process of monitoring the system of remuneration of Group Staff is regulated as follows:

a) monitoring of regulatory compliance, to be carried out by the Parent Company's Compliance function, that verifies the consistency of remuneration and incentive policies with that provided for in the existing legal and supervisory requirements, the Parent Company's Bylaws, internal

Group regulations the Ethical Code or other standards of conduct applicable to entities of the Group;

b) internal audit, to be carried out by the Parent Company's Audit function, which verifies compliance of the procedures implemented by the individual Group companies with the approved remuneration and incentive policies and the regulations in force from time to time.

The Risk function expresses itself on the correct activation of specific risk indicators of a financial and non-financial nature and which are used for correction methods (*ex ante* and *ex post*), within the scope of remuneration and incentive systems ensuring the overall connection and consistency with the Group's risk governance.

The Parent Company's Audit and Compliance functions, to the extent of respective scope, bring to the attention of the Parent Company's Board of Directors, the Board of Statutory Auditors, and of every subsidiary, the monitoring results indicated in items a) and b) above.

The Parent Company's Board of Statutory Auditors shall assess the relevance of any shortcomings revealed by the monitoring process described for the purposes of prompt reporting to the Supervisory Authorities.

4. Identification of the Group's identified staff

The process for the identification of identified staff is defined based on Regulatory Technical Standards (RTS) issued by the *European Banking Authority* and provided for n Delegated Regulation (EU) no. 604/2014 (Regulation), which came into force on 26th June 2014, as well as the application of an additional criteria, specifically identified for the purpose of identifying any further persons who assume relevant risks for the Group and who may not have been identified on the basis of other criteria.

The Parent company Human Resources function coordinates and formalises the process for the identification of identified staff for the Group on an annual basis, justifying outcomes and ensuring overall coherence, with the involvement of Parent company Organisation, Risks and Planning and Control functions.

The control process is implemented by Compliance and Audit functions, each within respective scope as described in paragraph 3.2 here above.

Upon hearing the Remuneration Committee, the Parent Company Board of Directors approves the identification process as part of the year's remuneration policy.

The identification process is implemented within all Group companies and requires assessment on an individual basis in the case of Italian Banks and at a Group level for all other subsidiary companies. Said process is carried out by the Parent company in virtue of outsourcing contracts in force, with the effective collaboration of the Group's banks.

The key underlying principle of the Regulation process consists of the evaluation of the relevance of each person in terms of substantial risk-taking, on the basis of the individual position (for qualitative criteria, by way of example, but not limited to such, responsibility, hierarchical levels, levels of resolution are assessed) or remuneration (quantitative criteria).

The interpretation of qualitative criteria for the application of the identified staff identification process in the Group, has determined the following positions:

- members of the Board of Directors of the Group's Italian banks;
- Parent Company Risk, Compliance and Audit function managers as well as those who report directly to them (including managers of the Anti-laundering and Internal Validation structures);
- those who report directly to Management Bodies of the Group's Italian Banks (excluding managers of in staff functions), including Parent Company General Management;
- managers of relevant legal entity (namely those to whom at least 2% of Group regulatory capital has been distributed), managers of relevant operative units (namely those to whom at least 2% of regulatory capital of relevant respective legal entities has been distributed) and those who report directly to both categories (except for managers of in staff functions);
- managers in the first line of management of Parent Company's functions including legal affairs, finances, including taxation, budgeting and economic analysis, human resources, remuneration policies and information technologies, as well as appointed executives present in the Group;
- members with the right to vote, as well as any participants[6] with the right to vote, of Parent Company Management Boards for Asset Allocation, Finance, New products and markets, Risks and Crisis;
- roles responsible for the submission of proposals or with the power to adopt, approve or veto credit risk exposures amounting to at least 0.5% of class 1 primary capital (CET1) of the Group or of single Italian banks, or the minimum threshold established by the Regulation, set at 5 million euro. Members with the right to vote of the Parent Company Executive Committee, members with the right to vote are also identified, as are any participants with the right to vote, of the Parent Company Credit Committee and NPE Committee or of any Committees established in

[6] The Parent Company's Chief Executive Officer has the right to participate in the meetings of the Committees of which he is not a member, assuming in this case the chairmanship, with the right to vote. The General Manager (where appointed) and the Co-general Managers of the Parent Company have the right to participate in the meetings of the Committees of which they are not members, with the right to vote.

subsidiary companies with equivalent provision-making functions;

- roles assigned with proxies which can determine market risk exposure pertaining to trading portfolio amounting to at least 5% of Value at Risk (VaR) on a time to time basis, as provided at a single Italian Bank of the Group level;
- managers of groups of persons whose total power is equivalent to or higher than levels defined with reference to credit or market risk.

For quantitative criteria application purposes, all persons belonging to the 0.3% of staff (including those with overall remuneration equal to or greater than 500,000 euro) who have been awarded overall remuneration greater than the previous financial year and all persons who during the previous financial year received total remuneration equal to or greater than that of persons identified for such qualitative criteria (as specified in the Regulation), whose professional activity has a material impact on the risk profile of the legal entity at issue.

With reference to persons identified based on quantitative criteria alone, the Group does not apply the procedure for the exclusion of identified staff as provided in Bank of Italy Supervisory Provisions an (EU) Decision 2015/2218 of the European Central Bank dated 20th November 2015.

Despite the distinction between staff belonging and not belonging to the internal control functions considered by the Bank of Italy Supervisory Provisions, the identified staff detected on the basis of the process implemented are classified as:

- top identified staff: the CEO, General Manager (where appointed), Co-General Managers and Managers in the first line of management of the Parent Company, the CEO, General Manager, Co-General Manager and Deputy General Manager (where present) of Aletti & C. Banca d'Investimento Mobiliare, Banca Akros and ProFamily.
  Top identified staff includes:
  - senior identified staff: the CEO, General Manager (where appointed), Co-General Managers, senior operational and executive managers of the Parent Company and Managers in the first line of management of the Parent Company not included amongst the internal control functions reporting directly to the CEO or to the Board of Directors, the CEO of Aletti & C. Banca d'Investimento Mobiliare and of Banca Akros;
- other identified staff: the identified staff not included in the above category.

In 2020, process implementation resulted in the identification of 189 persons, amounting to approximately 0.9% of total Group staff at 1 January 2020. Compared to the outcomes of the process implemented at the beginning of 2019, which had led to the identification of 188 positions/persons

(184 persons and 4 *ad interim* positions), during the same year, a further 16 persons were subsequently identified; therefore, in comparison with the final outcomes of the process implemented in 2019, therefore equal to 200 persons, for 2020, 9 new persons are identified, of which 8 in the past never included in the perimeter of the identified staff and one already identified during previous exercises, and 20 persons are no longer identified, in virtue of their termination of employment or office, change of role or responsibility, quantitative criteria expiry. With reference to the Group's Italian Banks, the following positions/ persons are identified[7]:

- Banco BPM: 150;
- Banca Akros: 24;
- Aletti & C. Banca d'Investimento Mobiliare: 11.

In the remaining companies 4 persons are identified.

5. Components of remuneration

5.1 Remuneration of the Group's Corporate Bodies

5.1.1 Remuneration of the Parent Company's Board of Directors members

The Shareholders' Meeting approves the remuneration policies of the members of the Board of Directors and determines their reward package; the Shareholders' Meeting is also responsible, pursuant to art. 2389 of the Italian Civil Code, for deciding the remuneration due to directors who are members of the Executive Committee.

Therefore, the entire Board of Directors is due – aside from reimbursement of costs incurred due to their employment – an annual payment that is determined, at a fixed rate, for the full period of the Shareholders' Meeting established at the time of their appointment. The distribution of remuneration approved by the Shareholders' Meeting, where not specified thereby, is established by the Board of Directors.

In connection with the approval of the merger between the former Banco Popolare Soc. Coop. and the former Banca Popolare di Milano Scarl, the corresponding Shareholders' Meetings held on 15 October 2016 resolved the fixed compensation to be awarded to the Board of Directors and the additional component to be awarded for each member of the Executive Committee for the full period of their office, and therefore for the financial years 2017-2018-2019 (until approval of the

[7] Those holding a position in more than one Group companies are listed once only.

financial statements as at 31 December 2019), to be allocated on a *pro rata temporis* basis in relation to the actual term in office.

For directors assigned particular offices, according to art. 22 of the Bylaws, the Board of Directors, on the basis of proposals formulated by the Remuneration Committee and having obtained the opinion of the Board of Statutory Auditors, determines the amount of emoluments to be paid, pursuant to art. 2389 paragraph 3 of the Italian Civil Code. In this regard, at the meeting held on 7-8 May 2019, the Board of Directors, on the proposal of the Remuneration Committee and having considered the opinion of the Board of Statutory Auditors, established the additional fixed components, proportional to the commitment required of the office and the relative responsibilities, for the period that will end on the date of the Shareholders' Meeting called to approve the financial statements as at 31 December 2019.

