

**2018 Remuneration Report of the Banca Sistema Group  
and overview of the application of the Policies in 2017**

Drawn up pursuant to art. 123 *ter* of the TUF and art. 84 *quater* of Consob resolution no. 11971/1999 ("Issuers' Regulation") and in compliance with the Bank of Italy Supervisory Provisions in Circular 285 of 17 December 2013 and the Corporate Governance Code of listed companies

**Approved by the Board of Directors on 8 March 2018 and submitted for approval to the  
ordinary session of the Shareholders' Meeting to be held on 23 April 2018**

**Contents**

1.	Introduction - Legal Framework .....	3
2.	Classification of the Bank .....	4

**SECTION I - PERSONNEL REMUNERATION AND INCENTIVES POLICY**

1.	Mission of the Banca Sistema Group and Objectives of the Remuneration Policy .....	5
2.	Decision-making process followed in the definition of the Remuneration Policy .....	6
3.	Beneficiaries of the remuneration and incentive policies .....	10
4.	Disclosure Obligations .....	12
5.	The Structure of Remuneration at Group level .....	12
5.1	General Principles .....	13
5.1.1.	Fixed component .....	13
5.1.2	Variable component .....	13
5.1.3.	Ratio of the variable and fixed components of remuneration .....	16
5.1.4	LTIP Beneficiaries .....	16
5.2	The structure of remuneration paid to management bodies .....	18
5.3	The structure of remuneration paid to members of the Board of Statutory Auditors .....	20
5.4	The structure of remuneration paid to employees, particularly key personnel .....	20
5.5	Remuneration paid to members of the Company's control functions .....	21
6.	Special rules applicable to the deferred portions of discretionary bonuses in the case of extraordinary events .....	22
6.1	Dismissal, resignation, consensual termination .....	22
6.2	Retirement - Disability .....	22
6.3	Death .....	22
7.	Plans based on financial instruments .....	23
7.1	Stock Grant Plan .....	23
8.	Changes compared to the Remuneration Policy approved for the year as at 31 December 2017 .....	24

**SECTION II - PERSONNEL REMUNERATION AND INCENTIVES POLICY FOR 2017**

1.	General Considerations .....	26
2.	Remuneration information by position and function .....	26
3.	Plans based on financial instruments .....	28
4.	Tables .....	32

## 1. Introduction - Legal Framework

This Report has been prepared as a public disclosure pursuant to the applicable regulations in force, specifically art.123-ter of the Consolidated Law on Finance (TUF), the Implementation Measures issued by Consob and art. 84-*quater* of the Issuers' Regulation, as well as the provisions governing the banking sector and the self-regulation rules contained in the Corporate Governance Code of listed companies promoted by the Corporate Governance Committee of Borsa Italiana S.p.A. ("Corporate Governance Code") (henceforth, jointly, "the Provisions").

This Report also includes additional information, in an aggregate form, in relation to the so-called "Risk Takers" not referenced in art.123-ter of the TUF.

The Report therefore describes the Remuneration Policy of the Banca Sistema Group, in line with the Corporate Governance Code of Borsa Italiana S.p.A. and in accordance with the provisions adopted by the Bank of Italy in relation to remuneration and incentives policies and practices in banks and banking groups (Circular no. 285 of 17 December 2013, in implementation of EU Directive 2013/36/EU - CRD 4). The Policies also take into account the technical standards and regulations agreed at international level, including those issued by the European Banking Authority ("**EBA**") and the Financial Stability Board ("**FSB**"), as well as those governing related party transactions.

This Report was approved by the Remuneration Committee and the Board of Directors on 8 March 2018 and includes two sections. The first section, which is subject to approval by the Shareholders' Meeting pursuant to art. 123 of the TUF, describes the 2018 Remuneration Policy to be adopted in relation to Board Directors, General Managers, Key Personnel and Executives with strategic responsibilities and the other relevant roles for the attainment of the corporate objectives and specifies, for each of the foregoing positions, the aims pursued, the bodies involved and the procedures underlying the adoption and implementation of the policy. The second section details the remuneration paid in 2017 to the foregoing positions within the Banca Sistema Group, broken down by employee and aggregate.

The Report also provides information on any shares held by Board Directors, Statutory Auditors and Executives with Strategic Responsibilities, as well as an overview of the audits conducted by the Remuneration Committee and the Compliance Function to verify whether remuneration practices comply with the current legal framework.

For further information on the incentives plan based on financial instruments, which is an integral part of the 2018 Remuneration Policy, see the 2017-2019 Stock Grant Plan already published on the Bank's website ([www.bancasistema.it](http://www.bancasistema.it)).

## 2. Classification of the Bank

Part I, Title IV, Chapter 2, Section I, Paragraph 7 of Bank of Italy's Circular 285/2013 provides for a proportional criterion whereby banks can apply the remuneration provisions according to the methods that better 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:

- “*larger and more complex banks*”: those that are deemed to be significant under art. 6(4) of the (EU) Regulation no. 1024/2013 (Single Supervisory Mechanism - “SSM”);<sup>(1)</sup>
- “*smaller and less complex banks*”: banks whose balance sheet assets are equal to or below € 3.5 billion, which are not deemed to be significant under art. 6(4) of the SSM;
- “*medium size 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, which are not deemed to be significant under art. 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.

