

Banca Ifis S.p.A.

SHAREHOLDERS' MEETING

**THE BOARD OF DIRECTORS' EXPLANATORY REPORT TO THE SHAREHOLDERS'
MEETING ON ITEM 1 ON THE ORDINARY SHAREHOLDERS' MEETING AGENDA
CALLED FOR 21 DECEMBER 2021 IN A SINGLE CALL**

*(drafted pursuant to art. 125-ter of Legislative Decree no. 58 of February 24, 1998,
as subsequently amended and integrated and art. 84-ter of the Regulation adopted with
CONSOB Resolution no. 11971 of 14 May 1999, as subsequently amended and integrated)*

Item 1 on the Ordinary Shareholders' Meeting Agenda

Proposal to raise the ratio between the variable and fixed components of the remuneration of the Chief Executive Officer to 1.5:1. Related and ensuing resolutions.

Dear Shareholders,

this report (the "**Report**") has been prepared pursuant to art. 125-ter of Legislative Decree no. 58 of February 24, 1998, as subsequently amended and integrated and art. 84-ter of the Regulation adopted through CONSOB Resolution no. 11971 of 14 May 1999, as subsequently amended and integrated, in order to illustrate to the Shareholders' Meeting of Banca Ifis S.p.A. ("**Banca Ifis**" or the "**Bank**") called, in an ordinary session, for 21 December 2021 in a single call, the resolution proposal in item 1 on the ordinary part of the agenda related to raising, for the party specifically indicated below, the ratio between the variable and fixed components of remuneration, for the reasons and considerations indicated below.

1. Introduction

Through the supervisory Provisions on remuneration and incentives in banks and banking groups contained in Circular no. 285/2013 "Supervisory Provisions for Banks" ("**Circular no. 285/2013**"), Bank of Italy implements the provisions in the Directive 2013/36/EU, as amended, ("**CRD**") on remuneration and incentive policies and practices considering the application practices and market evolution consistent with the European Banking Authority Guidelines on healthy remuneration policies. The CRD defines the specific principles and criteria that banks must comply with in order to: (i) guarantee the correct processing and implementation of remuneration systems; (ii) effectively manage possible conflicts of interest; (iii) ensure that the remuneration system suitably considers the current and future risks, the capitalisation level and liquidity levels of each intermediary; (iv) increase the level of transparency towards the market; (v) strengthen controls by the Supervisory Authorities.

The regulation's objective is to achieve – in the interests of all stakeholders – remuneration systems that are consistent with company values, strategies and long-term goals, connected with results, suitably corrected to consider all risks, consistent with the capital and liquidity levels needed to handle actions taken and, in any case, that can avoid distorted incentives

leading to a breach of regulations or taking excessive risks for the bank and the financial system as a whole.

Provisions on remuneration and incentive policies and practices that are relevant for this proposal pertain to:

- the provision, solely for Key Personnel (as established therein), of a maximum 1:1 limit for the ratio between the variable and fixed components of remuneration, and
- attributing the Shareholders' Meeting with the power to raise the above ratio, in compliance with certain conditions and, in any case, within the limit of 2:1.

The same provisions also establish that the Board of Directors should send the Bank of Italy the relative proposal, at least 60 days prior to the date fixed for the shareholders' meeting decision, and that, within 30 days of that resolution, the same Supervisory Authority be sent the Shareholders' Meeting resolution with indication of the limit or limits approved for each personnel category in question.

2. Corporate Functions that the parties in question belong to

The proposal foresees approving – solely for the company party indicated below – calculation of a 1.5:1 ratio between the variable and fixed components of remuneration, in compliance with what is permitted by Part I, Title IV, Chapter 2, of the Circular no. 285/2013.

That proposal only refers to the Chief Executive Officer of the Bank. Further beneficiaries are expected to be identified in the near future, pursuant to the regulations in force, after the legal requirements have been performed.

The proposed increase, if approved by the Shareholders' Meeting and unless indicated otherwise by the Bank of Italy, will be applied from the 2022 financial year (and therefore, implemented as part of the Bank's remuneration policy to be submitted to the Shareholders' Meeting called to approve the financial statements as at 31 December 2021).

The proposal to raise the limit of the ratio between the variable and fixed components of the remuneration was sent to the Bank of Italy on 21 October 2021.