At the meeting held on 14 March 2017, the Board of Directors - on the proposal of the Remuneration Committee and with the favourable vote of all members of the Board of Statutory Auditors - determined the fixed remuneration of the CEO[8], in accordance with article 2389 of the Italian Civil Code and article 22.1 of the Bylaws; at the meeting of 28 February 2020, the Board of Directors, taking into account that the limit of 2:1 (200%) to the ratio between the variable and fixed component of the remuneration for selected persons deemed strategic remains confirmed for 2020 (increase approved by the Shareholders' Meeting of 7 April 2018), also resolved to correlate 100% of the Chief Executive Officer's gross annual remuneration (GAR) with the short-term incentive plan and the remaining 100% of the same remuneration with the annual pro-rata long-term[9] incentive plan, subject to the approval of the latter by a specific Shareholders' Meeting subsequent to that of 4 April.

A third-party insurance policy and a cumulative occupational accidents policy are planned for members of the Board of Directors. For the sake of completeness of information, it is also noted that a life insurance policy in favour of the current Chairman of the Board of Directors is in effect.

Neither variable components of the remuneration nor end-of-term payments are planned for members of the Board of Directors without individual contract.

The Chairman of the Board of Director's remuneration does not exceed the fixed remuneration collected by the Chief Executive Officer or the General Manager (where appointed).

5.1.2 Remuneration of the Parent Company's Board of Statutory Auditors

The Shareholders' Meeting approves the remuneration policies of members of the Board of Statutory Auditors and determines the remuneration to be paid to them for the full term of their office.

[8] See paragraph 6.5.1 with reference to variable remuneration correlated to the short-term incentive plan.
[9] See paragraph 6.8.

Therefore, all members of the Board of Statutory Auditors are entitled – in addition to reimbursement of expenses incurred due to their office – to an annual amount which is determined by the Shareholders' Meeting at the time of their appointment, at a fixed rate for the full term of their office.

In connection with the approval of the merger between the former Banco Popolare Soc. Coop. and the former Banca Popolare di Milano Scarl, the corresponding Shareholders' Meetings held on 15 October 2016 resolved the compensation to be awarded to the Board of Statutory Auditors for their full term in office, namely for financial years 2017-2018-2019 (until approval of the financial statements as at 31 December 2019).

A third-party insurance policy and cumulative occupational accidents policy are planned for members of the Board of Statutory Auditors.

With regard to the Bank of Italy Supervisory Provisions, members of the Board of Statutory Auditors shall not receive any variable components of remuneration.

The Board of Statutory Auditors is not currently granted powers pursuant to art. 6.1 b, Italian Legislative Decree no. 231/2001; Banco BPM Banking Group's Board of Directors, in their meeting on 10 January 2017, considering not to make use of the authorities laid out in paragraph 4-*bis* of the same article mentioned above, in fact it appointed a specific Supervisory Body (SB), assigned the task of monitoring, among other things, the observance and functioning of the organisational, management and monitoring model, and also of updating of the consequent powers and duties. The Parent Company's SB provides for the appointment of a statutory auditor among its members; an additional payment is therefore given to this person for the office fulfilled in the SB.

5.1.3 Remuneration of members of Corporate Bodies of subsidiary companies

Provision is made for fixed remuneration differentiated in relation to their respective offices fulfilled within their respective organisations for members of Corporate Bodies of subsidiary companies, in addition to reimbursement for living expenses and possible attendance fees, where resolved by their respective Shareholders' Meetings.

This remuneration is approved by the respective General Shareholders' Meetings, according to the Bylaws, for members of the Board of Directors and the Board of Statutory Auditors of subsidiary companies.

No provision is made for variable remuneration components for members of the Boards of Directors lacking an individual contract.

With regard to the Bank of Italy Supervisory Regulations, members of subsidiary company Boards of Statutory Auditors do not receive any variable remuneration component; if they are also a member of the Supervisory Body established pursuant to Italian Legislative Decree 231/2001, it is envisaged that they will receive an additional emolument for the office held.

The emoluments of the Chairman of the Board of Directors of each subsidiary bank shall not exceed the fixed remuneration awarded to the head of the body with the function of managing the subsidiary company (Chief Executive Officer or General Manager).

5.2 Remuneration of the Group's employees

The system of remuneration of the Group's employees provides the following.

1. A fixed remuneration component consisting of:
    - gross annual remuneration (GAR), determined by relative labour contracts based on the National Labour Collective Agreement and any second-level contracts in force from time to time or in agreements with Corporate Parties.
    In this respect, interventions on the fixed component consist of promotions to more senior remuneration or placement based on an effective increase in responsibility, and personal allowances, awarded for continuing deserving performance;
    - role allowances.
    It is possible to assign role allowances, consisting of an increase in remuneration, paid on a monthly basis and subject to covering a specific position. This remuneration is predetermined, permanent, so long as the recipient does not change the office for which the remuneration was granted, does not provide incentives for risk-taking and is not revocable, but is discretionary, and reflects the level of professional experience and seniority. Therefore, it is issued on the basis of predefined criteria:
    - other benefits for personal and family use granted by the Parent Company and its subsidiary companies to their employees, resulting from national legislation and/or from second-level and/or deriving from specific internal reference policies.
    The most important benefits concern the following areas: corporate welfare, supplementary pensions and healthcare. The Group's employees, according to the specifics of the company to which they belong and/or the company of origin, also benefit from advantages when using bank services and insurance coverage.

2. A possible variable remuneration component, composed of:
    - incentives linked to the short-term incentive plan on an annual basis (incentive), awarded in accordance with that provided in chapter 6 below;
    - incentives linked to long-term incentive plans (long-term incentive), referred to in paragraph 6.8 below;
    - for Group companies that apply the National Credit Contract a variable component connected to financial performance and/or to specific objectives (corporate bonus –

National Labour Collective Agreement) is awarded subject to full compliance with the following conditions recorded at 31/12/2020 on a consolidated basis: (i) that the Common Equity Tier1 (CET1) ratio "phased-in", capital adequacy indicator is higher than the relative Risk Trigger[10] threshold defined in the Risk Appetite Framework[11] for the same year; (ii) that the Liquidity Coverage Ratio (LCR) regulatory, liquidity adequacy indicator is higher than the relative Risk Trigger[10] threshold defined within the Risk Appetite Framework[11]; (iii) that the profit from current operating activities before tax (net of non-recurring items) is positive. It is computed for the purpose of calculating the ratio between the variable and fixed component of the remuneration and is awarded in compliance with the provisions of chapter 6 below regarding the application of the malus and claw-back provisions[12]. The criteria and methods for determination and payment[13] of this remuneration are subject to information, comparison and/or negotiation with the Corporate Parties;

- for Group companies that apply the National Contract for Tourism and Public Businesses, a variable component connected to specific objectives (productivity bonus – National Labour Collective Agreement) is provided. The criteria and methods for determination and payment of this remuneration are subject to notification to the Corporate Parties;
- limited to other staff of the Group, therefore excluding identified staff identified for the reference year and for the previous year[14], possible one-off payments may be granted, as a reward for professionalism and individual effort, in line with professional assessment (or equivalent) and in compliance with specified regulations. Said remuneration is subordinate to full compliance with the following conditions as identified in the last quarterly report available on a consolidated basis: (i) the *Common Equity Tier1* (CET1) *ratio* "*phased-in*" capital adequacy indicator is higher than the relative *Risk Trigger*[15] threshold as defined in the *Risk Appetite Framework*[16]; (ii) that the liquidity adequacy indicator *Liquidity Coverage Ratio* (LCR) *regulatory* is higher than the relative *Risk Trigger threshold*[15] defined in the *Risk Appetite Framework*[16]; (iii) that the profit from current operating activities before tax (net of non-recurring items) is positive. The maximum limit of impact of these payments is fixed at 10% of the fix component of the individual remuneration. The total amount of resources to be dedicated to these payments cannot exceed the limit of 0.2% of the recurring staff cost[17], provided in the budget of the financial year in question;

[10] The Risk Trigger threshold means the lower point of the Risk Appetite target area, consistent with the RAF framework.
[11] Expected value on 31/12 of the same financial year.
[12] See paragraph 6.7.
[13] By way of example, *welfare* services or Banco BPM shares, in the latter case prior specific resolution of competent corporate bodies and obtaining of necessary regulatory authorisations.
[14] As identified on process activation date.
[15] Risk Trigger threshold means the lower point of the Risk Appetite objective area, in line with the RAF framework.
[16] Expected value on 31/12 of the same financial year.
[17] Staff cost identified in the budget of the relevant financial year, excluding the following variable remuneration components: bonus pool, pro rata cost of long-term incentive and one-off incentives.