---

<sup>(1)</sup> According to art. 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 over the GDP of the participating Member State of establishment exceeds 20 %, unless the total value of its assets is below € 5 billion;
- (iii) following a notification by its national competent authority that it considers such an institution of significant relevance with regard to 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”.

## SECTION I - PERSONNEL REMUNERATION AND INCENTIVES POLICY

### 1. Mission of the Banca Sistema Group and objectives of the Remuneration Policy

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

The 2018 Remuneration Policy was drawn up by the Board of Directors of Banca Sistema (the “**Parent Company**” or “**Bank**”) in cooperation with the Remuneration Committee and other company functions and it applies throughout the Banca Sistema Group. Consistent with the Bank’s mission and the remuneration strategy adopted at Group level in recent years and in line with the Provisions and the EBA guidelines, the objectives of the Remuneration Policy are:

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

From the governance viewpoint, the Bank has also adopted a Risk Appetite Framework - RAF, which includes specific performance indicators measured net of risks.

In detail, the Bank’s aim is to achieve a balance between merit, skills and the sustainability of the total remuneration by linking incentives to the profitability of the business and thus to also achieve a balance between the short and medium-long term interests of the management and those of the shareholders based on the prudent management of company risks.

## 2. Decision-making process followed in the definition of the Remuneration Policy

The Remuneration and Incentive Policies (henceforth, “**Policies**”) were defined in accordance with the process described below, in compliance with the Provisions and Banca Sistema’s Articles of Association, which are in effect consistent with said Provisions.

The following company bodies and functions were involved the definition of the Policies, according to the remits and responsibilities described hereinafter:

- The **Board of Directors**

prepares the Remuneration Report and the Bank’s Policies, submits these to the Shareholders’ Meeting and reviews the Report and the Policies at least once a year and is responsible for the proper application of the remuneration policies and ensures that they are adequately documented and accessible to all interested parties within the organisation. It defines the incentives plan for “key personnel (as defined in paragraph 3 below) and all other Group employees and ensures that the Bank’s Policies are effectively implemented and that they are consistent with the Bank’s management strategy, culture, defined risk appetite and the associated governance processes.

The Board also ensures that the granting, payment and accrual of variable remuneration, including the 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 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 organisational structure, the remuneration levels and the incentive systems;
- the **Risk 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 impacts of the implementation of the remuneration policies on the Group’s risk profiles. The Risk Department may be invited to meetings of the Remuneration Committee to discuss the drawing up,

implementation and monitoring of the Policies; in detail, 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). Based on their respective remits, the Risk Management Department and the Compliance Function are of support in deciding the “bonus pool”, the result indicators and the remuneration to be granted and highlight any possible impacts which 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, which is taken into account by the Board when approving, reviewing and assessing the Policies;
- the **Internal Audit Department** ascertains, at least yearly, that the remuneration practices are consistent with the approved Policies and the provisions herein; the results of the checks carried out are reported annually to the Shareholders' Meeting in a specific report;
- la **Direzione Internal Audit** verifica, con frequenza almeno annuale, la rispondenza delle prassi di remunerazione alle Politiche approvate e alla normativa; gli esiti delle verifiche condotte sono portati annualmente a conoscenza dell'Assemblea degli Azionisti in un'apposita relazione;
- the **Finance Department**, which verifies compliance with the Bank's medium-long term objectives and strategies so as to ensure financial sustainability over the medium-long term;
- The **Manager in charge of preparing accounting and company documents (“Dirigente Preposto”)**, who verifies the compliance and consistency of the Policies in respect of the accounting records and company documents and, in particular, their consistency with the approved financial statements. The Manager in charge of

preparing accounting and company documents – jointly with the Head of the Risk Department – evaluates and confirms the level of satisfaction of the corporate access conditions and criteria and the level of achievement of the objectives assigned.

The **Remuneration Committee**, composed of three non-executive directors (of whom two are independent), which 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, and 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 the proper 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 interested functions are involved in the process of preparing and monitoring the Policies;
- to provide input, based also on the information received from the internal functions concerned, on the achievement of the performance targets to which the incentive plans are subject and to verify the other requirements laid down 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 by 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 remuneration policy in force is up-to-date and to propose any required amendments.



In order to perform its duties effectively and responsibly, the 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 remuneration practices. The Committee is 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, Risk and Finance) whose resources may be asked to take part in the Committee's meetings.

For further information see the Annual Report on Corporate Governance and the Shareholder Structure in the 'Governance' section of the Bank's website ([www.bancasistema.it](http://www.bancasistema.it)).

### **The Shareholders' Meeting**

Approves:

- the Policies applicable to “key personnel” and employees;
- the fees paid to the bodies it appoints;
- 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 (so-called golden parachute);

On approving the Policies, the Shareholders' Meeting resolves on any proposals to set a limit of more than 1:1 on the ratio between the variable and fixed components of the individual remuneration paid to the CEO and General Manager, which cannot however exceed the maximum limit of 2:1;

It also votes in favour or against Section I of this Report in accordance with the TUF.

### **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 Control and Risk Committee**

Verifies compliance between the incentive plan and the Group's Risk Appetite Framework.

The Policies are reviewed at least annually with the support of the competent internal functions: 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.

### **3. Beneficiaries of the remuneration and incentive policies**

#### ***Identification of Key Personnel***

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 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, including its directors (executive and non-executive).

