

## REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Banca Sistema Group

2020

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

*Report approval date: 11 March 2021*

[www.bancasistema.it](http://www.bancasistema.it)

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# Glossary

**Shareholders' Meeting:** the Issuer's Shareholders' Meeting

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

**Code/Code of Conduct:** the Code of Conduct for listed companies approved, in July 2018, 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:** Banca Sistema S.p.A. having registered office in Milan, Largo Augusto 1/A, ang. Via Verziere 13.

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

**Foundations:** Fondazione Sicilia, with registered office in Palermo, Largo Gae Aulenti, 2 (formerly Via Bari 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 Ltd, Largo Augusto Servizi e Sviluppo S.r.l. and ProntoPegno S.p.A.

**LASS:** Largo Augusto Servizi e Sviluppo S.r.l., with registered office in Milan, Largo Augusto 1/A, ang. Via Verziere 13, a vehicle wholly owned by Banca Sistema.

**ProntoPegno:** ProntoPegno S.p.A., having registered office in Milan, Largo Augusto 1/A, ang. Via Verziere 13, a company entered in the Register of Financial Intermediaries pursuant to Article 106 of the Consolidated Law on Banking, 75%-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 2020, effective since 2 July 2020, between Società di Gestione delle Partecipazioni in 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.

On 10 February 2021, the Board of Directors resolved to update the document "Regulations on the Operation of the Board of Directors".

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

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

**Related Party Regulation:** the Regulation 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 UK law, with registered office 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.

## 1. INTRODUCTION

Please note that on 23 November 2020 the Ministry of the Economy and Finance issued Decree no. 169/2020 laying down “Regulations governing the requirements, and the principles of eligibility for office, of bank officers, financial intermediaries, collective loan-guarantee consortiums, electronic money institutions, payment institutions and deposit guarantee systems” published in Italian Official Gazette no. 310 on 15 December 2020 and in force (as better specified below) with effect from 30 December 2020.

It should also be noted that on 1 January 2021 the new edition of the Corporate Governance Code entered into force, of which the market will be informed in the report on corporate governance to be published in 2022.

Banca Sistema acted promptly to comply with the regulations issued, and on 10 February 2021 the Board of Directors issued the new Board of Directors’ Regulations and the document “Optimal qualitative and quantitative composition of the Board of Directors”. Both documents are available on the website at <https://bancasistema.it/documenti-societari>.

## 2. ISSUER'S PROFILE

### Governance

Banca Sistema’s corporate governance system is based on the principles recognised 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.

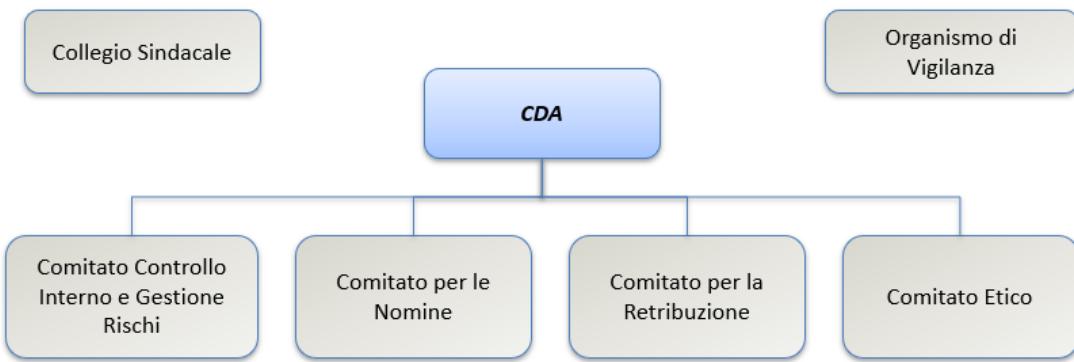
Banca Sistema has adopted the traditional management and control model, considering it the most suitable for its own operation, in order to ensure efficient management and effective controls.

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 Code of Conduct. The Bank's corporate governance structure takes specific account of the relevant provisions contained in Part I, Title IV, Chapter 1 of the Supervisory Provisions for Banks.

