

BANCA **S I S T E M A**

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Banca Sistema Group

2018

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

Approval date: 1 March 2019

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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 or Bank or Company: Banca Sistema S.p.A. having registered office in Milan, Largo Augusto 1/A, at the corner of Via Verziere 13.

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

Foundations: Fondazione Sicilia, with registered office in Palermo, Via Bara all'Olivella 2, 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, Largo Augusto, 1/A, at the corner of Via Verziere 13, a vehicle wholly owned by Banca Sistema.

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

PA: Italian public administrations.

Agreement: shareholders' agreement entered into on 29 June 2018, effective since 2 July 2018, and subsequently amended on 22 February 2019, 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", eighth edition, January 2019.

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 2018 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 2018, the share capital was composed as follows:

Categories of shares making up the share capital as at 31 December 2018:

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 2018 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 2018, 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
GIANLUCA GARBI	Società di gestione delle partecipazioni di Banca Sistema S.r.l.	23.10	23.61	23.61%
	Garbifin S.r.l.	0.51		
FONDAZIONE SICILIA	Fondazione Sicilia	7.40	7.40	7.40
FONDAZIONE PISA	Fondazione Pisa	7.61	7.61	7.61
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.91	7.91	7.91
SCHRODERS PLC	Schroder Investment Management Limited	3.88	5.22	5.22

	Schroder Investment Management North America Limited	1.33		
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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 29 June 2018, effective 2 July 2018, a Shareholders' Agreement was entered into by the Bank and the Foundations. The Agreement was amended on 22 February 2019.

The Shareholders' Agreement replaces the previous three-year Agreement, entered into on 3 June 2015, effective 2 July 2015, as amended on 28 April 2016, effective 4 July 2016.

Type of agreement

The Agreement, in the version updated following the aforesaid amendments of 22 February 2019, is a significant shareholders' agreement pursuant to and for the purposes of art. 122, paragraph 1 and paragraph 5, letter b) and d) of the Consolidated Law on Finance. The Agreement was filed with Milan Companies' Register records on 3 July 2018, and the amended agreement was filed on 26 February 2019.

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

SGBS, Fondazione Sicilia, and Fondazione Cassa di Risparmio di Alessandria are the parties to the Agreement. The previous Shareholders' Agreement, effective until 1 July 2018, included also Fondazione Pisa as one of the parties.

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.

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

SGBS	18,578,900	60.14%	23.10%	18,578,900	60.14%	23.10%
Fondazione Sicilia	5,950,104	19.26%	7.40%	5,950,104	19.26%	7.40%
Fondazione Cassa di Risparmio di Alessandria	6,361,731	20.60%	7.91%	6,361,731	20.60%	7.91%
Total	30,890,735	100.00	38.41	30,890,735	100.00	38.41

No entity exercises individual control over Banca Sistema pursuant to art. 23 of the Consolidated Law on Banking and art. 93 of the Consolidated Law on Finance.

Capital policy

The shareholders participating in the shareholders' agreement have undertaken 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.

Restrictions on the circulation of shares

The Agreement in force provides for the Parties to keep the full and exclusive ownership of the shares forming the 2015 Equity Investment (that is, for the sake of clarity, the shares indicated in section E of the introduction to the Agreement) and not to sell them until the expiry of the Agreement, without prejudice to transfers to other Parties or natural or legal persons controlled by or associated to these— according to the definition in art. 2359 of the Civil Code - and without prejudice to the application of art. 7.2 to 7.7 of the Agreement.

For the purposes of this article, please note that “transfer” shall mean any transaction, with or without consideration, concerning full ownership or bare ownership or usufruct (including, by way of example, sale, donation, exchange, contribution in lieu of cash, etc.), that results, directly or indirectly, in a change in the ownership of these shares.

All shares exceeding the 2015 Equity Investment, even if contributed to the Agreement and without prejudice to the restrictions specified in art. 2.3, may be freely transferred by the Parties at any time.

All shares held by the Parties and contributed to the Agreement may be freely given by these as security in the context of financing transactions, being understood that if voting rights are transferred to the secured creditor, the latter must comply with the provisions of the Agreement.

The total (and only the total) of the shares held by each of the Parties contributed to the Agreement may be transferred to a third party after *i)* acceptance, by the latter, of all terms of the Agreement and *ii)* consent by the other parties to the Agreement, consent that may not be unreasonably withheld.

On request of the parties to the Agreement holding more than 30% of the Banca Sistema shares object of this Agreement, the 2015 Equity Investment may be reduced by the Parties to increase the liquidity of the listed shares on the Italian Equities Market. In this case, the 2015 Equity Investment must be reduced proportionally, being understood that the Parties may choose, unanimously, to carry out a non-proportional reduction of the respective equity investments. In this last case, the voting rights under the Agreement shall be re-defined to align them to the changed ownership structure.

If SGBS, without prejudice to the legal and regulatory obligations on IPOs, becomes the owner of an equity investment in the Company representing the absolute majority of the Banca Sistema shares included in the 2015 Equity Investment, and it 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 20%

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 2 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.

