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Remuneration Policies Document of the Banca Sistema S.p.A. Group

2018

Document approved

by the Board of Director's meeting of 8 February 2018

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Contents

1. INTRODUCTION

This document (the "**Remuneration Policy Document**") was drawn up 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 the "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**") (hereinafter, jointly "**the Provisions**").

The Provisions are further supplemented by the corresponding Regulatory Technical Standards issued by the European Commission on proposal of the EBA.

The Provisions also implement the Directive 2013/36/EU (henceforth, "**CRD 4**"), 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**").

In particular, the Provisions set out the specific principles and criteria that banks are required to comply with in order that:

- remuneration systems are defined and implemented properly;
- potential conflicts of interest are managed effectively;
- the remuneration system takes due account of current and potential risks, and of each intermediary's capitalisation and liquidity level;
- transparency towards the market is improved;
- control by the Supervisory Authorities may be strengthened.

The aim of the Provisions is to establish - in the interests of all stakeholders - a remuneration system in keeping with the company's long-term goals, values and strategies linked to results that are appropriately adjusted to take into account all associated risks. The system must be consistent with the levels of capital and liquidity required to run the business. Incentive distortions of the type which encourage recipients to breach the provisions or expose the bank and the financial system in general to excessive risks must be avoided at all times.

The Provisions require the parent company of each banking group to prepare a remuneration policy document for the entire group, taking into account the characteristics of each group company, ensuring overall consistency, providing implementation guidelines and verifying the proper application of the policy by all companies within the group.

This document, drawn up by Banca Sistema S.p.A. (hereinafter "**Banca Sistema**" or the "**Parent Company**", or the "**Bank**"), applies throughout the Banca Sistema Group (hereinafter the "**Group**").

Each company of the Group is responsible for ensuring compliance with the Provisions and, in general, with the provisions of law applicable to remuneration policy, and for the due implementation of the guidelines issued by the Parent Company.

Pursuant to Part I, Title IV, Chapter 2, Section I, Paragraph 7 of Circular 285, in application of the proportional principle, each bank shall implement the remuneration provisions according to the methods that best reflect the bank's characteristics and size, and the risk levels and complexity of its business activities.

Under Circular 285, banks are divided into the following three categories:

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- "*larger or more complex banks*": those that are deemed to be significant under Article 6(4) of (EU) Regulation no. 1024/2013 (Single Supervisory Mechanism - "SSM")(1);
- "*smaller or less complex banks*": banks whose balance sheet assets are equal to or below € 3.5 billion, and which are not deemed to be significant under Article 6(4) of the SSM;
- "*medium-sized banks*": banks whose balance sheet assets are between € 3.5 and 30 billion, and banks which belong to a group whose consolidated balance sheet assets are between € 3.5 and 30 billion, and which are not deemed to be significant under Article 6(4) of the SSM;

Banca Sistema could be classified as a "minor" bank since its total assets are significantly below € 3.5 billion at both individual and consolidated level. However, in view of its status as a listed company and considering also the EBA guidelines, the Bank has opted to apply the rules relating to "medium-sized" banks under Circular 285, TITLE IV, Chapter 2.

2. MISSION OF THE BANCA SISTEMA GROUP AND OBJECTIVES OF THE REMUNERATION POLICIES

Banca Sistema has adopted a specific business model with a view to becoming the leading independent operator in the field of "Speciality Finance". Its growth strategy focuses on leveraging the expertise and capabilities of its resources.

Bearing in mind the aforementioned mission, the Provisions and the EBA guidelines, the Group's chosen remuneration strategy pursues the following goals:

- to direct the efforts of directors and employees towards the Company's priorities and those of the
- Group, 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 the healthy and effective management of the Bank;
- to ensure remuneration fairness, rewarding individual employees for their contribution and 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.

The Group's remuneration strategy also takes account of the RAF (Risk Appetite Framework) adopted by the Bank, which includes specific performance indicators that take account of risk propensity.

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(1) According to Article 6(4) of the SSM, *"a credit institution or financial holding company or mixed financial holding company shall not be considered less significant [...] if any of the following conditions is met:*

(i) the total value of its assets exceeds € 30 billion;

(ii) the ratio of its total assets to the GDP of the participating Member State of establishment exceeds 20 %, unless the total value of its assets is below € 5 billion;

(iii) following notification by the appointed national authority stating that such an institution is of significant importance for the domestic economy, the ECB takes a decision confirming such significance following a comprehensive assessment by the ECB, including a balance-sheet assessment, of that credit institution".

3. REMUNERATION POLICIES DEFINITION PROCESS

The Remuneration and Incentives Policies (hereinafter the "**Policies**") were defined in accordance with the process described below, in compliance with the Provisions and with Banca Sistema's Articles of Association, which are in effect consistent with said Provisions.

The following company bodies and functions are involved in establishing the Policies, according to the remits and responsibilities described hereinafter:

The **Board of Directors**, which prepares the Bank's Policies, submits them to the Shareholders' Meeting, reviews said Policies at least yearly, and oversees their proper implementation. The Board of Directors ensure that remuneration policy is duly documented and accessible within the company; it defines the incentives scheme for those persons within the "key personnel" category, as well as for all other Group employees (see paragraph 4 below); it also ensures that the Bank's Policies are effectively implemented and that they are consistent with the Bank's management strategy, corporate culture, risk propensity and the associated governance processes.

Finally, the Board ensures that the granting, payment and accrual of variable remuneration, including application of the malus and claw-back rules, do not negatively affect the need to maintain a strong capital base in accordance with the Group's remuneration policies.

The Board of Directors discharges its duties with the support of the following company functions:

- the **Human Resources Department**, which coordinates the remuneration policies definition process and contributes to the drawing up of the Policies, providing the required information also in relation to the structure and levels of remuneration, and to the incentive systems;

- the **Risk Management Department**, which is involved in identifying events that could potentially affect the Company's business, analysing the impacts of such events in relation to acceptable levels of risk, and periodically monitoring the effects of implementation of the remuneration policies on the Group's risk profiles. The Risk Management Department may be invited to meetings of the Remuneration Committee to discuss the drawing up, implementation and monitoring of the Policies; specifically, it ensures compliance with the reference framework for measuring risk propensity, and with the governance and risk management policies defined in the Risk Appetite Framework (RAF). The Risk Management Department and the Compliance Function lend their respective support towards deciding the "bonus pool", the result indicators and the remuneration to be granted, and highlight any possible impact these factors may have on the conduct of employees and/or in terms of the riskiness of the activities undertaken;

- the **Compliance Function**, which verifies ex ante the compliance of the Policies and checks, on an annual basis, that the remuneration policies are consistent with the applicable legal framework and the internal policies, including the Group's Code of Ethics so as to take into account legal and reputational risks. The Compliance Function informs the Board of Directors of any findings in a specific report, in order that due account may be taken of such report by the Board when approving and assessing the Policies;

- the **Internal Audit Department**, which when drawing up and implementing the Policies, in compliance with the Provisions and the EBA guidelines, conducts an independent review of the personnel remuneration and incentive practices to be approved and implemented in order to assess, at least once a year, the effects these may have on the Bank's risk profile; among other things it assesses, at least yearly, whether the remuneration practices are consistent with the approved Policies and with the provisions herein;

- the **Central Finance Department**, which verifies the compliance of the Policies with the Bank's medium-long term objectives and strategies, so as to ensure financial sustainability over the medium-long term;

- the **Executive in charge of preparing accounting and company documents (the "Designated Manager**"), who verifies the compliance and consistency of the Policies with accounting and company documents, and in particular their accuracy with respect to the approved accounting entries. The Designated Manager - together with the Risk Manager - evaluates and certifies the degree of compliance with company access requirements and criteria, and the level of achievement of the assigned goals.