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 statutory audit is entrusted to independent auditors, in accordance with applicable regulatory provisions.

The organisation of the Bank's management structure as at 31 December 2020 is as follows:



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.

During 2020, the Shareholders' Meeting of Banca Sistema made some amendments to the Articles of Association based on a proposal from the Board of Directors.

Specifically, on 23 April 2020 the Extraordinary Shareholders' Meeting resolved on the following amendments:

- the amendment to article 5 of the Articles of Association to introduce increased voting rights pursuant to article 127-quinquies of the Consolidated Law on Finance, which grants increased voting rights *"up to a maximum of two votes for each share held by the same shareholder for a continuous period of no less than twenty-four months from the date of entry"* in a specific list which must be held by the issuer;
- the amendment to articles 8, 9, 10, 11, 12, 14 (13 with new numbering), 18 (17 with new numbering), and 20 (19 with new numbering) of the Articles of Association; repeal of article 13 of the Articles of Association and consequent new numbering of articles 14 to 24 of the Articles of Association; introduction of new article 25 to the Articles of Association. These regulatory interventions concern: (i) the elimination of clauses that are attributable to the changed shareholding structure of the Bank following its listing; (ii) the amendments to the composition of the Board of Directors and to the slate voting procedure governing the election of the members of the Bank's Board of Directors and the Board of Statutory Auditors; (iii) the alignment to the new provisions governing "gender balance"; (iv) the removal of clauses that constitute a mere literal repetition of the Supervisory Provisions for Banks; (v) the introduction of amendments made purely for coordination purposes, to rectify errors and/or incorrect references/cross-references and to streamline the text; (vi) the introduction of a transitional provision in the Articles of Association for the composition of the Board of Directors.

On 27 November 2020, the Extraordinary Shareholders' Meeting resolved on the following further amendments:

- amendment to article 5.7, eliminating the part where acquisition of the shareholder's increased voting right is subject to the issuance of a second communication, by the intermediary with which the shares are deposited, certifying the uninterrupted holding of the shares in question for a period of 24 months;
- amendment to article 10.2, amending the part that governs the qualitative conditions with regard to the composition of the lists of candidates for the position of Director, with the introduction of the possibility, in certain circumstances, of electing two directors instead of one from the minority list;
- amendment to article 10.3, introducing an additional method for resolving on the appointment of independent Directors, should those already in place fail to provide the number envisaged by the regulations;
- introduction of the new article 12.3 that indicates, pursuant to article 150, paragraph 1, of the Consolidated Law on Finance, the procedures whereby the Directors and more particularly, the delegated bodies report to the Board of Statutory Auditors on the activities carried out, and the consequent changes to the numbering of current articles 12.3 and 12.4 as 12.4 and 12.5.

### 3. INFORMATION on OWNERSHIP STRUCTURE (art. 123-bis, paragraph 1, of the Consolidated Law on Finance) as at 30/03/2020

#### 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 in, is € 9,650,526.24, divided into 80,421,052 shares, each with a nominal amount of € 0.12. As at 31 December 2020, the share capital was composed as follows:

Categories of shares making up the share capital as at 31 December 2020:

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 2020 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, who also holds office as the General Manager, and to other "key personnel" corporate officers, employees and collaborators of the Bank and of other parents and subsidiaries, reference should be made to the Report on the remuneration policy and remuneration paid, drawn up pursuant to art. 123-ter of the Consolidated Law on Finance, also with regard to the allocation, if any, of financial instruments pursuant to article 114-bis of the Consolidated Law on Finance and article 84-bis of the Issuers' Regulation.

#### 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 Regulation, (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 Banca Sistema Group's remuneration policies.

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

As at 31 December 2020, 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' Regulation, the parties 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 in Banca Sistema S.r.l. (SGBS S.r.l.)	23.10	23.61	23.61%
	Garbifin S.r.l.	0.51	0.51	0.51

FONDAZIONE SICILIA	Fondazione Sicilia	7.40	7.40	7.40
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.91	7, 91	7.91
BASSAC	BASSAC	<b>3.75</b>	<b>3.75</b>	<b>3.75</b>
PREMIER INVESTISSEMENT	Premier Investissement	<b>3.73</b>	<b>3.73</b>	<b>3.73</b>

**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 2020, effective 2 July 2020 and expiring on 1 July 2022, a Shareholders' Agreement was entered into by the Bank and the Foundations.

