

BANCA IFIS S.P.A.
Share capital Euro 53,811,095 fully paid-in
Tax Code and Reg. of Companies of Venice 02992620274
ABI (Italian Bank Association) 3205.2
Via Terraglio, 63 - 30174 Mestre - Venice

DIRECTORS' EXPLANATORY REPORT ON THE PROPOSALS CONCERNING THE ITEMS ON THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING CONVENED IN SINGLE CALL AT THE REGISTERED OFFICE LOCATED AT THE ADDRESS OF VIA TERRAGLIO 63, MESTRE - VENICE, FOR 22 MARCH 2016 AT 09:30 HRS.

(Report pursuant to article 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 - "Consolidated Law on Finance")

Dear Shareholders,

You have been convened for the purpose of adopting resolutions with regard to the proposals contained in the items on the agenda of the Ordinary Shareholders' Meeting convened in single call at the registered office located at the address of Via Terraglio 63, Mestre – Venice, for 22 March 2016 at 09:30 hrs.

The items on the agenda of the Shareholders' Meeting, as specified in the convening notice, are as follows:

1) Approval of the annual financial statements as of 31 December 2015; communication of the group annual consolidated financial statements as of 31 December 2015; allocation of profits for the year; inherent and consequent resolutions;

2) Remuneration policies for corporate officers, employees and associates of the Banca IFIS Banking Group: Report on remuneration;

3) Appointment of the Board of Directors, subject to determination of the number of members, duration in office and fees;

4) Appointment of the Board of Statutory Auditors for the 2016-2018 three-year period and determination of fees.

In compliance with the publicity obligations provided for by Article 125-*ter* of the Italian Legislative Decree no. 58 of 24 February 1998 (“Consolidated Law on Finance”), without prejudice to the obligations set forth by additional provisions of the law or regulations, the Board of Directors has drawn up this explanatory report on the items on the agenda of the Shareholders' Meeting.

This report is made available to the public by filing it at the registered office and at Borsa Italiana S.p.A., as well as by publishing it on the Bank's website www.bancaifis.it (pursuant to Article 125-*quater* of the Consolidated Law on Finance).

* * *

1) Approval of the annual financial statements as of 31 December 2015; communication of the group consolidated financial statements as of 31 December 2015; allocation of profits for the year; inherent and consequent resolutions

Dear Shareholders,

The draft annual balance sheet as of 31 December 2015, which we submit to your approval, shows a profit of Euro 160,743,253.79 (one hundred sixty million seven hundred forty three thousand and two hundred fifty three point seventy-nine Euro), which allows us to propose the allocation of profits through the distribution of a cash dividend of Euro 0.76 for each ordinary share with ex-dividend date of coupon (no. 19) on 29 March 2016.

Under Article 83-*terdecies* of the Italian Legislative Decree of 24 February 1998, no. 58 (Consolidated Law on Finance) legitimation to the payment of the dividend is determined with reference to the evidence of the intermediary accounts referred to in Article 83-*quater*, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of 30 March 2016 (so called *record date*).

The total disbursement, determined gross of the quota pertaining to the treasury shares, pursuant to Article 2357-*ter* of the Italian Civil Code, is equal to a maximum of Euro 40,896,432.20.

The payment of the aforementioned dividend, before the statutory deductions, is scheduled for 31 March 2016.

The proposal to allocate the profit is in line with the dividends policy implemented by the Company, aimed at reconciling the need to strengthen company equity with the shareholders' expectation to receive a dividend in line with the results of the annual financial statements.

We also submit to your attention the consolidated financial statements as of 31 December 2015 which, although not subject to approval by the Shareholders' Meeting, represents additional information provided with the annual financial statements of Banca IFIS S.p.A.

For additional and more detailed information regarding the above, please refer to the contents of the reports and documents filed with the company's registered office pursuant to Article 2429, paragraph 3, of the Italian Civil Code, the Borsa Italiana S.p.A. and the authorized storage mechanism www.emarketstorage.com, also published on the Bank's website www.bancaifis.it pursuant to Article 154-*ter* of the Consolidated Law on Finance.