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)

Following the authorisation to purchase and sell treasury shares granted by the Shareholders' Meeting of the Bank on 27 April 2017 (already disclosed also pursuant to art. 144 bis of Consob Regulation 11971/9999 and art. 132 of Leg. Decree No. 58/98) and the resolution taken by the Board of Directors on 22 June 2018, Banca Sistema S.p.A. started, on 9 July 2018, a programme for the purchase/sale of treasury shares to increase the liquidity of Banca Sistema shares, through the intermediary Intermonte Sim S.p.A. The programme was suspended on 5 October 2018 and restarted on 12 October. This programme ended on 26 October 2018.

Following the authorisation to purchase and sell treasury shares granted by the Shareholders' Meeting of the Bank on 27 April 2017 (already disclosed also pursuant to art. 144 bis of Consob Regulation 11971/9999 and art. 132 of Leg. Decree No. 58/98) and the resolution taken by the Board of Directors on 22 June 2018, in the period from 8 October to 11 October the Bank bought on the Regulated Equities Market treasury shares to create a stock of securities to support the remuneration and incentive policies for key personnel in line with the programme launched on 5 October 2018. This programme ended on 11 October 2018.

Since 26 October 2018, and as at the date of publication of this document, Banca Sistema holds 104,661 treasury shares, equal to 0.13% of the 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, which was last updated on 25 January 2019, 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 2018, 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	23/04/2018
Giovanni Antonino Puglisi	Deputy Chairperson	Caltanissetta (CL), 22/06/1945	2011	23/04/2018
Gianluca Garbi	Chief Executive Officer	Milan (MI), 18/09/1970	2011	23/04/2018
Claudio Pugelli ²	Director	Rome (RM), 17/02/1951	2011	23/04/2018
Marco Giovannini ³	Director	Rome (RM), 16/04/1956	2018	23/04/2018
Laura Ciambellotti ³	Director	Genoa (GE), 20/05/1970	2018	23/04/2018
Carlotta De Franceschi ³	Director	Pordenone (PN), 21/12/1977	2015	23/04/2018
Daniele Pittatore	Director	Alessandria (AL), 09/09/1969	2014	13/07/2018
Federico Ferro Luzzi ³	Director	Rome (RM), 22/09/1968	2018	23/04/2018
Francesco Galietti ³	Director	Turin (TO), 23/06/1982	2018	23/04/2018

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

² He held the position of Director from 23 April 2018 to 30 April 2018.

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

On 29 June 2018, Claudio Pugelli resigned from his position, effective 30 June 2018, as member of Banca Sistema's Board of Directors, as a direct result of the decision taken by Fondazione Pisa not to take part in the renewal of the shareholders' agreement. Thus, on 13 July 2018, the Bank's Board of Directors co-opted Daniele Pittatore to the office of non-executive Director to replace Claudio Pugelli, pursuant to Article 2386 of the Italian Civil Code. The appointment took effect on 13 July 2018.

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 Daniele Pittatore to replace Claudio Pugelli, and following an assessment by the Appointments Committee, the Board of Directors, on 26 July 2018, confirmed that Daniele

Pittatore 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).

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 dedicating 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

Art. 7 of the Board of Directors' Regulations approved in February 2016 - Limits on concurrent positions provides as follows:

1. 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.
2. 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 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 in Annex D.
3. Candidates to the position of Director of the Bank must provide the Board with an updated list of the management and control positions held by each of them. After their appointment, Directors must promptly inform the Board of any change in the positions held, to allow the Board to verify whether the limits specified by the Articles of Association, by sector's regulations or by this Regulation have been exceeded. If the limit is exceeded, the Board shall assess the situation in the light of the rules and regulations in force.
4. Based on the information received from each member, the Board of Directors records and discloses in the annual report on corporate governance the positions of director or statutory auditor held by Directors in other companies.

“Annex D

LIMITS ON CONCURRENT POSITIONS HELD BY BANCA SISTEMA DIRECTORS

1. DETERMINATION OF A FIXED LIMIT TO THE NUMBER OF MANAGEMENT AND CONTROL OFFICES IN COMPANIES OUTSIDE OF THE BANCA SISTEMA GROUP

1. Chief Executive Officer

- no additional executive role, except for positions in companies other than listed companies, banking, insurance and financial companies or large companies, directly or indirectly controlled by the CEO or in companies of the Banca Sistema Group;
- no more than two non-executive or control positions in other listed companies, banking, insurance and financial companies or large companies;
- no more than seven offices in total.

2. Chairperson

- no executive role in listed companies, banking, insurance and financial companies or large companies, except for positions in companies other than listed companies, banking, insurance, financial companies or large companies, directly or indirectly controlled by the Chairperson or in companies of the Banca Sistema Group;
- no more than three non-executive or control positions in other listed companies, banking, insurance and financial companies or large companies;
- no more than seven offices in total.

3. Non-executive Director

- no more than two executive roles, except for positions in companies other than listed companies, banking, insurance, financial companies or large companies, directly or indirectly controlled by the Non-Executive Director or in companies of the Banca Sistema Group;
- no more than five executive positions in listed companies, banking, insurance and financial companies or large companies;
- no more than seven non-executive positions in listed companies, banking, insurance and financial companies or large companies;
- no more than seven offices in total.

