

Remuneration Policies Document of the Banca Sistema Group

2016

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1. INTRODUCTION

This document (the “Remuneration Policies Document”) was drawn up in accordance with the following provisions: Part One, Title IV, Chapter 2 of Bank of Italy Circular No. 285 of 17 December 2013 (“Circular 285”) on “Remuneration and incentive policies and practices” (the “Provisions”); the prescriptions of the Corporate Governance Code of Listed Companies prepared by the corporate governance committee and promoted by Borsa Italiana S.p.A. (the “Corporate Governance Code”); the applicable provisions of Italian Legislative Decree No. 58 of 24 February 1998 (“Consolidated Law on Finance” or “TUF”), as implemented by the Regulations adopted by Consob in resolution No. 11971 of 14 May 1999 (the “Issuers’ Regulation”), as successively supplemented and amended.

The Provisions implement Directive 2013/36/EU (henceforth “CRD IV”), as regards those prescriptions relating to the remuneration and incentive policies and practices adopted by banks and banking groups. They also take into account the guidelines and criteria agreed at international level, including those issued by the European Banking Authority (“EBA”) and the Financial Stability Board (“FSB”).

The EU framework specifically includes the remuneration and incentive policies and practices associated with the organisational and corporate governance structures of banks and related to the monitoring activities conducted by the Supervisory Authorities.

In detail, like the previous directive 2010/76/EU (“CRD III”), the CRD IV directive contains specific rules and criteria to be observed by banks to ensure that:

- remuneration systems are defined and implemented properly;
- potential conflicts of interest are managed effectively;
- the remuneration system considers current and potential risks and each intermediary’s capitalisation and liquidity level;
- transparency towards the market is improved;
- control by the Supervisory Authorities is strengthened.

The aim of the CRD III and the CRD IV, and therefore, of the Provisions, is to ensure - in the interest of all stakeholders - that the remuneration system pursues the company’s long term strategies and goals and is linked to results that are appropriately adjusted to take into account all associated risks. The system must be consistent with the levels of capital and liquidity required to run the business. Incentive distortions of the type which encourage recipients to breach the provisions or expose the bank and the financial system in general to excessive risks must be avoided at all times.

The Provisions apply alongside the Regulatory Technical Standards issued by the European Commission on proposal of the EBA pursuant to the CRD IV (1). The Regulatory Technical Standards are binding and apply directly in all member States.

In line with the European framework, the Provisions form an essential part of the organisational and corporate governance rules and fall within a broader framework which comprises specific rules for listed companies and on the distribution of banking products and investment services and activities.

* * *

(1) For example, the Regulatory Technical Standards also apply to the identification of key personnel (see paragraph 4).

The Provisions require the parent company of each banking group to prepare a remuneration policy document for the entire group and to take into account the characteristics of each group company, ensure overall consistency, provide implementation guidelines and verify the proper application of the policy.

Therefore, Banca Sistema S.p.A. (hereinafter “Banca Sistema” or the “Company” or the “Parent Company” or the “Bank”) has drawn up the Remuneration Policies Document for the entire Banca Sistema Group (hereinafter, the “Group”).

Each company of the Group is responsible for ensuring compliance with the applicable provisions and the proper implementation of the guidelines issued by the Parent Company.

Section I, paragraph 7, of the Provisions sets forth the application of a proportional criterion whereby each bank may apply the remuneration provisions according to the methods that better reflect its characteristics and size and the risk level and complexity of its business activities.

In detail, the Provisions provide for 3 different categories of banks:

- “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 Regulation - “SSMR”);⁽²⁾
- “smaller and less complex banks”: banks whose balance sheet assets are equal to or below EUR 3.5 billion, which are not deemed to be significant under art. 6(4) of the SSMR;
- “medium size banks”: banks whose balance sheet assets are between EUR 3.5 and 30 billion and banks which belong to a group whose balance sheet assets are between EUR 3.5 and 30 billion, which are not deemed to be significant under art. 6(4) of the SSMR;

In light of the above, it is deemed that Banca Sistema and the Group are classifiable as a “minor” intermediary for the purposes of the application of the proportional criterion in implementation of the Provisions, since its total assets are significantly below EUR 3.5 billion, at bank and Group level.

