

BANCA SISTEMA S.P.A.

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

Tax code and Milan Companies' Register No. 12870770158 - ABI code No. 03158.3

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**ORDINARY SHAREHOLDERS' MEETING, HELD ON SINGLE CALL
AT THE REGISTERED OFFICE AT LARGO AUGUSTO 1/A, ANGOLO VIA VERZIERE 13, MILAN
28 APRIL 2023, 10.00 A.M.**

**BOARD OF DIRECTORS' REPORT
ON ITEM 6 OF THE AGENDA**

“APPROVAL OF THE FIRST SECTION (REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP FOR 2023) OF THE REPORT ON THE REMUNERATION POLICY AND REMUNERATION PAID: RESOLUTION PURSUANT TO ARTICLE 123-TER, PARAGRAPH 3-TER OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AS AMENDED AND SUPPLEMENTED. RELATING AND RESULTING RESOLUTIONS.”

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

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

Your attention is drawn to the proposed resolution submitted for examination by the ordinary Shareholders' Meeting of Banca Sistema S.p.A. (the "Bank" or the "Company") as illustrated below, referring to the first section (Remuneration Policies of the Banca Sistema Group for 2023, the "2023 Policies") of the Report on the remuneration policy and remuneration paid, pursuant to article 123-ter, paragraph 3 of Legislative Decree no. 58 of 24 February 1998.

The Shareholders' Meeting is called upon to resolve with a binding vote, pursuant to article 123-ter, paragraph 3-ter, of Legislative Decree no. 58 of 24 February 1998 as amended and supplemented.

Pursuant to Bank of Italy Circular no. 285 of 17 December 2013, as amended and supplemented ("Circular 285") and article 9.2 of the Articles of Association, the Shareholders' Meeting is asked to approve the remuneration and incentive policies for the members of the Board of Directors and the Board of Statutory Auditors and the Bank's other employees.

The 2023 Policies, which apply throughout the Banca Sistema Group, were drawn up and approved by the Board of Directors on 17 March 2023, with input from the Remuneration Committee which met on 14 March 2023, in accordance with Part One, Section IV, Chapter 2 of Circular 285 concerning remuneration and incentive policies and practices, the prescriptions of the Corporate Governance Code adopted by the Corporate Governance Committee, promoted by Borsa Italiana S.p.A. as per the last amendment, and the guidelines of the European Bank Authority ("EBA") on sound remuneration policies (the "Guidelines", and jointly, the "Provisions"). The Provisions also implement Directive 2013/36/EU ("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 EBA and the Financial Stability Board. The Provisions are further supplemented by the Regulatory Technical Standards issued by the European Commission on proposal of the EBA.

It should be noted that the 2023 Policies have been revised and updated with specific reference to:

- the review of the process of identification of "Key Personnel" through the adoption of the criteria laid down in the update of the EBA RTS of June 2020 and the consequent Delegated Regulation (EU) 2021/923 of 25/03/21;
- the description of the analyses and assessments conducted by the Remuneration Committee and the Board of Directors regarding the "gender pay gap" previously introduced in the 2022 Remuneration Policies, with specific provisions concerning the gender neutrality of the Bank's remuneration policies and practices;
- reference to the Operational Procedure regarding flexible bonuses assignable to the Banking Group's employees, decided by the Board of Directors on 11 October 2022 and designed to establish the corresponding operations, responsibilities and methods of calculating the bonus pool and bonuses of key personnel, as per the reports on the results achieved by the Bank and by individuals;
- the strengthening of ESG factors and of the management of climate and environmental risks within the context of the annual performance management process, also in relation to the Three-Year Climate and Environmental Risk Management Plan currently being prepared, implementation of which shall be the responsibility of the risk-takers involved;
- the reference to the remuneration guidelines issued by the Italian Corporate Governance Committee, promoted by ABI, Ania, Assogestioni, Assonime, Borsa Italiana and Confindustria for 2022.