Now therefore, we hereby submit to your approval the following

proposed resolution

The Ordinary Shareholders' Meeting of Banca IFIS S.p.A., having taken note of the Board of Directors' report on operations, of the Board of Statutory Auditors' report and of the Auditing company's report, having reviewed the annual financial statements as of 31 December 2015

resolves

A) to approve the annual financial statements for the period ending on 31 December 2015, with the report on operations presented by the Board of Directors;

B) to allocate the net profit for the period equal to Euro 160,743,253.79 (one hundred sixty million seven hundred forty three thousand and two hundred fifty three point seventy-nine Euro) as follows:

a) to shareholders a dividend in cash (before withholding the tax required by law) of 0.76 Euro for each ordinary share with ex-dividend date of coupon (no. 19) on 29 March 2016. Such dividend includes the portion attributable to the treasury shares held by the company. Under Article 83-terdecies of the Italian Legislative Decree of 24 February 1998, no. 58 (Consolidated Law on Finance) legitimation to the payment of the dividend is determined with reference to the evidence of the intermediary accounts referred to in Article 83-quater, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of 30 March 2016 (so called record date);

b) to other reserves as for the remaining amount;

C) to perform payment of the aforementioned dividend from 31 March 2016. The payment will be made by means of authorised intermediaries at which shares are registered in the Monte Titoli System.

2) Remuneration policies for corporate officers, employees and associates of the Banca IFIS Banking Group: “Report on remuneration”

Dear Shareholders,

We present you with the document entitled “Report on remuneration” approved by the Board of Directors of Banca IFIS during the meeting held on 2 February 2016.

With the aforementioned document, the Board aimed to fulfil the requirements referred to in Article 123-ter of the Consolidated Law on Finance as well as the banking sector regulations and the self-regulation rules contained in the Self Governance Code of listed companies.

The Report hence contains additional information, in aggregate form, on individuals known as “Risk-takers” not included in the scope of the aforementioned article of the Consolidated Law on Finance.

With regard to the normative framework, specific reference is made to the following:

- a) with reference to primary and secondary regulations applicable to listed companies
 - Article 123-ter of the Consolidated Law on Finance containing the provision requiring companies to make available to the public a Report on Remuneration at least twenty-one days prior to the date of the Ordinary Shareholders’ Meeting convened to approve the annual financial statements;
 - Article. 84-quater of the Issuers’ Regulations containing the requirement to make available to the public the aforementioned report on remuneration in compliance with the “Scheme 7-bis” of Annex 3 A to the Issuers’ Regulations;

- b) with reference to the secondary regulations applicable to Banks and Banking Groups
 - the Circular no. 285 of 17 December 2013 – “Supervisory provisions for banks” of 20 November 2014 that, by transposing the provisions of directive 2013/36/EU (CRD IV) relating to the prudential rules for banks and investment companies, has updated the provisions on policies and practices of remuneration and incentive schemes in banks and in groups;
- c) with reference to self-regulation rules of listed companies
 - the “format for the report on corporate governance and ownership structures” of listed companies made available by Borsa Italiana S.p.A. in January 2015;
 - the Self Governance Code approved by the Corporate Governance Committee in July 2015.

The contents of the Report, approved by the Board of Directors, were reviewed by the Remuneration Committee, from a standpoint of preliminary work on issues falling under its responsibility.

Briefly, the “Report on remuneration” consists of:

- Section I aimed at illustrating, for the components of the management bodies, general managers and executives with strategic responsibilities as well as for the “*Risk Takers*” not falling within the scope of Article 123-ter of the Consolidated Law on Finance, the company’s policy on remuneration and the procedures used for the adoption and implementation of this policy. This section describes the policy provided for the financial year 2016.
The General Shareholders’ Meeting is called to decide for or against on that Section I of the Report;
- Section II organized in two parts; the first aimed at representing, by name, with regard to the members of the management and control bodies, the general managers and, in aggregated form, with regard to executives with strategic responsibilities as well as the “*Risk Takers*”, each of the items composing the remuneration. The second part represents the analytical breakdown in tabular form, as indicated by the Annex 3A, Scheme no. 7-bis of the Issuers’ Regulations, the fees paid in the course of the financial year 2015 or relating thereto in any way and in any form by the company and its subsidiaries or related companies.

