

**2017 Remuneration Report of the Banca Sistema Group  
and overview of the application of the Policies in 2016**

Drawn up pursuant to art. 123 *ter* of the TUF and art. 84 *quater* of Consob resolution no. 11971/1999 ("Issuers' Regulation") and in compliance with the Bank of Italy Supervisory Provisions in Circular 285 of 17 December 2013 and the Corporate Governance Code of listed companies

**Approved by the Board of Directors on 8 March 2017, updated on 28 March 2017 and  
submitted for approval** to the ordinary session of the Shareholders' Meeting  
to be held on 27 April 2017

### Contents

1.	Introduction - Legal Framework .....	3
2.	Classification of the Bank .....	4
<b>SECTION I - PERSONNEL REMUNERATION AND INCENTIVES POLICY</b>		
1.	Mission of the Banca Sistema Group and Objectives of the Remuneration Policy .....	5
2.	Decision-making process followed in the definition of the Remuneration Policy.....	6
3.	Beneficiaries of the remuneration and incentive policies.....	10
4.	Disclosure Obligations.....	11
5.	The Structure of Remuneration at Group level.....	12
5.1	General Principles	13
5.1.1.	Fixed component.....	13
5.1.2	Variable component.....	13
5.1.3.	Ratio of the variable and fixed components of remuneration.....	16
5.1.4	LTIP Beneficiaries .....	16
5.2	The structure of remuneration paid to management bodies	18
5.3	The structure of remuneration paid to members of the Board of Statutory Auditors	19
5.4	The structure of remuneration paid to employees, particularly key personnel	20
5.5	Remuneration paid to members of the Company's control functions	21
6.	Special rules applicable to the deferred portions of discretionary bonuses in the case of extraordinary events .....	22
6.1	Dismissal, resignation, consensual termination.....	22
6.2	Retirement - Disability.....	22
6.3	Death.....	22
7.	Plans based on financial instruments.....	22
7.1	Stock Grant Plan .....	23
8.	Changes compared to the Remuneration Policy approved for the year as at 31 December 2016.....	24
<b>SECTION II - PERSONNEL REMUNERATION AND INCENTIVES POLICY FOR 2016</b>		
1.	General Considerations.....	25
2.	Remuneration information by position and function .....	25
3.	Plans based on financial instruments.....	28
4.	Tables .....	28

## 1. Introduction - Legal Framework

This Report has been prepared as a public disclosure pursuant to the applicable regulations in force, specifically art.123-ter of the Consolidated Law on Finance (TUF), the Implementation Measures issued by Consob and art. 84-*quater* of the Issuers' Regulation, as well as the provisions governing the banking sector and the self-regulation rules contained in the Corporate Governance Code of listed companies promoted by the Bank of Italy ("Corporate Governance Code") (henceforth, jointly, "the Provisions").

This Report also includes additional information, in an aggregate form, in relation to the so-called "Risk Takers" not referenced in art.123-ter of the TUF.

The Report therefore describes the Remuneration Policy of the Banca Sistema Group, in line with the Corporate Governance Code of Borsa Italiana S.p.A. and in accordance with the provisions adopted by the Bank of Italy in relation to remuneration and incentives policies and practices in banks and banking groups (Circular no. 285 of 17 December 2013, in implementation of EU Directive 2013/36/EU - CRD 4). The Policies also take into account the technical standards and regulations agreed at international level, including those issued by the European Banking Authority ("**EBA**") and the Financial Stability Board ("**FSB**"), as well as those governing related party transactions.

This Report was approved by the Remuneration Committee and the Board of Directors on 8 March 2017 and includes two sections. The first section, which is subject to approval by the Shareholders' Meeting pursuant to art. 123 of the TUF, describes the 2017 Remuneration Policy to be adopted in relation to Board Directors, General Managers, Executives with strategic responsibilities and "Risk Takers" and specifies, for each of the foregoing positions, the aims pursued, the bodies involved and the procedures underlying the adoption and implementation of the policy. The second section details the remuneration paid in 2016 to the foregoing positions within the Banca Sistema Group, broken down by employee and aggregate.

The Report also provides information on any shares held by Board Directors, Statutory Auditors and Executives with Strategic Responsibilities, as a well as an overview of the audits conducted by the Remuneration Committee and the Internal Audit and Compliance Functions to verify whether remuneration practices comply with the current legal framework.

For further information on the incentives plan based on financial instruments, which is an integral part of the 2017 Remuneration Policy, see the 2017-2019 Stock Grant Plan published on the Bank's website ([www.bancasistema.it](http://www.bancasistema.it)) and the Information Document concerning the changes which are being proposed to the forthcoming Shareholders' Meeting.

## 2. Classification of the Bank

Part I, Title IV, Chapter 2, Section I, Paragraph 7 of Circular 285 provides for a proportional criterion whereby banks can apply the remuneration provisions according to the methods that better reflect the bank's characteristics and size and the risk levels and complexity of its business activities.

Under Circular 285, banks are divided into the following three categories:

- “*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 - “SSM”);<sup>(1)</sup>
- “*smaller and less complex banks*”: banks whose balance sheet assets are equal to or below € 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 € 3.5 and 30 billion and banks which belong to a group whose consolidated balance sheet assets are between € 3.5 and 30 billion, which are not deemed to be significant under art. 6(4) of the SSM;

Banca Sistema could be classified as a “minor” bank since its total assets are significantly below € 3.5 billion at both individual and consolidated level. However, in view of its status as a listed company and considering also the EBA guidelines, the Bank has opted to apply the rules relating to “medium-sized” banks under Circular 285, TITLE IV, Chapter 2.

---

<sup>(1)</sup> According to art. 6(4) of the 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 € 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 € 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”.

## SECTION I - PERSONNEL REMUNERATION AND INCENTIVES POLICY

### 1. Mission of the Banca Sistema Group and Objectives of the Remuneration Policy

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 expertise and capabilities of its resources.

The 2017 Remuneration Policy was drawn up by the Board of Directors of Banca Sistema (the “**Parent Company**” or “**Bank**”) in cooperation with the Remuneration Committee and other company functions and it applies throughout the Banca Sistema Group. Consistent with the Bank’s mission and the remuneration strategy adopted at Group level in recent years and in line with the Provisions and the EBA guidelines, the objectives of the Remuneration Policy are:

- to direct the efforts of directors and employees towards the Company and 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 the healthy and effective management of the Bank;
- 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 Group’s code of ethics (“Code of Ethics”) and internal procedures and with the provisions and regulations in force applicable to Banca Sistema and the Group.

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

In detail, the Bank’s aim is to achieve a balance between merit and the sustainability of the remuneration costs by linking incentives to the profitability of the business and thus to also achieve a balance between the short and medium-long term interests of the management and those of the shareholders based on the prudent management of company risks.

## 2. Decision-making process followed in the definition of the Remuneration Policy

The Remuneration and Incentive Policies (henceforth, “**Policies**”) were defined in accordance with the process described below, in compliance with the Provisions and Banca Sistema’s Articles of Association, which are in effect consistent with said Provisions.

