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TERMINATION PAYMENTS POLICY

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Termination Payments Policy

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Termination Payments Policy

Main new features

This document represents the update of the Termination Payments Policy – hereinafter the “Policy” – that was approved by the Shareholders Meeting of April 11th, 2017.

The changes introduced are mainly aimed at incorporating the variations in the regulatory framework introduced by the Bank of Italy with the 25th update of Circular 285 (Supervisory Provisions for Banks) of 23 October 2018.

The main features of the proposed update are as follows:

- confirmation of all the main terms of the current Policy and in particular that termination payments, including notice, do not exceed 24 months of total remuneration, that the portion additional to notice does not in any case exceed 18 months of remuneration and that the absolute maximum limit for severance pay remains at € 5.1 million, without the possibility of exceptions;
- categorization of the amounts defined in view of or upon conclusion of the employment relationship as variable remuneration, subject to the relevant provisions, and their inclusion in the maximum limit relating to the variable remuneration of the last year;
- introduction of a predefined formula for the calculation of the amount – additional to notice - for the settlement of current or potential disputes relating to the resolution of the employment. The amounts thus defined, which may not exceed the general limit of 18 months' pay, shall not be taken into account in the calculation of the maximum limit of variable remuneration for the last year;
- possibility of entering into pacts limiting the employee's activities after employment termination related to customers or employees, to be excluded from the limit of variable remuneration, which provide for compensation of up to one year's fixed remuneration for each year of duration. It is also provided for the possibility of excluding from deferred payment the consideration of such agreements up to the overall maximum of one year's fixed remuneration;
- exclusion in principle of the payment of discretionary pension benefits;
- exclusion of the redundancy incentives defined for all employees as part of restructuring plans from the scope of the Policy.

Termination Payments Policy

1. General principles

This Policy refers to the amounts agreed between the Bank and its personnel in view of or upon the early termination of the employment or office – hereinafter the “Severance Payments” – irrespective of their title, legal qualification or economic rationale under which they are awarded.

Those amounts – inclusive of those possibly granted in view of pacts limiting the employee’s activities after employment termination or within an agreement for the settlement of present or potential dispute, whatever the setting in which they are made – represent variable remuneration and are subject to the relevant regulatory provisions.

They are not variable remuneration and – except what below provided in relation to the consideration of the indemnity in lieu of notice within the overall limit for termination payments – are not therefore subject to the provisions of this policy:

- a) the deferred statutory pay (Italian *Trattamento Fine Rapporto* – TFR) foreseen by the general employment law, or other deferred pay systems having a similar nature;
- b) the indemnity in lieu of notice, within the limits foreseen by the law or collective labor agreements;
- c) the amounts autonomously defined by a third subject having the power to do that (such as judicial and/or arbitrary authority) in relation to disputes related to the resolution of the employment relationship;
- d) accessory elements of limited material value granted based on local practices and customs.

Within Fineco Group Severance Payments may be in principle provided for in favor of subjects whose employment or office is resolved (in the case of fixed term contracts, before their natural expiry) upon company’s initiative or in the interest of the same, and are aimed at provisionally supporting the income of the recipient and/or to foster specific corporate interests.

No Severance Payment is foreseen if the resolution is due to voluntary resignation and/or the same is not consistent with the company’s interests.

Severance Payments consider the long-term performance, in terms of value creation for the shareholders and do not reward failures or abuses.

Each single Severance Payment is defined consistently with, and without ever exceeding, the rules concerning lay-offs as provided by regulations, contracts and practices of the specific markets of reference, considering as well any other local requirement and provisions of applicable national bargaining and individual contracts.

The compensation defined, at any title, at the time of the termination is set consistently with the overall applicable rules, even of regulatory nature, and in the company’s interest, identifying time by time those solutions that – respecting regulations, corporate values and peoples – allow to optimize the achievement of business objectives, at the same time minimizing costs and risks, both current and prospective.

Termination Payments Policy

2. Limits and criteria

2.1. Maximum limits

It is confirmed the restrictive approach of the previous Policy, that takes into account the evolution of national and international regulatory provisions, the prevailing practices and Investors' expectations.

In principle the termination payments, represented by the Severance Payments and by the possible indemnity in lieu of notice (or equivalent amount) and any other amount defined upon or in the occasion of the resolution of the employment – do not exceed the lower between twenty-four months of total compensation^{1 2} or the maximum limits foreseen by the laws and collective labor agreements locally applicable in case of lay-off.

