

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
23 APRIL 2020, 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)

ORDINARY MEETING

"APPROVAL OF THE FIRST SECTION (REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP FOR 2020) 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."

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 (Remuneration Policies of the Banca Sistema Group for 2020, the "**2020 Policies**") 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.

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 2020 Policies, which apply throughout the Banca Sistema Group, were drawn up and approved by the Board of Directors on 11 March 2020, with input from the Remuneration Committee, in accordance with Part One, Section IV, Chapter 2 of Circular 285 concerning "*Remuneration and incentive policies and practices*", the prescriptions of the Code of Conduct for listed companies promoted by Borsa Italiana S.p.A. as per the last amendment (the "**Code of Conduct**"), adopted by the Corporate Governance Committee, 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 2020 Policies

The objectives that the Bank intends to attain by implementing the 2020 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 2020 Policies

The 2020 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 2020 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 2020 Policies, the Board of Directors approved the rules governing the allocation of the variable remuneration component, above all that paid in shares of the Bank.

For further information on the 2020 Policies, see the information document pursuant to article 84-bis of the Consolidated Law on Finance, which is made available to the public in accordance with the procedures and terms established by law.

Ratio between the fixed and variable components of remuneration

With reference to the ratio between the fixed and variable components of remuneration, it is recalled that the Shareholders' Meeting, in the session held on 18 April 2019, approved 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.

Therefore, it is recalled that, in accordance with the provisions laid down by Circular 285, *"If the Shareholders' Meeting approves the increased limit, then there shall be no need to submit a new resolution to the Shareholders' Meeting in subsequent years, provided that the underlying premises, on the basis of which the increase was decided, nor the personnel to whom it refers or the amount of the limit itself, do not change."*

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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 2020 (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 also examined the Information Document of the Regulation relevant to the 2020 Policies 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 2020 Remuneration Policies of the Banca Sistema Group;*
- *having heard the information notice concerning 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 Remuneration Policies Document of the Banca Sistema Group for 2020 (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 2020 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, 1 April 2020

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