

**Remuneration Policies Document of the  
Banca Sistema Group S.p.A.  
2017**

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### 1. INTRODUCTION

This document (the “**Remuneration Policies Document**”) has been prepared in accordance with Part I, Title IV, Chapter 2, of Bank of Italy Circular no. 285 of 17 December 2013 (“**Circular 285**”) on “Remuneration and Incentive Policies and Practices” (hereinafter, the “Policies”), the provisions of the Corporate Governance Code for listed companies, adopted by the Corporate Governance Committee sponsored by Borsa Italiana S.p.A. (the “**Corporate Governance Code**”) (hereinafter, jointly referred to as “**The Provisions**”).

The Provisions are supplemented by the relevant *Regulatory Technical Standards* issued by the European Commission, as proposed by the EBA.

The Provisions implement Directive 2013/36/EU (henceforth “**CRD 4**”), 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 the international level, including those issued by the *European Banking Authority* (“**EBA**”) and the *Financial Stability Board* (“**FSB**”).

In particular, the Provisions set out principles and specific criteria which banks must apply in order to:

- guarantee that remuneration systems are defined and implemented properly;
- manage potential conflicts of interest effectively;
- ensure that the remuneration system considers current and potential risks and each intermediary’s capitalisation and liquidity level;
- improve the level of transparency towards the market;
- strengthen control by the Supervisory Authorities.

The aim of the Provisions is to realise a remuneration system – in the interest of all stakeholders – consistent with the values, strategies and long-term company objectives, tied to results that are appropriately adjusted to reflect its risks, consistently with adequate capitalisation and liquidity as necessary to fund its activities. In any event, this system has to avoid distorted incentives that might induce participants to commit regulatory infractions or assume excessive risks for banks and the financial system as a whole.

The Provisions require the parent company of a 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 by all group companies.

Therefore, this document, prepared by Banca Sistema S.p.A. (“**Banca Sistema**” or “**Parent Company**” or the “**Bank**”), is valid for the entire Banca Sistema Group (the “**Group**”).

In any case, Group companies are responsible for compliance with the Provisions and, in general, compliance with the regulations applicable to remuneration policies and the instructions issued by the Parent Company.

Pursuant to Part I, Title IV, Chapter 2, Section I, paragraph 7 of Circular 285, in application of a proportional criterion, every bank may apply the remuneration provisions according to the methods that better reflect the characteristics, size, risk levels and complexity of its business activities.

In detail, the banks are broken down into the following three categories for the application of Circular 285:

- “*larger and more complex banks*”: those that are deemed significant under art. 6(4) of Regulation (EU) No. 1024/2013 (Single Supervisory Mechanism – “SSM”) (1)
- “*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 SSM;
- “*medium size banks*”: banks whose balance sheet assets are between EUR 3.5 and 30 billion and banks who 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 SSM.

By having total assets far below EUR 3.5 billion, both at the individual and group level, Banca Sistema could be considered to meet the definition of “smaller” banks. Nevertheless, in light of its status as a listed company and EBA guidance, it has been decided to apply the rules referring to “medium size” banks, Circular 285, TITLE IV, Chapter 2.

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

Banca Sistema has adopted a business model with the aim of becoming an independent leader in the “speciality finance” segment. This model is based on a strategy pursuing steady growth, by exploiting the expertise and experience of its own staff.

The Banca Sistema strategic plan and industrial plan are contained in the “Industrial Plan 2015-2018” approved by the Board of Directors on 26 March 2015.

Considering the mission outlined hereinabove, the Provisions, and EBA guidance, the remuneration strategy of the Group pursues the following aims:

- to direct the efforts of directors and employees towards the Bank's 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 reflect and promote healthy and effective management of the Bank;
- to ensure the fairness of remuneration, rewarding employees for their contribution and the responsibilities given;
- to offer competitive salary packages;

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(1) According to art. 6(4) of SSM, “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:

(i) the total value of its assets exceeds EUR 30 billion;

(ii) 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;

(iii) 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 promote conduct that is consistent with the Group Code of Ethics (the “Code of Ethics”), the Group’s internal procedures and the legislative and regulatory provisions in force applicable to Banca Sistema and the whole Group.

The Group remuneration strategy also reflects the RAF (Risk Appetite Framework) adopted by the Bank, which contains specific performance indicators that take its risk appetite into account.

### 3. REMUNERATION POLICIES DEFINITION PROCESS

The Remuneration and Incentive Policies (the “Policies”) were defined in accordance with the process described below, in compliance with the prescriptions of the Provisions and those of the Banca Sistema Articles of Association.

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

- The **Board of Directors**, which prepares the Bank’s Policies, submits them to the Shareholders’ Meeting, and reviews them at least once annually, also oversees their proper implementation. It ensures that the remuneration policy is adequately documented and accessible within the corporate organisation. It defines the incentive plan targeting the individuals classified as “key personnel” and all other Group employees (see paragraph 4 hereunder). It also ensures that the Bank Policies are adequately implemented and aligned with the overall framework of corporate governance, its corporate culture, its risk appetite, and related governance processes.

Finally, the Board of Directors ensures that the grant, payment, and accrual of variable remuneration, including the application of malus and claw-back mechanisms, do not allow the Group remuneration policy to prejudice its solid base of capitalisation.

The Board of Directors discharges its duties with the support and contribution of the following company functions:

- the **Human Resources Department**, which coordinates the process of defining remuneration policies and contributes to the preparation of Policies by providing the necessary information, inter alia in reference to the structure and levels of remuneration and to the incentive systems;
- the **Risk Department**, which participates in the process of identifying contingent events that may influence corporate activity, by analysing the impact of these events within the scope of acceptable risk limits and by periodically monitoring the impact of implementation of the Policies on Group risk appetite. The Risk Department is invited to the Remuneration Committee meetings dedicated to the drafting, implementation, and control of the Policies. In particular, it ensures their consistency with the reference framework for determining risk appetite and the governance and risk management policies defined in the RAF. The Risk Department, acting jointly with the Compliance Department, effectively contributes, according to their respective roles, to definition of the “bonus pools”, the result indicators and the granted remuneration, while reporting any possible findings on the impact on staff behaviour and/or on the risk of undertaken activities;
- the **Compliance Department**, which conducts ex ante reviews of compliance of the Policies. It annually assesses the compliance of the Policies with applicable laws, regulations, and internal regulations, including the Group Code of Ethics. Inter alia its reviews consider legal and reputation risks. The Compliance Department informs the Board of Directors with a special

report on any findings, so that the Board of Directors considers them when it approves and evaluates the Policies;