The **Remuneration Committee**, composed of three non-executive directors (of whom two are independent), assists the Board of Directors in reviewing the Policies to be submitted to the Shareholders' Meeting, with support also from the previously specified company functions, has the following responsibilities:

- to make proposals on the remuneration paid to "key personnel" and other employees;

- to provide advice in determining the remuneration criteria for "key personnel";

- to carefully monitor due application of the rules on the remuneration of the managers in charge of the corporate control functions, in close coordination with the Board of Statutory Auditors;

- to prepare the documentation to be submitted to the body tasked with the strategic supervision of the related decisions;

- to cooperate with all other committees of the Board of Directors;

- to ensure that all appointed functions are involved in the process of preparing and monitoring the Policies;

- to provide input, based also on the information received from the company departments concerned, on the achievement of the performance targets to which the incentive plan is subject and to verify the other requirements for payment of the remuneration;

- to assess the need to make ex-post adjustments to the variable remuneration (malus and claw-back) and to submit proposals in this respect to the Board of Directors;

- to provide adequate feedback on the activities carried out to the corporate bodies, including the Shareholders' Meeting, checking the adequacy of the information to be provided to shareholders in relation to the Policies, particularly concerning any proposals to exceed the variable-fixed remuneration ratio of 1:1;

- to make proposals to the Board of Directors concerning the use of external experts specialised in Remuneration and Incentive Policies.

- to check that the existing remuneration policy is up-to-date, and to propose any required amendments.

In order to perform its duties effectively and responsibly, the Remuneration Committee is given access to all data and information associated with the Board of Directors' decision-making process in relation to the preparation, implementation, monitoring and review of the Policies and of remuneration practices. The Committee is also provided with the necessary resources and has unconditional access to all information and data produced by the control functions; it interacts with said control functions and with other relevant company functions (e.g. the Human Resources, Legal and Finance Departments), whose resources may be asked to attend the Committee's meetings.

The **Shareholders' Meeting**, which approves:

- the remuneration and incentive policies applicable to employees and "key personnel";
- the remuneration plans based on financial instruments (for example, stock option and stock grant plans);
- the criteria for determining the compensation to be paid in the event of early termination of employment or early exit from office, including the limits upon such compensation in terms of the number of years of fixed remuneration and the maximum amount resulting from application of such criteria (the so-called "golden parachute");

On approving the Policies, the Shareholders' Meeting also resolves on any proposal to cap the ratio between the variable and fixed remuneration paid to individual staff members at more than 1:1, but not in excess of the maximum limit of 2:1.

The **Board of Statutory Auditors** has an advisory function, if requested by the Board of Directors, and monitors the proper application of the remuneration policies based on the provisions and regulations in force at the time.

The Policies are reviewed at least annually, and the associated activities and any amendments which are proposed, approved and implemented thereof are documented in written reports or in the minutes of the related meetings.

4. KEY PERSONNEL SELF-ASSESSMENT AND IDENTIFICATION PROCESS

The process of identifying "key personnel" (employees whose professional activity has or may have a significant material impact on the Group's risk profile) takes into account the provisions of Regulation (EU) no. 604/2014 ("**Regulatory Technical Standards" or "RTS**").

"Key personnel" are identified yearly by the Bank's Board of Directors, and at the time of any change to the organisational structure, based on a structured self-assessment process which sees the involvement of the Remuneration Committee and the internal control functions.

The Bank's Board of Directors:

- approves the identification process guidelines, periodically reviews them, and approves any required exceptions and/or amendments to such;
- is involved in, and constantly monitors, the process;
- approves any exclusions of personnel.

"Key Personnel" are subject to more stringent remuneration calculation rules in order to ensure that the remuneration paid is fully consistent with current and prospective economic-financial performance according to factors that take into account the risks assumed and the sustainability of the Company's performance over time.

The "key personnel" category includes Executives with strategic responsibilities, namely, those persons who have direct or indirect powers and responsibilities over the planning, management and control of the Company's business activity. The Executives with strategic responsibilities includes the Bank's directors (executive and non-executive).

In accordance with the quantitative and qualitative criteria set out in the RTS, and on the basis of an evaluation of the various risk levels inherent in the Group's different businesses activities, a total of 26 positions have been identified, falling into the following categories:

A. Directors who hold executive offices

- Directors who hold executive offices in the Parent Company (1 position) (2);

B. Non-executive Directors

- Directors who do not hold executive offices in the Parent Company (8 positions);

C. Managers of key company functions

- Central Commercial Department (1 position);
- Commercial Factoring Department (1 position);
- Central Credit Department (1 position);
- Central Finance Department (1 position);
- Central Operations Department (1 position);
- Legal Department (1 position);
- Corporate Strategy Function (1 position);
- Corporate Affairs Function (1 position);

D. Managers and other high ranking staff members of the control functions

- Internal Audit Department (1 position);
- Human Resources Department (1 position);
- Risk Department (1 position);
- Designated Manager (1 position);
- Compliance and Anti-Money Laundering Department (1 position);

E. Other "risk takers"

- Treasury Department (1 position);
- ICT Function (1 position);
- Pricing & Structuring Function (1 position);
- Chief of Staff (1 position);

5. DISCLOSURE REQUIREMENTS

In compliance with Article 450 of Regulation (EU) no. 575/2013 ("**CRR") and in accordance with the EBA guidelines, the following information regarding the remuneration policies and practices adopted in relation to "key personnel" has been published on the Bank's website:**

- information regarding the decision-making process followed to define the Policies;
- details of the link between remuneration and performance;
- the key features of the remuneration system, including the criteria used to assess performance and make risk adjustments, the deferral rules and the assignment criteria;
- the ratios between the fixed and variable components of remuneration;
- the performance assessment criteria underlying the assignment of options, shares and other variable remuneration components;

(2) The CEO also holds the office of General Manager.

- information on the total remuneration paid to the Chairman of the Board of Directors and to the CEO.

The bank's website also includes information on how the Provisions are implemented and on the subject of corporate governance, as per Title IV, Section VII, Chapter I, paragraph 1 of Circular 285.

Information on the Remuneration Policies will be provided in Section I of the Remuneration Report in accordance with Section 123-ter of the Consolidated Law on Finance. The Report will be published in accordance with the methods and timeframes set out in the applicable provisions of law.

6. THE STRUCTURE OF REMUNERATION AT GROUP LEVEL

Pursuant to Part I, Title IV, Chapter 2, Section I, Paragraph 7 of Circular 285,

(i) remuneration shall mean: *"any payment or benefit provided directly or indirectly to personnel in the form of cash, financial instruments or fringe benefits for the work or professional services they have provided to the Bank or to the companies of the banking group. Minor payments or benefits granted to personnel on a non-discretionary basis, which fall within the general policy of the Bank and have no effect on risk assumption or risk control, may not be considered*";

(ii) variable remuneration shall mean: "*(i) any payment or benefit that is granted and paid subject to performance, however measured (income-based targets, volume targets, etc.) or that is conditional on other parameters (e.g. seniority of service), excluding severance pay paid pursuant to employment laws; (ii) discretionary pension benefits and compensation agreements relating to early termination of employment or early exit from office (so-called golden parachutes)".*

6.1 General Principles

The remuneration paid to the Group's employees has a fixed component, which is paid at all levels of responsibility, and a variable component that is paid to "Key Personnel".

