

BANCA SISTEMA S.P.A.

Fully paid up Share Capital € 9,650,526.24

Tax Code and Milan Companies' Register No. 12870770158 – ABI (Italian Banking Association)

Code 03158.3

Corso Monforte, 20 - 20122 Milan

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**ORDINARY SHAREHOLDERS' MEETING HELD ON SINGLE CALL
AT THE REGISTERED OFFICE IN MILAN - CORSO MONFORTE 20
27 APRIL 2017, 10:00 AM**

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

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

“APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS AND ITS CHAIRMAN”

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

The Shareholders' Meeting is asked to appoint the members of the Board of Statutory Auditors since the term of office of those members appointed by the Shareholders' Meeting on 22 April 2014 is due to expire.

Pursuant to art. 18.1 of the Articles of Association, the Board of Statutory Auditors will have three standing auditors and two alternate auditors.

In accordance with art. 18.5 of the Articles of Association, the Shareholders' Meeting is asked to appoint the Board of Statutory Auditors on the basis of lists presented by the Shareholders on which the candidates are listed by sequential number and do not exceed the number of members of the board to be elected. The list is comprised of two sections: one for candidates for the position of statutory auditor, the other for candidates to the post of alternate auditor.

The lists which have a number of candidates equal to or greater than three must also include candidates of a different gender, in accordance with what is stated in the notice of call of the Shareholders' Meeting, so as to allow the Board of Statutory Auditors to be set up in accordance with current laws regarding gender equality. Shareholders which represent, including jointly, at least 2.5% of the share capital represented by voting rights for Shareholders' Meeting resolutions whose purpose is to appoint the members of the management body, or another number which may be established by mandatory provisions of laws and regulations, are entitled to submit a list of candidates. The holding of this minimum share necessary to submit lists is determined having regard to the shares which are registered to the shareholder on the day in which these lists are submitted to the company's registered office. Each shareholder, including shareholders belonging to the same group, signatories to the same shareholders' agreement pursuant to article 122 of legislative decree No. 58 dated 24 February 1998 (the "TUF", Consolidated Law on Finance), the parent company, the subsidiaries and those subject to joint control pursuant to article 93 of the TUF, may not submit or be involved in the submission, either by proxy or trust company, of more than one list and may not vote on lists other than the one presented and each candidate can only appear on one single list under pain of being declared ineligible. For the purposes of the preceding paragraph, entities, even those not having a corporate status, which exercise direct or indirect control pursuant to Article 93 of the TUF over the shareholder in question and all the companies controlled directly or indirectly by this entity are deemed to belong to the same group.

In the event of any breach of these provisions, regard shall not be had, pursuant to the application of what is set out in this article, of the position of the shareholder in question in relation of none of the lists.

Notwithstanding the incompatibilities provided by law, candidates acting as auditors in another 5 (five) issuers or else in violation of the limits on the cumulation of positions allowed under the applicable legal or statutory provisions, or those who do not meet the integrity and professional requirements set out under the applicable legal or statutory provisions, may not be included in the lists. Outgoing auditors may be re-elected. The lists must be sent to the Company's registered office at least 25 days prior to the Shareholders' Meeting called to resolve on the appointment of the control body (that is by 2 April 2017 to be intended extended to 3 April 2017, the first working day following thereafter) and made available to the public at the registered office, on the Company's website and by the other means stipulated under applicable legal and regulatory provisions at least 21 days prior to the Shareholders' Meeting. In case only one list has been submitted within this period of 25 days, or in

case there are only lists presented by inter-related shareholders pursuant to current laws and regulations, lists may be submitted up to the third day subsequent to this date, or within 6 April 2017 by 6.00 p.m. (compliance with said deadline is necessary in order to enable the Company to publish the lists submitted by the shareholders by the deadline provided for by Article 144-octies of the Issuers Regulation, which is also 6 April 2017), unless a different deadline is stipulated under the applicable laws and regulations. In this case, the shareholders who - individually or jointly - are owners of shares representing half of the capital threshold previously identified shall be entitled to submit lists.

