

BANCA SISTEMA S.P.A.

Fully Paid-in Share Capital EUR 9,650,526.24

Tax Code and Milan Companies' Register No. 12870770158 – ABI 03158.3

Corso Monforte 20 - 20122 Milan

www.bancasistema.it

**ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING, HELD ON SINGLE CALL
 AT THE REGISTERED OFFICE IN MILAN - CORSO MONFORTE 20
 28 APRIL 2016 - 10.00 A.M.**

**DIRECTORS' EXPLANATORY REPORT
 ON POINTS 3 AND 4 ON THE AGENDA - ORDINARY SESSION**

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

POINT 3

“2016 REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP: APPROVAL OF THE REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP FOR 2016 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.”

POINT 4

REMUNERATION REPORT: RESOLUTION PURSUANT TO ART. 123-TER, PARAGRAPH 6 OF ITALIAN LEGISLATIVE DECREE NO. 58/1998;

DIRECTORS' EXPLANATORY REPORT

Dear Shareholders,

your attention is drawn to the proposed resolution submitted for examination by the ordinary Shareholders' Meeting regarding the 2016 Remuneration and Incentive Policies of the Banca Sistema Group (the "**2016 Policies**") and the setting of the maximum limit of 2:1 as the ratio between the variable and fixed component of remuneration paid to employees and "key personnel", as well as to the Remuneration Report drawn up in accordance with art. 123-ter of Italian Legislative Decree No. 58/1998, as amended (the "**Consolidated Law on Finance**"), art. 84-quater and Annex 3A, Schedule 7-bis of Consob Regulation No. 11971/1999, as amended (the "**Issuers' Regulation**").

POINT 3 ON THE AGENDA

Pursuant to article 9.2 of the Articles of Association, the Shareholders' Meeting is called to approve the remuneration and incentive policies applicable to the members of the Board of Directors and the Board of Statutory Auditors and the Company's other employees.

The 2016 Policies are applicable throughout the Banca Sistema Group and have been drawn up by the Board of Directors, in consultation with the Remuneration Committee, in accordance with the following provisions: Part One, Section IV, Chapter 2 of Bank of Italy Circular No. 285 of 17 December 2013 on "Remuneration and incentive policies and practices" ("**Circular 285**"); the prescriptions of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. and drafted by the Corporate Governance Committee (the "**Corporate Governance Code**"); the relevant provisions of the Consolidated Law on Finance and the Issuers' Regulation. The features of the 2016 Policies are described hereinafter.

Purpose of the 2016 Policies

The aims the Company wishes to achieve by implementing the 2016 Policies, in line with the remuneration strategies adopted at Group level in recent years, are summarised below:

- to direct the efforts of company executives and employees towards the Company and the Group's priorities, supporting the creation of value over the medium and long term in accordance with the principle of sound and prudent management;
- 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 promote the sound and prudent management of the Company;
- to ensure the fairness of internal remuneration, rewarding employees for their contribution and the responsibilities given;
- to offer competitive salary packages;
- to promote conduct that is consistent with the Code of Ethics, the Company regulations and the legal provisions and regulations in force applicable to Banca Sistema and the whole Group.

Subject matter of the 2016 Policies

The 2016 Policies address the matter of employee remuneration at Group level. Remuneration is subdivided into two components: (i) a fixed component that is paid at all levels of responsibility based on the employee's technical, professional and managerial skills and the responsibilities they are given; (ii) a variable component that is paid to all Group personnel (in a limited amount for the employees other

than the “key personnel” identified in the 2016 Policies), subject to specific individual and company-level targets being met.

In order to ensure that the Company is financially sustainable and is able to maintain a sufficient level of capital, the total variable remuneration paid by the Group to all its employees and “key personnel” cannot exceed the value of the “bonus pool”, which is allocated at the end of each year by the Bank’s Board of Directors, on proposal of the Managing Director, after receiving input from the Finance and Administration Manager, the Manager responsible for preparing the Company’s financial reports, the Risk and Compliance Manager and the Remuneration Committee.

For further information on the 2016 Policies, reference is made to the Remuneration Report prepared by the Board of Directors pursuant to art. 123-ter of the Consolidated Law on Finance, which has been published in accordance with the law.

Ratio of the fixed and variable components of remuneration

As regards the ratio of the fixed and variable components of remuneration, article 9.2 of the Articles of Association provides that, at the time of the approval of the remuneration and incentive policies, the Shareholders’ Meeting resolves also on any proposal to set a limit on the ratio of the variable and fixed remuneration paid to individual staff greater than 100% (ratio of 1:1). In any event, such ratio cannot exceed the maximum limit of 200% (ratio of 2: 1). The Board of Directors can propose to the Shareholders’ Meeting, in respect of one or more individuals belonging to the “key personnel”, to exceed the above ratio of 1:1 in exceptional circumstances and by clearly indicating the underlying reasons and the prospective implications on the Company’s capability to comply with all the prudential regulations.

In this regard, the Board of Directors is hereby requesting your approval to increase the fixed-variable remuneration ratio up to a maximum of 200% (2:1 ratio) for certain positions belonging to the “key personnel”, in accordance with the provisions of Circular 285.

The key personnel who would benefit from a fixed-variable remuneration ratio of more than 1:1 (up to a maximum of 2:1) would be the following 13 positions: the Managing Director (who is also the General Manager) (1), Central Factoring Department (1), Central Banking Department (1), Central Finance and Administration Department (2), Commercial Factoring Department (2), Legal and Corporate Affairs Department (1), Centrale Operations Department (1), Marketing and Communication Department (1), Treasury Department (1); Underwriting Department (1) and Investor Relations Department (1).