- possible exceptional payments to newly-appointed staff in the Group, limited to the first year of employment (so-called welcome bonus); if not paid in a one-off solution upon hiring, said payments are computed for the purpose of calculating the ratio between the variable and fixed component of the remuneration[18];
- any payments connected to continuing staff, subject to their presence at a certain date (retention bonus); the amount is awarded no earlier than the positive check of the event to which it is related, in compliance with the capital adequacy and liquidity adequacy conditions referred to in paragraph 6.9 below, it is calculated for the purpose of calculating the ratio between variable and fixed component of remuneration[18], it is paid on the basis of the modalities envisaged for the category of staff to which it belongs at the time of awarding[19] and is subject to the malus and claw-back provisions[20];
- any payments for non-competition clauses or notice period extension clauses; such amounts are paid in compliance[21] with specifications set forth in paragraph 6.9 here below (including specifications pertaining to capital and liquidity adequacy conditions), and, with reference to identified staff, they are computed for the purpose of calculating the ratio between the variable and fixed component of the remuneration[18].
- any additional employment termination amounts (golden parachute, in the case of identified staff); said payments take place in compliance with specifications set forth in paragraph 6.9 here below (including specifications pertaining to capital and liquidity adequacy conditions), and, they are computed for the purpose of calculating the ratio between the variable and fixed component of the remuneration[18] [22].

The awarding of guaranteed variable remuneration is not envisaged.

There are no stability clauses.

There are no discretionary pension benefits.

All remuneration procedures, even if not expressly indicated in items 1) and 2) above, provided that they are implemented following the Parent Company's guidelines and in accordance with the regulations in force from time to time, are carried out subject to prior approval, both on merit and in financial terms, by the Parent Company's Chief Executive Officer or by their delegates[23].

Generally, unless stated otherwise in the individual's work contract, the Group's employees do not receive remuneration for positions held in Corporate Bodies of subsidiary and/or investee companies as designated by the Group. This remuneration is paid in full to the company to which they belong

[18] See paragraph 6.1.
[19] See paragraph 6.6.
[20] See paragraph 6.7 point 2.
[21] Without prejudice to the peculiarities of the Bank of Italy's Supervisory Provisions.
[22] Unless defined in application of the predefined formula contained in paragraph 6.9 here below.
[23] Power delegated by the Parent Company's Board of Directors or by the Parent Company's Chief Executive Officer to implement all formalities, acts and duties provided by the remuneration policies.

by the company in which the job is carried out. For those who do not receive remuneration for offices held in Corporate Bodies of subsidiary and/or investee companies, the incentive is not linked to these offices.

No remuneration is paid to employees of the Parent Company and of subsidiary companies which form part of the Supervisory Body (pursuant to Italian Legislative Decree 231/2001).

5.3 Remuneration of external non-employed staff

The remuneration of external non-employed staff that the Group uses is regulated by the respective contracts.

For non-employed staff that fall into the category of financial advisers authorised for door-to-door sales and financial agents, the remuneration is comprised by a recurring component which may include, depending on the case, commission from entry fees and/or management fees and/or linked to the contribution of assured revenue and/or to units and/or to brokered volumes. A non-recurring component of remuneration may be envisaged, also in the form of commissions paid for incentive purposes, in order to direct the commercial activity to the achievement of specific objectives; within the first year of employment in the Group, the payment of a welcome bonus may also be envisaged. The possible payment of non-recurring components of the remuneration paid for incentive purposes is subject to compliance with the capital and liquidity adequacy conditions defined for the awarding of the severance payments in the following paragraph 6.9, takes into account the risk and is subject to the application of malus and claw-back provisions[24].

The possible payment of non-recurring components of the remuneration for external non-employed staff not belonging to the category of financial agents, insurance agents and financial advisers authorised for door-to-door sales is subject to the conditions defined in chapter 6 below, including the application of malus and claw-back provisions[24].

For all the external non-employed staff, any non-recurring remuneration component is linked, in addition to indicators of a quantitative nature, to qualitative indicators expressed with criteria that can be quantitatively measured (by way of example, but not limited to such, the risk involved in its different meanings, the compliance with the legislation and regulations, customer protection and increase of loyalty, product quality, quality of the service provided, containment of complaints and legal or reputational risks), in line with guidelines of the Group's short-term incentive plan[25]. The Parent Company's Compliance function must verify these criteria, pursuant to specifications contained in item a) of paragraph 3.2 above.

[24] See paragraph 6.7 point 2.
[25] See paragraph 6.5.

With specific reference to financial agents, the provisions on transparency of banking and financial operations and services defined in paragraph 6.5 below apply.

All remuneration interventions, even if not expressly indicated in the preceding paragraphs provided that in implementation of the Parent Company guidelines and in compliance with the provisions in force from time to time, are carried out subject to prior approval, both on the merits and in economic terms, by the Chief Executive Officer of the Parent Company, or any of its delegates[26].

6. Characteristics of the remuneration and incentive system

The characteristics of the remuneration and incentive system for Group staff are illustrated in this chapter, taking into consideration strict criteria in evaluating results achieved, in accordance with current regulatory provisions.

Within the incentive system, initiatives aimed at spreading the corporate culture oriented towards attention to ESG (Environmental, Social, Governance) issues are pursued.

The Group's Staff cannot use personal hedging strategies or insurances on remuneration to undermine the risk alignment effects embedded in their remuneration arrangements. To ensure compliance with the aforementioned, within the scope of the remuneration policy control process[27] the Audit function carries out sample evaluations of internal custody and administration accounts, at least of identified staff who are holders or co-holders; detected breaches are identified as misconduct[28]. Based on Bank of Italy Supervisory Provisions, by means of the process activated by the Parent Company's Human Resources function, the bank requests identified staff to notify the existence or opening of custody and administration accounts at other intermediaries.

No staff Group initiatives which may affect risk alignment mechanisms are envisaged, including in the incentive plans[29].

6.1 Relationship between variable and fixed components of remuneration

Fixed remuneration[30] is understood as the collection of elements referred to in point 1) of paragraph 5.2, as well as the recurring component of remuneration referred to in paragraph 5.3. Variable

[26] Mandate assigned by the Parent Company's Board of Directors or by the Parent Company's Chief Executive Officer to implement all the formalities, deeds and fulfilments envisaged by the remuneration policies.
[27] See paragraph 3.2
[28] See paragraph 6.7.
[29] Without prejudice to possible use, within a long-term incentive plan, of instruments linked to shares (see paragraph 6.8).
[30] Without prejudice to the peculiarities of the Bank of Italy's Supervisory Provisions.

remuneration is understood as the collection of elements referred to in point 2) of paragraph 5.2, as well as the non-recurring component of remuneration referred to in paragraph 5.3.

The upper limit of the variable/ fixed component ratio of Group Staff is:

- 2:1 for specific figures deemed to be strategic and selected from top identified staff and Finance, Corporate, Investment Banking and Private Banking staff, as resolved by the Ordinary Shareholder's Meeting held on 7th April 2018 (see infra);
- 1/3 for all staff belonging to internal control functions[31], in compliance with Bank of Italy Supervisory Provisions;
- 1:1 for all staff not included in aforementioned categories.

With reference to profiles required by legislation and Bylaws, the Ordinary Shareholder's Meeting held on 7th April 2018 approved a raise in the upper limit for general criteria (1:1) of up to 2:1 (as permitted by the Bank of Italy) for specific figures as listed in the previous paragraph. The proposal submitted to said Shareholder's Meeting was grounded in the need to use all management drivers to attract and maintain professional persons with skills suited to company requirements, for enhanced competitiveness and good governance. To this effect and also taking into account that major competitors of the Group had already approved a ratio upper limit increase to 2:1 for variable to fixed remuneration, adjustment to market practice enables the Group to bolster its remuneration driver on total compensation. Given that conditions for increase remain unchanged, reference staff and the upper ratio limit between variable and fixed component of remuneration as resolved by the Ordinary Shareholder's Meeting held on 7th April 2018, in compliance with Bank of Italy Supervisory Resolutions, it is not required that said topic is once more submitted to the Meeting for resolution.

6.2 Determination of the bonus pool

The Group's bonus pool [32] constitutes part of the consolidated staff costs, approved by the Parent Company's Board of Directors at the end of the Group's budgeting process.

The annual amount of the above-mentioned Group bonus pool, with regard to the cited process, only in the event that the budget envisages a profit[33] may not exceed the threshold of 20% of the profit from current operating activities before tax (net of non-recurring items)[34] consolidated under

[31] The scope of application of said limit was adjusted based on Bank of Italy Supervisory Provisions (see Definitions, internal control functions).
[32] Excluding financial agents, insurance agents and financial advisers authorised for door-to-door sales, for whom a dedicated bonus pool may be envisaged, approved by the Chief Executive Officer of the Parent Company.
[33] Profit from current operating activities before tax (net of non-recurring items).
[34] Profit from current operating activities before tax (net of non-recurring items), calculated without taking account of the amount of that bonus pool.

the financial year's budget; it is fixed also taking into account the Group's capitalisation and liquidity objectives.

6.3 Connection to results

The award of the incentive takes into account the profitability, the levels of capital resources and the necessary liquidity (hereinafter entry gates), is parameterised to performance indicators measured net of risks (hereinafter the financial and non-financial adjustment factor), considers the quality of the performance achieved and is implemented in accordance with the guidance issued from time to time by the Supervisory Authority.