In particular the Report also confirms for the year 2016:

- a) the formula calculating the variable portion of the Chief Executive Officer and General Manager (respectively 1.5% and 0.75% of the share of the bank’s consolidated result before the sole income taxes for the year, for the part exceeding 40 million Euro) multiplying the result by the ratio between the RORAC of the preceding financial year and the RORAC foreseen for the year in progress (as obtainable from the most recent approved update of the industrial plan of three years);
- b) the qualification criterion of the variable component that is considered “of particularly large amount” (and therefore subject to a delay of 5 years according to the new supervisory provisions) if greater than the fixed remuneration, something that is not compatible with the statutory forecasts;
- c) the malus mechanism consistent with the sub a) formula, to check and possibly apply in each of the three financial years closed after the determination of the variable component;
- d) the claw back clause applying, for each of the three financial years ending after the determination of the variable component, to the case of

- ✓ “significant” loss for the Bank (loss equal to or greater than 5% of net equity)
 - ✓ “total ratio of available funds” below the regulatory threshold from time to time in force;
 - ✓ violations of the obligations imposed pursuant to Article 26 (requirements of professionalism, personal integrity and independence), or when the subject is a party concerned, in accordance with Article 53, paragraphs 4 and ff. (conflict of interest), the 1993 Banking Law or obligations in respect of remuneration and incentive schemes;
 - ✓ fraudulent behaviour or serious negligence to the detriment of the Bank;
- e) the retention period of (three years) of the portion to be paid in shares for the up-front portion;
- f) the maximum quota of variable remuneration payable to most relevant staff of the control functions equal to one third of the RAL (as allowed by the supervisory provisions);
- g) the minimum limits of quantitative parameters to which access to the variable portion is subjected by the remaining “most relevant staff”, other than the Chief Executive Officer and General Manager and not belonging to the category of those responsible for the internal audit functions (minimum solvency ratio of 10.5% and minimum consolidated profit before taxes of competence at 8% of consolidated net equity before the profit of the year).

The main proposed changes compared to the previous year are due to some changes in the organizational structure of the Banking Group, as well as in the new perimeter of the “most relevant staff” together with the successful identification of executives with further strategic responsibilities with respect to the General Manager. In particular for some members of the most relevant staff, other than the Chief Executive Officer and the General Manager and which do not belong to the category of those responsible for the internal control functions, the composition criteria of the variable remuneration have been defined in greater detail taking into consideration also a MBO (Management By Objectives) system and the trend of the Cost Income Ratio.

Given the importance assumed by the observance of medium and long-term objectives for the Bank, an incentive was identified for executives with strategic responsibilities, excluding the General Director and those responsible for the internal audit functions, that rewards the constancy of excellent performance over time.

Lastly, the “Report” indicates, in compliance with Article 84-*quater* of the Issuers’ Regulations, the shares held by the members of the Board of Directors and of the Board of Statutory Auditors, by the General Manager and by the other executives with strategic responsibilities.

The Report will be available to the public at the registered office, the Borsa Italiana S.p.A. and the authorized storage mechanism www.emarketstrage.com or, and will also be published on the Bank’s website www.bancaifis.it. by this upcoming 1 March and however together with the Report on corporate governance and the ownership structures.

The changes proposed in Section I of the Report have also entailed, pursuant to Article 114-*bis* of the Consolidated Law on Finance and the relevant implementing regulations (Article 84-*bis* of the Issuers’ Regulations), the need to put at the disposal of the public - along with this report - at the company’s registered office, on the internet site and in compliance with the other rules established by Consob, an information document on the consequent compensation plan based on the allocation of Banca IFIS shares to certain corporate officers.

