

BANCA

S I S T E M A

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Banca Sistema Group

2017

Pursuant to Article 123-bis of the Consolidated Law on Finance
(traditional management and control model)

Approval date: 08 March 2018

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Glossary

Shareholders' Meeting: the Issuer's Shareholders' Meeting

Bank or Banca Sistema: Banca Sistema S.p.A.

Borsa Italiana: Borsa Italiana S.p.A. (the Italian Stock Exchange) with registered office in Milan, Piazza degli Affari 6.

Code/Corporate Governance Code: the Corporate Governance Code of listed companies approved, in July 2014, by the Corporate Governance Committee, and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code: the Italian Civil Code.

Board of Statutory Auditors: the Issuer's Board of Statutory Auditors

Board of Directors: the Issuer's Board of Directors.

Consob: *Commissione Nazionale per le Società e la Borsa* (the National Regulatory Body for Italian Companies and the Stock Exchange)

Supervisory Provisions for Banks: Circular no. 285 of the Bank of Italy of 17 December 2013 - Supervisory Provisions for Banks.

Issuer, Banca Sistema, Bank or Company: Banca Sistema S.p.A., with registered office in Milan, Corso Monforte 20.

Financial year: the financial year to which the Report refers.

Foundations: Fondazione Sicilia, with registered office in Palermo, Via Bara all'Olivella 2, Fondazione Pisa, with registered office in Pisa, Via Pietro Toselli 29 and Fondazione Cassa di Risparmio di Alessandria, with registered office in Alessandria, Piazza della Libertà 28.

Group: the banking group comprising Banca Sistema, as the parent, SF Trust Holdings, and Largo Augusto Servizi e Sviluppo S.r.l..

LASS: Largo Augusto Servizi e Sviluppo S.r.l., with registered office in Milan, Corso Monforte 20, a vehicle wholly owned by Banca Sistema.

MTA: the Italian Equities Market organised and managed by Borsa Italiana.

PA: Italian public administrations.

Agreement: the shareholders' agreement entered into on 3 June 2015, and subsequently amended on 28 April 2016, which came into effect as from 4 July 2016, between Società di gestione delle partecipazioni di Banca Sistema S.r.l. and the Foundations, which regulates certain aspects of Banca Sistema's corporate governance and ownership structure.

Board of Directors' Regulations: the "Regulations on the Operation of Banca Sistema S.p.A.'s Board of Directors" approved by resolution of the Board of Directors of 5 February 2016.

Issuers' Regulations: the Regulations issued by Consob with resolution no. 11971 of 1999 (as amended) on issuers.

Market Regulations: the Regulations issued by Consob with resolution no. 16191 of 2007 (as amended) on markets.

Related-Party Regulations: the Regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as amended) on related party transactions.

Report: this report on corporate governance and ownership structure that companies are required to prepare pursuant to art. 123-*bis* of the Consolidated Law on Finance.

SGBS: Società di Gestione delle Partecipazioni in Banca Sistema S.r.l., with registered office in Alba (CN), Corso Langhe 10.

SF Trust Holdings: Specialty Finance Trust Holdings Ltd, a company governed by English law, based in London, Dukes House, 32-38 Dukes Place, wholly owned by Banca Sistema.

Consolidated Law on Finance: Italian Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented.

Introduction

This document has been prepared pursuant to art. 123-*bis* of the Consolidated Law on Finance, according to the "Format for the Report on corporate governance and ownership structure", seventh edition, January 2018.

1. Issuer's profile

Governance

Banca Sistema's corporate governance system is based on the principles recognized by international best practices as fundamental elements of good corporate governance: the central role of the Board of Directors, the proper management of conflicts of interest, the efficiency of the internal control system and transparency towards the market, with specific reference to the communication of corporate decisions.

Banca Sistema has adopted the traditional management and control model, considering it the most suitable for its own operation, in order to ensure efficient management and effective controls.

The overall framework of Banca Sistema's corporate governance has been defined taking into account current national and EU regulations and the recommendations contained in the Corporate Governance Code. The Bank's corporate governance structure takes specific account of the Supervisory Provisions for Banks referred to in Bank of Italy Circular no. 285 of 17 December 2013 (Part I, Title IV, Chapter 1).

In the corporate governance model adopted by Banca Sistema:

- the strategic supervision function is performed by the Board of Directors;
- the Board of Directors, notwithstanding the matters within its scope pursuant to the law and the Articles of Association, has given general management powers to the CEO, who also holds the post of General Manager and thus performs those duties pertaining to the management function;
- the control function is performed by the Board of Statutory Auditors;
- the legal audit is entrusted to an auditing firm, in accordance with applicable regulatory provisions.

During the year, the Board of Directors approved certain changes to the Bank's organisational structure, without however this altering the overall structure of the Bank's governance, which at 31 December 2017 is represented by the following scheme:



The powers and modes of operation of the corporate bodies are regulated by law, the Articles of Association, company Regulations and the resolutions passed by the Bank's appointed bodies.

For information on the composition and functioning of the management and control bodies, reference is made to the specific sections of this Report.

2. Information on ownership structures

(Art. 123-bis, paragraph 1, of the Consolidated Law on Finance) as at 31.12.2017

a) Share capital structure (art. 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)

Banca Sistema's share capital, fully subscribed and paid up, is € 9,650,526.24, subdivided into 80,421,052 shares, each with a par value of € 0.12. As at 31 December 2017, the share capital was composed as follows:

Categories of shares making up the share capital as at 31 December 2017:

SHARE CAPITAL STRUCTURE	Number of shares	% of share capital	Listed (market) / unlisted	Rights and obligations
Ordinary shares	80,421,052	100%	Listed (MTA)	Each ordinary share gives the right to cast one vote

As at 31 December 2017 no other financial instruments have been issued such as to give the right to subscribe new shares.

For shares to be allocated by way of variable remuneration to the CEO and the General Manager as well as any other employees falling into the category of "key personnel", reference is made to the Remuneration Report pursuant to art. 123-ter of the Consolidated Law on Finance and the Information document on remuneration plans based on financial instruments pursuant to article 114-bis of the Consolidated Law on Finance and article 84-bis of the Issuers' Regulations.

b) Restrictions on the transfer of securities (art. 123-bis, paragraph 1, letter b) of the Consolidated Law on Finance)

There are no restrictions on the transfer of the Bank's shares, except for (i) the retention periods set forth by the Internal Dealing Regulations, (ii) the limits established by the shareholders participating in the shareholders' agreement in relation to which reference is made to paragraph g) below and (iii) the restrictions on the retention of shares assigned to persons considered key personnel pursuant to the Bank's remuneration and incentive policies and practices.

c) Major shareholdings (art. 123-bis, paragraph 1, letter c) of the Consolidated Law on Finance)

As at 31 December 2017, in the light of the communications submitted pursuant to art. 120 of the Consolidated Law on Finance and the communications submitted by relevant parties pursuant to art. 152-octies of the Issuers' Regulations, the individuals who own, directly or indirectly, shares with voting rights in excess of 5% of the share capital are as follows:

Declaring party	Direct shareholder		% of the ordinary share capital	% of the voting capital
GARBI GIANLUCA	Società di gestione delle partecipazioni di Banca Sistema S.r.l.	23.102	23.611	23.611%
	Garbifin S.r.l.	0.509		
FONDAZIONE SICILIA	Fondazione Sicilia	7.607	7.607	7.607
FONDAZIONE PISA	Fondazione Pisa	7.399	7.399	7.399
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.910	7.910	7.910
OYSTER SICAV (SYZ AM)	Oyster SICAV	5.228	5.228	5.228
SCHRODERS PLC	Schroders Investment Management Limited	4.101		

	Schroders Investment Management North America Limited	2.527	6.727	6.727
	Schroders Italy SIM S.p.A.	0.099		

d) Securities granting special rights (art. 123-bis, paragraph 1, letter d) of the Consolidated Law on Finance)
No securities have been issued by the Bank granting special control rights.

e) Employee share ownership: mechanism for exercising voting rights (art. 123-bis, paragraph 1, letter e) of the Consolidated Law on Finance)
There is no employee share ownership scheme where the voting right is exercised by representatives of the latter.

f) Restrictions on voting rights (art. 123-bis, paragraph 1, letter f) of the Consolidated Law on Finance)
There are no restrictions on voting rights associated with the Bank's shares.

g) Shareholders' agreements (art. 123-bis, paragraph 1, letter g) of the Consolidated Law on Finance)

On 3 June 2015, with effect as from 2 July 2015, a Shareholders' Agreement was entered into, which was subsequently amended on 28 April 2016 with effect as from 4 July 2016: this Agreement was designed to reflect the Bank's new governance structure following the abolition of the Executive Committee and the consequent review of the system of delegations.

Type of agreement

The Agreement, which is a significant shareholders' agreement pursuant to and for the purposes of art. 122, paragraph 1 and paragraph 5, letter a), b), c) and d) of the Consolidated Law on Finance, was filed with Milan Companies' Register records on 6 July 2016.

Parties to the Agreement, financial instruments and number of voting rights granted under the Agreement

The parties to the Agreement are SGBS, Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria.

The following table indicates the number of Banca Sistema's shares contributed to the Agreement by the above entities (the "Contributed Shares") and the number of voting rights related to them (the "Contributed Voting Rights") as at 31 December 2017, in addition to the percentage represented by such shares in relation to (i) the total number of Contributed Shares and Voting Rights, and (ii) the total number of shares forming Banca Sistema's share capital and their associated voting rights.

The acquisition of the Bank's shares by the Fondazione Cassa di Risparmio di Alessandria and by the Fondazione Pisa - both shareholders adhering to the Shareholders' Agreement - resulted in variations in the numbers of voting rights subject to control; these variations were disclosed on 4 January 2018, pursuant to Article 131, paragraph 3, of Consob regulation no. 11971/1999 as subsequently amended.

Shareholder	Number of Contributed Shares	% of total Contributed Shares	% of Banca Sistema's total shares	Number of Contributed Voting Rights	% of the total of Contributed Voting Rights	% of Banca Sistema's total voting rights
Società di gestione delle partecipazioni in Banca	18,578,900	50.20	23.10	18,578,900	50.20	23.10

BANCA

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CONTEMPORARY BANK

Sistema S.r.l.						
Fondazione Sicilia	5,950,104	16.08	7.40	5,950,104	16.08	7.40
Fondazione Pisa	6,118,104	16.53	7.61	6,118,104	16.53	7.61
Fondazione Cassa di Risparmio di Alessandria	6,361,731	17.19	7.91	6,361,731	17.19	7.91
Total	37,008,839	100.00	45.30	37,008,839	100.00	45.30

No entity exercises individual control over Banca Sistema pursuant to art. 93 of the Consolidated Law on Finance. SGBS and the Foundations most likely hold sufficient votes to exercise a dominant influence at Banca Sistema's ordinary Shareholders' Meeting.

Capital policy

The shareholders participating in the shareholders' agreement have undertaken (i) to ensure that Banca Sistema pursues a policy aimed at strengthening the capital based on the partial retention of the profits realised within the same, and (ii) if the Shareholders' Meeting should resolve in favour of the distribution of profits as set forth in the aforesaid agreements, to make the appropriate decisions in order for the Bank's total capital ratio to remain at or above 14%.

Restrictions on the circulation of shares

The Agreement provides for the obligation of the Parties not to sell the shares held in Banca Sistema (the "Investments") for the term of the Agreement, and hence until 1 July 2018, except for any transfers to the same or to individuals or legal entities tied to them by a control or connection relationship - as defined in art. 2359 of the Italian Civil Code - and except for the application of the continuation and drag along rights provided for by the same Agreement, which may be summarised as follows: (i) if SGBS becomes the holder of a stake in the Company above 51% of Banca Sistema's shares subject to the Agreement and intends to accept an offer of a third party who has expressed the intention to also acquire the Shares held at that date by the other Parties, SGBS will be entitled to request the other Parties - and these will have a duty - to sell to the third bidder the whole of its shareholding in the Company, under the same conditions and at the price per share offered by the third party, provided that the price offered by the third party is not below the average market price of Banca Sistema's shares in the month preceding the date of the sale, increased by 5%; (ii) if SGBS intends to accept an offer by a third party who has expressed an intention to acquire a percentage of the Company's share capital and if the offer concerns a percentage of shares above that held by SGBS, the Foundations will be entitled to request from SGBS and obtain that all or part of the shares owned by them which exceed the percentage of shares belonging to SGBS and that the third party intends to purchase, be transferred proportionally to the third party under the same conditions.

The Agreement expires on 1 July 2018.

h) Change of control clauses (art. 123-bis, paragraph 1, letter h) of the Consolidated Law on Finance) and provisions of the Articles of Association concerning IPOs (article 104, paragraph 1-ter and article 104-bis, paragraph 1)

Banca Sistema, SF Trust Holdings and LASS have not entered into significant agreements that take effect, are modified or terminate upon a change of control of the contracting company.

Banca Sistema's Articles of Association do not derogate from the passivity rule provisions set forth by art. 104, paragraphs 1 and 2, of the Consolidated Law on Finance, nor do they provide for the application of the neutralisation rules set forth by art. 104-bis, paragraphs 2 and 3, of the Consolidated Law on Finance.

i) Powers to increase the share capital and authorisations to purchase treasury shares (art. 123-bis, paragraph 1, letter m) of Consolidated Law on Finance)

On 28 April 2016 the Extraordinary Shareholders' Meeting of Banca Sistema approved the share capital increase free of charge pursuant to art. 2349 of the Italian Civil Code and Article 5.4 of the Articles of Association, for a maximum nominal amount of € 49,920.00, to service the stock grant plan approved on the same date by the Bank's Ordinary Shareholders' Meeting, to be completed by 30 June 2023, as well as to service the stock grant plans that may be approved in the future by the Shareholders' Meeting in relation to the years from 2017 to 2019. The aforementioned Extraordinary Shareholders' Meeting then granted the Board of Directors all necessary powers in relation to the capital increase and in particular to the allocation and issue of new shares to service the 2016 plan and the 2017-2019 plans, as well as the power to make the resulting amendments to Article 5.1 of the Articles of Association.

On 21 September 2017, the Board of Directors of Banca Sistema, following authorisation to purchase and dispose of treasury shares from the Bank's Shareholders' Meeting held on 27 April 2017, resolved to launch a treasury share purchasing programme with the aim of creating a "stock of treasury shares" to be used to pay for part of the variable remuneration assigned to "key personnel" on the basis of the Bank's remuneration and incentives policies. The treasury share purchasing programme ended on 28 September 2017.

As at 31 December 2017, Banca Sistema holds 68,240 treasury shares, representing 0.85% of share capital.

l) Management and coordination activity (art. 2497 et seq. of the Italian Civil Code)

Banca Sistema, in its capacity as parent of the BANCA SISTEMA banking group, pursuant to art. 61, paragraph 4, of the Consolidated Law on Banking, issues, in the performance of its management and coordination activity, instructions to the members of the Group to comply with the guidelines set forth by the Bank of Italy in the interest of the Group's stability.

It should be noted that:

- the information required by art. 123-bis, paragraph 1, letter i) ("agreements between the company and the directors which provide for compensation in case of resignation or dismissal without just cause or if their employment contract is terminated as a result of a takeover bid"), is contained in the Remuneration Report published pursuant to art. 123-ter of the Consolidated Law on Finance;
- the information required by art. 123-bis, paragraph 1, letter l) ("the rules governing the appointment and replacement of directors and the amendment of the Articles of Association, if different from the laws and regulations applicable in the alternative"), is illustrated in the section of the Report dedicated to the Board of Directors (Section 4.1).

3. Compliance (art.123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)

Banca Sistema adheres to the Corporate Governance Code which can be consulted by the public on the website of the Corporate Governance Committee at: <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>).

4. Board of Directors

4.1. Appointment and replacement (art. 123-bis, paragraph 1, letter l) of the Consolidated Law on Finance)

The Board of Directors is appointed by the Shareholders' Meeting on the basis of the lists submitted by shareholders, in which a minimum of three and a maximum of nine candidates must be listed in sequential order.