The following company bodies and functions were involved the definition of the Policies, according to the remits and responsibilities described hereinafter:

- The **Board of Directors** which:
  - prepares the Remuneration Report and the Bank’s Policies, submits these to the Shareholders’ Meeting and reviews the Report and the Policies at least once a year;
  - is responsible for the proper application of the remuneration policies and ensures that they are adequately documented and accessible to all interested parties within the organisation;
  - defines the incentives plan for “key personnel (as defined in paragraph 3 below) and all other Group employees;
  - ensures that the Bank’s Policies are effectively implemented and that they are consistent with the Bank’s management strategy, culture, defined risk appetite and the associated governance processes.

The Board also ensures that the granting, payment and accrual of variable remuneration, including the application of the *malus* and claw-back rules, do not negatively affect the need to maintain a strong capital base in accordance with the Group’s policies.

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

- the **Human Resources Department**, which coordinates the remuneration policies definition process and contributes to the drawing up of the Policies, providing the required information also in relation to the organisational structure, the remuneration levels and the incentive systems;
- the **Risk Department**, which is involved in identifying events that could potentially affect the Company’s business, analysing the impacts of such events in relation to acceptable levels of risk and periodically monitoring the impacts of the implementation of the remuneration policies on the Group’s risk profiles. The Risk Department is invited

to meetings of the Remuneration Committee to discuss the drawing up, implementation and monitoring of the Policies; in detail, it ensures compliance with the reference framework for measuring risk propensity and with the governance and risk management policies defined in the Risk Appetite Framework (RAF). Based on their respective remits, the Risk Management Department and the Compliance Function are of support in deciding the “bonus pool”, the result indicators and the remuneration to be granted and highlight any possible impacts which these factors may have on the conduct of employees and/or in terms of the riskiness of the activities undertaken;

- the **Compliance Function**, which verifies ex ante the compliance of the Policies and checks, on an annual basis, that the remuneration policies are consistent with the applicable legal framework and the internal policies, including the Group’s Code of Ethics so as to take into account legal and reputational risks. The Compliance Function informs the Board of Directors of any findings in a specific report, which is taken into account by the Board when approving, reviewing and assessing the Policies;
  - the **Internal Audit Function**, which, in compliance with the Provisions and the EBA guidelines, conducts an independent review of the personnel remuneration and incentive practices to be approved and implemented in order to assess, at least once a year, the effects these may have on the Bank’s risk profile; it also ascertains, at least yearly, that the remuneration practices are consistent with the approved Policies and the provisions herein;
  - 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;
  - The **Manager in charge of preparing accounting and company documents (“Dirigente Preposto”)**, who verifies the compliance and consistency of the Policies in respect of the accounting records and company documents and, in particular, their consistency with the approved financial statements.
- The **Remuneration Committee**, composed of three non-executive directors (of whom two are independent), which assists the Board of Directors in reviewing the Policies to be

submitted to the Shareholders' Meeting, with support also 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 Policies;
- 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 plans are subject and to verify the other requirements laid down for payment of the remuneration;
- to assess the need to make ex-post adjustments to the variable remuneration (*malus* and claw-back) and to submit proposals in this respect to the Board of Directors;
- to provide adequate feedback on the activities carried out by the corporate bodies, including the Shareholders' Meeting, checking the adequacy of the information to be provided to shareholders in relation to the Policies, particularly concerning any proposals to exceed the variable-fixed remuneration ratio of 1:1;
- to make proposals to the Board of Directors concerning the use of external experts specialised in Remuneration and Incentive Policies.
- to check that the remuneration policy in force is up-to-date and to propose any required amendments.

In order to perform its duties effectively and responsibly, the Committee is given access to all data and information associated with the board of directors' decision-making process in relation to the preparation, implementation, monitoring and review of the Policies and remuneration practices. The Committee is provided with the necessary resources and has unconditional access to all information and data produced by the control functions; it interacts with said control functions and with other relevant company functions (e.g. the Human Resources, Legal, Finance and Administration departments) whose resources may be asked to take part in the Committee's meetings.

The Heads of the Risk and Compliance functions are invited to the meetings of the Remuneration Committee to ensure that the incentive system takes into account all risks assumed by the Bank.

For further information see the Annual Report on Corporate Governance and the Shareholder Structure in the 'Governance' section of the Bank's website ([www.bancasistema.it](http://www.bancasistema.it)).

- **Shareholders' Meeting**

The Shareholders' Meeting approves:

- the Policies applicable to "key personnel" and employees;
- the fees paid to the bodies it appoints;
- 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 the number of years of fixed remuneration and the maximum amount resulting from application of such criteria (so-called golden parachute);

On approving the Policies, the Shareholders' Meeting resolves on any proposals to set a limit of more than 1:1 on the ratio between the variable and fixed components of remuneration paid to individual staff, which cannot however exceed the maximum limit of 2:1;

It also votes in favour or against Section I of this Report in accordance with the TUF.

- **Board of Statutory Auditors**

The Board of Statutory Auditors has an advisory function, if requested by the Board of Directors, and monitors the proper application of the remuneration policies based on the provisions and regulations in force at the time.

- **Control and Risk Committee**

The Control and Risk Committee verifies compliance between the incentive plan and the Group's Risk Appetite Framework.

- **External consultants**

The Company has used the services of external consultants to prepare the Policies to which this Report refers (key2people).

The Policies are reviewed at least annually and the associated activities and any amendments which are proposed, approved and implemented thereof are documented in written reports or in the minutes of the related meetings.

### **3. Beneficiaries of the remuneration and incentive policies**

#### ***Identification of Key Personnel***

The process of identifying “key personnel” (employees whose professional activity has or may have a significant material impact on the Group’s risk profile) takes into account the provisions of Regulation (EU) no. 604/2014 (“**Regulatory Technical Standards**” or “**RTS**”).

“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.

The “key personnel” category 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 activity, including its directors (executive and non-executive).

“Key personnel” are identified yearly by the Board of Directors based on a structured self-assessment process which sees the involvement of the Remuneration Committee and the internal control functions.

In detail, the Board of Directors:

- approves the identification process guidelines and periodically reviews and approves any required exceptions and/or amendments;
- is involved in and constantly monitors the process;
- approves any exclusions of personnel.

For 2017, a total number of 28 key personnel positions have been identified on the basis of the quantitative and qualitative criteria provided for in Regulation (EU) no. 604/2014 (“**Regulatory Technical Standards**” or “**RTS**”). These positions are currently held by 27 staff members and 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 (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 members of the control functions**

- Internal Audit Department (1 position);
- Human Resources Department (1 position);
- Risk Department (1 position);
- Manager in charge of preparing accounting and company documents (1 position);
- Compliance and Anti-Money Laundering Department (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).

#### **4. Disclosure Obligations**

---

<sup>2</sup> The CEO also holds the office of General Manager.

In compliance with art. 450 of Regulation (EU) no. 575/2013 (“**CRR**”) and in accordance with the EBA guidelines, the following information regarding the remuneration policies and practices adopted in relation to “key personnel” has been published on the Bank’s website:

- the decision-making process followed to define the Policies;
- information on 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;
- information on the total remuneration paid to the Chairman of the Board of Directors and to the CEO.

Without prejudice to the disclosure obligations set out in this Report, the Bank’s website also includes information on the method of implementation of the Provisions and on the subject of corporate governance, as per Title IV, Section VII, Chapter I, paragraph 1 of Circular 285.