We also present you with the outcome of the verification carried out by the Internal Audit Function on the methods used to ensure compliance of the remuneration practices with the normative context (verification that was also presented to the Board of Directors), as required by the above-mentioned Bank of Italy's supervisory provisions.

In light of all of the above, we hereby submit for your approval the following

proposed resolution

“The Ordinary Shareholders’ Meeting, having heard and approved the Board of Directors’ proposal listed in item no. 2) on the agenda:

A) takes note of the report on the implementation of remuneration policies during the course of 2015 presented, in compliance with Article 10 of the Articles of Association as well as with the regulations in force on the subject, within the scope of the document entitled “Report on remuneration”, drawn up in compliance with Article 123-ter of the Consolidated Law on Finance;

B) takes note of the outcome of the verification carried out by the Internal Audit Function on the methods used to ensure compliance of the remuneration practices with the normative context;

C) resolves to approve the contents of Section I of the document entitled “Report on remuneration” drawn up pursuant to Article 123-ter of the Consolidated Law on Finance, also for the purposes of adapting the remuneration policies of the Banca IFIS Banking Group for 2015;

D) resolves to approve the compensation plan based on the allocation of Banca IFIS shares to certain corporate officers described in the information document drawn up pursuant to Article 114-bis of the Consolidated Law on Finance and the relevant implementing regulations (Article 84-bis of the Issuers’ Regulations) and put at the disposal of the shareholders in terms of law”.

3) Appointment of the Board of Directors, subject to determination of the number of members, duration in office and fees

Dear Shareholders,

with the approval of the annual financial statements for the period ending on 31 December 2015 the three-year mandate of the Board of Directors expires. Thanking you for the confidence you have in us, we invite you, in accordance with Article 2364, paragraph 1, point 2), of the Italian Civil Code, to arrange for the appointment of the new Administrative Body, subject to determination of its duration and numerical composition.

In this respect we remind you that Article 11 of the Articles of Association, to which it refers, establishes that the Board of Directors is appointed with a list vote mechanism and is composed of a number of members ranging from 5 to 15. The Board of Directors remains in office for a period of a maximum of three years, established at the moment of election and expiring on the date in which the Shareholders’ Meeting, called to approve the annual financial statements for the last year of their office, takes place.

In the compilation of the lists for the election of the Board of Directors the shareholders must take into account the legislative and regulatory framework in force (Italian Civil Code, Italian Legislative Decree 58/1998, Italian Legislative Decree 385/1993 and “Supervisory instructions for banks”, Italian Law Decree of 6 December 2011, no. 201, converted into law of 22 December 2011, no. 214), in part also recalled in the articles of association and the nature of listed company on the STAR segment of Banca IFIS.

In particular, we remind you of the need to take into account:

- the provisions of Article 11 of the articles of association, whereby
 - at least a quarter of the candidates (if this ratio is not an integer, it is approximated to the nearest lower integer if the first decimal is less than or equal to 5; otherwise it is approximated to the nearest higher integer) must be in possession of the independence requirements provided for both by the Self Governance Code of listed companies and by Article 148, paragraph 3 of Italian Legislative Decree no. 58/1998. These candidates must be placed on the list among the top four places in sequential order;
 - each list should contain a number of candidates belonging to the least represented gender, equal to at least one third, except for those lists that include a number of candidates that is less than three.
- the provisions established in the “Instructions accompanying the Rules of the Markets organised and managed by Borsa Italiana” in Article IA.2.10.6 – Provisions related to Issuers belonging to the STAR segment - Directors’ independence – according to which, with regard to the Boards of Directors consisting of a number of directors from 9 to 14, at least three of said directors have to be independent;
- the provisions established by Article 36 of the Italian Law Decree no. 201 of 6 December 2011, converted into law no. 214 of 22 December 2011, which prohibits holders of offices in managerial, supervisory and control bodies to take on or carry out similar offices in competing companies or groups of companies, under penalty of being barred from the office. Consequently, the candidates shall provide, together with the documentation requested for presenting the lists, a declaration that also confirms the lack of concurring offices or the commitment to exercise the option provided for in the afore-mentioned legal provisions within 90 days of any eventual appointment to office;
- the provisions established by Article 26 of the Italian Legislative Decree 385/1993, according to which *“the corporate officers must satisfy the requirements of professionalism, integrity and independence, meet the criteria of competence and correctness, dedicate the necessary time to the effective completion of the assignment, so as to ensure the sound and prudent management of the bank”*.