The Bank has not provided for discretionary pension benefits or compensation agreements in the event of early termination of employment or early exit from office.

The remuneration paid to the Group's employees consists of the following components:

6.1.1 Fixed component

- paid at all levels of responsibility;
- based on the employee's technical, professional and managerial skills and the responsibilities assigned to that employee, and is monitored constantly to ensure fairness, both internally and compared to the rest of the sector, taking also into account any assessments conducted by external consultants appointed by the Parent Company; the Bank adopts two collective bargaining agreements (CCNL): one applicable to Middle Managers and Personnel of Banks, Financial Companies and Associated Companies, and the other applicable to Executives of Banks, Financial Companies and Associated Companies.
- structured on the basis of the sustainability criterion.

6.1.2 Variable component

The Board of Directors has approved these Policies together with the Long-Term Incentive Plan for financial years 2017-2019 (hereinafter also “**LTIP**”), the characteristics and functioning of which are described in the “Information Document relating to the 2017/2019 Stock Grant Plan” approved by the Board of Directors on 28 March 2017 and subsequent updates to such.

The variable component of remuneration is calculated on the basis of performance indicators adjusted for risks and aligned with the RAF,
approved by the Board of Directors each year.

The total amount of the variable component is based on actual, long-term results and also takes into account qualitative objectives. The granting and payment of the variable component takes into account the risks assumed and the results achieved by the Bank and the Group at overall level and at business-unit and individual level, if applicable (quantitative, qualitative, also connected to the manner of achievement of results, in compliance with the Bank’s Code of Ethics, which may constitute an adjustment factor, and if necessary an amendment factor, decided by the Bank at its own unquestionable discretion).

The rules governing the variable component of remuneration also apply to the variable remuneration paid to “key personnel”, in accordance with the Policies. Bonuses may also be granted to other company employees within the maximum amount of the available “bonus pool”, provided that the company-level targets described hereinafter are achieved, in accordance with the other prescriptions of the Policies.

In particular, payment of the variable component is subject to the achievement of targets at both Company and individual levels, as per Annex 1 to this document. The LTIP beneficiaries accrue the entitlement to the variable remuneration on meeting the specified targets (at company and individual level, differentiated by type of beneficiary); the variable remuneration is paid partly in cash and partly in shares of the Bank (“Bonus”).

To ensure that the LTIP is financially sustainable and that the Bank is able to maintain a sufficient level of capital, total Bonuses payable to all employees and “key personnel” cannot exceed the value of the “bonus pool”, which is calculated each year by the Bank’s Board of Directors, on proposal of the CEO, following consultation with the Finance and Administration Manager, the Designated Manager, the Risk Manager and the Compliance Manager.

The CEO’s proposal is assessed by the Remuneration Committee, which then submits an opinion to the Board of Directors.

The value of the “bonus pool” is determined on the basis of the Company’s actual and long-term performance results, taking into account the targets set out in the strategic business plan approved by the Board of Directors, in the annual budgets, and in the Risk Appetite Framework (RAF). The “bonus pool” can only be distributed if the Bank’s gross earnings are positive. The “gross earnings” considered in this respect are ‘non-normalised’ as represented in the Report on Operations submitted to the Bank’s Board of Directors, if necessary adjusted to guarantee comparability with gross earnings from previous years
(henceforth, “**Gross Earnings**”). No Bonus is paid if Gross Earnings are negative.

Entitlement to the Bonus is subject to satisfying the following Key Risk Indicators (“**KRI”), which are equally weighted and envisaged in the RAF for the reference three-year period 2017/2019:**

- **Common Equity Tier 1 ratio (CET1)**
- **Liquidity Coverage Ratio (LCR)**

No Bonus is paid if the first level threshold indicated in the RAF is not satisfied, even in respect of one only of the two KRIs specified above.

The annual “bonus pool” is calculated as a percentage of the Gross Earnings (not exceeding 10%) shown in the budget approved by the Bank’s Board of Directors. The annual “bonus pool” is approved by the Board of Directors upon approval of the annual budget.

The value of the “bonus pool” is subject to adjustment ex-post according to the value of Return on Risk Adjusted Capital (“Rorac”) given in the preceding year's RAF, as detailed below:

- Should the Rorac achieved the previous year exceed the target as set out in the RAF, the “bonus pool” shall be distributable in the amount of 150% (the Rorac may not fall below this target, as a result of said greater amount);

- if the RORAC value for the period exceeds the first level threshold specified in the RAF, 100% of the “bonus pool” is distributed;

- if the RORAC value for the period is between the first and second level threshold, 80% of the “bonus pool” is distributed;

- if the RORAC value is below the second level threshold specified in the RAF, the Board of directors shall decide not to pay the Bonuses.

If the “bonus pool” is reduced in accordance with the foregoing criteria, the individual bonuses set out in Annex 1 shall be reduced proportionately for all Beneficiaries.

The company bodies and the employees are granted a series of non-cash benefits, weighted differently dependent on position/service. These benefits include medical insurance, company cars and flexible benefits. The benefits expected to be granted in 2018 can be summarised as follows:

- medical insurance for all employees and for the members of the Bank’s Board of Directors.

- company cars for executives and sales staff.

- flexible benefits for all Employees Banca Sistema has adopted a Benefits Plan to support employees and their families in connection with social and cultural activities, public transport and education/schooling costs for their children, and with the purchase of homes, in accordance with the limits and conditions set out in the specific applicable Regulation, and in application of the applicable provisions of tax law.

6.1.3 Ratio of the variable to fixed components of remuneration

The ratio between the variable and fixed components of remuneration is determined and carefully assessed on the basis of the characteristics of the Bank and the diverse categories of employees.

As a rule, the variable component of remuneration should not exceed 100% of the fixed component (ratio of 1:1). However, as permitted under the applicable legislation and in the Bank’s Articles of Association, the Board of Directors may request the Shareholders’ Meeting to grant to one or more key personnel positions a variable remuneration in excess of 100% but not exceeding 200% of the fixed remuneration (ratio of 2:1). This applies only in exceptional cases and the reasons for the proposal to exceed the aforementioned ratio must be clearly stated, with indication also of the current and future implications on the Bank’s ability to continue to comply with all prudential rules.

In detail, the Board of Directors' proposal to the Shareholders' Meeting will indicate at least the following information: (i) the functions to which those persons affected by the decision belong and their number, for each function; (ii) the reasons underlying the proposed increase; (iii) the implications, even in a forward-looking perspective, for the Company's ability to continue to comply with all applicable prudential rules.

6.1.4 The LTIP beneficiaries

On the basis of the results of the Key Personnel Self-Assessment and Identification Process referred to in Chapter 4, of the process of identification of Executives with Strategic Responsibilities and of other key organisational roles, on the Company's performance levels and risk levels, a list of beneficiaries has been drawn up, subdivided into bands as described in table "A" below.