The methods of appointment are governed by Article 10 of the Articles of Association published on the website www.bancasistema.it in the section **Governance/Corporate documents**.

In February 2016 the Bank adopted its "Regulations on the Operation of Banca Sistema S.p.A.'s Board of Directors" published on the website www.bancasistema.it, in the section **Governance/Corporate documents**, to which specific reference should be made with regard to the functions, the delegated bodies, the qualitative-quantitative composition and profile, the directors' requirements, the maximum limit on concurrent positions, the interlocking, the remuneration, the training and succession plans, the meetings and organisation of the Board of Directors, the Chairperson, the independent directors, the non-executive directors, the Board's internal committees, the information flows and the internal control and risk management system.

Succession plans

Pursuant to the Corporate Governance Code (Application Criterion 5.C.2), the Supervisory Provisions for Banks and the Articles of Association, the Board of Directors may adopt a succession plan for executive directors and top management.

With the approval of the Board of Directors' "Regulations on the Operation of Banca Sistema S.p.A.'s Board of Directors" on 5 February 2016, the Board of Directors resolved to formalise a plan to ensure orderly succession in executive leadership positions in the event of termination for expiry of office or for any other reason, in order to ensure business continuity and to avoid economic and reputational consequences.

Furthermore, following the findings contained in the "Board of Directors Self-Assessment Document", approved by the same Board of Directors at its meeting of 15 December 2016, the Bank launched a plan for the succession of the Bank's executive directors, senior managers and department heads. The Board of Directors' meeting of 19 May 2017, following consultation with the Appointments Committee, adopted the aforesaid succession plan as amended in order to take account of the evolution of the Bank's organisational structure.

4.2. Composition (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

In accordance with the Articles of Association, the Board of Directors is composed of nine members. Directors remain in office for a period of no more than three years, as established by the deed of appointment, and will end their term of office on the date of the Shareholders' Meeting called to approve the financial statements for the final financial year of their term of office.

The composition of the Board of Directors in office at the end of the year 2017, as well as at the date of this Report (as is also shown in Table 2 attached to this Report), is as follows:

NAME AND SURNAME	POSITION	PLACE AND DATE OF BIRTH	DATE OF FIRST APPOINTMENT	DATE OF APPOINTMENT
Luitgard Spögler ¹	Chairperson	Renon (BZ), 21/01/1962	2015	27/11/2015
Giovanni Antonino Puglisi	Deputy Chairperson	Caltanissetta (CL), 22/06/1945	2011	27/11/2015
Gianluca Garbi	Chief Executive Officer	Milan (MI), 18/09/1970	2011	27/11/2015
Claudio Pugelli	Director	Rome (RM), 17/02/1951	2011	27/11/2015
Giorgio Barba Navaretti ²	Director	Turin (TO), 05/06/1960	2012	27/11/2015
Diego De Francesco ²⁻³	Director	Naples (NA), 11/06/1968	2017	01/05/2017
Carlotta De Franceschi ²	Director	Pordenone (PN), 21/12/1977	2015	27/11/2015
Daniele Pittatore	Director	Alessandria (AL), 09/09/1969	2014	27/11/2015

¹ Independent Director pursuant to art. 148 (3) of the Consolidated Law on Finance.

² Independent Director pursuant to art. 148 (3) of the Consolidated Law on Finance and art. 3 of the Corporate Governance Code.

³ He held the position of Chairman of the Board of Statutory Auditors from 22 April 2014 to 27 April 2017.

On 14 April 2017 Mr. Andrea Zappia resigned from his position as member of Banca Sistema's Board of Directors for professional reasons, with effect from 1 May 2017. Thus, on 28 April 2017, the Bank's Board of Directors co-opted Mr. Diego De Francesco to the office of non-executive Director to replace Mr. Andrea Zappia, pursuant to Article 2386 of the Italian Civil Code. The said appointment took effect on 1 May 2017. Subsequently, on 14 December 2017, pursuant to the provisions of Article 2386 of the Italian Civil Code, the Shareholders' Meeting confirmed the appointment of Mr. Diego De Francesco to the office of Director for a term equal to that of the present Board of Directors, and thus to the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2017.

On 24 November 2017, Ms. Ilaria Bennati, following her appointment by the Board of Directors as the new Chief Financial Officer to take effect on 11 December 2017, resigned from her position as member of the Board of Directors of Banca Sistema.

Banca Sistema's Articles of Association and its Board of Directors' Regulations stipulate that the Directors must meet the professionalism and integrity requirements and any other requirements set forth by the regulations in force and the Articles of Association, meet the competence and fairness criteria, and devote the time necessary for their task to be carried out efficiently, so as to ensure the Bank's sound and prudent management.

At least three Directors, and in any event a number of Directors not less than that required by the regulations in force, must meet the independence requirements of art.147-ter, paragraph one, of the Consolidated Law on Finance, as well as those laid down by the Corporate Governance Code. The failure to meet the requirements for the office shall result in forfeiture thereof, except for the loss of the independence requirements identified above, which does not result in disqualification from the office if said requirements are still held by the minimum number of Directors.

Given the importance of compliance with the requirements in terms of reputation, the candidates for the office of member of the Bank's Board of Directors, in addition to meeting the integrity requirements established by the current legislation, must not be in situations that could cause disqualification from the office of Director pursuant to the law, must not have behaved in a manner which, while not constituting a crime, is inconsistent with the principles contained in the Bank's Code of Ethics or which, in any event, do not appear to be compatible with the post of bank director or may cause serious prejudice to the Bank in terms of reputation; the aforementioned profiles are evaluated with the prior support of the Appointments Committee.

In accordance with the sector's regulations, the Board of Directors, with the support of the Appointments Committee, shall carry out a thorough check to verify whether the requirements of professionalism, integrity and independence have been met, and shall draft a detailed report in this regard. To this end, the Directors may issue a personal sworn declaration, with the authenticated signature of a public official, and in any event have

an obligation to promptly inform the Bank of any changes in the information given in the context of the statements made.

In particular, following the co-optation of Mr. Diego De Francesco to replace Mr. Andrea Zappia, the Board of Directors on 19 May 2017, following an assessment by the Appointments Committee, confirmed that Mr. De Francesco met the professionalism, integrity and independence requirements. At the same meeting the checks on the subject of the so-called interlocking prohibition were completed (art. 36, paragraphs 2-bis and 2-ter, of "Salva Italia" Legislative Decree). Subsequently, following confirmation of the appointment of Mr. De Francesco by the Shareholders' Meeting on 14 December 2017, the Board of Directors proceeded once again, on 15 December 2017, to assess whether he met the aforesaid requirements, on the basis of a new authenticated personal sworn declaration, and completed checks in regard to the question of interlocking.

Furthermore, the Board of Directors, at the meeting of 15 December 2017, verified, in accordance with art. 3 of the Corporate Governance Code, following an assessment by the Appointments Committee, that independent Directors continued to meet the independence requirement.

Upon completion of all the aforesaid checks, the composition of the Board of Directors appears to be in line with statutory and regulatory requirements regarding the minimum number of independent directors. As far as regards compliance with the relevant legislation¹, following the resignation of Ms. Ilaria Bennati, effective as of 31 December 2017, the Board's members will need to be supplemented to meet gender balance requirements.

Maximum number of positions held in other companies

Without prejudice to the causes of ineligibility and disqualification as well as the maximum limit of positions provided for by the law and regulatory provisions, the acceptance of the office involves a preliminary evaluation of the possibility of being able to dedicate the necessary time to the diligent performance of the duties of Director, also taking into account the commitments of one's own work and professional activities, the number of Director or Statutory Auditor positions held in other companies, paying particular attention to those tasks that require greater involvement in ordinary company activities.

In accordance with art. 26 of the Consolidated Law on Banking, in order to ensure that the Directors devote the time necessary to the effective performance of their duties, so as to ensure the sound and prudent management of the Bank, the Board of Directors of Banca Sistema S.p.A., through the Board of Directors' Regulations, has established the maximum number of management and control offices that can be held by the members of the Bank's Board of Directors in companies outside the Group, as well as the procedure to be followed in the event that these limits are exceeded, as set out below.

The Directors must also take into account the provisions of art. 36 of Law no. 214/2011, which introduced the prohibition for holders of offices in the management, supervisory or control bodies and top executives of companies or groups of companies operating in the credit, insurance and financial markets to take on or exercise similar posts in competing companies or groups of companies, as well as the provisions of art. 27-quater of Law Decree no. 1 of 24 January 2012.

Determination of a fixed limit to the number of management and control offices in companies outside of the Banca Sistema Group

The posts held by Banca Sistema S.p.A.'s Directors as at 31 December 2017 in the management and control bodies of other "relevant" companies for the purposes of the aforesaid regulations, on the basis of the information provided by them, are as follows:

¹ In accordance with the provisions of Italian Law no. 120 of 12 July 2011.

Member	Office held in Banca Sistema	Offices held in other relevant companies
Luitgard Spögler	Chairperson	Advanced Capital SGR S.p.A. (Independent Director); Alperia S.p.A (Deputy Chairperson of the Supervisory Board)
Giovanni Puglisi	Deputy Chairperson	
Gianluca Garbi	Chief Executive Officer	
Claudio Pugelli	Director	
Daniele Pittatore	Director	Cordusio Fiduciaria S.p.A. (Chairperson of the Board of Statutory Auditors)
Giorgio Barba Navaretti	Director	AoN Italia S.r.l. (Director)
Carlotta De Franceschi	Director	Tas Group S.p.A. (Director); Arca Fondi Sgr (Director)
Diego De Francesco	Director	Gruppo Argenta S.p.A. (Chairperson of the Board of Statutory Auditors) Value First SICAF SpA (Chairperson of the Board of Statutory Auditors) Stroili Oro S.p.A. (Chairperson of the Board of Statutory Auditors) Dainese S.p.A. (Chairperson of the Board of Statutory Auditors) Dedalus S.p.A. (Standing Statutory Auditor) Italmatch Chemicals S.p.A. (Standing Statutory Auditor)

Induction programme

The Chairperson of the Board of Directors shall ensure that Directors may participate in appropriate training initiatives to ensure that the wealth of technical expertise of the members of the Board of Directors, as well as that of the heads of the main corporate departments, necessary to carry out their duties with awareness, is preserved over time.

In particular, during 2017 training sessions were held and working groups were launched, involving the Bank staff and external consultants, on specific topics such as the new regulations on transparency, MiFID 2 and anti-money laundering obligations, and seminars were organised on questions of Fit and Proper Assessment, the Bank's strategic initiatives, the remuneration policies and the accounting of arrears interest. Moreover, the members of the Board of Directors and of the Board of Statutory Auditors were provided access to an online archive containing a regular update of the most recent laws and relevant doctrinal and case-law guidelines (legal alert). As part of the regular process of verification of cases of incompatibility and of mapping of situations giving rise to potential conflicts of interest, the Directors and Statutory Auditors were provided with specific information material regarding related parties and conflicts of interest. The newly appointed Director was also provided, by the Bank's management as well as by the other members of the Board of Directors, with all the necessary support and documentation in order to facilitate the timely fulfilment of his duties.

Furthermore, on 8 February 2018 the Board of Directors approved a specific procedure concerning "Induction and training plans for Directors and Statutory Auditors".

4.3. Role of the Board of Directors (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

Tasks

Under the current regulations for companies with shares listed on regulated markets and for banks, and in accordance with the recommendations of the Corporate Governance Code, the Board of Directors plays a central role in Banca Sistema's governance system.

Pursuant to Article 12 of the Articles of Association, the management body performs all the operations necessary for the attainment of the corporate purpose and has full powers of company administration and the power to carry out all the actions deemed necessary or appropriate for attaining the company purposes and business management with the diligence required by the nature of the task.

Decision-making authority in the following areas, in addition to the areas not included in the following list, but provided for in laws and regulations in effect at the time, or in other provisions of the Articles of Association, is reserved for the Board of Directors and cannot be delegated:

- a) the determination of the general guidelines relating to the company's development, the strategic operations, business and financial plans of the company, as well as the assessment of the general management performance;
- b) the approval of the company structure and corporate governance, thereby guaranteeing a clear separation of tasks and functions as well as the prevention of conflicts of interest;
- c) the approval of the accounting and reporting systems;
- d) the supervision of the public disclosure and communication process;
- e) the adoption of measures aimed at ensuring an efficient dialogue with the management function and with the managers of the main corporate departments, as well as gradual control of the choices and decisions these make;
- f) the risk management policies, as well as, after the Board of Auditors has expressed its opinion, the assessment of the functionality, effectiveness, efficiency of the internal control system and adequacy of the organisational, management and accounting structure;
- g) any appointment of Deputy Chairpersons and their dismissal, if appointed;
- h) the appointment and dismissal of the CEO. Any appointment or dismissal of the General Manager, if appointed, who shall necessarily also be the CEO;
- i) the acquisition and sale of strategic shareholdings;
- j) the approval and modification of the main internal regulations;
- k) the establishment, modification and removal of internal committees for the company's bodies;
- l) the appointment, replacement and dismissal, after listening to the view of the Board of Statutory Auditors, of the heads of the internal audit, risk management and compliance departments and of the manager responsible for drafting the company accounting documents;
- m) the determination of the criteria for the coordination and management of the Group companies;
- n) the sale and acquisition of treasury shares, in accordance with the resolution of authorisation by the Shareholders' Meeting and following authorisation from the Supervisory Authority;
- o) the issue of convertible bonds for a maximum overall amount of € 20,000,000 within the maximum period permitted by law;
- p) the establishment, closure and transfer of general offices or representative offices or subsidiaries;
- q) the drafting of the remuneration and incentive policies of the Company and Group, as well as the definition of the remuneration and incentive systems for the following persons at least: (i) executive board members; (ii) general manager, where appointed; (iii) managers of the main lines of business, company functions or geographic areas; (iv) those who report directly to the bodies with corporate functions of strategic supervision, management and control;
- r) the remuneration of the CEO (and of the general manager, where appointed) and of any other Director responsible for specific tasks, in compliance with the applicable regulations governing remuneration, and with the Company's remuneration and incentive policies.
- s) the approval of the annual budget;
- t) the assignment, modification and removal of the powers delegated to the Executive Committee and to the CEO;
- u) the adoption of the Company's development policies which are necessary in order to determine the long-term business plan and the budget for the period;
- w) the resolutions on the items delegated to the Executive Committee and to the CEO beyond the limits laid down for them;
- x) the delegation of powers to other Directors and the power to modify, add and exclude these delegated powers.

For the powers under letters h), i), j), k), l), m), o), r), s), t), u), w), and x) to be valid, it is necessary to receive the favourable vote of at least 7 Directors, of which at least five come from the majority list, without prejudice to the fact that this strengthened decision-making quorum does not apply in relation to the decisions that will be adopted by the Company in accordance with the regulations following a motivated request by the Supervisory Authority.

Powers over the following matters are also assigned to the Board of Directors:

- a) merger pursuant to the cases provided under Articles 2502 and 2505-bis of the Italian Civil Code, and de-merger in the cases in which these rules apply;
- b) the reduction of the capital in the event of the withdrawal of one or more shareholders;
- c) the adjustment of the Articles of Association to legal provisions.

For certain types of transactions or single deeds, the Board may delegate individual Directors, and determine the content, limits and methods of exercise, where applicable, of such delegated powers.

Pursuant to Articles 12.3 and 17.2 of the Articles of Association, in accordance with the provisions of the Corporate Governance Code, (i) the Board of Directors is responsible for ensuring that the organisational, administrative and accounting structure is suited to the nature and the size of the company and (ii) that the delegated bodies report to the Board of Directors and the Board of Statutory Auditors at least every three months on the general operating performance, business outlook and the most significant transactions, by size or characteristics, undertaken by the Company or its subsidiaries.