We also remind you of the opportunity to take a preliminary look, possibly by contacting the Bank’s departments, at the “Regulations on the cumulation of offices of corporate officers” approved by the Shareholders’ Meeting of Banca IFIS held on 30 June 2009, and to verify that candidates do not cover offices in other companies in a number that exceeds the provisions of said Regulations, whose contents are summarized in the Reports on corporate governance and ownership structures drawn up and published every year pursuant to Article 123-*bis* of the Consolidated Law on Finance.

The lists and the accompanying documentation shall be made public, according to the terms of the law, at the registered office, the Borsa Italiana S.p.A. and the authorized storage mechanism www.emarketstrage.com or, and will also be published on the Bank’s website www.bancaifis.it.

The list for which the requirements referred to in Article 11 of the Articles of Association in force are not complied with shall be considered as never having been submitted.

We also remind you that, in compliance with the “*Supervisory Provisions on the subject of organisation and corporate governance of banks*” issued by the Bank of Italy, and in light of the provisions of the Self Governance Code of listed companies, the current Board of Directors has carried out a “self-evaluation” concerning the size, composition and functioning of the Board itself as well as the suitability of its members to carry out their functions from the standpoint of professionalism, available time and independence.

For the purposes of the lists’ submission, the Shareholders are invited to consider the provisions of the Report on “Optimal qualitative-quantitative composition of the Board of Directors of Banca IFIS” approved by the Board of Directors on 2 February 2016 and available on the company website (www.bancaifis.it, Corporate Governance section / Shareholders’ Meeting / Ordinary Meeting 22 March 2016).

This self-assessment showed a favourable assessment with regard to a quantitative composition of the Board (nine members) similar to the current one. From the point of view of the competences and gender assortment, the following opportunities emerged: the presence of at least four board members in possession of the requirements of independence provided for by the Self Governance Code and the need for three directors belonging to the least represented gender.

With reference to the operation of the Bank in the context of the purchase and management of non-performing loans and tax credits, the Board was oriented, inter alia, toward a further strengthening in terms of specific competence in this field.

Moreover, we invite you to adopt a resolution - pursuant to Article 2364, paragraph 1, point 3), of the Italian Civil Code - concerning the fees to be paid to the Directors.

We recall that, with regard to the Board of Directors currently in office, the Shareholders’ Meeting of 30 April 2013 had

- resolved to allocate to individual components for the office of director, Euro 25,000.00 for each of the financial years 2013, 2014 and 2015, in addition to the reimbursement of expenses incurred as a result of their office;
- resolved to give all the Directors, excluding the Chairman, Deputy Chairman and Chief Executive Officer, Euro 1,250.00 for any participation in person at the meetings of the Board of Directors at the registered office or the different place of convocation and Euro 500.00 for each participation in the meetings of the Board of Directors by means of audio/video conference call;
- entrusted to the Board of Directors to determine for each of the financial years 2013, 2014 and 2015 the remuneration of directors vested with special charges within the meaning of Article 2389 of the Italian Civil Code - also having regard, where appropriate, to business outcomes, in compliance with the Remuneration Policies in favour of corporate officers, employees and associates of the Banca IFIS Banking Group approved by the Shareholders’ meeting - in a total amount not exceeding Euro 3.5 million for one financial year, to be understood as including all remuneration assigned to the members of the Board.

With regards to the above, reference is made to the previous item on the agenda (item 2), within whose scope the Shareholders’ Meeting will be informed as regards the implementation of remuneration policies during the course of 2015, in compliance with Article 10 of the

Articles of Association as well as with the regulations in force on the subject, and shall be called to adopt a resolution concerning the adaptation of said policies. No proposed changes are made on the subject of payments to the directors.