Furthermore, the sole Severance Payments – as defined at paragraph 1 – do not exceed eighteen months of compensation. This limitation does not apply only if local regulations do not provide for the payment of the indemnity in lieu of notice.

This Policy has a global nature, defines the maximum limits for Severance Payments and does not in any way imply the right or even only the expectation of overcoming any possibly more restrictive limit or criteria foreseen by the laws, collective contracts and/ or practices locally applicable in case of lay-off.

2.2. Remuneration of reference for Severance Payment calculation

The value of the yearly compensation used to calculate the Severance is set, unless more restrictive practices are locally in place, considering the current fixed remuneration plus the average of the incentives actually received – on a cash basis – during the last three years prior to the termination, inclusive of the value of those parts disbursed in equity. For the latter, the value considered is the one current at the time the shares became disposable for the employee, at the end of the vesting / deferral period.

Further elements (such as the value of fringe benefits possibly granted to the employee) may be included in the computation of the above mentioned basis if this is required or foreseen by regulations, laws, contracts or common practices locally applicable.

The monthly remuneration is calculated dividing by 12 the annual one.

2.3. Criteria

Severance Payments, due to the mechanism for the calculation of the compensation used for their determination, which includes the bonuses actually cashed-in after the application of malus clauses, are as a matter of fact already differentiated on the basis of risk-adjusted individual performances.

The number of months of average total compensation to which the severance corresponds is in any case defined with the goal of supporting in the best possible way the achievement of corporate goals, minimizing at the same time costs and risks, current and prospective.

Such a definition is made assessing, on a case by case basis, the specific objective and subjective circumstances of the relationship resolution, considered within the specific legal and contractual framework, including:

- the actual duration of the employment, with significant reductions of the severances in case of particularly short relationships;
- the fact that the subject has provided, especially if repeatedly, performances qualitatively / quantitatively below reasonable expectations;
- the fact that the person has assumed risks deemed to be not consistent with the Risk Appetite Framework;
- the fact that the person has enacted behaviors and or demonstrated attitudes not aligned with corporate values;
- the social and personal impacts of the employment termination, especially for those subjects who are in particular age or personal situations;
- any other fact / circumstance / attitude / behavior related to the individual, the company and the social context which have an impact on the decision to come to the termination of the relationship;
- the availability of the subject to undertake additional commitments (e.g. confidentiality, non-competition, post-termination collaboration for the management of files in which he/she were previously involved) versus the basic ones provided by law and/or contract;
- the rationale at the base of the decision to terminate the employment (also with reference to the concepts of cause and justified reason according to the parameters time by time applicable), considered at the light of the corporate interest to come anyway to a consensual resolution of the relationship – rather than a unilateral one – through the payout of an amount whose cost, calculated on the basis of adequate procedures and elements (and possibly as indicated by third competent subjects, such as judicial and/or arbitrary authority) is not higher than the one that would be presumably borne if the subject were laid-off and would apply to the judge to protect his /her interests.

In any case, the above criteria are, depending on the peculiarities of each actual case, carefully weighed and balanced among them, always in the perspective of the best corporate interest.

¹ With the only aim of meeting the regulatory provisions contained in the Circular 285 of the Bank of Italy, which require the Banks to set a maximum limit to the Severance Payments also in terms of number of years of fixed compensation and in an absolute amount, it is reported that – in view of the maximum 2:1 ratio between variable and fixed remuneration – two years of total compensation could arrive to correspond to a merely theoretical value of six years of fixed compensation in the case, purely hypothetical and improbable, of a subject who in the last three years prior to the termination has always received bonuses in a measure equal to 200% of his/her fixed compensation (BS):
(Fixed [1 year BS] + Average Bonus [2 years BS]) x 2 = 6 years BS

The value of the severance thus determined will not in any case exceed € 5.1 million inclusive of notice.

² Such limit is automatically increased to the lowest value – if higher than 24 months – compulsorily due in compliance with law, national contract or collective labor agreements.

Termination Payments Policy

3. Payout modalities

The overall termination payment is disbursed under the technical forms and with the juridical qualifications that – in full respect of the law – allow the best optimization of costs and pursue of corporate goals.