2. MISSION OF THE BANCA SISTEMA GROUP AND OBJECTIVES OF THE REMUNERATION POLICIES

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 distinct expertise acquired to launch new business initiatives.

For further information on the strategy and on the strategic business plan, see the “2015/2018 Business Plan” presented to the Board of Directors on 26 March 2015.

In furtherance of the aforementioned mission, the Group’s remuneration strategy aims:

(²) According to art. 6(4) of SSMR, “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:

- the total value of its assets exceeds EUR 30 billion;*
- 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 EUR 5 billion;*
- 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.*

- to direct the efforts of directors and employees towards the Company and the 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 promote the sound and prudent management of risks;
- 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 Code of Ethics, the Group's internal procedures and the provisions and regulations in force applicable to Banca Sistema and the whole Group.

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

3. REMUNERATION POLICIES DEFINITION PROCESS

The remuneration policies were defined in accordance with the process described below, in compliance with the prescriptions of the Provisions and those of the Bank's Articles of Association, which are in effect consistent with said Provisions.

The remuneration policies definition process has seen the involvement of the following company bodies and functions, according to the remits and responsibilities described hereinafter:

- The Board of Directors, via the specified company's functions, prepares the Bank's remuneration and incentive policies, submits them to the Shareholders' Meeting, reviews the policies at least yearly and oversees their proper implementation. It ensures that the policies are adequately documented and accessible to all the stakeholders within the company. Moreover, the Board of Directors defines the incentives plan applicable to "key personnel" and all other Group employees (see paragraph 4 below).

The Board of Directors performs its duties with the support of the following company functions:

- the Human Resources Department, which coordinates the remuneration policies definition process;
- the Risk and Compliance Department, which is involved in the identification of events that could potentially affect the Company's business, analysing the impacts of such events in relation to the acceptable levels of risk and periodically monitoring the impacts of the implementation of the remuneration policies on the Group's risk profiles; in detail, it ensures consistency between the risk appetite framework and the risk management policies defined within the Risk Appetite Framework ("RAF"); in terms of Compliance, this Department verifies the compliance of the remuneration policies ex ante and verifies, on an annual basis, that the remuneration policies comply with the applicable legal framework and internal policies, including the Group's Code of Ethics, so as to also take into account legal and reputational risks.

- the Internal Audit Department, which verifies, at least once a year, that the remuneration and incentive practices adopted comply with these Provisions and with the supervisory provisions applicable to the Bank and reports any findings to the competent bodies;
 - the Finance and Administration - Strategic Planning 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.
 - Manager responsible for preparing the Company's financial reports, who verifies compliance and consistency of the remuneration policies with respect to the accounting and company documents and their accuracy with respect to the approved accounting entries.
- The Remuneration Committee, which is composed of three non-executive directors (of whom two are independent). It assists the Board of Directors in the examination of the remuneration policies to be submitted to the Shareholders' Meeting, with support 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 remuneration and incentive policies and practices;
 - 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 plan is subject and to verify the other requirements laid down for payment of the remuneration;
 - to provide adequate feedback on the activities of the corporate bodies, including the Shareholders' Meeting.

In order to perform its duties effectively and responsibly, the Committee is given access to the relevant company information.

The Risk and Compliance Manager attends the meetings of the Remuneration Committee to ensure that the incentives system takes into account all the risks undertaken by the Bank.

- the Shareholders' Meeting, which approves:
 - the remuneration and incentive policies applicable to employees and "key personnel";
 - 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 years of fixed remuneration and the maximum amount resulting from application of such criteria (so-called golden parachute).

On approving the remuneration and incentive policies, the Shareholders' Meeting may also resolve on any proposal to cap the ratio between the variable and fixed remuneration paid to individual staff members at more than 100% (ratio of 1:1), but not exceeding the maximum limit of 200% (ratio of 2:1). See paragraph 6.1.3 herein for further information on the cap set in this Remuneration Policies Document.