TABELLA "A"

FASCIA 1	AMMINISTRATORE DELEGATO E DIRETTORE GENERALE	**1**
FASCIA 2	DIREZIONE CENTRALE COMMERCIALE	**7**
	DIREZIONE COMMERCIALE FACTORING	
	DIREZIONE CENTRALE CREDITI	
	DIREZIONE CENTRALE FINANZA	
	FUNZIONE CORPORATE STRATEGY	
	DIREZIONE AFFARI LEGALI	
	DIREZIONE CENTRALE OPERATIONS	
FASCIA 3	DIREZIONE TESORERIA	**18**
	DIREZIONE OPERATIONS	
	FUNZIONE INVESTOR RELATIONS	
	CHIEF OF STAFF	
	DIREZIONE MARKETING E COMUNICAZIONE	
	FUNZIONE UNDERWRITING	
	FUNZIONE COLLECTION STRAGIUDIZIALE	
	FUNZIONE COLLECTION LEGALE	
	FUNZIONE ICT	
	FUNZIONE PRICING & STRUCTURING	
	DIREZIONE COMMERCIALE BANKING	
	FUNZIONE AFFARI SOCIETARI	
	RUOLI COMMERCIALI SENIOR - DIREZIONE CENTRALE COMMERCIALE	
FASCIA 4	DIREZIONE INTERNAL AUDIT	**5**
	DIREZIONE RISORSE UMANE	
	DIREZIONE RISCHI	
	DIRIGENTE PREPOSTO	
	FUNZIONE COMPLIANCE & ANTIRICICLAGGIO	

In the three-year period 2017-2019, the variable component of remuneration will be paid as follows upon approval of the financial statements:

- if the variable remuneration is less than € 20,000.00, the full variable component of remuneration shall be paid up-front in cash;

- if the variable remuneration is comprised between € 20,000.00 and € 50,000.00, it shall be paid as follows:
- 50% upfront cash, while the remaining 50% shall be deferred and paid in shares of the Bank at the end of the 3-year deferral period.

- if the variable remuneration is more than € 50,000.00, a 60% portion shall be paid up-front (of which 50% in cash and 50% in shares of the Bank) and the remaining 40% shall be deferred and paid at the end of the 3-year deferral period (50% in cash and the remaining 50% in shares of the Bank).

Regarding the calculation of the Bank shares to be assigned and the applicable provisions, *please see Annex 2 and the Information Document relating to the 2017-2019 Stock Grant Plan in the 'Governance' section of the website* www.bancasistema.it .

Vesting

The overall timeline of the LTIP is 6 years, in that a deferred portion of the Bonus will be paid in the three-year period 2020/2022 in accordance with the Policies.

Retention

Bank shares which are assigned after a deferral period are subject to a retention period (holding period during which shares cannot be transferred) of 12 months.

Malus

With a view to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period, whether relating to variable remuneration in cash or shares, the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance throughout the whole three-year period, net of risks assumed, and/or to take into account the Bank's net assets and liquidity position or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct (*malus).*

The value of the reduction (or cancellation) of the deferred variable remuneration is determined by the Bank's Board of Directors on proposal of the Remuneration Committee. *The* malus *mechanism is applied especially if the achievement of individual targets in the three-year period is less than 75% of the average targets identified pursuant to these Policies.*

Claw Back

Without prejudice to the fact that no incentive shall be paid to employees, including key personnel, if Gross Earnings are negative, incentives that have already been granted and/or paid to employees are subject to claw back (i.e. the incentives granted are no longer paid or those already paid must be refunded) when it is found that the beneficiaries are responsible for or involved in:

- conduct which has resulted in a significant loss for the Bank;
- breach of the requirements set out in Section 26, or, if the employee is an interested party, breach of the requirements of Section 53, paragraph 4 ff. of the TUB (Consolidated Law on Banking) or of the requirements associated with remuneration and incentives (3);
- fraudulent conduct or gross negligence to the detriment of the Bank.

In the foregoing cases, the Board of Directors shall resolve to apply the claw-back mechanism.

(3) Section 26 of Italian Legislative Decree no. 385/1993: "*1. Those persons who perform administrative, management and supervisory roles in banks, must be adequate for performance of such roles.*
2. For the purposes of paragraph 1, officers must meet requirements in terms of their professionalism, integrity and independence, must meet the competence and fairness criteria, and must devote the time necessary for their task to be carried out efficiently, so as to ensure the Bank's sound and prudent management.
3. The Ministry of the Economy and Finance, with a decree adopted following consultation with the Bank of Italy, has established:
a) standard integrity requirements for all officers; b) requirements of professionalism and independence graded according to principles of proportionality; c) competence criteria in keeping with the position to be filled and with the characteristics of the bank, and criteria for the adequate composition of the body in question; d) fairness criteria with regard to, among other things, the officer's business relations, to that officer's conduct vis-à-vis the supervisory authorities, to the penalties or corrective measures inflicted by the supervisory authorities, to restrictive measures pertaining to professional activities performed, and to any other element that could affect the officer's fairness; e) the limits on bank officers' accumulation of positions, graded according to principles of proportionality, and taking account of the size of the intermediary; f) the causes resulting in temporary suspension from office, and the duration of such suspension.
4. […omissis…]

5. The banks' management and control bodies shall evaluate the suitability of its own members and the overall adequacy of the body itself, and in doing so shall document their analyses and give due reasons in support of the outcome of the evaluation process. In the event of specific, limited shortcomings in terms of the criteria provided for under paragraph 3(c), the bodies themselves may adopt the measures required to rectify such shortcomings. In all other cases, the lack of suitability, or the violation of any limits on concurrent positions, shall result in termination of office; this termination shall be declared by the body in question within thirty days of the appointment or of the discovery of the lack of suitability or the violation of such limits. For those persons who are not members of a body, the evaluation and the declaration of termination of office shall be performed by the body that appointed them.
6. The Bank of Italy evaluates, in the manner and according to the timescales it itself establishes, also in order to reduce the costs to the banks, the suitability of officers and the observance of the limits on concurrent positions, also on the basis of the analysis conducted and of any measures adopted, under paragraph 5. In the event of the lack of suitability, or the violation of any limits on concurrent positions, it shall declare termination of office".

(1) Section 53, paragraphs 4 et seq., of Italian Legislative Decree no. 385/1993: "4. *The Bank of Italy establishes the rules governing the conditions and limits on exposure to risk by banks or banking groups, in relation to those persons who may exercise, either directly or indirectly, an influence on the management of the bank or banking group, and to those persons connected to such. In any case, the shareholders and the Directors, without prejudice to the requirements of Article 2391, paragraph 1, of the Italian Civil Code, shall abstain from those resolutions in regard to which they are involved in a conflict of interests, either on own account or on account of third parties. Where situations of conflict of interest actually arise, the Bank of Italy may establish specific conditions for, and limits on, exposure to risk.*
4-bis. The conditions set forth in paragraph 4 are determined by taking account of:
a) the entity of the bank's equity;
b) the entity of any stake held;
c) the bank group's risk exposure to those persons referred to in paragraph 4 and to other persons connected to the latter, as established by the Bank of Italy.
4-ter. The Bank of Italy identifies those cases where failure to meet the requirements of paragraph 4 entails the suspension of the administrative rights related to the stake.
4-quater. The Bank of Italy, in accordance with the resolutions of the Interministerial Committee for Credit and Savings (CICR), regulates conflicts of interest between banks and those persons indicated in paragraph 4 in regard to other types of economic relations.
4-quinquies. The provisions stipulated under the present Article may require that certain transactions be submitted to the Bank of Italy for its approval thereof. Moreover, said provisions may also require that certain decisions regarding remuneration and incentives be submitted for approval to the shareholders' meeting, also in the dual administration and control model, on the basis of the quorum required to declare the meeting effectively convened and for passing resolutions, also in departure from the provisions of law.
4-sexies". […omissis…].

