

### The Internal Audit Department's report on the correct application of the 2021 Remuneration Policies of the Banca Sistema Group

#### To the attention of the Shareholders of Banca Sistema S.p.A.

This report details the results of the audits conducted by the Internal Audit Department<sup>1</sup> (the “**Department**”) on the compliance of the remuneration practices with the “2021 Remuneration Policies Document of the Banca Sistema Group” (the “**2021 Policies**”) and the applicable provisions of law<sup>2</sup>.

The audits were conducted under a standardised control framework<sup>3</sup> deemed appropriate to provide the required assurance to shareholders and compliance with supervisory requirements.

The process of preparing the 2021 Policies was coordinated by the Bank's Human Capital Department, to ensure compliance with the relevant provisions and to align them with the main competitors.

The Bank's Risk Department assisted in determining the metrics for calculating corporate performance, validating the results and their consistency with the Risk Appetite Framework (RAF), also by establishing risk indicators to be used for (ex-ante and ex-post) adjustment mechanisms, expressing its opinion on the correct use of the aforesaid indicators.

The Compliance and Anti-Money Laundering Department has verified ex ante the compliance of the 2021 Policies with the applicable legal framework, the Articles of Association and the Bank's Code of Ethics, taking into account the inherent legal and reputational aspects, especially in relations with customers. At the end of the audits, it presented its opinion as required by applicable supervisory regulations to the Shareholders' Meeting of 30 April 2021.

The 2021 Policies have been preliminarily examined by the Bank's Remuneration Committee and Board of Directors, which expressed their favourable opinion, before being formally approved by the Shareholders' Meeting on 30 April 2021, in compliance with the Articles of Association (art. 9.2) and Bank of Italy Circular no. 285/2013.

The audits carried out by this Department concerning the application of the 2021 Policies reveal the following:

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<sup>1</sup> The provisions governing remuneration and incentive policies and practices, as per Part One, Title IV, Chapter 2, Section II, Paragraph 3 of Bank of Italy Circular No. 285 of 17 December 2013, provide that: “*The internal audit department also assesses, at least yearly, the remuneration practices compliance with the approved policies and with these provisions*”.

<sup>2</sup> Bank of Italy Circular No. 285/2013 (37th update), Part One, Title IV, Chapter 2 (“Remuneration and incentive policies and practices”) transposed the principles of Directive 2013/36/EU (“CRD IV”), as amended by Directive (EU) 2019/878 (“CRD V”), and the guidelines and criteria agreed at international level, including those issued by the European Banking Authority (EBA) and the Financial Stability Board (FSB).

<sup>3</sup> The controls carried out are those set out in the Position Paper of the Associazione Italiana Internal Audit (AIIA) on “Provisions in relation to remuneration and incentive policies and practices in banks and banking groups”.

- The Remuneration Committee, in its meeting of 16 March 2022, and the Board of Directors, in its meeting of 18 March 2022, each for their respective areas of responsibility, assessed the allocation of the 2021 incentives, verifying that the following "gates" to the 2021 Policies incentive system had been reached:
  - i) Condition for distribution: achieving consolidated gross earnings equal to 34,458,826 euro at 31.12.2021.
  - ii) Condition for access: achieving the first-level thresholds of the following risk indicators indicated in the RAF: Common Equity Tier 1 ratio (CET 1) equal to 11.60% (first-level threshold = 9.00%) and Liquidity Coverage Ratio (LCR) equal to 261.50% (first-level threshold = 115.00%).

With reference to point ii), having both indicators (CET 1 and LCR) exceeded the first-level thresholds provided for by the RAF, it was possible to proceed with the allocation of the variable remuneration component. Furthermore, due to the RORAC of 19.20%, which is above the target threshold set at 18.00%, in application of the 2021 Policies, the bonus pool is payable up to 150% of the amount allocated in the 2021 budget.

During the meetings of the Bank's Remuneration Committee and Board of Directors, held between February and March 2022, on the basis of the calculations made by the Human Capital Department on the final balances provided by the Risk and Finance Departments included in the draft financial statements at 31.12.2021 approved by the Board of Directors, the criteria for the application of the 2021 Policies were analysed, highlighting the actual achievement of the quantitative indicators for establishing the amount of the bonus pool distributable for the year (e.g. estimates of the access criteria, adjustment factors, etc.) and, in particular, the performance of the Chief Executive Officer/General Manager with respect to the assigned targets, in addition to those of the heads of the control departments reporting directly to the Board of Directors, which were assessed by the Remuneration Committee on the basis of the self-assessments carried out by the same heads and proposed to the Board of Directors for approval.

- The amount of the variable component of remuneration relating to 2021 for all beneficiaries was calculated in compliance with the 1:1 ratio between variable and fixed remuneration. As for the Chief Executive Officer/General Manager, although the Shareholders' Meeting had set a maximum limit of 2:1 for the ratio, the variable component of remuneration for 2021 does not exceed the 1:1 ratio. The criteria for deferral and payment in financial instruments laid down by the 2021 Policies were also applied for amounts exceeding € 30 thousand, and it is confirmed that the variable component granted to the heads of the internal control departments did not exceed the limit of 1/3 of their respective fixed remuneration.
- All the deferred portions (cash and shares) of the bonuses linked to the incentive system for the years prior to 2017 have been fully paid, while for subsequent years there are portions

yet to be paid to the beneficiaries, based on the deferral methods set out in the remuneration policies for the respective years. The procurement of the shares required to meet the commitments undertaken in the past with the beneficiaries of the variable incentive system was subject to postponements due to the search for alternative funding methods which, following a discussion with the Supervisory Authority, were not pursued, resulting in the postponement of the assignment of the Bank's shares to the assignees.