- the **Internal Audit Department**, which performs an independent review of employee remuneration and incentive practices when the Policies are drafted and implemented. It conducts that review at least once annually in compliance with the Provisions and EBA guidance to determine their impact on the Bank risk profile. It examines, among others, at least on an annual basis, the compliance of the incentive practices to the so approved Policies and to the regulation in force;
  - the **Finance and Administration 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;
  - **Executive in charge of preparing accounting and company documents ("Dirigente Preposto")**, who verifies the compliance and consistency of the Remuneration Policy with respect to the accounting and company documents and, in particular, their accuracy with respect to the individual 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 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 corporate functions are involved in the process of preparing and monitoring the Policies;
    - to provide input, based inter alia on the information received from the internal functions concerned, on the achievement of the performance targets linked to the incentive plans and verification of the other requirements imposed for payment of the remuneration;
    - to review the need for an ex post correction in variable remuneration (liability and claw-back), by making appropriate proposals to the Board of Directors;
    - to provide adequate confirmation on the activity performed by corporate bodies, including the Shareholders' Meeting, by verifying the adequacy of the information to be provided to the shareholders on the Policies, particularly in regard to any proposals for going over the 1:1 ratio between the fixed component and variable component of remuneration;
    - to propose to the Board of Directors the engagement of independent experts on Remuneration and Incentive Policies;
    - to verify whether the existing remuneration policy has been updated yet and, if necessary, features proposals for change.

To perform its duties effectively and responsibly, the Remuneration Committee has access to all data and all information concerning the decision-making process of the Board of Directors related to the drafting, implementation, auditing and review of the Remuneration Policies and practices. The Committee also disposes of adequate resources and has unconditional access to all information and data from the control functions. It interacts with those control functions and with the other relevant corporate functions (e.g. the Human Resources Department, the Legal Department, the Finance and Administration Department), whose members may be asked to participate at Committee meetings.

- The **Shareholders' Meeting**, which approves:
  - the 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 (“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 1:1, but not more than 2:1.

- **Board of Statutory Auditors**

The Board of Statutory Auditors plays a consulting role on request of the Board of Directors and oversees the correct application of the remuneration rules in accordance with the laws and regulations in force at the time of the verification.

At least once annually, the Policies are subject to review of: the review activity and the related corrective plans that are proposed, approved and implemented are documented in written reports or minutes of the relevant meetings.

#### 4. KEY PERSONNEL SELF-ASSESSMENT AND IDENTIFICATION PROCESS

The process of identifying the “key personnel” (i.e. the persons whose professional activity does have or may have a substantial impact on the risk profile of the Group) reflects the provisions of the Delegated Regulation (EU) No. 604/2014 (“**Regulatory Technical Standards**” or “**RTS**”).

The self-evaluation designed to identify the “key personnel” is performed annually by the Board of Directors of the Bank, and in any case each time the organizational structure is changed, on the basis of a detailed process engaging the participation of the Remuneration Committee and internal control functions.

The Board of Directors of the Bank:

- approves the guidelines for the identification process, periodically re-examines and approves any waivers and/or changes as necessary;
- participates in the process and monitors it on an ongoing basis;
- approves any exclusions of employees.

“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” include executives with strategic responsibilities, namely, those persons who have direct or indirect powers and responsibilities over the planning, management and control of the Bank’s business. The executives with strategic responsibilities include its executive and non-executive directors.

In application of the quantitative and qualitative criteria provided for in the RTS, and examination of the different risk levels existing in the various activities of the Group, a total of 28 key personnel positions have been identified, currently held by 27 staff members. These positions can be broken down into the following categories:

**A. Directors with executive offices**

- Directors who hold executive offices in the Parent Company (1 position)<sup>2</sup>;

**B. Non-executive Directors**

- Directors who do not hold executive offices in the Parent Company (8 positions);

**C. Managers of key company functions**

- Commercial Department (1 position);
- Collection Department (1 position);
- Finance and Administration Department (2 positions);
- Commercial Factoring Department (2 positions);
- Legal and Corporate Affairs Department (1 position);
- Centralised Operations Department (2 positions);
- Underwriting 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 Department (1 position);
- Executive in charge of preparing accounting and company documents (1 position);
- Compliance and Anti-Money Laundering Function (1 position);

**E. Other “risk takers”**

- Treasury Function (1 position);
- Investor Relations Function (1 position);
- Chief of Staff (1 position);
- Marketing and Communications Department (1 position);

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<sup>2</sup> The Chief Executive Officer also holds the position of General Manager.

### 5. DISCLOSURE REQUIREMENTS

Regarding remuneration policies and practices for “key personnel”, the Bank publishes on its website a series of information pursuant to art. 450 of Regulation (EU) No. 575/2013 (“CRR”), in compliance with EBA guidelines, including:

- the decision-making process followed in the definition of the Policies;
- 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 and the Chief Executive Officer.

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 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 time-frames set out in the applicable provisions of law.

### 6. THE STRUCTURE OF REMUNERATION AT GROUP LEVEL

Pursuant to Part I, Title IV, Chapter 2, Section I, Paragraph 3, of Circular 285,

- (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 according 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 (golden parachutes)”*.

#### 6.1 General Principles

The remuneration paid to the Group’s employees consists of a fixed component, for all levels of employment, and of a variable component for persons in the “key personnel” category.

The Bank does not grant discretionary pension benefits or agreed compensation in the event of early termination of employment or early dismissal from office.

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

### **6.1.1 Fixed component**

- paid at all levels of responsibility;
- based on the technical, professional, and managerial skills of personnel and the responsibility assigned to each person. It is constantly monitored to check its internal and external fairness on the marketplace, inter alia by using assessments prepared by independent consultants retained by the Parent Company; the Bank applies the National Collective Bargaining Agreement (CCNL) for Executive Managers and for Personnel in the Professional Units who are employees of Credit, Financial, and Instrumental Enterprises, and the National Collective Bargaining Agreement for the Senior Managers employed by Credit, Financial, and Instrumental Enterprises.
- structured on the basis of the sustainability criterion.

### **6.1.2 Variable component**

The Board of Directors has approved these Policies together with the Long Term Incentive Plan for 2017-2019, also referred to hereinafter as "**LTIP**".

