

BANCA SISTEMA S.P.A.

Fully paid-up share capital EUR 9,650,526.24

Tax code and Milan Company Register No. 12870770158 – ABI code No. 03158.3

Corso Monforte, 20 - 20122 Milan

www.bancasistema.it

**ORDINARY SHAREHOLDERS' MEETING, HELD ON SINGLE CALL
AT THE REGISTERED OFFICE IN MILAN - CORSO MONTEFORTE 20
14 DECEMBER 2017, 10:00 HRS**

**BOARD OF DIRECTORS' REPORT
POINT 3 OF THE AGENDA**

**(prepared pursuant to article 125-ter of Legislative Decree No. 58 of 24 February 1998,
as amended and supplemented)**

**AMENDMENT OF THE RESOLUTION OF THE SHAREHOLDERS' MEETING HELD ON 27 APRIL
2017 AS REGARDS POINT 7 OF THE AGENDA "APPROVAL OF THE REMUNERATION
POLICIES OF THE BANCA SISTEMA GROUP FOR THE YEAR 2017 AND SETTING OF THE
MAXIMUM LIMIT OF 2:1 AS THE RATIO BETWEEN THE VARIABLE AND FIXED COMPONENTS
OF REMUNERATION FOR EMPLOYEES AND "KEY PERSONNEL"". RELATING AND
RESULTING RESOLUTIONS.**

<u>27 April 2017</u>	<u>14 December 2017</u>
<p data-bbox="185 374 624 398"><u>BOARD OF DIRECTORS' REPORT</u></p> <p data-bbox="185 477 421 501">Dear Shareholders,</p> <p data-bbox="185 546 769 853">your attention is drawn to the following resolution proposals submitted for examination by the ordinary Shareholders' Meeting regarding the Remuneration and Incentive Policies of the Banca Sistema Group for 2017 ("2017 Policies") and the setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for employees and "key personnel".</p> <p data-bbox="185 898 769 1099">Pursuant to article 9.2 of the Articles of Association, the Shareholders' Meeting is asked to approve the remuneration and incentive policies for the member of the Board of Directors and the Board of Statutory Auditors and the Company's other employees.</p> <p data-bbox="185 1144 769 2027">The 2017 Policies, which apply throughout the Banca Sistema Group, were drawn up by the Board of Directors, with input from the Remuneration Committee, in accordance with Part One, Section IV, Chapter 2 of the Bank of Italy Circular No. 285 of 17 December 2013 concerning "Remuneration and incentive policies and practices" ("Circular 285") and in compliance with the prescriptions of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. and adopted by the Corporate Governance Committee (the "Corporate Governance Code") (jointly, "the Provisions"). The Provisions are further supplemented by the Regulatory Technical Standards issued by the European Commission on proposal of the EBA. The Provisions also implement the Directive 2013/36/EU (henceforth, "CRD IV"), insofar as the prescriptions governing remuneration and incentive policies and practices adopted by banks and banking groups are concerned. The Provisions also take into account the guidelines and criteria agreed at international level, including those issued by the European Banking</p>	<p data-bbox="794 374 1233 398"><u>BOARD OF DIRECTORS' REPORT</u></p> <p data-bbox="794 477 1031 501">Dear Shareholders,</p> <p data-bbox="794 546 1378 925">your attention is drawn to the proposed resolution submitted to the ordinary Shareholders' Meeting and illustrated hereunder, concerning the amendment of the resolution adopted by the Shareholders' Meeting on 27 April 2017 in relation to point 7 of the agenda on the subject matter of increasing the limit of the 1:1 ratio between the variable and fixed components of remuneration paid to employees and "key personnel" of Banca Sistema.</p> <p data-bbox="794 969 1378 1238">In detail, it should be recalled that at the aforementioned Meeting, the Shareholders had approved the "2017 Remuneration Policies of the Banca Sistema Group" (hereinafter, "2017 Remuneration Policies") and the proposal to set the ratio of variable-fixed remuneration for employees and "key personnel" of Banca Sistema at 2:1.</p> <p data-bbox="794 1283 1378 1731">In this regard, please note that material errors were subsequently found in the report prepared by the Board of Directors pursuant to art. 125-Ter of the TUF, which was published on 28 March 2017 in view of the Shareholders' Meeting scheduled for 27 April 2017. The need has therefore arisen to clarify - as provided in the 2017 Remuneration Policies, whose content is hereby confirmed - that said maximum ratio of 2:1 between the variable and fixed components of remuneration applies only to the position of the CEO - General Manager and not to all "key personnel" of Banca Sistema.</p> <p data-bbox="794 1776 1378 2027">As stated above, the content of the 2017 Remuneration Policies is confirmed and reference should therefore be made to the aforementioned report prepared by the Board of Directors pursuant to art. 125-Ter of the TUF and published on 28 March 2017 for further details on the "Objectives of the 2017 Policies"</p>

Authority (“EBA”) and the Financial Stability Board (“FSB”).