Explanatory notes

A) The following offices are understood to be executive positions:

- Director vested with management powers
- Member of the Executive Committee or Management Board
- General Manager

B) The following offices are understood to be non-executive or control positions:

- Member of the Board of Directors without management powers
- Member of the Supervisory Board
- Member of the Board of Statutory Auditors

C) The option to take the office of member of a Board of Statutory Auditors is ruled out for the Chairperson and the CEO

D) More management and control positions within the same Group up to a maximum of 4 are considered in any case equivalent to 1 executive post in listed companies and in banking, insurance and financial companies or large companies. If more than 4, they are considered equivalent to two executive positions in listed companies and in banking, insurance and financial companies or large companies

E) Large companies are understood to be companies with:

- an amount of consolidated revenues exceeding € 500 million
- or
- a number of employees exceeding 500

F) In addition to other causes of disqualification provided for by the law, this is without prejudice to the incompatibility rule with political or trade union offices.

2. PROCEDURE TO BE FOLLOWED IN THE CASE OF APPOINTMENT AND IF THE LIMIT ON THE NUMBER OF POSITIONS IS EXCEEDED

A) Candidates to the position of Director of Banca Sistema must provide the Board of Directors with an updated list of the management and control positions held by each of them. After the appointment, the Directors, before

taking a management or control position in other companies for which the limit on concurrent positions held is specified shall inform the Board of Directors.

B) If the appointment concerns a position in a banking, insurance or financial company, the Appointments Committee must express its opinion on the compatibility of this appointment with the position of Banca Sistema director, without prejudice to the need to obtain the authorisation of the Shareholders' Meeting to take the position of director or general manager in competing companies specified by art. 2390 of the Civil Code.

C) If the limit is exceeded, the Board of Directors, after assessing the situation in the interest of the Bank, shall invite the director to take the appropriate decisions.

D) For appointments in companies of the Banca Sistema Group or for appointments in Banca Sistema's investees, the Board of Directors must in advance assess compliance with the limit on the number of positions and, if this limit is exceeded after the appointment, take the appropriate decisions".

Induction programme

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

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, in 2018 training sessions and working groups were held with the Bank's personnel and external consultants on specific topics, such as corporate governance of Italian listed companies, the new IFRS 9, the new privacy rules, the 2018-2020 business plan, the RAF and the risk management and monitoring process, the Audit Plan, the 2018 activity plan, ICLAAP and lastly administrative sanctions towards directors and statutory auditors. Moreover, the members of the Board of Directors and of the Board of Statutory Auditors are 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 periodic process aimed at the verification of cases of incompatibility and 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 Directors were 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 their duties.

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 in charge of financial reporting;
- 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.

The following powers 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 2018, 19 meetings of the Board of Directors were held with an average duration of approximately four and a half hours. The number of meetings attended is shown in Table 2 attached to this Report.

For 2019, 11 meetings have been planned so far, of which 3 have already been held as of 1 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 2018, 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 2018. 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.

During 2018, 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 2018, 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 monitors on a regular basis the achievement of the objectives set out in the Business Plan.

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, such as the relationships with the subsidiary's legal representative.

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 14 December 2018, in the light of the provisions and guidelines contained in the Supervisory Provisions for Banks, launched the annual assessment on the functioning of the new Board appointed in April 2018 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 result of the self-assessment of the Corporate Bodies appointed in 2018 shall be examined during the Board meeting scheduled for April.

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 to not 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

Gianluca Garbi was appointed Chief Executive Officer by the Board of Directors of 24 April 2018. 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 24 April 2018 and updated by resolution of 8 February 2019.

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

Luitgard Spöglar was appointed as Chairperson of the Board of Directors by the Shareholders' Meeting on 24 April 2018.

The Board of Directors appointed Giovanni Puglisi as 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 the power to give 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 2018 the independent directors met on one occasion, in the absence of the other directors.

At the meeting held on 11 May 2018, the Board of Directors verified 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., of the following Directors: Carlotta De Franceschi, Marco Giovannini, Laura Ciambellotti, Federico Ferro Luzzi and Francesco Galiotti. On 26 July 2018, the Board of Directors verified the eligibility to qualify as independent director pursuant to the aforesaid provisions of Daniele Pittatore, co-opted on 13 July 2018 with effect as from the same date to replace Claudio Pugelli, who resigned on 29 June 2018 with effect as from 30 June.

In the period from Claudio Pugelli's resignation to Daniele Pittatore's co-optation, the composition of the Board of Directors remained 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.

As at the date of this report, all Directors who, in the lists submitted for the appointment of the Board of Directors (April 2018) or, as regards Director Daniele Pittatore, upon co-optation, had indicated their eligibility to qualify as independent, have continued to meet the independence requirement.

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 2018 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 "Procedure for the management of information and disclosure of inside information and market surveys", which was last updated, in order to take account of the "Guidelines" issued by Consob in October 2017, by the Board of Directors on 14 December 2018. 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 procedure, 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 e privilegiate](http://www.bancasistema.it/informazioni_societarie_e_privilegiate).