In addition, the Corporate Governance Code (Application Criterion 1.C.1.a) and g)) establishes that the Board of Directors (i) is to examine and approve the strategic, business and financial plans of the issuer and the group of which it is the parent, while also periodically monitoring the implementation of such plans, and also to establish the corporate governance system of the issuer and the structure of the group; and (ii) that at least once a year the Board of Directors is to conduct an assessment of the functioning of the Board itself and of its committees, as well as of their size and composition, while also considering elements such as the professional characteristics, experience, including managerial experience, and the gender of its members, as well as their length of service. If the Board of Directors chooses to use the services of outside consultants for self-assessment purposes, the corporate governance report must provide information concerning any additional services rendered by those consultants to the issuer or companies in a relationship of control with the issuer.

The Directors are required to act in an informed manner. Each Director may submit a request to the delegated bodies that information concerning the Company's operations be provided during the sessions of the Board of Directors.

In light of the foregoing, in accordance with the Corporate Governance Code, the Board of Directors is assigned the role of party responsible for determining and pursuing the strategic objectives of the Bank and the Group. It must not be deprived of its prerogatives and must maintain its role as management body of the Company, even if management powers have been delegated.

Meetings and operation

In 2017, 17 meetings of the Board of Directors were held with an average duration of approximately four hours. Of these, 8 meetings were scheduled as part of the annual calendar of meetings of the Board of Directors. The number of meetings attended is shown in Table 2 attached to this Report.

For 2018, 9 meetings have been planned so far, of which 3 have already been held as of 8 March 2018.

In compliance with the obligations imposed on listed issuers by Article 2.6.2 of Consob Market Regulations, the Board of Directors approves the calendar of corporate events on an annual basis, to be communicated to Borsa Italiana, for public disclosure, within thirty days from the end of the previous financial year.

In particular, the calendar specifies, within the framework of the Board of Directors' meetings established for the new financial year, the dates set for the approval of the draft financial statements, the interim report and the quarterly reports, as well as the date scheduled for the Shareholders' Meeting held to approve the financial statements.

The deadlines for producing the documents concerning such meetings are governed by the Board of Directors' Regulations.

During the financial year 2017, the documentation supporting the discussion of the agenda items of the Board of Directors was made available via a special web platform with restricted access, through credentials, to each Director and Statutory Auditor. The deadlines described above for sending the documentation were generally met during the said financial year 2017. In particular, the Chairperson, with the help of the Corporate Affairs Department, has ensured that the documentation relating to items on the agenda was made known to the Directors and Statutory Auditors with adequate notice prior to the date of the Board meeting, ensuring the completeness of the pre-meeting information, adding specific notes illustrating the items on the agenda, and adopting the necessary measures to preserve the confidentiality of the data and information provided.

The Board appointed the Head of the Corporate Affairs Department as Secretary of the Board, as from 21 September 2017.

During 2017, in addition to the Secretary of the Board of Directors, all the meetings of the Board of Directors were also attended by other managers and employees of Banca Sistema, as well as by other individuals or external consultants, invited by the Chairperson, pursuant to the Board of Directors' Regulations, in relation to the matters to be discussed.

In particular, the following members attended the meetings of the Board of Directors on a regular basis:

- the Chief Financial Officer and the Manager in charge of financial reporting, for the presentation of the draft financial statements, the interim report and the quarterly reports, as well as the financial performance of the Banca Sistema banking group;
- the Risk Manager and the Head of the Compliance and Anti-Money Laundering Department, for the submission of reports and programmatic plans (Risk, Compliance and Anti-Money Laundering in accordance with the current supervisory regulations issued by the Bank of Italy);
- the Head of the Corporate Affairs Department in support of the organisation and minute-taking activities of Board meetings.

The Head of the Internal Audit Department illustrates the multi-year Audit Plan and the quarterly reports on the activities carried out directly to the Directors, in accordance with the current supervisory regulations issued by the Bank of Italy.

During 2017, the Board approved the documents requested by the regulations issued by the Bank of Italy with update no. 15 of 2 July 2013 of Circular 263 of 27 December 2006 (whose regulatory principles are currently contained in Circular 285/13 of the Bank of Italy). Based on the strategic guidelines, the size objectives and the further qualitative and quantitative elements of the Business Plan, the ICAAP and the Risk Appetite Framework Report with the attention and warning thresholds for the key risk indicators identified are prepared and approved annually by the Board of Directors.

The Board evaluates the overall management performance at least quarterly, in particular during the examination of the financial reports provided for by art. 154 - *ter* of the Consolidated Law on Finance and on the occasion of receipt of a quarterly report (*tableau de bord*) prepared by the Risk Department, which summaries, from time to time, the overall performance of the Company's management in terms of the risks undertaken.

The same quarterly report, containing a summary of the checks carried out in the period according to the Audit Plan, the findings emerged with indication of the critical level, the planned corrective measures, the implementation times, the project managers, the follow-up activities and the other activities completed in the period is prepared by the Internal Audit Department.

The Compliance and Anti-Money Laundering Department also reports to the Board of Directors on matters within its purview, according to similar procedures to those of the other control departments.

The aforesaid documents, after being submitted to the Board, are transmitted to the Bank of Italy pursuant to the provisions laid down by the applicable regulations.

The Board of Directors also examines, on a quarterly basis, a comparison document between the objectives of the Business Plan and the results actually achieved.

The Board also evaluates, on an ongoing basis, as part of the discussion of the matters within its purview, the adequacy of the Bank's overall organisational, management and accounting structure. The adequacy of the subsidiary's overall organisational, management and accounting structure is evaluated by the Board through a number of governance tools.

The description of the characteristics of the organisational model of the internal control system is contained in the "Control Departments Coordination Regulations", in the General Bank Rules and in the regulations of the respective control Departments, including the regulations of the Manager in charge of financial reporting.

The Board of Directors, with reference to the supervisory provisions concerning the identification of the most significant transactions (MST) and the "Risk Management Policy" approved by the Board of Directors on 20 May 2014, determined that, based on the type of the various transactions, in addition to the ordinary risk governance system, the Risk Department must provide its preliminary opinion on the consistency with the RAF, thereby acquiring, depending on the nature of the transactions, the opinions of the other departments involved in the risk analysis and management process. The body responsible for deciding on the nature of the transaction from time to time thus acknowledges the said opinion.

Self-assessment

The Board of Directors, in its meeting of 27 October 2017, in the light of the provisions and guidelines contained in the Supervisory Provisions for Banks, launched the annual assessment on the functioning of the Board and its committees as well as their size and qualitative and quantitative composition. During performance of the aforementioned self-assessment process, the Board was assisted by an external expert. The self-assessment process was completed on 15 December 2017 with the approval by the Board of Directors of the Board of Directors Self-Assessment Document and the document on the Optimal qualitative and quantitative composition of the Board of Directors.

The result of the self-assessment process was one of considerable fitness of the Board of Directors' composition.

Furthermore, as regards the areas of improvement that emerged during the self-assessment process, the Board of Directors' meeting of 15 December 2017 resolved, among other things, that during the renewal of the Board of Directors, it would inform the Shareholders' Meeting of the need to appoint at least one Director with knowledge and expertise in the fields of IT/robotics/financial technology and advanced technologies.

Competing activities

Banca Sistema has not authorised any departure from the prohibition on competition laid down in Article 2390 of the Italian Civil Code.

4.4 Delegated Bodies

The Board of Directors' Regulations stipulate that, to the extent permitted by the law and the Articles of Association, the Board of Directors may also grant specific powers, for the purposes of the performance of specific deeds, to individual Directors, thereby determining the content, limits and any procedures. The powers are granted in such a way as not to deprive the Board of its prerogatives. The contents of the powers must be determined in detail, and must be clear and precise also in indicating any quantitative or value limits and any procedures to be followed, in order to allow the Board to accurately verify their correct exercise, as well as to exercise its own powers to give directives and assume the powers of other bodies.

Chief Executive Officer

Mr. Gianluca Garbi was appointed Chief Executive Officer by the Board of Directors of 27 November 2015. The Chief Executive Officer typically performs his duties within the scope of the various corporate committees - such as, but not limited to: (i) the CEO Committee, wherein he monitors, coordinates and gives instructions to the heads of the Bank's departments, (ii) the Risk Management Committee, wherein he takes decisions regarding risk activities having previously evaluated the investigation conducted by the relevant departments, (iii) the Technical-Organisational Committee, wherein he identifies, coordinates and defines the priorities of the main projects and initiatives launched by the Bank as well as (iv) the working groups of business areas such as the Banking Committee and the Factoring Working Group.

With reference to external representation powers and the Bank's commitment towards third parties, the powers and limits from time to time conferred by the Board of Directors upon the Chief Executive Officer remain unprejudiced.

In particular, the following table shows the banking and finance powers of greatest relevance assigned to the CEO by resolution of 18 January 2017, which partly updated the qualitative and quantitative criteria for delegation, in the light of the abolition of the Executive Committee, with effect as of 4 July 2016.

FUNDING ACTIVITIES

credit facilities and loans for the Bank, for an amount not in excess of € 50,000,000 (this limit not being applicable to transactions with central banks, the ECB/Eurosystem or other national or supranational institutions);

issue of bonds (non-convertible bonds or other similar instruments, not for the retail market), for a nominal value below € 50,000,000 for each issue;

LENDING ACTIVITIES

funding in any form, within the limit of € 30,000,000 for each transaction;

granting sureties or other guarantees and assignment of receivables, for an amount not in excess of € 30,000,000;

factoring, credit management and transfer, with a nominal value of up to € 30,000,000 (with reference to receivables claimed by the transferor against a single debtor) and in any event within the overall limit for each transaction of the nominal value of € 50,000,000;

OTHER BANKING AND FINANCIAL ACTIVITIES

intercompany loans;

derivatives (transactions for non-speculative purposes), for an overall principal amount not in excess of € 30,000,000 (for those traded on regulated markets), and € 15,000,000 (for those not traded on regulated markets) and, in any event, with a maximum duration of the transaction of 36 months.

The CEO is qualified as the person primarily responsible for managing the company. It is specified that the interlocking directorate situation provided for by Application Criterion 2.C.5 of the Corporate Governance Code does not apply.

In accordance with principle 2.P.4 of the Corporate Governance Code, according to which it is appropriate to avoid concentrating company offices in a single individual, the offices of Chairperson and Chief Executive Officer are held by different individuals.

Chairperson of the Board of Directors

Pursuant to Article 17 of the Articles of Association, the Board of Directors elects a Chairperson from among its members.

The Board of Directors also has the option to appoint a Deputy Chairperson, who shall have the power, in the case of the absence or incapacity of the Chairperson, to chair the Shareholders' Meeting and the Board of Directors' meetings.

The Chairperson does not have an executive role and may not perform management duties, even de facto (except in cases whereby the Chairperson is assigned, severally by the CEO, the power to give mere implementation to the resolutions passed by the Board of Directors).

Executive Committee (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

Pursuant to Article 14 of the Articles of Association, the Board of Directors may appoint an Executive Committee from amongst its members and determine the term of office, powers, attributions and methods of functioning of such committee.

On 29 April 2016, the Board of Directors, following consultation with the Supervisory Authority, decided to abolish the Executive Committee, and this decision became effective as from 4 July 2016.

* * *

The powers conferred by law and the Articles of Association upon the Board of Directors and the current system of delegations to the CEO are not such as to deprive the Board of its prerogatives (see Code of Corporate Governance, comment to art. 1). The powers delegated to the CEO must also be such as to allow the Board of Directors always to maintain a central role in the process of making decisions concerning the strategic guidance of the Company.

Reporting to the Board

As regards the exercise of executive powers, the Board has received reports from the CEO, with different frequencies depending on the subject of the power, in compliance with the periodic reporting requirements of the delegated bodies to the Board and the Board of Statutory Auditors, in accordance with Articles 12 and 17 of the Articles of Association.

In particular, a special web platform was set up with restricted access, via credentials, for each Director and Statutory Auditor, containing a specific section where Directors and Statutory Auditors are periodically provided with reports on typical lending transactions completed during the reference period. The adoption of such information flows is in addition to the usual analytical reports provided at each meeting of the Board of Directors on business performance and, in accordance with Article 2381, paragraph 5, of the Italian Civil Code, and with Article 17.7 of the Articles of Association, at least quarterly, for the resolutions passed by the Board committees and the most significant transactions carried out by the CEO.

4.5. Other Executive Directors

There are no other executive directors aside from the Chief Executive Officer.

4.6 Independent Directors

Pursuant to Article 10 of the Articles of Association, at least three Directors, and in any event a number of Directors no fewer than those required by the regulations in force, must meet the independence requirements

of art. 148, paragraph three, of the Consolidated Law on Finance, as well as those laid down by the Code of Corporate Governance of Listed Companies.

In 2017 the independent Directors met on two occasions, in the absence of the other Directors.

At the meeting of 15 December 2017, the Board of Directors confirmed the eligibility to qualify as independent directors pursuant to the Articles of Association and the applicable laws and regulations and, in particular, articles 147-ter, paragraph 4, and 148, paragraph 3, of the Consolidated Law on Finance, and Article 3 of the Corporate Governance Code promoted by Borsa Italiana S.p.A. in respect of Directors Giorgio Barba Navaretti, Carlotta De Franceschi, Daniele Pittatore and Diego De Francesco (co-opted on 28 April 2017, with effect as from 1 May 2017, following the resignation of Andrea Zappia on 14 April 2017, with effect as from 1 May 2017, and subsequently appointed by the Shareholders' Meeting of 14 December 2017).

In view of the resignation of Ilaria Bennati on 24 November 2017, with immediate effect, it should be noted that the composition of the Board of Directors remains in line with the provisions of the Articles of Association and the regulatory requirements with reference both to the minimum number of independent directors and the compliance with independence requirements, without prejudice to the need to reconstitute the Board of Directors bearing in mind the need to comply with the gender legislation in force.

As at the date of this report, all Directors who, in the lists submitted for the appointment of the Board of Directors (November 2015) or, as regards Directors Diego De Francesco and Ilaria Bennati, upon co-optation, had indicated their eligibility to qualify as independent, have continued to meet the independence requirement, with the exception Ilaria Bennati who resigned on 24 November 2017.

The Board of Statutory Auditors ascertained the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members.

4.7 Lead independent director

In the absence of the conditions required by the Corporate Governance Code for the appointment of the lead independent director, the Board of Directors has not appointed any independent Director in this role.

5. Directors' Remuneration

Information concerning Directors' remuneration is governed by Articles 9 and 17 of the Articles of Association, published on the website www.bancasistema.it in the section **Governance/Corporate documents**.

Furthermore, as regards other information to be provided in this section, see the relevant parts of the 2017 Remuneration Policies together with Section II of the Remuneration Report published, pursuant to art.123-ter of the Consolidated Law on Finance and to Article 84-quater of the CONSOB Issuers' Regulations (recently amended by resolution 20250 of 28 December 2017), on the website www.bancasistema.it in the section **Governance/Remuneration**.

6. Treatment of corporate information

Banca Sistema - aware that the flow of price sensitive information (pursuant to art. 114, paragraph 1, of the Consolidated Law on Finance) must be regulated, in accordance with current regulations, according to principles of fairness, clarity and equal access to information - adopted, pursuant to Application Criterion 1.C.1, letter j) of the Corporate Governance Code, the "Rules for the Management and Disclosure of Inside Information", approved by the Board of Directors on 28 April 2017. The CEO and/or Chairperson of the Board of Directors are responsible for the disclosure of corporate information, thereby ensuring, through compliance with the aforesaid Rules, the correct disclosure to the market with specific reference to inside information.

The Bank relies on the Investor Relations department, which reports to the CFO, for managing relations with institutional investors and financial analysts, in order to ensure the disclosure of consistent information and news about Banca Sistema's activities, as well as the publication of price sensitive press releases.

The Board of Directors approved specific provisions aimed at governing the procedures for the treatment of confidential and inside information and for keeping a register of persons with access to inside information.

For the storage of regulated information, Banca Sistema makes use of the centralised storage mechanism, called "1Info", available at www.1info.it, managed by Computershare S.p.A..

The procedures relating to the management and public disclosure of corporate and inside information and to the keeping of the Insider Register are published on the Bank's website at the following address www.bancasistema.it/informazioni-societarie.