Objectives of the 2017 Policies

The objectives of the implementation of the 2017 Policies, in line with the consolidated remuneration practices adopted at Group level in recent years and taking into account the Provisions and the EBA guidelines, can be summarised as follows:

- to direct the efforts of directors and employees towards the priorities established at Company and Group level, supporting the creation of value over the medium and long term;
- to attract and retain highly qualified personnel;
- to motivate staff, rewarding merit and assigning value to professional development;
- to develop and improve the quality of services for customers;
- to reflect and promote the sound and effective management of the Bank;
- to ensure remuneration fairness, rewarding individual employees for their contribution and the responsibilities given;
- to offer competitive salary packages;
- to ensure conduct that is consistent with the Code of Ethics of the Group (the "Code of Ethics"), the Group’s internal regulations and the legislative and regulatory provisions applicable to Banca Sistema and the Group.

Subject matter of the 2017 Policies

The 2017 Policies govern the remuneration paid to the Group's employees. Remuneration is subdivided into two components: (i) a fixed component that is paid at all levels of responsibility based on the employees’ technical, professional and managerial skills and the responsibilities given, and (ii) a variable component that is paid to the “key personnel” identified in the 2017 Policies, which is based on risk-adjusted performance indicators, aligned with the risk appetite framework and subject to

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meeting specific individual and company-level targets.

Having specific regard to the variable component, the Board of Directors has approved the 2017 Policies and the 2017-2019 Long Term Incentive Plan (hereinafter, also “**LTIP**”) in relation to the payment of bonuses and the assignment of Banca Sistema shares to the beneficiaries concerned (“**2017-2019 Stock Grant Plan**” or “**2017-2019 Plan**”).

To ensure that the LTIP is financially sustainable and the Bank is able to maintain a sufficient level of capital, the total of Bonuses payable to all employees and “key personnel” cannot exceed the value of the “bonus pool”, which is allocated each year by the Bank’s Board of Directors, on proposal of the CEO, with input from the Finance and Administration Manager, the Manager responsible for preparing the Company’s financial reports, the Risk Manager and the Compliance Manager.

For further information on the 2017 Policies see the Remuneration Report prepared by the Board of Directors pursuant to art. 123-Ter of the TUF, which is made available to the public in accordance with the procedures and terms established by law.

Ratio between the fixed and variable components of remuneration

Regarding the variable-fixed remuneration ratio, pursuant to article 9.2 of the Articles of Association, at the time of approving the remuneration and incentive policies, the Shareholders’ Meeting also resolves on any proposal to cap the ratio between the variable and fixed remuneration paid to individual employees at a value higher than 100% (ratio of 1:1) but not exceeding the maximum limit of 200% (ratio of 2:1).

The Board of Directors is therefore making a proposal for the Meeting to approve a maximum variable-fixed remuneration ratio of 200% (ratio of 2:1) for “key personnel”, in accordance with the provisions of Circular 285.

meeting specific individual and company-level targets.

Having specific regard to the variable component, the Board of Directors has approved the 2017 Policies and the 2017-2019 Long Term Incentive Plan (hereinafter, also “**LTIP**”) in relation to the payment of bonuses and the assignment of Banca Sistema shares to the beneficiaries concerned (“**2017-2019 Stock Grant Plan**” or “**2017-2019 Plan**”).

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For further information on the 2017 Policies see the Remuneration Report prepared by the Board of Directors pursuant to art. 123-Ter of the TUF, which is made available to the public in accordance with the procedures and terms established by law.

Ratio between the fixed and variable components of remuneration

Regarding the variable-fixed remuneration ratio, pursuant to article 9.2 of the Articles of Association, at the time of approving the remuneration and incentive policies, the Shareholders’ Meeting also resolves on any proposal to cap the ratio between the variable and fixed remuneration paid to “key personnel” at a value higher than 100% (ratio of 1:1) but not exceeding the maximum limit of 200% (ratio of 2:1).