6.2 The structure of remuneration paid to management bodies

The remuneration paid to members of the Banca Sistema's Board of Directors is established by the Shareholders' Meeting.

Directors are paid a fixed annual fee, of different amounts for the Chairman of the Board of Directors, the CEO and the Directors, as resolved by the Board of Directors.

With the exception of the Chairman of the Board of Directors and the CEO, Board Directors are paid an additional fixed annual fee for each internal Committee they are members of, plus the reimbursement of documented expenses incurred in relation to their offices.

The fee paid to the Chairman of the Board of Directors, proportional to the role assigned, is determined ex ante for a value not exceeding the fixed remuneration received by the CEO.

The fee paid to the CEO is determined by the Board of Directors; the CEO also receives a gross annual salary, as determined by the Board of Directors, in his capacity as General Manager and employee of the Bank.

Any variable component of the remuneration paid to the CEO is subject to the provisions of Annexes 1 and 2, as well as to the rules applying to the "bonus pool".

Banca Sistema has signed a non-competition agreement with the CEO pursuant to, and for the purposes of, Article 2125 of the Civil Code. In relation to the aforesaid non-competition undertaking, it has been agreed that for each of the three years following the exit from office, the CEO will receive 25% of the value of the gross annual salary received in the last year of office, and of any flexible benefits granted.

The foregoing amount will be calculated from the date the relationship is terminated, and the settlement of the sum shall be deferred to the end of the month preceding the last month of validity of the non-competition undertaking

(that is, at the end of the three-year non-competition period). In the event of breach of the foregoing non-competition undertaking, the CEO shall immediately repay a sum amounting to the overall cost borne by

Banca Sistema as payment of the price of the non-competition undertaking, and shall also immediately pay, as a contractual penalty pursuant to Articles 1382 ff. of the Italian Civil Code, a net amount equal to 35% of the gross annual salary received in the last year of office, inclusive of flexible benefits. Furthermore, should any of the additional undertakings of the agreement be breached (e.g. disclosure, confidentiality, no staff poaching undertakings), the CEO shall be required to pay a net penalty for each breach, pursuant to articles 1382 ff. of the Italian Civil Code, equal to 20% of the gross annual salary received in the last year of office, inclusive of flexible benefits.

The remuneration due to employees who hold offices as directors in subsidiaries and/or associated companies is included in the remuneration they receive as employees of the Group.

No incentivising mechanisms are currently envisaged for non-executive Directors. If approved in future, these would amount to an insignificant percentage of the remuneration paid.

6.3 The structure of remuneration paid to members of the Board of Statutory Auditors

The remuneration paid to the members of the Board of Statutory Auditors is of a fixed nature only, and the entity of such remuneration is established by the Shareholders' Meeting at the time of appointment, and is valid for the entire term of office.

6.4 The structure of remuneration paid to employees

6.4.1 Fixed component

The fixed remuneration paid to all employees of the Bank and the Group is based on the applicable collective bargaining agreement (CCNL) or, for employees of the Group's foreign company, on the local legislation application in the country the employee works in.

The fixed component, which usually has predominance over the variable component, rewards the skills and responsibilities associated with the position, with particular focus on professional expertise and experience and the level of commitment shown.

The remuneration paid to "key personnel" is determined by the Board of Directors, which also defines the incentives plan applicable to key personnel and other Group employees.

6.4.2 Variable component

The variable component of remuneration paid to "key personnel" is subject to the rules provided for in Annex 1 to this Report.

A Cash Bonus of a limited amount may be granted to other employees who are not classed as "key personnel".

In order to allocate the Bonus, the Bank, following approval of the annual financial statements, sends a letter to the beneficiaries (the "**Letter of Assignment**"), indicating, among other things, (i) the amount paid in cash with regard to the reference year; (ii) the number of shares assigned at the conditions specified in the 2017-2019 Stock Grant Plan.

Furthermore, in 2015, the Bank also signed non-competition agreements with all of the Bank's executives, sales staff and employees in key positions whose remuneration will be deferred using the same methods applicable to the CEO,

as better described in Section II. As a result of personnel ceasing to hold office, and of the hiring of new employees, over the course of time 39 non-competition agreements have been signed.

6.5 Remuneration paid to members of the Company's control functions

In the case of staff members employed in the Company's control departments (including the Human Resources Department and the Designated Manager indicated in Band 4 of Table "A"), payment of the Bonus is subject to the meeting of exclusively qualitative objectives (control objectives) in relation to the function they are employed by, that are in no way linked to the Bank's financial performance. The payment of the Bonus is not linked in any way to the results achieved by the areas that are subject to their control.

The variable portion of remuneration paid to employees of the Company's control functions cannot exceed 1/3 (one third) of their fixed remuneration.

The Bank's control functions include the following positions:

- Designated Manager
- Head of Internal Audit
- Human Resources Manager
- Risk Manager
- Head of Compliance and Anti-Money Laundering

7. SPECIFIC RULES GOVERNING THE DEFERRED PORTION OF REMUNERATION

The relationship between the Bank and the Bonus beneficiaries on occurrence of specific events is subject to the following terms and conditions.

7.1 Dismissal, resignation, consensual termination

If a beneficiary is dismissed by the Bank for any reason or leaves the company due to resignation, but excluding retirement or disability, the beneficiary shall lose the entitlement to receive the deferred portion of the Bonus still outstanding at the date of employment termination, unless otherwise decided on justifiable grounds by the Bank's Board of Directors, on proposal of the Remuneration Committee.

The variable part of remuneration cannot be paid during the notice period, whether worked or not.

In the case of consensual termination of the employment relationship, Beneficiaries are entitled to the variable remuneration accrued, calculated on a "pro-rata temporis" basis, subject to the level of achievement of the pre-established individual and company-level performance targets The payment of the full amount to the beneficiary is approved by the Board of Directors, subject to the opinion of the Remuneration Committee.

7.2 Retirement - Disability

The rules governing the consensual termination of the employment relationship shall apply if the Beneficiary gains access to old age pension, contribution-based pension or disability pension rights when this results in the termination of the employment relationship.

7.3 Death

In the event of the death of the Beneficiary, his/her heirs, at the opening of the succession, shall be entitled to request payment of the Bonus
(accrued but not distributed) still payable to the Beneficiary in accordance with the applicable terms and conditions.

ANNEX 1

This Annex describes the individual performance indicators to which the payment of the variable remuneration (cash and shares) is subject once the “bonus pool” has been defined.

The Bank uses these indicators to measure individual performance and subsequently to calculate the individual Bonuses and the ex-post adjustment mechanisms (so-called malus rules) to be applied when the deferred portion of bonuses for the reference year are paid.

The total variable remuneration paid as individual incentives cannot exceed the value of the “bonus pool”. If this value is exceeded, the individual incentives are reduced pro-rata to eliminate any amount in excess of the “bonus pool”.