Type of agreement

The Agreement is a significant shareholders' agreement pursuant to and for the purposes of art. 122, paragraphs 1 and 5, letters b) and c) of the Consolidated Law on Finance.

The updated version of the Agreement was filed with the Milan Companies' Register on 2 July 2020.

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 following table shows the number of the Bank'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 2020, 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%
<b>Total</b>	<b>30,890,735</b>	100.00	<b>38.41</b>	<b>30,890,735</b>	100.00	<b>38.41</b>

No entity exercises individual control over Banca Sistema pursuant to 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 obliges the parties not to sell, until 1 July 2022, any shares they held in Banca Sistema at the date the Bank's shares were listed on the Italian Equities Market, STAR segment (2 July 2015) (for the sake of clarity, represented as follows: SGBS 23.10%, Fondazione Sicilia 7.40%, Fondazione Cassa di Risparmio di Alessandria 7.40%), without prejudice to transfers to the aforesaid companies or to any natural or legal persons controlled by or associated with these - as per the definition given in art. 2359 of the Civil Code - and without prejudice to the application of articles 5.2 to 5.7 of the Agreement.

#### **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 (art. 104, paragraph 1-ter and art. 104-bis, paragraph 1)**

Banca Sistema, SF Trust Holdings, LASS and ProntoPegno have not entered into agreements that take effect, are amended 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**

The Shareholders' Meeting of the Bank held on 23 April 2020 authorised – for a maximum period of eighteen months – *the Board of Directors (i) to submit to the Bank of Italy the request for authorisation to repurchase treasury shares for an amount of no more than € 855,000 and (ii) to purchase fully paid-in ordinary treasury shares of the Bank, with a nominal amount of € 0.12 (zero point twelve) each, for a maximum number having a total nominal amount not exceeding € 855,000.*

*At the date this document was drafted, the Board of Directors had not yet followed up on the authorisation approved by the Shareholders' Meeting.*

As at the date of publication of this document, Banca Sistema holds no. 28.939 treasury shares, representing 0,04% of the share capital.

#### **I) Management and coordination activity (art. 2497 et seq. of the 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 Report on the remuneration policy and remuneration paid 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).

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

Banca Sistema adhered to the Code of Conduct issued by the **Corporate Governance Committee** in June 2011 and also adheres to the new edition of the Corporate Governance Code issued by the Corporate Governance Committee in January 2020 and in force since 1 January 2021, which will be taken into account in the Report on corporate governance to be published in 2022.

## 5. BOARD OF DIRECTORS<sup>1</sup>

### 5.1 APPOINTMENT AND REPLACEMENT (art. 123-bis, paragraph 1, letter I) of the Consolidated Law on Finance)<sup>2</sup>

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

The appointment methods are governed by art. 10 of the Articles of Association, as published on the website at <https://bancasistema.it/documenti-societari>.

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 at <https://bancasistema.it/documenti-societari>, 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 systems.

#### Succession plans

Pursuant to the Code of Conduct (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.

Pursuant also to the "Regulations on the Operation of Banca Sistema S.p.A.'s Board of Directors", approved on 5 February 2016, at the meeting held on 7 February 2020, the Board, after obtaining an opinion from the Appointments Committee, updated the plan to ensure the orderly succession in senior executive positions (executive directors, general manager) in the event of termination due to expiry of office or for other reasons, in order to ensure business continuity and avoid economic and reputational consequences. The aforesaid succession plan is updated on a regular basis to reflect any changes in the Bank's organisational structure.

### 5.2 COMPOSITION (art. 123-bis, paragraph 2, letters d) and d-bis), of the Consolidated Law on Finance)

In accordance with the Articles of Association in force at the time of appointment of the current Board of Directors, the Board is composed of 9 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 in office at the end of 2020, and at the date of presentation of this Report (as shown in Table 2 attached to this Report), is as follows:

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<sup>1</sup> In this chapter, the reference to the provisions contained in art. 10 of the Articles of Association must be understood as referring to the version in force until the date of the notice convening the Shareholders' Meeting to be held in 2021.

