

BANCA IFIS S.p.A.
Fully paid-up share capital € 53,811,095
Tax Ref. and Venice Business Register no. 02992620274 - Italian Banking Association
Code. 3205.2
Via Terraglio, 63 - 30174 Venice - Mestre

**DIRECTORS' EXPLANATORY REPORT ON THE PROPOSALS REGARDING
ITEMS ON THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING
CONVENED IN SINGLE CALL AT THE COMPANY'S REGISTERED OFFICE AT
VIA TERRAGLIO 63, MESTRE (VENICE), FOR 19th APRIL 2019 AT 9:30 AM.**

**(Report pursuant to Article 125-ter of Italian Legislative Decree no. 58 of 24th February
1998 – “TUF” [Italian Consolidated Finance Act])**

Venice - Mestre, 7 March 2019

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 company's registered office, Via Terraglio 63, Mestre (Venice), on 19th April 2019 at 9:30 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 to 31th December 2018; communication of the Group's annual consolidated financial statement to 31th December 2018; allocation of profits for the year; inherent and consequent resolutions;

2) Remuneration policies for Banca IFIS Banking Group's corporate officers, employees and contractors: Remuneration Report;

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 2018-2021 three-year period and determination of fees;

5) Mandate for statutory auditing: integration of the consideration.

In accordance with the disclosure requirements under Article 125-*ter* of Italian Legislative Decree no. 58 of 24th February 1998 ("TUF" [Italian Consolidated Finance Act]), subject to the obligations set out by additional legislation or regulatory provisions, the Board of Directors has prepared this explanatory report on the items listed on the agenda of the Shareholders' Meeting.

This report is made available to the public through it being filed at the Company's 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*, TUF [CFA]).

* * *

1) Approval of the annual financial statement to 31st December 2018; communication of the Group's annual consolidated financial statement to 31st December 2018; allocation of profits for the year; inherent and consequent resolutions.

Dear Shareholders,

The draft annual financial statement to 31st December 2018¹, which we submit for your approval, shows a profit of € 82,805,866.57 (Eighty-two million, eight hundred and five thousand, eight hundred and sixty-six point fifty seven Euros), which allows us to propose the allocation of profits through the distribution of a cash dividend of € 1.05 for each ordinary share with ex-dividend date (coupon no. 22) of 29th April 2019.

Under Article 83-*terdecies* of Italian Legislative Decree no. 58 of 24th February 1998 (“TUF” [CFA]), payment of the dividend is validated as per the evidence of the intermediary's accounts referred to in Article 83-*quater*, paragraph 3 of TUF/CFA, at the end of the accounting day of 30th April 2019 (the *record date*);

The total disbursement, determined gross of the treasury share portion, pursuant to Article 2357-*ter* of the Italian Civil Code, is equal to a maximum of € 53,811,095.00.

The payment of the above dividend, before statutory deductions, is scheduled for 2nd May 2019.

The draft resolution later indicated is in line with the dividends policy already communicated to the market on February 11, as part of the communication of preliminary results for 2018, and combines the opportunity for capital strengthening, also within a Group logic, with the shareholders' expectation to perceive a dividend that is consistent with the growth of the banking Group in all business segments.

We also submit for your attention the consolidated financial statement to 31st December 2018, which, although not subject to approval by the Shareholders' Meeting, represents additional information provided with Banca IFIS S.p.A.'s annual financial statement.

For 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, as well as published on the Bank's website www.bancaifis.it pursuant to Article 154-*ter* of TUF [CFA].

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, the Board of Statutory Auditors' report and the External

¹ The draft annual and consolidated financial statements as at 31st December 2018 will be submitted for approval by the Board of Directors on 7th March 2019.

Auditor's report, having reviewed the annual financial statement to 31st December 2018

resolves

A) to approve the annual financial statement to 31st December 2018, with the management report presented by the Board of Directors;

B) to allocate the financial year's profit of € 82,805,866.57 (Eighty-two million, eight hundred and five thousand, eight hundred and sixty-six point fifty seven Euros) as follows:

a) a cash dividend to shareholders (gross of statutory deductions) of € 1.05 for each ordinary share with an ex-dividend date (coupon no. 22) of 29th April 2019. This dividend includes the treasury share portion held by the Company. Under Article 83-terdecies of Italian Legislative Decree no. 58 of 24th February 1998 (TUF/CFA), payment of the dividend is validated as per the evidence of the intermediary's accounts referred to in Article 83-quater, paragraph 3 of TUF [CFA], at the end of the accounting day of 30th April 2019 (the record date);

b) the remaining amount to other reserves;

C) to pay the above dividend from 2nd May 2019. Payment will be made through the authorised intermediaries with whom the shares are registered in the Monte Titoli system.