In accordance with the Risk Appetite Framework approved by the Parent Company's Board of Directors, the award of the incentive is subject, for both identified staff (without prejudice, with reference to the profitability indicator, the identified staff of the functions with control tasks, whose incentive is therefore not subject to this condition in order to avoid, as required by the Supervisory Provisions of the Bank of Italy, that the same is connected to economic results), and other staff, to indicators and relative values for comparison:

- consolidated capital adequacy indicator: *Common Equity Tier1* (CET1) *ratio* "*phased-in*", greater than *Risk Trigger*[35] threshold defined in the *Risk Appetite Framework*[36];
- consolidated liquidity adequacy indicator: Regulatory Liquidity Coverage Ratio (LCR), higher than the *Risk Trigger*[35] threshold defined in the scope of the Risk Appetite Framework[36];
- consolidated profitability indicator: profit from current operating activities before tax (net of non-recurring items), greater than zero.

Furthermore, in addition to conditions listed in the previous paragraph, for subsidiary Italian Banks[37], the awarding of the incentive is subject to the indicator and relative comparative value, both for identified staff not belonging to the functions with control tasks and all remaining staff:

- company profitability indicator: profit from current operating activities before tax (net of non-recurring items), greater than zero.

The table summarises the entry conditions to the economic resources of the short-term incentive plan.

[35] Risk Trigger threshold means the lower point of the Risk Appetite objective area, in line with the RAF framework.
[36] Value envisaged on 31/12 of the financial year.
[37] Banca Akros and Aletti & C. Banca d'Investimento Mobiliare (see Definitions).

Indicator	Comparison value	Valid for	It applies to[38]
CET1 *ratio* “*phased-in*” -consolidated level-	> Risk Trigger threshold defined in the scope of the RAF	Group companies	- identified staff - other staff
LCR regulatory -consolidated level-	> Risk Trigger threshold defined in the scope of the RAF	Group companies	- identified staff - other staff
Profit from current operating activities before tax (net of non-recurring items) -consolidated level-	> 0	Group companies	- identifies staff not belonging to function with control tasks - other staff
Profit from current operating activities before tax (net of non-recurring items) -company level-	> 0	Italian subsidiary banks	- identifies staff not belonging to function with control tasks - other staff

6.4 Adjustment factor

Following verification of the entry gates[39], but before potential payment, the amount of the economic resources of the short-term incentive plan[40] actually available is determined based on profit achieved (financial adjustment factor) as well as qualitative indicators of a non-financial nature (non-financial adjustment factor), in line with the Group risk appetite framework.

6.4.1 Financial adjustment factor

Specifically, for economic resources of the short-term incentive plan, an adjustment factor, the size of which is proportional to the consolidated value of the Return on Risk Adjusted Capital (RORAC) profitability indicator obtained at the end of the financial year in comparison with the relevant Risk Trigger and Risk Appetite thresholds defined in the scope of the Risk Appetite Framework for the financial year in question, is applied to the bonus pool as illustrated below[41].

The application of the financial factor to economic resources of the short-term incentive plan defined in the budget for the year (without prejudice to the portion awarded to identified staff of

[38] They do not apply to collaborators attributable to the categories of financial advisers authorised for door-to-door sales and financial agents, for which reference is made to paragraph 5.3.
[39] See paragraph 6.3.
[40] Excluding any economic resources for incentive purposes dedicated to financial agents, insurance agents and financial advisers authorised for door-to-door sales.
[41] Both the final balance value and the comparison thresholds are determined as a relationship between the financial year’s results, represented by the net result of 31/12 calculated excluding non-recurring items and without considering the amount of the bonus pool, and the end of year capital requirement as a percentage of activities considered for risk (RWA - Risk Weighted Assets), in line with *Minimum Capital Requirement* OCR (TSCR + CCB) provided for the year, as per SREP decision.

functions with control duties, therefore those for which the following does no apply, in order to avoid the incentive from being linked to economic profit) may result in their reduction (up to zero) or increase, in the latter case subject to approval by the Parent Company Board of Directors, which also determines the exact figure, specifically:

- in the case of a result equal to or lower than the Risk Trigger threshold, economic resources are set to zero;
- in the presence of a result higher than the Risk Trigger threshold but lower than the midpoint between the Risk Trigger and Risk Appetite thresholds (hereafter midpoint), the Parent Company's Board of Directors has the authority to decide the potential availability of economic resources up to a maximum of 50% of budget value; the potential payments will not be able to relate to identified staff;
- in the case of a result at least equal to the midpoint but no higher than the Risk Appetite threshold, the value of financial resources envisaged in the budget is automatically reduced by applying the percentage given by the relationship between the midpoint result and the Risk Appetite threshold;
- in the presence of a result higher than the Risk Appetite threshold, any increase of the financial resources up to the expected cap of 110% of their value in the budget is subject to a decision by the Parent Company's Board of Directors, which also determines the exact measurement in relation to and within the limit of the relationship between the result achieved and the Risk Appetite threshold.

The factors to apply to the financial resources of the short-term incentive plan are shown in the table below.

RORAC achieved *(R)*	Financial adjustment factor to multiply by the financial resources of the short-term incentive plan[42]
$R \leq$ RORAC *Risk Trigger*	0%
RORAC *Risk Trigger* $< R <$ midpoint[43]	The Parent Company's Board of Directors has the authority to decide the payment until a maximum amount equal to 50% of the financial resources envisaged in the budget. Eventual payment cannot concern the identified staff.
midpoint[43] $\leq R \leq$ RORAC *Risk Appetite*	% data by the ratio: RORAC achieved / RORAC Risk Appetite.
$R >$ RORAC *Risk Appetite*	Percentage determined by the Parent Company's Board of Directors in relation to and within the ratio RORAC achieved / RORAC Risk Appetite, with a fixed cap of 110%.

In the event of a consolidated accounting loss for the year, a reduction mechanism is applied which acts, in advance of the application of the financial adjustment factor, on the economic resources provided in the operating budget for the short-term incentive plan, without prejudice to the portion destined for the identified staff of the functions belonging to control tasks, to whom the forecast therefore does not apply. Specifically, in the presence of the positive verification of the entry gates to the short-term incentive plan and, at the same time, of a consolidated accounting loss for the year, the budgeted economic resources relating to said plan decreased by the amount of the loss until a reduction maximum of 20% of the above-mentioned resources In this circumstance, the possibility that the subsequent application of the financial adjustment factor determines the increase in economic resources is precluded.

In the event of a change in the financial resources of the short-term incentive plan or the reduction applied in the event of a consolidated loss for the year, the same change is also applied to the relative portions assigned to identified staff that do not belong to the functions with control tasks, determined by the amount of potentially accruable incentives; the portion of the financial resources of the short-term incentive plan of identified staff belonging to the functions with control tasks remains unchanged in virtue of the effect of the financial adjustment factor or the reduction applied in the event of a consolidated loss for the year.

[42] The factor does not affect the portion of the financial resources of the incentive system assigned to identified staff tasked with auditing.
[43] Midpoint between the Risk Trigger and Risk Appetite thresholds.

6.4.2 Non-financial adjustment factor

The financial resources of the short-term incentive plan are also subjected to the application of a non-financial adjustment factor according to methods described here below; said figure is calculated in relation to the values of the consolidated ECAP Reputational Risk and Anti Money Laundering (AML) indicators at the end of year, in relation to the relative Alert limits defined in the context of the Risk Appetite Framework for that year.

The ECAP Reputational Risk indicator represents the total economic capital against the reputational risk estimated through an internal model. The state of the Group's reputation is monitored through collection and analysis of indicators, both of a quantitative and qualitative nature, that may influence, on the basis of their characteristics, the Group's reputation in regard to the main stakeholders (customers, shareholders, market counter parties, regulators, employees, and the financial community) employing reporting and forecasting, and considering stress conditions. The indicators selected, pertaining to macro-areas of market risk, litigation/sanctioning, IT services, corporate social responsibility, regulatory affairs are both internal, i.e. derived from company processes, and external to the Group, i.e. derived from market data, and are systematically measured quantitatively and, where not possible, qualitatively. In order to detect the Group's reputation expressed on the platforms widespread on the internet (eg Twitter, Facebook, blogs, news agencies, etc.), the internal model has been integrated with a further measure relating to sentiment present in the social-media sphere. Appropriate engines, based on machine learning techniques and tools and artificial intelligence, monitor the discussions widespread on the main social platforms, assess the relevance and significance of the opinions expressed, associate the messages to the affected stakeholders and measure the sentiment expressed towards the Group; this sentiment, suitably classified, is considered to integrate the reputational measure obtained with traditional models.

The AML indicator represents the ratio between the total number of customers at high risk (maximum classification in the context of the internal Anti-recycling model for the management of money-laundering risk) and the total number of customers.

Application of the non-financial factor may result in the contraction of economic resources of the short-term incentive plan for all Staff, including identified staff with control tasks; therefore, it bears on:

- the economic resources of identified staff which do not belong to functions with control tasks, determined following the application of the financial adjustment factor to total potentially accruable incentives;
- the economic resources of identified staff with control tasks, determined by total accruable incentives;

- the economic resources of remaining staff, determined following the application of the financial adjustment factor.