<sup>2</sup> It is recalled that on 1 January 2021 Decree of the Minister of the Economy and Finance no. 169/2020 entered into force, laying down new provisions governing the requirements and the principles of eligibility of bank officers, financial intermediaries, collective loan-guarantee consortiums, electronic money institutions, payment institutions and deposit guarantee systems.

NAME AND SURNAME	POSITION	PROFESSIONAL SECTOR	DATE OF FIRST	DATE OF APPOINTMENT
Luitgard Spöglér <sup>1</sup>	Chairperson	Lawyer	2015	23/04/2018
Giovanni Antonino	Deputy Chairperson	University professor	2011	23/04/2018
Gianluca Garbi <sup>3</sup>	Chief Executive Officer	Senior manager	2011	23/04/2018
Marco Giovannini <sup>2</sup>	Director	Senior manager	2018	23/04/2018
Laura Ciambellotti <sup>2</sup>	Director	Consultant	2018	23/04/2018
Carlotta De Franceschi	Director	Consultant	2015	23/04/2018
Daniele Pittatore <sup>2</sup>	Director	Chartered accountant	2014	13/07/2018
Federico Ferro Luzzi <sup>2</sup>	Director	University professor	2018	23/04/2018
Francesco Galietti <sup>2</sup>	Director	Consultant	2018	23/04/2018

<sup>1</sup> Independent director pursuant to art. 148, paragraph 3 of the Consolidated Law on Finance.

<sup>2</sup> Independent Director pursuant to art. 148 (3) of the Consolidated Law on Finance and art. 3 of the Code of Conduct.

<sup>3</sup> Executive Director

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 Code of Conduct. Failure to meet the requirements for the office shall result in termination thereof, except for the loss of the independence requirements identified above, which shall not result in the termination of 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 the suspension of 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 signature authenticated by 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.

As provided in Table 2 attached, below are listed the positions of directors in other companies listed on regulated markets, including foreign markets, in financial, banking, insurance companies or large companies.

The Chairperson Luitgard Spöglér holds another position at Alperia S.p.A.

The Independent Director Daniele Pittatore holds two additional positions, one at Cordusio Fiduciaria S.p.A. and one at Twinset S.p.A.

The Independent Director Carlotta De Franceschi holds two additional positions, one at Arca SGR S.p.A. and one at TAS GROUP S.p.A.

The Independent Director Marco Giovannini holds two additional positions, one at Mperience and one at Guala Closures.

The Independent Director Federico Ferro Luzzi holds two additional positions, one at Saipem S.p.A. and one at Garofalo HC S.p.A.

## **Composition criteria and diversity policy**

In order to appoint or co-opt directors, the Board of Directors initially identifies the qualitative and quantitative composition deemed optimal in relation to the aims to be pursued, by identifying and justifying the theoretical profile of the candidates considered appropriate to these ends, within the framework of the law and the provisions of the Articles of Association.

The document containing the aforementioned assessments had been approved in 2017 and identified the qualitative and quantitative composition deemed optimal in view of the renewal of the Board of Directors in 2018.

With regard to the professionalism requirement, in 2017 the following areas of knowledge were identified as being necessary for all directors:

- Banking business
- Dynamics of the financial and economic system
- Regulations in the banking and financial sphere
- Risk control and management methodology

Directors must also satisfy the following aptitude requirements:

- Standing up
- Communication
- Collaboration
- Results orientation
- Strategic vision

With regard to gender diversity, the Articles of Association provide that when shareholders appoint directors and prepare the slates, each slate must include candidates of different genders, even solely among independent candidates, to ensure that the composition of the Board of Directors is compliant with the provisions of law governing gender equality (one third for the Board of Directors in office).

The Board of Directors in office is composed of 9 members, 6 male and 3 female.

On 10 February 2021, in view of the forthcoming expiry and the subsequent renewal of the management body, the Board of Directors approved the new document on the optimal qualitative and quantitative composition of the body.

