

**BANCA IFIS S.P.A**  
**Fully paid up share capital €3,811,095**  
**Tax Ref. and Venice Companies Register no. 02992620274 - Bank of Italy Reg. 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 AT THE REGISTERED OFFICE LOCATED AT THE ADDRESS OF VIA  
TERRAGLIO 63, MESTRE - VENICE, FOR 21st APRIL 2017 AT 9:00 AM.**

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

Dear Shareholders,

You are convened to deliberate the proposals contained in the agenda items of the Ordinary Shareholders' Meeting convened in single call at the registered office, Via Terraglio 63, Mestre - Venice, on 21st April 2017 at 9:00 am.

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

1) Approval of the annual financial statement as of 31 December 2016; communication of the group annual consolidated financial statement as of 31st December 2016; 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: Remuneration report.

In accordance with the disclosure requirements under Article 125 *c* of Legislative Decree no. 58 of 24th February 1998 ("Consolidated Law on Finance"), without prejudice to the obligations set forth by additional legal or regulatory provisions, the Board of Directors has drawn up this explanatory report on the topics listed in the agenda of the Shareholders' Meeting.

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

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## **1) Approval of the annual financial statement as of 31 December 2016; communication of the group annual consolidated financial statement as of 31st December 2016; allocation of profits for the year; inherent and consequent resolutions**

Dear Shareholders,

The draft annual financial statement as of 31 December 2016<sup>1</sup>, which we submit for your approval, shows a profit of €1,721,930.39 (seventy-one million seven hundred and twenty one thousand nine hundred and thirty point three nine Euros), which allows us to propose the allocation of profits through the distribution of a cash dividend of €0.82 for each ordinary share with ex-dividend date of coupon (no. 20) of 2nd May 2017.

Under Article 83-m of Legislative Decree no. 58 of 24th February 1998 (Consolidated Law on Finance) legitimation of the payment of the dividend is determined with reference to the evidence of the intermediary accounts referred to in Article 83-d, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of 3rd May 2017 (so-called *record date*).

The total disbursement, determined gross of the quota pertaining to treasury shares, pursuant to Article 2357c of the Italian Civil Code, is equal to a maximum of €43,813,374.08.

The payment of the aforementioned dividend, before statutory deductions, is scheduled for 4th May 2017.

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 statement.

We also submit for your attention the consolidated financial statement as of 31 December 2016 which, although not subject to approval by the Shareholders' Meeting, represents additional information provided with the annual financial statement 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 at the company's registered office, pursuant to Article 2429, paragraph 3, of the Italian Civil Code, the Borsa Italiana S.p.A. and the authorised storage mechanism [www.emarketstorage.com](http://www.emarketstorage.com), as well as being published on the Bank's website [www.bancaifis.it](http://www.bancaifis.it) pursuant to Article 154-c of the Consolidated Law on Finance.

Now therefore, we submit the following

### **proposed resolution for your approval**

*“The Ordinary Shareholders' Meeting of Banca IFIS S.p.A., having taken note of the Board of Directors' management report, of the Board of Statutory Auditors' report and of the report by the Auditing firm, having reviewed the annual report as of 31st December 2016*

### ***resolves***

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<sup>1</sup> The draft annual and consolidated financial statements as at 31st December 2016 will be submitted for approval by the Board of Directors on 16th March 2017.

A) to approve the annual financial statement for the period ending 31st December 2016, with the management report presented by the Board of Directors;

B) to allocate the net profit for the period equal to €71,721,930.39 (seventy one million seven hundred and twenty one thousand nine hundred and thirty point three nine Euros) as follows:

a) a cash dividend to shareholders (gross of taxes) of €0.82 for each ordinary share with ex-dividend date of coupon (no. 20) of 2nd May 2017. This dividend includes the portion attributable to the treasury shares held by the company. Under Article 83-m of Legislative Decree no. 58 of 24th February 1998 (Consolidated Law on Finance) legitimation of the payment of the dividend is determined with reference to the evidence of the intermediary accounts referred to in Article 83-d, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of 3rd May 2017 (so-called record date);

b) to other reserves as for the remaining amount;

C) to pay the above dividend from 4th May 2017. Payment will be made through the authorised intermediaries with whom the shares are registered in the Monte Titoli system.”

## **2) Remuneration policies for corporate officers, employees and associates of the Banca IFIS Banking Group: “Remuneration report”.**

Dear Shareholders,

We present the document entitled “Remuneration Report” approved by the Banca IFIS Board of Directors at their meeting of 2nd March 2017.

With this document, the Board has aimed to fulfil the requirements referred to in Article 123-c 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.

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

Specific reference is made to the following aspects of the regulatory framework:

- a) with reference to primary and secondary regulations applicable to listed companies
  - Article 123-c of the Consolidated Law on Finance containing the provision requiring companies to make a Remuneration Report available to the public at least twenty-one days prior to the date of the Ordinary Shareholders’ Meeting convened to approve the annual financial statement;
  - Article 84-d of the Issuers’ Regulations containing the requirement to make the Remuneration Report available to the public in compliance with “Scheme 7-b” of Appendix 3 A of the Issuers’ Regulations;
- b) with reference to the secondary regulations applicable to Banks and Banking Groups
  - Circular no. 285 of 17 December 2013 – “Supervisory Provisions for Banks” of 20 November 2014 that, by implementing the provisions of directive 2013/36/EU (CRD IV) relating to the prudential supervision of credit institutions and investment companies, has updated the regulations for the remuneration policies and practices

- and incentive schemes of banks and [banking] 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 2017;
  - the Self Governance Code approved by the Corporate Governance Committee.