4. KEY PERSONNEL SELF-ASSESSMENT AND IDENTIFICATION PROCESS

The Provisions require banks to apply Regulation (EU) No. 604/2014 ("Regulatory Technical Standards" or "RTS") in relation to the identification of "key personnel", namely, those persons whose professional activity has or may have a material impact on the bank's risk profile.

In application of the quantitative and qualitative criteria provided for in the RTS, a total number of 25 key personnel positions have been identified, currently held by 24 staff members. These positions 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 (3 positions);

B. Non-executive Directors

- Directors who do not hold executive offices in the Parent Company (6 positions);

C. Managers of key company functions

- Factoring Department (1 position);
- Banking Department (1 position);
- Finance and Administration Department (2 positions);
- Commercial Factoring Department (2 positions);
- Legal and Corporate Affairs Department (1 position);
- Operations Department (1 position);
- Marketing and Communications Department (1 position);

D. Managers and other high ranking staff member of the control functions

- Internal Audit Department (1 position);
- Human Resources Department (1 position);
- Risk and Compliance Department (1 position);
- Manager responsible for preparing the Company's financial reports (1 position);

E. Other "risk takers"

- Treasury Department (1 position);
- Underwriting Department (1 position);

- Investor Relations Department (1 position);

The foregoing positions were identified by way of a structured assessment process conducted at Group and Bank level, in full accordance with the applicable regulations.

“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.

“Key Personnel” 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, including its directors (executive and non-executive).

5. DISCLOSURE REQUIREMENTS

Regarding remuneration policies and practices for “key personnel”, the Bank has published the disclosure required under art. 450 of Regulation (EU) No. 575/2013 (“CRR”) on its website. The disclosure refers to:

- the decision-making process followed in the definition of the Remuneration Policy;
- the details of 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;
- the details of the total remuneration paid to the Chairman of the Board of Directors, the CEO and other members of the Executive Committee.

The Bank’s website also includes information on how the Provisions are implemented and on the subject of corporate governance, as per Title IV, Section VII, Chapter I, paragraph 1 of Circular 285.

Information on the Remuneration Policies will be provided in Section I of the remuneration Report in accordance with art. 123-ter of the Consolidated Law on Finance. The Report will be published in accordance with the methods and timeframes set out in the applicable provisions of law.

6. THE STRUCTURE OF REMUNERATION AT GROUP LEVEL

Pursuant to 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 have provided to the Bank or to the 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)”.

6.1 General Principles

The remuneration paid to the Group’s employees consists of the following components:

6.1.1 Fixed component

- The fixed component is paid at all levels of responsibility;
- it is 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 outside consultants appointed by the Parent Company;
- it is structured on the basis of the sustainability criterion.

6.1.2 Variable component

- The variable component applies to “key personnel” (with the exceptions set out in this Document) and can also be granted to other employees;
- it is subject to meeting specific individual and company-level performance targets (see Annex 1 to this Remuneration Policies Document);

In order to ensure that the Bank is financially sustainable and is able to maintain a sufficient level of capital, the total variable remuneration paid by the Group to all its employees and “key personnel” cannot exceed the value of the “bonus pool”, which is allocated at year-end by the Bank’s Board of Directors, on proposal of the CEO, after receiving input from the Finance and Administration Manager, the Manager responsible for preparing the Company’s financial reports, the Risk and Compliance Manager and the Remuneration Committee.

The value of the “bonus pool” is determined on the basis of the Company’s actual and long-term performance results. In detail, the value of the bonus pool takes into account the achievement of the risk and income targets set in the business plan approved by the Board of Directors and in the annual budget. The criterion applied in the determination of the bonus pool is described at the time of the budget presentation.

The allocation and assignment of the bonus pool to employees takes into account the risks associated to and the results achieved by the Group, by individual business units and, possibly, by individual employees.

The following criteria were taken into account in determining the 2016 bonus pool:

1 - the calculation of the average bonus per employee in the previous financial year is multiplied by the number of resources estimated in the annual budget. A percentage increase associated with the expected level of company performance is also prudentially taken into account.