“Key personnel” are identified yearly by the Board of Directors based on a structured self-assessment process which sees the involvement of the Remuneration Committee and the internal control functions.

In detail, the Board of Directors:

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

For 2018, a total number of 26 key personnel positions have been identified on the basis of the quantitative and qualitative criteria provided for in Regulation (EU) no. 604/2014 (“**Regulatory Technical Standards**” or “**RTS**”). These positions are held by 26 staff members and can be broken down into the following categories:

- A. Directors who hold executive offices (or who are members of the Executive Committee)**
  - Directors who hold executive offices in the Parent Company (1 position)<sup>2</sup>;
- 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);
  - Central 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 Department (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);
  - Manager in charge of preparing accounting and company documents (1 position);
  - Compliance and Anti-Money Laundering Department (1 position);
- E. Other “Risk Takers”**
  - Treasury Function (1 position);
  - ICT Function (1 position);
  - Pricing & Structuring Function (1 position)
  - Chief of Staff (1 position);
- Further organisational roles were also identified as being relevant for the company’s results and risk levels, which are summarised in one with “key personnel” and “executives with strategic responsibilities in Table A” in par. 5.1.4. “LTIP Beneficiaries”.

---

<sup>2</sup> The CEO also holds the office of General Manager.

#### 4. Disclosure Obligations

In compliance with art. 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:

- the decision-making process followed to define the Policies;
- information on 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;
- information on the total remuneration paid to the Chairman of the Board of Directors, the CEO and the General Manager.

Without prejudice to the disclosure obligations set out in this Report, the Bank’s website also includes information on the method of implementation of the Provisions and on the subject of corporate governance, as per Title IV, Section VII, Chapter I, paragraph 1 of Circular 285.

#### 5. The Structure of Remuneration at Group level

Pursuant to Part I, Title IV, Chapter 2, Section I, Par. 3 of the Provisions,

- (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 provide to the Bank or to other 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)”*.

## 5.1 General Principles

As described in detail hereinafter, 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 those qualified as "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.

### 5.1.1. Fixed component

The fixed component is determined with a view to competitively reward the managerial and technical expertise of employees and thus to ensure the necessary level of continuity within the organisation.

The fixed component of remuneration is the gross annual salary, which is reviewed on a merit basis and in accordance with the applicable industry-wide agreements.

The fixed component is:

- paid at all levels of responsibility;
- based on the employee's technical, professional and managerial skills and the responsibilities given 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.

### 5.1.2. Variable component

The Board of Directors has approved the Policies taking into account what was already resolved upon in respect of the Long-Term Incentive Plan for financial years 2017-2019 (henceforth also "LTIP") and the provisions set out in annex 2 "Long Term Incentive Plan (LTIP)" to the Policies.

The variable component of remuneration is measured against performance indicators, adjusted for risks and aligned with the RAF approved by the Board of Directors each year. The total amount paid is based on actual, long-term results and also takes into account qualitative objectives. The granting and the 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 linked to the methods of attainment of the results, in compliance with the Bank's Code of Ethics, which may represent a correction and possible adjustment factor decided at the Bank's sole 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, the variable component is subject to meeting specific individual and company-level targets. 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").

In order to ensure the financial sustainability of the LTIP and the Bank's ability to maintain a sufficient level of capital, the overall value of Bonuses paid to all employees and "key personnel" cannot exceed the value of the "bonus pool", which is determined each year by the Bank's Board of Directors, on proposal of the CEO, after receiving input from the Head of Finance, the Manager in charge of preparing accounting and company documents and the Heads of the Risk and Compliance departments.

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 objectives defined in the strategic business plan approved by the Board of Directors, in the annual budgets and in the 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' and therefore inclusive of non-recurring items, as represented in the Report on Operations submitted to the Bank's Board of Directors (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 according to the value of Return on Risk Adjusted Capital (“**RORAC**”) given in the preceding year RAF, as detailed below:

- if the RORAC value for the period exceeds the target specified in the RAF, 150% of the “bonus pool” is distributed (the RORAC may not, as a result of said greater amount, fall below the target);
- 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, no decision to pay the Bonuses will be passed by the Bank’s Board of Directors.

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

Company bodies and 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 2017 can be summarised as follows:

- Medical insurance for all employees.
- Company cars for executives and sales positions.
- Flexible benefits for the entire Personnel. Banca Sistema has adopted a Flexible 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 to support

house purchase in accordance with the conditions laid down by the tax regulations currently in force.

### **5.1.3. Ratio of the variable and 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 1:1 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 accordance with the Provisions, the Bank's use of the maximum variable-fixed remuneration ratio of 2:1 in relation to the 2017 Policies is subject to approval by the Shareholders' Meeting in accordance with the voting requirements provided for in the applicable law (2/3 of the share capital represented at the meeting if the meeting is constituted with at least half of the share capital or 3/4 of the share capital represented at the meeting, regardless of the share capital with which the Meeting is constituted).

### **5.1.4. LTIP Beneficiaries**

On the basis of the results of the Self-detection and Identification of Key Personnel referred to in Chapter 4 above, the identification of Executives with strategic responsibilities and other organizational roles having a significant impact on the company's results and risk levels, the list of recipient roles has been identified and divided into bands as described in table "A" below.