The variable component is benchmarked to performance indicators adjusted for the risk and aligned with the RAF. The total amount is based on effective and lasting results and also considers qualitative objectives. For the purposes of its allocation and distribution, among other reasons, the variable component reflects the risks and results of the Bank and the Group as a whole, the risks and results of the individual business units and, if applicable, the individual risks and results.

In accordance with the Policies, the rules for the variable component of remuneration apply to the variable remuneration of the "key personnel". Any bonuses that are granted to other employees as well may be paid within the limits of the "bonus pool" and on condition that the company-level performance targets indicated herein be met, and in compliance with the other provisions of the Policies.

The variable component is benchmarked to performance indicators adjusted for the risk and aligned with the RAF approved every year by the Board of Directors.

The variable component is conditioned on achievement of company-level performance targets and individual targets (see Annex 1 of this document). When specific company-level performance targets and individual targets are met (as differentiated by brackets of beneficiaries), the LTIP recipients accrue the right to receive variable remuneration that is comprised partly of cash and partly of Bank shares ("Bonus").

In order to ensure that the LTIP is financially sustainable and guarantee that the Bank is adequately capitalised, the total Bonuses payable to all its employees and "key personnel" cannot exceed the value of the "bonus pool", which is determined every year by the Bank's Board of Directors, on proposal of the CEO, after receiving input from the Chief Financial Officer, the Executive in charge of preparing accounting and company documents, the Risk Manager and the Compliance Manager.

The CEO's proposal is assessed by the Remuneration Committee, which issues its own opinion to the Board of Directors.

The size of the bonus pool is based on the forecast of effective and lasting results in terms of company-level performance, considering the objectives set in the industrial plan approved by the Board of Directors and detailed in the annual budgets and RAF. The condition for distribution of the bonus pool is realisation of positive gross profit, where "gross profit" means the non-adjusted gross profit as presented by the Board of

Directors of the Report on Operations (<sup>1</sup>), (hereinafter, “**Gross Profit**”). In the opposite case, no Bonus may be distributed.

For distribution of the Bonus, the Bank has identified the following access criteria for the three-year period 2017-2019 (Key Risk Indicator, or “**KRI**”) envisaged in the RAF of the reference year, and having equal weight:

- **Common Equity Tier 1 ratio (CET1)**
- **Liquidity Coverage Ratio (LCR)**

If even just one of the aforementioned two KRI's fails to reach the first level threshold indicated in the RAF, the Bank does not pay any Bonus.

The annual bonus pool is determined *ex ante* as a percentage of gross profit (but may never exceed 10%) forecast in the budget approved by the Board of Directors of the Bank. The annual bonus pool is approved by the Board of Directors at the same time that the annual budget is approved.

The bonus pool is also subject to an *ex post* correction factor according to the level of Return on Risk Adjusted Capital (Rorac) envisaged in the RAF for the previous year:

- if the Rorac realised in the year exceeds the first level threshold, as identified in the RAF, 100% of the bonus pool is distributed;
- if the realised Rorac falls between the first and second level thresholds, 80% of the bonus pool is paid out;
- if the realised Rorac is less than the second level threshold, as forecast in the RAF, the Board of Directors of the Bank will resolve the non-distribution of Bonuses.

In case of reduction of the bonus pool in accordance with the above determined criteria, the individual bonus (as defined under Annex 1) will be proportionally reduced for all the beneficiaries.

The Company bodies and employees enjoy a few non-monetary benefits of differing relevance, based on the company role and service. In particular, these are medical insurance, company car and flexible benefits.

The benefits in the year 2017 will include the following:

- Medical insurance for all employees and for the members of the Bank's Board of Directors
- Company car for the managers and personnel with commercial roles.
- Flexible benefits for the company managers and officers. Banca Sistema has introduced a Benefit Plan for the purpose of supporting its own workers and families in social and cultural activities, public transportation, educational development and school expenses of their children. This plan is intended for the company managers and officers, that is, almost half of the Group's employees.

### **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 applicable laws and the Articles of Association of the Bank, 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.

The Board of Directors' proposal to the Shareholders' Meeting in this regard shall indicate at least the following information: the functions to which those persons affected by the decision belong and their number, for each function; the reasons underlying the proposed increase; the implications, even in a forward-looking perspective, on the Company's ability to continue to comply with all applicable prudential rules.

( ) Possibly adjusted to ensure the comparability of gross profit with the amount realised in previous years.

### 6.1.4 Recipients of the LTIP

According to the weight of the specific role in the corporate organisation and the influence on risk levels and business results, 15 organisational roles have been identified and broken down into three categories of Recipients (broken down into brackets 1 to 3 in **Table "A"** that follows).

**TABLE "A"**

Business	Role	Total numer
Level 1	Chief Executive Officer and General Manager	1
Level 2	Head of Collection Services Deputy Head of Commercial Division Head of Legal & Corporate Affairs Chief Operating Officer Deputy Head of Commercial Division Head of Treasury	6
Level 3	Commercial Factoring Chief of Staff Investor Relator Head of Administration and Supervision Head of Underwriting Head of Pricing and Structuring Head of Middle Office Head of IT	8
		15

During the three-year period 2017-2019, the variable remuneration will be paid after approval of the financial statements as follows:

- For amounts of less than Euro 20,000, the entire variable remuneration will be paid in cash upfront.
- For amounts between Euro 20,000 and Euro 50,000, the variable remuneration will be paid 50% upfront in cash, and the remaining 50% will be deferred and paid in shares of the Bank at the end of the three-year deferral period.
- For amounts exceeding Euro 50,000, the variable remuneration will be paid 60% upfront (of which 50% cash and 50% in Bank shares). The remaining 40% will be deferred and paid at the end of the three-year deferral period, for an amount equal to 50% in cash and the remaining 50% in Bank shares.

For the purpose of the calculation of Bank shares to be assigned and of the assignment rules, reference shall be made to Annex 2 and the Information Document relating to the Stock Grant Plan 2017-2019 published on the internet site [www.bancasistema.it](http://www.bancasistema.it), section Governance.

### ***Vesting***

The total time period of the LTIP is six years, insofar as a deferred part of the Bonuses will be paid during the three-year period 2020-2022 as envisaged in the Policies.

### ***Retention***

The retention period (during which no purchases or sales may be made) of the Bank shares granted on a deferred basis is set at 12 months.