2 - The definition of the budget takes into account the total personnel costs estimated in the business plan. The bonus pool is consequently adjusted so as to absorb any increases in fixed costs relating to directors' remuneration and fees.

6.1.3 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 Articles of Association, the Board of Directors may request the Shareholders' Meeting to grant one or more key personnel members 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 detail, the Board of Directors' proposal to the Shareholders' Meeting will indicate at least the following information: (i) the functions to which those persons affected by the decision belong and their number, for each function; (ii) the reasons underlying the proposed increase; (iii) the implications, even in a forward-looking perspective, on the Company's ability to continue to comply with all applicable prudential rules.

6.2 The structure of remuneration paid to management bodies

The remuneration paid to members of the Board of Directors of Banca Sistema is established by the Shareholders' Meeting.

Directors are paid a fixed annual fee of varying amounts for the Chairman of the Board of Directors, the CEO and the 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, proportional to the role assigned, is determined ex ante for a value not exceeding the fixed remuneration received by the CEO.

The remuneration due to employees who hold offices as directors in subsidiaries and/or associated companies is included in the remuneration 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 component of remuneration paid to Directors is subject to the rules provided for in paragraph 6.4.2 of this Remuneration Policies Document.

No incentivising mechanisms are currently envisaged for non-executive Directors. If approved, such incentives shall represent an immaterial portion of the remuneration paid.

6.3 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.

No variable remuneration is envisaged for the members of the Board of Statutory Auditors.

6.4 The structure of remuneration paid to employees, particularly key personnel

6.4.1 Fixed component

The fixed remuneration paid to the Group's "Key Personnel" is based on the provisions of the applicable collective bargaining agreement (CCNL) or the local legislation applicable 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 specific focus on professional expertise and experience and the level of commitment shown.

6.4.2 Variable component

"Key Personnel" and other employees are subdivided into the following three categories for the purpose of determining the variable component of remuneration payable in accordance with this Remuneration Policies Document:

- A) Executives with Strategic Responsibilities and other "key personnel", who are granted an annual bonus ("Bonus") equal to or 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) ("A Beneficiaries");
- B) Executives with Strategic Responsibilities, other "key personnel" and other employees who are granted a Bonus equivalent to less than 20% (twenty per cent) of their Gross Annual Salary or, in any event, of a value below EUR 50,000 (fifty thousand) but equal to or above EUR 20,000.00 (twenty thousand) ("B Beneficiaries");
- C) all other employees, also including "key personnel", who are granted a Bonus of less than EUR 20,000.00 (twenty thousand) ("C Beneficiaries").

Without prejudice to the rules below applying to A Beneficiaries for whom the fixed-variable remuneration ratio of 1:1 is exceeded, the Bonus paid to other A Beneficiaries shall consist of a cash portion (70%) and a portion in shares of the Bank (30%). The Bonus is paid partly up front (70%) and in part deferred (30%). The shares are assigned in accordance with a specific plan (the "2016-2019 Stock Grant Plan"), which is prepared by the Board of Directors and submitted for the approval of the Shareholders' Meeting.

For Bonuses paid to A Beneficiaries for whom the fixed-variable remuneration ratio of 1:1 is exceeded in accordance with paragraph 6.1.3 herein, the foregoing percentages shall change as follows: 60% in cash and 40% in shares, with 60% paid up front and 40% deferred.

The Bonus paid to B Beneficiaries will consist solely of cash and be paid partly up front (70%) and in part deferred (30%).

The Bonus paid to C Beneficiaries will consist solely of cash and be paid entirely up front. However, for “key personnel” that are classed as C Beneficiaries, the payment will be made partly up front (70%) and in part deferred (30%).

Beneficiaries are notified of the maximum Bonus payable (in cash and in shares) by letter (the “Letter of Bonus Assignment”) within 60 days of the approval of the consolidated financial statements as at 31/12/2016.

