

**BANCA SISTEMA S.P.A.**

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

Tax Code and Milan Companies' Register no. 12870770158 - ABI 03158.3

Corso Monforte 20 - 20122 Milan

[www.bancasistema.it](http://www.bancasistema.it)

**ORDINARY SHAREHOLDERS' MEETING, HELD ON SINGLE CALL  
AT THE REGISTERED OFFICE IN MILAN - CORSO MONFORTE 20  
27 APRIL 2017 - 10.00 A.M.**

**DIRECTORS' EXPLANATORY REPORT  
ON POINT 7 OF THE AGENDA**

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

**“APPROVAL OF THE REMUNERATION POLICIES OF THE BANCA SISTEMA S.p.A. GROUP FOR 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. RELATED AND ENSUING RESOLUTIONS.”**

### **BOARD OF DIRECTORS' REPORT**

Dear Shareholders,

we would like to draw your attention to the proposed resolutions, detailed below, submitted for examination by the ordinary Shareholders' Meeting regarding the 2017 Remuneration and Incentive Policies of the Banca Sistema S.p.A. Group (the "**2017 Policies**") and the setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration paid to employees and "key personnel".

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 2017 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 ("**Circular 285**") on "Remuneration and incentive policies and practices" (hereinafter the "Policies"); 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**") (hereinafter, jointly referred to as "**Provisions**"). The Provisions are also supplemented by the Regulatory Technical Standards in this field, issued by the European Commission on proposal of the EBA. The Provisions implement Directive 2013/36/EU (henceforth "**CRD IV**"), as regards those prescriptions relating to the remuneration and incentive policies and practices adopted by banks and banking groups. They 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**").

#### **Purpose of the 2017 Policies**

The aims the Company wishes to achieve by implementing the 2017 Policies, in line with the remuneration strategies adopted at Group level in recent years, and bearing in mind the Provisions and the EBA guidelines, are summarised below:

- to direct the efforts of directors and employees towards the Bank and the Group's priorities, 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 sound, effective management of the Bank;
- to ensure the fairness of remuneration, rewarding individuals for their contribution and the responsibilities given;
- to offer competitive salary packages;
- to ensure conduct that is consistent with the Group's Code of Ethics (the Code of Ethics), the Group's internal procedures and the provisions and regulations in force applicable to Banca Sistema and the Group.

### Subject matter of the 2017 Policies

The 2017 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 the "key personnel" identified in the 2017 Policies, based on performance indicators adjusted to take account of risks and aligned to the risk appetite framework, and subject to specific individual and company-level targets being met.

As far as the variable component is specifically concerned, the Board of Directors has approved the 2017 Policies together with the Long Term Incentive Plan for the years 2017-2019 (hereinafter also referred to as the "**LTIP**") pertaining to the awarding of bonuses and to the assignment of Banca Sistema shares to the beneficiaries ("**2017-2019 Stock Grant Plan**" or "**2017-2019 Plan**").

In order to ensure that the LTIP is financially sustainable and the Bank is able to maintain a sufficient level of capital, the total amount of Bonuses payable to all employees and "key personnel" cannot exceed the value of the "bonus pool", which is allocated at year-end by the Bank's Board of Directors, on proposal of the CEO, after receiving input from the Finance and Administration Manager, the Manager responsible for preparing the Company's financial reports and the Risk and Compliance Manager.

For further information on the 2017 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).

In this regard, the Board of Directors is hereby requesting your approval to adopt a fixed-variable remuneration ratio of a maximum of 200% (2:1) for "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 managing director (who is also the general manager), the heads of the corporate key functions, the heads and higher ranking employees of the control functions and the other "risk takers", amounting to a total of 28 positions.

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 CEO and with input from the Remuneration Committee, the Finance and Administration Manager, the Manager responsible for preparing the Company's financial reports and the Risk and Compliance Manager, 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 highest performance targets, at individual and company-level, will be met.

Accordingly, the higher limit of the ratio (2:1) 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 rules in the 2017 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 maintain 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.

Please note 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.

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A more detailed description of the aims and characteristics of the LTIP and of the 2017-2019 Stock Grant Plan, is contained in Annex 2 to the 2017 Policies, and as far as specifically concerns the 2017-2019 Stock Grant Plan, in the Information Document drawn up in accordance with Article 84-bis of CONSOB Regulation no. 11971/99 (the "**Information Document**"), in implementation of the provisions of Article 114-bis of Italian Legislative Decree no. 58/98 (the "**Consolidated Law on Finance**").

\* \* \* \*

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

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

- *In view of the 2017 Remuneration Policies Document of the Banca Sistema Group together with the corresponding annexes, and in particular the Long Term Incentive Plan, published in accordance with the applicable regulations*
- *and also in view of the Information Document illustrating the 2017-2019 Stock Grant Plan, drawn up in accordance with Article 84-bis of CONSOB Regulation no. 11971/99, in implementation of the provisions of Article 114-bis of the Consolidated Law on Finance, which has also been published in accordance with the applicable regulations*
- *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 a variable-fixed remuneration ratio to a maximum of 200% (ratio 2:1);*

*resolves*

- 1) *to approve the 2017 Remuneration Policies of the Banca Sistema S.p.A. Group, including the Long Term Incentive Plan and the 2017-2019 Stock Grant Plan;*
- 2) *to approve the setting of a maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for employees and “key personnel”;*
- 3) *to grant the Board of Directors, in the persons of the Chairman and the CEO, the powers necessary to fully implement the aforesaid 2017 Remuneration Policies of the Banca Sistema S.p.A. 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.*

Milan, 28 March 2017

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