Severances, defined overall on the basis of the criteria previously outlined, are paid out in forms and with timings fully consistent with the discipline, also regulatory, time by time applicable to the specific case.

Moreover Severance Payments, unless deriving from law or pre-existing contractual obligation, or still from a judicial or arbitration decision, must be defined within a comprehensive agreement foreseeing:

- the inclusion of claw-back clauses, operating up to five years after each payment, covering the cases of fraud / negligence to the damage of the Bank / Fineco Group and which, during the employment, would have represented valid ground for a dismissal for cause;
- the faculty for the company to exercise responsibility actions for facts / behaviors representing fraud and/or negligence, unknown at the time of the resolution;
- the waiver of all claims towards the company.

Termination Payments Policy

4. Severance Payments for Identified Staff

The Severance Payments, represented by monetary amounts or other benefits, in favor of Identified Staff represent the so-called "Golden Parachutes", to which the more restrictive regulatory provisions of the Bank of Italy apply, as long as this is consistent with the legal and regulatory framework and practices locally applicable.

4.1. Criteria

While granting possible Severance Payments to Identified Staff, the Bank assesses and documents the consistency of the amounts, additionally to the criteria set out at paragraph 3, also with:

i) the performance, net of risks, and behaviors at the individual level. To those ends have a particular relevance, leading to a substantial reduction of the Severance Payment that can get up to its zeroing, also through the application of malus and/or claw-back, the Employee having enacted or contributed to enact:

1. behaviors that do not comply with the provisions of the law, the regulations or the articles of association or any ethical or conduct codes applicable to the Bank, resulting in a significant loss for the Bank, Fineco Group or for its customers;
2. any other conduct that does not comply with the provisions of the law, the regulations or the articles of association or any ethical or conduct codes applicable to the Bank, in the cases that may possibly be envisaged;
3. violations of the obligations imposed pursuant to article 26 or, when the subject is an interested party, article 53, paragraphs 4 et seq., of the TUB (Testo Unico Bancario – Unified Banking Law) or obligations regarding remuneration and incentives;
4. fraudulent behavior or gross negligence to the detriment of the Bank or Fineco Group.

ii) the performance, net of risks, and capital and liquidity levels of the Bank. To such ends it has a particular relevance the eventuality that the Bank is beneficiary of an exceptional public intervention, or subject to early intervention measures, extraordinary administration, resolution or compulsory administrative liquidation, or does not have, due to significant losses, a solid capital base.

4.2. Inclusion of golden parachutes on the maximum limit to variable remuneration

Without prejudice to the general limit of 18 months of remuneration referred to in paragraph 2.1, the Golden Parachutes are included in the calculation of the limit of the variable to fixed ratio for the various categories of employees / collaborators, with the exception of the amounts agreed and paid:

- i) on the basis of a non-competition agreement, for the portion that, for each year of duration of the agreement, does not exceed the last year of fixed remuneration;
- ii) as part of an agreement between the Bank and the personnel, wherever reached, for the settlement of a current or potential dispute related to employment termination, if calculated on the basis of the following formula:

One Month of Total Comp x Years of Service x Overall Corrective Factor,

i.e.

$$\text{Severance} = \text{TC} \times \text{Y} \times (100\% + \text{CF})$$

Where:

TC =	Total monthly average compensation calculated according to the criteria set out at paragraph 2.2
Y =	Full years of service seniority. Irrespective of the actual duration of the employment, they will be conventionally considered in a measure not lower than 5 and not higher than 18
CF =	Corrective factor set with motivated discretion, with reference to historical data and/or objective factors, by algebraically adding up individual factors related to: <ul style="list-style-type: none">– Performance– Risks– Behaviors– Social impacts (family and age)– Possession of pension requirements– Minimum contractual commitments– Assumption of non-standard / additional commitments– Specific circumstances and corporate interests. The Bank's internal rules detail analytically the ranges and criteria for the single factors. The corrective factor thus set may range between -100% and +50%

The overall Severance Payment coming from the multiplication of the years of service times the corrective factors cannot in any case exceed the limit of 18 months of compensation.

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To the Severance Payments calculated with the present formula, are applied the exemptions possibly foreseen for deferred payments, without accumulation with the other forms of variable compensation.