More specifically:

- in the case of a result equal to or greater[44] than the Alert limit of both the ECAP Reputational Risk and AML indicators, the value of the financial resources is automatically reduced by 20%;
- in the case of a result equal to or greater than the Alert limit of only one of the indicators, ECAP Reputational Risk or AML, the value of the financial resources is automatically reduced by 10%;
- in the remaining cases, the financial resources are not reduced.

The factors to apply to the financial resources of the short-term incentive plan based on the result (R) are shown in the table below.

		ECAP Reputational Risk	
		R < Alert	***R ≥ Alert***
AML	***R < Alert***	no reduction	-10%
	R ≥ Alert	-10%	-20%

6.4.3 Equalisation mechanism

If the financial resources of the short-term incentive plan, following application of the financial and non-financial adjustment factors, are insufficient to cover the total amount of bonuses calculated on the basis of performance achieved, an equalisation mechanism will be applied. This consists of the proportional reduction of individual incentives. With specific reference to identified staff, said reduction will be applied using the same percentage as the individual bonuses in relation to category (i.e. whether or not belonging to the function with control tasks).

6.4.4 Limits to distributions - combined capital buffer requirement

According to the Bank of Italy Supervisory Provisions[45], in cases where the combined capital buffer requirement[46], no distribution is made in relation to Common Equity Tier 1[47] [48] that may result in lowering the same to a level for which that the same requirement is no longer respected.

[44] The greater the value recorded, the greater the risk for the Group.
[45] See Circular 285 of 17 December 2013 (and subsequent updates) "Supervisory Provisions for Banks" (First Part, Title II, Chapter 1, Section V, paragraph 1 "Restrictions on distributions").
[46] For this definition, please see article 128, point 6 of the Directive 2013/36/EU.
[47] For this definition, please see art. 25 of the Regulation (EU) no. 575/2013.
[48] The restrictions on distribution provided in this paragraph apply to payments that comprise a reduction in Common Equity Tier 1 or a reduction of earnings, if the non-payment or suspension of payments does not constitute event of default or a condition for starting an insolvency procedure pursuant to the regulation of banking crises.

In case of non-compliance with the combined capital buffer requirement, the variable components of remuneration may be awarded and/or paid within the limits and under the conditions indicated in the same Bank of Italy Provisions.

In any event, all decisions regarding dividends and variable remuneration must take into account the recommendations made by the European Central Bank[49].

6.5 Short-term incentive plan

The short-term incentive plan consists of entry gates as described in paragraph 6.3 here above, of financial and non-financial adjustment factors as described in paragraph 6.4 here above and of implementations and methods described here below, applied by means of the allocation of objectives correlated to an annual assessment period. Said elements ensure connection with risks (including legal and reputational risks), compatibility with levels of Group capital and liquidity, orientation towards the achievement of results in the medium-long term and compliance with regulations.

In addition to the evaluation of achieved performance levels in terms of quantitative results, the short-term incentive plan is also characterised by mechanisms oriented towards the control of different forms of risks, as well as the compliance of the behaviour of the Staff to the reference regulatory framework (internal and external), time to time in force, to the respect for customers and maximising their satisfaction. Said purpose is pursued via joint action mainly of three different elements:

- the use of parameters of a qualitative nature and which impact incentive quantification and which are expressed with quantitatively measurable criteria used to gauge customer satisfaction, operative excellence in the service provided, compliance with regulations (by way of example, but not limited to the results of customer satisfaction surveys, the number of complaints, adequateness of customer assistance, compliance with legislation and regulations, assessment of performance and/or management qualities) therefore, also in compliance with the legislation on transparency with specific reference to the branches, the short-term incentive plan is not based exclusively on commercial objectives;
- with reference to risk containment, the allocation:
- for commercial networks, wherever applicable of the objective pertaining to the control of credit risk profiles;
- for identified staff, of risk based or risk adjusted KPI, in line with risks assumed by staff with reference to responsibilities and activities pursued in respective organisation unit, in the reference Risk Appetite Framework; in this area, particular attention is reserved for the control of operative risk;

[49] See the general recommendation of the European Central Bank of 17 January 2020 on dividend distribution policies and the recommendations specifically sent to Banco BPM on "Dividend distribution Policy" and "Variable remuneration Policy", 21 January 2020.

– provision of malus claw-back mechanisms[50], which directly affect the incentive and even setting it to zero, with the purpose of discouraging misconduct.

With particular reference to the matter of transparency of banking and financial transactions and services, within the context of the branches' short-term incentive plan[51]:

- there is no incentive to place unsuitable products in relation to customers' financial needs;
- the joint sale of an optional contract and the loan agreement is not encouraged or rewarded to a greater extent than the sale of the two separate contracts;
- there is no incentive to offer a specific product, or a specific category or combination of products, when this could result in prejudice for the customer;
- there is no incentive to offer a specific product(s) which entails higher costs than another product which is also adequate, consistent and useful in relation to the interests, objectives and characteristics of the customer.

For staff responsible for handling complaints, any incentives take into account, among other things, the results achieved in the handling of complaints and the quality of customer relations.

Such provisions, adopted and implemented right from the first year of the Group in business, are for the promotion of a company culture oriented towards fairness in the pursuit of own responsibilities and activities as well as simultaneous risk management, thus favouring a context of lower potential impact on operative risks and conduct. They establish focus on operative excellence and on the service provided, indispensable for satisfying increasingly demanding customer expectations, in compliance with legislation and regulations.

For risk takers identified on the basis of their responsibilities receiving incentives and for specific staff of the sales network[52] of the Group the method of performances appraisal is adopted, which envisages the assignment, when starting the system, of a objectives-card to compare with results achieved at the end of the year; in the remaining cases, the system is based on managerial appraisal of the head of the department to which they belong regarding the achievement of the qualitative/quantitative objectives of the same.

The objectives-card considers a contained number of indicators, in order to focus on the Bank's priority objectives and to which a percentage weight is attributed to the total and a results curve on levels of achievement (minimum, target and maximum); the result obtained by each KPI determines

[50] See paragraph 6.7.
[51] These provisions apply to "relevant persons" as defined in the "Provisions on the transparency of banking and financial transactions and services. Correctness of relationships between intermediaries and customers", i.e. the staff offering products to customers, interacting with the latter (6,280 persons on the date of drafting the document, of which 6,070 in Retail Banking business area and 210 in Investment Banking business area), as well as those to whom this staff responds hierarchically (1,364 persons on the date of drafting the document of which 1,309 in Retail Banking business area and 55 in Investment Banking business area). The remuneration policy developed pursuant to the transparency provisions also relates to credit intermediaries (57 credit intermediaries) who collaborate with the Banco BPM Group.
[52] The list of people to receive MBO is not exhaustive.

a weighted score to be achieved, on a knowledge curve varying between a minimum and maximum; the amount of weighted scores obtained corresponds to the performance achieved which, only if it is at least equal to fixed minimum score, allows for quantification of the incentive amount; this amount in any case cannot be above a fixed upper limit.

For recipients of objectives-card, the value of the incentive is calculated, in consideration of the financial resources, with reference to the level of the position, the proximity of the function concerned to the company's business operations and the individual's total remuneration with reference to benchmarks. A percentage will be associated with every cluster, which will increase as the combination of the position and proximity to the company's business operations increases; this percentage, applied to the fixed component of the reference remuneration for the position/office, will determine the maximum amount within which the potentially accruable incentive can be defined, considering also the individual's total remuneration.

6.5.1 Short-term incentive plan for the Parent Company's Chief Executive Officer

Objectives defined for the Chief Executive Officer for 2020 regard profitability, productivity, quality of credit and assets, liquidity, capital adequacy and qualitative aspects regarding management activities, with particular reference also to areas related to the implementation of ESG (environmental, social, governance) and to operative risk; said objectives also present a combination of quantitative and qualitative criteria, referred to the Group's results. Quantitative objectives are taken from the Risk Appetite Framework approved by the Parent Company's Board of Directors for the year, they are calculated according to the RAF methodology and envisage achievement levels related to the thresholds set therein. The risk-adjusted/risk-based indicators represent a total of 55% of the total. The amount of the incentive associated with 2020 objectives for the Chief Executive Officer can amount to a maximum of 100% of his gross annual remuneration (GAR) at the maximum performance in each objective.

As regards the awarding conditions for the variable remuneration, the same provisions, with reference to this chapter 6, for the identified staff not belonging to the internal control functions are applicable.

Area	Objective	Weight	Minimum	Target	Maximum
Profitability	Consolidated ROTE[53]	15%	-20%	Risk Appetite	+20%
Profitability	Consolidated RORAC[53] [54]	15%	-20%	Risk Appetite	+20%
Productivity	Consolidated Cost Income to Ratio[53]	10%	+3%	Risk Appetite	-3%
Quality of credit and assets	Credit Policies Indicator (%)[53]	10%	+5%	2019 + buffer	-5%
Liquidity	Consolidated Liquidity Coverage Ratio (LCR)[53] [54]	20%	-15%	Risk Appetite	+5%
Capital adequacy	Maximum Distributable Amount (MDA) buffer[53] [54]	20%	-5%	Risk Appetite	+5%
Qualitative aspects regarding managerial activity	Qualitative assessment of Chief Executive Officer management activities, related, in addition to the economic results achieved, to the implementation of the business plan, with particular reference also to areas related to the implementation of ESG (environmental, social, governance) and operative risk	10%	in line with the expectation	above the expectation	excellent

6.6 Payment of incentive

The methods for payment of incentives to the Group's staff are described in the following paragraphs.