In this regard, the Board of Directors is proposing - in accordance with the provisions of the 2017 Remuneration Policies already approved by the Shareholders’ Meeting on 27 April 2017, whose content remains confirmed -

The key personnel in relation to whom the ratio of 1:1 might be exceeded (up to a maximum of 2:1) amounts to a total of 28 positions and includes the CEO (who is also the general manager), the heads of the main corporate functions, the managers and other high ranking personnel belonging to the control departments and other “risk takers”.

With reference to the reasons underlying the proposal, the Board of Directors deems that the adoption of effective remuneration and incentive systems in relation the Company’s “key personnel” will produce positive effects in terms of the governance and the competitiveness of the business.

Indeed, the remuneration system as a whole - particularly for those in key positions within the company organisation - should be considered not only as a tool for attracting and retaining employees with the necessary level of professionalism and skills but also as a way of safeguarding the fairness of the internal remuneration system itself.

Furthermore, to ensure the Company’s continual compliance with the principles of prudence, each year the Board of Directors - on proposal of the CEO and with input from the Remuneration Committee, the Finance and Administration Manager, the Manager responsible for preparing the Company’s financial reports, the Risk Manager and the Compliance Manager - allocates a “bonus pool”, which represents the maximum total amount that can be paid to all Company employees, as a whole, as variable remuneration. The bonus pool is therefore determined on the basis of the achievement of the highest performance targets, at individual and company level.

This is to ensure that the obligation to comply with the prudential regulations, especially the requirements associated with own funds, is not undermined when the highest ratio level (2:1) is applied. In addition to the bonus pool, the Company has also included so-called malus and claw-back rules in the 2017 Policies with respect

to approve, only for the CEO (who is also the General Manager), a variable-fixed remuneration ratio of a maximum of 200% (ratio of 2:1).

In fact, the 2017 Remuneration Policies provide the option, solely in relation to the CEO / General Manager, to grant to said company executive a bonus that exceeds the fixed component of remuneration by up to a maximum of 200%. The payment to the CEO / General Manager of a bonus in excess of 100% of the fixed remuneration is however subject to meeting not only company-level performance targets but also individual “over-performance” targets (see Annex 1 of the 2017 Remuneration Policies, sub paragraph Bracket 1 - CEO/General Manager).

For all other key personnel, the 2017 Remuneration Policies set specific variable remuneration caps, which, even in the case of over-performance in respect of individual targets, cannot exceed 80% of the fixed remuneration payable to bracket 2 personnel and 60% of the fixed remuneration payable to bracket 3 personnel (see page 22 of Annex 1 of the 2017 Remuneration Policies).

For staff members employed in the Company’s control departments (including the Human Resources Department and the Manager responsible for preparing the Company’s financial reports), the 2017 Remuneration Policies establish that the variable component of remuneration is subject to meeting qualitative targets only, in relation to the function they are employed by (control objectives) and are to no extent linked to the financial performance of Banca Sistema. More specifically, the payment of the bonus is not linked to the results achieved by the areas subject to their control and the bonus amount cannot exceed one third of the fixed remuneration payable (see page 16, par. 6.5 of the 2017 Remuneration Policies).

The Shareholders’ Meeting shall also be provided with precise information regarding the advance notice sent to the Bank of Italy pursuant to Title IV, Chapter 2, Section II, par.

to the correlation between risks and performance.

Finally, in accordance with the laws in force, the Board of Directors has notified the Bank of Italy of today's proposal to maintain the ratio and has provided information and evidence to demonstrate that the higher limit does not compromise the observance of the prudential regulations, particularly the requirements associated with own funds.

Please note that under article 9.2 of the Articles of Association, the foregoing proposal is approved by the ordinary Shareholders' Meeting when: (i) the Meeting is constituted with at least half of the share capital and the decision is passed by the favourable vote of at least 2/3 of the share capital represented at the Meeting; or (ii) the decision is passed by the favourable vote of at least 3/4 of the share capital represented at the Meeting, regardless of the share capital with which the Meeting is constituted.

A more detailed description of the objectives and the features of the LTIP and the 2017-2019 Stock Grant Plan is provided in Annex 2 to the 2017 Policies and, with specific regard to the 2017-2019 Stock Grant Plan, in the attached Information Document, which was prepared in accordance with article 84-bis of the Consob Regulation No. 11971/99 ("**Information Document**") to implement the provisions of article 114-bis of Legislative Decree No. 58/98 (the "**TUF**").

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In view of the above, the following proposed resolution is hereby submitted for your approval:

"The ordinary Shareholders' Meeting of Banca

1.2 of the Supervisory Provisions for banks, as per Circular No. 285 of 17 December 2013, as amended, concerning the exceeding of the base ratio of 1:1 between the variable and fixed components of remuneration, as well as the supporting information and evidence provided to demonstrate that the higher limit does not compromise the observance of the prudential regulations, particularly the requirements associated with own funds.