## 5. The Structure of Remuneration at Group level

Pursuant to Part I, Title IV, Chapter 2, 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 provide to the Bank or to other 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)*”.

## **5.1 General Principles**

As described in detail hereinafter, the remuneration paid to the Group's employees has a fixed component, which is paid at all levels of responsibility, and a variable component that is paid to "Key Personnel".

The Bank has not provided for discretionary pension benefits or compensation agreements in the event of early termination of employment or early exit from office.

### **5.1.1. Fixed component**

The fixed component is determined with a view to competitively reward the managerial and technical expertise of employees and thus to ensure the necessary level of continuity within the organisation.

The fixed component of remuneration is the gross annual salary, which is reviewed on a merit basis and in accordance with the applicable industry-wide agreements.

The fixed component is:

- paid at all levels of responsibility;
- 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 external consultants appointed by the Parent Company; the Bank adopts two collective bargaining agreements (CCNL): one applicable to Middle Managers and Personnel of Banks, Financial Companies and Associated Companies and the other applicable to Executives of Banks, Financial Companies and Associated Companies.
- structured on the basis of the sustainability criterion.

### **5.1.2. Variable component**

The Board of Directors has approved these Policies together with the Long-Term Incentive Plan for financial years 2017-2019 (henceforth also "**LTIP**").

The variable component of remuneration is measured against performance indicators, adjusted for risks and aligned with the RAF. The total amount paid is based on actual, long-term results and also takes into account qualitative objectives. The granting and the payment of the variable component takes into account the risks assumed and the results achieved by the Bank and the Group at overall level and at business-unit and individual level, if applicable.

The rules governing the variable component of remuneration also apply to the variable remuneration paid to “key personnel”, in accordance with the Policies. Bonuses may also be granted to other company employees within the maximum amount of the available bonus pool, provided that the company-level targets described hereinafter are achieved, in accordance with the other prescriptions of the Policies.

The variable component of remuneration is measured against performance indicators, adjusted for risks and aligned with the RAF approved each year by the Board of Directors.

The variable component is subject to meeting specific individual and company-level targets. The LTIP beneficiaries accrue the entitlement to the variable remuneration on meeting the specified targets (at company and individual level, differentiated by type of beneficiary); the variable remuneration is paid partly in cash and partly in shares of the Bank (“Bonus”).

In order to ensure the financial sustainability of the LTIP and the Bank’s ability to maintain a sufficient level of capital, the overall value of Bonuses paid to all employees and “key personnel” cannot exceed the value of the “bonus pool”, which is determined each year by the Bank’s Board of Directors, on proposal of the CEO, after receiving input from the Head of Finance and Administration, the Manager in charge of preparing accounting and company documents and the Heads of the Risk and Compliance departments.

The CEO’s proposal is assessed by the Remuneration Committee, which then submits an opinion to the Board of Directors.

The value of the “bonus pool” is determined on the basis of the Company’s actual and long-term performance results, taking into account the objectives defined in the strategic business plan approved by the Board of Directors, in the annual budgets and in the RAF. The “bonus pool” can only be distributed if the Bank’s gross earnings are positive. The “gross earnings” considered in this respect are ‘non-normalised’ and therefore inclusive of non-recurring items, as represented in the Report on Operations submitted to the Bank’s Board of Directors (henceforth, “Gross Earnings”). No Bonus is paid if Gross Earnings are negative.

Entitlement to the Bonus is subject to satisfying the following Key Risk Indicators (“KRI”), which are equally weighted and envisaged in the RAF for the reference three-year period 2017-2019:

- **Common Equity Tier 1 ratio (CET1)**

- **Liquidity Coverage Ratio (LCR)**

No Bonus is paid if the first level threshold indicated in the RAF is not satisfied, even in respect of one only of the two KRIs specified above.

The annual “bonus pool” is calculated as a percentage of the Gross Earnings (not exceeding 10%) shown in the budget approved by the Bank’s Board of Directors. The annual “bonus pool” is approved by the Board of Directors upon approval of the annual budget.

The value of the “bonus pool” is subject to adjustment according to the value of Return on Risk Adjusted Capital (“**RORAC**”) given in the preceding year RAF, as detailed below:

- if the RORAC value for the period exceeds the first level threshold specified in the RAF, 100% of the “bonus pool” is distributed;
- if the RORAC value for the period is between the first and second level threshold, 80% of the “bonus pool” is distributed;
- if the RORAC value is below the second level threshold specified in the RAF, no decision to pay the Bonuses will be passed by the Bank’s Board of Directors.

If the “bonus pool” is reduced in accordance with the foregoing criteria, the individual bonuses set out in Annex 1 are reduced proportionately for all Beneficiaries.

Company bodies and employees are granted a series of non-cash benefits, weighted differently dependent on position/service. These benefits include medical insurance, company cars and flexible benefits.

The benefits expected to be granted in 2017 can be summarised as follows:

- Medical insurance for all employees.
- Company cars for executives and sales positions.
- Flexible benefits for executives and middle managers. Banca Sistema has adopted a Benefits Plan to support employees and their families in connection with social and cultural activities, public transport and education/schooling costs for their children. The plan applies to executives and middle managers, who represent around half of the Group’s employees.

As of 2016, the members of the Board of Directors will benefit from medical insurance on the same terms and conditions for all board members, similar to that benefitting the Bank’s other employees.

### 5.1.3. 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 Bank's Articles of Association, the Board of Directors may request the Shareholders' Meeting to grant to one or more key personnel positions 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 accordance with the Provisions, the Bank's use of the maximum variable-fixed remuneration ratio of 2:1 in relation to the 2017 Policies is subject to approval by the Shareholders' Meeting in accordance with the voting requirements provided for in the applicable law (2/3 of the share capital represented at the meeting if the meeting is constituted with at least half of the share capital or 3/4 of the share capital represented at the meeting, regardless of the share capital with which the Meeting is constituted).

### 5.1.4. LTIP Beneficiaries

Based on the specific role's weight inside the organisation and on the impact which such role has on the Bank's risk levels and results, 15 different positions have been identified, broken down into 3 categories of Beneficiaries (bands 1 to 3 in **Table "A"** below).

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

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

- if the variable remuneration is less than € 20,000.00, the full amount is paid up-front in cash;
- if the variable remuneration is between € 20,000.00 and € 50,000.00, a 50% portion is paid up-front in cash and the remaining 50% is deferred and paid in shares of the Bank at the end of the 3-year deferral period;
- if the variable remuneration is more than € 50,000.00, a 60% portion is paid up-front (50% in cash and 10% in shares of the Bank) and the remaining 40% is deferred and paid at the end of the 3-year deferral period (50% in cash and 50% in shares of the Bank).

Please see the Information Document relating to the 2017-2019 Stock Grant Plan in the 'Governance' section of the website [www.bancasistema.it](http://www.bancasistema.it) regarding the calculation of the Bank shares to be assigned and the applicable provisions.

### ***Vesting***

The overall timeline of the LTIP is 6 years, in that a deferred portion of the Bonus will be paid in the period 2020-2022 in accordance with the Policies.