Business	Role	Total number
Level 1	Chief Executive Officer and General Manager	1
Level 2	Central Commercial Department Central Commercial Factoring Department Central Credit Department Central Finance Department Corporate Strategy Department Legal Department	7



	Central Operations Department	
Level 3	Treasury Function Operations Function Investor Relations Chief of Staff Marketing and Communications Department Underwriting Function Extrajudicial Collection Function Legal Collection Function ICT Function Pricing and Structuring Function Commercial Banking Department Corporate Affairs Function Senior roles - Central Commercial Department	18
Level 4	Internal Audit Department Human Resources Department Risk Department Manager in charge of preparing accounting and company documents Compliance and Anti-Money Laundering Department	5

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 amount is paid up-front in cash;
- if the variable remuneration is between € 20,000.00 and € 50,000.00, a 50% portion is paid up-front in cash and the remaining 50% is 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 is paid up-front (50% in cash and 10% in shares of the Bank) and the remaining 40% is deferred and paid at the end of the 3-year deferral period (50% in cash and 50% in shares of the Bank).

Please see the Information Document relating to the 2017-2019 Stock Grant Plan in the 'Governance' section of the website [www.bancasistema.it](http://www.bancasistema.it) regarding the calculation of the Bank shares to be assigned and the applicable provisions.

### ***Vesting***

The overall timeline of the LTIP is 6 years, in that a deferred portion of the Bonus will be paid in the 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 is 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 article 26, or, if the employee is an interested party, the breach of the requirements of article 53, paragraph 4 ff. of the TUB (Consolidated Law on Banking) or of the requirements associated with remuneration and incentives;
- fraudulent conduct or gross negligence to the detriment of the Bank.

In the foregoing cases the Board of Directors will resolve to apply the claw back mechanism.

**5.2 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 exception to 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 is determined ex ante by the Board of Directors, proportionate to the role but not exceeding the fixed remuneration paid to the CEO.

The remuneration due to employees who hold office as directors in companies of the Group or other operational offices is included in the salary they receive as employees of the Group.

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.

The variable remuneration paid to the CEO is subject to the provisions of Annex 1 as well as to the rules applying to the “bonus pool”.

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.

The overall three-year performance levels are assessed at the end of the period prior to the settlement of the deferred bonuses.

Banca Sistema has signed a non-competition agreement with the CEO, in his capacity as General Manager, pursuant to and for the purposes of art. 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, including 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 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 overall cost incurred by Banca Sistema in payment 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. information, confidentiality, staff poaching), 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.

### **5.3 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 established by the Shareholders' Meeting at the time of appointment and refers to the entire term of office.

The Chairman of the Board of Statutory Auditors is also a member of the Supervisory Body set up pursuant to Legislative Decree 231/2001 and is also paid a fee for this office.

No variable remuneration is paid to members of the Board of Statutory Auditors.

### **5.4 The structure of remuneration paid to employees, particularly key personnel**

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, with input from the relevant company functions.

The Remuneration Committee has a proposal function in relation to the remuneration paid to "key personnel" and other employees and an advisory function in determining the criteria associated with the remuneration payable to "key personnel".

#### ***i. 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.

#### ***ii. Variable component***

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

The settlement of deferred bonuses is subject to the assessment of the overall three-year performance levels at the end of the period.

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

Please see the Information Document and the Explanatory Report published on the Bank's website ([www.bancasistema.it](http://www.bancasistema.it)) concerning the assignment of shares under the **"2017-2019 Stock Grant**

**Plan**” prepared by the Board of Directors and submitted for the approval of the Shareholders’ Meeting.

Beneficiaries are notified of the maximum Bonus payable (in cash and in shares) by letter (the “**Letter of Assignment**”), which specifies, among other things, (i) the amount paid in cash in the reference year; (ii) the number of shares assigned at the conditions specified in the 2017-2019 Stock Grant Plan, as published in the ‘Governance’ section of the Bank’s website ([www.bancasistema.it](http://www.bancasistema.it)).

Furthermore, as from 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.

#### **5.5 Remuneration paid to members of the Company’s control functions**

For those employed in the Company’s control functions (including the Human Resources Department and the manager in charge of preparing accounting and company documents as indicated in Band 4 of Table A) the payment of the bonus is subject only to said functions meeting their qualitative targets (control targets), which include the objectives and requirements of the 2016 working plan approved by the Board of Directors and the timeliness and accuracy of the reports they submit to the company’s Governing Bodies. The foregoing targets are not linked to any extent 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. Furthermore, while such employees benefit from the 2017-2019 Stock Grant Plan, in their case, the Bonus is not adjusted to reflect the Company’s financial performance. The other *malus* conditions (CET1Ratio and LCR) do however apply.

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:

- Manager in charge of preparing accounting and company documents
- Head of Internal Audit
- Head of Human Resources
- CRO
- Head of Compliance and Anti-Money Laundering

## **6. Special rules applicable to the deferred portions of discretionary bonuses in the case of extraordinary events**

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

### **6.1 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 resolved and justified by the Board of Directors, on proposal of the Remuneration Committee.

Expressly excluded from the above is any bonus entitlement that arises during the notice period, whether worked or not.

Beneficiaries shall make no claim to any form of indemnity and/or compensation from the company if their entitlement to receive the Bonus is lost, as per above.

In the case of consensual termination of the employment relationship, Beneficiaries may maintain their entitlement to the Bonus 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, with input from the Remuneration Committee.

### **6.2 Retirement - Disability**

The rules governing the consensual termination of the employment relationship 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.

