

BANCA SISTEMA S.P.A.
Fully Paid-in Share Capital EUR 9,650,526.24
Tax Code and Milan Companies' Register No. 12870770158 – ABI 03158.3
Corso Monforte 20 - 20122 Milan

www.bancasistema.it

**ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING, HELD ON SINGLE CALL
AT THE REGISTERED OFFICE IN MILAN - CORSO MONFORTE 20
28 APRIL 2016 - 10.00 A.M.**

**DIRECTORS' EXPLANATORY REPORT
ON POINT 5 ON THE AGENDA - ORDINARY SESSION**

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

**“APPROVAL OF THE 2016 STOCK GRANT PLAN.
RELATING AND RESULTING RESOLUTIONS.”**

DIRECTORS' EXPLANATORY REPORT

Dear Shareholders,

your attention is drawn to the proposed resolution submitted for examination by the Ordinary Shareholders' Meeting, as illustrated below, consisting in the adoption of an incentive system for 2016 to the benefit of executives with strategic responsibilities and "key personnel" of the Banca Sistema Group. The incentive system provides for the free assignment of ordinary shares of the Company, subject to meeting specific performance targets in each of the four cycles into which the 2016 Plan is subdivided (as defined herein).

With a view to adopting an incentive plan based on the Company's financial instruments, the Board of Directors, on proposal of the Remuneration Committee, has prepared a plan for the year 2016 ("**2016 Stock Grant Plan**" or, for the sake of brevity, "**2016 Plan**"). The features of the 2016 Plan are described hereunder.

Purpose of the Plan

By adopting the 2016 Plan, Banca Sistema wishes to achieve the following aims:

- to link the remuneration paid to the Beneficiaries (as defined herein) to the actual performance of the Company and to the creation of value for the Banca Sistema Group, in line also with the objectives pursued in the Corporate Governance Code;
- to direct key company resources towards creating value and adopting strategies to achieve medium-long term targets;
- to align the interests of Beneficiaries with those of shareholders and investors;
- to adopt retention policies aimed at increasing the loyalty of the Beneficiaries and incentivizing them to stay with the company or within the Banca Sistema Group;
- to motivate and increase the loyalty of the Company's existing management and develop the Company's ability to attract potential new managers, in accordance with practices in use in the banking sector.

In accordance with the Supervisory Provisions for Banks issued by the Bank of Italy concerning remuneration and incentive policies and practices (Circular 285), which requires a portion of the variable component of remuneration paid in financial instruments to be deferred, the assignment of the Shares underlying the 2016 Plan is subdivided into four cycles (the "**Plan Cycles**"):

- 1st Cycle: 01/01/2016 - 31/12/2016 (the 1st Cycle ends on the date of approval of the 2016 consolidated financial statements);
- 2nd Cycle: 01/01/2017 - 31/12/2017 (the 2nd Cycle ends on the date of approval of the 2017 consolidated financial statements);
- 3rd Cycle: 01/01/2018 - 31/12/2018 (the 3rd Cycle ends on the date of approval of the 2018 consolidated financial statements);
- 4th Cycle: 01/01/2019 - 31/12/2019 (the 4th Cycle ends on the date of approval of the 2019 consolidated financial statements);

The free Assignment of Shares to each Beneficiary at the end of each Cycle is subject to specific individual and company-level performance targets being met. The achievement of the targets is verified by the Board of Directors, with input from the Remuneration Committee, subsequent to the approval of the consolidated financial statements as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019.

Beneficiaries of the Plan

The beneficiaries of the Plan (the “**Beneficiaries**”) are executives with strategic responsibilities and “key personnel”, as identified in the 2016 Remuneration Policies Document, who are granted a bonus in excess of 20% (twenty per cent) of their Gross Annual Salary or, in any event, an amount equal to or above EUR 50,000.00 (fifty thousand).

