

BANCA SISTEMA S.P.A.

Fully paid-up share capital € 9,650,526.24

Tax code and Milan Company Register No. 12870770158 - ABI code No. 03158.3

Largo Augusto 1/A, at the corner of Via Verziere 13, 20122 Milan

www.bancasistema.it

**ORDINARY SHAREHOLDERS' MEETING, HELD ON SINGLE CALL
AT THE REGISTERED OFFICE AT LARGO AUGUSTO 1/A, AT THE CORNER OF VIA VERZIERE
13, MILAN
18 APRIL 2019, 10.00 A.M.**

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

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

**"APPROVAL OF THE REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP FOR 2019
AND SETTING OF THE MAXIMUM LIMIT OF 2:1 AS THE RATIO BETWEEN THE VARIABLE AND
FIXED COMPONENTS OF REMUNERATION FOR THE CEO AND GENERAL MANAGER.
RELATING AND RESULTING RESOLUTIONS."**

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

your attention is drawn to the following resolution proposals submitted for examination by the ordinary Shareholders' Meeting of Banca Sistema S.p.A. (the "**Bank**") regarding the Remuneration and Incentive Policies of the Banca Sistema Group (the "**Group**") for 2019 (the "**2019 Policies**") and the setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for the CEO and General Manager.

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

The 2019 Policies, which apply throughout the Banca Sistema Group, were drawn up and approved by the Board of Directors on 1 March 2019, with input from the Remuneration Committee, in accordance with Part One, Section IV, Chapter 2 of the Bank of Italy Circular no. 285 of 17 December 2013, as amended and supplemented ("**Circular 285**"), concerning "*Remuneration and incentive policies and practices*", the prescriptions of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. as per the last amendment (the "**Corporate Governance Code**") and the guidelines of the European Bank Authority ("**EBA**") on sound remunerations policies (the "**Guidelines**", and jointly, the "**Provisions**"). The Provisions are further supplemented by the Regulatory Technical Standards issued by the European Commission on proposal of the EBA. The Provisions also implement the Directive 2013/36/EU ("**CRD IV**"), 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 EBA and the Financial Stability Board.

Objectives of the 2019 Policies

The objectives that the Bank, in line with the Group's remuneration strategy consolidated in recent years, and also taking the Provisions into account, intends to attain by implementing the 2019 Policies, can be summarised as follows:

- to direct the efforts of executive directors and employees towards the priorities and objectives established at Bank and Group level, supporting the creation of sustainable value over the medium and long term;
- to attract and retain highly qualified personnel, also through external remuneration competitiveness;
- to motivate personnel, by recognising merit and encouraging the development of professional skills;
- to develop and improve the quality of the services provided to customers;
- to ensure sound and prudent management of the Bank and its risk profile;
- to ensure remuneration fairness, rewarding individual employees for their contribution according to the responsibilities given;

- to ensure conduct that is consistent with the Code of Ethics of the Group, the Group's internal regulations and the legislative and regulatory provisions applicable to Banca Sistema and the Group.

Subject matter of the 2019 Policies

The 2019 Policies govern the remuneration paid to the Group's employees. Remuneration is subdivided into three components: (i) a fixed component that is paid to all employees based on the employees' technical, professional and managerial skills and in proportion to the responsibilities given, (ii) a "benefit" component and (iii) a variable component that is paid to the "key personnel" (without prejudice to the exceptions indicated by the Policies), that may be applied to other employees of the Bank in line with the guidelines and principles of the 2019 Policies and in compliance with the applicable law. The variable component of remuneration is based on performance indicators measured net of risks and consistently with the measures used for management purposes by the Risk Management Department (the so-called *ex ante* risk adjustment) and is subject to attaining specific performance objectives both at Bank and personal level.

Together with the 2019 Policies, the Board of Directors approved a regulation governing the allocation of the variable remuneration component, to be disbursed in cash and shares.

For further information on the 2019 Policies see the Remuneration Report prepared by the Board of Directors pursuant to art. 123-ter of the Consolidated Law on Finance and the information document pursuant to article 84-bis of the Consolidated Law on Finance, which are made available to the public in accordance with the procedures and terms established by law.