### **6.3 Death**

In the event of the death of the beneficiary, his/her eligible heirs shall maintain the entitlement to receive any accrued Bonus still payable to the Beneficiary, in accordance with the applicable terms and conditions.

## **7. Plans based on financial instruments**

With a view to ensuring the alignment of the interests of the management, the employees and the shareholders over the medium-long term, the Bank has adopted the Stock Grant Plan described below.

### **7.1 Stock Grant Plan**

The Shareholders' Meeting held on 28 April 2016 resolved to increase the share capital to service the 2016-2019 Stock Grant Plan, delegating powers to the Bank's Board of Directors to issue the related shares in compliance with the applicable regulations and in accordance with the methods established by the competent company bodies and to pass resolutions on the implementation of the Plan over the following financial years.

Any changes to the 2017-2019 Stock Grant Plan (henceforth also the "Plan"), which provides for the free assignment of shares subject to meeting the individual and company-level performance targets set out in Annex 1 to this Report, are subject to approval by the Shareholders' Meeting. In this respect, please see the Information Document and the explanatory Report, which have been published in the 'Governance' section of the website [www.bancasistema.it](http://www.bancasistema.it).

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

The Beneficiaries of the Plan are Executives with Strategic Responsibilities and other "key personnel", as specified in article 3, Section I of this Report, in addition to the further organisational roles having a significant impact on the company's results and risk levels, all listed in Table A of par. 5.1.4 "LTIP Beneficiaries".

Slightly in departure from the above and in compliance with the 2017 Remuneration Policies, for those employed in the Company's control functions (including the Human Resources Department and the manager in charge of preparing accounting and company documents) the assignment of the shares is subject to meeting only qualitative targets, which are to no extent linked to the Company's financial performance. Specifically, the Bonus adjustment mechanism based on the Company's results is not applicable to such employees.

In accordance with the Provisions and with the Corporate Governance Code of Listed Companies, the Plan provides for a retention period, of varying lengths in each cycle of the 2017-2019 Stock Grant Plan, effective from the date of the financial year of the corresponding cycle.

In each cycle, the assignment of shares is subject to meeting the performance targets and the capitalisation targets linked to the following indicators:

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

With input from the Remuneration Committee, the Board of Directors verifies whether the performance targets and the level of capitalisation associated with the foregoing indicators have been met, based on the target levels specified in the RAF and in accordance with the budget targets applicable for the relevant period.

If the capitalisation and liquidity targets are below the regulatory minimum threshold, the beneficiaries shall not be entitled to the portion of the bonus pertaining to that financial year.

## **8. Changes compared to the Remuneration Policy approved for the year as at 31 December 2017**

The main changes compared to the remuneration policy adopted in 2017 are:

- the elimination of the reference to the 2015/2018 Business Plan, taking into account the work in progress for the definition of a new Business Plan (Chap. 2 Mission of the Banca Sistema Group and objectives of the Remuneration Policies);
- the clarification of the role of the Risk Department in the process of preparation, implementation and control of the Policies also by participating in the call to work of the Remuneration Committee (Chap. 3 Process of formation of Remuneration Policies);
- the clearer definition of the role of the Manager in charge of preparing accounting and company documents, who - jointly with the Head of the Risk Department - assesses and certifies the level of satisfaction of the conditions and criteria for corporate access and the level of achievement of the assigned objectives (Chap. 3 Process of formation of Remuneration Policies);
- the introduction of an adjustment factor of the "bonus pool" amount, determined ex ante by the Board of Directors at the same time as the approval of the annual budget: in the case of over-performance, the bonus pool defined in the budget may be increased up to a maximum of 150% and for an amount that in any case cannot exceed 10% of the gross profit, provided that the annual RORAC target is still reached;
- the elimination of footnote no. 3 in Chap. 6.2 - which provides for the Bank's right to pay advances of a limited amount on the consideration agreed in the context of non-competition



agreements that may be agreed with employees - since, in the light of the new non-competition agreements, similar advances can no longer be paid by the Bank;

- with regard to the non-monetary remuneration area of the variable component, referred to in Chap. 6.1.2, the extension to the personnel belonging to the professional areas of the "flexible benefits" system, to date reserved for managers and executives, with a limit per employee for 2018, equal to € 1,000.00;
- the clarification of the scope of application of the "flexible benefits" by including among the possible reimbursement or expense categories, the reimbursement of interest on mortgages granted for the purchase or renovation of first and second homes, travel and on-line training expenses, in compliance with the regulations established by the suppliers of the aforementioned services and the applicable tax regulations;
- the better clarification of the functioning of the assessment process of the quantitative and qualitative individual objectives, which will also take into account the actual achievement of the results, in compliance with the provisions of the Bank's Code of Ethics, as a factor for correction and possible adjustment of the total amount of the variable remuneration (Par. 6.1.2 "Variable component").

Furthermore, the periodic updating of the assessment of the materiality of the influence of the professional activities of the various staff members on the Bank's risk profile was carried out. In application thereof, also taking into account the organisational changes decided by the Board of Directors during 2017, 26 positions of subjects included in the key personnel perimeter were identified, summarised by category in the same cap. 4 of the 2018 Policies. Within the scope of these 26 positions, with the support of the Head of the Risk Department, the positions that also meet the criteria defined by IAS 24 for "Executives with Strategic Responsibilities" were identified. Lastly, further roles having a significant impact on the achievement of company results were identified and included in the key personnel perimeter as LTIP beneficiaries in the new table "A" in the new Document on 2018 Remuneration Policies in Chap. 6.1.4 - LTIP Beneficiaries.