Subject matter of the Plan

The 2016 Plan provides for the free assignment of the Company’s ordinary shares to the Beneficiaries at the end of each Plan Cycle, subject to meeting specific performance targets.

Implementation procedures and clauses of the Plan

The 2016 Plan provides that the free assignment of shares at the end of each Plan Cycle is subject to meeting specific performance targets and satisfying specific conditions, including, that the Beneficiary has a permanent employment contract with the Company at the time of the assignment of the shares and has not taken a period of extended leave.

The Company capitalization and liquidity targets to be met as a condition for the assignment of the ordinary shares under the 2016 Plan are linked to both the performance of the company (associated with the CET1, RORAC and LCR indicators and proportional to the target levels provided in the RAF for the reference year, in line with the applicable budget targets in the reference period) and the performance of the individual (of a quantitative and qualitative nature).

The achievement of the performance targets is verified at the end the relevant financial year by the Board of Directors, with input from the Remuneration Committee.

The Shares underlying the 2016 Plan can be made available, at the discretion of the Board of Directors and in compliance with applicable laws, in two ways: (a) via a free share capital increase pursuant to article 2349, paragraph 1 of the Italian Civil Code, submitted for the approval of today’s extraordinary Shareholders’ Meeting (point 1 of the agenda), subject to the obtainment of authorization from the Bank of Italy in accordance with applicable provisions, and/or, (b) using shares purchased on the market and/or held for any other reasons by the Company, in compliance with the resolution of the Shareholders’ Meeting held on 27 November 2015, pursuant to and for the purposes of articles 2357 ff. of the Italian Civil Code and subject to the obtainment of authorization from the Bank of Italy in accordance with applicable provisions.

In accordance with the provisions of the applicable accounting principles, the cost and the related capital increase resulting from the implementation of the 2016 Stock Grant Plan will be recognised once the Board of Directors has determined the number of shares actually assigned. A preliminary estimate of such cost conducted on the basis of the same valuation criteria that will be used in the future to recognise the amount in the accounts shows that the estimated overall impact of the 2016 Stock Grant Plan is currently equivalent to approx. EUR 400,000.

For further details on the 2016 Plan please see the attached information document, which was drawn up in accordance with article 84-bis of Consob Regulation No. 11971 concerning Issuers (the “**Information Document**”), in implementation of the prescriptions of article 114-bis of Italian Legislative Decree No. 58/98 (the “**Consolidated Law on Finance**”).

* * * *

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

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

- *having heard and approved the proposal of the Board of Directors;*
- *having acknowledged the explanatory Information Document of the 2016 Stock Grant Plan, which has been published in accordance with applicable provisions;*

resolves

1) *to approve the 2016 Stock Grant Plan referring to the free assignment or the ordinary shares of the Company to the Beneficiaries, as defined therein, at the end of each of the four Cycles into which the 2016 Plan is subdivided, subject to the Beneficiaries meeting the specific individual and company-level performance targets described in detail in the Information Document prepared in accordance with art. 84-bis of Consob Regulation No. 11971 concerning Issuers and in implementation of the prescriptions of article 114-bis of the Consolidated Law on Finance;*

2) *to grant the Board of Directors the powers necessary to fully implement the aforesaid 2016 Stock Grant Plan, to be exercised in accordance with the application criteria described above, making any necessary amendments and/or additions for the subject matter resolved on to be implemented. For the foregoing purpose, the following powers, by way of an example but not limited to, are granted to the Board of Directors, to be exercised following consultation with the Remuneration Committee and with the authorisation to sub-delegate said powers: (i) to implement the 2016 Plan; (ii) to establish the number of Company shares to be assigned to each Beneficiary; (iii) to prepare and approve the documentation associated with the implementation of the Plan”.*

Milan, 24 March 2016

For the Board of Directors
Luitgard Spögler
Chairman of the Board of Directors

Annex:

- Information Document relating to the 2016 Stock Grant Plan