A. Company-level performance

The indicators of company-level performance - to which the distribution of the variable component under the “bonus pool” are subject - are described in point 6.1.2 of the Policies.

The achievement of company-level performance targets is assessed by the Board of Directors, subject to the opinion of the Remuneration Committee, on the basis of the procedures described above.

B. Individual performance

In addition to company-level performance targets, payment of the variable component of remuneration, partly in cash and party in shares, is subject to a number of individual quantitative and qualitative performance targets being met: these targets are defined and communicated to key personnel at the beginning of the reference year.

The performance appraisal process is carried out yearly as follows: the Bank’s employees log onto their personal account on the Banca Sistema HR web portal http://studioripamonti.zucchetti.com/HRPortal/ and share the quantitative and qualitative targets for the following year with their direct heads.

Quantitative targets are assigned a measurement criterion to allow the verification of the results achieved.

By way of an example, some of the parameters used with respect to the different roles are described below.

Quantitative indicators (the tool’s “targets sheet”):

Meeting the individual and area-level budget targets: these targets are the easiest to quantify, and are linked mainly to the sales area or areas in which quantifiable factors can be measured (e.g. volume of sales compared to budget, annual savings on cost funding compared to budget).

Value creation: these targets provide added value to a new product or a new service (e.g. the contribution of marketing initiatives to the achievement of factoring targets, the timely management of complaints, the professional growth of co-workers).

Reduction in costs: operating cost reduction targets (e.g. reducing costs for consultants, overtime, maintenance.)

Reduction of response times: these targets are linked to customer satisfaction, internal and external (e.g. the timeliness of reporting adjustments to the budget, the number of applications priced/headcount per pricing, timeliness in closing Open Issues reported by the Control functions).

Increased efficiency: these targets are based on a comparison with the same activities performed in the previous years in connection with improving the overall performance of the Bank (e.g. reducing the percentage of operating errors, increasing the equivalent advertising value, compliance with project timelines).

Qualitative indicators ("performance of tool" sheet): the Group uses 4 qualitative indicators (contribution to financial results, customer relations - both internal and external, organisational and managerial skills, personal qualities), each divided into 2 sub-indicators, which are included in the performance sheet provided on the aforementioned website. There are 4 performance levels:

A) EXCEEDS THE REQUESTED LEVEL

B) ADEQUATE FOR THE POSITION HELD

C) ROOM FOR IMPROVEMENT FOR THE POSITION HELD D) WELL BELOW EXPECTATIONS FOR

THE POSITION HELD

In detail, qualitative indicators focus on:

- the observance and respect of the "values" that underpin the Bank's activity, in compliance with the applicable regulations and the Group's Code of Ethics;
- customer retention and the appropriateness of relationships with customers;
- professional ability and skills;
- constant dedication to work, cooperation with colleagues, and the capacity to work as part of a
- team;
- the ability to find effective and possibly innovative solutions, whilst continuing to pursue the objectives of sound and prudent management of the Company and its value over the long-term;
- the tendency to take responsibility for decisions and the timely achievement of the identified individual targets;
- the ability to use resources efficiently, involve and motivate staff and make sensible use of the delegation tool to promote growth;
- the containment of legal and reputational risks.

* * * * *

The individual targets identified in relation to the 2017-2019 LTIP are as follows:

Band 1 (CEO/General Manager)

As far as concerns the CEO/General Manager, entitlement to the Bonus is subject to achieving positive Gross Earnings (as specifically defined above) as a prerequisite for the distribution of the "bonus pool", and for the three-year period 2017/2019, entitlement is subject to satisfying the equally weighted access criteria (Key Risk Indicators, henceforth, "**KRIs**") specified in the RAF of the reference year (**CET1 - LCR).**

This, as mentioned, insofar as failure to reach the first-level threshold indicated in the RAF of even just one of the aforementioned 2 KRIs shall result in the Bank not distributing any Bonus.

In addition to the company-level objectives specified above, the payment of the Bonus is also subject to the assessment (according to the criteria provided for in the paragraph below) of the achievement of the objectives linked to the following indicators:

- Profitability of the Bank
- Growth of the Bank
- Increase in the value of the Bank's shares

The indicator used to measure the Bank's profitability is "Gross Earnings" against budget

Growth means the year on year percentage increase in net banking income against budget.

Increase in the value of the shares means the difference between the year on year change (compared to the previous year) in the average market price of the Bank's shares and the year on year change in the average FTSE Italia Finanza index in the last quarter of the year, as per the following formula:

$$\left[\frac{BS^{4/t} - BS^{4/t-1}}{BS^{4/t-1}} \times 100 \right] - \left[\frac{Indice^{4/t} - Indice^{4/t-1}}{Indice^{4/t-1}} \times \right.$$

WHERE:
BS4/t = average market price of Banca Sistema shares in the last quarter of the reference year t
BS4/(t-1) = average market price of Banca Sistema shares in the last quarter of the year t-1
Index 4/t = average FTSE Italia Finanza index in the last quarter of the reference year t
Index 4/(t-1) = average FTSE Italia Finanza index in the last quarter of the year t-1

For the purposes of the granting of the CEO's Bonus, the Bank has established the following adjustment criteria (Key Risk Indicator, hereinafter **KRI)** provided for in the RAF of the reference year, all equally weighted:

- **Common Equity Tier 1 ratio (CET1)**
- **Liquidity Coverage Ratio (LCR)**

If the target threshold indicated in the RAF approved by the Bank's Board of Directors is not achieved, even in relation to one only of the 2 KRIs specified, and provided that the first level threshold has been met, the overall variable component of remuneration payable to the CEO/General Manager shall not exceed 80% of the fixed component of remuneration payable.

DEFINITION OF OBJECTIVES:

Threshold objective means achieving at least 75% of the Bank's profitability and growth targets and at least -5% of the target linked to the increase in the value of the shares.

Overperformance means achieving more than 150% of the Bank's profitability and growth targets and more than 5% of the increase in the value of the shares.

The first two objectives (profitability and growth) both account for 40% of the Bonus respectively, while the third objective (increase in the value of the shares) accounts for 20% of the Bonus amount.

The Bonus is quantified, for each of the three objectives, as follows:

- *threshold* = 50% of Gross Annual Salary

- *target* = 100% of Gross Annual Salary

- *overperformance* = 200% of Gross Annual Salary

The Bank's Board of Directors assesses the CEO's level of achievement of the objectives upon approval of the financial statements relating to each Plan year.

THREE-YEAR PERFORMANCE

The settlement of deferred Bonuses is subject to the assessment of the overall three-year performance levels at the end of the three-year period 2017/2019.

If the objectives are not met and with a view to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period associated with the variable portion of remuneration (cash or shares) the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance levels during the entire three year period, net of risks assumed, and without prejudice to verification of the access criteria as set out under point 6.1.2, and/or of the Bank's net assets and liquidity position or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct (*malus).*

The value of the reduction (or cancellation) of the deferred variable remuneration is determined by the Bank's Board of Directors on proposal of the Remuneration Committee. *The* malus *mechanism is applied especially if the achievement of individual targets in the three-year period is less than 75% of the average targets identified pursuant to these Policies.*

Bands 2 and 3

The following objectives apply to other key personnel, executive managers with strategic responsibilities and critical roles vis-à-vis the achievement of company results, in addition to company-level objectives:

* at least 2 function-level objectives established by the department head (in the case of persons reporting directly to the CEO, one of the two objectives is established beforehand to equate to gross earnings against budget).
* at least 2 individual objectives.