### ***Retention***

Bank shares which are assigned after a deferral period are subject to a retention period (holding period during which shares cannot be transferred) of 12 months.

### ***Malus***

With a view to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period, whether relating to variable remuneration in cash or shares, the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance throughout the whole three-year period, net of risks assumed, and/or to take into account the Bank's net assets

and liquidity position or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct (*malus*).

The value of the reduction (or cancellation) of the deferred variable remuneration is determined by the Bank's Board of Directors on proposal of the Remuneration Committee. The *malus* mechanism is applied especially if the achievement of individual targets in the three-year period is less than 75% of the average targets identified pursuant to these Policies.

### **Claw Back**

Without prejudice to the fact that no incentive is paid to employees, including key personnel, if Gross Earnings are negative, incentives that have already been granted and/or paid to employees are subject to claw back (i.e. the incentives granted are no longer paid or those already paid must be refunded) when it is found that the beneficiaries are responsible for or involved in:

- conduct which has resulted in a significant loss for the Bank;
- breach of the requirements set out in article 26, or, if the employee is an interested party, the breach of the requirements of article 53, paragraph 4 ff. of the TUB (Consolidated Law on Banking) or of the requirements associated with remuneration and incentives;
- fraudulent conduct or gross negligence to the detriment of the Bank.

In the foregoing cases the Board of Directors will resolve to apply the claw back mechanism.

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

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

Directors are paid a fixed annual fee, of different amounts for the Chairman of the Board of Directors, the CEO and the Directors, as resolved by 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 fee paid to the Chairman of the Board of Directors is determined *ex ante* by the Board of Directors, proportionate to the role but not exceeding the fixed remuneration paid to the CEO.

The remuneration due to employees who hold office as directors in companies of the Group or other operational offices is included in the salary 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 remuneration paid to the CEO is subject to the provisions of Annex 1 as well as to the rules applying to the “bonus pool”.

No incentivising mechanisms are currently envisaged for non-executive Directors. If approved in future, these would amount to an insignificant percentage of the remuneration paid.

The overall three-year performance levels are assessed at the end of the period prior to the settlement of the deferred bonuses.

Banca Sistema has signed a non-competition agreement with the CEO, in his capacity as General Manager, pursuant to and for the purposes of art. 2125 of the Civil Code. In relation to the aforesaid non-competition undertaking, it has been agreed that for each of the three years following the exit from office, the CEO will receive 25% of the value of the gross annual salary received in the last year of office, including any flexible benefits granted. The foregoing amount will be calculated from the date the relationship is terminated and the settlement of the sum shall be deferred to the end of the month preceding the last month of the non-competition undertaking (that is, at the end of the three-year non-competition period)<sup>3</sup>. In the event of breach of the foregoing non-competition undertaking, the CEO shall immediately repay a sum amounting to overall cost incurred by Banca Sistema in payment of the non-competition undertaking and shall also immediately pay, as a contractual penalty pursuant to articles 1382 ff. of the Italian Civil Code, a net amount equal to 35% of the gross annual salary received in the last year of office, inclusive of flexible benefits. Furthermore, should any of the additional undertakings of the agreement be breached (e.g. information, confidentiality, staff poaching), the CEO shall be required to pay a net penalty for each breach, pursuant to articles 1382 ff. of the Italian Civil Code, equal to 20% of the gross annual salary received in the last year of office, inclusive of flexible benefits.

### **5.3 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.

---

<sup>3</sup> The Bank reserves the right to make advance payments of a limited amount to those entitled. Such advance payments shall not exceed 50% of the amount agreed in each individual non-competition agreement.

The Chairman of the Board of Statutory Auditors is also a member of the Supervisory Body set up pursuant to Legislative Decree 231/2001 and is also paid a fee for this office.

No variable remuneration is paid to members of the Board of Statutory Auditors.

#### **5.4 The structure of remuneration paid to employees, particularly key personnel**

The remuneration paid to “key personnel” is determined by the Board of Directors, which also defines the incentives plan applicable to key personnel and other Group employees, with input from the relevant company functions.

The Remuneration Committee has a proposal function in relation to the remuneration paid to “key personnel” and other employees and an advisory function in determining the criteria associated with the remuneration payable to “key personnel”.

##### ***i. Fixed component***

The fixed remuneration paid to all employees of the Bank and the Group is based on the applicable collective bargaining agreement (CCNL) or, for employees of the Group’s foreign company, on the local legislation application 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.

##### ***ii. Variable component***

The variable component of remuneration paid to “key personnel” is subject to the rules provided for in Annex 1 to this Report.

The settlement of deferred bonuses is subject to the assessment of the overall three-year performance levels at the end of the period.

A cash Bonus of a limited amount may be granted to other employees who are not classed as “key personnel”.

Please see the Information Document and the Explanatory Report published on the Bank’s website ([www.bancasistema.it](http://www.bancasistema.it)) concerning the assignment of shares under the “**2017-2019 Stock Grant Plan**” prepared by the Board of Directors and submitted for the approval of the Shareholders’ Meeting.

Beneficiaries are notified of the maximum Bonus payable (in cash and in shares) by letter (the “**Letter of Assignment**”) within 60 days of the approval of the consolidated financial statements as at 31 December 2017. The foregoing letter specifies, 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, as published in the ‘Governance’ section of the Bank’s website ([www.bancasistema.it](http://www.bancasistema.it)).

Furthermore, in 2015, the Bank also signed 35 non-competition agreements with all of the Bank’s executives, sales staff and employees in key positions whose remuneration, starting from 2017, will be deferred using the same methods applicable to the CEO, as better described in Section II.

#### **5.5 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 in charge of preparing accounting and company documents) the payment of the bonus is subject only to said functions meeting their qualitative targets (control targets), which include the objectives and requirements of the 2016 working plan approved by the Board of Directors and the timeliness and accuracy of the reports they submit to the company’s Governing Bodies. The foregoing targets are not linked to any extent to the Bank’s financial performance. The payment of the Bonus is not linked in any way to the results achieved by the areas that are subject to their control. Furthermore, while such employees benefit from the 2017-2019 Stock Grant Plan, in their case, the Bonus is not adjusted to reflect the Company’s financial performance. The other *malus* conditions (CET1Ratio and LCR) do however apply.

The variable portion of remuneration paid to employees of the Company’s control functions cannot exceed 1/3 (one third) of their fixed remuneration.

The Bank’s control functions include the following positions:

- Financial Manager, as the Manager in charge of preparing accounting and company documents
- Head of Internal Audit
- Head of HR
- CRO
- Head of Compliance and Anti-Money Laundering

## **6. Special rules applicable to the deferred portions of discretionary bonuses in the case of extraordinary events**

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

### **6.1 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 the Bonus still outstanding at the date of employment termination, unless otherwise resolved on justifiable grounds by the Board of Directors, on proposal of the Remuneration Committee.

Expressly excluded from the above is any bonus entitlement that arises during the notice period, whether worked or not.

Beneficiaries shall make no claim to any form of indemnity and/or compensation from the company if their entitlement to receive the Bonus is lost, as per above.

In the case of consensual termination of the employment relationship, Beneficiaries may maintain their entitlement to the Bonus on a "*pro-rata temporis*" basis, subject to the level of achievement of the pre-established individual and company-level performance targets. The payment of the full amount to the beneficiary is approved by the Board of Directors, with input from the Remuneration Committee.