- As a result of the afore-mentioned postponement of the actual assignment of the shares still due to the beneficiary managers, relating to the up-front portions for 2019 and 2020, in December 2021 the beneficiary managers were paid an amount equal to the dividends related to the afore-mentioned years for the shares that should have already been assigned, net of the taxes applicable to capital gains (26%). For 2019, the shares to be assigned amount to 101,619 and are due solely to the Chief Executive Officer, while for 2020 they amount to 263,742, of which 173,177 due to the Chief Executive Officer and 90,565 to 8 beneficiaries with different portions. It should be noted that the gross dividend for 2019 was equal to € 0.093 per share, while for 2020 it was equal to € 0.080 per share. In this regard, it is recalled that, on 27 March 2020, the Bank of Italy, considering the pandemic emergency, issued a first recommendation to the less significant Italian banks not to pay dividends and not to make any irrevocable commitment for the payment of dividends for the financial years 2019 and 2020, in addition to refraining from share buybacks aimed at remunerating shareholders. Subsequently, the Bank of Italy issued further recommendations on the distribution of dividends and on remuneration policies, to which the Bank has conformed by suspending the payment of dividends for 2019 and 2020 until 10 November 2021, as resolved by the Board of Directors on 22 October 2021.
- In order to replenish the stock of treasury shares to be assigned to the beneficiaries of the variable incentive system, on 21 October 2021 the Bank sent the Bank of Italy a request for authorisation to repurchase treasury shares for a maximum amount of € 2,300,000, for the assignment of portions in financial instruments due to key personnel for 2018-2020 (no. 603,227), in addition to the variable remuneration to be allocated in up-front shares for 2021 (estimated at no. 275,000), for a total of no. 878,227 shares. The afore-mentioned request was subsequently supplemented with a letter dated 5 November 2021 to respond to a series of informal requests received from the Authority and, on 17 November 2021, the Bank of Italy notified the Bank of the initiation of the procedure for the repurchase of treasury shares, which was completed with the submission of the authorisation on 2 February 2022. With a letter dated 30 March 2022, the Bank notified the Bank of Italy that the amount of the bonuses calculated in application of the 2021 Policies was below the estimates and, consequently, on 18 March 2022, it concluded the plan for the repurchase of treasury shares, carried out between 15 February and 18 March 2022, for a total of no. 693.00 shares,

amounting to € 1,378,012, which will be assigned to key personnel in application of the remuneration policies for the financial years from 2018 to 2021.

- The variable up-front component for 2021, as well as the components of the previous financial years to be granted at the end of the deferral period, will be paid upon approval of the 2021 financial statements by the Shareholders' Meeting to be held on 28 April 2022 and, as a result, it was not possible to verify the actual payment of the approved amounts prior to issuing this report.
- The remuneration of the Chairperson of the Board of Directors and of the Directors for their activities complies with the resolutions of the Shareholders' Meeting of 30 April 2021 and does not include any incentive mechanism, apart from the Chief Executive Officer who, as already mentioned, also serves as General Manager. The remuneration of the Board of Statutory Auditors refers to that resolved following its appointment by the Shareholders' Meeting of 23 April 2020.

The checks carried out revealed the following aspects, which are brought to the attention of the Shareholders:

- 1) On 8 March 2021, the Bank of Italy started an inspection which was completed on 4 June. On 1 September 2021, the Bank of Italy delivered the Inspection Report to the Bank's Board of Directors, highlighting, among others, two compliance findings on remuneration. The Bank sent its counter arguments to the Supervisory Authority as part of the Proceedings on the aforementioned findings and planned, in the action plan attached to the response to the Inspection Report sent on 23 December 2021, the corrective actions which were actually addressed in the 2022 Remuneration Policies.
- 2) Starting in 2015, the Bank has signed non-compete agreements with managers and other employees that hold key positions, pursuant to and for the purposes of Article 2125 of the Italian Civil Code. The amounts were determined in proportion to the fixed remuneration of the beneficiaries and advances were paid between 2015 and 2017. In March 2017, the agreement was revised and formalised in a "protected" venue, excluding the payment of further advances during the employment relationship, while the envisaged amount will be paid, net of the aforementioned advances, after three years from termination, provided that the required conditions are met by former employees. The potential liability for the non-compete agreements is recognised in a specific provision in the financial statements and is determined based on an actuarial valuation by an expert registered with the National Association of Actuaries, in accordance with IAS 19.

In the financial statements at 31.12.2021 of Banca Sistema S.p.A., the amount of the provision for the non-compete agreement for personnel still in service is prudentially unchanged compared to the previous year and equal to € 2,918,313, although the actuarial valuation carried out for the purposes of application of IAS 19 resulted in a lower estimated value. In addition, an amount

of € 643,446 is recognised in the provision, equal to the potential liability to former employees, the calculation of which falls outside the scope of actuarial rules. With regard to the subsidiary ProntoPegno S.p.A., the amount of the provision for the non-compete agreement coincides with the actuary's valuation and amounts to € 69,002, € 44,209 less than the previous year. At the consolidated level, the amount of the provision for the non-compete agreement as at 31.12.2021 is € 3,630,761.

In November 2021, as part of the annual update of the list referred to in Annex A under Article 2 of the afore-mentioned non-compete agreement, the Bank requested the signatories of the agreement to approve the new list of companies considered to be “competitors”. It should be noted that this amendment was not adhered to by all the employees involved.

- 3) The minutes of the Remuneration Committee, the Internal Control and Risk Management Committee and the Board of Directors, for the meetings held between February and March 2022 during which matters relating to the application of the 2021 Policies were discussed, have not yet been formally approved and transcribed in the respective company books.

Milan, 12 April 2022

The Head of Internal Audit  
of Banca Sistema S.p.A.