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 2018 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 chairperson, as described in further detail in Section 7;
- Appointments Committee, comprising three non-executive directors, two of whom are independent, and with an independent chairperson, as described in further detail in Section 8;
- Remuneration Committee, comprising three non-executive directors, two of whom are independent, and with an independent chairperson, as described in further detail in Section 9;
- Ethics Committee, composed of the Deputy Chairperson of the Board of Directors and two Independent Directors, 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 and approved the regulation on its operation, which was last amended on 25 January 2018, also in order to improve coordination between the Committees and between individual Committees and the management body.

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 2018, the Committee is composed of directors Federico Ferro Luzzi (independent and non-executive), Marco Giovannini (independent and non-executive) and Luitgard Spögler (non-executive).

The Chairperson of the Committee, Federico Ferro Luzzi, 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 21 May 2018.

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

During 2018 the Committee met 8 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 2019 until the date of approval of this document, the Committee met twice.

In 2019 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 Chairperson 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 and, following the aforesaid update of the Regulation on the operation of the Appointments Committee approved by the Board of Directors on 25 January 2019, co-optation 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-option, should the replacement of independent directors be necessary;
- if there is a succession plan for executive directors, the Committee carries out a preliminary investigation on the preparation of the plan;
- submits opinions to the Board of Directors 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;
- definition of succession plans for senior executive positions;
- submits opinions on compliance with the requirements, both specified by supervisory regulations and relevant for the company needs, to the Internal Audit and Risk Management Committee for the purposes of identifying the heads of the corporate control departments to be appointed;
- identifies the external consultant or internal personnel to be involved in the activities related to the self-assessment of the Board of Directors.

On 30 October 2018, the Appointments Committee examined the review of the Succession Plan.

9. Remuneration Committee

The Board has set up a Remuneration Committee and approved the regulation on its operation, which was last amended on 25 January 2018, also in order to improve coordination between the Committees and between individual Committees and the management body.

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. On 25 January 2019, the Board of Directors amended the Regulation, adding the provision that two members must have adequate knowledge and experience in financial or remuneration policy matters, without prejudice to the Bank adopting specific training initiatives, where necessary or appropriate, also according to the changes in the reference legal and regulatory framework, to ensure that all Committee members carry out their role with due cognisance.

The Committee is composed of directors Giovanni Puglisi (independent and non-executive), Marco Giovannini (independent and non-executive), and Francesco Galietti (independent and non-executive). The Chairperson of the Committee, Giovanni Puglisi, 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 Chairperson of the Committee, Giovanni Puglisi, 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 24 May 2018.

During 2018 the Committee met 8 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 2019 until the date of approval of this document, the Committee met four times.

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 invited to regularly attend the meetings and, since 25 January 2019, has a right to do so without voting powers; the CEO may attend the meetings on the invitation of the Chairperson of the Committee. In accordance with the regulation on the Committee's operation, the Committee meetings may also be attended by the Chairperson of the Board of Statutory Auditors or another Statutory Auditor designated by the latter. The Head of the Risk Department and the Head of Human Resources are also invited to attend. Summary minutes of each meeting, signed by the Chairperson and by the Secretary, are drawn up. The Chairperson of the Remuneration Committee informs the Board of Directors of the outcome of the discussion and provides his opinion, where requested.

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 consultants.

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 Chairperson 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 and, in some circumstances, carries out preliminary investigations 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 departments, 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 Chairperson of the Committee or another member be in attendance at the Annual Shareholders' Meeting.

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, and two non-executive Directors. The office of Chairperson shall be taken by the Deputy Chairperson of the Board of Directors. The Head of the Internal Audit Department carries out the functions of Secretary of the Committee. The Committee meets at least once a year.

The Committee, following the update of the composition resolved upon by the Board of Directors on 21 September 2018, is composed of the Deputy Chairperson of the Board of Directors, Giovanni Puglisi (non-executive director), as Chairperson of the Committee, Carlotta De Franceschi (independent and non-executive director) and Federico Ferro Luzzi (independent and non-executive director).

In 2018, the Committee met twice, as shown in Table 2 attached to this Report; the duration of the meeting was about twenty minutes.

From the beginning of 2019 until the date of publication of this document, the Committee met once.

In 2019 the Committee is expected to hold a number of meetings no fewer than that 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.

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.

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 of the Directors.

On 21 September 2018, the Board of Directors approved the revised version of the Regulation on the operation of the Internal Control and Risk Management Committee. The main changes were:

- a) independence requirement for all members;
- b) right of the Chairperson of the Board of Directors to take part in the meetings without voting rights;
- c) power of the Internal Control and Risk Management Committee to assess, after the approval of a strategic transaction by the Board of Directors, the most significant transactions, in terms of impacts on the internal control and risk management system;
- d) increase in the budget of the Internal Control and Risk Management Committee from € 10 to 25 thousand a year (to be understood proportionally for the last part of 2018).