### ***Malus***

So that adequate ex post correction mechanisms can be adopted, the Bank may, during the variable remuneration deferral period, reduce or zero out the deferred amount of the cash portion and the Bank share portion to reflect performance over the whole three-year period, net of the risks effectively assumed or realised, and/or the changes in the balance sheet and liquidity of the Bank or to take into account new and unexpected situations / non-recurring events (e.g. new risks, unexpected losses) or individual acts (*malus*).

The amount of the reduction (or elimination of the deferred part of variable remuneration is resolved by the Board of Directors of the Bank, as proposed by the Remuneration Committee. The malus mechanism is applied especially when during the three-year period the average of individual objectives achieved is less than 75% of the average for the targets identified in accordance with this Policy.

### ***Claw-Back***

While the failure to achieve positive Gross Profit does not offer access to the system of incentives for any staff member, and not only to the most important one, the incentives granted and/or paid to members of the personnel that have determined or contributed to formation of the following are subject to claw-back (obligation to return the paid incentives or denial of payment of granted incentives):

- acts that caused a significant loss for the Bank;
- violations of the obligations imposed pursuant to article 26 or, when the individual is an interested party, article 53, paragraphs 4 et seq. of the Consolidated Law on Banking (TUB) or the obligations affecting remuneration and incentives(),
- fraudulent or grossly negligent acts causing damage to the Bank.

In this case, the Board of Directors resolves on application of the claw-back mechanism.

<sup>(1)</sup> Art. 26 Legislative Decree 385/1993: "1. *The persons who perform administrative, management, and control functions at banks have to be qualified to perform their assigned duties.*

2. *For the purposes of paragraph 1, the members have to meet the prerequisites of professionalism, integrity, and independence, satisfy the criteria for competence and fairness, dedicate the necessary time to effective performance of their assigned duties, in order to guarantee healthy and prudent management of the bank.*

3. *With a decree adopted after consulting with the Bank of Italy, the Minister of Economy and Finance identifies:*

a) *uniform integrity requirements for all members; b) the professional and independence prerequisites that are scaled according to the principles of proportionality; c) the principles of competence, consistent with the position to be held and the characteristics of the bank, and adequate composition of the body; d) the criteria of fairness, reflecting inter alia the officer's business relations, his conduct in relations with supervisory authorities and the sanctions or corrective measures levied by the latter, restrictive measures pertaining to the*

professional activities performed, and all other elements that could impact the officer's fairness; e) the limits on accumulation of offices imposed on bank officers, scaled according to the principles of proportionality and considering the dimensions of the intermediary; f) the causes for temporary suspension from the position and its duration.

4. [...omitted...]

5. The administration and control bodies of banks review the fitness of their own members and the overall adequacy of the body, by documenting the analytical process and adequately justifying the outcome of the assessment. In the case of specific and limited deficiencies referring to the criteria envisaged in paragraph 3, sub-paragraph c), the same bodies may adopt the measures necessary to overcome them. In all other cases, unfitness or violation of the limits on the cumulation of offices triggers forfeiture of the position. Forfeiture is announced by the body belonged to within thirty days after the member's appointment or knowledge of the intervening deficiency or violation. For those members who are not members of a body, the forfeiture review and announcement are made by the body that appointed them.

6. Partly in order to minimise the costs borne by banks, the Bank of Italy implements its own terms and conditions to assess officers' fitness and compliance with the limits on cumulation of offices, inter alia on the basis of the analysis performed and any measures adopted pursuant to paragraph 5. If a deficiency or violation is found, it declares forfeiture of the position".

( ) Art. 53, paragraphs 4 et seq., Legislative Decree 385/1993: "4. The Bank of Italy regulates the conditions and limits for the assumption by banks or banking groups of risk-bearing assets vis-à-vis those who might exercise direct or indirect influence on management of the bank or the banking group and the parties related to it. In any event, and without prejudice to the obligations imposed in article 2391, paragraph 1, Italian Civil Code, the shareholders and directors shall abstain from those resolutions where they have a conflicted interest, on their own behalf or on behalf of others. If conflicts of interest actually arise, the Bank of Italy may impose conditions and specific limits on the assumption of risk-bearing assets.

4-bis. The conditions envisaged in paragraph 4 are determined by considering:

a) the amount of bank assets;

b) the amount of any bank investment that might be held;

c) all of the risk-bearing assets held vis-à-vis the parties indicated in paragraph 4 and the other parties related to them as established by the Bank of Italy.

4-ter. The Bank of Italy identifies the cases where failure to comply with the conditions indicated in paragraph 4 triggers suspension of the administrative rights connected with the participation.

4-quater. In compliance with the decisions taken by the CICR (Interministerial Committee for Credit and Savings), the Bank of Italy regulates the conflicts of interest between banks and the parties indicated in paragraph 4, in relation to other types of economic relationships.

4-quinquies. The provisions issued pursuant to this article may envisage that certain transactions be subject to authorisation of the Bank of Italy. They may also envisage that certain decisions concerning remuneration and incentives be remitted to the shareholders' meeting, even in the case where the dual management and control model applies, by setting quorums for holding meetings and passing resolutions in application of or waiving statutory requirements.

4-sexies". [...omitted...]

## 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, in accordance with the resolution of the Board of 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 compensation 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 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 any remuneration granted to the CEO is subject not only to the rules imposed for the bonus pool but also to the provisions envisaged in Annexes 1 and 2.

Banca Sistema has entered into a non-compete agreement with the Chief Executive Officer, pursuant to and as an effect of the provisions laid down in Article 2125 Italian Civil Code. The compensation due for the

accepted non-compete obligation, for each of the three years subsequent to the termination of employment, has been agreed in the amount of 25% of the annual gross salary received in the last year of work and of the flexible benefits possibly enjoyed.

The compensation shall be deferred as it will be payable by the end of the last month of the validity of the non-competition obligation, (ie the end of the three years of restriction of competition) calculated from the termination of the employment relationship.<sup>3</sup> Violation of the aforementioned obligation shall imply for the Chief Executive Officer the obligation to immediately refund an amount equal to the total cost incurred by Banca Sistema to pay the compensation for the non-compete obligation, as well as, in accordance with Article 1382 and *ff* Italian Civil Code, the obligation to immediately remit a net amount equal to 35% of the annual gross salary relative to the last year of work, including the flexible benefits, as a conventional penalty. Moreover, as a result of the violation of other obligations of the agreement (information, confidentiality obligations, no-diversion of employees) the same, in accordance with Article 1382 and *ff* Italian Civil Code, shall pay to the Bank, for each violation, as a contractual penalty, a net amount equal to 20% of the annual gross salary relative to the last year of appointment, including flexible benefits.