Following the coming into force, as from 3 July 2016, of EU Regulation no. 596/2014, the Board of Directors approved the adoption of an internal process for the application of the regulations concerning the delay in disclosure of inside information. Banca Sistema is updating the procedures in place regarding market abuse, following CONSOB's issue, in October 2017, of its new "Guidelines" on the management of inside information.

7. Board Committees

(art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

In accordance with articles 4, 5, 6 and 7 of the Corporate Governance Code and with the Supervisory Provisions for Banks, in order to promote an efficient system of information and consultation, which enables the Board to conduct a better assessment of certain topics within its purview, the Board has set up internal committees (the **"Committees"**) in charge of advising and issuing recommendations to the Board on matters within their purview, without prejudice to decision-making powers that cannot be delegated and the responsibilities of the Board. In the performance of their duties, the Committees have the right to access the information and corporate departments required to perform their respective tasks.

The Bank shall provide adequate information, in the Corporate Governance Report, on the establishment and composition of the Committees, the contents of the mandate entrusted to them, as well as, on the basis of the indications provided for by each committee, the activity actually performed during the year.

At 31 December 2017 and at the date of this Report, the following Committees had been established:

- Internal Control and Risk Management Committee, comprising four non-executive Directors, three of whom are independent, and with an independent chairman, as described in further detail in Section 7;
- Appointments Committee, comprising three non-executive Directors, two of whom are independent, and with an independent chairman, as described in further detail in Section 8;
- Remuneration Committee, comprising three non-executive Directors, two of whom are independent, and with an independent chairman, as described in further detail in Section 9;
- Ethics Committee, composed of the Deputy Chairperson of the Board of Directors, an Independent Director and the Head of Legal Affairs, as described in further detail in Section 10;

No duties of one or more committees provided for by the Corporate Governance Code were reserved to the entire Board, under the coordination of the Chairperson.

No committees other than those set out in this Section have been set up within the Board of Directors.

8. Appointments Committee

The Board has set up an Appointments Committee.

Composition and operation of the Appointments Committee (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

The Appointments Committee shall be composed of at least 3 members chosen from among non-executive Directors, the majority of whom shall be independent.

As at 31 December 2017, the Committee is composed of Director Diego De Francesco (independent and non-executive), Director Giorgio Barba Navaretti (independent and non-executive) and Director Luitgard Spögler (non-executive).

The Chairman of the Committee, Mr. Diego De Francesco, was chosen by the Committee itself from among the independent Directors (with adequate experience, as deemed by the Board at the time of appointment), at its meeting on 18 May 2017.

The Appointments Committee's operations are coordinated by the Chairman, who shall regularly report on such to the following Board of Directors' meeting, and such report shall be minuted on a regular basis.

During 2017 the Committee met 10 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about 1 hour.

From the beginning of 2018 until the date of approval of this document, the Committee met once.

In 2018 the Committee is expected to hold a number of meetings no fewer than those held in the previous year.

In the performance of its duties, the Appointments Committee may use all types of resources that it deems appropriate, including external consulting or publicity, such as external experts, in order to obtain thorough information regarding the personal and professional characteristics of the candidates and to select the persons most suited to Banca Sistema's projected operational needs.

The Head of Corporate Affairs, as meeting secretary, or other employees working at that structure are normally invited to attend the Committee meetings. Summary minutes of each meeting, signed by the Chairman and by the Secretary, and filed with the secretary office of the Board of Directors, are drawn up.

The Committee has access to all relevant corporate information for the performance of its duties.

Duties and Responsibilities of the Appointments Committee

Within its sphere of influence, the Committee has advisory, selection and proposal-making duties to support the Board of Directors on the matter of appointment of the members of the Board.

The Committee carries out all the tasks assigned to it by the Corporate Governance Code and, in particular, it performs an advisory and proposal-making role in the identification of the optimal composition of the Board of Directors, thereby specifying the professional figures whose presence may be conducive to its correct and effective functioning and possibly contributing to the preparation of the succession plan for the Company's executive directors.

In particular, the Committee:

- submits opinions to the Board of Directors regarding the Board's size and composition;
- formulates recommendations regarding the professional figures whose presence within the Board is deemed appropriate, as well as regarding the limits on the number of offices and any exceptions to the competition prohibition provided for by Article 2390 of the Italian Civil Code;
- proposes to the Board of Directors candidates for Director offices in case of co-optation, should the replacement of independent Directors be necessary;
- submits opinions to the Executive Committee in the event of the appointment of persons reporting directly to the CEO, even if not qualified as managers.

The Committee provides the Board of Directors with support in regard to the following processes:

- appointment or co-optation of Directors, by expressing its opinion of the suitability of the candidates whom the Board has identified to fill positions through its prior analysis. With regard to the need to ensure an adequate degree of diversification in the composition of the Board, the Committee - without prejudice to the obligations imposed by regulations governing listed banks - sets a target level for the less represented gender and draws up a plan to increase this number to reach that target level;
- self-assessment of bodies;
- verification of the conditions laid down in art. 26 of the Consolidated Law on Banking, Legislative Decree no. 385 of 1 September 1993 as subsequently amended and supplemented (*Requirements of professionalism, integrity and independence of corporate officers*)
- definition of succession plans for senior executive positions.

In regard to this latter function, during the course of 2017 the Committee expressed its opinion regarding succession plans for the Bank's executive directors, senior managers and department heads, which was approved by the Board of Directors at its meeting on 19 May 2017 and updated thereafter: (i) with the opinion of the Appointments Committee on 26 October 2017 and by Board of Directors' resolution of 27 October 2017, and finally (ii) with the opinion of the Appointments Committee on 13 December 2017 and by Board of Directors' resolution of 8 February 2018.

9. Remuneration Committee

The Board has set up a Remuneration Committee.

Composition and operation of the Remuneration Committee (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

The Remuneration Committee shall be composed of at least 3 members chosen from among non-executive Directors, the majority of whom shall be independent. At least one member must have appropriate knowledge and experience in financial matters or remuneration policies.

The Committee is composed of Directors Giorgio Barba Navaretti (independent and non-executive), Diego De Francesco (independent and non-executive) appointed by the Board of Directors on 28 April 2017, with effect as from 1 May 2017, and Giovanni Puglisi (non-executive). The Chairman of the Committee, Mr. Giorgio Barba Navaretti, was chosen by the Committee itself from among the independent Directors (with adequate experience, as deemed by the Board at the time of appointment).

The Chairman of the Committee, Mr. Giorgio Barba Navaretti, was chosen by the Board from among the independent Directors in possession of adequate experience, which was assessed by the Board at the time of appointment, at its meeting on 27 November 2015.

During 2017 the Committee met 9 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about 1 hour.

From the beginning of 2018 until the date of approval of this document, the Committee met twice.

In 2018 the Committee is expected to hold a number of meetings no fewer than those held in the previous year.

The Head of Corporate Affairs, as meeting secretary, or other employees working at that structure are normally invited to attend the Committee meetings. The Chairperson of the Board of Directors was regularly invited to attend the meetings: the CEO and General Manager attended 4 meetings upon invitation from then Committee itself, to illustrate specific arguments regarding the remuneration of personnel. The Chairman of the Board of Statutory Auditors, or another Statutory Auditor, attended two meetings. Summary minutes of each meeting, signed by the Chairperson and by the Secretary, and filed with the secretary office of the Board of Directors, are drawn up; the Chairman of the Remuneration Committee regularly reports to the corresponding Board of Directors' meetings held subsequently.

In the performance of its duties, the Committee ensures suitable functional and operational links with the competent corporate departments, has access to the necessary Company's information and functions for the performance of its duties and, according to the procedures established by the Board of Directors, can avail itself of external advisers.

Banca Sistema shall provide the Committee with adequate financial resources for the performance of its duties and to ensure operational independence, within the limits of the budget approved by the Board of Directors.

If the Committee intends to make use of the services of expert consultants in order to obtain information on market practices regarding remuneration policies, the Committee verifies in advance that such persons are not in situations that could compromise their independence of judgement, such as in cases where such persons provide simultaneously to the human resources department, Directors or key management personnel services of such significance as to actually impair the independence of judgement of the same consultants.

The Committee reports to the shareholders on the methods of performance of its duties; to this end, the annual Shareholders' Meeting should be attended by the Chairman or another member of the Committee.

Duties and Responsibilities of the Remuneration Committee

Within its sphere of influence, the Committee has advisory and proposal-making duties vis-à-vis the Board of Directors.

In accordance with the Corporate Governance Code, the Committee performs a proposal-making and investigation role vis-à-vis the Board of Directors, with regard to the definition of a remuneration policy for directors and key management personnel.

In particular, the Committee has the following duties:

- A) to periodically evaluate the adequacy, overall consistency and actual application of the general policy adopted for the remuneration of Directors and key management personnel, also on the basis of the information provided by the managing directors; to formulate proposals to the Board of Directors in that regard;
- B) to submit proposals or issue opinions to the Board of Directors for the remuneration of executive Directors and other Directors who cover specific offices as well as for the identification of performance objectives related to the variable component of that remuneration; to monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

In accordance with the Supervisory Provisions for Banks, the Committee also performs the following functions:

- (i) puts forward proposals on the remuneration of personnel whose remuneration and incentive systems are determined by the Board of Directors;
- ii) has an advisory role for the determination of the criteria for the remuneration of all key personnel;
- iii) carefully monitors 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;
- iv) takes care of preparing the documentation to be submitted to the Board of Directors for the related decisions;
- v) cooperates with the other committees within the Board of Directors, in particular with the Internal Control and Risk Management Committee in assessing whether the incentives provided by the remuneration system take into account the risks, capital and liquidity;
- vi) ensures the involvement of all competent corporate departments in the process of preparing and monitoring of the remuneration and incentive scheme policies and practices;
- vii) formulates, also on the basis of the information received by the competent corporate departments, opinions on the achievement of the performance objectives linked to the incentive plans and on the verification of the other requirements laid down for payment of the remuneration;
- viii) provides adequate feedback on its activity to the corporate bodies, including the Shareholders' Meeting.
- ix) reports to the shareholders on the manner in which it performs its duties and, to this end, it is required that the Chairman of the Committee or another member be in attendance at the Annual Shareholders' Meeting;

During the course of 2017, the Committee performed an important role in reviewing the Bank's Remuneration Policies, as support to the Board of Directors.

10. Ethics Committee

The Board has set up an Ethics Committee.

Composition and operation

The members appointed by the Board of Directors, participating permanently in the Committee, are the Deputy Chairperson of the Board of Directors, an Independent Director and the Head of Legal Affairs. The office of Chairman shall be taken by the Deputy Chairperson of the Board of Directors. The Committee meets at least once a year.

The Committee, following the update of the composition resolved upon by the Board of Directors on 15 December 2017, is therefore composed of Director and Deputy Chairperson Giovanni Puglisi (non-executive), with the office of Chairman, Director Carlotta De Franceschi (independent and non-executive) and the Head of Legal Affairs.

During 2017 the Committee met twice, as shown in Table 2 attached to this Report, while the average duration of the meetings was about thirty minutes.

From the beginning of 2018 until the date of approval of this document, the Committee has yet to meet.

In 2018 the Committee is expected to hold a number of meetings no fewer than those held in the previous year.

Duties and Responsibilities of the Ethics Committee

The Ethics Committee is responsible for analysing the system of ethical principles and conduct adopted by the Bank, and to submit proposals to the Board of Directors designed to update and improve said system. The Committee is also responsible for supervising publication of the Corporate Social Responsibility Report and the guidelines for the Company's disclosure of information in regard to such.

In particular, the Ethics Committee has been given the power to submit to the Board of Directors proposals to amend the Bank's Code of Ethics and code of conduct, if any, and to provide, upon request, to the recipients of the Code of Ethics, explanations and opinions in relation to the content of the provisions of the Code and their correct interpretation and application, and to receive those reports provided for by the Code of Ethics. In addition, the Ethics Committee, as part of the procedures relating to or leading to the emergence of breaches of the provisions of the Code, without prejudice to the powers provided for therein to the body or the competent department (e.g. the Supervisory Body, the Board of Directors, the Board of Statutory Auditors, the CEO, the Head of Human Resources Management), is called upon to provide support of a preliminary nature, formulating opinions and recommendations and possibly hearing the individuals involved in the procedure.

During 2017 the meetings were therefore attended by the Head of the Legal Affairs Department, as secretary, or by other employees of said corporate structure.

11. Internal Control and Risk Management Committee

The Board set up an Internal Control and Risk Management Committee, which is also responsible for matters concerning related party transactions.

Composition and operation of the Internal Control and Risk Management Committee (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

The Internal Control and Risk Management Committee is composed of four of the nine members of the Board of Directors chosen from among the non-executive Directors, the majority of whom are independent. Committee members must be in possession of such expertise, skills and experience as to be able to fully understand and monitor the Bank's risk strategies and guidelines. At least one member of the Committee must possess adequate experience in the fields of accounting and finance or risk management, as assessed by the Board of Directors upon appointment.

The Committee is composed of Directors Daniele Pittatore (independent and non-executive), Giorgio Barba Navaretti, Carlotta De Franceschi (independent and non-executive) and Luitgard Spögler (not independent and non-executive).

The Chairman of the Committee, Mr. Daniele Pittatore, was chosen by the Committee itself from among the independent Directors (with adequate experience, as deemed by the Board at the time of appointment).

The works are coordinated by the Chairman and meetings are minuted on a regular basis.

The Committee meets at least once every six months.

During 2017 the Committee met 15 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about three hours. On all occasions at least one member of the Board of Statutory Auditors was in attendance. In addition, during 2017, four meetings were arranged and held in the form of a working group with the attendance of the majority of the Committee members, as well as at least one member of the Board of Statutory Auditors and, in certain cases, the Company's Independent Auditors KPMG.

From the beginning of 2018 until the date of approval of this document, the Committee met once, with the attendance of at least one member of the Board of Statutory Auditors. During the course of 2017 meetings were also arranged and held in the form of a working group with the attendance of the majority of the Committee members, as well as that of the Company's Independent Auditors KPMG on one occasion.

In 2018 the Committee is expected to hold a number of meetings no fewer than those held in the previous year.

During its meetings, the Committee collaborated, subject to prior agreement and for the discussion of individual items, with the CEO, the Manager in charge of financial reporting, and the Independent Auditors. It liaised systematically with the Heads of Risk Management and of Compliance and AML, with the Head of the Internal Auditing Department, who systematically attended the meetings of the Committee with a view to achieving synergies between the different players of the internal control system. With a view to analysing the works of the Board, the Committee also liaised with the Head and other employees of the Operations Department, or of the Organisation and IT Area.

The Head of Corporate Affairs, as meeting secretary, or other employees working at that structure, are also invited to attend the Committee meetings as a rule. Summary minutes of each meeting, signed by the Chairman and by the Secretary, and filed with the secretary office of the Board of Directors, are drawn up.

The Committee meetings must be attended by at least one member of the Board of Statutory Auditors. Where deemed appropriate in relation to the issues to be discussed, the Internal Control and Risk Management Committee and the Board of Statutory Auditors meet jointly.

In performing its functions, the Committee has access to the information and Company functions necessary to the performance of the related tasks and may draw on the assistance of internal employees and, at the expense of Banca Sistema and within the budget limits approved by the Board of Directors, of external professionals, provided that they are suitably bound to the required confidentiality.

The Committee and the body tasked with the control function shall exchange any information of mutual interest and, where appropriate, coordinate for the performance of their respective tasks.

The Committee must be able to use external experts and - where necessary - liaise directly with the internal audit, risk control and compliance departments.

Duties and Responsibilities of the Internal Control and Risk Management Committee

The Committee, within its purview, has the task of assisting the Board of Directors in making inquiries, putting forward proposals and issuing advice in the assessments and decisions relating to Banca Sistema's Internal Control and Risk Management System (the "**Internal Control and Risk Management System**").