## SECTION II - PERSONNEL REMUNERATION AND INCENTIVES POLICY FOR 2017

### 1. General Considerations

The following information is provided in relation to the application of the remuneration policy in 2017 (henceforth also “2017 Policy”). It provides an analytical overview of the fees paid in the period, for any reason and in any form, by the Bank and its Subsidiaries and Affiliates and the details of the components of remuneration referring to services supplied prior to the reference year and remuneration payable over one or more financial years for services supplied in the reference year.

According to the periodical assessment conducted by the Remuneration Committee, as required under the Corporate Governance Code, the payment of the remuneration referenced in the following analytical review was consistent with the 2017 Remuneration Policy approved by the Board of Directors on 8 February 2017 and compliant with the resolutions passed by the Shareholders’ Meeting on 27 April 2017.

### 2. Remuneration information by position and function

In 2017, the fixed component of remuneration payable to directors and employees was paid in accordance with the 2017 Remuneration Policies and the applicable Collective Bargaining Agreements.

In 2017, the variable component of remuneration paid amounted to € 361,200.00 for key personnel and to € 848,000.00 at overall level.

As specified under point 5.1, Banca Sistema has not provided for discretionary pension benefits or compensation agreements in the event of early termination of employment or early exit from office.

### Board of Directors and Board of Statutory Auditors

As regards Board Directors and Statutory Auditors, the following information is provided in relation to individual remuneration components, as summarised in Table 1.

The remuneration received in 2017 by the current members of the Board of Directors was decided by the Shareholders’ Meeting on 27 November 2015, which established to pay € 30,000.00 (thirty thousand euro) to each director.

Committee membership fees are shown in column 1 of table 1, under “Committee membership fees” and are as follows:

- Internal Control, Risk Management and Related Parties Committee: € 15,000;
- Remuneration Committee: € 5,000;
- Nominations Committee: € 5,000;
- Ethics Committee: € 5,000;
- Supervisory Body 231: € 15,000;

As at 31 December 2017, the Directors appointed by the Shareholders' Meeting on 27 November 2015 had received a total of € 643,700.

The fee due to members of the **Board of Statutory Auditors** was established by the Shareholders' Meeting on 22 April 2014 to be € 40,000 for the Chairman and € 24,000 for the Standing Auditors, subsequently confirmed by the Shareholders' Meeting on 27 April 2017.

### **Chairman and CEO**

On 27 November 2015, subsequent to the appointment of the new Board of Directors, the remuneration payable to the Chairman of the Board of Directors was established to be € 150,000 inclusive of Committee membership fees. This reflects the increased level of commitment required of the Chairman due to the increased size of the Bank and its new listed status.

In 2017 the CEO, who is also the General Manager, was paid a total fee of € 175,000.00, inclusive of committee membership fees, and received a Gross Annual Salary of € 350,000.00 as the General Manager.

The fees established for the Chairman of the Board of Directors, the Directors, the members of the internal committees and the members of the Board of Statutory Auditors related to the services provided were consistent to the amount paid in 2017, without any incentive mechanism, with the exception of the CEO, as shown in Table 1.

Banca Sistema has signed a non-competition agreement with the CEO, in his capacity as General Manager, pursuant to and for the purposes of art. 2125 of the Civil Code, replaced from 2017 by the agreement mentioned under paragraph 5.4 above. In the course of 2017, on the basis of the previous agreement, the amount indicated in Table 4 (art. 450 CRR - paragraph 1 g) was paid in the form of advance payment.

### **Key personnel**

The remuneration paid to key personnel in 2017 consisted of the Annual Gross Salary based on the applicable Collective Bargaining Agreements and a variable component, as defined in the 2017 Remuneration Policies.

The fixed component of remuneration was paid in accordance with normal practice (monthly).

The variable component was subject to a verification and appraisal process, as described in the 2017 Remuneration Policies.

As specified in Section I of this Report, in 2015, the Bank also signed non-competition agreements with all executives, sales staff and employees in key positions whose remuneration, starting from 2017, will be deferred using the same methods applicable to the CEO, as better described in the previous point.

No *malus* clauses were applied in 2017.

### **3. Plans based on financial instruments**

Please see point 6 of this Report and the Information Document published in the 'Governance' section of the website [www.bancasistema.it](http://www.bancasistema.it) regarding the Stock Grant Plan and how the rights assigned under said Plan are affected if the employment relationship is terminated.

### **4. Tables**

The following tables, drawn up in accordance with Annex 3A, Schedule 7 *bis* and *ter* of the Issuers' Regulation, are attached hereto:

Table 1, Schedule 7 *bis* - Fees paid to members of the management and control bodies and to general managers and other executives with strategic responsibilities;

The following tables, drawn up in accordance with Bank of Italy provisions and article 450 of the CRR, are also attached hereto:

Table 4 (art. 450 CRR - paragraph 1 g) - aggregate quantitative information on remuneration, broken down by business area;

Table 5 (art. 450 CRR - paragraph 1 h) - aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution

No individuals received a fixed remuneration of € 1 million or more in the year as at 31 December 2017.