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.

No incentive mechanisms are currently envisaged for non-executive Directors. If approved, such incentives would represent an insignificant portion of the remuneration paid.

### **6.3 The structure of remuneration paid to members of the Board of Statutory Auditors**

Only fixed remuneration is paid to the members of the Board of Statutory Auditors and is established by the Shareholders' Meeting at the time of appointment and refers to the entire term of office.

### **6.4 The structure of remuneration paid to management bodies**

#### *Fixed component*

The fixed remuneration paid to all employees of the Bank and the Group applies 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 particular focus on professional expertise and experience and the level of commitment shown.

Remuneration of employees in the "key personnel" category shall be resolved by the Board of Directors, which shall define the incentive plan intended for these persons and for all other employees of the Group.

#### **6.4.1 Variable component**

The variable component of remuneration that might be granted to employees classified as "key personnel" is subject to the rules set out in Annex 1.

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<sup>3</sup> The Bank reserves the right to correspond to those entitled to a limited advance payment on the agreed consideration, in each case less than 50% of the consideration for the non-competition obligation expected in the individual agreements.

The employees included among the “key personnel” may be assigned a cash Bonus for a limited amount.

After approval of the financial statements, the Bank sends a specific letter to the beneficiaries (the “**Letter of Assignment**”) for assignment of the Bonus, indicating, among other things, (i) the amount paid in cash in the reference year; (ii) the number of shares assigned at the conditions specified in the 2017-2019 Stock Grant Plan.

From the year 2015, the Bank has also entered into 35 non-compete agreements with all company managers, the persons performing sales functions and the employees that hold key offices, whose compensation shall be deferred in accordance to the same methods provided for the Chief Executive Officer and better described at the preceding par. 6.2 <sup>4</sup>

### **6.5 Remuneration paid to members of the company’s control functions**

For those employed in the corporate control functions (including the Human Resources Department and the Manager responsible for preparing the Company’s financial reports) the assignment of the Bonus is subject to meeting qualitative targets only, which are to no extent linked to the Bank’s financial performance. The payment of the Bonus is in no way linked to the results achieved by the areas that are subject to their control.

The variable part of remuneration of the members of the corporate control functions may not exceed 1/3 (one third) of the fixed part.

The Bank has the following three control functions:

- Chief Financial Officer, in his capacity as Manager responsible for preparing the Company’s financial reports
- Internal Audit Director
- Human Resources Director
- Risk Manager
- Compliance and Anti-Money Laundering Manager

## **7. SPECIFIC RULES APPLICABLE TO THE DEFERRED PORTION OF REMUNERATION**

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

### **7.1 Dismissal, resignation, consensual 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

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<sup>4</sup> *Pls refer to the provisions of sub footnote on page no. 1*

the variable remuneration still outstanding at the date of employment termination, unless otherwise resolved on justifiable grounds by the Board of Directors, on motion by the Remuneration Committee.

The variable part of remuneration cannot be paid during the advance notice period, regardless of whether the employee works or not.

If the employment relationship is terminated consensually, the beneficiary is entitled to obtaining the accrued variable remuneration, calculated on a pro-rated basis and considering the achievement of the previously determined business and individual performance targets. Payment of the amount to the interested party is approved by the Board of Directors, after receiving the opinion of the Remuneration Committee.

### **7.2 Retirement - Disability**

The rules governing the consensual 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**

Once probate begins after the beneficiary begins, the heirs are entitled to request the Bonus (already accrued and not yet distributed) owed to the Beneficiary himself pursuant to the statute of limitations on the right.

### ANNEX 1

This Annex describes the individual performance indicators tied to the payment of variable remuneration (portion paid in cash and shares), once the bonus pool is defined.

They are the tool used by the Bank to assess individual performance and determine the consequent individual Bonus, and as ex post correction mechanisms (*malus*) when the deferred bonus for the applicable year is paid.

The total variable remuneration resulting from the individual incentives may never exceed the amount of the bonus pool. If it does turn out to be greater, the individual incentives will be reduced on a pro-rated basis to eliminate the excess part of the bonus pool.

#### **A. Company-level performance**

The parameters applying to company-level performance, which affect the distribution of the variable component relating to the bonus pool, are regulated at paragraph 6.1.2 of the Policies.

Fulfilment of the company-level performance target is checked by the Board of Directors, after receiving the opinion of the Remuneration Committee, in accordance with the procedures described above.

#### **B. Individual performance**

In addition to the company-level performance requirements illustrated above, payment of the variable component, partly in cash and partly in stock, is subject to the attainment of individual quantitative and qualitative objectives that are defined and communicated to the most important personnel at the beginning of the reference year.

The performance evaluation process is carried out yearly: each employee of the Bank logs into the Banca Sistema HR web portal: <http://studioripamonti.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, annual cost funding savings compared to budget).

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

Reduction of costs: operating cost reduction targets (e.g. reduction of consultant costs, overtime, maintenance costs).

Reduction of response times: these targets are linked to internal and external customer satisfaction (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 Control 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 (e.g. reducing the percentage of operating errors, increasing the equivalent advertising value, compliance with project timelines).

Qualitative indicators: the Group uses four qualitative indicators, each divided into two sub-indicators. These are included in the performance sheet provided on the aforementioned website. There are four 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

In particular, the qualitative indicators concern:

- observance and compliance with the essential “values” on which the Bank bases its activities, in compliance with the applicable provisions of law and the Group’s Code of Ethics;
- customer retention and the appropriateness of relationships with customers;
- professional ability and skills;
- constant dedication to work, cooperation with co-workers 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 reputation risks.

\* \* \* \*

The following individual targets have been identified for application of the provisions of the LTIP 2017-2019:

### **Bracket 1 (Chief Executive Officer/General Manager)**

In regard to the Chief Executive Officer/General Manager, the bonus shall be subject to the achievement of a positive Gross Profit (as defined above) as a condition for distribution of the bonus pool and, for the three-year period 2017/2019, to the achievement of the access criteria (Key Risk Indicated; hereinafter, **KRI**) envisaged in the RAF of the reference year, having equal weight (**CET1 – LCR**).

This is so because, as said, in the event of non-achievement of the first-level threshold indicated in the RAF even for only one of the two aforementioned KRIs, the Bank shall pay no Bonus.

In addition to these company targets, payment of the bonus shall be subject to the evaluation (according to the criteria set out in the following paragraph) of the achievement of the targets linked to the following parameters.