6.6.1 Payment of incentive of other staff

The incentive for other staff is paid in cash and on a one-time basis, by the month of July of the year following the relevant year.

The incentive determined on the basis of performance achieved will not apply in cases of termination of employment (unless with prior consent from the Parent Company, for specific provisions contained in individual or collective contracts, in corporate agreements, that is, for a unilateral corporate initiative, with a case-by-case evaluation necessary according to the time when the termination took place).

6.6.2 Payment of incentive of identified staff

The incentive of risk takers[55] identified in the year is divided into an up-front portion and deferred portions.

The up-front portion, to be awarded within the month of July of the year after accrual, irrespective of the beneficiary, is as follows:

[53] Calculated according to the RAF methodology.
[54] Risk-based objective.
[55] With the exception of employees of the Group who hold office in the Board of Directors of subsidiary companies in representation of the Group itself, the employee does not receive any fixed or variable remuneration for this office.

- 60% of awarded incentive, if lower than 430,000 euro;
- 40% of awarded incentive, if equal to or greater than 430,000 euro.

For the Group, the value 430,000 euro is a particularly high variable remuneration level, determined according to criteria set forth in Bank of Italy Supervisory Provisions[56].

50% of the up-front incentive portion is awarded in the form of Banco BPM ordinary shares.

Other deferred portions consist of:

- five annual portions of equal amount deferred over the five year period following the year in which the up-front portion is vested, to be paid within the month of July each year, consisting of 55% Banco BPM ordinary shares for the senior identified staff, irrespective of the amount of the awarded incentive, and for identified staff reporting directly to the Chief Executive Officer of Italian subsidiary banks, in the event the awarded incentive is equal to or greater than 430,000 euro;
- three annual portions of equal amount, deferred over the three years after the year in which the up-front portion is vested and to be awarded within the month of July each year, consisting of 50% Banco BPM ordinary shares for identified staff not belonging to aforementioned categories.

There is a retention period (selling restriction) on the shares vested of one year both for the up-front shares and for deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is vested. The vesting of the share portions takes place at the same time as the respective cash portions, while actual transfer of ownership takes place at the end of the retention period.

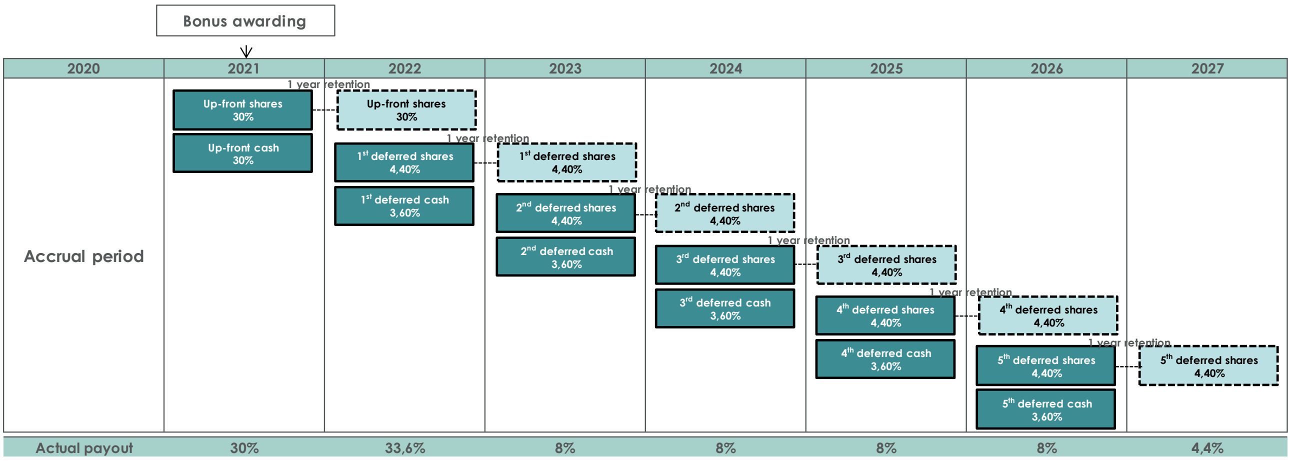
The shares, either as up-front or deferred portions, will be subject to taxation at the end of the retention period, taking into account the so-called normal value, corresponding to the arithmetic mean of official prices revealed thirty calendar days before the date on which the portions will be made available through transfer into the beneficiary's portfolio.

Any rights and/or dividends are only vested at the end of the retention period, that is with reference to the period following the transfer to the recipient's securities portfolio. In the case of extraordinary capital operations which provide for the exercising of an option right, the Board of Directors of the Parent Company may assess the resulting adjustments to any share portions that have vested but are not yet available to the beneficiaries.

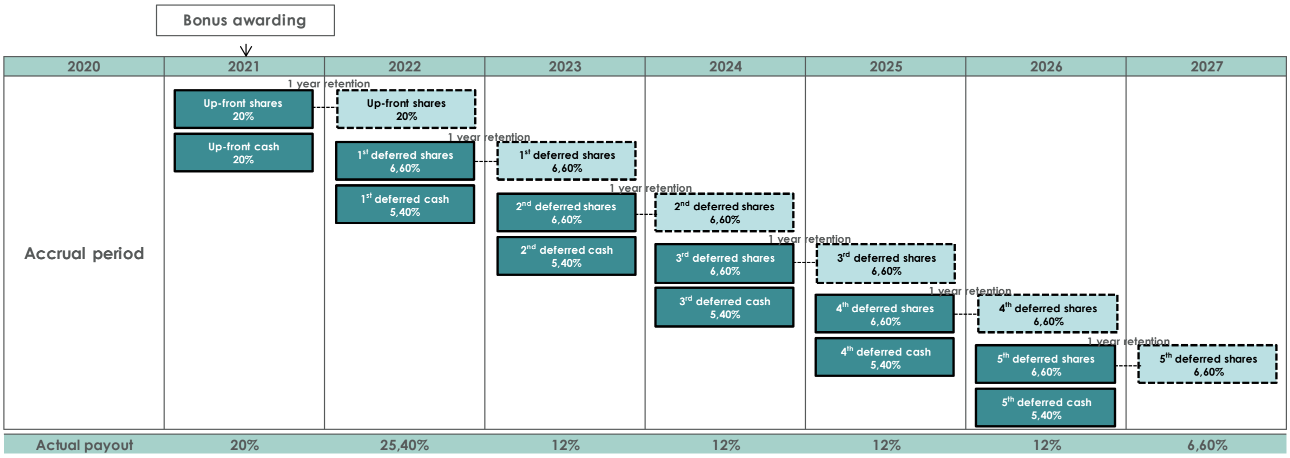
[56] See, First Part, Title IV, Chapter 2, Section III, Paragraph 2. As allowed by the same Provisions, the value provided in the 2019 Policy is confirmed.

Table contain breakdowns and amounts of bonus portions awarded, in relation to the year in which they come into the beneficiary’s effective possession.

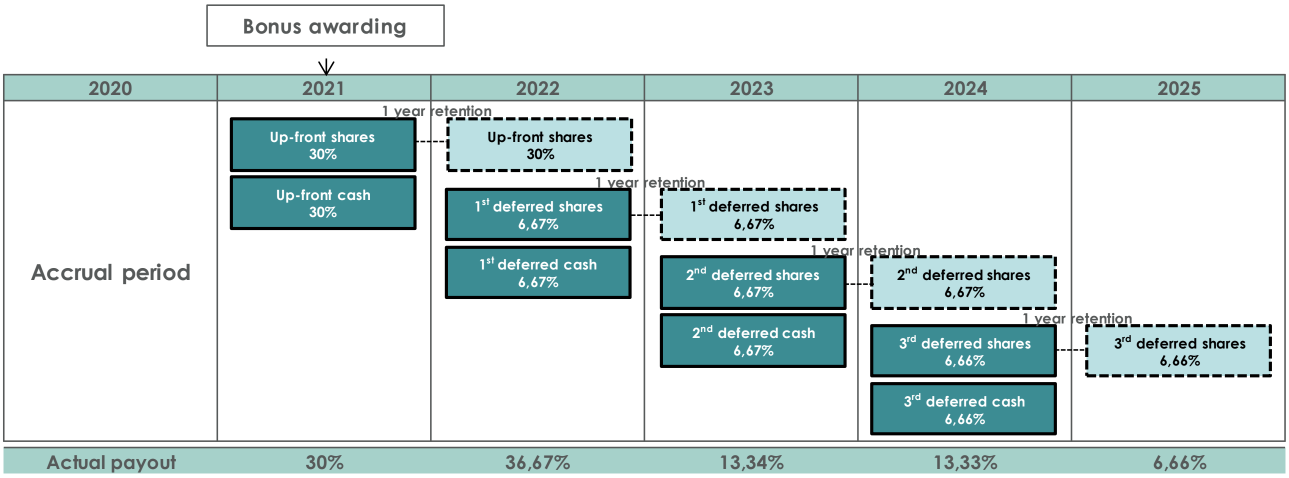
Senior identified staff, in the case of an awarded incentive not of a particularly high amount