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 “Remuneration Report” consists of:

- Section I aimed at illustrating the company’s remuneration policy for members 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-c of the Consolidated Law on Finance, and the procedures used to adopt and implement this policy. This section describes the policy provided for the financial year 2017. The Ordinary Shareholders’ Meeting is called to decide for or against Section I of the Report;
- Section II organised in two parts; the first aimed at showing each remuneration item with name for 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*”. The second part shows a table of the remuneration paid during 2016 or relating to it, for whatever reason and in whatever form by the company and subsidiaries or affiliates, as indicated by Appendix 3A, Figure 7 *b* of the Issuer Regulations. The additional information required by Article 450 of EU Regulation no. 575 of 26 June 2013 is then included in table form for Banca IFIS and the other Group companies.

The main changes contained in the “Remuneration Report” are aimed at better aligning Remuneration and Incentive Policies to the objectives of: compatibility with levels of capital and liquidity, financial stability, medium to long-term direction and compliance with regulations.

Therefore, the conditions of access to the variable component (gate) that apply to all staff were made explicit, making them dependent on: a Group consolidated result, before taxes for that particular financial year, exceeding €60 million; compliance with the minimum Group Liquidity Coverage Ratio (LCR) indicator limits, as defined by prevailing regulations, calculated as an average of the last twelve month-ends of the year in question; a consolidated Total Expense Ratio of own funds that is greater than capital requirements (Overall Capital Requirement) communicated by the Supervisory Body under the “Decisions on capital” at the conclusion of the periodic supervisory review process (SREP).

Against this background, the formulas for calculating the variable component for the CEO and Director General were consequently adjusted, increasing the share of net profit before non-computable taxes and excluding from this calculation any elements arising from extraordinary operations.

In the “Remuneration Report”, the materiality threshold laid down for implementing the rules on deferment and partial payment in shares was also reconsidered, lowering it to €70,000, as was the application of malus and claw back mechanisms.

To better align individual objectives to business results and value creation targets in the medium to long term, the possibility of a further Long Term Incentive has been defined for *business units* with a gross budget profit of more than €20 million in 2017. Taking the Parent Company's strategically important projects and/or extraordinary operations into consideration, the potential

for an allowance as a default sum, under specific conditions, has been set out for principal staff members who play a particularly important role in these initiatives, not linked to *performance*. Finally, the methods of *performance* assessment were specified for principal staff responsible for corporate control functions, making it clear that any variable components may be proposed by the Remuneration Committee, in consultation with the Chief Executive Officer and the Director General, and the Board of Directors.

The following were also confirmed for 2017:

- a) the structure of variable component structure for principal staff that exceeds the materiality threshold, also retaining the choice not to provide for payment of a large variable component. This would mean that a variable remuneration would be greater than a fixed salary which, as per the limits fixed *ex ante* by the Parent Company, may not occur;
- b) the vesting period (3 years) for the deferred variable component;
- c) the retention period (3 years) for the corresponding quota in shares for the up-front part and (1 year) for the corresponding quota in shares for the deferred part;
- d) the relationships between the variable and fixed components of principal staff remuneration, including the limit of 33% for principal staff with business control functions.

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

The Report will be available to the public at the Company's registered office, at Borsa Italiana S.p.A. and at the authorised storage mechanism [www.emarketstorage.com](http://www.emarketstorage.com), and will also be published, together with the Report on corporate governance and the ownership structure, on the Bank’s website [www.bancaifis.it](http://www.bancaifis.it) by 23rd March.

The changes proposed in Section I of the Report also require the Company, pursuant to Article 114-*b* of the Consolidated Law on Finance and the relevant implementing regulations (Article 84-*b* of the Issuers’ Regulations), to draw up an information document on the consequent remuneration plan based on the allocation of Banca IFIS shares to certain corporate officers and make it available to the public - together with this report - at the company’s registered office, on its internet site and in compliance with any other method established by Consob.

We also present the outcome of the checks carried out by the Internal Audit Function on the methods used to ensure that our remuneration practices comply with regulations (checks that were also presented to the Board of Directors on 16th March 2017), as required by the above-mentioned Bank of Italy’s supervisory provisions.

In light of all of the above, we hereby submit the following

### **proposed resolution for your approval**

*“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 2016 presented, in compliance with Article 10 of the Company's Articles of Association as well as with the regulations in force on the subject, within the scope of the document entitled "Remuneration Report", drawn up in compliance with Article 123-c of the Consolidated Law on Finance;*

*B) takes note of the outcome of the checks carried out by the Internal Audit Function on the methods used to ensure that the Company's remuneration practices comply with regulations;*

*C) resolves to approve the contents of Section I of the document entitled "Remuneration Report" drawn up pursuant to Article 123-c of the Consolidated Law on Finance, also for the purposes of adapting Banca IFIS Banking Group's remuneration policies for 2016;*

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

Venice - Mestre, 2nd March 2017