- Company-level profitability
- Company-level growth
- Growth in Bank stock price

The unit of measurement for company-level profitability is the “Gross Profit” compared with the budget.

Growth means the year-by-year percentage of growth in the net interest and other banking income as compared with the budget.

The growth in stock price means the difference between the trend change (compared with the previous year) in the average market price of Bank stock and the trend change in the average FTSE Italia Finanza index during the last quarter of the year, according to the following formula:

$$\left[ \frac{BS^{4/t} - BS^{4/t-1}}{BS^{4/t-1}} \times 100 \right] - \left[ \frac{\text{Indice}^{4/t} - \text{Indice}^{4/t-1}}{\text{Indice}^{4/t-1}} \times 100 \right]$$

WHERE:

$BS^{4/t}$  = average market price of Banca Sistema stock during last three months of reference year t

$BS^{4/(t-1)}$  = average market price of Banca Sistema stock during last three months of reference year t-1

$\text{Indice}^{4/t}$  = average FTSE Italia Finanza index during last three months of reference year t

$\text{Indice}^{4/(t-1)}$  = average FTSE Italia Finanza index during last three months of reference year t-1

For the purpose of the granting of the Bonus to the Chief Executive Officer, the Bank has identified the following correction criteria (Key Risk Indicator, from now on KRI) as provided for in the RAF of the correspondent relevant year, of equal weight between them:

- **Common Equity Tier 1 ratio (CET1)**
- **Liquidity Coverage Ratio (LCR)**

In case of failure to reach the target threshold indicated in the RAF approved by the Bank's Board of Directors of even just one of two KRI, and as long as the first level threshold is met, the total variable component of the remuneration to be granted to the CEO/General Manager may not exceed 80% of the fix component.

DEFINITION OF TARGETS:

“Threshold” means achievement of at least 75% of the company-level profitability and growth targets and means the attainment of a value of no less than 5% of the share value growth target.

“Over-performance” means achievement of at least 150% of the company-level profitability and growth targets and the attainment of a value of no less than 5% of the share value growth target.

The first two targets (company-level profitability and growth) determine 40% of the total Bonus, while the third target (share value growth) accounts for 20% of the Bonus.

In particular, the Bonus will be calculated as follows for each one of the three targets:

- *threshold* = 50% of Gross Annual Remuneration
- *target* = 100% of Gross Annual Remuneration
- *over-performance* = 200% of Gross Annual Remuneration

The Board of Directors of the Bank will assess the level of achievement of the Chief Executive Officer's targets after approval of the financial statements for each reference year of the Plan.

### THREE-YEAR PERFORMANCE

A comprehensive assessment of the three-year performance will be carried out at the end of the three-year period 2017-2019, which will permit payment of the deferred Bonuses.

If the set targets are not met and in order to permit adoption of adequate mechanisms for *ex post* correction mechanisms, the Bank may, during the period of deferral of the variable remuneration, both for the part in cash and for the part to be paid in Bank stock, apply a reduction or elimination of the amount of the deferred part to account for performance over the whole three-year period, net of the risks effectively assumed or realised, notwithstanding the verification of the criteria for access envisaged in paragraph 6.1.2 and/or trends in the balance sheet and liquidity of the Bank or to reflect new and unexpected situations / non-recurring events (e.g. new risks, unexpected losses) or individual acts (*malus*).

The amount of the reduction (or elimination) of the deferred part of variable remuneration is resolved by the Board of Directors of the Bank, as proposed by the Remuneration Committee. The *malus* mechanism is applied especially when during the three-year period the average of individual objectives achieved is less than 75% of the average for the targets identified in accordance with this Policy.

### Brackets 2, 3

The objectives for the other categories of the most important personnel consist of the following, in addition to the company-level targets:

- 2 Department targets set by the department head (in the case of direct reporting lines to the Chief Executive Officer, one of the two targets is pre-set and counted in the gross profit budgeted by the Banca).
- 2 individual targets.

The Department targets count for 60% and are identical for all affected persons belonging to the Department (aside from those who report directly to the Chief Executive Officer).

The individual targets count for 40% and may be quantitative and/or qualitative.

If the qualitative targets are not directly measurable, the processes used to judge their level of achievement will have to be indicated in advance.

The department head defines the two individual targets for each one of the positions in his organisation that are included in the LTIP. These targets have to be specifically connected with the position held by the affected person.

The threshold, target and over-performance targets will be pre-set and defined by the department head and shared with his collaborators.

The deviation from the target is defined for every single department and individual target.

Failure to reach at least the threshold level in the two individual targets will zero out the entire individual incentive.

The Board of Directors of the Bank will assess the level of achievement of the personal targets after approval of the financial statements for each reference year of the Plan.

The value of the incentive for each one of the following brackets is:

BRACKET 2: 66.7% of the Gross Annual Remuneration with a maximum of 80% for the over-performance and a minimum of 33.35% for the threshold.

BRACKET 3: 50% of the Gross Annual Remuneration with a maximum of 60% for the over-performance and a minimum of 25% for the threshold.

### THREE-YEAR PERFORMANCE

A comprehensive assessment of the three-year performance will be carried out at the end of the three-year period 2017-2019, which will permit payment of the deferred Bonuses.

If the set targets are not met and in order to permit adoption of adequate mechanisms for *ex post* correction mechanisms, the Bank may, during the period of deferral of the variable remuneration, both for the part in cash and for the part to be paid in Bank stock, apply a reduction or elimination of the amount of the deferred part to account for performance over the whole three-year period, net of the risks effectively assumed or realised, notwithstanding the verification of the criteria for access envisaged in paragraph 6.1.2 and/or trends in the balance sheet and liquidity of the Bank or to reflect new and unexpected situations / non-recurring events (e.g. new risks, unexpected losses) or individual acts (*malus*).

The amount of the reduction (or elimination) of the deferred part of variable remuneration is resolved by the Board of Directors of the Bank, as proposed by the Remuneration Committee. The *malus* mechanism is applied especially when during the three-year period the average of individual objectives achieved is less than 75% of the average for the targets identified in accordance with this Policy.

### ANNEX 2

#### Long Term Incentive Plan (“LTIP”)

##### Introduction

This Annex describes the main characteristics of the *Long Term Incentive Plan* adopted by the Banca Sistema and the 2017-2019 Stock Grant Plan (hereinafter the “**Plan**”) submitted to the Shareholders' Meeting for approval in order to decide the disbursement of the variable part of the Remuneration.