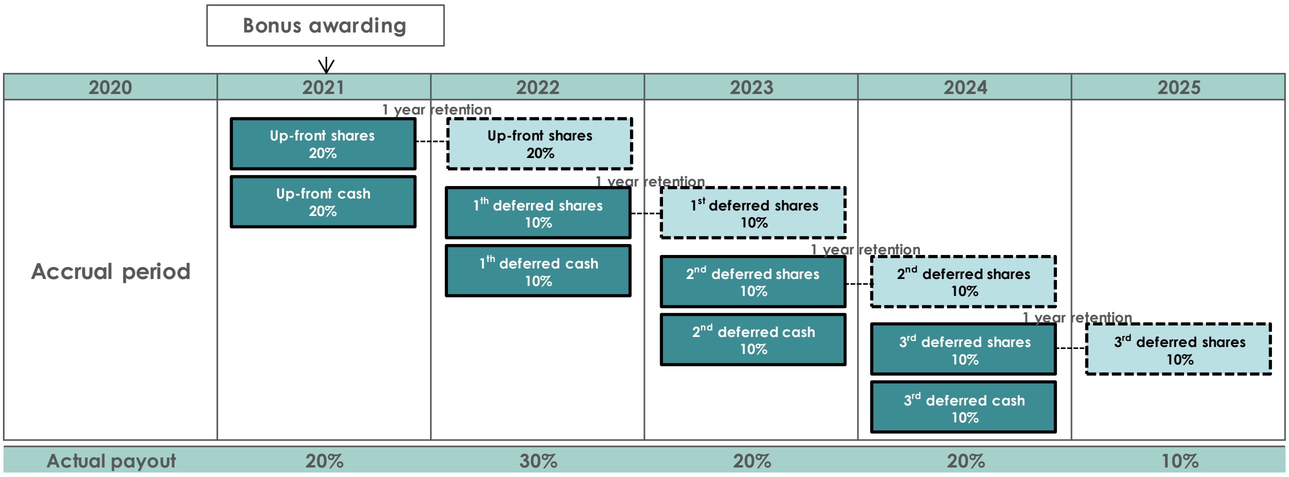
Senior identified staff or belonging to who reports directly to the Italian subsidiary banks’ CEO, in the case of awarded incentive of a particularly high amount



Identified staff belonging to who reports directly to the Italian subsidiary banks' CEO and other identified staff, in the case of awarded incentive not of a particularly high amount



Other identified staff, in the case of an awarded incentive of a particularly high amount



Both up-front and deferred portions are subject to malus and claw-back provisions, according to that stated in paragraph 6.7 below, and do not correspond to cases of termination of contract or employment (apart from, prior to following agreement from the Parent Company for specific provisions contained in individual or collective contracts, in corporate agreements, that is by a unilateral corporate action, without however the necessary case by case evaluation, according to the time that the termination takes place).

In accordance with the national bank procedures and with respect to the spirit of the current provisions, in cases where the awarded incentive is lower than or equal to the materiality threshold of 50,000 euro and, at the same time, lower than or equal to a third of the fixed component of the individual remuneration, this would be paid in cash and on a one-time basis. This provision does not apply to top identified staff (including senior identified staff), and those whose[57] variable to fixed

[57] *Ex ante*.

remuneration ratio[58] exceeds 100%, to whom the regulation is always fully applied in terms of deferment and allocation of shares.

6.7. Malus and claw-back provisions

Payments of variable remuneration components are subject to the *ex post* correction system (so-called *malus*) described below:

1. the vesting of each deferred portion of the incentive is subject to total compliance with the consolidated entry gates and the relative threshold comparison values provided by the short-term incentive plan of the year preceding the year of the share's vesting, in consideration of the Staff category belonging to the same year; this ex post correction system is, therefore, a provision that operates in the deferral period, before the effective vesting of deferred incentive portions.
   The provision described in this point is applied to deferred incentive portions relating to the former Banco Popolare and Bipiemme banking groups, accrued in 2014, 2015 and 2016;

2. with reference to identified staff and all other staff, in the event of ascertained misconduct during the year, the Parent Company Board of Directors, for persons directly appointed by it, or the Chief Executive Officer of the Parent Company (or their proxy) for remaining persons, assesses the measure of the provision to be adopted (which can act in reduction or zeroing) with reference to the incentive and company bonus for the year, deferred portions of incentives for previous year accruable in the year at hand and any retention bonuses.
   Misconduct is defined as follows:

   - provision of suspension from office and from payment of remuneration starting from one day. Determines exclusion of cited percentages of variable remuneration components;
   - conduct which does not comply with legal, regulatory or by-law provisions or with codes of ethics or conduct applicable to the bank, leading to a significant loss for the company or the Group or for customers;
   - breaches[59] of the requirements stated pursuant to article 26 or, when the entity is an interested party, pursuant to article 53 of the Consolidated Bank Law;
   - violation of the obligation not to use personal hedging strategies or insurances on remuneration to undermine the risk alignment effects embedded in the remuneration arrangements;
   - fraudulent or grossly negligent conduct causing damage to a company or the Group;
   - behaviors that have determined or contributed to determining significant damage for customers or a significant violation of the discipline contained in Title VI of the Consolidated

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[58] See Paragraph 6.1 "Relationship between variable and fixed components of remuneration".
[59] For example in cases of breaches of professionalism, integrity and independence requirements.

Banking Law, of the relative implementation provisions or of ethical codes or of conduct for the protection of customers applicable to the intermediary.

In the event of misconduct as described in point 2 here above, the Parent Company Board of Directors, for persons directly appointed by it, or the Chief Executive Officer of the Parent Company (or their proxy), for remaining persons, also reserve the right to activate mechanisms for the return of previously accrued amounts or portions thereof, of the company bonus and retention bonus (claw-back clause), from the moment of accrual up to and including the successive five years.

With reference to the Group's Staff, the Parent Company's Human Resources function, with the help of appropriate corporate functions, annually verifies the potential existence of conditions apt for determining the non-awarding or non-vesting or return of already vested and/or paid amounts and evaluates cases to submit to the possible decision of the Parent Company's Board of Directors, for persons directly appointed by said Body, or to the Chief Executive Officer of the Parent Company (or their proxy), in the case of remaining persons.

The company has the right to pay amounts that are objects of reclaim with those potentially due in any capacity to the entity concerned and in this case the payment will take place, following a decision made by the Parent Company's Board of Directors, for directly appointed persons, or the Chief Executive Officer (or his proxy) for remaining persons, from the moment of the company notifying the entity concerned of the compensatory power, notwithstanding any other action provided for by law to be applied by the company.

6.8 Long-term incentive plan

Starting from 2020, a long-term incentive plan (LTI) will be activated, subject to the necessary company assessments, which will have a duration consistent with that of the new business plan.

This system intends to give a concrete signal of enhancement of the corporate culture aimed at aligning the interest of the staff with the long-term interest of the shareholders, by giving the recipients, at maturity, an incentive related to the appreciation of the Banco BPM share during the plan, if the Group has achieved positive performances. In any case, the system will be consistent with the reference framework for determining risk appetite, with governance and risk management policies and with the aim of pursuing sound remuneration policies; it will be related to financial and non-financial indicators, within which the pursuit of ESG objectives will become relevant.

The system, which could include the use of leveraged financial instruments having the Banco BPM share as underlying, will be represented in its details on the occasion of a Shareholders' Meeting, that will be called to express itself on the matter.

6.9 Amounts for early termination of employment

The Ordinary Shareholder's Meeting of the Parent Company approves criteria for determining any amount to be agreed in case of early termination of employment, for all staff, including any limits set for said amount in terms of fixed remuneration annuity.
Said criteria and limits are applied to all Group companies; these are approved by the Shareholders' Meeting of each subsidiary bank.

As provided for by Bank of Italy Supervisory Provisions agreements stipulated for early termination of employment do not include amounts determined by a court and arbitrary judgement, severance pay established by general employment contract legislation and indemnity for lack of notice. In the latter two cases, this holds true when the amount is due and determined according to limits established by legislation[60].
The *golden parachute* is any agreement pertaining to identified staff.

Amounts for early termination of employment can be awarded up to a maximum limit of 24 months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provisions) and for up to a maximum value of 2.4 million (employee gross amount).

Subject to approval of criteria for determining remuneration to be awarded in case of early termination of employment by the Ordinary Shareholder's Meeting, including limits established to this effect, in terms of fixed remuneration annuity, the Parent Company has the unilateral right to establish agreements of this nature, in compliance with the following and current legislation in force from time to time.