In accordance with the applicable provisions of law, the Bonus consists of:

- (i) an upfront portion equivalent to 70% of the total Bonus payable in the 6 month period following the year it refers to (the percentage is 60% in the case of A Beneficiaries for which the fixed-variable remuneration ratio of 1:1 is exceeded);
- (ii) a deferred portion equivalent to 30% of the total Bonus payable pro rata in the 3 years following the year the upfront portion in point (i) was paid, subject to meeting the individual and company-level performance targets specified in Annex 1 to this Document. Each deferred portion is paid within 6 months from the end of each reference period (i.e. 31/12/2017, 31/12/2018 and 31/12/2019) (however, the percentage is 40% in the case of A Beneficiaries for which the fixed-variable remuneration ratio of 1:1 is exceeded).

The Bonus is paid entirely up front in the case of C Beneficiaries who do not fall under the category of “key personnel”.

The pay-out proportion for Bonuses paid to A Beneficiaries (i.e. the ratio of the portion paid in cash and the portion paid in shares) applies to both the upfront portion and the deferred portion, as follows:

- (i) the upfront portion is paid 70% in cash and 30% in shares of the Bank, subject to meeting the individual and company-level performance targets specified in Annex 1 herein relating to 2016 (the percentage is 60% for A Beneficiaries for whom the fixed-variable remuneration ratio of 1:1 is exceeded);
- (ii) first deferred portion: paid in cash and in shares of the Bank, subject to meeting the individual and company-level performance targets specified in Annex 1 herein relating to 2017;
- (iii) second deferred portion: paid in cash and in shares of the Bank, subject to meeting the individual and company-level performance targets specified in Annex 1 herein relating to 2018;
- (iv) third deferred portion: paid in cash and in shares of the Bank, subject to meeting the individual and company-level performance targets specified in Annex 1 herein relating to 2019.

Examples of the foregoing Bonus payment methods for all three categories of beneficiaries are given in Annex 2 to this Document.

In order to allocate the upfront and deferred portions of the Bonuses, the Bank sends a letter to the beneficiaries (the “Letter of Assignment”), indicating, among other things, (i) the amount paid in cash in the reference year; (ii) for A Beneficiaries, the number of shares assigned at the conditions specified in the 2016-2019 Stock Grant Plan.

6.5 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 responsible for preparing the Company's financial reports) the Assignment of Shares is subject to meeting qualitative targets only, which are to no extent linked to the Bank's financial performance. Specifically, the payment of the Bonus is in no way linked to the results achieved by the areas that are subject to their control.

In departure from paragraph 6.1.3 and without prejudice to the prescriptions of paragraphs 6.4 and 6.6, if applicable, the variable portion of remuneration paid to employees of the Company's control functions cannot exceed one third of their fixed remuneration. Furthermore, while such employees benefit from the 2016-2019 Stock Grant Plan, in their case, the Bonus adjustment mechanism based on the Company's financial performance does not apply, while the other malus conditions (CET1Ratio, RORAC and LCR) continue to apply.

6.6 The structure of remuneration paid to employees other than key personnel

As described previously, the remuneration paid to employees who do not fall under the category of "key personnel" consists of a fixed element, representing by far the largest component of their remuneration, determined in accordance with the applicable collective bargaining agreement (or in accordance with applicable local legislation for foreign companies), plus, if applicable, a small Bonus, which is determined in accordance with the criteria set out in the preceding paragraphs 6.1.2 and 6.4.2, including the individual and company-level performance targets specified in Annex 1 to this Document.

7. SPECIAL RULES APPLICABLE TO THE DEFERRED PORTIONS OF DISCRETIONARY BONUSES WHEN CHANGES OCCUR IN THE BENEFICIARY-BANK RELATIONSHIP

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

7.1 Dismissal, resignation, mutually agreed 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 on justifiable grounds by the Board of Directors.

Expressly excluded from the above is any payment made during the notice period, whether worked or not.

Beneficiaries cannot claim any form of indemnity and/or compensation from the Bank if their entitlement to receive payment of the Bonus is lost, as per above.

In the event of termination of the employment relationship by mutual agreement, the Beneficiaries may be entitled to receive a portion of the Bonus on a "*pro-rata temporis*" basis, subject to the level of achievement of the performance targets, to be verified - with reference to the date of termination of the employment

relationship - at the exclusive discretion of the Board of Directors, with input from the Remuneration Committee.