With reference to the heads and senior employees of the control functions (Internal Audit Department (1), Human Resources Department (1), Risk and Compliance Department (1), Manager responsible for preparing the Company’s financial reports (1), the variable component cannot exceed one third of the fixed component of the remuneration. As of today, the position of Head of Central Finance and Administration Department and Manager responsible for preparing the Company’s financial reports are covered by the same individual.

In support of its proposal, the Board of Directors believes that adequate remuneration and incentive mechanisms for the Company’s “key personnel” will help to improve competitiveness and Company management.

Indeed, the overall remuneration system - particularly for those in key positions within the organization - should be construed as a tool to be used to attract and retain employees who have a level of experience and skills suited to the Company’s needs and to ensure the fairness of internal remuneration.

Please also note that, to ensure that the Company continues to comply with the principles of prudence, each year the Board of Directors, on proposal of the Managing Director and with input from the Finance and Administration Manager, the Manager responsible for preparing the Company's financial reports, the Risk and Compliance Manager and the Remuneration Committee, allocates a "bonus pool", which reflects the maximum total sum the Company will pay to cover the overall variable remuneration due to all employees. The bonus pool is therefore calculated on the assumption that the performance targets, at individual and company-level, will be met.

The following criteria were taken into account in determining the 2016 bonus pool:

1 - the calculation of the average bonus per employee in the preceding financial year is multiplied by the number of resources indicated in the annual budget. Additionally, this measurement prudentially takes into account a percentage increase associated with the expected level of Company performance;

2 – in preparing the annual budget, the estimated total cost of personnel indicated in the strategic business plan is used as reference. The bonus pool is therefore adjusted so as to absorb any increases in the fixed costs associated with directors' remuneration and fees.

Moreover, the budget (and thus the amount of the "bonus pool") is further subject to evaluation within the definition of the Risk Appetite Framework of the relevant year. The target of the Key Risk Indicators and their second level thresholds, approved by the Board of Directors, already take into account the expected results, net of the "bonus pool" previously determined.

In this way, the higher limit of the ratio (up to a maximum of 2:1)), should it be applied to all potential beneficiaries (13 positions which have all reached the personal performance targets), will not compromise the observance of the prudential regulations, particularly the requirements associated with own funds. Please also note that in addition to allocating the bonus pool, the Company has also included so-called malus and claw-back strict rules in the 2016 Policies with respect to the correlation between risks and performance.

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

Furthermore, we remind you that, pursuant to 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 taken by the favourable vote of at least 2/3 of the share capital represented at the meeting; or (ii) the decision is taken 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.

POINT 4 OF THE AGENDA

In accordance with art. 123-ter of the Consolidated Law on Finance, article 84-quater and Annex 3A, Schedule 7-bis of the Issuers' Regulation and article 6 of the Corporate Governance Code adopted by the Corporate Governance Committee of Borsa Italiana S.p.A., on 24 March 2016 the Board of Directors, on proposal of the Remuneration Committee meeting held on 22 March 2016, prepared and approved the Remuneration Report, which includes:

- in Section I, a description of the 2016 Policies and an overview of the procedures followed to adopt and implement said Policies;
- in Section II, the details of remuneration paid, on any grounds and in any form, to the members of the Board of Directors and the Board of Statutory Auditors, to the General Manager and to the aggregate of the Company's Strategic Executives in the financial year ended 31 December 2015.

The Remuneration Report has been published pursuant to law at the Company's registered office, at Borsa Italiana S.p.A. and on the Company's website. Please see the published Report for further details. In accordance with article 123-ter, paragraph 6 of the Consolidated Law on Finance, Section I of the Remuneration Report is subject to a non-binding resolution being passed by the ordinary Shareholders' Meeting called to approve the financial statements as at 31 December 2015.

* * * *

Therefore, the following proposed resolution is hereby submitted for your approval:

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

- *having heard and approved the proposal of the Board of Directors concerning the 2016 Policies;*
- *having heard the proposal of the Board of Directors to set a variable-fixed remuneration ratio to a maximum of 200% (ratio 2:1) with regard to 13 positions belonging to the key personnel;*
- *having acknowledged the Remuneration Report approved by the Company's Board of Directors on 24 March 2016, on proposal of the Remuneration Committee meeting held on 22 March 2016, in accordance with art. 123-ter of the Consolidated Law on Finance, article 84-quater and Annex 3A, Schedule 7-bis of the Issuers' Regulation*

resolves

- 1) *to approve the setting of a maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for the following 13 positions belonging to the "key personnel": the Managing Director (who is also the General Manager) (1), Central Factoring Department (1), Central Banking Department (1), Central Finance and Administration Department (2), Commercial Factoring Department (2), Legal and Corporate Affairs Department (1), Centrale Operations Department (1), Marketing and Communication Department (1), Treasury Department (1); Underwriting Department (1) and Investor Relations Department (1);*
- 2) *to approve the 2016 Remuneration Policies of the Banca Sistema Group;*
- 3) *to grant the Board of Directors, in the persons of the Chairman and the Managing Director, the powers necessary to fully implement the aforesaid 2016 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 amendments or additions for the subject matter resolved on to be implemented;*
- 4) *in favour of Section I of the Remuneration Report.*

Milan, 24 March 2016

For the Board of Directors
Luitgard Spögler
Chairman of the Board of Directors