

BANCA SISTEMA S.P.A.

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

Tax code and Milan Companies' Register No. 12870770158 - ABI code No. 03158.3

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**ORDINARY SHAREHOLDERS' MEETING, HELD ON SINGLE CALL
AT THE REGISTERED OFFICE AT LARGO AUGUSTO 1/A, ANGOLO VIA VERZIERE 13, MILAN
24 APRIL 2024, 10.00 A.M.**

**BOARD OF DIRECTORS' REPORT
ON ITEM 5.1 OF THE AGENDA**

“APPROVAL OF THE FIRST SECTION (REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP FOR 2024) OF THE REPORT ON THE REMUNERATION POLICY AND REMUNERATION PAID: RESOLUTION PURSUANT TO ARTICLE 123-TER, PARAGRAPH 3-TER OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AS AMENDED AND SUPPLEMENTED. RELATING AND RESULTING RESOLUTIONS.”

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

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

Your attention is drawn to the proposed resolution submitted for examination by the ordinary Shareholders' Meeting of Banca Sistema S.p.A. (the "Bank" or the "Company") as illustrated below, referring to the first section of the Report on the remuneration policy and remuneration paid, pursuant to article 123-ter, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, as amended and supplemented (the "Consolidated Law on Finance"), Remuneration Policies of the Banca Sistema Group for 2024, the "2024 Policies".

The Shareholders' Meeting is called upon to resolve with a binding vote, pursuant to article 123-ter, paragraph 3-ter, of Legislative Decree no. 58 of 24 February 1998 as amended and supplemented.

Pursuant to Bank of Italy Circular no. 285 of 17 December 2013, as amended and supplemented ("Circular 285") and 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 2023 Policies, which apply throughout the Banca Sistema Group, were drawn up and approved by the Board of Directors on 22 March 2024, with input from the Remuneration Committee which met on 20 March 2024, in accordance with Part One, Section IV, Chapter 2 of Circular 285 concerning remuneration and incentive policies and practices, the prescriptions of the Corporate Governance Code adopted by the Corporate Governance Committee, promoted by Borsa Italiana S.p.A. as per the last amendment, and the guidelines of the European Bank Authority ("EBA") on sound remuneration policies (the "Guidelines", and jointly, the "Provisions"). The Provisions also implement 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. The Provisions are further supplemented by the Regulatory Technical Standards issued by the European Commission on proposal of the EBA.

It should be noted that the 2024 Policies have been revised and updated with specific reference to:

- the update to the process of identifying "Key Personnel", always through the adoption of the criteria laid down in the update of the EBA RTS of June 2020 and the consequent Delegated Regulation (EU) 2021/923 of 25/03/21;
- the description of the analyses and assessments conducted by the Remuneration Committee and the Board of Directors regarding the "gender pay gap" previously introduced in the 2022 Remuneration Policies, with specific provisions concerning the gender neutrality of the Bank's remuneration policies and practices;
- reference to the update to the Operational Procedure regarding flexible bonuses assignable to the Bank Group's employees, decided by the Board of Directors on 12 May 2023 and designed to establish the corresponding operations, responsibilities and methods of calculating the bonus pool and bonuses of key personnel, as per the reports on the results achieved by the Bank and by individuals;
- the strengthening of ESG factors and of the management of climate and environmental risks within the context of the annual performance management process, also in relation to the Three-Year Climate and Environmental Risk Management Plan approved in general terms by the Board of Directors on 17 March 2023 and the implementation of which was the responsibility of the risk-takers involved;