### **6.2 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.

### **6.3 Death**

In the event of the death of the beneficiary, his/her eligible heirs shall maintain the entitlement to receive any accrued Bonus still payable to the Beneficiary, in accordance with the applicable terms and conditions.

## **7. Plans based on financial instruments**

With a view to ensuring the alignment of the interests of the management, the employees and the shareholders over the medium-long term, the Bank has proposed the adoption of the Stock Grant Plan described below.

### **7.1 Stock Grant Plan**

The Shareholders' Meeting held on 28 April 2016 resolved to increase the share capital to service the 2016-2019 Stock Grant Plan, delegating powers to the Bank's Board of Directors to issue the related shares in compliance with the applicable regulations and in accordance with the methods established by the competent company bodies and to pass resolutions on the implementation of the Plan over the following financial years.

Any changes to the 2017-2019 Stock Grant Plan (henceforth also the "Plan"), which provides for the free assignment of shares subject to meeting the individual and company-level performance targets set out in Annex 1 to this Report, are subject to approval by the Shareholders' Meeting. In this respect, please see the Information Document and the explanatory Report, which have been published in view of the forthcoming Shareholders' Meeting in the 'Governance' section of the website [www.bancasistema.it](http://www.bancasistema.it).

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

The Beneficiaries of the Plan are Executives with Strategic Responsibilities and other "key personnel", as specified in article 3, Section I of this Report.

Slightly in departure from the above and in compliance with the 2017 Remuneration Policies, for those employed in the Company's control functions (including the Human Resources Department and the manager in charge of preparing accounting and company documents) the assignment of the shares is subject to meeting only qualitative targets, which are to no extent linked to the Company's financial performance. Specifically, the Bonus adjustment mechanism based on the Company's results is not applicable to such employees.

In accordance with the Provisions and with the Corporate Governance Code of Listed Companies, the Plan provides for a retention period, of varying lengths in each cycle of the 2017-2019 Stock Grant Plan, effective from the date of the financial year of the corresponding cycle.

In each cycle, the assignment of shares is subject to meeting the performance targets and the capitalisation targets linked to the following indicators:

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

With input from the Remuneration Committee, the Board of Directors verifies whether the performance targets and the level of capitalisation associated with the foregoing indicators have been met, based on the target levels specified in the RAF and in accordance with the budget targets applicable for the relevant 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.

#### **8. Changes compared to the Remuneration Policy approved for the year as at 31 December 2016**

The main changes compared to the remuneration policy adopted in 2016 are:

- update of the “key personnel” category to include new heads of key company functions included;
- further details provided in relation to the *malus* conditions and the addition of the claw back rules associated with the variable components of remuneration;
- changes to the Key Risk Indicators to be satisfied to gain access to the variable remuneration system, including the elimination of the RORAC indicator;
- the addition of the RORAC, envisaged in the RAF of the previous year, as an adjustment factor in determining the value of the bonus pool to be distributed;
- changes to the 2016-2019 Stock Grant Plan;
- changes to the deferral system and the composition of variable remuneration following the adoption of the 2017-2019 Long-Term Incentive Plan. In detail, under the 2016 Policies, the bonus paid to Executives with strategic responsibilities and to “key personnel” consisted of a portion in cash (70%) and a portion in shares of the Bank (30%). The Bonus was paid partly up-front (70%) and in part deferred (30%) if the value of the Bonus exceeded 20% of the Gross Annual Salary or was more than € 50,000. If the bonus paid was less than 20% of the Gross Annual Salary or less than € 50,000 but amounted to € 20,000 or more, it was paid entirely in cash, partly up-front (70%) and in part deferred (30%). Bonuses of a value below € 20,000 were paid entirely in cash and paid in full up-front.

Under the new Policies - as specified under point 5.1.4 of this Report - the variable remuneration is to be paid as follows upon approval of the financial statements:

- if the variable remuneration is less than € 20,000.00, the full amount is paid up-front in cash;
- “if the variable remuneration is between € 20,000.00 and € 50,000.00, a 50% portion is paid up-front in cash and the remaining 50% is deferred and paid in shares of the Bank at the end of the 3-year deferral period;
- if the variable remuneration is more than € 50,000.00, a 60% portion is paid up-front (50% in cash and 10% in shares of the Bank) and the remaining 40% is deferred and paid at the end of the 3-year deferral period (50% in cash and 50% in shares of the Bank)”.

The 2017 Remuneration Policy has maintained the deferral mechanism adopted on implementation of the Stock Grant Plan (referring to the period 2016-2019), which was submitted for the approval of the Shareholders' Meeting on 28 April 2016.

## SECTION II - PERSONNEL REMUNERATION AND INCENTIVES POLICY FOR 2016

### 1. General Considerations

The following information is provided in relation to the application of the remuneration policy in 2016 (henceforth also “2016 Policy”). It provides an analytical overview of the fees paid in the period, for any reason and in any form, by the Bank and its Subsidiaries and Affiliates and the details of the components of remuneration referring to services supplied prior to the reference year and remuneration payable over one or more financial years for services supplied in the reference year.

According to the periodical assessment conducted by the Remuneration Committee, as required under the Corporate Governance Code, the payment of the remuneration referenced in the following analytical review was consistent with the 2016 Remuneration Policy approved by the Board of Directors on 24 March 2016 and compliant with the resolutions passed by the Shareholders' Meeting on 28 April 2016.

### 2. Remuneration information by position and function

The 2016 Remuneration Policy of the Group was presented to and submitted for approval by the Bank's Shareholders' Meeting on 28 April 2016, in accordance with the articles of association and in compliance with regulations in force at the time of their approval.

The implementation of the Group's annual remuneration policies, as defined in the “Remuneration Policy Document” and in the “Incentives Plan” - which were communicated to the Nominations and

Remuneration Committee, the Executive Committee, the Board of Directors and the Shareholders' Meeting of the Bank - involved the activities described below.

In 2016, the fixed component of remuneration payable to directors and employees was paid in accordance with the 2016 Remuneration Policies and the applicable Collective Bargaining Agreements.

In 2016, the variable component of remuneration paid amounted to € 361,200.00 for key personnel and to € 848,000.00 at overall level.

As specified under point 5.1, Banca Sistema has not provided for discretionary pension benefits or compensation agreements in the event of early termination of employment or early exit from office. See point 5.1.1 of this Report regarding non-cash benefits.

### **Board of Directors and Board of Statutory Auditors**

As regards Board Directors and Statutory Auditors, the following information is provided in relation to individual remuneration components, as summarised in Table 1.

The remuneration received in 2016 by the current members of the Board of Directors was decided by the Shareholders' Meeting on 27 November 2015, which established to pay € 30,000.00 (thirty thousand euro) to each director.

Committee membership fees are shown in column 1 of table 1, under "Committee membership fees" and are as follows:

- Executive Committee: € 18,000 per year (abolished on 4 July 2016);
- Internal Control, Risk Management and Related Parties Committee: € 15,000;
- Remuneration Committee: € 5,000;
- Nominations Committee: € 5,000;
- Ethics Committee: € 5,000;
- Supervisory Body 231: € 15,000;

As at 31 December 2016, the Directors appointed by the Shareholders' Meeting on 27 November 2015 had received a total of € 643,700.