## **Maximum number of positions held in other companies**

Without prejudice to the causes of ineligibility and disqualification as well as the maximum limit of concurrent positions provided for by the law and regulatory provisions in force at the time, the acceptance of the office involves a preliminary evaluation of the possibility of devoting 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, and 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 Regulations on the Operation of Banca Sistema S.p.A.'s Board of Directors approved in February 2016 established the maximum number of management and control offices that can be held by the members of the Bank's Board of Directors in companies outside the Group, as well as the procedure to be followed in the event that these limits are exceeded, as set out below.

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

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

The Board of Directors' Regulations establish in art. 7, "Limits on concurrent positions", that:

1. Without prejudice to the causes of ineligibility and disqualification as well as the maximum limit of concurrent positions provided for by the law and regulatory provisions, the acceptance of the office involves a preliminary evaluation of the possibility of devoting 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, and 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 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 these Regulations 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.

The operating regulations, in Annex D, determine a fixed limit to the number of management and control offices in companies outside of the Banca Sistema Group:

### **1. CEO**

- 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 four are considered in any case equivalent to one executive post in listed companies and in banking, insurance and financial companies or large companies. If more than four, 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 revenue exceeding € 500 million
- or
- a number of employees exceeding 500

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

**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**

At the meeting held on 8 February 2018, the Board approved a specific procedure concerning "Induction and training programmes 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.

More specifically, in 2020 training sessions and working groups were held with the Bank's personnel and external consultants on specific topics, such as: (i) Cyber Security, (ii) EBA Project - New Definition of Default, (iii) Risk Framework (RAF/ICLAAP/Restructuring), (iv) ESG Action Plan of Banca Sistema, (v) Analysis of the nature of football leagues, (v) 2021-2023 Business Plan and (vi) Observation of the evolution of consumer financing needs - collateralised lending.

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, with all the necessary support and documentation in order to facilitate the timely fulfilment of their duties.

### **5.3 ROLE OF THE BOARD OF DIRECTORS (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)**

#### Meetings and operation

In 2020, 18 meetings of the Board of Directors were held with an average duration of approximately four hours. The number of meetings attended is shown in Table 2 attached to this Report.

For 2021, 13 meetings have been planned so far, of which 3 have already been held as of 11 March 2021. A fourth extraordinary meeting was also held.

In compliance with the obligations imposed on listed issuers by art. 2.6.2 of Consob Market Regulation, 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.

Pursuant to art. 12 of the Board of Directors' Regulations, "the chairperson will endeavour to ensure that the documentation supporting the discussion of the items on the agenda is made available to directors and statutory auditors sufficiently in advance of the Board meeting. If the items up for discussion are related to ordinary activities or initiatives, the relevant documents, where available, are possibly sent on the date of submission of the notice of call, and, in any event, no later than the second business day prior to the date set for the Board meeting, unless this is not possible due to special confidentiality reasons, having particular regard to "price sensitive" data or information. As regards activities and initiatives of an extraordinary nature, conversely, the assessment regarding the timing for submission is referred, on a case by case basis, to the Chairperson, upon consultation with the CEO, without prejudice, in any event, to the need to ensure that directors and statutory auditors are provided with accurate and complete information regarding the item up for discussion. As regards agenda items of a strategic or extraordinary nature or of special technical complexity, the Chairperson of the Board of Directors, upon consultation with the CEO, may request that the documentation be made available to directors in advance and/or that, before the Board of Directors' meeting, technical meetings be arranged with the heads of the Bank's competent internal departments and/or, if applicable, with external consultants".

During 2020, 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 for the most part met during said financial year 2020. 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.

In 2020, in addition to the Secretary of the Board, all Board meetings were attended by other managers and employees of Banca Sistema, as well as by other external individuals or consultants invited by the Chairperson - in accordance with the Board of Directors' Regulations - on the basis of 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 heads of the control departments not only to present their own reports and policies, but also to participate in discussions on specific issues assessed by those departments;
- the Chief of Staff in support of the organisation and minute-taking activities of Board meetings;
- the Head of the Human Capital Department, with regard to all issues related to human resources management and remuneration;
- the Heads of the Factoring and CQ Divisions, with regard to issues within their respective remits.