The Committee was appointed by the Board of Directors on 24 May 2018 and is composed of the following directors: Laura Ciambellotti, Carlotta De Franceschi, Federico Ferro Luzzi (independent and non-executive directors), and Luitgard Spögler. The latter was subsequently replaced with resolution of the Board of Directors in the meeting held on 21 September 2018 with Daniele Pittatore, although she continues to have the right to attend without voting rights, as provided for in the new regulations on the operation of the Committee.

Laura Ciambellotti, deemed to have suitable experience, was appointed Chairperson of the Committee.

In 2018, the Committee met 13 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about three hours and fifty minutes. On all occasions at least one member of the Board of Statutory Auditors was in attendance.

From the beginning of 2019 until the date of publication of this document, the Committee met three times, with the attendance of at least one member of the Board of Statutory Auditors.

During its meetings the Committee regularly interfaces with the heads of the control departments and the main corporate functions. The Independent Auditors are invited to attend Committee meetings for the issues within their remit.

As a rule, the Head of Corporate Affairs, or other personnel working at that structure, are also invited to attend the Committee meetings, as secretary of the meeting: Minutes of each meeting are drawn up and signed by the Chairperson and the Secretary.

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 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**").

Pursuant to the new regulation on its operation, the Committee has the following tasks:

- A) to assess the most significant transactions approved by the Board of Directors, in terms of impacts on the internal control and risk management system;
- B) to ensure to the Board of Directors an adequate preliminary review in evaluations and decisions relating to the Internal Control and Risk Management System;
- C) to assess, at least every six months, the adequacy of the Internal Control and Risk Management System to the characteristics of the Company and the risk profile assumed;
- D) to identify and submit to the Board of Directors, with the support of the Appointments Committee, the candidates to the positions of heads of the Internal Audit, Risk, and Compliance & AML Departments ("**Control Departments**"), and the Manager in charge of financial reporting ("**Manager in charge of financial reporting**");
- E) to carry out a preliminary review of the activity plans and the reports of the control departments to be submitted to the Board of Directors;
- F) to provide opinions on 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, if required;
- G) to report 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;
- H) to assess 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;
- I) to assess any finding contained in the reports of the Control Departments or of the Board of Statutory Auditors, or in studies and/or reviews by third parties;
- J) to formulate assessments and issue opinions to the Board of Directors on compliance with the principles to which the Internal Control and Risk Management 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 Board any weaknesses and the resulting corrective actions to be implemented; to this end, it assesses the proposals of the CEO;
- K) to contribute, through evaluations and opinions, to the definition of the Company's policy on the subject of outsourcing corporate control departments;
- L) to check that the internal control departments comply in full with the guidelines of the Board of Directors and assist the latter in the preparation of the coordination document required by Bank of Italy Circular no. 285;
- M) to review and evaluate the correct application of the accounting standards and their consistency for the preparation of the main financial documents (such as, for example, separate and consolidated financial statements, interim financial reports, interim Directors' reports, etc.), and, to that end, to interface with the Manager in charge of financial reporting, the Board of Statutory Auditors and the Independent Auditors;
- N) to ascertain that the incentives underlying the Company's remuneration and incentive system are consistent with the RAF, notwithstanding the powers of the Remuneration Committee;
- O) as part of the RAF, the Committee provides support to the Board of Directors, as required by Bank of Italy Circular no. 285:

- i. in the definition and approval of strategic guidelines and risk management policies, in particular with reference to the risk objectives ("Risk appetite") and the tolerance threshold ("Risk tolerance");
 - ii. in checking the correct implementation of the strategies, risk governance policies and the RAF;
 - iii. 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;
- P) to express 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 the Bank and its subsidiaries are exposed are properly identified and adequately measured, managed and monitored, determining the extent to which such risks are compatible with management of the Company in a manner consistent with the identified strategic objectives;
 - ii. describing, in the report on corporate governance, the main characteristics of the Internal Control and Risk Management System and procedures for the coordination among the parties involved, providing its assessment on the suitability of this;
 - iii. verifying, in the absence of the Director responsible for the Internal Control and Risk Management System, that the Head of the Internal Audit Department has been provided with adequate resources to carry out his duties;
 - iv. verifying, in the absence of the Director responsible for the Internal Control and Risk Management System, that the remuneration of the Head of the Internal Audit Department is defined consistently with the Company's policies;
- Q) to monitor the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Department;
- R) to request 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 Chairperson of the Board of Statutory Auditors thereof;
- S) to perform any additional tasks assigned by the Board of Directors.

In the performance of its functions, the Committee:

- A. identifies all additional risk-related information flows that must be submitted to the Committee (subject, format, frequency, etc.) and must be able to access significant corporate information;
- B. may make use, at the Bank's expense and within the budget limits approved by the Board of Directors, of the support of external professionals, provided these are suitably bound to required confidentiality, and - if necessary - may interact directly with the Control Departments.

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 also undertakes the functions of Committee for transactions with parties in conflict of interest and related parties, governed by the CONSOB Regulation containing provisions concerning related party transactions, adopted by resolution no. 17221 of 12 March 2010, as amended, and by Bank of Italy Circular no. 263 of 27 December 2006, "New prudential supervisory provisions for banks", concerning risk activities and conflicts of interest vis-à-vis associated persons, set forth by Title V, Chapter 5, and subsequent updates. To this purpose, the Committee meets as such in the presence of its independent members alone.