The function-level objectives account jointly for 60% of the Bonus amount and are identical for all eligible beneficiaries within the same department (excluding those persons reporting directly to the CEO).

Individual objectives are quantitative or qualitative and account for 40% of the Bonus amount.

For qualitative objectives which cannot be measured directly, the processes followed to assess achievement levels must be communicated in advance.

The department head defines two individual objectives for each position envisaged in the LTIP in that department. The objectives must be specifically linked to the employee's role.

Threshold, target and overperformance objectives are pre-established by the department head and communicated to employees.

Deviations from the target are defined in relation to each function-level and individual objective.

The individual incentive is zero if the employee does not achieve at least the threshold level of the two objectives.

The Bank's Board of Directors assesses key personnel's level of achievement of the objectives upon approval of the financial statements relating to each Plan year.

The incentive amount is as follows in each of the bands showed below:

BAND 2: 66.7% of Gross Annual Salary, with a maximum of 80% paid for overperformance and a minimum of 33.35% paid at threshold level.

BAND 3: 50% of Gross Annual Salary, with a maximum of 60% paid for overperformance and a minimum of 25% paid at threshold level.

THREE-YEAR ERFORMANCE

The settlement of deferred Bonuses is subject to the assessment of the overall three-year performance levels at the end of the three-year period 2017/2019.

If the objectives are not met, and with a view also to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period associated with the variable portion of remuneration (cash or shares) the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance levels during the entire three-year period, net of risks assumed and without prejudice to verification of the access criteria set out under point 6.1.2, and/or the Bank's net assets and liquidity position, or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct
(*malus*).

The value of the reduction (or cancellation) of the deferred variable remuneration is determined by the Bank's Board of Directors on proposal of the Remuneration Committee. *The* malus *mechanism is applied especially if the achievement of individual targets in the three-year period is less than 75% of the average targets identified pursuant to these Policies.*

ANNEX 2

Long Term Incentive Plan ("LTIP")

Introduction

The present Annex is designed to illustrate the principal features of the *Long Term Incentive Plan* adopted by Banca Sistema, and of the Stock Grant Plan 2017-2019 (hereinafter the "**Plan**") submitted to the Shareholders' Meeting for approval, for the purpose of the determination and payment of the variable component of remuneration.

1. Definitions

The following capitalised terms and expressions (and their grammatical inflections) shall have the meaning shown beside each term. The terms and expressions defined in the masculine shall be treated as including any female terms, and those defined in the singular shall be treated as referring also to the plural.

Shares	The ordinary shares of Banca Sistema, giving regular dividend rights and having a nominal value of € 0.12 each.
Granting of the Bonus	Criteria for the determination of the Bonus to be granted to individual Beneficiaries on the basis of the LTIP 2017-2019.
Assignment of Shares	The free assignment - subject to verification that the individual and company-level performance targets specified in the 2018 Remuneration Policies Document (hereinafter the "**2018 Policies**") have been met - of the number of Shares to be granted free of charge to each Beneficiary in regard to each Cycle, as resolved by the Board of Directors at the end of the three-year period in question.
Banca Sistema or Bank	Banca Sistema S.p.A. having registered office in Milan, Corso Monforte No. 20, 20122, registered with the Milan Companies' Register under no. 12870770158.
Beneficiaries	Key members of personnel (as defined below)
Bonus Pool	An amount determined by the Bank's Board of Directors at the start of each Cycle.
Bonus	Variable component (to be paid in accordance with point 6.1.4. of the 2018 Policies) of remuneration for the years 2017-2019 as provided for by the 2017 Policies.

Transfer	Any transfer, including but not limited to, the sale, donation, pledge, usufruct, contribution or exchange of the shares, the granting of a beneficial interest on them or the forced sale of the shares, or any other form of disposal (free of charge or at a cost), which directly or indirectly transfers to a third party the ownership of the Banca Sistema ordinary shares or any associated right.
Cycle	The period of time comprising the financial years in relation to which the Bank has set performance targets, to which payment of the Bonus is subject under the LTIP 2017 - 2019. - 1st Cycle: 01/01/2017 - 31/12/2017 (the 1st Cycle ends on the date of approval of the 2017 consolidated financial statements); - 2nd Cycle: 01/01/2018 - 31/12/2018 (the 2nd Cycle ends on the date of approval of the 2018 consolidated financial statements); - 3rd Cycle: 01/01/2019 - 31/12/2019 (the 3rd Cycle ends on the date of approval of the 2019 consolidated financial statements).
Remuneration Committee or "RC"	The Committee set up by Banca Sistema in implementation of the recommendations set out in the Corporate Governance Code for Listed Companies and in Bank of Italy Circular no. 285 of 17 December 2013, *Regulations for the supervision of banks and subsequent updates*
Board of Directors	Banca Sistema's Board of Directors
Remuneration Policies Document 2018	The Document containing the remuneration policies of the Banca Sistema Group, which was approved by the Board of Directors on 8 February 2018.
Banca Sistema Group or Group	Banca Sistema and the companies over which it has or may in the future have direct or indirect control pursuant to Article 2359 of the Italian Civil Code and to Section 93 of the Consolidated Law on Finance (TUF).
Permanent disability	Any medically certified condition which permanently impairs the Beneficiary's ability to work and that leads to the termination of the employment relationship.

Letter of Bonus Assignment	A specific letter notifying the Beneficiary of the entity of the Bonus and the terms and conditions subject to which the Bonus is granted.
Letter of Assignment	A specific letter by means of which Banca Sistema notifies the Beneficiary of: (i) the amount of the Bonus paid in cash (by bank transfer to the account registered in the Beneficiary's name); (ii) the number of Shares assigned (deposited in open administered time deposit account); (iii) the Deferral Period; (iv) the Retention Period applicable to the assigned Shares.
Key Personnel	Those human resources referred to in Chapter 4 of the 2018 Policies
Retention Period	The period during which the Beneficiary undertakes not to Transfer the assigned Shares.
Price of Shares	The price of Shares determined on the basis of the arithmetic average of the official prices achieved by the Banca Sistema shares on the MTA Italian Equities Market - STAR segment in the three months prior to the date on which the Board of Directors resolves on the free Assignment of the Shares.

2. Subject matter and purpose of the LTIP

In 2016 the Bank adopted an LTIP that was reviewed when the Bank's Board of Directors approved the 2017 Policies, and it relates to the Assignment of the Bonus and the Assignment of Banca Sistema Shares to the Beneficiaries - as specified in point 6.1.4 of the 2018 Policies, subject to the achievement of the performance targets (as per Annex 1 of the 2018 Policies).

3. Assignment of the Bonus and Assignment of Shares

The Assignment of the Bonus (to be distributed in cash and, if applicable, partly by means of the Assignment of Shares) is subject to the achievement of specific performance targets at both Company and individual levels, as specified in the 2018 Policies (see also annex no. 1).

The Beneficiary, at the time of the Assignment of the Bonus and/or the Assignment of Shares, must meet the following requirements:

- have a permanent employment contract with the Company and not have taken a period of extended leave;

- not have given notice of resignation;
- not have been given notice of dismissal;
- not have mutually agreed to terminate the employment relationship.