7.2 Retirement - Disability

The rules governing the mutually agreed 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.

7.3 Death

In the event of the death of the Beneficiary, his/her heirs shall maintain the entitlement to receive the Bonus still payable to the Beneficiary at the date of the death, to be paid within six months of that date.

ANNEX 1

This Annex to the Remuneration Policies Document provides an analytical description of the individual and company-level performance indicators to which the granting of the cash and share Bonus is subject.

The parameters and the related values are applied by the Bank in both the ex-ante phase of bonus allocation and the ex-post phase of bonus adjustment (so-called malus rules) when the deferred portion of bonuses referring to the reference year are paid.

The expected parameter levels, which allow the Bank to keep the regulatory capitalisation and liquidity requirements at an acceptable level, reflect the levels of performance actually achieved or net of the risks actually assumed and the Bank's capital and liquidity position.

In addition to company-level performance, the Bank focuses above all on individual performance when determining the variable component of remuneration. This can result in a significant reduction or zeroing of the Bonus, especially in the case of individual performance that is well below the established targets.

A. Company-level performance targets

The payment of both the up front and the deferred portions of the Bonus is subject, in all the years in which the Bonus is paid, to meeting the Bank's capitalisation and liquidity targets associated with the indicators provided below:

- **CET1 Ratio**
- **RORAC**
- **LCR**

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

If the capitalisation and liquidity targets relating to the foregoing indicators are not met, but the regulatory minimum threshold has been observed, the payment of the bonus is postponed to the end of the successive six-month period, subject to meeting the half-yearly capitalisation and liquidity targets set in the budget, to be verified by the Board of Directors at the end of the six-month 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.

On the other hand, if the capitalisation *and liquidity* targets relating to the foregoing indicators are met, the Beneficiaries shall be entitled to the deferred portion of the Bonus pertaining to that financial year and the amount payable will be adjusted on the basis of the ROE target for that year, as described below.

- If ROE for the period is above or equal to the target ROE (as defined in the Strategic Business Plan and in the budget): 100% of the deferred portion of the Bonus pertaining to the reference year is paid;

- If ROE for the period is lower than the target ROE by up to 14%: 75% of the deferred portion of the Bonus pertaining to the reference year is paid;
- If ROE for the period is lower than the target ROE by more than 14% but is equal to at least 49% of the target ROE: 50% of the deferred portion of the Bonus pertaining to the reference year is paid;
- If ROE for the period is lower than the target ROE by more than 49% but is still positive: the payment of 50% of the deferred portion of the Bonus pertaining to the reference year will be postponed to the following year, once again subject to the performance measurement mechanism, and paid only if the target ROE is met.

No Bonus is paid if ROE is negative.

B. Individual performance targets

In addition to the company-level performance requirements described above, the payment of the upfront and deferred portions of the Bonus is subject to meeting a number of individual quantitative and qualitative performance targets, which are defined by the Company and made available to the employees.

The performance evaluation process is carried out yearly: each employee of the Bank logs into the Banca Sistema HR web portal <http://stleoni.zucchetti.com/HRPortal/> and defines, together with their direct heads, the quantitative and qualitative targets for the following year.

Quantitative targets are assigned a measurement criterion to allow the verification of the results achieved.

By way of an example, some of the parameters used with respect to the different roles are described below.

Quantitative indicators:

Meeting the individual and area-level budget targets: these targets are the easiest to quantify and are associated mainly with the sales area and with functions where a certain quantitative parameter exists (volume of sales completed compared to budget, number of POS terminals sold compared to budget, annual cost funding savings compared to budget).

Value creation: these targets provide added value to a new product or a new service (contribution to marketing initiatives to achieve factoring targets, timely management of complaints, professional growth of co-workers).

Reduction of costs: operating cost reduction targets (reduction of consultancy costs, overtime, maintenance costs.)

Reduction of response times: these targets are linked to customer satisfaction, internal and external (timeliness of reporting adjustments to the budget, number of applications priced/headcount per pricing, timeliness in closing Open Issues reported by the control functions, timeliness in closing SME disputes).