The Committee reports to the Board of Directors on its activities and the adequacy of the Internal Control and Risk Management System. In addition, the Chairperson reports each time to the Board of Directors, at the first convenient meeting, on assessments carried out on individual issues on the agenda of the Board, on which the Committee is called to express its opinion.

In 2018, the activities of the Committee focused on the following aspects, among others:

- company procedure for related party transactions, acting as Committee for the transactions with parties in conflict of interest and related parties, issuing prior opinions;
- activities to respond to communications from the Supervisory Authorities;

- with regard to actions planned following inspections, examining and providing its assessments;
- examining requests for information from the Bank of Italy, providing its opinions on the responses suggested by the Bank's relevant structures;
- assessments concerning the correct application of the accounting standards for the drafting of the accounts as well as the statement of the manager in charge of financial reporting at the following dates;
- assessments concerning the aspects presented by the independent auditors;
- review of the regular reports of the internal control departments and the Supervisory Body;
- assessment of proposals for the most significant transactions and non-recurring transactions;
- assessment of the correct application of the provisions regarding the recognition of default interest;
- assessment of the consistency of the remuneration and incentive system adopted by the Banca Sistema Group with the RAF;
- review of the layout of the ICAAP and ILAAP reports.

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 related 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 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 Risk Department

The Risk Department is tasked with the identification, management and monitoring of all risks to which the Bank is, or may be, exposed. The Risk 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 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. credit, market, operational, interest rate, liquidity, 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 carries out an articulated set of activities aimed at monitoring compliance risk, including personal data protection and money laundering and terrorism financing risk control in regard to all corporate activities; in particular, according to a risk-based approach, it verifies that the internal procedures and processes are in line with the following objectives:

- 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, for the purposes of monitoring the compliance risk, makes use of specific specialist controls defined within the organisational structure for the management and monitoring of specific provisions, defined every year in the plan of the activities.

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 for the definition of methods for the assessment of compliance risks and money laundering and terrorism financing risks;
- Cooperates to identify the internal control system and the procedures for the prevention of the risk observed, including the risk of money laundering and terrorism financing with the option to request the adoption thereof; verifies their appropriateness and correct application;
- Identifies, on an ongoing basis, the rules applicable to the Bank and measures/assesses their impact on business processes and procedures;
- Proposes organisational and procedural changes aimed at adequately controlling the compliance risks identified, including those related to money laundering and terrorism financing risks;
- 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 compliance risk and money laundering and terrorism financing risks;
- Provides ex ante assessments 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;
- Assists and advises the Bank's corporate bodies in all matters in which there is a significant compliance risk and money laundering and terrorism financing 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;
- Verifies the reliability of the information system feeding the Bank's Centralised Computer Archive;
- Sends to the Financial Information Unit monthly aggregate data on the entries in the Centralised Computer Archive;
- Assesses the reports of transactions at risk of money laundering and terrorism financing received;
- Verifies the correctness of the contractual privacy clauses, in conjunction with the Legal Department;
- Prepares reports to the top management, also required by the reference rules and regulations.

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 the risk and process management system, reporting any errors and irregularities. 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.

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.

In order to duly perform their duties, the personnel in the Internal Audit Department have access to all documents and information systems of 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, which enable the independent data extraction and processing, and the selection of samples for testing procedures.

Audit activities are planned annually, based on a structured risk-based approach, setting the priority of the controls to be carried out according to the assessment of the degrees of risk of the Bank's activities notwithstanding the controls envisaged (known as "residual risk"). In order to identify the steps to plan and determine their priorities, the following aspects are considered:

- the progress of the Bank's activities, through the analysis of the Business Plan and the budget;
- the assessment of the risk of corporate processes;
- the changes occurred in the governance and business processes;
- on-going organisational changes and projects;
- the results of the audits carried out in previous years;
- the "mandatory" audit activities, which are required by reference rules and regulations (e.g. ICT audit, ICLAAP report, alignment of practices to remuneration policies, Interbank Deposit Protection Fund).

The 2018 Audit Plan was submitted to a preliminary examination by the Board of Statutory Auditors and the Internal Control and Risk Management Committee. It was then approved by the Bank's Board of Directors at the meeting held on 8 March 2018. 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 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 Committee of any discrepancy with respect to the planned actions.

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 controls 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 adopted, from its very beginning, the Organisational and Management Model ("Model" or "OMM") laid down by Legislative Decree No. 231 of 8 June 2001, and available on the Bank'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.

Following the listing of the Bank on the STAR segment of Borsa Italiana, the adoption of the Model has become mandatory, being a requirement to obtain and keep the qualification of issuer in this segment.

In general, 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 OMM, 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.

Implementing the provisions of the Decree, the Board of Directors of the Bank has adopted this Model and established a Supervisory Body (below also "SB") with control body functions, to monitor the operation, effectiveness and application of the Model and to ensure its review. The SB consists of the following parties:

- (i) the Chairperson 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 or an independent third party with substantial experience on the issues addressed by Decree 231, 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.