In the foregoing advance notice, it has been clarified that the Board of Directors has allocated a bonus pool of 1 million Euro for 2017 and that such amount was assessed at the time of the definition of the Risk Appetite Framework (RAF) of Banca Sistema for the year 2017. At the same time, the Key Risk Indicators and the associated thresholds were established on the basis of expected results net of the aforesaid bonus pool. The allocation of the bonus pool has produced a slight negative difference of 0.05% in the following capital ratios: CET1, Tier1 and TCR.

The Shareholders' Meeting shall subsequently be informed of any observations raised by the Bank of Italy, since the term had not yet expired at the publication date of this report.

To conclude, please note that under article 9.2 of the Articles of Association the proposal to set the ratio of variable-fixed individual remuneration at a value above 100% (ratio of 1:1) but not exceeding a maximum of 200% (ratio of 2:1) is approved by the ordinary Shareholders' Meeting when: (i) the Meeting is constituted with at least half of the share capital and the decision is passed by the favourable vote of at least 2/3 of the share capital represented at the Meeting; or (ii) the decision is passed by the favourable vote of at least 3/4 of the share capital represented at the Meeting, regardless of the share capital with which the Meeting is constituted.

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In view of the above, the following proposed resolution is hereby submitted for your approval:

"The ordinary Shareholders' Meeting of Banca

<p>Sistema S.p.A.,</p> <ul style="list-style-type: none"> - having examined the 2017 Remuneration Policies of the Banca Sistema Group and its annexes, specifically the Long Term Incentive Plan made available to the public pursuant to the applicable provisions of law; - having also examined the Information Document of the 2017-2019 Stock Grant Plan prepared in accordance with article 84-bis of the Consob Regulation No. 11971/99, in implementation of the provisions of article 114-bis of the TUF, which has also been made available to the public pursuant to the applicable provisions of law; - having heard and approved the proposal of the Board of Directors concerning the 2017 Remuneration Policies of the Banca Sistema Group; - having heard the proposal of the Board of Directors to set the variable-fixed remuneration ratio at a maximum of 200% (ratio of 2:1); 	<p>Sistema S.p.A.,</p> <ul style="list-style-type: none"> - having acknowledged the content of the 2017 Remuneration Policies of the Banca Sistema Group (hereinafter, "2017 Remuneration Policies"), which was previously approved by the Shareholders' Meeting on 27 April 2017; - having acknowledged the Board of Directors' clarification that the proposal to set the variable-fixed remuneration to a maximum of 200% (ratio of 2:1) is limited exclusively to the position of the CEO (who is also the General Manager), in line with the provisions of the 2017 Remuneration Policies; - having acknowledged the reasons underlying the proposal to increase the 1:1 ratio between the variable and fixed components of the remuneration paid to the CEO-General Manager and the assessments conducted by the Board of Directors in relation to the current and future implications this may have on the Bank's ability to continue to comply with the prudential regulations applicable from time to time;
<p>resolves</p>	<p>resolves</p>
<ol style="list-style-type: none"> 1) to approve the 2017 Remuneration Policies of the Banca Sistema Group, including the Long Term Incentive Plan and the 2017-2019 Stock Grant Plan; 2) to set the variable-fixed remuneration ratio for employees and "key personnel" at a maximum of 2:1; 3) to grant the Board of Directors, in the persons of the Chairperson and the CEO, the powers necessary to fully implement the aforesaid 2017 Remuneration Policies of the Banca Sistema Group, severally and with the authority to sub-delegate such powers - to be exercised in accordance with the application criteria described above, making any necessary amendment or addition for the subject matter resolved on to be implemented; 	<ol style="list-style-type: none"> 1) to amend the resolution adopted by the ordinary Shareholders' Meeting on 27 April 2017 in relation point 7 of the agenda on increasing the 1:1 ratio between the variable and fixed components of remuneration for employees and "key personnel" of Banca Sistema; 2) to approve the proposal, solely in relation to the CEO-General Manager, to set the variable-fixed remuneration ratio to a maximum of 2:1, subject to meeting the individual and company-level targets established in the 2017 Remuneration Policies; 3) to grant the Board of Directors, in the person of the Chairperson, the powers necessary to fully implement this resolution in compliance with the 2017 Remuneration Policies, with the authority to sub-delegate such powers.

Milan, 14 November 2017

On behalf of the Board of Directors
Ms. Luitgard Spögler
Chairperson of the Board of Directors