- as regards the non-financial objectives, already included in the previous versions, the Bank: (i) opted for the preparation of voluntary non-financial reporting, thus preparing the Sustainability Report also for the year 2022, drafted in line with the GRI standards; (ii) will, at the same time, cover the areas of reporting under Italian Legislative Decree 254/2016, which will therefore add value to the base of the parameters, including the identification of additional non-financial objectives in particular to ensure a long-term approach and the convergence of the interests of all the stakeholders;
- the update to the amount of particularly high variable remuneration of Italian high earners, as indicated in the latest EBA report published in January 2023 with reference to remuneration for the year 2021;
- the description of application of the retention bonuses in place of the previous non-compete agreements, in particular with regard to the CEO;
- during 2022, in keeping with the resolution adopted by the Board of Directors at its meeting held on 25 November 2022 regarding key personnel, as described in point 6.6.3 of the Policies document, the CEO agreed with the proposal to replace the non-compete agreement with a retention bonus scheme. The effect of the CEO's agreement - regarding the portion concerning the fees payable to the CEO - was subjected to the approval by the Ordinary Shareholders' Meeting of the 2023 Remuneration Policies Document.

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.

In accordance with the provisions of Circular 285, this increase does not require further approval by the Shareholders' Meeting given that the assumptions on the basis of which it was last approved (18 April 2019) have not changed, not even with reference to the value of the limit and to the personnel to whom it applies.

In this regard, the Bank is able to ensure continued compliance with all the relevant prudential rules, as well as the financial sustainability of the bonuses and an adequate level of capital.

Lastly, in preparing the Remuneration Policies Document, the Board of Directors has considered the "Recommendation of the Bank of Italy on dividend distributions and variable remuneration policies of banks" of 27 November 2021 which, despite revoking, effective as of 1 October 2021, the previous recommendation on the matter of 16 December 2020, invites banks to continue to adopt a prudent and far-sighted approach to their remuneration policies.

Objectives of the 2023 Policies

The objectives that the Bank intends to attain by implementing the 2023 Policies, can be summarised as follows:

- to direct the efforts of executive directors and employees towards the priorities and objectives established at Bank and Group level, supporting the creation of sustainable value over the medium and long term;
- to attract and retain highly qualified personnel, also through external remuneration competitiveness;
- to motivate personnel, by recognising merit and encouraging the development of professional skills;
- to develop and improve the quality of the services provided to customers;
- to ensure sound and prudent management of the Bank and its risk profile;

- to ensure remuneration fairness - also with respect to gender neutrality - rewarding individual employees for their contribution according to the responsibilities given and their specific working conditions;
- to ensure conduct that is consistent with the Code of Ethics of the Group, the Group's internal regulations and the legislative and regulatory provisions applicable to Banca Sistema and the Group.

Subject matter of the 2023 Policies

The 2023 Policies govern the remuneration paid to the Group's employees. Remuneration is subdivided into three components: (i) a fixed component that is paid to all employees based on the employees' technical, professional and managerial skills and in proportion to the responsibilities given, (ii) a "benefit" component and (iii) a variable component that is paid to the "key personnel" (without prejudice to the exceptions indicated by the Policies), that may be applied to other employees of the Bank in line with the guidelines and principles of the 2023 Policies and in compliance with the applicable law. The variable component of remuneration is based on performance indicators measured net of risks and consistently with the measures used for management purposes by the Risk Department (the so-called ex ante risk adjustment) and is subject to attaining specific performance objectives both at Bank and personal level, as described in more detail in the 2023 Remuneration Policies Document.

In detail, in line with 2022, for 2023, the CEO/General Manager has been set targets linked to compliance with the Bank's RAF, as approved by the Board of Directors on 10 March 2023 (Net NPE ratio, LCR, Cost of Risk and RORAC).

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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 Sistema S.p.A.,

- *having examined the Remuneration Policies Document of the Banca Sistema Group for 2023 (first section of the Report on the remuneration policy and remuneration paid, pursuant to article 123-ter, paragraph 3 of Legislative Decree no. 58 of 24 February 1998) and the related annexes made available to the public pursuant to the applicable regulations;*
- *having heard and approved the proposal of the Board of Directors concerning the 2023 Remuneration Policies of the Banca Sistema Group;*

resolves

- 1) *to approve the Remuneration Policies Document of the Banca Sistema Group for 2023 (first section of the Report on the remuneration policy and remuneration paid, pursuant to article 123-ter, paragraph 3 of Legislative Decree no. 58 of 24 February 1998);*
- 2) *to grant the Board of Directors, in the persons of the Chairperson of the Board of Directors and the CEO, the powers necessary to fully implement the aforesaid 2023 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, 6 aprile 2023

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