- as regards the non-financial objectives, already included in the previous versions, the Bank: (i) opted for the preparation of voluntary non-financial reporting, thus preparing the Sustainability Report also for the year 2023, drafted in line with the GRI standards; (ii) will, at the same time, cover the areas of reporting under Italian Legislative Decree 254/2016, which will therefore add value to the base of the parameters, including the identification of additional non-financial objectives in particular to ensure a long-term approach and the convergence of the interests of all the stakeholders. Furthermore, during the course of the year, in accordance with the Corporate Sustainability Reporting Directive (CSRD) 2022/2464 and the new European Sustainability Reporting Standards (ESRS), the scope of non-financial data to be reported under the bank's materiality criteria in the 2025 Directors' Report will be expanded;
- confirmation of the amount of particularly high variable remuneration of Italian high earners, as indicated in the latest EBA report published in January 2023 with reference to remuneration for the year 2022;
- a more detailed description of the possibilities in the future to use medium-long term incentives (LTI Long Term Incentive) for the Group's key personnel to support the alignment of interests between shareholders and management and support the achievement of long-term objectives;
- the expansion of the Group's support to Employees and their families through a broader provision of welfare credit for employees with children and in the manner described below in the paragraph on benefits;
- the organisational changes of the Compliance and Anti-Money Laundering Department, which was divided into the "Advisory and Controls" and "Investigations and Reports of Suspicious Transactions" Departments, and the Human Capital Department, which acquired the Organisation Department, changed its name to "Human Capital and Organisation Department";
- during 2023, the Kruso Kapital subsidiary approved a three-year bonus system linked to the corporate objectives which was presented at the listing on the EGM market of the Italian Stock Exchange on 24 January 2024 to support the achievement and alignment of interests between shareholders and management;
- in light of the approved 2024-2026 Business Plan, in 2024, the Bank intends to evaluate the necessary initiatives for possibly introducing a Long Term Incentive Plan for the Group's employees, the effectiveness of which would be subject to the approval of the Shareholders' Meeting of the Bank.

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.

In accordance with the provisions of Circular 285, this increase does not require further approval by the Shareholders' Meeting given that the assumptions on the basis of which it was last approved 18 April 2019 have not changed, not even with reference to the value of the limit and to the personnel to whom it applies.

In this regard, the Bank is able to ensure continued compliance with all the relevant prudential rules, as well as the financial sustainability of the bonuses and an adequate level of capital.

When preparing the Remuneration Policies Document, the previous recommendations of the Bank of Italy addressed to banks to continue to adopt a prudent and far-sighted approach to their remuneration policies have been considered.

The remuneration guidelines issued by the Italian Corporate Governance Committee, promoted by ABI, Ania, Assogestioni, Assonime, Borsa Italiana and Confindustria for 2023 were also taken into account.

Although the provision of investment services and activities by the Bank is limited to only some of them and to a limited extent, the Policies take into account the "Guidelines on certain aspects of the MIFID II remuneration requirements" introduced by the ESMA update on the remuneration of intermediaries providing investment activities or services to retail or professional customers. It should be noted that the Bank does not have an external network of financial advisors and acts solely through its employees when providing investment services and activities.

Lastly, as regards the impact of the policies on the capital situation, the Group's variable remuneration structure is strictly linked to the Bank maintaining its capital levels and, in particular: the use of a specific gate ensures compliance with the Risk Appetite Framework (RAF) of the Bank, preventing the payment of the Bonus Pool in the event of a deterioration of TCR below the first level of the annual RAF; specific mechanisms are envisaged for the reduction (if required) of the deferred amount through "malus".

Objectives of the 2024 Policies

The objectives that the Bank intends to attain by implementing the 2023 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 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, avoiding marketing products that are not suitable to the needs and characteristics of the individual customer;
- to ensure sound and prudent management of the Bank and its risk profile, containing legal and reputational risks;
- ensure the overall achievement of sustainability objectives that take into account, among other things, environmental, social and governance (ESG) factors;
- to ensure remuneration fairness – also with respect to gender neutrality – rewarding individual employees for their contribution, the responsibilities given and their specific working conditions;
- to ensure conduct that is consistent with the Code of Ethics of the Group (hereinafter the "Code of Ethics"), the Group's internal regulations and the legislative and regulatory provisions applicable to Banca Sistema and the Group.

Subject matter of the 2024 Policies

The 2024 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 2024 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 Department (the so-called ex ante risk adjustment) and is subject to attaining specific performance objectives both at Bank and personal level, as described in more detail in the 2024 Remuneration Policies Document.

In detail, for 2024, the CEO/General Manager has been set targets linked to compliance with the Bank's RAF, as approved by the Board of Directors on 8 March 2023 (Net NPE ratio, LCR, Cost of Risk and RORAC).

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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 Remuneration Policies Document of the Banca Sistema Group for 2024 (first section of the Report on the remuneration policy and remuneration paid, pursuant to article 123-ter, paragraph 3 of Legislative Decree no. 58 of 24 February 1998) and the related annexes made available to the public pursuant to the applicable regulations;*
- *having heard and approved the proposal of the Board of Directors concerning the 2024 Remuneration Policies of the Banca Sistema Group;*

resolves

- 1) *to approve the Remuneration Policies Document of the Banca Sistema Group for 2024 (first section of the Report on the remuneration policy and remuneration paid, pursuant to article 123-ter, paragraph 3 of Legislative Decree no. 58 of 24 February 1998);*
- 2) *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 2024 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, 28 March 2024

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