4.3. Pacts limiting the employee's activities after employment termination

In cases where - especially with reference to top / senior management positions or business / commercial roles - it may be objectively necessary or appropriate to enter into agreements limiting the performance of the former employee for a period following the termination (providing, as an example only, for the commitment of the former employee not to establish, for a certain period after termination, employment relationships and / or collaboration in any form with competitors and / or avoid the distraction of employees, customers, relationships or assets under management to the advantage of competitors), it will be proposed to enter into specific agreements to protect the Bank.

In relation to this, it is possible - without prejudice to the overall limit of 24 months total remuneration for Severance indemnity Payments referred to in paragraph 2.1 and what foreseen at point 4.2 with reference to non-competition covenants - to provide for the payment of a specific remuneration which, on the basis of the regulatory provisions in force, subject to the rules regarding variable remuneration for the quota that does not exceed one year's fixed remuneration.

Moreover, while granting the status of "good leaver", for the purposes of maintaining any deferment of bonuses and incentives, it will be possible to consider (without prejudice to the relevant terms and conditions of the existing plans) the availability of the beneficiary to enter, where proposed by the Bank, of the aforementioned agreements for a duration of not less than six months.

4.4. Payout modalities

Severance Payments for persons belonging to the Identified Staff population are made with modalities and schemes similar to those of the short term variable remuneration (bonus) of such a category of employees and therefore possibly subject to deferred payout mechanisms, in cash and equity, with ex-post correction mechanisms.

With reference to what provided at point 4.3 above, such modalities do not apply to the consideration for non-competition covenants for the part not exceeding one year of fixed remuneration.

All amounts are subject to claw-back and those deferred in cash or shares, whose payout is split in yearly installments during the deferral period, are subject to malus clauses – based on what said at paragraph 4.1 points i) and ii) – that provide for their reduction / revocation in case of discovery of fraud or negligence, unknown at the time of the termination agreement's sign-off, to the damage of the Bank / Fineco Group and which during the employment would have represented valid ground for a dismissal for cause, or otherwise if serious negative economic consequences – equally unknown and directly linked to the activities of the beneficiary in the period preceding the termination – should manifest themselves or, still, for the parts still deferred the minimum capital and liquidity requirements as foreseen by the regulations time by time applicable should not be met.

In case of deferrals in equity instruments, the company reserves the right to use equivalent monetary instruments (e.g. phantom share).

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5. Discretionary pension benefits

In principle, discretionary pension benefits are not granted.

In the event that they are exceptionally recognized to persons belonging to the Identified Staff, they must be paid in compliance with the regulatory provisions in force and therefore:

- if they are assigned to personnel who interrupt the relationship before the pension entitlement matures, they are invested in financial instruments of the Bank and held in custody by the Bank for a period of five years during which the claw-back will be exercisable;
- in the event that the employment relationship ceases with entitlement to the pension, the benefits are recognized in financial instruments of the Bank and subject to retention of five years.

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6. Derogations

The provisions of this Policy do not apply to any redundancy and/or early retirement plans, aimed at all or defined groups of employees, in the context of extraordinary transactions or corporate restructuring processes, defined on the basis of trade union agreements and which comply with all the following conditions:

- respond to the logic of cost containment and / or rationalization of personnel;
- foster the application of support measures provided for by the law or collective bargaining for all employees;
- they are such as not to produce distorting effects on staff behavior;
- provide claw-back mechanisms, which cover at least the cases of fraudulent behavior or serious negligence to the detriment of the Bank.

The above plans shall be drawn up taking into account the laws and regulations in force from time to time.

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7. Exceptions

In particular circumstances it might be opportune / necessary, in the framework of the due pursue of company's interest, to exceed the limits and/or to deviate from the criteria for the definition or the modalities of disbursement of the severances provided for by this Policy, in particular as far as the stipulation of non-competition / non solicitation covenants is regarded.

In such cases it is foreseen a particular authorization process which envisages:

- the explanation in the single proposal of rationale and/or advantages for company which suggest the deviation, accompanied by the opinion of the head of the internal labor law function and/or external lawyer;
- the opinion of the Compliance function;
- the final approval by the manager hierarchically one level higher than the one to whom would normally belong the decision based on the powers configuration and related delegations;
- disclosure to the Remuneration Committee on the exceptions thus approved (for identified staff only);
- disclosure on Severance Payments for identified staff within the annual compensation report, including exceptions approved.

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