The award process requires that the Parent Company Human Resources function submits a report which:

- for persons directly appointed by the Parent Company Board of Directors, to the Remuneration Committee which in turn draws up the proposal for submission to the Board (with reference to internal control functions, said report is also assessed by the Internal Control and Risks Committees and by the Statutory Board of Auditors);
- for remaining persons, to the Chief Executive Officer (or their proxy).

For identified staff and all other employees, the awarding occurs at the time of termination in accordance with specifications here below, without prejudice to Bank of Italy Supervisory Provisions[61].

[60] Said items do not constitute variable remuneration and are not subject to criteria and limits established by the Meeting.
[61] See Section III, paragraphs 2.2.2 and 2.2.3.

The awarding of amounts for early termination of employment is subject to the ascertainment of conditions, with reference to the previous year and pertaining to the capital adequacy indicator at a consolidated level Common Equity Tier1 (CET1) ratio "phased-in" and the liquidity adequacy indicator at a consolidated level Liquidity Coverage Ratio (LCR) regulatory:

– in the presence of the profit in both indicators CET1 ratio and LCR regulatory greater than the relative Risk Tolerance threshold[62] defined in the Risk Appetite Framework, the amount can be awarded;
– if the result of one of the indicators CET1 ratio or LCR regulatory is lower than the midpoint between relative Risk Capacity and Risk Tolerance thresholds[62] (midpoint), it will not be possible to proceed with the award or issuing of amounts for early termination of employment;
– in remaining cases, if the result of one or both indicators CET1 ratio and LCR regulatory is lower or equal to the relative Risk Tolerance threshold[62], but equal to or higher than the midpoint[63], the Parent Company Board of Directors is required to decide on the availability of economic resources for the awarding of amounts for early termination of employment.

The table summarises conditions for the award of amounts for early termination of employment in relation to the results (R) achieved.

	Consolidated indicators	**LCR *regulatory***		
		R > Risk Tolerance	**Midpoint[64] ≤ R ≤ Risk Tolerance**	**R < Midpoint[64]**
CET1 ratio "phased-in"	**R > Risk Tolerance**	Proceed with reward.	The Parent Company BoD decides the potential availability of economic resources.	No award.
	Midpoint[64] ≤ R ≤ Risk Tolerance	The Parent Company BoD decides the potential availability of economic resources.	The Parent company BoD decides the potential availability of economic resources.	No award.
	R < Midpoint[64]	No award.	No award.	No award.

[62] Risk Tolerance threshold means the lower point of the tolerance area, in line with the RAF framework.
[63] Without prejudice, in the case of CET1 ratio, to provisions for combined capital buffer requirement (see paragraph 6.4.4).
[64] Midpoint between *Risk Capacity* and *Risk Tolerance*.

The amount is determined by considering all elements deemed relevant and in any case:

- the positive results achieved over time;
- circumstances which led to termination, taking into account company interest, also with the purpose of avoiding the threat of legal proceedings;
- roles covered and/or offices held during employment, also in terms of risks assumed by the person;
- duration of employment and role;
- savings as a result of early termination of employment.

The ascertainment of any fraudulent conduct or gross negligence in the three calendar years prior to termination (assessment of the significance of such offences is carried out by the Parent Company's Board of Directors in the case of directly appointed persons, or by the Chief Executive Officer of the Parent Company for all remaining persons) precludes the payment of any amounts for indemnity for early termination of employment. The Parent Company's Board of Directors, for persons directly appointed by it, or the Chief Executive Officer of the Parent Company, for all remaining persons, reserve the right to also assess any further misconduct[65] ascertained during the three calendar years prior to termination.

The amount awarded to identified staff is calculated within the upper limit of the variable component to fixed component ratio with reference to the last year of employment, without prejudice to Bank of Italy[66] Supervisory Provisions.

Bank of Italy Supervisory Provisions also provide a predefined formula, contained in the bank's remuneration policy and which defines the amount to be awarded for early termination of employment, within the context of an agreement between the bank and employees, at any stage of legal proceedings, for the resolution of a current or potential dispute. As provided for by Bank of Italy Supervisory Provisions, if defined by means of the application of said formula, the amount is not included in the calculation of the aforementioned upper limit of the variable/fixed ratio.
The formula adopted by Banco BPM with reference to identified staff requires the amount to be determined based on the following:

- for top identified staff: 24 months of fixed remuneration;
- for other identified staff with more than 10 years of seniority at the Group: 24 months of fixed remuneration;
- for other identified staff not included under previous points: 18 months of fixed remuneration.

Any reductions applied to amounts described in points here above consist of the following:

[65] See paragraph 6.7.
[66] See Section III, paragraphs 2.2.2 and 2.2.3.

- setting to zero, upon ascertainment of fraudulent conduct or gross negligence in the three calendar years prior to termination. The seriousness of such conduct is assessed by the Parent Company Board of Directors, for persons directly appointed by it, or by the Chief Executive Officer of the Parent Company (or their proxy), for remaining persons;
- reduction of 12 months of fixed remuneration in the event of failure to achieve individual performance in at least one of the two calendar years preceding termination;
- 50% reduction if the employee has been operating in the Group for less than three calendar years at the moment of termination, or otherwise, a 25% reduction if at the moment of termination[67] he/she has covered his/her current position for less than two calendar years.

Irrespective of the method used to define the amount, payment thereof occurs according to the same methods provided for by the short-term incentive plan, defined in remuneration policies in force on the date of termination, with reference to the last position for which payment of the amount was assessed, without prejudice to specific conditions provided for in Supervisory Provisions[68] of the Bank of Italy. Therefore, issuing occurs as follows:

- for remaining staff, in cash and on a one-time basis;
- for identified staff (golden parachute):
  - in an up-front portion, amounting to 60% in the event the amount is lower than the particularly high amount established in remuneration[69] policies in force on the award date, or 40% under all other circumstances;
  - in five equal annual deferred portions, for senior identified staff, irrespective of the amount awarded, and for identified staff who report directly to the Chief Executive Officer of subsidiary Italian banks, in the event the awarded amount is equal or greater than the particularly high amount established in remuneration policies in force on the award date, or in three deferred portions in all remaining circumstances;
  - the up-front portion is vested at the termination of employment, within the time limits envisaged by individual agreements; deferred portions are vested annually, the first becoming effective at least twelve months from the payment date of the up-front portion, and subsequent payments at an equal amount of time from the allocation of the previous amount;
  - with reference to the up-front portion, amounting to 50% in cash and 50% in Banco BPM ordinary shares;
  - with reference to each deferred portion the part in Banco BPM ordinary shares amounts to 55% in the event deferment is spread over five years, or 50% in remaining cases;
  - there is a retention period (sale restriction) on vested shares of one year. For deferred portions, the retention period starts from the moment deferred remuneration is vested. The

[67] Also applies to any similar roles (by way of example, change of position in the first line of management).
[68] See Section III, paragraphs 2.2.2 and 2.2.3.
[69] See paragraph 6.6.2

vesting of the share portions takes place at the same time as the respective cash portions, while actual transfer of ownership takes place at the end of the retention period. The carrying-book value of the allocated shares, both of up-front and deferred portions, is equal to the so-called "normal value", corresponding to the arithmetic mean of official prices revealed in the thirty calendar days preceding the date on which each share became available through their transfer to the recipient's portfolio. Any rights and/or dividends are only vested with reference to the period following the transfer to the recipient's securities portfolio;

- both for identified staff and remaining staff, only in the absence of ascertained fraudulent conduct or gross negligence committed by the terminated person. The ascertainment of such conduct, the assessment of the significance thereof is the remit of the Parent Company's Board of Directors, in the case of directly appointed persons, of the Chief Executive Officer of the Parent Company for remaining persons, determines the zeroing of portions which have not yet been paid (malus) and the return of previously paid ones (claw-back). This assessment takes into account a five years period starting from initial accrual.

With specific reference to any non-competition clauses or notice period extension clauses in employment contracts of identified staff as well as of remaining staff, the following provisions apply[70], without prejudice to specific conditions set forth by Bank of Italy Supervisory Provisions[71]:

- the award process is the same as the one established for amounts for early termination of employment;
- monthly payment is subject to ascertainment of capital and liquidity adequacy conditions in force for early termination of employment amounts, as described in this paragraph;
- payment is also subject to the absence of fraudulent conduct or gross negligence. The seriousness of such conduct is assessed by the Parent Company Board of Directors, for persons directly appointed by said body, or by the Chief Executive Office of the Parent company (or their proxy), for remaining persons (malus). Under such circumstances, amount restrictions may also be considered (claw-back). Both malus and claw-back act on the payment of amounts with reference to the year in which ascertainment occurs; claw-back may be exercised as of issuing and for the next five years;
- the annual amount issued to a person identified as belonging to the identified staff category is calculated within the upper limit of the variable/fixed remuneration ratio for each year;
- should the total amount awarded during the year to a person identified as identified staff be higher than the materiality threshold[72], it will be issued up to the equivalent amount of the up-front quota in cash for the full amount of awarded variable remuneration[73].

[70] In force since 2019.
[71] See Section III, paragraphs 2.2.2 and 2.2.3.
[72] See paragraph 6.6.2
[73] Incentive, company bonus, long-term incentive (the latter when and if awarded).