The presence of these parties guarantees the actual independence of the SB with respect to the corporate hierarchy, guaranteeing at the same time constant liaising with the Board of Directors, which is ultimately in charge of ensuring the effective implementation of the model. The detailed description of the tasks and the operation of the SB is provided in the OMM approved by the Board of Directors.

The current composition of the Supervisory Body is the following:

- Massimo Conigliaro (Chairperson of the Board of Statutory Auditors);
- Daniele Pittatore (independent director with consolidated experience in the issues addressed by Decree 231);
- 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. 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.

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. In this regard, in 2018 the Supervisory Body appointed the Clifford Chance Law Firm in Milan as external consultant in support of the activities within its remit.

As indicated above, one of the main tasks of the SB, as specified by art. 6 of Legislative Decree No. 231/01, is to update the Model, which was in fact subject to the required assessment following regulatory changes affecting the issues addressed by Decree 231 and the organisational-strategic changes of the Bank. At its meeting on 19 November 2018, the SB resolved to update the OMM following the coming into force of Legislative Decree No. 107/2018 and, therefore, proposed to the Board of Directors on 14 December 2018 to make the following changes:

- i) Market abuse: update of the predicate offences as a result of the changes made by Legislative Decree No. 107/2018, laying down provisions for adaptation to EU Reg. 596/2014 ("MAR Regulation").
- ii) Handling of stolen goods, money laundering and use of cash, goods or benefits of unlawful origin, as well as self-laundering: update of applicable rules and regulations following the changes made to Legislative Decree No. 231/2007 by Legislative Decree No. 90/2017, implementing EU Directive 2015/849 concerning the prevention of the use of the financial system for the purposes of laundering the proceeds of criminal activities and terrorism financing.

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

- a) offences against the Public Administration (art. 24 and art. 25);
- b) corporate crime (art. 25-ter);
- c) market abuse (art. 25-sexies);
- d) money laundering and terrorism financing (art. 25-octies);
- e) computer crimes and unlawful data processing (art. 24-bis);
- f) manslaughter and serious or very serious injuries resulting from violations of the rules on health and safety in the workplace (art. 25-septies).

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 2018.

In 2018, an intense training programme was carried out on the issues addressed by Decree 231/01, which involved 159 employees (87%).

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. Italian Law No. 179 ("Whistleblowing Law"), in force since 30 November 2017, represents a significant step forward towards the introduction of such an instrument into the Italian legal system, safeguarding those employees who report illegal activities of which they have become aware in the performance of their working activities. In particular, in regard to the private sector, this law has made changes to art. 6 of Italian Legislative Decree No. 231/2001, which

protects those reporting unlawful conducts pursuant to this Decree or violations of the Organisational Model 231, and provides specific channels to report unlawful conducts, of which at least one must be electronic and such to guarantee the confidentiality of the whistleblower's identity.

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, the Bank has established the following channels:

- a) an email address (whistleblowingadmin@bancasistema.it) that has as sole recipient the Head of the internal whistleblowing systems of the Bank;
- b) a special section of the corporate intranet, from which Bank personnel may send a report to the Head of the internal whistleblowing systems;
- c) with registered mail sent to the Bank's office, to the attention of the Chairperson of the Internal Control and Risk Management Committee, if the report concerns the Head of the internal whistleblowing systems;
- d) a declaration provided to one of the parties entitled to receive it, which must be formalised in a special report.

No whistleblowing reports were received in 2018. The Head of internal whistleblowing systems, supported by an external legal consultant with experience in these issues, has also completed the training programme on whistleblowing, started last year.

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 involves 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. This same Board of Directors shall also have the power to revoke the Manager in charge of financial reporting. The remuneration of the Manager in charge of financial reporting is set by the Board of Directors.

Mr. Alexander Muz, the Head of "Administration, Planning and Supervision" was appointed as new "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 is endowed with 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 are already existing between the functions, in particular on the occasion of bilateral comparisons, 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 Audit Departments, 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, who allows 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 the 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 upon the expiry of the term which started at the time the Board was 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.

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	Chairperson	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 the Decree no. 162 of the Ministry of Justice of 30 March 2000;
- (iii) the limits on concurrent positions established by Consob regulations.

* * *

During 2018, the Board of Statutory Auditors met a total of 17 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 three and a half hours.

From the beginning of 2019 until the date of approval of this document, the Board of Statutory Auditors met 3 times. In the same period, the Board of Statutory Auditors attended all the meetings of the Internal Control and Risk Management Committee. In 2019, 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.

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 Chairperson 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 2018 the Board of Statutory Auditors participated 13 times in the 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 Board of Statutory Auditors started the annual assessment on its functioning. In conducting this self-assessment process, the Board of Statutory Auditors was assisted by an external consultant.

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 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.

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.

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. All this shall be in compliance with the Articles of Association.

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.

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 23 April 2018, five members of the Board of Directors and the entire Board of Statutory Auditors were in attendance.

During the Shareholders' Meeting, 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 21 February 2018, the company Oyster Sicav sent a declaration made pursuant to art. 120 of the Consolidated Law on Finance, informing of the sale carried out on 20 February 2018 and agreeing to reduce the equity investment in Banca Sistema's share capital (down to 4.98% from 5.23%).