The fee due to members of the **Board of Statutory Auditors** was established by the Shareholders' Meeting on 22 April 2014 to be € 40,000 for the Chairman and € 24,000 for the Standing Auditors.

**Chairman and CEO**

On 27 November 2015, subsequent to the appointment of the new Board of Directors, the remuneration payable to the Chairman of the Board of Directors was established to be € 150,000 inclusive of Committee membership fees. This reflects the increased level of commitment required of the Chairman due to the increased size of the Bank and its new listed status. Specifically, the Chairman aids dialogue within the Board and - pursuant to the responsibilities attributed under art. 2381, 1<sup>st</sup> paragraph of the Italian Civil Code - promotes the effective functioning of the Bank's governance structure and, in his capacity as the board's interlocutor with the internal control bodies and other board committees, ensures the balance of powers among different Functions.

In 2016 the CEO, who is also the General Manager, was paid a total fee of € 175,000.00, inclusive of committee membership fees, and received a Gross Annual Salary of € 326,000.00 as the General Manager.

The fees paid in 2016 for the services provided by the Chairman of the Board of Directors, the Board Directors, the members of the internal committees and the members of the Board of Statutory Auditors were consistent with the fees established by the Shareholders' Meeting on 27 November 2015. No incentives mechanism was applied, except in the case of the CEO, as highlighted in Table 1.

Banca Sistema has signed a non-competition agreement with the CEO, in his capacity as General Manager, pursuant to and for the purposes of art. 2125 of the Civil Code, replaced from 2017 by the agreement mentioned under paragraph 5.4 above. In the course of 2016, on the basis of the previous agreement, the amount indicated in Table 4 (art. 450 CRR - paragraph 1 g) was paid in the form of advance payment.

**Key personnel**

The remuneration paid to key personnel in 2016 consisted of the Annual Gross Salary based on the applicable Collective Bargaining Agreements and a variable component, as defined in the 2016 Remuneration Policies.

The fixed component of remuneration was paid in accordance with normal practice (monthly).

The variable component was subject to a verification and appraisal process, as described in the 2016 Remuneration Policies.

As specified in Section I of this Report, in 2015, the Bank also signed 35 non-competition agreements with all executives, sales staff and employees in key positions whose remuneration,

starting from 2017, will be deferred using the same methods applicable to the CEO, as better described in the previous point.

No *malus* clauses were applied in 2016.

### **3. Plans based on financial instruments**

Please see point 6 of this Report and the Information Document published in the 'Governance' section of the website [www.bancasistema.it](http://www.bancasistema.it) regarding the Stock Grant Plan and how the rights assigned under said Plan are affected if the employment relationship is terminated.

### **4. Tables**

The following tables, drawn up in accordance with Annex 3A, Schedule 7 *bis* and *ter* of the Issuers' Regulation, are attached hereto:

Table 1, Schedule 7 *bis* - Fees paid to members of the management and control bodies and to general managers and other executives with strategic responsibilities;

The following tables, drawn up in accordance with Bank of Italy provisions and article 450 of the CRR, are also attached hereto:

Table 4 (art. 450 CRR - paragraph 1 g) - aggregate quantitative information on remuneration, broken down by business area;

Table 5 (art. 450 CRR - paragraph 1 h) - aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution

No individuals received a fixed remuneration of € 1 million or more in the year as at 31 December 2016.

### **Internal Audit Function**

The Internal Audit Function has conducted monitoring activities in relation to:

- compliance between the variable component of remuneration determined for 2016 and the prescriptions contained in the Remuneration Policy Document approved by the Shareholders' Meeting of Bank on 26 April 2016;
- the process associated with the identification, assessment and granting of the variable component accrued under the 2015 Policies, which was paid together with the May 2016 salary on completion of the foreseen resolution process and in accordance with the methods set out in the 2015 Remuneration Policies.

The variable component of remuneration paid to the internal control functions (Risk, Compliance and Internal Audit) did not exceed the limit of 1/3 of the Gross Annual Salary and the incentive mechanisms applied were not linked to the financial results achieved by the Bank or by the areas subject to their control.

The audits conducted by the Internal Audit Function have established that the Group's 2015 Remuneration Policies were applied correctly in 2016.

### **Risk Function**

The Risk Function verified the compliance of the 2016 Policy in respect of the Provisions and the supervisory provisions applicable to the Bank.

### **Central Finance and Administration - Strategic Planning Department**

This Department verified compliance with the Bank's medium-long term objectives and strategies so as to ensure financial sustainability over the medium-long term.

### **Manager in charge of preparing accounting and company documents**

The Manager above verified the compliance and consistency of the remuneration policies in respect of the accounting and company documents and their consistency with the approved accounting entries.

### **Remuneration Committee**

The current Remuneration Committee has three non-executive director members, of which two are independent.

The current members of the Committee are:

- Prof. Giorgio Barba Navaretti (Independent Director)

- Mr. Andrea Zappia (Independent Director)
- Prof. Giovanni Puglisi (non-executive Director).

In 2016 the **Remuneration Committee** met 6 times with the meetings lasting on average 1.5 hours.

During the aforesaid meetings, the Committee:

- presented the 2016 Welfare Plan together with a number of proposed additions;
- launched the project associated with the analysis of the Bank's incentive system and the structure of remuneration and set up a working group to define the remuneration policies to be applied from 2017.
- prepared the 2017 Remuneration Policies of the Banca Sistema Group.
- examined (add activities carried out in 2016)

During the 3 meetings held from the beginning of 2017, the Committee:

- examined the 2016 Remuneration Report pursuant to art. 123-ter of Legislative Decree no. 58/1998, the Explanatory Report of the Board of Directors on point 3), 4) and 5) of the agenda of the Shareholders' Meeting held on 28 April 2016 (ordinary session) and the Information Document relating to the 2016 Stock Grant Plan.
- assessed, following the approval of the financial statements as at 31 December 2016, the achievement of the performance targets underlying the Bank's variable remuneration system and provided the relevant opinions to the Board of Directors for the purpose of approving and granting the variable component for 2016

The Committee also provides feedback regarding any proposals to increase the variable-fixed ratio of remuneration to 2:1 and in relation to the self-assessment used to identify key personnel under the new Stock Grant plan to be submitted to the Shareholders' Meeting, as well as in respect of the performance targets associated with the incentives plans.

In accordance with the Corporate Governance Code and the Bank of Italy Circular 285, the Remuneration Committee has proposal, advisory and inquiry functions to support the Board of Directors and is provided with the powers and resources necessary to discharge its duties.

## ANNEX 1

This Annex describes the individual performance indicators to which the payment of the variable remuneration (cash and shares) is subject once the “bonus pool” has been defined.

The Bank uses these indicators to measure individual performance and subsequently to calculate the individual Bonuses and the ex-post adjustment mechanisms (so-called malus rules) to be applied when the deferred portion of bonuses referring to the reference year are paid.

The total variable remuneration paid as individual incentives cannot exceed the value of the “bonus pool”. If this value is exceeded, the individual incentives are reduced pro-quota to eliminate any amount in excess of the “bonus pool”.