The following must be filed, along with each list, by the deadlines indicated above: i) information concerning the identity of the shareholders who presented the list and the total percentage interest held by those shareholders; ii) declarations whereby the individual candidates accept their candidacy and attest, under their own responsibility, that there are no grounds for them to be considered ineligible or disqualified, including the limit on concurrent positions, and the satisfaction of the requirements established by laws, regulations and the Articles of Association for the respective positions; iii) a declaration by shareholders other than the shareholders who, separately or collectively, hold a controlling or relative majority interest, attesting the absence of relationships of association, as defined in applicable laws and regulations, with such shareholders; and iv) the curriculum vitae of each candidate, containing detailed information about each candidate's personal and professional characteristics, as well as an indication of the management and control positions filled at other companies.

Any list that does not meet the above requirements shall be deemed not to have been filed.

Statutory auditors are elected as follows:

- a) two standing standing auditors and one alternate auditor are drawn from the list that obtained the greatest number of votes at the Shareholders' Meeting, on the basis of the sequential numbering with which they are listed in the sections of the list;
- b) the remaining standing auditor and the other alternate auditor are drawn from the list that obtained the second highest number of votes at the Shareholders' Meeting and that is not associated, directly or indirectly, with the list indicated in point a) above and/or with the shareholders who submitted or voted for the majority list, according to the sequential numbering with which they are listed in the sections of the list;
- c) in the event of a tie between lists, the list submitted by the shareholders with the greatest equity interest, or, subordinately, by the greatest number of shareholders, will prevail;
- d) where the Board of Statutory Auditors thus constituted does not ensure compliance with current laws in respect of gender equality, the last candidate elected from the majority list shall be replaced by the first candidate not elected from the same list belonging to the least represented gender or, failing this, by the first candidate not elected from the successive lists. Where this is not possible, the standing member of the least represented gender is appointed by the Shareholders' Meeting with legal majority, to replace the last candidate from the majority list;
- e) where a single list or no list is presented and admitted, all the candidates for the positions indicated in the list or else those voted by the Shareholders' Meeting shall be elected standing and alternate Statutory Auditors, provided that these achieve the majority of votes expressed at the Meeting. All this is subject to compliance with the regulations in force on gender equality.

The chair of the Board of Statutory Auditors is assumed by the first candidate on the second list (where submitted and admitted) who has obtained the most votes.

Pursuant to art. 18.2 of the articles of association, the statutory auditors must meet the requirements of professionalism, integrity and independence prescribed under the regulations in force from time to time, including those indicated in the Decree of the Ministry of Justice No. 162 dated 30 March 2000,

as well as those envisaged by the Corporate Governance Code to which the Company has adhered. Pursuant to the provisions of article 1, paragraph 2, letters b) and c) of that Decree, issues concerning the financial, credit and insurance sectors shall be considered to be strictly related to the Company's business. The Statutory Auditors may hold offices as members of management and control bodies in other companies within the limits laid down by the applicable provisions.

Furthermore, in addition to those grounds provided for by law, being tied to the Company by an ongoing independent contracting or employment relationship, or any relationship involving the direct or indirect supply of goods and/or services, being a member of a management body of another bank or company whose business is in competition with that of the Company, or being tied to such other bank or company by an ongoing independent contracting or employment relationship are all grounds for dismissal or ineligibility.

The Statutory Auditors may not hold offices other than those of control at other companies belonging to the Group or to the financial conglomerate, or at companies in which the Company, including indirectly, holds a strategic interest.

Statutory Auditors must also comply with the limit set by Consob on the number of offices held concurrently, as per art. 144/terdecies of the Issuers' Regulation. Shareholders should also take into account the independence requirements set out in art. 8 of the Corporate Governance Code.

In accordance with art. 2400, last paragraph of the civil code, at the time of appointment and prior to acceptance of the engagement, the Shareholders' Meeting must be informed of the management and control positions held by the Statutory Auditors in other companies. Candidates are thus asked to state this in the information they provide regarding their personal and professional characteristics and to ensure that such information is up-to-date at the date of the Shareholders' Meeting.

Statutory Auditors remain in office up to the date of the Shareholders' Meeting called to approve the financial statements as at 31 December 2019.

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Dear Shareholders,

In consideration of the above, we are therefore asking you:

- to vote for a list among those submitted by the Shareholders and notified in accordance with the provisions of the articles of association;
- to appoint as Chairman of the Board of Statutory Auditors the standing Statutory Auditor who is listed first on the minority list that has received the highest number of votes.

If no minority list has been submitted, the Chairman of the Board of Statutory Auditors should be appointed in accordance with the majorities established by law.

Milan, 17 March 2017

On behalf of the Board of Directors
Ms Luitgard Spögler
Chairwoman of the Board of Directors