On 13 April 2018, Schroders plc sent a declaration made pursuant to art. 120 of the Consolidated Law on Finance, informing of the sale carried out on 10 April 2018, which has reduced the equity investment in Banca Sistema's share capital (down to 4.99% from 6.73%).

On 25 May 2018, Schroders plc sent a declaration made pursuant to art. 120 of the Consolidated Law on Finance, informing of the purchase carried out on 24 May 2018, which has increased the equity investment in Banca Sistema's share capital (up to 5.22% from 4.99%).

On 29 January 2019, Schroders plc sent a declaration made pursuant to art. 120 of the Consolidated Law on Finance, informing of the sale carried out on 25 January 2018, which has reduced the equity investment in Banca Sistema's share capital (down to 4.83% from 5.22%).

On 1 March 2019, pursuant to article 120 of the Consolidated Law on Finance, Fondazione Pisa notified the reduction of its equity investment in Banca Sistema's share capital (down to 4.85% from 7.40%).

The market capitalisation of the shares recorded, during the year 2018, the following values at the beginning and end of the period:

Date	Share price	Number of shares forming the share capital	Capitalisation
2 January 2018	2,258	80,421,052	181,590,700
28 December 2018	1,438	80,421,052	115,645,500

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, 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.

References to any event occurred from the end of the financial year to the date of approval of this document are included in the relevant paragraphs of this report.

21. Observations regarding the letter dated 21 December 2018 of the Chairperson of the Corporate Governance Committee

As requested in the letter from the Chairperson of the Corporate Governance Committee dated 21 December 2018, the Board of Directors examined the Committee's recommendations on 1 March 2019.

TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES AT 31.12.2018

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
GIANLUCA GARBI	Società di gestione delle partecipazioni di Banca Sistema S.r.l.	23.10	23.61	23.61%
	Garbifin S.r.l.	0.51		
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.91	7.91	7.91
FONDAZIONE SICILIA	Fondazione Sicilia	7.40	7.40	7.40
FONDAZIONE PISA	Fondazione Pisa	7.61	7.61	7.61
SCHRODERS PLC	Schroder Investment Management Limited	3.88	5.22	5.22
	Schroder Investment Management North America Limited	1.33		

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS														Internal Control and Risk Management		Remuneration Committee		Appointments 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. pursuant to the Cons. Law on Finance	No. of other offices held ***	(*)	* %	(*)	(***) %	(*)	(***) %	(*)	(***) %	(*)	(***) %	
Chairperson	Luitgard Spöglar	1962	2015	2015	2020	M		X		X	2	19/19	100	9/9	100	/	100	6/7	86			
Deputy Chairperson	Giovanni Antonino Puglisi	1945	2011	2015	2020	M		X		x	-	18/19	95			4/4	100			2/2	100	
CEO •◊	Gianluca Garbi	1970	2011	2015	2020	M	X				-	19/19	100									
Director	Carlotta De Franceschi	1977	2015	2015	2020	M			x	x	3	15/19	79	10/13	67					2/2	100	
Director	Daniele Pittatore	1969	2014	2015	2020	M/C			X	X	1	3/73	100	8/8	100							
Director	Federico Ferro Luzzi	1968	2018	2018	2020	m			x	x	1	13/13	100	9/9	100			5/5	100	1/1	100	
Director	Marco Giovannini	1956	2018	2018	2020	M			x	x	2	9/13	69			2/3	66.66	4/5	80			
Director	Francesco Galletti	1982	2018	2018	2020	m			x	x	-	12/13	92			3/3	100					
Director	Laura Ciambellotti	1970	2018	2018	2020	m			x	x	1	13/13	100	9/9	100							
		DIRECTORS WHO LEFT OFFICE DURING 2018																				
Director	Giorgio Barba Navaretti	1960	2012	2015	2017	M		X	X	X	1	6/6	100	4/4	100	1/3	33.33	2/2	100			
Director	Claudio Pugelli	1951	2011	2015	2017	M		X			-	10/11	91									
Director	Diego De Francesco	1968	2017	2017	2017	C		X	X	X	6	6/6	100			1/3	33.33	2/2	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
	19	-	9	7	4	2

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
(*). 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.).
(**) 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).

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	(**)	(***) %	Number of other offices held (***)
Chairperson	Massimo Conigliaro ¹	1969	2011	2017	2019	-	X	17/17		-
Standing Statutory Auditor	Biagio Verde	1943	2014	2014	2019	-	X	16/17		-
Standing Statutory Auditor	Lucia Abati	1979	2017	2017	2019	-	X	17/17		-
Alternate Statutory Auditor	Marco Armarolli	1973	2013	2014	2019	-	X			-
Alternate Statutory Auditor	Daniela D'Ignazio	1978	2014	2014	2019	-	X			-

Number of meetings held during the financial year 17

NOTE

* 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).

¹ Massimo Conigliaro was appointed Chairperson of the Board of Statutory Auditors at the Shareholders' Meeting of 27 April 2017.