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

The indicators linked to company-level performance - to which the distribution of the variable component under the “bonus pool” are subject - are described in point 5.1.2 of this Report.

The achievement of company-level performance targets is assessed by the Board of Directors, with input from the Remuneration Committee, in accordance with the procedures described above.

### **B. Individual performance**

In addition to company-level performance targets, the payment of the Bonus, partly in cash and partly in shares, is subject to meeting a number of individual quantitative and qualitative performance targets, which are defined and communicated to key personnel at the beginning of the reference year.

The performance appraisal process is carried out yearly as follows: the Bank’s employees log onto their personal account on the Banca Sistema HR web portal <http://studioripamonti.zucchetti.com/HRPortal/> and share the quantitative and qualitative targets for the following year with their direct heads.

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, linked mainly to the sales area or areas in which quantifiable factors can be measured (e.g. volume of sales compared to budget, annual savings on cost funding 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 co-workers).

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

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

Increase in efficiency: These targets are based on a comparison with the same activities performed in the previous years in connection with improving 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 4 qualitative indicators, each divided into 2 sub-indicators, which 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

In detail, qualitative indicators focus on:

- the observance and respect of the “values” that underpin the Bank’s activity, in compliance with the applicable regulations 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 individual 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.

The individual targets identified in relation to the 2017-2019 LTIP are as follows:

### **Band 1 (CEO/General Manager)**

For the CEO/General Manager, entitlement to the Bonus is subject to achieving positive Gross Earnings as a prerequisite for the distribution of the “bonus pool” and, for the three-year period 2017-2019, the entitlement is subject to satisfying the equally weighted access criteria (Key Risk Indicators, henceforth, “**KRIs**”) specified in the RAF of the reference year (**CET1 - LCR**).

This is in consideration of the fact that no Bonus is paid if the first level threshold indicated in the RAF is not satisfied, even in respect of one only of the two KRIs specified.

In addition to the company-level objectives specified above, the payment of the Bonus is also subject to the assessment (according to the criteria provided for in the paragraph below) of the achievement of the objectives linked to the following indicators:

- Profitability of the Bank
- Growth of the Bank
- Increase in the value of the Bank’s shares

The indicator used to measure the Bank’s profitability is Gross Earning against budget.

Growth means the year on year percentage increase in net banking income against budget.

Increase in the value of the Bank's shares is the difference between the year on year change in the average market price of the Bank's shares and the year on year change in the average FTSE Italia Finanza index in the last quarter of the year, as per 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 shares in the last quarter of the reference year t

$BS^{4/(t-1)}$  = average market price of Banca Sistema shares in the last quarter of the year t-1

$\text{Indice}^{4/t}$  = average FTSE Italia Finanza index in the last quarter of the reference year t

$\text{Indice}^{4/(t-1)}$  = average FTSE Italia Finanza index in the last quarter of the year t-1

The payment of the Bonus to the CEO is subject to the following equally weighted KRIs, as provided in the RAF of the reference year.

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

If the target threshold indicated in the RAF approved by the Bank's Board of Directors is not achieved, even in relation to one only of the 2 KRIs specified, and provided that the first level threshold has been met, the overall variable component of remuneration payable to the CEO/General Manager shall not exceed 80% of the fixed component of remuneration payable.

DEFINITION OF OBJECTIVES:

*Threshold* objective means achieving at least 75% of the Bank's profitability and growth targets and at least 5% of the target linked to the increase in the value of the shares.

*Overperformance* means achieving more than 150% of the Bank's profitability and growth targets and more than 5% of the increase in the value of the shares.

The first two objectives (Bank's profitability and growth) both account for 40% of the Bonus respectively and the third objective (increase in the value of the shares) accounts for 20% of the Bonus amount.

The Bonus is quantified, for each of the three objectives, as follows:

- *threshold* = 50% of Gross Annual Salary
- *target* = 100% of Gross Annual Salary
- *overperformance* = 200% of Gross Annual Salary

The Bank's Board of Directors assesses the CEO's level of achievement of the objectives upon approval of the financial statements relating to each Plan year.

### THREE-YEAR PERFORMANCE

The settlement of deferred Bonuses is subject to the assessment of the overall three-year performance levels at the end of the three-year period 2017-2019.

If the objectives are not met and with a view also to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period associated with the variable portion of remuneration (cash or shares) the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance levels during the entire three year period, net of risks assumed and save the verification of the access criteria set out under point 5.1.2, and/or to take into account the Bank's net assets and liquidity position or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct (*malus*).

The value of the reduction (or cancellation) of the deferred variable remuneration is determined by the Bank's Board of Directors on proposal of the Remuneration Committee. The *malus* mechanism is applied especially if the achievement of individual targets in the three-year period is less than 75% of the average targets identified pursuant to these Policies.

### **Bands 2 and 3**

The following objectives apply to other key personnel, in addition to company-level objectives:

- 2 function-level objectives established by the department head (for direct reports of the CEO, one of the two objectives is established beforehand to equate to gross earnings against budget).
- 2 individual objectives.

The function-level objectives account jointly for 60% of the Bonus amount and are identical for all eligible beneficiaries within the same department (excluding direct reports of the CEO).

Individual objectives are quantitative or qualitative and account for 40% of the Bonus amount.

For qualitative objectives which cannot be measured directly, the processes followed to assess achievement levels must be communicated in advance.

The department head defines two individual objectives for each position envisaged in the LTIP in that department. The objectives must be specifically linked to the employee's role.

*Threshold, target and overperformance* objectives are pre-established by the department head and communicated to employees.

Deviations from the target are defined in relation to each function-level and individual objective.

The individual incentive is zero if the employee does not achieve at least the threshold level of the two objectives.

The Bank's Board of Directors assesses key personnel's level of achievement of the objectives upon approval of the financial statements relating to each Plan year.

The incentive amount is as follows in each of the bands shows below:

**BAND 2:** 66.7% of the Gross Annual Salary, with a maximum of 80% paid for overperformance and a minimum of 33.35% paid at threshold level.

**BAND 3:** 50% of the Gross Annual Salary, with a maximum of 60% paid for overperformance and a minimum of 25% paid at threshold level.

### THREE-YEAR PERFORMANCE

The settlement of deferred Bonuses is subject to the assessment of the overall three-year performance levels at the end of the three-year period 2017-2019.

If the objectives are not met and with a view also to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period associated with the variable portion of remuneration (cash or shares) the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance levels during the entire three-year period, net of risks assumed and save the verification of the access criteria set out under point 5.1.2, and/or to take into account the

Bank's net assets and liquidity position or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct (*malus*).

The value of the reduction (or cancellation) of the deferred variable remuneration is determined by the Bank's Board of Directors on proposal of the Remuneration Committee. The *malus* mechanism is applied especially if the achievement of individual targets in the three-year period is less than 75% of the average targets identified pursuant to these Policies.