The Committee performs all of the duties assigned to it by the Corporate Governance Code, and in particular:

- A) it assists and supports the Board of Directors, and ensures that the Board of Directors benefits from adequate preliminary review in evaluations and decisions relating to Banca Sistema's Internal Control and Risk Management System, as well as in those relating to the approval of periodic financial reports and the management of risks arising from detrimental facts that the Board of Directors may have become aware of;
- B) it expresses its opinion to the Board of Directors regarding:
 - (i) the setting of guidelines for the Internal Control and Risk Management System, so that the main risks to which Banca Sistema and its subsidiaries are exposed are properly identified and adequately measured, managed and monitored, in addition to determining the extent to which such risks are compatible with management of the Company in a manner consistent with the identified strategic objectives;
 - (ii) the assessment, at least once a year, of the adequacy of the Internal Control and Risk Management System to the characteristics of the Company and the risk profile assumed, as well as of the System's effectiveness;
 - (iii) the approval, at least once a year, of the working plan drawn up by the Head of the Internal Audit Department, after consulting the Board of Statutory Auditors and the Director responsible for the Internal Control and Risk Management System;
 - (iv) the description of the main characteristics of the Internal Control and Risk Management System in the corporate governance report and the assessment of the System's overall adequacy;
 - (v) the assessment of the results presented by the Independent Auditors in the letter of suggestions, where appropriate, and in the report on the fundamental issues identified during the legal audit, after hearing the opinion of the Board of Statutory Auditors;
 - (vi) the appointment and dismissal of the Head of the Internal Audit Department;
 - (vii) the allocation to the Head of the Internal Audit Department of adequate resources to carry out his duties;
 - (viii) the definition of the remuneration of the Head of the Internal Audit Department in a manner consistent with the Company's policies;
- C) it assesses the proper use of accounting standards and the consistency of such standards for the purposes of preparation of the consolidated financial statements, in collaboration with the Manager in charge of financial reporting and after hearing the opinion of the Independent Auditors and Board of Statutory Auditors;
- D) it expresses opinions concerning specific aspects of identifying the main company risks;

- E) it reviews periodic reports regarding the evaluation of the Internal Control and Risk Management System and reports of particular importance drafted by the Internal Audit Department;
- F) it monitors the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Department;
- G) it requests that the Internal Audit Department, where it deems it necessary or appropriate to do so, conduct audits of specific areas of operations, while concurrently informing the Chairman of the Board of Statutory Auditors thereof;
- H) it reports to the Board of Directors, with at least half-yearly frequency, in conjunction with the approval of the annual and interim financial reports, on the activities performed and on the adequacy of the Internal Control and Risk Management System;
- I) it assesses the reports by the Director responsible for the Internal Control and Risk Management System concerning problems and critical issues relating to the Banca Sistema's Internal Control and Risk Management System, and takes the appropriate measures;
- L) it performs any additional tasks assigned by the Board of Directors.

In accordance with the provisions of Article 2.3.3 of Bank of Italy Circular no. 285 of 17 December 2013, the Committee carries out functions in support of the Board of Directors regarding risks and the system of internal controls.

In this context, the Committee must place particular emphasis on all the instrumental activities necessary so that the Board can reach a fair and efficient determination of the RAF (risk appetite framework) and the risk governance policies.

In this regard, the Committee also has the following tasks:

- (i) identifying and proposing the Heads of the Company control departments for appointment, in collaboration with the Appointments Committee;
- (ii) examining in advance the activity plans (including the audit plan) and annual reports of the Company supervision departments to be submitted to the relevant body;
- (iii) formulating assessments and issuing opinions to the body on compliance with the principles to which the internal control system and the corporate organisation must adhere and with the requirements that must be met by the Company control departments, bringing to the attention of the body any weaknesses and the resulting corrective actions to be implemented; to this end, it assesses the proposals of the management body;
- (iv) contributing, through evaluations and opinions, to the definition of the Company's policy on the subject of outsourcing corporate control functions;
- (v) checking that the internal control departments comply in full with the body's guidelines and assists the latter in the preparation of the coordination document required by Bank of Italy Circular no. 285 of 17 December 2013;
- (vi) evaluating the correct application of the accounting standards for the preparation of the separate and consolidated financial statements, and to that end, coordinating with the Manager in charge of financial reporting and with the supervisory body.

With specific reference to the tasks in the area of risk management and control, the Committee supports the Board of Directors:

- in the definition and approval of strategic guidelines and risk management policies. As part of the RAF, the Committee makes the necessary assessments and proposals so that the Board of Directors, as required by Bank of Italy Circular no. 285 of 17 December 2013, may define and approve the Risk appetite and the Risk tolerance;
- in checking the correct implementation of the strategies, risk governance policies and the RAF;
- in the definition of the policies and processes for evaluating Company activities, including the verification that the price and conditions of the transactions with customers are consistent with the business model and the risk strategies.

Notwithstanding the powers of the Remuneration Committee, the Committee ascertains that the incentives underlying Banca Sistema's remuneration and incentive system are consistent with the RAF.

The Committee, in its component consisting solely of independent Directors, also undertakes the functions of Committee for transactions with parties in conflict of interest, governed by the CONSOB Regulation containing provisions concerning related party transactions, adopted by resolution no. 17221 of 12 March 2010 and subsequently amended by Resolution no. 17389 of 23 June 2010, and by the rules on "Risk activities and conflicts of interest vis-à-vis associated persons" set forth by Title V, Chapter 5, of Bank of Italy Circular no. 263 of 27 December 2006, "New prudential supervisory provisions for banks" and subsequent updates.

In performing its functions, the Committee has access to the information and Company functions necessary to the performance of the related tasks and may draw on the assistance of internal employees and, at the expense of Banca Sistema and within the budget limits approved by the Board of Directors, of external professionals, provided that they are suitably bound to the required confidentiality.

The Committee and the Board of Statutory Auditors shall exchange any information of mutual interest and, where appropriate, coordinate for the performance of their respective tasks.

The Committee reports to the Board of Directors on its activities and the adequacy of the Internal Control and Risk Management System even if, according to the practice adopted, the Chairman of the Committee reports to the Board from time to time, at the first useful meeting, on the activities carried out.

In 2017, the activities of the Committee focused on the following aspects:

- company procedure for related party transactions and issuance of prior opinions by independent Directors;
- the adoption of an accounting policy regarding the recognition of default interest;
- the presentation of programmes for the activities of the Internal Audit Department, the Risk Management Department and the Compliance and Anti-Money Laundering Department, insofar as each is concerned.

12. Internal Control and Risk Management System

The Board of Directors plays an important role within the scope of the Bank's Internal Control and Risk Management System.

As regards risk management and the internal control system, the Bank's Board of Directors is supported by the Internal Control and Risk Management Committee (see Section 11).

The Board of Directors, upon consultation with the Internal Control and Risk Management Committee, evaluates the adequacy of the Internal Control and Risk Management System with respect to the characteristics of the Bank and its risk profile, as well as its effectiveness, by preparing a specific report on an annual basis.

The Board of Directors, upon recommendation from the Director responsible for the Internal Control and Risk Management System, subject to the approval of the Internal Control and Risk Management Committee and upon consultation with the Board of Statutory Auditors, appoints and dismisses the Head of the Internal Audit Function and ensures that the control functions are equipped with the adequate resources to carry out their duties.

The Internal Control and Risk Management System involves each of the following corporate bodies depending on their specific responsibilities:

- (i) the Board of Directors;
- (ii) the Director responsible for the Internal Control and Risk Management System, if appointed, who may rely on the support of any extra-Board Committees for his/her assessments;
- (iii) the Internal Control and Risk Management Committee and other Board Committees, each within its own purview;
- (iv) the Internal Audit Department and other control departments (Risk Management and Compliance);
- (v) the Board of Statutory Auditors;
- (vi) the Supervisory Body.

The Bank is committed - through the adoption of a Code of Ethics - to the dissemination at all levels of a culture characterised by the awareness of the existence of controls and the adoption of a control-oriented mentality. Internal controls are understood to be all those necessary or useful tools for addressing, managing and checking business activities with the aim of ensuring compliance with laws and Company procedures, protecting corporate assets, efficiently managing operations and providing accurate and complete accounting and financial data.

The responsibility for implementing an effective internal control system is shared at every level of the organisation and all employees, within the scope of their respective functions, are responsible for the definition and proper functioning of the control system.

The auditing firm has free access to the data, documents and information necessary for the performance of its activity.

Roles and Functions involved

The Manager in charge of financial reporting shall have adequate powers and means to carry out his/her functions, as stated in the last paragraph of this Section. Specifically, the Manager in charge of financial reporting, who is responsible for the activity and its coordination, relies on the support of both internal personnel and of an auditing firm other than the entity in charge of the audit, which was entrusted with the task of assisting the Manager in charge of financial reporting in the evaluation activity described above.

With regard to relations with the Bank's structures/Bodies, in addition to the information flows required by law with the various control functions and the Governance and Control Bodies, the Manager in charge of financial

reporting receives from all Business Units the maximum support necessary for the performance of his/her activities, by ensuring free access to all areas, information, accounting records and documentation and the timely, complete, accurate and reliable provision of all the required data. In the event that some of the activities managed by a Business Unit have been outsourced to third parties, the Head of the Business Unit undertakes to ensure that the Manager in charge of financial reporting can also access the information available to such persons. The Manager in charge of financial reporting agrees the procedures for the implementation of appropriate information flows with each Business Unit.

The authorised persons provide the Manager in charge of financial reporting with the information and any certifications deemed necessary to allow the latter to comply with the formalities required under articles 123-bis and 154-bis, paragraph 5, of the Consolidated Law on Finance and with the formalities required by Bank of Italy Circulars nos. 272 and 115 concerning accounting supervisory reports (*Matrice dei conti*) and the submission of supervisory reports on a consolidated basis.

12.1 Director responsible for the Internal Control and Risk Management System

The Board of Directors, at its meeting of 29 April 2016, having considered that the primary and secondary banking regulations applicable to the Bank set out appropriate and detailed rules of operation of the internal control system by dividing roles and responsibilities among the different bodies and committees, decided to eliminate the role of Director responsible for the internal control system (a role previously assigned to the CEO).

12.2 The Risk Management Department:

The Risk Management Department is tasked with the identification, management and monitoring of all risks to which the Bank is, or may be, exposed. The Risk Management Department has the duty to cooperate in the formulation and implementation of the Risk Appetite Framework (RAF) and the related risk governance policies, and the various stages that make up the risk management process, as well as in setting operational limits for the assumption of various types of risk.

The Risk Management Department:

- is responsible for measuring and controlling, in both a timely and forward-looking manner, the Bank's exposure to the different types of risk (e.g. market, credit, interest rate, liquidity, operational and country, strategic and reputational); defines and proposes to the competent Body the threshold of risk tolerance for each identified risk category (Risk Tolerance) and continuously monitors its adequacy. Risk measurement takes into account the uncertainty inherent in the assessment of certain types of financial instruments;
- develops and maintains risk measurement, management and control systems aligned with international best practices, cooperating to this end with the functions responsible for the relevant company processes;
- verifies the adequacy of the RAF and the risk and operational limit management process; identifies the measures able to improve/optimize the Risk Appetite, taking into consideration the direct impacts on the budget/plan;
- defines common risk assessment metrics in line with the RAF, coordinating with the Internal Audit Department;
- provides the Board of Directors with information about the Bank's risk appetite, i.e. the maximum total capital that the Bank is willing to allocate to cover risks.

12.3 Compliance and Anti-Money Laundering Department

The Compliance and Anti-Money Laundering Department, which reports functionally to the Board of Directors and is administratively answerable to the General Manager - CEO, oversees the management of the compliance risk with regard to all the Company's activities, ensuring that the internal procedures are adequate enough to prevent this risk arising, and in particular that they:

- prevent the violation of external rules (laws and regulations) and internal rules (codes of conduct, ethical codes) applicable to the Bank in order to avoid incurring legal or administrative sanctions, significant financial losses or damage to reputation;

- prevent and combat money-laundering operations and the financing of terrorism, in order to mitigate the risk of violation of internal and external rules on the matter.

The Department collaborates with other departments of the Bank for the definition of methods for the assessment of compliance risks.

Concerning the monitoring of compliance risk, the Department has adopted a compliance model which provides for regulations with a direct scope or supervised directly by the Department, and with an indirect scope for which a specialist department is in place with primary responsibility for the management and monitoring of the compliance risk.

Specifically, the Department:

- supports the corporate departments in the definition of methods for the assessment of compliance risks;
- identifies appropriate procedures for the prevention of the risk, with the option to request the adoption thereof, verifying their appropriateness and correct application;
- identifies, on an ongoing basis, the rules applicable to the Bank and the measurement/assessment of their impact on business processes and procedures;
- proposes organisational and procedural changes aimed at adequately controlling the compliance risks identified;
- prepares information flows addressed to the corporate bodies and the departments involved (e.g.: operational risk management and internal audit);
- checks the effectiveness of the organisational changes (structures and processes, as well as operational and commercial procedures) suggested for the prevention of the compliance risk and the involvement in the prior assessment of compliance with applicable regulations of all innovative projects (including operations in new products or services), as well as in the prevention and management of conflicts of interest among the various activities carried out by the Bank, both in relation to employees and executives;
- assists and advises the Bank's corporate bodies in all matters in which there is a significant compliance risk, and cooperates in personnel training on the provisions applicable to their activities, in order to promote a corporate culture based on the principles of honesty, fairness and respect for the letter and spirit of the rules;
- in addition to the periodic reports required by the reference regulations (e.g. Plans of activities and periodic reports), periodically shares the progress of its activities with the Top Management, on the occasion of the CEO Committee.

12.4 Internal Audit Department

The Internal Audit Department (or "Internal Audit") is an integral part of the internal control system (ICS). It is engaged in assurance and advisory activities designed to identify, with a third level assessment, the regular performance of the Bank's operations, any violations of procedures and regulations, and to periodically assess the completeness, adequacy, reliability and overall operation of the ICS and risk management system. Moreover, it helps the organisation achieve its objectives through a systematic professional approach aimed at evaluating and improving control, risk management and corporate governance processes.

The Internal Audit Department performs an advisory role vis-à-vis the Board of Directors and Top Management with regard to those actions aimed at improving the ICS and disseminating a "control-based culture" within the Company. Within the framework of its duties of cooperation and exchange of information, for the matters within its remit, it reports on a regular basis to the Board of Statutory Auditors, the Internal Control and Risk Management Committee, the Supervisory Body and the Independent Auditors.

The Internal Audit Department acts according to a mandate provided by a specific regulation approved by the Board of Directors. Moreover, to ensure proper interaction between all the functions and bodies charged with control tasks, thereby avoiding any overlaps or shortcomings, the Bank has adopted a "Regulations for the coordination of the control functions" which establishes the duties and responsibilities of the control bodies and functions, as well as the information flows and the procedures for coordination and cooperation between the parties involved.

Responsibility for the Bank's Internal Audit Department is entrusted to Franco Pozzi, appointed by the Board of Directors on 19 December 2012, upon the proposal of the Executive Committee and as approved by the Board of Statutory Auditors and the Appointments and Remuneration Committees. According to the supervisory provisions and self-regulation rules in force at the time, no other opinions were explicitly acquired. At the same meeting, the Board of Directors also appointed Mr. Pozzi as a member of the Supervisory Body pursuant to Legislative Decree no. 231/2001.

In order to achieve the level of independence necessary to effectively carry out the internal audit activities planned, the Head of the Department reports directly to the Board of Directors and is appointed and dismissed, thereby stating the reasons, by the body in charge of strategic supervision, upon consultation with the body tasked with the control function; his/her appointment and dismissal must be promptly communicated to the Bank of Italy.

The criteria governing the remuneration of personnel within the Internal Audit Department do not compromise their impartiality, and the incentive system is consistent with the purposes of the function and with their tasks. In line with supervisory provisions on remuneration policies and practices, the variable component of the remuneration payable to the members of corporate control functions may not exceed the limit of one third of the fixed component and the allocation of the bonus depends exclusively on the achievement of qualitative objectives, not connected in any way to the Bank's financial results.