For the purposes of the variable component of remuneration and of determination of the amount of the Bonus to be distributed, see point 6.1.4 of the 2018 Policies.

A Letter of Assignment informs Beneficiaries of the way the Bonuses are to be assigned. This Letter contains the specific performance targets at both Company and individual levels, together with the Plan Regulation, while the actual assignment of the Bonuses is by means of a Letter of Assignment to be sent out within 60 days of approval of the consolidated financial statements.

The Shares assigned during the course of the LTIP give regular dividend rights, and the Beneficiaries become the holders of all the related administrative and ownership rights on assignment of the Shares, without prejudice to the provisions specified hereinafter.

At the discretion of the Board of Directors, the shares may also be assigned using Shares purchased and/or held by Banca Sistema.

As far as regards the calculation of the number of Shares to be assigned to each Beneficiary, see the Information Document of the Stock Grant Plan, which may be consulted on the Bank's website (www.bancasistema.it) in the *Governance* section.

The part of the Bonus paid in Shares shall be assigned to the Beneficiary via an authorised intermediary, at which each Beneficiary shall open a securities deposit in accordance with the instructions given to the Beneficiary by the Bank (a time deposit during the Retention Period). The costs associated with the foregoing transactions shall be borne by the Bank. By the last day of the month in which the Shares are assigned, the Beneficiary shall pay the Bank an amount sufficient to cover any withholding taxes and/or contributions due from the Beneficiary. If such a sum is not received from the Beneficiary, the Bank may deduct this from other amounts due to the Beneficiary for any reason, including salaries. The costs associated with the transfer or sale of the Shares subsequent to the Assignment of Shares shall be borne by the Beneficiary.

It is understood that Beneficiaries shall maintain, *mutatis mutandis*, the rights acquired under the Stock Grant Plan if the individual employment relationship is transferred by the Bank to another company of the Group or terminated (mutually agreed or not) to take employment with another company of the Group.

4. Deferral and Retention Periods

In accordance with Circular no. 285 and with the EBA guidelines, the LTIP establishes - for the three-year period
2017-2019 - that the variable remuneration is in part (40-50%) subject to a 3-year period of deferral should the amount to be distributed be equal to, or greater than, € 20,000.00 (see point 6.1.4 of the 2018 Policies).

As far as regards the Shares assigned as variable remuneration, the LTIP establishes a Retention Period, of variable duration in the case of each Cycle of the LTIP, which shall run from the date of the financial year of the corresponding Cycle.

During the period 2017-2019, payment shall be made of the total amount, or 50% or 60%, of the annual bonus - depending on the amount of the variable remuneration as referred to in point 6.1.4 of the 2018 Policies - upon completion
of the process of verification of achievement of the targets referred to in Annex 1, within 30 days of approval of the financial statements for the year in question.

During the period 2020-2022, that is, three years later, and with final assignment, following confirmation of the achievement of the targets for the three-year period 2017-2019 within 30 days of approval of the financial statements at 31 December 2019, payment shall be made of any remaining portion of the annual bonus (that is,
50% or 40% of the assigned Bonus) accrued for the financial years ending 31 December 2017,
31 December 2018 and 31 December 2019, in the form of Shares or of shares and cash, as established by the 2017 Policies.

More specifically, subject to achievement of the targets as per Annex 1 of the 2017 Policies:

- at the end of the 1st Cycle, the accrued Bonus shall be assigned, and the number of Shares and any cash amount constituting part of the deferred portion shall be established. Said deferred portion may be finally assigned within 30 days of approval of the financial statements for the year ending 31 December 2019; Duration of Retention Period: 1 (one) year from the date of Assignment of the Shares associated with the 1st Cycle;

- at the end of the 2nd Cycle, the accrued Bonus shall be assigned, and the number of Shares and any cash amount constituting part of the deferred portion shall be established. Said deferred portion may be finally assigned within 30 days of approval of the financial statements for the year ending 31 December 2019. Duration of Retention Period: 1 (one) year from the date of Assignment of the Shares associated with the 2nd Cycle;

- at the end of the 3rd Cycle, the accrued Bonus shall be assigned, and the number of Shares and any cash amount constituting part of the deferred portion shall be established. Said deferred portion may be finally assigned within 30 days of approval of the financial statements for the year ending 31 December 2019. Duration of Retention Period: 1 (one) year from the date of Assignment of the Shares associated with the 3rd Cycle.

Shares shall continue to be subject to the Retention Period even if the employment contract is terminated, except in the case of death or permanent disability of the Beneficiary; in these cases the Retention Period shall not apply.

Shares that are subject to a Retention Period remain in a time deposit managed by an intermediary authorized by the Bank for the entire Retention Period.

Dividends and interest accrued during the Retention Period are paid into said time deposit account. Such amounts shall be released together with the Shares at the end of the Retention Period.

The Bank reserves the right to use other Share deposit methods in order to improve the contributory, tax or financial effects of the Plan for the Company, in accordance with the applicable provisions of law.

The Shares will become freely tradable at the end of the corresponding Retention Period.

5. Restrictions on the transfer of the entitlement to the free assignment of the Shares

The entitlement to be assigned the Shares free of charge is personal, granted to the named person and cannot be transferred or traded (except to heirs in the case of death). Any attempted or completed transfer shall be invalid, and in any case ineffective vis-à-vis the Company.

6. General provisions

6.1 Management and administration of the LTIP

The Board of Directors approves the LTIP, without prejudice to the rights of the Bank's Shareholders' Meeting with regard to Share Plans and other similar plans. Resolutions adopted by the Board of Directors on the interpretation and application of the Plan are final and binding for all parties concerned.

The Bank's Board of Directors is responsible for the management of the LTIP. The Board has all-encompassing operating powers for the management of the LTIP, that may be delegated.

6.2 Costs and tax-contribution system

Beneficiaries shall bear the cost of any taxes and contributions due in connection with:

- the Assignment of Shares,
- the possession of Shares,
- the Transfer of Shares.

Banca Sistema shall act as the withholding agent in all cases envisaged by law, withholding the required taxes and contributions in accordance with the applicable laws. The Beneficiary undertakes to provide Banca Sistema with all the information the Bank requires in order to properly fulfil its duties as withholding agent, including any information that Banca Sistema itself requests, both during the employment relationship and after termination of such.

6.3 Employment relationships

Access to the Plan is voluntary and involves no obligation on the Beneficiary's part to maintain the employment relationship, nor shall it give rise to any entitlement or expectation, present or future, including expectations of an "economic" nature which - directly or indirectly - arise out of, or in connection with, any relationship existing between the Beneficiary and the Bank.

All benefits arising out of the Plan shall be of an extraordinary nature and shall have no effect whatsoever on or in relation to the calculation of direct and indirect components of salary, which are governed by law and by the collective bargaining agreements.

6.3 Amendments to the LTIP

Without prejudice to the Shareholders' Meeting's responsibility in regard to amendments to the Stock Grant Plan, the Board of Directors may at any time amend the LTIP as it deems opportune, in order to render it complaint with the applicable laws at the time.

The Board of Directors is vested with the necessary and/or appropriate powers to fully implement the LTIP, subject to applicable laws and regulations, specifically the "Supervisory Regulations for Banks relevant to Remuneration and Incentive Policies and Practices" issued by the Bank of Italy.

The Board of Directors will notify the Beneficiaries of any amendment to the Plan within 10 business days from the date of approval of such amendment.