4) Appointment of the Board of Statutory Auditors for the 2016-2018 three-year period and determination of fees

Dear Shareholders,

the three-year term of office of the Board of Statutory Auditors expires with the approval of the annual financial statements for the period ending on 31 December 2015. You are therefore invited, pursuant to Article 2364, paragraph 1, point 2) of the Italian Civil Code, to arrange for the appointment, for the three-year period ending with approval of the financial statements as of 31 December 2015, of three Standing Auditors and two Substitute Auditors, as well as for the appointment of a Chairman of the Board of Statutory Auditors and the determination of the relevant annual fees.

With regards to the above, we remind you that the Board of Statutory Auditors is appointed according to the list vote criterion, pursuant to Article 21 of the Articles of Association in force, to which it refers, and in compliance with applicable provisions of law.

When compiling the lists for the election of the Board of Statutory Auditors, the Shareholders must take into account the legislative and regulatory framework in force (Italian Civil Code, Italian Legislative Decree 58/1998, Italian Legislative Decree 385/1993 and “Supervisory instructions for banks”, Italian Law Decree of 6 December 2011, no. 201, converted into law of 22 December 2011, no. 214), and in part also recalled in the articles of association.

In particular, we remind you of the need to take into account:

- the provisions established by Article 36 of the Italian Law Decree no. 201 of 6 December 2011, converted into Law no. 214 of 22 December 2011, which prohibits holders of offices in managerial, supervisory and control bodies to take on or carry out similar offices in competing companies or groups of companies, under penalty of being barred from the office. Consequently, the candidates shall provide, together with the documentation requested for presenting the lists, a declaration that also confirms the lack of concurring offices;
- the provisions established by Article 21 of the Articles of Association, whereby each list must contain at least one candidate for the office of standing auditor and at least one candidate for the office of substitute auditor belonging to the less represented gender. Such requirement does not apply to lists with less than three candidates;
- the provisions established by Article 26 of the Italian Legislative Decree 385/1993, according to which *“the corporate officers must satisfy the requirements of professionalism, integrity and independence, meet the criteria of competence and correctness, dedicate the necessary time to the effective completion of the assignment, so as to ensure the sound and prudent management of the bank”*.

We also remind you of the opportunity to take a preliminary look, possibly by contacting the Bank’s departments, at the “Regulations on the cumulation of offices of corporate officers” approved by the Shareholders’ Meeting of Banca IFIS held on 30 June 2009, and to verify that

candidates do not cover offices in other companies in a number that exceeds the provisions of said Regulations, whose contents are summarized in the Reports on corporate governance and ownership structures drawn up and published every year pursuant to Article 123-*bis* of the Consolidated Law on Finance.

The lists and the accompanying documentation shall be made public, according to the terms of the law, at the registered office, the Borsa Italiana S.p.A. and the authorized storage mechanism www.emarketstrage.com or, and will also be published on the Bank's website www.bancaifis.it.

That being said, we therefore invite you to arrange for the appointment, up to approval of the financial statements as of 31 December 2018, of the Board of Statutory Auditors, consisting of three Standing Auditors, one of which is the Chairman, and of two Substitute Auditors, and for the determination of the relevant fees.

We recall that, relatively to the Board of Statutory Auditors in charge, the Shareholders' Meeting of 30 April 2013 had established a gross annual remuneration of Euro 75,000.00 for the Chairman (in addition to reimbursement of expenses incurred by reason of his/her office) and of Euro 50,000.00 in favour of the two Standing Auditors (in addition to reimbursement of expenses incurred by reason of their office). It also resolved to award all the Standing Auditors Euro 1,000.00 for any participation in person at the meetings of the Board of Directors at the registered office or the different place of convocation and Euro 500.00 for each participation in the meetings of the Board of Directors by means of audio/video conference call.

Venice - Mestre, 2 February 2016.