Increase in efficiency: these targets are based on a comparison with the same activities performed in the previous years regarding the improvement of the overall performance of the Bank (reducing the percentage of operating errors, increasing the equivalent advertising value, compliance with project timelines).

Qualitative indicators:

The Group uses 4 qualitative indicators, each divided into 2 sub-indicators. These are included in the performance sheet provided on the aforementioned website. There are 4 performance levels:

- A) EXCEEDS THE REQUESTED LEVEL
- B) ADEQUATE FOR THE POSITION HELD
- C) ROOM FOR IMPROVEMENT FOR THE POSITION HELD
- D) WELL BELOW EXPECTATIONS FOR THE POSITION HELD

More specifically:

- the observance and respect of the “values” (integrity, independence, excellence, transparency, social and environmental responsibility) underlying Banca Sistema’s business activity, as well as of the applicable provisions and the Group’s Code of Ethics;
- customer retention and the appropriateness of relationships with customers;
- professional expertise and skills;
- constant dedication to work, cooperation with colleagues and teamwork;
- the ability to find effective and possibly innovative solutions, whilst continuing to pursue the objectives of sound and prudent management of the Company and its value over the long-term;
- the tendency to take responsibility for decisions and the timely achievement of the identified targets;
- the ability to use resources efficiently, involve and motivate staff and make sensible use of the delegation tool to promote growth;
- the containment of legal and reputational risks.

* * * *

Please note that Bonuses are granted at the discretion of the Board of Directors (as specified in the letter of employment provided to each employee).

ANNEX 2

There are 3 (three) categories of Bonus beneficiaries:

- Executives with Strategic Responsibilities and other “key personnel”, who are granted an annual Bonus equal to or 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) (“A Beneficiaries”);
- Executives with Strategic Responsibilities, other “key personnel” and other employees who are granted a Bonus equivalent to less than 20% (twenty per cent) of their Gross Annual Salary or, in any event, of a value below EUR 50,000 (fifty thousand) but equal to or above EUR 20,000.00 (twenty thousand) (“B Beneficiaries”);
- all other employees, also including “key personnel”, who are granted a Bonus of less than EUR 20,000.00 (twenty thousand) (“C Beneficiaries”).

Subject matter of the 2016 Bonus:

The 2016 Bonus paid to A Beneficiaries will consist of a portion in cash (70%) and a portion in Shares (30%). The 2016 Bonus is paid partly up front (70%) and in part deferred (30%).

For Bonuses paid to A Beneficiaries for whom the fixed-variable remuneration ratio of 1:1 is exceeded, the foregoing percentages shall change as follows: 60% in cash and 40% in shares, with 60% paid up front and 40% deferred.

The 2016 Bonus paid to **B Beneficiaries** will consist solely of cash and be paid partly up front (70%) and in part deferred (30%).

The 2016 Bonus paid to **C Beneficiaries** will consist solely of cash and be paid entirely up front. However, for “key personnel” that are classed as C Beneficiaries, the payment will be made partly up front (70%) and in part deferred (30%).

In light of the above, Company Shares are assigned only to A Beneficiaries and, likewise, the 2016-2019 Stock Grant Plan applies only to A Beneficiaries.

Method of payment of the 2016 Bonus:

A summary of the method of payment of the 2016 Bonus is provided below, subject to the aforesaid categories of Beneficiaries meeting the individual and company-level performance targets specified in Annex 1 to this Remuneration Policies Document.

- A Beneficiaries (for whom the variable-fixed remuneration ratio of 1:1 is not exceeded; if exceeded, the applicable percentages are 60/40 and not 70/30).

2016 Bonus: e.g. EUR 100,000.00.

- Portion in cash (70%): EUR 70,000.00;
- Portion in Shares (*) (30%): EUR 30,000.00 in Shares.

N.B. (*) The number of Shares to be assigned shall be determined on the basis of the Price of the Shares, calculating the arithmetic average of the official prices achieved in the last three months preceding the date of Assignment. A 5% discount is applied to the Price of the Shares determined as per above.