During 2020, 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 no. 263 of 27 December 2006 (whose regulatory principles are currently contained in Circular no. 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 RAF 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 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 upon receipt of a quarterly report (tableau de bord) prepared by the Risk Department, which summarises, from time to time, the Bank's overall performance 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 regularly monitors the achievement of the targets defined 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 subsidiaries' overall organisational, management and accounting structure is evaluated by the Board through a number of governance tools, including by maintaining relations with the legal representative of the subsidiaries.

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"-in place, 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 and where necessary, 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 said opinion.

#### Tasks

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

Pursuant to Article 12 of the current Articles of Association, the management body performs all the operations necessary for the attainment of the corporate purpose and has full powers of company management and the power to carry out all the actions deemed necessary or appropriate for attaining the corporate 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 heads 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 Statutory 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 equity investments;
- j) the approval and modification of the main internal regulations;
- k) the establishment, modification and removal of board committees;
- 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 departments 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;
- y) the execution of instructions issued by the Bank of Italy.

The following powers are also assigned to the Board of Directors:

- a) merger pursuant to the cases provided under articles 2505 and 2505-bis of the Italian Civil Code, and demerger 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 the performance of certain categories of acts or individual businesses, the Board of Directors may delegate individual directors, and determine the content, limits and methods of exercise, where applicable, of such delegated powers. In any event, the appointment of the person delegated to vote for the company at the shareholders' meetings of subsidiaries, and the provision of related instructions, must always be resolved by the Board of Directors.

Pursuant to Articles 12.3 and 16.2 of the Articles of Association, in accordance with the provisions of the Code of Conduct, (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 Code of Conduct (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 Code of Conduct, 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.

### Self-assessment

At its meeting of 10 February 2021, the Board, in the light of the provisions and guidelines contained in the Supervisory Provisions for Banks, concluded the annual assessment of the functioning of the Board and its committees, as well as their size and qualitative and quantitative composition in 2020. The Board was supported by an external consultant, who coordinated the self-assessment process, analysing the results of the questionnaires and the interviews conducted with directors and statutory auditors.

The self-assessment process did not reveal any significant shortcomings. The corrective actions reported mainly concern: (i) the definition of the agenda of the Board meetings in order to give priority to discussions of the most important issues, avoiding leaving them to the end of the session; (ii) the optimisation of the time devoted to the discussion of the least important topics to allow more time to be devoted to the discussion of issues of strategic importance; (iv) an increase in the amount of time devoted to the analysis of the target market and to a comparison with competitors' businesses; (v) the adoption of greater standardisation in the information presented during the Board meetings in order to allow easier consultation; (vi) the preparation of summary sheets on the items on the agenda to facilitate consultation.

### Competing activities

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

## **5.4 DELEGATED BODIES**

The Board of Directors' Regulations stipulate that, to the extent permitted by the law and the Articles of Association, the Board 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 Officers**

Gianluca Garbi was appointed Chief Executive Officer and General Manager by the Board of Directors in the meeting held on 24 April 2018 and is qualified as the person primarily responsible for managing the company.

The Chief Executive Officer typically performs his duties within the scope of the various corporate committees - such as, but not limited to: (i) the Group 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, also exercising the powers granted to him to appoint special attorneys to represent the company in specific functions - within the limit of the powers granted, taking into account their role within the company and setting the associated limits and value thresholds - and to revoke powers of attorney given to employees following dismissal or where no longer necessary following a change of role or function.

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, as subsequently 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 amount 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, management and assignment of receivables, with a nominal amount of up to € 30,000,000 (with reference to receivables claimed by the assignor against a single assigned debtor) and in any event within the overall limit for each transaction of the nominal amount 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 Code of Conduct does not apply.

In accordance with Principle 2.P.4 of the Code of Conduct, 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**

Ms. Luitgard Spögler was elected as Chairperson of the Board of Directors by the Shareholders' Meeting held on 24 April 2018.

At the meeting held on 11 May 2018, the Board also appointed a Deputy Chairperson, Mr. Giovanni Puglisi, who has the power, in the case of the absence or incapacity of the Chairperson, to chair the Shareholders' Meeting and the Board 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 implement the resolutions passed by the Board).