**Internal Audit Department**

The Internal Audit Function has conducted monitoring activities in relation to:

- compliance between the variable component of remuneration determined for 2017 and the prescriptions contained in the Remuneration Policy Document approved by the Shareholders' Meeting of Bank on 27 April 2017;
- the process associated with the identification, assessment and granting of the variable component accrued under the 2016 Policies, which was paid together with the May 2017 salary on completion of the foreseen resolution process and in accordance with the methods set out in the 2016 Remuneration Policies.

The variable component of remuneration paid to the internal control functions (Risk, Compliance and Internal Audit) did not exceed the limit of 1/3 of the Gross Annual Salary and the incentive mechanisms applied were not linked to the financial results achieved by the Bank or by the areas subject to their control.

The audits conducted by the Internal Audit Function have established that the Group's 2016 Remuneration Policies were applied correctly in 2017.

**Compliance Function**

The Compliance Function verified the compliance of the 2017 Policies with the provisions and with the supervisory regulations applicable to the Bank.

**Risk Department**

The Risk Department verified compliance with the risk parameters set forth in the 2016 Remuneration Policies Document and applied during 2017 for determining the incentives for the key personnel.

**Central Finance Department**

This Department verified compliance with the Bank's medium-long term objectives and strategies so as to ensure financial sustainability over the medium-long term.

**Manager in charge of preparing accounting and company documents**

The Manager above verified the compliance and consistency of the remuneration policies in respect of the accounting and company documents and their consistency with the approved accounting entries.

### **Remuneration Committee**

The current Remuneration Committee has three non-executive director members, of which two are independent.

The current members of the Committee are:

- Prof. Giorgio Barba Navaretti (Independent Director)
- Mr. Diego De Francesco (Independent Director)
- Prof. Giovanni Puglisi (non-executive Director).

In 2017 the **Remuneration Committee** met 8 times with the meetings lasting on average 1 hour.

During the aforesaid meetings, the Committee:

- presented the 2017 Welfare Plan together with a number of proposed additions made operational as from 2018;
- launched the project associated with the analysis of the remuneration positioning relating to key personnel, the CEO, the Directors and the Board of Statutory Auditors, thereby also taking care of the choice of the external consultant;
- prepared and discussed the 2017 Remuneration Policies of the Banca Sistema Group;
- examined and prepared evaluations and proposals regarding new non-competition agreements, also by assessing and guiding the adoption of a new form of agreements for which further evaluations were required for the evaluation of different criteria for setting aside the related charges;
- contributed to the preparation and evaluation of a new Policy concerning credit issues to Employees;
- contributed to the examination of possible skill profiles in respect of some credit transactions with related parties;
- examined and proposed a specific remuneration proposal for the new CFO, hired in 2017.

During the 3 meetings held from the beginning of 2018, the Committee:

examined the 2017 Remuneration Report pursuant to art. 123-ter of Legislative Decree no. 58/1998, the Explanatory Report of the Board of Directors on point 4), 6) and 7) of the agenda of the Shareholders' Meeting held on 23 April 2018 (ordinary session)

- assessed, following the approval of the financial statements as at 31 December 2017, the achievement of the performance targets underlying the Bank's variable remuneration system and provided the relevant opinions to the Board of Directors for the purpose of approving and granting the variable component for 2017;
  - examined and acknowledged the annual self-detection and identification process of key personnel pursuant to Regulation (EU) No. 604/2014 ("*Regulatory Technical Standards*" or "RTS");
  - took care of the evaluation of the results of the analysis into the remuneration positioning of key personnel, the CEO, the Directors and the Board of Statutory Auditors produced by the external consultant selected, thereby guiding the subsequent use in the phases of review of the frameworks and salaries for 2018;
- examined and acknowledged the set of remuneration interventions for Managers and key personnel proposed by the CEO for 2018.

The Committee also provides feedback regarding any proposals to increase the variable-fixed ratio of remuneration to 2:1 and in relation to the self-assessment used to identify key personnel under the Stock Grant plan to be submitted to the Shareholders' Meeting, as well as in respect of the performance targets associated with the incentives plans.

In accordance with the Corporate Governance Code and the Bank of Italy Circular 285, the Remuneration Committee has proposal, advisory and inquiry functions to support the Board of Directors and is provided with the powers and resources necessary to discharge its duties.

[illegible]



MASSIMO CONIGLIARO	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	From 27/04/2017	Approval of finan.statements 31/12/2019		27					10,2					37,2		
BIAGIO VERDE	STANDING AUDITOR	From 01/01/2017	Approval of finan.statements 31/12/2019		24										24		
LUCIA ABATI	STANDING AUDITOR	From 14/12/2017	Approval of finan.statements 31/12/2019		1										1		
MARCO ARMAROLLI	STANDING AUDITOR	From 25.07.2017	13.12.2017		9,3										9,3		
MARIA ITALIANO	STANDING AUDITOR	From 27/04/2017	24.07.2017		5,8										5,8		
I) fees in the firm that prepares the financial statements																	
II) fees from subsidiaries and affiliated																	
III) Total																	

- AS HE DID NOT ATTEND ANY MEETINGS IN THE COURSE OF 2017, HE NOTIFIED HIS INTENTION NOT TO BE GRANTED THE REMUNERATION AS DIRECTOR AND MEMBER OF COMMITTEES OF THE BOARD OF DIRECTORS

