

**ILLIMITY BANK S.P.A.**

**ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS  
ON ITEM 5 ON THE AGENDA  
OF THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS**

**OF ILLIMITY BANK S.P.A. OF 20 APRIL 2023, IN SINGLE CALL**

*Prepared pursuant to article 125-ter of Legislative Decree no. 58 of 24 February 1998  
as amended and article 84-ter of Consob Regulation no. 11071/1999 as amended*

*Approved by the Board of Directors on 9 March 2023*

*This report can also be consulted on the Bank's website [www.illimity.com](http://www.illimity.com)*

Shareholders,

You are called to attend the Annual General Meeting at 9:30 a.m. CET on 20 April 2023 in single call, to discuss and adopt resolutions on the following agenda:

1. [OMISSIS]
2. [OMISSIS]
3. [OMISSIS]
4. [OMISSIS]
5. **Increase in the ratio between the variable and fixed remuneration of the Chief Executive Officer and the remaining Top Management of illimity Bank S.p.A. to a maximum of 2:1. Resolutions pertaining thereto and resulting therefrom.**

This Illustrative Report has accordingly been prepared pursuant to article 125-*ter* of Legislative Decree no. 58 of 24 February 1998 as amended (the “**TUF**”) and article 84-*ter* of Consob Regulation no. 11071/1999 as amended (the “**Issuers’ Regulation**”) and provides a description of item 5 on the agenda of the Ordinary Shareholders’ Meeting, as well as the relative draft resolution that you are called to adopt.

Shareholders,

You have been called to attend an Ordinary Shareholders' Meeting of illimity Bank S.p.A. (the "Bank" or "illimity") to adopt a resolution on increasing the ratio between the variable and fixed components of the individual remuneration of the Chief Executive Officer and the remaining Top Management to a maximum of 2:1.

The Bank of Italy's Circular no. 285 of 17 December 2013 attributes the responsibility to the Shareholders' Meeting, as part of the approval of the Group's remuneration policies and if permitted by the Bylaws, to increase the ratio of 1:1 between variable and fixed remuneration up to a maximum of 2:1 within the ambit of the Group companies in which the staff to whom the decision refers work.

This provision is included in the Bylaws at paragraph 2 b) (i) of article 9, which requires an Ordinary General Shareholders' Meeting to resolve on the approval "of the remuneration policies and incentive policies, where these latter are applicable, in favour of the Directors and personnel, including any proposal of the Board of Directors to set a limit to the ratio between the variable and the fixed components of the individual remuneration of key personnel at more than 1:1, but in any case not exceeding the limit set by existing pro tempore laws and regulations".

In this respect we remind you that:

- ✓ on 30 October 2018, the Bank's Board of Directors, having received the favourable opinion of the Remuneration Committee and the Risks Committee, to the extent of their responsibility, resolved to submit the request to the Ordinary Shareholders' Meeting to increase to 2:1 the cap for the ratio between the variable and fixed components of the remuneration of Material Risk Takers not belonging to control functions, consistent with regulatory provisions; this proposal did not concern the Chief Executive Officer and the other Group's Top Managers (for whom the cap for the ratio between variable and fixed remuneration was 1:1). The proposal was approved by the Shareholders' Meeting on 18 January 2019;
- ✓ on 15 January and 5 March 2020, the illimity's Board of Directors, having received favourable opinion of the Remuneration Committee and the Risks Committee to the extent of their responsibility, resolved to submit the request to the Ordinary Shareholders' Meeting, consistent with Supervisory provisions, to extend (compared to the previous year) the perimeter of the staff who can benefit from an increase of up to a maximum of 2:1 in the ratio between variable and fixed remuneration to those persons working in illimity Società di Gestione del Risparmio S.p.A., wholly owned by the Bank, as well as those working in neprix S.r.l. (now Arc neprix S.p.A.) and identified as Material Risk Takers at the level of the Banking Group. The proposal was approved by the Shareholders' Meeting on 22 April 2020.

### **Rationale for the proposal**

The Board of Directors is proposing an increase in the cap of the ratio between the variable and fixed components of remuneration to 2:1 for the Chief Executive Officer and the remaining Top Management of illimity, whose current cap is 1:1.

The reasons for the request to increase the cap can be found in the willingness to consolidate the Group's remuneration policy, making it more strongly based on an alignment between variable remuneration and long-term and sustainable business results while at the same time being sufficiently flexible to ensure a competitive remuneration package for persons holding top positions in the

organization, taking into account the complexity of these positions and the related organizational effects.

The proposal to raise the limit to 2:1 will additionally make it possible to increase the variable to the permitted maximum, bringing it in line with market practice and consistent with the suggestions made by institutional investors, thereby incentivising staff to achieve objectives in coherence with the risk strategy set out in the Strategic Plan; which will enable the Group's Top Management - that includes the Bank's Chief Executive Officer - to be appropriately rewarded for the performance achieved on reaching the challenging objectives.