The Chairperson encourages dialogue between the members of the Board. In accordance with the responsibilities attributed pursuant to art. 2381, paragraph 1 of the Civil Code, the Chairperson promotes the effective functioning of the corporate governance system, ensuring a balance between the powers of the CEO and the other executive directors and acting as an interlocutor with the Board of Statutory Auditors and the internal committees.

In preparing the agenda and conducting the discussions, the Chairperson ensures that priority is afforded to issues of strategic importance and that the discussion of these is allowed as much time as is necessary.

The Chairperson ensures that: i) the process of self-assessment is carried out effectively, according to methods appropriate to the degree of complexity of the Board's work, and that the planned corrective measures are adopted to deal with any shortcomings found; ii) the Bank draws up and implements induction programmes and training plans for the Board members; iii) appropriate succession plans are in place with respect to the entire organisational structure of the Bank.

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

Pursuant to Article 13 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 Conduct, 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 management powers, in accordance with articles 12 and 16 of the Articles of Association, the Board of Statutory Auditors has received reports from the CEO, with different frequencies depending on the subject of the power and in compliance with the periodic reporting requirements of the delegated bodies to the Board of Directors and the Board of Statutory Auditors.

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 performance during the reference period. The adoption of such information flows is in addition to the usual analytical reports provided periodically to the Board of Directors on business performance and, in accordance with article 2381, paragraph 5, of the Civil Code and articles 12 and 16 of the Articles of Association, at least quarterly and in any case for meetings of the Board of Directors, on the activities carried out and on the most significant economic, financial and equity transactions carried out by the Company and its subsidiaries.

## **5.5 OTHER EXECUTIVE DIRECTORS**

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

## **5.6 INDEPENDENT DIRECTORS**

At the date of this report, it is confirmed that the 8 directors (out of 9) who had indicated their eligibility to qualify as independent members at the time of their appointment, continue to meet the independence requirement.

In detail, subsequent to the Shareholders' Meeting called to appoint the Board on 23 April 2018, on 11 May 2018 the Board confirmed the eligibility of Luitgard Spögler and Giovanni Puglisi 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, as well as the eligibility of Carlotta De Franceschi, Marco Giovannini, Laura Ciambellotti, Federico Ferro Luzzi and Francesco Galietti to qualify as independent members also pursuant to article 3 of the Code of Conduct promoted by Borsa Italiana S.p.A.

On 26 July 2018, the Board confirmed the eligibility to qualify as an independent director, pursuant to the aforementioned provisions, for Daniele Pittatore, who was co-opted on 13 July 2018, with immediate effect, to replace Claudio Pugelli, who resigned on 29 June 2018, effective as of 30 June 2018. The office of Mr. Pittatore was confirmed at the successive Shareholders' Meeting held on 23 April 2018.

At the meeting held on 10 May 2019, the Board confirmed the eligibility of Daniele Pittatore to qualify as an independent director and confirmed the independence of Luitgard Spögler, 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, also pursuant to article 3 of the Code of Conduct promoted by Borsa Italiana S.p.A., the Board confirmed the independence of Carlotta De Franceschi, Marco Giovannini, Laura Ciambellotti, Federico Ferro Luzzi, Francesco Galietti and Giovanni Puglisi, who in the meantime had met

the independence requirement pursuant to article 3 of the Code of Conduct, the period specified therein having elapsed since holding executive positions with the shareholder Fondazione Sicilia.

Therefore, the number of independent directors on the Board of Directors largely complies with the provisions of the Articles of Association, the regulations in force and the Code of Conduct.

In 2020 the independent directors met on one occasion, in the absence of the other directors.

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.

## **5.7 LEAD INDEPENDENT DIRECTOR**

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

## 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 Code of Conduct - a "Procedure for the management and disclosure of inside information and market surveys", which was updated by the Board on 14 December 2018 to take into account the contents of the "Guidelines" issued by Consob in October 2017, and most recently in March 2020. The CEO and/or Chairperson of the Board 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](http://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 Code of Conduct 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.