TABLE 4 - ANNEX pursuant to Art. 450 CRR, letter h)

AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY “KEY PERSONNEL” CATEGORY

società	categoria di personale	n. beneficiari	i) retribuzione			ii) importi e forme componente variabile				iii) rem. Differite		iv) rem.differite			v) trattamenti				vi) tfr																				
			fissa	variabile liquidato 2017	totale	variabile da erogare 2018 (*2)	azioni(*3)	strumenti collegati	altre tipologie	attribuite (*4)	non attribuite (*5)				di inizio	n. beneficiari	di fine	n. beneficiari	riconosciuto	n. beneficiari	importo più elevato																		
A) KEY MANAGERS (ALTA DIRIGENZA)																																							
BANCA SISTEMA SPA		1,00	380.000,00	201.300,00	581.300,00	152.066,67	102.600,00		-	92.666,67	126.000,00																												
B) DIRIGENTI RESPONSABILI DELLE PRINCIPALI LINEE DI BUSINESS O FUNZIONI AZIENDALI, CON RIPORTO DIRETTO ALL'AMMINISTRATORE DELEGATO, AL DIRETTORE GENERALE O AI CONDIRETTORI GENERALI																																							
BANCA SISTEMA SPA		6,00	1.054.853,27	128.800,00	1.183.653,27	56.900,00			-	6.400,00	-																												
C) DIRIGENTI E QUADRI DIRETTIVI DI LIVELLO PIÙ ELEVATO RESPONSABILI DELLE FUNZIONI DI CONTROLLO																																							
BANCA SISTEMA SPA		5,00	799.226,26	137.500,00	936.726,26	30.000,00			-	-	-																												
D) ALTRI RISK TAKERS																																							
BANCA SISTEMA SPA		5,00	715.144,87	99.900,00	815.044,87	61.000,00			-	-	-																												
E) PRINCIPALI MANAGER OPERANTI NELL'AMBITO DELLE RETI DI DISTRIBUZIONE DELLA BANCA																																							
BANCA SISTEMA SPA		2,00	377.370,06	38.000,00	415.370,06	36.500,00			-	4.000,00																													
		19,00	3.326.594,46	605.500,00	3.932.094,46	336.466,67			-	103.066,67	126.000,00	-																											
(*1) variabile liquidato 2017: bonus 2016 up front + quota bonus differito 2015 + patto non concorrenza																																							
per A) KEY MANAGERS:		201.300= 132.300 bonus 2016 up front+ 29.000 bonus 2015 parte differita + 40.000 patto non concorrenza																																					
(*2) variabile da erogare 2018: bonus 2017 up front da attribuire post Assemblea dei Soci del 23/04/2018 + parte differita del bonus 2015 erogabile nel 2018 + parte differita del bonus 2016 erogabile nel 2018																																							
per A) KEY MANAGERS:		152.066,67= 94.500 bonus 2017 up front + 38.666,67 parte differita del bonus 2015 + 18.900 parte differita del bonus 2016 erogabili nel 2018 subordinatamente alla verifica delle condizioni previste dalle Politiche																																					
(*3) azioni: valore azioni da erogare nel 2018																																							
per A) KEY MANAGERS:		102.600,00 = 8.100 bonus 2016 parte differita + 94.500 bonus 2017 up front																																					
(*4) attribuite: bonus 2015 parte differita erogabile nel 2019 + bonus 2016 parte differita erogabile negli anni 2019 -2020																																							
per A) KEY MANAGERS:		92.666,67 : 38.666,67 restante parte differita bonus 2015 erogabile 2019 + 54.000 restante parte differita bonus 2016 erogabile 2019-2020																																					
(*5) non attribuite: bonus 2017 parte differita agli anni 2019/2020/2021																																							
per A) KEY MANAGERS:		126.000,00= restante parte differita bonus 2017 erogabile 2019-2020-2021 pari a 63.000,00 denaro + 63.000 azioni																																					

- the remuneration amounts relating to the period, broken down by fixed and variable remuneration and beneficiary;
- the amounts and the forms of variable remuneration, subdivided into cash, shares, instruments linked to the shares and other types;
- the amounts of existing deferred remuneration, broken down by assigned portion and outstanding portion;
- the amounts of deferred remuneration granted in the financial year, paid and adjusted downwards based on performance;
- new signing-on bonuses and severance indemnity payments made in the financial year and the number of beneficiaries;
- the amounts of severance indemnity payments made in the financial year, the number of beneficiaries and the highest amount paid per person.

TABLE 5 - ANNEX pursuant to Art. 450 CRR, letter g)

AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY BUSINESS AREA OF “KEY PERSONNEL”

Company	Business area	no. of beneficiaries	fixed remuneration	variable remuneration	Note
Banca Sistema SpA	<i>Factoring</i>	2	377,370.06	38,000.00	
Banca Sistema SpA	<i>Banking</i>	1	175,000.03	23,800.00	
Banca Sistema SpA	<i>Finance</i>	2	376,877.24	85,100.00	
Banca Sistema SpA	<i>Internal Control Functions</i>	4	573,092.45	81,000.00	
Banca Sistema SpA	<i>Other</i>	9	1,444,254.71	176,300.00	
	<i>TOTAL</i>	18	2,946,594.46	404,200.00	

Notes:

The “Other” business area refers to key personnel employed in the following areas: operations, collection, legal, marketing, treasury and underwriting