**TABLE 1 - FEES PAID TO MEMBERS OF THE MANAGEMENT AND CONTROL BODIES AND TO GENERAL MANAGERS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

(A) Name and surname	(B) Position held	(C) time in position	(D) expiry of office	note	(1)					(2) Committee membership fees	(3)		(4) Non-cash benefits	(5) Other remuneration	(6) Total	(7) Fair Value of equity remuneration	(8) Severance indemnity or employment termination
					Fixed remuneration						non equity variable						
					Fixed remuneration	Offices held pursuant to art. 2389, par. 3 of the Civil Code	Attendance token	Capped reimbursement of expenses	Fixed remuneration of employees		Bonuses and other incentives	Profit sharing					
GARBI GIANLUCA	CHIEF EXECUTIVE OFFICER	From 01/01/2016	Approval of finan. statements 31/12/2017		175				366		174		30	745		40	
LUITGARD SPOGLER	CHAIRMAN OF THE BOARD OF DIRECTORS	From 01/01/2016	Approval of finan. statements 31/12/2017		150									150			
CLAUDIO PUGELLI	VICE CHAIRMAN	From 01/01/2016	Approval of finan. statements 31/12/2017		30				5					35			
GIOVANNI ANTONINO PUGLISI	DIRECTOR	From 01/01/2016	Approval of finan. statements 31/12/2017		30				14					44			
DANIELE PITTATORE	DIRECTOR	From 01/01/2016	Approval of finan. statements 31/12/2017		30				22,5					52,5			
GIORGIO BARBA NAVARETTI	DIRECTOR	From 01/01/2016	Approval of finan. statements 31/12/2017		30				20					50			
ANDREA ZAPPIA	DIRECTOR	From 01/01/2016	Approval of finan. statements 31/12/2017		30				10					40			
CARLOTTA DE FRANCESCHI	DIRECTOR	From 01/01/2016	Approval of finan. statements 31/12/2017		30				16,5					46,5			
ILARIA BENNATI	DIRECTOR	From	First Shareholders meeting		16,6				5					21,6			
MICHELE CALZOLARI	DIRECTOR	From 01/01/2016	To 31/05/2016		12,5				16,6					29,1			
DIEGO DE FRANCESCO	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	From 01/01/2016	Approval of finan. statements 31/12/2016		40				15					55			
BIAGIO VERDE	STANDING AUDITOR	From 01/01/2016	Approval of finan. statements 31/12/2016		24									24			



TABLE 4 - ANNEX pursuant to Art. 450 CRR, letter h)

AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY "KEY PERSONNEL" CATEGORY

società	categoria	n.	i) retribuzione			ii) importi e forme componente variabile				iii) rem. Differite		iv) rem. differite			v) trattamenti				vi) tr.		importo più elevato
			fissa	variabile liquidato 2016 (*1)	totale	variabile da erogare 2017 (*2)	azioni	strumenti collegati ad	altre tipologie (*5)	attribuite (*4)	non attribuite (*6)	riconosciute	pagate	ridotte	di inizio	n. beneficiari	di fine	n. beneficiari	risconosciuto	n. beneficiari	
<b>A) KEY MANAGERS (ALTA DIRIGENZA)</b>																					
BANCA SISTEMA SPA		1,00	366.000,00	214.000,00	580.000,00	200.666,67			40.000,00		77.333,33	108.000,00									
<b>B) DIRIGENTI RESPONSABILI DELLE PRINCIPALI LINEE DI BUSINESS O FUNZIONI AZIENDALI, CON RIPORTO DIRETTO ALL'AMMINISTRATORE DELEGATO, AL DIRETTORE GENERALE O AI CONDIRETTORI GENERALI</b>																					
BANCA SISTEMA SPA		6,00	982.707,33	167.800,00	1.150.507,33	58.400,00			92.000,00		28.800,00	6.000,00									
<b>C) DIRIGENTI E QUADRI DIRETTIVI DI LIVELLO PIÙ ELEVATO RESPONSABILI DELLE FUNZIONI DI CONTROLLO</b>																					
BANCA SISTEMA SPA		5,00	819.729,55	130.000,00	949.729,55	57.666,67			67.000,00		13.333,33	18.000,00									
<b>D) ALTRI RISK TAKERS</b>																					
BANCA SISTEMA SPA		5,00	560.483,43	81.400,00	641.883,43	37.866,66			57.000,00		7.733,34	6.000,00									
<b>E) PRINCIPALI MANAGER OPERANTI NELL'AMBITO DELLE RETI DI DISTRIBUZIONE DELLA BANCA</b>																					
BANCA SISTEMA SPA		3,00	409.886,18	58.000,00	467.886,18	4.000,00			35.000,00		8.000,00										
		20,00	3.138.806,49	651.200,00	3.790.006,49	358.600,00			291.000,00		135.200,00	138.000,00									
<b>(*1) variabile liquidato 2016: bonus 2015 + patto non concorrenza</b>																					
per A) KEY MANAGERS:			214.000= 174.000 bonus 2015 (60% di 290.000) + 40.000 patto non concorrenza																		
<b>(*2) variabile da erogare 2017: bonus 2016 da attribuire post Assemblea dei Soci del 27/4/2017 + parte differita del bonus 2015 erogabile nel 2017</b>																					
per A) KEY MANAGERS:			200.666,67= 162.000 bonus 2016 (60% di 270.000) + 38.666,67 bonus 2015 parte differita del bonus 2015 erogabile nel 2017 (1/3 di 116.000)																		
<b>(*3) altre tipologie: compenso da erogare nel 2017 per patto di non concorrenza</b>																					
per A) KEY MANAGERS:			40.000 patto non concorrenza importo in acconto da erogare nel 2017																		
<b>(*4) attribuite: bonus 2015 parte differita agli anni 2018/2019</b>																					
per A) KEY MANAGERS:			77.333,33 restante parte differita bonus 2015 (2/3 di 116.000)																		
<b>(*5) non attribuite: bonus 2016 parte differita agli anni 2018/2019/2020</b>																					
per A) KEY MANAGERS:			108.000,00 restante parte differita bonus 2016 (40% di 270.000)																		

- i. the remuneration amounts relating to the period, broken down by fixed and variable remuneration and beneficiary;
- ii. the amounts and the forms of variable remuneration, subdivided into cash, shares, instruments linked to the shares and other types;
- iii. the amounts of existing deferred remuneration, broken down by assigned portion and outstanding portion;
- iv. the amounts of deferred remuneration granted in the financial year, paid and adjusted downwards based on performance;
- v. new signing-on bonuses and severance indemnity payments made in the financial year and the number of beneficiaries;
- vi. the amounts of severance indemnity payments made in the financial year, the number of beneficiaries and the highest amount paid per person.

TABLE 5 - ANNEX pursuant to Art. 450 CRR, letter g)

AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY BUSINESS AREA OF “KEY PERSONNEL”

Company	Business area	no. of beneficiaries	fixed remuneration	variable remuneration	Note
Banca Sistema SpA	<i>Factoring</i>	3	409,886.18	58,000.00	
Banca Sistema SpA	<i>Banking</i>	1	161,000.03	30,800.00	
Banca Sistema SpA	<i>Finance</i>	2	365,200.11	71,600.00	
Banca Sistema SpA	<i>Internal Control Functions</i>	4	599,929.53	80,000.00	
Banca Sistema SpA	<i>Other</i>	9	1,236,790.64	196,800.00	

Notes:

The “Other” business area refers to key personnel employed in the following areas: operations, collection, legal, marketing, treasury and underwriting