Upfront portion, that is, the portion paid in 2017:

- (70% of 70,000) = EUR 49,000.00 in cash;
- (70% of 30,000) = EUR 21,000.00 in Shares (*).
-

Deferred portions:

- ✓ First deferred portion, that is, the portion paid in 2018 if the 2017 targets are met:

- Portion in cash (10% of 70,000) = EUR 7,000.00
- Portion in Shares (*) (10% of 30,000) = EUR 3,000.00 in Shares

- ✓ Second deferred portion, that is, the portion paid in 2019 if the 2018 targets are met:

- Portion in cash (10% of 70,000) = EUR 7,000.00
- Portion in Shares (*) (10% of 30,000) = EUR 3,000.00 in Shares

- ✓ Third deferred portion, that is, the portion paid in 2020 if the 2019 targets are met:

- Portion in cash (10% of 70,000) = EUR 7,000.00
- Portion in Shares (*) (10% of 30,000) = EUR 3,000.00 in Shares

Retention

The 2016-2019 Stock Grant Plan provides for a Retention Period (the period during which A Beneficiaries undertake not to transfer the assigned Shares). In accordance also with the Corporate Governance Code, the Retention Period is subject to the following rules:

- **1st Cycle: 01/01/2016 - 31/12/2016** (the 1st Cycle ends on the date of approval of the 2016 consolidated financial statements):

- ✓ A Beneficiaries who are Executives with Strategic Responsibilities:

Duration of Retention Period: 3 (three) years from the date of Assignment of the Shares associated with the 1st Cycle;

- ✓ A Beneficiaries who are NOT Executives with Strategic Responsibilities:

Duration of Retention Period: 1 (one) year from the date of Assignment of the Shares associated with the 1st Cycle;

- **2nd Cycle: 01/01/2017 - 31/12/2017** (the 2nd Cycle ends on the date of approval of the 2017 consolidated financial statements);

- ✓ A Beneficiaries who are Executives with Strategic Responsibilities:

Duration of Retention Period: 2 (two) years from the date of Assignment of the Shares associated with the 2nd Cycle;

- ✓ A Beneficiaries who are NOT Executives with Strategic Responsibilities:

Duration of Retention Period: 6 (six) months from the date of Assignment of the Shares associated with the 2nd Cycle;

- **3rd Cycle: 01/01/2018 - 31/12/2018** (the 3rd Cycle ends on the date of approval of the 2018 consolidated financial statements);

- ✓ A Beneficiaries who are Executives with Strategic Responsibilities:

Duration of Retention Period: 1 (one) year from the date of Assignment of the Shares associated with the 3rd Cycle;

- ✓ A Beneficiaries who are NOT Executives with Strategic Responsibilities:

Duration of Retention Period: 0 (zero) days.

- **4th Cycle: 01/01/2019 - 31/12/2019** (the 4th Cycle ends on the date of approval of the 2019 consolidated financial statements).

- ✓ A Beneficiaries who are Executives with Strategic Responsibilities:

Duration of Retention Period: 6 (six) months

- ✓ A Beneficiaries who are NOT Executives with Strategic Responsibilities:

Duration of Retention Period: 0 (zero) days.

- **B Beneficiaries**

2016 Bonus: e.g. EUR 40,000.00, entirely in cash

Upfront portion, that is, the portion paid in 2017: (70% of 40,000) = EUR 28.000 in cash.

Deferred portions:

- ✓ First deferred portion, that is, the portion paid in 2018 if the 2017 targets are met: (10% of 40,000) = EUR 4,000.00 in cash.

- ✓ Second deferred portion, that is, the portion paid in 2019 if the 2018 targets are met: (10% of 40,000) = EUR 4,000.00 in cash.

- ✓ Third deferred portion, that is, the portion paid in 2020 if the 2019 targets are met: (10% of 40,000) = EUR 4,000.00 in cash.

- **C Beneficiaries**

2016 Bonus: e.g. EUR 15.000, entirely in cash and paid entirely up front in 2017. However, for “key personnel” that are classed as C Beneficiaries, the payment will be made at the same terms applicable to B Beneficiaries.