Ratio between the fixed and variable components of remuneration

Regarding the variable-fixed remuneration ratio, pursuant to article 9.2 of the Articles of Association, at the time of approving the remuneration and incentive policies, the Shareholders' Meeting also resolves on any proposal to cap the ratio between the variable and fixed remuneration paid to individual employees at the ratio of 1:1, but not exceeding the maximum limit of the ratio of 2:1.

The Board of Directors is therefore making a proposal for the Meeting to approve an unchanged variable-fixed remuneration ratio of maximum 200% (ratio of 2:1) for the CEO and General Manager, in accordance with the provisions of Circular 285 and in line with the resolutions already taken for the previous year, in relation to the role of special complexity and strategic importance.

Furthermore, to ensure the Bank's continual compliance with the principles of prudence, each year upon approval of the year's budget the Board of Directors - on proposal of the CEO and with input from the Remuneration Committee, the CFO, the Manager in charge of financial reporting, the Head of the Risk Department and the Head of Compliance, determines a "bonus pool", namely the total amount of the variable remuneration to pay to employees of the Bank - without prejudice to the application of the adjustment factors required by the 2019 Policies - based on actual and long-term results, that also takes into account the financial and non-financial quantitative and qualitative objectives, including those established by the business plan approved by the Board of Directors and indicated by the annual budgets, and the Risk Appetite Framework.

In order to ensure the financial sustainability of the Bonus, and to guarantee the Bank's ability to maintain a sufficient level of capital, the overall value of the Bonuses assigned and paid to employees and "key

personnel” cannot exceed the total value of the bonus pool, as defined by the 2019 Policies. If it is necessary to increase the level of capital, the bonus pool is reduced and/or ex-post adjustment mechanisms are applied.

This is to ensure that the obligation to comply with the prudential regulations, especially the requirements associated with own funds, is not undermined when the highest ratio level (2:1) is applied. In addition to the bonus pool, the Bank has also included so-called malus and claw-back rules in the 2019 Policies with respect to the correlation between risks and performance.

Finally, it should be noted that, in accordance with the provisions of applicable law, the Board of Directors has notified the Bank of Italy of today's proposal to set the ratio.

Please note that under article 9.2 of the Articles of Association, the foregoing proposal is approved by the ordinary Shareholders' Meeting when: (i) the Meeting is constituted with at least half of the share capital and the decision is passed by the favourable vote of at least 2/3 of the share capital represented at the Meeting; or (ii) the decision is passed by the favourable vote of at least 3/4 of the share capital represented at the Meeting, regardless of the share capital with which the Meeting is constituted.

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In view of the above, the following proposed resolution is hereby submitted for your approval:

“The ordinary Shareholders’ Meeting of Banca Sistema S.p.A.,

- having examined the 2019 Remuneration Policies of the Banca Sistema Group and its annexes, made available to the public pursuant to the applicable regulatory provisions;*
- having also examined the Information Document of the Regulation relevant to the 2019 Policies, containing the provisions for the payment of the Bonus and prepared in accordance with article 84-bis of Consob Regulation No. 11971/99, implementing the provisions of article 114-bis of the Consolidated Law on Finance;*
- having heard and approved the proposal of the Board of Directors concerning the 2019 Remuneration Policies of the Banca Sistema Group;*
- having heard the proposal of the Board of Directors to set the variable-fixed remuneration ratio at a maximum of 200% (ratio of 2:1) for the CEO and General Manager;*

resolves

- 1) to approve the 2019 Remuneration Policies of the Banca Sistema Group and all its annexes, including the Regulation relevant to the 2019 Policies containing the provisions for the payment of the Bonus;*
- 2) to set the variable-fixed remuneration ratio for the CEO and General Manager at a maximum of 2:1;*
- 3) to grant the Board of Directors, in the persons of the Chairperson of the Board of Directors and the CEO, the powers necessary to fully implement the aforesaid 2019 Remuneration Policies of the Banca Sistema Group, severally and with the authority to sub-delegate such powers - to be exercised in accordance with the application criteria described above, making any necessary amendment or addition for the subject matter resolved on to be implemented.*

Milan, [●] March 2019

On behalf of the Board of Directors
Ms. Luitgard Spögler
Chairperson of the Board of Directors