

BANCA SISTEMA S.P.A.

Fully paid-up share capital € 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 MONFORTE 20
23 April 2018, 10:00 A.M.**

**BOARD OF DIRECTORS' REPORT
ON ITEM 5 OF THE AGENDA**

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

**“APPROVAL OF THE REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP FOR 2018
AND SETTING OF THE MAXIMUM LIMIT OF 2:1 AS THE RATIO BETWEEN THE VARIABLE AND
FIXED COMPONENTS OF REMUNERATION FOR THE CEO AND GENERAL MANAGER.
RELATING AND RESULTING RESOLUTIONS.”**

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

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 2018 ("**2018 Policies**") and the setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for the CEO and General Manager.

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.

The 2018 Policies, which apply throughout the Banca Sistema Group, were drawn up and approved by the Board of Directors on 8 February 2018, 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 ("**Circular 285**") concerning "Remuneration and incentive policies and practices" (hereinafter, "Policies") 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 (hereinafter, "**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 Authority ("**EBA**") and the Financial Stability Board ("**FSB**").

Objectives of the 2018 Policies

The objectives of the implementation of the 2018 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 sustainable 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 healthy and effective management of the Bank;
- to ensure remuneration fairness, rewarding individual employees for their contribution according to 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 2018 Policies

The 2018 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 in proportion to the responsibilities given, and (ii) a variable component that is paid to the "key personnel", the executives with strategic responsibilities and other relevant roles to achieve the company result identified in the 2018 Policies, which is based on risk-adjusted performance indicators, aligned with the risk appetite framework and subject to meeting specific individual and company-level targets.

Having specific regard to the variable component, the Board of Directors approved the 2018 Policies considering 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**", hereinafter, also "**2017-2019 Plan**") already approved on 28 March 2017, subsequently approved by the Shareholders' Meeting on 27 April 2017 and partially updated on 8 March 2018.

For further information on the 2018 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 the ratio of 1:1, but not exceeding the maximum limit of the ratio of 2:1.

The Board of Directors is therefore making a proposal for the Meeting to approve an unchanged variable-fixed remuneration ratio of maximum 200% (ratio of 2:1) for the CEO and General Manager, in accordance with the provisions of Circular 285 and in line with the resolutions already taken for the previous year, in relation to the role of special complexity and strategic importance.

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 Head of Finance, the Manager responsible for preparing the Company's financial reports, the Risk Manager and Compliance and Anti-Money Laundering Manager - allocates a "bonus pool" which, with the application of the adjustment factors required by the 2018 Policies, determines 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.

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 Head of Finance, the Manager responsible for preparing the Company's financial reports, the Risk Manager and Compliance and Anti-Money Laundering Manager, and possibly subject ex post to an adjustment factor depending on the level of the Return on Risk Adjusted Capital (Rorac) provided in the defined RAF.

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 2018 Policies with respect to the correlation between risks and performance.

Finally, it should be noted that, in accordance with the laws in force, the Board of Directors has notified the Bank of Italy of today's proposal to set the ratio.

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.

* * * * *

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

"The ordinary Shareholders' Meeting of Banca Sistema S.p.A.,

- *having examined the 2018 Remuneration Policies of the Banca Sistema Group and its annexes;*
- *having also examined the Information Document of the 2017-2019 Stock Grant Plan prepared in accordance with article 84-bis of Consob Regulation No. 11971/99, implementing the provisions of article 114-bis of the TUF, already approved by the Board of Directors on 28 March 2017 and by the Shareholders' Meeting on 27 April 2017 and partially updated on 8 March 2018;*
- *having heard and approved the proposal of the Board of Directors concerning the 2018 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) for the CEO and General Manager;*

resolves

- 1) *to approve the 2018 Remuneration Policies of the Banca Sistema Group, ~~including the Long Term Incentive Plan and the 2017-2019 Stock Grant Plan as updated for the year 2018;~~*
- 2) *to set the variable-fixed remuneration ratio for the CEO and General Manager 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 2018 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.*

Milan, 22 March 2018

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