3. Reasons underlying the proposal made

The proposal in question is based on the circumstance that:

- (i) adoption of suitable remuneration and incentive mechanisms for those holding key positions in the organisation is essential for attracting, motivating and retaining in the company (also considering the context the Bank operates in, in which a considerable number of players have already long since increased the variable/fixed ratio limit, moreover by more than 2:1) talented, high calibre professionals, able to fully implement the Strategic Plan and , through that, achieve the business results expected;
- (ii) the above need is a priority for Banca Ifis, considering the appointment of the new Chief Executive Officer on 22 April 2021 and the future adoption of the new 2022 – 2024 Strategic Plan, as its full implementation will also require the ongoing commitment of said Chief Executive Officer;
- (iii) the increase in the incidence of the variable remuneration is a preferable option to an increase in the fixed remuneration, which would cause an increase in fixed costs, the lesser ability to correlate remuneration to the short and long-term performance and not being able to defer a substantial share, evidently opportune with retention in mind.

4. Implications on the Bank's capacity to continue complying with prudential rules

The proposal to raise the ratio between the variable and the fixed components of the remuneration of the Chief Executive Officer to 1.5:1 has no implications on the Bank's capacity to continue complying with all prudential regulations, including provisions related to own funds.

In fact, the maximum expenditure that Bank Ifis would have to sustain to raise the variable remuneration attributed to the Chief Executive Officer would in no way affect the Bank's capacity to continue complying with the prudential requirements applicable, currently and in the future, also considering the current 2022 – 2024 Strategic Plan expectations, being defined.

Furthermore, also considering the future impacts of raising the incentive resulting from implementing the long-term incentive plan, called "2021-2023 LTI Plan", approved by the Ordinary Shareholders' Meeting of 28 July 2021, the capital indicators are, in any case, amply

above the regulatory minimums foreseen for each year simulated, thus with full own fund adequacy level.

Due to the above, please note that:

- (i) the proposal to raise the ratio between the variable and fixed components of the remuneration of the Chief Executive Officer to 1:5:1 causes no noticeable impact on the Bank's capital solidity and on compliance with the relative capital requirements, considering the limited incidence of the Chief Executive Officer's remuneration costs on total personnel costs (an average of 0.3%) and total operating costs (an average of 0.12%); and, in any case
- (ii) the variable incentive remuneration for a maximum limit value of 1.5:1 (and, more specifically, the aforementioned "2021-2023 LTI Plan" that the Chief Executive Officer takes part in) would only be acknowledged with full attainment of all the challenging objectives (even industrial and market) assigned to the Chief Executive Officer, with a resulting further improvement to the company performance and less impact on the aforementioned indicators;
- (iii) any variable remuneration possibly matured related to achieving the objectives assigned will however be subject to the rules (in terms of gates, malus and clawback clauses, etc.) established each time by the Bank's remuneration policies.

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Please note that the Bank of Italy regulations referred to in the Introduction, from a decision-making point of view, state that, in the absence of statutory provisions establishing otherwise, the proposal is considered as approved by the ordinary shareholders' meeting if: (i) the meeting is constituted by at least half share capital and the resolution is taken with the favourable vote of at least 2/3 of share capital present; (ii) the resolution is taken with the favourable vote of at least 3/4 of the capital represented in the meeting, whatever the share capital with which the shareholders' meeting is constituted. That regulation also states that the personnel to which the meeting resolution refers may not exercise any voting rights possibly held, directly or indirectly, in the bank.

In the light of the above, the Board of Directors is submitting for your approval the following

RESOLUTION PROPOSAL

“The Shareholders of Banca Ifis S.p.A.Meeting in ordinary session:

- having seen Chapter 2, Title IV, Part I of Circular no. 285/2013 of the Bank of Italy, on “Remuneration and incentive policies and practices”;*
- having examined the text of the Board of Directors’ proposal on item 1 in the Ordinary Shareholders’ Meeting agenda, as contained in the relative Report of the Board of Directors;*
- having acknowledged the party identified in the Report indicated in the previous point and the reasons underlying the proposal itself;*
- having checked that the proposal itself does not prejudice compliance with prudential regulations and, in particular, the one concerning own fund requirements;*
- having considered that article 10 of the Articles of Association establishes the possibility to decide a higher ratio between variable and fixed components of remuneration;*
- having heard the favourable opinion issued by the Board of Statutory Auditors;*

resolves

- a) to fix the ratio between the variable and fixed components of the remuneration of the Chief Executive Officer at the maximum limit of 1.5:1;*
- b) to appoint the Board of Directors to implement the resolution taken, also availing itself of the right to sub-delegate effective implementation to one of its members”.*

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Venice - Mestre, 17 November 2021