In order to duly perform their duties, the personnel in the Internal Audit Department have access to all documents and information systems used by the Bank. They can use appropriate technological resources and, solely for consultation and inquiry purposes, they have specific access to the various applications used by the Bank for monitoring purposes, capable of guaranteeing independent data extrapolation and processing for the selection of samples for testing procedures.

The Internal Audit Department, for each financial year, manages a specific budget for any tasks assigned to external specialists for the purpose of carrying out activities that internal resources are not able to perform independently. To this end, a leading external consultancy company, in consortium with other banks using the services of the principal outsourcer of IT systems (Consorzio Servizi Bancari), is appointed to check the technological infrastructure of the outsourcer's information systems (IT audit), including networking and application penetration tests. The monitoring of internal information systems is also carried out with the support of external consultants.

Audit activities are planned annually, based on a structured analysis approach and prioritisation of the key risks (so-called risk-based approach), which assesses the different degrees of risk of the Bank's activities notwithstanding the controls envisaged. In order to identify the steps to plan and determine their priorities, the following aspects are also considered:

- the evolution of the Bank's business provided for in the budget and the Business Plan;
- the items requiring attention arising from the results of the audits carried out in the past;
- the analysis of operational risks formalised in the Operational Risk Framework by the Risk Management Department;
- on-going organisational changes and projects;
- the mandatory annual audits required by Bank of Italy regulations (e.g. IT audit, ICAAP, remuneration policy, evaluation of the RAF, etc.), and those on an ongoing basis recommended by the Supervisory Authorities (e.g. audit of the Compliance and Anti-Money Laundering Department).

The multi-year Audit Plan (2017-2018) was submitted to a preliminary examination by the CEO Committee, the Internal Control and Risk Management Committee and the Board of Statutory Auditors, and subsequently it was submitted to the Board of Directors for approval, at its meeting of 8 March 2017. The Corporate bodies, the Supervisory Authorities and the Head of the Internal Audit Department may request amendments and/or

additions to the plan following particularly risky events or situations they have detected, thereby informing the Board of Directors.

The main activities carried out in 2017 by the Internal Audit Department team concerned, to a different extent depending on the level of risk, the following operating processes of the Bank: factoring, loans to SMEs, pension and salary-backed loans, collection, supervisory reports, and certain business processes not directly related to individual structures. Actions were also carried out concerning the mandatory audit activities concerning the ICAAP process, the information system (ICT auditing), including the Company's business continuity plan, the second-level control business departments (compliance and anti-money laundering) and the correct application of remuneration policies.

Furthermore, the Internal Audit Department supports the Manager in charge of financial reporting in assessing the effectiveness of the internal control system for the preparation of corporate financial reports (Law no. 262/2005). This activity has been included in the 2017-2018 audit plan, and envisages audits to be conducted by the Internal Audit team on the occasion of the quarterly closing of the accounts, in order to evaluate the effectiveness of the internal control system with regard to the following business processes:

- Factoring;
- salary- and pension-backed loans;
- Loans to SMEs;
- Impairment;
- Liquidity management;
- Banking services;
- General customer registry.

The results of audit operations are formalised in special audit reports that are sent to the members of the CEO Committee and the structures involved in the audit procedures. These reports contain the details of the findings, any areas for improvement of the control system that have emerged, and the actions planned to implement such improvements, with an indication of the person in charge of the remedial actions and the deadlines for their implementation. The Internal Audit Department monitors the completion of the corrective actions identified, through follow-up activities, informing the CEO of any delays.

The Head of the Internal Audit Department submits to the attention of the Corporate Bodies, on a quarterly basis, a *tableau de bord* which summarises the following information:

- the checks carried out by the Internal Audit Department set out in the Audit Plan;
- the findings that emerged during the above checks, with an indication of the critical level, the planned corrective measures, the implementation timing and the project managers;
- the follow-up of the findings;
- the other activities carried out in the period.

12.5 Organisational and Management Model pursuant to Legislative Decree no. 231/2001

Banca Sistema, aware of the need to ensure transparency and fairness in the conduct of business, in order to protect its institutional role and image, the expectations of shareholders and of those who work for and with the Bank, has deemed it appropriate, in line with its corporate policies, to implement the Organisational and Management Model (or "OMM") laid down by Legislative Decree no. 231/2001 and available on the Issuer's website www.bancasistema.it.

This measure was also taken in the belief that the adoption of the OMM may be a valid awareness-raising instrument for those who work for the Bank, so that they adopt, in the performance and in the conduct of their activities, correct and consistent behaviour, such as to prevent the risk of committing the offences specified in Legislative Decree no. 231/2001.

The Bank condemns any conduct contrary to the applicable legal provisions and ethical principles also established in the Code of Ethics. In this context, the adoption and effective implementation of the Model improves the Bank's Corporate Governance system, thereby limiting the risk of committing crimes.

In the preparation of the Organisational Model, Banca Sistema has drawn inspiration not only from the requirements of the Decree, but also from the guidelines established on the subject by sector trade associations.

The Special Section of the Organisational Model includes the following predicate offences that Banca Sistema intends to prevent

- a) crimes committed in relations with the Public Administration (art. 24);
- b) computer crimes and unlawful data processing (art. 24-bis);
- c) corporate offences (art. 25-ter);
- d) market abuse offences (art. 25-sexies);
- e) crimes committed in violation of the rules on the protection of health and safety at work (art. 25-septies);
- f) receipt of stolen goods, money laundering and use of money, goods or benefits of unlawful origin, as well as self-laundering (art. 25-octies);

In accordance with the provisions of Legislative Decree no. 231/2001, a Supervisory Body (SB) has also been established. The SB is tasked with supervising the functioning, observance and updating of the OMM. The Board of Directors' Meeting of 27 November 2015 deemed it appropriate to lend continuity to the activities already carried out by the Supervisory Body, by appointing a collective structure, separate from the Board of Statutory Auditors, whose characteristics are governed by the regulations on the functioning of the SB. In particular, the Board of Directors has retained the "mixed" nature of the SB by appointing the following members:

- (i) the Chairman of the Board of Statutory Auditors who, in representation thereof, shall assess the adequacy of all the functions involved in the control system, the proper fulfilment of the duties and the proper coordination thereof, as well as promote actions aimed at remedying any gaps and irregularities found;
- (ii) a non-executive and independent Director, who will ensure the independence of the body and constant liaising with the Board of Directors;
- (iii) the Head of the Internal Audit Department of the Bank, so as to ensure proper coordination of the audit activities, thereby avoiding any duplication and exploiting possible synergies of the internal controls.

Therefore, the Body currently consists of the following members:

- Massimo Conigliaro (Chairman of the Board of Statutory Auditors);
- Daniele Pittatore (independent Director);
- Franco Pozzi (Head of the Internal Audit Department).

The Body shall remain in office for three years and report to the Board of Directors on its activities every six months. The meetings are regularly minuted and registered in a special book. This Body is vested with autonomous initiative and control powers, including the power to request and obtain information from all levels and operating departments of the Bank, making use of the Internal Audit Department.

The Board of Directors annually allocates to the SB the necessary financial resources for the acquisition of any advice necessary for the fulfilment of its institutional duties.

The SB is the recipient of the reports established by the OMM, particularly with regard to the reporting of news relating to the commission, or attempted commission, of offences in the interest or to the advantage of the Bank, specified in Italian Legislative Decree no. 231/2001, and of any breach of the rules of conduct laid down by the OMM. In order to protect its full independence and confidentiality, the reports may be addressed directly to the SB, by using the appropriate electronic mailbox. No reports were received during 2017.

12.6 Head of internal whistleblowing systems

The adoption of adequate internal whistleblowing systems by the Bank was made necessary following the changes introduced by Legislative Decree no. 72 of 12 May 2015, which amended the Consolidated Law on Banking ("TUB") and the Consolidated Law on Finance ("TUF"). In turn, the Bank of Italy updated the "Supervisory Provisions for Banks" (Circular no. 285 of 17 December 2013 - XI update) introducing into the Italian banking system, as of 31 December 2015, the regulations on internal whistleblowing systems. During the course of the year, Italian Law no. 179 came into force on 30 November 2017, which represented a significant step forward towards the introduction of such an instrument into the Italian legal system, through the introduction of provisions safeguarding those employees, in both public and private sectors, who report illegal activities.

The Bank's Board of Directors, at its meeting of 16 December 2015, appointed the Head of the Internal Audit Department as Head of the internal whistleblowing systems, and approved its Regulations which govern the procedural and organisational aspects of the whistleblowing systems.

In order to facilitate whistleblowing by the Bank's employees, and to guarantee their confidentiality, as from December 2017 the Company's Intranet has introduced a further method of reporting offences in addition to the one already provided for, via a specific e-mail address: (whistleblowingadmin@bancasistema.it). Moreover, should any whistleblowing regard the Head of the internal whistleblowing systems, or should the whistleblower not feel comfortable for whatever reason, reports may be sent by post to the Bank's registered office, for the attention of the Chairman of the Internal Control and Risk Management Committee.

No whistleblowing reports were received in 2017.

12.7 Independent Auditors

By resolution of 27 April 2010, the Issuer's Shareholders' Meeting, pursuant to articles 14 and 16 of Legislative Decree no. 39/2010 and to Articles 2409-bis et. seq. of the Italian Civil Code, appointed the Independent Auditors KPMG S.p.A., based on a reasoned proposal put forward by the Board of Statutory Auditors, with the mandate (i) for the legal audit of the financial statements of the Issuer and the consolidated financial statements of the Group, including the oversight of corporate accounting and the correct reporting of operating events in the accounts for the years 2010-2018, as well as (ii) for the limited review of the interim reports from 30 June 2010 to 30 June 2018.

The Independent Auditors' report also contains their opinion in accordance with art. 123-bis of the Consolidated Law on Finance.

The audit of the financial statements and of the consolidated financial statements also involve the audit of the financial statements of subsidiaries or associated companies under Italian law. The audit of the subsidiary SF Trust Holdings is formalised by a separate agreement.

12.8 Manager in charge of financial reporting

In accordance with Article 23 of the Articles of Association, the Board of Directors, after hearing the mandatory but not binding opinion of the Board of Statutory Auditors, appoints the Manager in charge of financial reporting pursuant to art. 154-bis of Legislative Decree no. 58 of 24 February 1998, and possibly establishes a given period for the task to be completed, selecting him/her from among the Company's managers with proven experience in accounting and financial matters, granting them adequate powers and means to perform the tasks assigned pursuant to law. The Board of Directors shall also have the power to dismiss the Manager in charge of financial reporting. The remuneration of the Manager in charge of financial reporting is set by the Board of Directors.

On 22 November 2017, the Board of Directors, having ascertained possession of proven experience in accounting and financial matters (as required by Article 23.1 of the Articles of Association), and with the approval of the Board of Statutory Auditors, appointed Mr. Alexander Muz, the Head of "Administration, Planning and Supervision" as "Manager in charge of financial reporting".

The Board of Directors granted to the Manager in charge of financial reporting the powers and means described below:

- he is vested with all the powers and means necessary to perform the tasks attributed to him as required by law;
- he holds an adequate executive position, reporting directly to the Chief Financial Officer;
- he has adequate access to all information deemed relevant for the performance of his duties;
- he has the powers to carry out the supervision of existing business processes and authorise new ones when they have an impact on the financial statements, the consolidated financial statements and the documents subject to certification;
- he must be able to rely on the Company's information systems in order to have a suitable accounting system to ensure the adequacy of procedures and controls;
- he may rely, where necessary and/or appropriate, on the cooperation of other business organisational units, other than those arranged by the latter as Company manager, for the performance of his duties in accordance with procedures to be agreed with them;
- for the purposes of traceability and transparency, he arranges the most appropriate record keeping methods for the documents with an impact on the accounting reports of Banca Sistema S.p.A..

The Manager in charge of financial reporting has the same powers of inspection and control available to the Board of Statutory Auditors and the Independent Auditors, within the limits, however, of the duties and functions assigned to him. The Manager in charge of financial reporting has access to any corporate documents including contracts with third parties.

12.9 Financial reporting process

As regards the main characteristics of the Internal Control and Risk Management System in relation to the financial reporting process, including on a consolidated basis, according to the legal provisions of art. 154-bis of the Consolidated Law on Finance, the Manager in charge of financial reporting certifies, in a written statement, that the documents and communications of Banca Sistema issued to the market and related to the financial reports, including the interim reports, correspond to the documentary evidence, books and accounting records (art. 154-bis, paragraph 2).

The Board of Directors ensures that the Manager in charge of financial reporting has suitable powers and resources for performing the tasks allocated to him, as well as compliance with the administrative and accounting procedures.

The CEO and the Manager in charge of financial reporting certify, in a specific report attached to the financial statements, the interim report and the consolidated financial statements (art. 154-bis, paragraph 5) that:

- a) they were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) they correspond to the results of the accounting books and records;
- c) they are suitable for providing a true and fair view of the financial position and results of the issuer and all the companies included in the scope of consolidation;
- d) the report on operations includes a reliable analysis of business performance and results, as well as of the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

As part of the financial reporting process, all the main key controls inherent in the relevant administrative and accounting processes were defined and formalised. These controls should ensure the reliability and accuracy of financial reporting, while a series of controls have been planned to certify the adequacy of the procedures and the effectiveness of the operational controls conducted by the Internal Audit Department.

12.10 Coordination among the entities involved in the internal control and risk management system

With a view to strengthening the coordination and information exchange mechanisms between the functions and the corporate bodies in charge of risk management and the internal control system, and in order to capture, while respecting mutual independence, economies of scope, as well as to develop control methods consistent with corporate operations, appropriate organisational measures and information flows have been defined.

Although contacts and correlations already exist between the functions, in particular on the occasion of bilateral meetings, the attendance at meetings thereof by other corporate bodies and Heads of operational structures allows effective coordination between the various parties involved in the internal control and risk management system.

In particular, the Internal Control and Risk Management Committee allows the coordination between the activities of the internal control functions, whose Heads, including the Manager in charge of financial reporting, are invited to participate; Committee meetings are always attended by at least one member of the Board of Statutory Auditors, thus favouring the exchange of information flows. The Independent Auditors are also required to participate in this Committee.

The corporate control functions also collaborate by using some common parameters for integration within the scope of the risk management and internal control system, such as the use and adoption of methods and means of detection and evaluation based on the same reference parameters, the identification of formalised coordination moments for the planning of activities and the sharing in the identification of any remedial actions.

The Board of Directors, upon consultation with the Internal Control and Risk Management Committee, approved the update to the Regulations for the coordination of the control departments. The Regulations are adopted by the Board of Directors of Banca Sistema S.p.A.(i) in order to comply with the principles established by the Corporate Governance Code, prepared by the Committee for the Corporate Governance of Listed Companies, promoted by Borsa Italiana, which the Bank adheres to on a voluntary basis, and (ii) in order to take into account the provisions regarding organisational structure and corporate governance contained in Legislative Decree no. 385/1993 and in the supervisory provisions for banks referred to in Bank of Italy Circular no. 285 of 17 December 2013.

13. Directors' interests and related party transactions

The "Procedure for the management of transactions with parties in conflict of interest", updated by the Board of Directors' meeting of 15 December 2016, intends to define, in the context of the transactions carried out by the Bank and, more generally, by the Group, the principles and rules to be followed for monitoring risks arising from situations of possible conflict of interest determined by the proximity of certain people to the decision-making bodies of the Bank and the Group.

The Procedure - which reads as an organic compendium with the aim of dealing in a consistent manner with the governance aspects and areas of application, as well as with the procedural and organisational profiles - contains the provisions to be observed in the management:

- of related party transactions pursuant to the "Regulations containing provisions relating to transactions with related parties", adopted by Consob with resolution no. 17221 of 12 March 2010;
- of transactions with associated persons pursuant to the regulations on "Risk activities and conflicts of interest vis-à-vis associated persons" established by Title V, Chapter 5, of Bank of Italy Circular no. 263 of 27 December 2006 "New prudential supervisory provisions for banks", as amended;
- of bank Directors' obligations pursuant to art. 136 of Italian Legislative Decree no. 385 of 1 September 1993, the "Consolidated Law on Banking and credit".