2) Remuneration Policies for Banca IFIS Banking Group's corporate officers, employees and contractors: “Remuneration Report”.

Dear Shareholders,

We present the “Remuneration Report” approved by Banca IFIS's Board of Directors at their meeting of 7th March 2019.

With this document, the Board has aimed to fulfil the requirements referred to in Article 123-ter of TUF [CFA] as well as banking sector regulations and the corporate governance rules contained in the Corporate 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 TUF.

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-ter of TUF [CFA] that requires 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-quater of the Issuer Regulations that requires the Remuneration Report to be made available to the public in compliance with “Template 7-bis” of Appendix 3A of the Issuer Regulations;
- b) with reference to the secondary regulations applicable to Banks and Banking Groups

- Bank of Italy Circular no. 285 of 17th December 2013 – “Supervisory Provisions for Banks” (update no. 25 of 23th October 2018) that, by implementing the provisions of directive 2013/36/EU (CRD IV) on 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 corporate governance 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 2019;
 - the Corporate 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 to perform 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 “*Risk Takers*” not falling within the scope of Article 123-ter of TUF [CFA], and the procedures used to adopt and implement this policy. This section describes the policy provided for the 2019 financial year.
The 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 aggregate form, for executives with strategic responsibilities, as well as for “*Risk Takers*”. The second part shows a table of remuneration paid during 2018 or relating to it, for whatever reason and in whatever form by the Company and Subsidiaries or affiliates, as indicated by Appendix 3A, Template 7-bis of the Issuer Regulations. A table is then placed that shows the further information required under Article 450 of Regulation (EU) no. 575 of 26th June 2013 for Banca IFIS and other Group companies.

Following the issue of the 25th update to Circular no. 285 of 17 December 2013, the remuneration and incentive policies were integrated to take into account the new provisions contained therein. Consequently, this Report was integrated with specific reference to:

- a) the policy on the key personnel identification process, which defines: the criteria and procedures used to identify key personnel as well as those for possible exclusion, the evaluation methods, the role played by company bodies and competent company departments, and the monitoring and review of the identification process;
- b) the prohibition for personnel to put into place hedging strategies, which was further integrated to provide for: (i) the obligation to require key personnel, through specific agreements, to communicate the existence or activation of safekeeping and administrative accounts at other intermediaries; (ii) the identification of the operations and financial investments performed by key personnel for which there exists the obligation to communicate to company management;
- c) the provisions related to retention bonuses, non-competition agreements, and consensual termination of the work relationship such as disbursements/payments made as part of an agreement between the bank and the personnel, in any location, for the settlement of a current or potential dispute, clarifying that they fall under the definition of variable remuneration and are thus subject to the related rules, except as set forth in the aforementioned supervisory provisions;

- d) the provisions related to the minimum duration of the period in which the claw back clauses apply for key personnel, which must be a duration of no less than 5 years;
- e) the role of Human Resources, which is no longer part of the control functions for the policy on remuneration.

Also, in confirming the possibility to recognise a Role Based Allowance for certain individuals belonging to the key personnel in consideration of the particular complexity created by extraordinary corporate operations, the period related to when it is awarded was changed from a maximum of 18 months to a maximum of 12 months, which may possibly be renewed.

With regards to this point, it should be noted that the new Bank of Italy provisions regarding remuneration introduce some new measures aimed at reinforcing the rules regarding the structure of the variable components for larger banks, as defined in the Provisions themselves. In light of this and considering that the Bank is categorised as an intermediate sized bank, the rules that govern the plan of the Bank's variable remuneration structure remain confirmed.

That being said, Banca IFIS intends to confirm:

- a) the structure of variable component for key personnel that exceeds the materiality threshold;
- b) the *vesting* period (three years) for the deferred variable component;
- c) the *retention* period (three years) for the up-front portion paid in shares and (one year) for the deferred portion paid in shares;
- d) the ratios between the variable and fixed components of remuneration for each key personnel member, including the limit of 33% for key personnel with business control functions.