##### 1. Definitions

The following capitalised terms and expressions (and their grammatical inflections) shall have the meaning shown beside each term. The defined terms and expressions importing the masculine gender shall be treated as importing every gender and those importing the singular shall be treated as referring also to the plural.

<b>Shares</b>	The ordinary shares of Banca Sistema, giving regular dividend rights and having a nominal value of EUR 0.12 each.
<b>Allocation of the Bonuses</b>	Criteria for determining the Bonuses to allocate to each Beneficiary on the basis of the 2017-2019 LTIP.
<b>Assignment of Shares</b>	Subject to the attainment of the <i>performance</i> targets (company and individual) set forth by the 2017 Remuneration Policies Document (hereinafter the “ <b>2017 Policies</b> ”) - the free allocation of the number of Shares that each Beneficiary will receive free of charge for each Cycle, pursuant to the resolutions of the Board of Directors at the end of the three-year period.
<b>Banca Sistema or the Bank</b>	Banca Sistema S.p.A., having registered office in Milan, at Corso Monforte no. 20, 20122, registered with the Milan Companies' Register under no. 12870770158.
<b>Beneficiaries</b>	The KP (as defined hereunder)
<b>Bonus Pool</b>	The amount decided by the Board of Directors of the Bank at the beginning of each Cycle.
<b>Bonus</b>	The variable item (paid pursuant to clause 6.1.4 of the 2017 Policies) of the remuneration for the years 2017 - 2019 as set forth by the 2017 Policies.
<b>Transfer</b>	Any transfer, including but not limited to, the sale, donation, pledge, usufruct, contribution or exchange of the shares, the granting of a beneficial interest on the same or the forced sale

	of the shares, or any other form of disposal (free of charge or at a cost), which directly or indirectly transfers to a third party the ownership of the Banca Sistema ordinary shares or any associated right.
<b>Cycle</b>	<p>The period of time comprising the financial years to which the <i>performance</i> targets refer, and to whose attainment payment of the Bonus set forth by the 2017-2019 LTIP is subject.</p> <ul style="list-style-type: none"> <li>- 1st Cycle: 01/01/2017 - 31/12/2017 (the 1st Cycle ends on the date of approval of the 2017 consolidated financial statements);</li> <li>- 2nd Cycle: 01/01/2018 - 31/12/2018 (the 2nd Cycle ends on the date of approval of the 2018 consolidated financial statements);</li> <li>- 3rd Cycle: 01/01/2019 - 31/12/2019 (the 3rd Cycle ends on the date of approval of the 2019 consolidated financial statements);</li> </ul>
<b>Remuneration Committee or “RC”</b>	The Committee created by Banca Sistema in implementation of the recommendations set forth by the Code of Conduct of Listed Companies and Bank of Italy Circular no. 285 dated 17 December 2013 <i>Supervisory regulations for banks, as amended</i> .
<b>Board of Directors</b>	The board of directors of Banca Sistema.
<b>2017 Remuneration Policies Document</b>	The Document containing the remuneration policies of the Banca Sistema S.p.A. Group, approved by the Board of Directors on 8 February 2017 and updated on 28 March 2017.
<b>Banca Sistema Group or the Group</b>	Banca Sistema and the companies that currently, or in the future, may be controlled directly or indirectly, by Banca Sistema pursuant to section 2359 of the Italian Civil Code and section 93 of the Consolidated Law on Finance (TUF).
<b>Permanent Disability</b>	Any medically certified condition that permanently impairs the Beneficiary’s ability to work and that entails termination of the employment relationship.
<b>Letter of Assignment</b>	The letter pursuant to which the Bonus, terms and payment conditions thereof are communicated to the Beneficiary.
<b>Letter of Allocation</b>	<p>The letter with which Banca Sistema communicates to the Beneficiary:</p> <p>(i) the amount of the cash Bonus (paid by</p>

	<p>bank transfer on the Beneficiary's account);</p> <p>(ii) the number of Shares allocated (and deposited on an open administered time deposit account);</p> <p>(iii) the Deferment Period.</p> <p>(iv) the Retention <i>Period</i> applicable to the assigned Shares.</p>
<b>Key Personnel or "KP"</b>	The resources indicated by paragraph 4 of the 2017 Policies
<b>Retention <i>Period</i></b>	The Period during which the Beneficiary undertakes not to transfer the assigned Shares.
<b>Price of the Shares</b>	The price of Shares determined on the basis of the arithmetic average of the official prices achieved by the Banca Sistema shares on the MTA - STAR segment in the three months prior to the date on which the Board of Directors decides the Assignment of the Shares.

## 2. Subject Matter and Scope of the LTIP

The Bank adopted an LTIP in 2016 which was revised when the Board of Directors of the Bank approved the 2017 Policies and is relevant to the Allocation of Bonuses and the Assignment of the Banca Sistema Shares to the Beneficiaries - as set forth by clause 6.1.4 of the 2017 Policy - subject to the attainment of the *performance* targets (indicated by Annex 1 of the 2017 Policies).

## 3. Allocation of the Bonus and Assignment of the Shares

The Allocation of the Bonus (paid in *cash* and, if necessary, in part through the free Assignment of Shares ) is subject to the attainment of specific *performance*, company and individual targets, as set forth by the 2017 Policies (see Annex 1).

At the time of Allocation of the Bonus and/or Assignment of the Shares, the Beneficiary should:

- cover a position, or have a permanent employment contract, with the Company and should not be on extended leave;
- not have given notice of resignation;
- not have received notice of dismissal;
- not have reached a consensual agreement to end the employment relationship.

As regards the structure of the variable item and the calculation of the bonus payable, please see clause 6.1.4 of the 2017 Policies.

The bonus allocation methods are advised with a letter of Allocation, containing the individual and corporate goals and the Plan Regulations, while the actual allocation is made by means of an Allocation Letter advised within 60 days from approval of the consolidated financial statements.

The Shares assigned during the LTIP give regular dividend rights and the Beneficiary shall accordingly become the holder of all the relevant administrative and ownership rights on the same from the time the Shares are registered in its name, without prejudice to the provisions specified hereinafter.

At the discretion of the Board of Directors, the Shares may also be assigned using Shares that are purchased and/or held by Banca Sistema.

As regards the calculation of the number of Shares to allocate to each Beneficiary, please see the Information Document of the *Stock Grant* Plan on the website of the Bank ([www.bancasistema.it](http://www.bancasistema.it)) in the section *Governance*.