The Procedure, among other things, defines the scope of the entities in conflict of interest, the process and the obligations related to the completion of a transaction with such entities, any cases of exemptions and the information flows to the corporate bodies.

The Procedure is available on the Internet site www.bancasistema.it (in the section "Corporate Governance - Related Parties and Associated Persons").

At the same Board meeting of 15 December 2016, the Board of Directors also updated the "Policy on Conflicts of Interest - Compliance pursuant to art. 136 of the Consolidated Law on Banking".

14. Appointment of Statutory Auditors

The law and the Articles of Association apply in respect of the appointment, dismissal and replacement of the Statutory Auditors. Therefore, reference should be made to Article 18 of the Bank's Articles of association, published on the website www.bancasistema.it in the section **Governance/Corporate documents**.

The Statutory Auditors must meet the requirements of professionalism, integrity and independence prescribed under the regulations in force from time to time, including those indicated in the Decree of the Ministry of Justice no. 162 dated 30 March 2000, as well as those envisaged by the Corporate Governance Code. Pursuant to the provisions of article 1, paragraph 2, letters b) and c) of that Decree, issues concerning the financial, credit and insurance sectors shall be considered to be strictly relating to the Bank's business. The Statutory Auditors may hold offices as members of management and control bodies in other companies within the limits laid down by the applicable provisions.

Furthermore, in addition to those grounds provided for by law, being tied to the Company by an ongoing independent contracting or employment relationship, or any relationship involving the direct or indirect supply of goods and/or services, being a member of a management body of another bank or company whose business is in competition with that of the Company, or being tied to such other bank or company by an ongoing independent contracting or employment relationship, are all grounds for dismissal or ineligibility.

The Statutory Auditors may not hold offices other than those of control at other companies belonging to the Group or to the financial conglomerate, or at companies in which the Company, including indirectly, holds a strategic interest.

The ordinary Shareholders' Meeting sets the annual remuneration due to each Statutory Auditor pursuant to the regulations currently in force. Statutory Auditors shall also be reimbursed, on a lump-sum basis, for the expenses incurred in their work.

Statutory Auditors shall not be paid any fee based on financial instruments and linked to the financial management results.

The Board of Statutory Auditors, in performing all the functions demanded of it in compliance with the laws and regulations in force, monitors:

- a) compliance with the laws, regulations and Articles of Association;
- b) compliance with the principles of proper management;
- c) the suitability of the organisational, management and accounting structure adopted by the Company and its actual operations;
- d) the suitability and operation of the system of internal controls with specific regard to risk management;
- e) the other actions and facts set forth by the laws and regulations;

The Board of Statutory Auditors checks and investigates causes and remedies for management irregularities, performance anomalies, gaps in the organisational and accounting structure, and pays particular attention to compliance with the regulations concerning conflicts of interest.

In particular, the Board of Statutory Auditors ascertains that there is adequate coordination between all the functions and structures involved in the system of internal controls, including the Independent Auditors tasked with the legal auditing of the accounts, by promoting, where appropriate, adequate corrective measures. In this regard, a) the Heads of the Internal Audit, Risk Management and Compliance departments send their respective

reports to the Board of Statutory Auditors; b) the Board of Statutory Auditors and the Independent Auditors constantly exchange data and relevant information in order to complete the related tasks.

The Board of Statutory Auditors periodically checks its own adequacy in terms of powers, functioning and composition, taking account of the size, complexity and activities carried out by the Company.

Statutory Auditors can call upon, in carrying out the necessary checks and investigations, the structures and functions responsible for internal control, and also carry out, at any time, including individually, inspections and audits.

The Board of Statutory Auditors may ask the directors and all the internal control structures for news about the progress of business operations and about specific business operations, including with reference to subsidiaries. It may exchange information with the corresponding bodies of the subsidiaries in relation to the systems of management and control and on the general progress of business operations.

In order to correctly carry out its duties, and particular in order to meet its obligation to promptly report to the Bank of Italy and, where required, to other Supervisory Authorities in relation to management irregularities or breaches of laws and regulations, the Board of Statutory Auditors is vested with the broadest powers set down by legal and statutory provisions. Moreover, the Board of Statutory Auditors reports to the Board of Directors on any shortcomings and irregularities found, requests the adoption of appropriate corrective measures and checks their effectiveness over time.

The Board of Statutory Auditors is subject to a regular process of self-assessment, based on the criteria and means set out in the regulations that are applicable at the time.

15. Composition and operation of the Board of Statutory Auditors (art.123-bis, paragraph 2, letter d) and d-bis) of the Consolidated Law on Finance)

In accordance with Article 18 of the Articles of Association, the Board of Statutory Auditors is composed of three standing members and two alternate members. The Statutory Auditors remain in office for three financial years, may be re-elected and end their term of office on the date of the Shareholders' Meeting called to approve the financial statements for the third financial year of their term of office. The Statutory Auditors cease to hold office due to the expiry of their term of office at the time the Board is re-established.

At the date of this Report, the Bank's Board of Statutory Auditors is composed of five members - three standing Statutory Auditors and two alternate Statutory Auditors - appointed by Banca Sistema's ordinary Shareholders' Meetings of 27 April 2017 and 14 December 2017, on the basis of the criteria laid down by the Articles of Association.

Standing Statutory Auditor Maria Italiano was appointed by the Shareholders' Meeting of 27 April 2017. She resigned from office, with immediate effect, on 25 July 2017 and, consequently, on that same date Alternate Statutory Auditor Marco Armarolli took her place until the next Shareholders' Meeting of the Bank.

On 29 November 2017 the shareholder SGBS S.r.l., proposed, in accordance with the other shareholders party to the agreement, to appoint Ms. Lucia Abati as Standing Statutory Auditor, and Mr. Marco Armarolli as Alternate Statutory Auditor, with term of office upon expiry of the term of office of the other members of the Board of Statutory Auditors for the years 2017-2018-2019, specifically, on the date the Shareholders' Meeting is called to approve the financial statements at 31 December 2019.

The Shareholders' Meeting of 14 December 2017 resolved to appoint, pursuant to Article 2401 of the Italian Civil Code and to Article 18.5 of the Articles of Association of Banca Sistema S.p.A., the candidates proposed by the shareholder Società di gestione delle partecipazioni in Banca Sistema S.r.l. for the positions of Standing Statutory Auditor and Alternate Statutory Auditor, respectively, until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2019. The Board of Statutory Auditors will remain in office until the Shareholders' Meeting called to approve the financial statements at 31 December 2019. The following table shows the members in office of the Board of Statutory Auditors, showing the respective position held and key personal details.

NAME AND SURNAME	POSITION	PLACE AND DATE OF BIRTH	DATE OF APPOINTMENT
Massimo Conigliaro	Chairman	Catania (CT), 25/12/1969	27/04/2017
Biagio Verde	Standing Statutory Auditor	Alessandria (AL), 18/07/1943	27/04/2017
Lucia Abati	Standing Statutory Auditor	Cesena (FO), 25/06/1979	14/12/2017
Marco Armarolli	Alternate Statutory Auditor	Busto Arsizio (VA), 23/01/1973	14/12/2017
Daniela D'Ignazio	Alternate Statutory Auditor	Atri (TE), 01/03/1978	27/04/2017

All members of the Board of Statutory Auditors have their address for service at Banca Sistema's registered office. The requirements for members of the Board of Statutory Auditors are as follows:

- (i) the requirements set forth in art. 148, paragraph 3, of the Consolidated Law on Finance;
- (ii) the professionalism and personal integrity requirements set forth in Decree no. 162 of the Ministry of Justice

of 30 March 2000;

(iii) the limits on concurrent positions established by Consob regulations.

* * *

During 2017, the Board of Statutory Auditors met a total of 14 times and liaised with the Supervisory Body pursuant to Legislative Decree no. 231/2001, the Independent Auditors, the Heads of the control departments, and a number of managers and employees of the Bank. The meetings and/or audits lasted an average of about two and a half hours.

From the beginning of 2018 until the date of approval of this document, the Board of Statutory Auditors met three times. In the same period, the Board of Statutory Auditors attended all the meetings of the Internal Control and Risk Management Committee. In 2018, the Board of Statutory Auditors is expected to hold a similar number of meetings to those held in the previous year.

There have been no changes in the composition of the Board since the end of the financial year.

Following appointment, at the meetings of 19 May 2017 and 15 December 2017, the Board of Directors verified the Statutory Auditors' integrity, professionalism and independence requirements, pursuant to art. 148, paragraph 3, of Legislative Decree no. 58/1998, on the basis of the Personal Sworn Declarations provided for by Presidential Decree no. 445 of 28 December 2000, and the non-existence of cases of incompatibility under art. 36 of the "Salva Italia" Decree and, where applicable, under art. 27-quater of Italian Law Decree no. 1 of 24 January 2012 in respect of all members of the Board of Statutory Auditors.

In addition, the Board of Statutory Auditors periodically checks the suitability of its members to perform the functions of the control body in terms of professionalism, availability of time and independence, as well as their adequacy in terms of powers, operation and composition, taking into account the size, complexity and the activities carried out by Banca Sistema. As part of this verification, the continued satisfaction of the independence requirements of the members of the Board has been confirmed from time to time, according to all the criteria provided for by the Corporate Governance Code for the independence of Directors. The Board of Statutory Auditors has confirmed that the independence requirements laid down by the Corporate Governance Code and by art. 148, paragraph 3, of the Consolidated Law on Finance, have been met in regard to each of its members, on the basis of the statements made by the latter. In making these assessments, the Board applied all the criteria laid down by the Code with regard to Directors.

The Statutory Auditors' remuneration is calculated on the basis of the commitment required of each Statutory Auditor, of the role played, and of the Company's size and sector.

Consistent with the provisions of the Corporate Governance Code, and also in accordance with the provisions of art. 136, paragraph 1 ("Obligations of bank officers") of the Consolidated Law on Banking, a Statutory Auditor who has an interest, either directly or on behalf of third parties, in a certain transaction of the Bank, shall promptly and fully notify the other Statutory Auditors and the Chairman of the Board of the nature, the terms, origin and extent of his/her interest. The Statutory Auditors also fall within the scope of the "Procedure for transactions with associated persons" discussed in Section 12.

As part of the coordination with the other entities of the Internal Control and Risk Management System, the Board of Statutory Auditors liaised, first of all, as required by the Corporate Governance Code, with the Internal Audit Department, whose Head normally attends the meetings of the Board, and with the Internal Control and Risk Management Committee. During 2017 the Board of Statutory Auditors attended ... meetings of the Internal Control and Risk Management Committee.

The Board of Statutory Auditors, in accordance with the provisions of the Bank of Italy's Supervisory Instructions for Banks - Circular no. 285 of 17 December 2013 - also completed the annual review process; said process was conducted via the distribution of a questionnaire and interviews conducted with the support of an external consultant.

This assessment was conducted taking into account routine items such as professional qualifications, experience (including managerial) and the gender of its members, as well as their length of service, including with a view to the preparation of the guidelines to be expressed to the shareholders regarding the figures whose presence in the Board is deemed appropriate.

The information gathered through the completion of the questionnaire and the individual interviews is evaluated collectively and the overall results help to define the actions to be taken in order to remedy any weaknesses identified.

The assessment by the Statutory Auditors regarding the presence and array of the necessary skills, approved first by the Board of Statutory Auditors and subsequently submitted to the Board of Directors on 15 December 2017, revealed the substantial adequacy of the composition and functioning of the Board of Statutory Auditors both with regard to the individual members and to the Body as a whole.

With the appointment of Standing Auditor Lucia Abati and of Alternate Auditor Daniela D'Ignazio, the requirements of art. 148 of the Consolidated Law on Finance, incorporated into Italian Law no. 120/2011, regarding gender equality within the control bodies of listed companies have been duly met.

16. Relations with shareholders

Pursuant to Article 9.C.1 of the Corporate Governance Code, the Board of Directors is tasked with ensuring that a person is identified as responsible for managing shareholder relations and periodically assessing whether to form a company unit charged with performing this function.

On 28 April 2015 the Company's Board of Directors appointed Carlo Di Pierro investor relator ("Investor Relator" function).

Banca Sistema also ensures adequate information on investor relations by providing access to the most relevant corporate documents, in a timely, ongoing manner, in a dedicated section of Banca Sistema's website.

In the context of shareholder relations, the Board of Directors promotes initiatives aimed at fostering the broadest possible participation of shareholders in general meetings and at facilitating the exercise of shareholders' rights.

17. Shareholders' Meetings (art. 123-bis, paragraph 2, letter c) of the Consolidated Law on Finance)

The duties of the Shareholders' Meetings are aligned with those applicable to most Italian banks with listed shares. In particular, Banca Sistema's ordinary Shareholders' Meeting approves the following, in addition to establishing the remuneration to which bodies of the Bank are entitled: (i) the remuneration and incentive policies in favour of the members of the Board of Directors and of the Board of Statutory Auditors and of the remaining personnel; (ii) any remuneration plans based on financial instruments (for example stock options); (iii) the criteria for determining the fee to be paid in the case of early termination of the employment contract or of any early cessation of the task, including the limits set for this payment in terms of annuities of fixed remuneration and the maximum amount deriving from their application.

The Shareholders' Meeting, duly constituted, represents all shareholders, and its resolutions, passed in compliance with the law and the Articles of Association, are binding upon all shareholders, even if they are absent, abstaining or dissenting. The Meeting convenes in ordinary and extraordinary session in accordance with the law and the Articles of Association.

The ordinary Shareholders' Meeting is called at least once a year, every 120 (one hundred and twenty) days from the end of each financial year.

Moreover, the Shareholders' Meeting is called by the management body whenever it deems it necessary and appropriate and in the cases provided by law or, following prior written notification to the Chairperson of the Board of Directors, by the Board of Statutory Auditors or at least two of its members in accordance with the provisions of applicable law. The Shareholders' Meeting is also legally convened by the Board of Directors when a request is made to do so by shareholders representing at least one twentieth of the share capital and where the request indicates the issues to be covered. The Shareholders' Meeting may not be called at the request of shareholders for issues on which the Meeting legally resolves at the proposal of the Directors, or for issues based on a project or report prepared by the Directors.

Finally, the Shareholders' Meeting is convened in the other cases provided by law and by the Articles of Association.

The Shareholders' Meeting is convened in the town where the Company has its registered office, or elsewhere, provided this is in Italy, in another Member State of the European Union, in Switzerland or in the United States of America.

The Shareholders' Meeting is convened according to the terms and conditions fixed by law and by the statutory regulations applicable from time to time.

The Shareholders' Meeting is convened on single call, and is subject to the meeting quorum and the decision quorum established by law in such circumstances, unless the notice of call does not foresee any dates for subsequent meetings, including a third call.

Pursuant to the provisions of art. 126-bis of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented, the shareholders who, individually or jointly, represent at least one fortieth of the share capital, or a different smaller percentage of the share capital provided for by the regulations in force at the time, may, within a period of 10 (ten) days from the publication of the notice of call of the Shareholders' Meeting, unless a different period is provided under the law, request that the list of items on the agenda be supplemented, thereby indicating any further items, or present proposals for resolutions on items already on the agenda, within the limits and according to the methods provided for by the applicable laws and regulations. Whoever holds voting rights may individually submit resolution proposals to be debated at the Shareholders' Meeting.

After the agenda has been completed or subsequent proposals have been submitted to be discussed on the agenda, following the request for the agenda to be completed or proposals to be submitted as stated in the previous paragraph, notice is given, in the prescribed manner for the publication of the notice of call, at least 15 days prior to the one fixed for the Shareholders' Meeting to be held, unless a different period is stipulated by law. Subsequent proposed resolutions for topics already on the agenda are made available to the public by the deadlines, and according to the methods, stipulated by the law.