Finally, the "Report" indicates, in compliance with Article 84-*quater* of the Issuer Regulations, the shares held by members of 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, and will also be published, together with the Report on corporate governance and the ownership structure, on the Bank's website www.bancaifis.it by 29th March.

The contents of Section I of the Report also require the Company, pursuant to Article 114-*bis* of TUF [CFA] and the relevant implementing regulations (Article 84-*bis* of the Issuer Regulations), to prepare 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 website and in compliance with any other method established by Consob.

We also present the results of the checks carried out by Internal Audit on the methods used to ensure that our remuneration practices comply with legislation and regulatory provisions (checks that were also presented to the Board of Directors on 28th March 2019), as required by the Bank of Italy's supervisory provisions described above.

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 at item no. 2) on the agenda:

A) takes note of the report on the implementation of remuneration policies during 2018 presented, in compliance with Article 10 of the Company's Articles of Association as well as with legislation and regulatory provisions on the subject, as part of the “Remuneration Report”, prepared pursuant to Article 123-ter of TUF [CFA];

B) takes note of the results of the checks carried out by Internal Audit on the methods used to ensure that the Company's remuneration practices comply with legislation and regulatory provisions;

C) resolves to approve the contents of Section I of the “Remuneration Report” prepared pursuant to Article 123-ter of TUF [CFA], also for the purposes of adapting Banca IFIS Banking Group's remuneration policies for 2019; and, specifically, the sub-paragraph referred to in paragraph 7 of Section I of this Report on remuneration entitled ‘Severance pay provision’ as well as Attachment no. 1 of the same Report containing the Policy relating to identification of key corporate officers;

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-bis of TUF [CFA] and the relevant implementing regulations (Article 84-bis of the Issuer Regulations) and placed at the disposal of the shareholders as required by 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 2018 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. For completeness of information, we have

also considered it appropriate to refer to the following national and European regulations, in particular within the Report on the “Optimum qualitative-quantitative composition of Banca IFIS’s Board of Directors” approved by the Board of Directors on 11 February 2019 and available on the company website:

- Bank of Italy’s Supervisory Provisions for Banks, Circular no. 285 of 17 December 2013 regarding corporate governance (Part I, Heading IV, Chapter 1);
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV);
- EBA guidelines on internal governance (2017);
- EBA/ESMA joint guidelines on the assessment of the suitability of members of management bodies and key function holders (2017);
- ECB, Guide to fit and proper assessments (2018);
- Corporate Governance Code for listed companies (2018).

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 further point out that in formulating our recommendations to the Shareholders, we also considered the principles contained in the draft Ministerial Decree in the process of being issued on regulation of requirements and suitability criteria for carrying out tasks in compliance, among others, with Art. 26 of the TUB [Italian Consolidated Banking Act].

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 "Optimum qualitative-quantitative composition of Banca IFIS's Board of Directors" approved by the Board of Directors on 11 February 2019 and available on the company website (www.bancaifis.it, Corporate Governance section / Shareholders' Meeting / Ordinary Meeting 19 April 2019).

One of the items that emerged from that self-evaluation is the hypothesis to expand the number of board members from 9 to 11 and the subsequent designation of 2 Vice-Presidents. From the point of view of the assortment of genders and skills, this would lead to the need to have at least five board members in possession of the independence requirements set forth in the Corporate Governance Code and the need for at least four board members belonging to the gender with fewer representatives.

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 22nd March 2016 had

- resolved to allocate to individual components for the office of director, Euro 25,000.00 for each of the financial years 2016, 2017 and 2018, 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 2016, 2017 and 2018 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 2018, 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 2018. 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 2018, 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, as well as the specific national and European legislation, where applicable, previously referred to in the part of this report dedicated to the third point on the Board of Directors agenda) 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 2021, 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 22nd April 2016 had established a gross annual remuneration of Euro 105,000.00 for the Chairman (in addition to reimbursement of expenses incurred by reason of his/her office) and of Euro 70,000.00 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.

5) Mandate for statutory auditing: integration of the consideration

Dear Shareholders,

the Bank's Board of Directors submit the following to the Shareholders' Meeting for its consideration and approval: the reasoned proposal of the Board of Statutory Auditors on the amendments to timescales and remuneration to be paid to the external auditors, EY S.p.A., assigned as external auditors for the financial years 2014-2022.

The proposal formulated by the Board of Statutory Auditors will be made available, in accordance with the law, by 29 March 2019.

Venice - Mestre, 7th March 2019.