The portion of the Bonus in Shares shall be assigned to the Beneficiary via an intermediary authorised by the Bank with which each Beneficiary has opened a securities deposit in accordance with the instructions and terms (time deposit account during the *Retention* Period) that the Beneficiary receives from the Bank. The costs associated with the above transactions shall be borne by the Company. Within the last day of the month in which the Shares are assigned, the Beneficiary will pay the Company an amount sufficient to cover any withholding taxes and/or contributions payable by the Beneficiary. If such a sum is not received, the Company may deduct this from other amounts due to the Beneficiary for any reason, including salaries. The costs associated with the transfer or sale of the Shares subsequent to the Assignment shall be borne by the Beneficiary.

If the individual employment relationship is transferred by the Bank to another company of the Group and/or if the employment relationship is terminated and a new one started within the Group, the Beneficiary shall maintain *mutatis mutandis*, all and any rights allocated by the *Stock Grant* Plan.

#### **4. Deferment and *Retention* Period**

In line with the provisions of Circular 285 and the EBA guidelines, the LTIP sets forth - for the three-year period 2017 to 2019 - that the variable remuneration shall in part (40 - 50%) be subject to a deferral period of 3 years if the amount to be paid is equal to or greater than EUR 20,000.00 (see clause 6.1.4. of the 2017 Policies).

As regards the Shares used as variable remuneration, the LTIP provides a Period of *Retention* whose duration differs for each Cycle of the LTIP, as from the date relevant to the financial year of the corresponding Cycle.

In the period 2017-2019 - depending on the variable remuneration indicated by clause 6.1.4. of the 2017 Policies - the total, or 50% or 60% of the annual bonus, will be paid, after ascertaining the attainment of the targets set forth by Annex 1, within 30 days from approval of the financial statements for the relevant year.

In the period 2020-2022, namely with a three-year deferral and final assignment after confirming the attainment of the targets for the three year period 2017-2019 within 30 days from approval of the financial statements as to 31 December 2019, the remaining annual incentive (i.e. 50% or 40% of the assigned Bonus) accrued will be paid for the financial years ending on 31 December 2017, 31 December 2018 and 31 December 2019 in the form of Shares or shares and in *cash*, as set forth by the 2017 Policies.

More specifically, subject to the attainment of the targets set for by Annex 1 of the 2017 Policies:

- at the end of the 1st Cycle the Bonus accrued is assigned and the number of Shares and amount in *cash* relevant to the deferred portion, will be identified. The latter may be permanently assigned within 30 days from approval of the financial statements as to 31 December 2019. The duration of the *retention* period will be 1 (one) year as from the date of the Assignment of the Shares relevant to the 1st Cycle;

- at the end of the 2nd Cycle the Bonus accrued and the number of Shares and amount in *cash* if any, making up the deferred portion, are identified. The latter may be permanently assigned within 30 days from approval of the financial statements as to 31 December 2019. The duration of the *retention* period shall be equal to 1 (one) year as from the date of Assignment of the Shares relevant to the 2nd Cycle;

- at the end of the 3rd Cycle, the Bonus accrued and the number of Shares and amount in *cash* making up the deferred portion, are identified. The latter may be permanently assigned within 30 days from approval of the financial statements as to 31 December 2019. The Duration of the *retention* period shall be 1 (one) year as from the date of the Assignment of the Shares relevant to the 3rd Cycle.

The Shares continue to be subject to the *Retention* Period even if the employment contract is terminated, except in the case of death or Permanent Disability of the Beneficiary; in these cases the *Retention* period does not apply.

The Shares that are subject to the *Retention* Period remain in a time deposit account managed by an intermediary authorised by the Bank for the entire *Retention* Period.

Dividends and interest accrued during the *Retention* Period are paid into said time deposit account. Such amounts will be released together with the Shares at the end of the *Retention* Period.

The Bank reserves the right to use other Share deposit methods in order to improve the contribution, tax or financial effects of the Plan for the Company, in accordance with the applicable provisions of the law.

The Shares will become freely tradable after the relevant *Retention* Period.

## **5. Restrictions on the transfer of the entitlement to the free assignment of the Shares**

The right for assignment of the Shares free of charge is personal, granted to the person named and cannot be transferred or traded (except to heirs in the case of death). Any attempted or completed transfer of the Shares shall be deemed invalid and ineffective by the Company.

## **6. General provisions**

### **6.1 LTIP Management and Administration**

The Board of Directors approves the LTIP, subject to the competence of Bank's Shareholder Meeting relevant to share or similar Plans. Resolutions adopted by the Board of Directors relevant to the interpretation and application of the LTIP, shall be final and binding for all the parties in question.

The Board of Directors of the Bank is responsible for the management of the LTIP. The Board has all-encompassing operating powers for the management of the LTIP, that may however be delegated.

### **6.2 Costs and Tax-Contribution System**

The Beneficiary shall bear the cost of any taxes and contributions due relevant to:

- the assignment of Shares,
- the Shares held,
- the Transfer of Shares.

Banca Sistema shall act as the withholding agent in the cases set forth by law, deducting the required taxes and contributions in accordance with applicable laws. The Beneficiary undertakes to provide Banca Sistema with all the information necessary to properly fulfil its duties as withholding agent, including those requested by Banca Sistema.

### **6.3    *Employment Relationships***

Access to the Plan is voluntary and involves no obligation on the Beneficiary's part to maintain the employment relationship, nor shall it give rise to any entitlement or expectation, present or future, including expectations of an "economic" nature, which - directly or indirectly - arise out of or in connection with any relationship existing between the Beneficiary and the Bank.

All benefits arising out of the LTIP are extraordinary in nature and have no effect whatsoever on or in relation to the calculation of direct and indirect items of the salary, which are subject to applicable laws and collective bargaining agreements.

### **6.4    *Amendments to the LTIP***

Without prejudice to the fact that the Shareholders' Meeting is responsible for amending the *Stock Grant* Plan, the Board of Directors may at any time amend the LTIP as it deems fit in order to ensure the compliance thereof with applicable laws.

The Board of Directors is vested with the necessary and/or appropriate powers to fully implement the LTIP without prejudice to the provisions of applicable laws and regulations, in particular, the provisions of the "Supervisory Regulations for Banks relevant to Remuneration and Incentive Policies and Practices" issued by the Bank of Italy.

The Board of Directors will notify the Beneficiaries of any amendments within 10 business days from the date of approval thereof.