Additional proposals may not be made in regard to issues on which the Shareholders' Meeting legally resolves at the request of Directors or on the basis of a project or report prepared by them, other than in those cases indicated under art. 125-ter, paragraph 1, of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented.

Where the formalities set out under the previous paragraphs, or any other formalities required by law, do not have to be followed, the Shareholders' Meeting shall be deemed to be duly convened, and may validly resolve on any issue, unless this is opposed by a shareholder who is not sufficiently informed, when the entire share capital is represented and the majority of members of the Board of Directors and Board of Statutory Auditors is represented. Under these circumstances, timely notice should be given of the resolutions passed to members of the Board of Directors and Board of Statutory Auditors who are not in attendance.

The right to attend the Shareholders' Meeting and exercise voting rights is certified by a notice to the Company, sent by the intermediary authorised under the provisions of law and regulations, in accordance with its accounting records, in favour of the party entitled to vote. This notice is formulated on the basis of evidence from the accounts specified in art. 83-quater, paragraph 3, of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented, relating to the end of the accounting day of the seventh trading day prior to the date set for the Shareholders' Meeting. To this end, reference is made to the date of the first call of the Shareholders' Meeting, provided that the dates of any subsequent calls are included in the single notice of call of the Meeting; otherwise, reference is made to the date of each call.

The persons entitled to attend and vote at the Shareholders' Meeting may be represented by another person or entity, including a non-shareholder, by means of a written proxy, within the limits and according to the methods stipulated by the law and applicable regulations. The proxy may be notified electronically via certified e-mail or using the special section of the Company website and other methods of notification as may be provided for in the notice of call, in accordance with applicable laws and regulations.

The Bank has the option to appoint a person for each Meeting to which the shareholders may give a proxy with voting instructions for all or some of the proposals on the agenda in the manner provided by the law and applicable statutory regulations. The proxy is not effective with regard to proposals for which voting instructions have not been given.

Postal voting is also allowed.

Postal voting is exercised in the manner specified in the notice of call, in accordance with the applicable statutory provisions, using any means of communication (including fax and e-mail) proving receipt of such.

The Shareholders' Meeting may also be held with participants in multiple locations, either in the vicinity or at a distance, linked by audio and video connection (audio-only connection is allowed solely when the participants are easily recognisable by the Chairperson of the Shareholders' Meeting), provided that the collegial method and the principles of good faith and equal treatment of shareholders are observed.

In this case, it is required that:

a) the Chair of the Meeting is able to unequivocally ascertain the identity and legitimacy of the participants, conduct the meeting and note and declare the results of the voting procedure.

- b) at the location where the video/audio conference is held, an attendance sheet should be kept giving the names of those attending the Meeting at that place; this attendance sheet shall be attached to the minutes of the Meeting;
- c) the person taking the minutes is able to adequately follow the events of the Meeting;
- d) the participants are able to take simultaneously part in the discussions and vote on the items on the agenda in real time;
- e) where the Meeting is not held in plenary session, the notice of call indicates the audio/video locations prepared by the Company at which the participants can attend; the meeting shall be deemed to have been held at the location where the Chair and minute-taker are in attendance.

The means of telecommunications shall be recorded in the minutes.

The Shareholders' Meeting is chaired by the Chairperson of the Board of Directors or, in the event of him/her being absent or incapacitated, by the Deputy Chairperson, if appointed, or any other person designated by the Board of Directors; otherwise, the Meeting appoints as Chairperson one of the participants by simple majority of the capital represented.

The Chairperson of the Shareholders' Meeting is assisted by a secretary designated by the Meeting, by simple majority of the capital represented and possibly by one or more tellers, including non-shareholders; where prescribed by law or where deemed appropriate by the management body, the functions of secretary are attributed to a notary designated by the latter.

The Chairperson of the Shareholders' Meeting is responsible for ensuring that the Meeting is properly convened, ascertaining the right of shareholders to take part and vote, noting the legitimacy of the proxies, guiding and managing the discussion and proceedings of the Meeting, establishing the method of voting and also ascertaining and declaring the related results. In this he/she may be assisted by appropriate appointees.

The Meeting sessions are run and governed by law, the Articles of Association and by the Shareholders' Meeting Regulations.

There were no proposals to the Meeting by the shareholders that control the Issuer on matters on which a specific proposal had not been formulated by the Directors.

The "Shareholders' Meeting Regulations", the current version of which was approved by the Shareholders' Meeting of 28 April 2015, governs the orderly and effective conduct of meetings.

The "Shareholders' Meeting Regulations", which establish the maximum duration of the individual interventions, their order, the voting procedures, the actions of the Directors and Statutory Auditors and the powers to compose and prevent the occurrence of conflicts within Shareholders' Meetings, is available on the website www.bancasistema.it (in the section "Governance/Documents").

At the ordinary Shareholders' Meeting held on 27 April 2017, seven members of the Board of Directors were present together with two members of the Board of Statutory Auditors, including the Chairman; at the ordinary Shareholders' Meeting held on 14 December 2017, five members of the Board of Directors were present together with two members of the Board of Statutory Auditors, including the Chairman.

During the Shareholders' Meetings, the CEO, on behalf of the Board of Directors, shall be prepared to report on the activities carried out and planned by the Board, in any event in compliance with the rules on inside information. The Board of Directors, also through the reports made available to the shareholders within the terms provided by the Consolidated Law on Finance and through the gradual updating of corporate communications through the website, endeavours to ensure that the shareholders receive adequate information on the elements necessary to pass, on an informed basis, the Shareholders' Meeting resolutions.

During the course of the financial year, and specifically on 4 October 2017, the company Oyster Sicav sent a declaration made pursuant to art. 120 of the Consolidated Law on Finance, informing of its acquisition, on 29 September 2017, of an interest in Banca Sistema's share capital of more than 5%.

Declaring party	Direct shareholder		% of the ordinary share capital	% of the voting capital
OYSTER SICAV (SYZ AM)	Oyster SICAV	5.228	5.228	5.228

Furthermore, transactions concerning Banca Sistema shares by Fondazione Cassa di Risparmio di Alessandria and by Fondazione Pisa - both shareholders adhering to the Shareholders' Agreement - resulted in changes in the numbers of voting rights subject to control; these changes were disclosed on 4 January 2018, pursuant to Article 131, paragraph 3, of Consob regulation no. 11971/1999 as subsequently amended.

Declaring party	Direct shareholder		% of the ordinary share capital	% of the voting capital
FONDAZIONE SICILIA	Fondazione Sicilia	7.607	7.607	7.607
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.910	7.910	7.910

The market capitalization of the shares recorded, during the year 2017, the following values at the beginning and end of the period:

Date	Share price	Number of shares forming the share capital	Capitalisation
02 January 2017	2.234	80,421,052	179,660,630
29 December 2017	2.268	80,421,052	182,394,946

Source: Bloomberg

18. Diversity policy

The Bank pays due care to ensure an appropriate degree of diversification, also in terms of skills, experience, age, gender and international renown, of the members of the Board of Directors (as is clear from Article 5 of the Board of Directors' Regulations published on the website www.bancasistema.it in the section [Governance/Corporate documents](#)), as the current composition of the Board of Directors shows.

Even though no diversity policy has been formalised to date, the Bank intends to formulate and implement diversity policies during the course of 2018, which involve all the Bank's human resources (employees, executives and corporate officers), designed to consolidate a culture of diversity.

19. Additional corporate governance practices

(art. 123-bis, paragraph 2, letter a), of the Consolidated Law on Finance)

No further Committees were appointed in addition to those described in the previous Sections, nor were any further corporate governance measures adopted.

20. Changes following the end of the reference financial year

No changes to corporate governance structure were made from the end of the year to the date of approval of this document.

On 21.02.2018 the shareholder OYSTER SICAV (SYZ AM) sent a notice, pursuant to art. 120 of Legislative Decree no. 58/98, certifying the reduction in its interest to below the 5% threshold.

21. Observations regarding the letter dated 13 December 2017 of the Chairperson of the Corporate Governance Committee

As requested in the letter from the Chairman of the Corporate Governance Committee dated 13 December 2017, the Board of Directors examined the Committee's recommendations on 8 February 2018.

During the Board's discussion of the matter, it emerged that Banca Sistema S.p.A.'s current governance system is basically in line with the recommendations of the Corporate Governance Code; nevertheless, certain areas for improvement were identified, including the process of evaluation of independent Directors.

In this regard, the Bank reserves the right to perfect the criteria for the evaluation of independent Directors' requirements during the course of 2018, taking account, among other things, of the guidelines issued by the EBA (European Banking Authority) on 26 September 2017 in regard to internal governance, and of the requirements to be adopted by the Ministry of the Economy and Finance following consultation on the draft Ministerial Decree on the fitness criteria for corporate officers, published on 1 August 2017.

TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES AT 31.12.2017

SHARE CAPITAL STRUCTURE	Number of shares	% of share capital	Listed (market) / unlisted	Rights and obligations
Ordinary shares	80,421,052	100%	Listed (MTA)	Each ordinary share gives the right to cast one vote

Declaring party	Direct shareholder	% of direct share ownership	% of the ordinary share capital	% of the voting capital
GARBI GIANLUCA	Società di gestione delle partecipazioni di Banca Sistema S.r.l.	23.102	23.611	23.611%
	Garbifin S.r.l.	0.509		
FONDAZIONE SICILIA	Fondazione Sicilia	7.607	7.607	7.607
FONDAZIONE PISA	Fondazione Pisa	7.399	7.399	7.399
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.910	7.910	7.910
OYSTER SICAV (SYZ AM)	Oyster SICAV	5.228	5.228	5.228
SCHRODERS PLC	Schroders Investment Management Limited	4.101	6.727	6.727
	Schroders Investment Management North America Limited	2.527		
	Schroders Italy SIM S.p.A.	0.099		

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS														Internal Control and Risk Management			Appointments Committee			Remuneration Committee			Ethics Committee		
Office	Members	Year of birth	Date of first appointment*	In office since	In office until	List (M) **	Exec.	Non exec.	Indep. pursuant to the Code	Indep. P. to Consolidated Law on Finance	No. of other offices held	(*)	* % Change	(**) (*)	(*)	(***) % Change	(**) (*)	(*)	(***) % Change	(**) (*)	(*)	(***) % Change	(**) (*)	(*)	(***) % Change
Chairperson	Spögler Luitgard	1962	2015	2015	2017	M		X		X	2	17/17	100	M	15/15	100	M	10/10	100						
Deputy Chairperson	Puglisi Giovanni Antonino	1945	2011	2015	2017	M		X			-	16/17	94,11							M	5/9	55,55	C	1/1	100
CEO ♦	Garbi Gianluca	1970	2011	2015	2017	M	X				-	17/17	100												
Director	Barba Navaretti Giorgio	1960	2012	2015	2017	M		X	X	X	1	17/17	100	M	14/15	93,33				C	9/9	100			
Director	De Franceschi Carlotta	1977	2015	2015	2017	M	X				2	15/17	88,23	M	6/15	40									
Director	Pittatore Daniele	1969	2014	2015	2017	M		X	X	X	1	17/17	100	C	15/15	100									
Director	Pugelli Claudio	1951	2011	2015	2017	M		X			-	16/17	94,11												
Director	De Francesco Diego	1968	2017	2017	2017	C		X	X	X	6	12/12	100				C	8/8	100	M	4/4	100			
DIRECTORS WHO LEFT OFFICE DURING 2017																									
Director	Zappia Andrea	1963	2015	27/11/15	30/04/17	M		X	X	X	1	0/4 ²	0				C	0/1	0	M	0/4	0			
Director	Bennati Ilaria	1973	2016	10/06/16	24/11/17	C		X	X	X	-	15/15	100				M	99	100				M	1/1	100

Number of meetings held during the financial year:	Board of Directors	Executive Committee	Internal Control and Risk Management Committee	Appointments Committee	Remuneration Committee	Ethics Committee
	17	-	15	10	9	1

The symbols listed below must be entered in the "Office" column:

• Director responsible for the Internal Control and Risk Management System.

♦ Chief Executive Officer

* Date of first appointment of each Director shall mean the date on which the Director was appointed for the first time (ever) to the Issuer's Board of Directors.

** This column shows the list from which each Director was drawn ("M": majority list; "m": minority list; "BoD": the list submitted by the Board of Directors; "C": Director co-opted by the Board of Directors).

*** This column indicates the number of offices as director or statutory auditor the party concerned holds in other companies listed on organised markets, including foreign markets, in financial, banking, insurance companies or large enterprises. For a breakdown of the offices, see the relevant section of the Report on Corporate Governance and Ownership Structure.

(*). This column indicates the attendance of Directors at meetings of the Board of Directors and Committees (indicate the number of meetings attended compared to the total number of meetings which could have been attended, e.g. 6/8, 8/8 etc.).

(**). This column shows the position of each Director within the Committee: "C": Chairman; "M": Member

(***) Percentage attendance of meetings (no. of meeting attended/number of meetings held during the actual period of office of the person in question during the course of the year).

² Given that the Director was absent from 2 of the scheduled meetings (as well as from 2 extraordinary meetings), and that Article 11.4 of the Board of Directors' Regulations establishes that "In the event of absence from three Board meetings scheduled during the course of the year, the Appointments Committee shall evaluate the reasons given by the Director to justify his/her absence", there was no need to carry out any such evaluation by the Appointments Committee.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Office	Members	Year of birth	Date of first appointment (*)	In office since	In office until	List	Indep. pursuant to the Code	(**)	(***) % Change	No. of other offices held (***)
Chairman	Massimo Conigliaro ³	1969	2011	2017	2019	-	X	9/10	90	-
Standing Statutory Auditor	Biagio Verde	1943	2014	2014	2019	-	X	13/14	92.85	-
Standing Statutory Auditor	Lucia Abati	1979	2017	2017	2019	-	X	1/1	100	-
Alternate Statutory Auditor	Marco Armarolli	1973	2013	2014	2019	-	X			-
Alternate Statutory Auditor	Daniela D'Ignazio	1978	2014	2014	2019	-	X			-
	STATUTORY AUDITORS WHO LEFT OFFICE DURING 2017									
Chairman	Diego De Francesco ⁴	1968	2014	2014	2017	-	X	4/4	100	-
Standing Statutory Auditor	Massimo Conigliaro	1969	2011	2014	2017	-	X	4/4	100	-
Standing Statutory Auditor	Marco Armarolli ⁵	1973	2013	2017	2017	-	X	3/4	75	-
Standing Statutory Auditor	Maria Italiano ⁶	1970	2017	2017	2017	-	X	5/5	100	
Number of meetings held during the financial year: 14										

NOTES

* Date of first appointment of each Statutory Auditor shall mean the date on which the Statutory Auditor was appointed for the first time (ever) to the Issuer's Board of Statutory Auditors.

** This column indicates the attendance of Statutory Auditors at meetings of the Board of Statutory Auditors (indicate the number of meetings attended compared to the total number of meetings which could have been attended, e.g. 6/8, 8/8 etc.).

*** This column indicates the number of director or statutory auditor offices held by the party concerned pursuant to art. 148-bis of the Consolidated Law on Finance and its implementing provisions contained in Consob Issuers' Regulations. The complete list of offices is published by Consob on its website in accordance with Article 144-quinquiesdecies of Consob Issuers' Regulations. (***) Percentage attendance of meetings (no. of meeting attended/number of meetings held during the actual period of office of the person in question during the course of the year).

³ Mr. Massimo Conigliaro was appointed Chairman of the Board of Statutory Auditors at the Shareholders' Meeting of 27 April 2017

⁴ Mr. Diego De Francesco was Chairman of the Board of Statutory Auditors until the Shareholders' Meeting of 28 April 2017: said meeting co-opted him to the office of Director with effect as from 1 May 2017.

⁵ Mr. Marco Armarolli replaced Ms. Maria Italiano as Standing Statutory Auditor on 25 July 2017, with term of office until the Shareholders' Meeting of 14 December 2017.

⁶ Ms. Maria Italiano, appointed by the Shareholders' Meeting of 27 April 2017, resigned from office on 25 July 2017 with immediate effect.