In this respect it is recalled that the ratio between the variable and fixed components is currently 1:1 for the Chief Executive Officer and the remaining Top Management - this differing from the external market which generally envisages a ratio of 2:1 - and that in accordance with the resolutions already adopted by the Shareholders' Meeting (on 18 January 2019 and 22 April 2020) the cap for the other categories of the Group's staff are as follows:

- Group Material Risk Takers belonging to the business functions: 200%;
- Group Material Risk Takers belonging to the support functions: 150%;
- Material Risk Takers belonging to the corporate control functions: 33%;
- Other members of staff: variable remuneration is in all cases limited to 200% for the business functions and 100% for the remaining functions.

It is further noted, that - consistent with legislative and regulatory provisions - the variable remuneration of the staff of the corporate control functions, the Human Resources function and the Manager in charge of drafting the Financial Statements remains contained in any case; for this reason, it is envisaged that the fixed remuneration is prevalent than the variable remuneration for these members of staff.

#### **Staff categories to which the persons affected by the decision belong and the relative numbers**

The staff categories to which the persons affected by the decision belong and the maximum number of staff involved are as follows:

- Members of the management body: Material Risk Takers identified among the members of the Group's management body up to a maximum of 1 person (the Chief Executive Officer of illimity Bank S.p.A.);
- Members of Top Management: Material Risk Takers identified among the members of the Group's Top Management up to a maximum of three persons (Head of Distressed Credit, Head of Growth Credit and Head of b-ilty).

#### **Percentages required for each category of the staff affected by the decision**

The percentages required for each category of the staff involved are as follows:

- Members of the management body: ratio between variable and fixed remuneration up to 200%;
- Members of Top Management: ratio between variable and fixed remuneration up to 200%.

The remuneration and incentive policies submitted each year for the approval of the Shareholders' Meeting may indicate more granular and/or contained ratios, depending on the way in which the remuneration strategy is determined compared to the business specifics for each year.

The cap for each further group of functions remains unchanged, as described earlier, as the result of the above-mentioned previous resolutions of the Shareholders' Meetings.

**Requirements of Circular no. 285/2013, First Part, Title IV, Chapter 2, Section III and Regulation (EU) no. 575/2013**

The introduction of a 2:1 ratio between variable and fixed remuneration is structured to avoid affecting capital solidity or the Group's ability to comply with prudent restrictions on a continuous basis. This mechanism is linked to a Group Remuneration and Incentive Policy that reflects and fosters the sound and effective management of risk and does not encourage the assumption of risks exceeding tolerated levels as set out in the RAF (Risk Appetite Framework), and is in line with the Company's strategy, objectives and values and the Group's long-term interests.

The top levels of variable remuneration are only recognised on achieving and exceeding objectives consistent with the Long-Term Strategic and Sustainable Guidelines, with the maximum attainable having the prerequisite of a highly significant performance that is also sustainable in terms of assumed risk profiles.

As may be recalled, the close connection between the incentive systems and the safeguarding of prudent requirements, in terms of capital and liquidity, derives from the fact that the incentive plans may only be activated after verification of compliance with the levels of Risk Tolerance of the Common Equity Tier 1 Ratio and the Liquidity Coverage Ratio for each year of reference, in addition to other specific conditions for the individual incentive plans.

For the purpose of making assessments, also in the future - as required by the above-mentioned Supervisory provisions - as to the Bank's ability to comply with prudent rules, it is noted that the theoretical maximum variable remuneration corresponding to an increase in the cap for the ratio between variable and fixed remuneration does not affect the ability of the Bank or the Group to comply with prudent laws and regulations, with particular reference to their ability to maintain adequate levels of own funds.

\* \* \*

The Board of Directors accordingly submits the following proposed resolution to the Shareholders' Meeting.

**PROPOSAL**

*"The Ordinary Shareholders' Meeting of illimity Bank S.p.A.,*

- *having examined the Report of the Board of Directors;*
- *having recalled the resolutions adopted by the Shareholders' Meetings of 18 January 2019 and 22 April 2020;*
- *having seen article 9 of the Bylaws and the Bank of Italy's Circular no. 285 of 17 December 2013, First Part, Title IV, Chapter 2, Section III, § 1, on the ratio between the variable and fixed components of the remuneration of Material Risk Takers;*
- *given that said increase does not affect the need to comply with prudent laws and regulations and, in particular, those regarding the requirements for own funds,*

**RESOLVES**

- *to increase the cap for the ratio between the variable and fixed components of remuneration from 100% (1:1) up to the permitted maximum of 200% (2:1) for the Chief Executive Officer and the remaining Top Management of illimity Bank S.p.A., with reference to the following categories of staff and maximum ratios:*
  - *members of the management body: up to 200% for the staff identified among the members of the Group's management body up to a maximum of 1 person (the Chief Executive Officer of illimity Bank S.p.A.);*
  - *members of Top Management: up to 200% for the Material Risk Takers identified among the members of the Group's Top Management up to a maximum of three persons (Head of Distressed Credit, Head of Growth Credit and Head of b-ilty),*
- *to bestow the Chair, Rosalba Casiraghi, and the Chief Executive Officer, Corrado Passera, severally, with the fullest powers to implement the adopted resolution."*

Milan, 9 March 2023

*On behalf of the Board of Directors*

*The Chair*