At 31 December 2020 and at the date of this Report, the following Committees had been established:

- 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;
- Internal Control and Risk Management Committee, comprising four independent, non-executive directors, as described in further detail in Section 7;
- Ethics Committee, comprising three independent, non-executive directors, including the Deputy Chairperson of the Board, as described in further detail in Section 10.

No duties of one or more committees provided for by the Code of Conduct 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.

## 8. APPOINTMENTS COMMITTEE

The Board has set up an Appointments Committee and approved the associated regulations, which were modified most recently on 25 January 2019, also with a view to improving coordination between the different committees and between the individual committees and the management function.

### **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 2020, 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 2020 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 2021 until the date of approval of this document, the Committee met 3 times.

In 2021 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 following persons are also normally invited to attend Committee meetings: the Head of Human Resources and, the Head of Corporate Affairs, to act as meeting secretary, or other employees of that same department. 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.

### **Functions of the Appointments Committee**

Within its sphere of influence, the Committee has advisory, selection and proposal-making duties to support the Board on the matter of appointments and - following the aforesaid update of the Appointments Committee regulations on 25 January 2019 - on the co-optation of the members of the Board.

The Committee carries out all the tasks assigned to it by the Code of Conduct 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 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 concurrent positions and any exceptions to the competition prohibition provided for by article 2390 of the 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 with support in regard to the following processes:

- appointment or co-optation of directors, by expressing its opinion on 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 corporate 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 Control 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.

On 6 February 2020, the Appointments Committee examined the revised version of the Succession Plan.

## 9. REMUNERATION COMMITTEE

The Board has set up a Remuneration Committee and approved the associated regulations, which were modified most recently on 25 January 2019, also with a view to improving coordination between the different committees and between the individual committees and the management function.

### **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.

On 25 January 2019, the Board of Directors amended the Regulations, 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 the Deputy Chairperson Giovanni Puglisi (independent and non-executive director), Marco Giovannini (independent and non-executive director), and Francesco Galietti (independent and non-executive director).

The Chairperson of the Committee, Giovanni Puglisi, was chosen among the independent directors in possession of adequate experience, as assessed by the Board at the time of his appointment at the meeting held on 24 May 2018.

During 2020 the Committee met 5 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about 1.5 hours.

From the beginning of 2021 until the date of approval of this document, the Committee met 3 times.

In 2021 the Committee is expected to hold a number of meetings no fewer than those held in the previous year.

The Head of Corporate Affairs, as meeting secretary, or other employees working at that department are normally invited to attend the Committee meetings. The Chairperson of the Board has been invited to regularly attend the meetings and, since 25 January 2019, has a right to do so, without voting rights. The Chairperson of the Committee may also invite the CEO to attend the meetings. The Regulations provide that the Chairperson of the Board of Statutory Auditors or a Statutory Auditor designated by the latter shall also be invited to attend the Committee's meetings. The Head of the Risk Management Department and the Head of Human Resources are also invited to attend. Summary minutes of each meeting are drawn up and signed by the Chairperson and the Secretary. The Chairperson of the Remuneration Committee informs the Board of the outcome of the discussions and, where requested, expresses an opinion.

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.

## **Functions of the Remuneration Committee**

Within its sphere of influence, the Committee has advisory and proposal-making duties and, in some cases, carries out preliminary investigations vis-à-vis the Board.

In accordance with the Code of Conduct, 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:

- 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 CEO; formulate proposals to the Board of Directors in that regard;
- submit proposals or issue opinions to the Board of Directors for the remuneration of executive Directors and other Directors who hold specific offices as well as for the identification of performance objectives related to the variable component of that remuneration; 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) prepares the documentation to be submitted to the Board 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 policies and practices;
- vii) provides input, based also on the information received from the company departments concerned, on the achievement of the performance targets to which the incentive plans are subject and to verify the other requirements 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. 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](http://www.bancasistema.it) in the Governance/Corporate documents section.

As regards other information to be provided in this section, see the relevant parts of the Report on the remuneration policy and remuneration paid published pursuant to art. 123-ter of the Consolidated Law on Finance and art. 84-quater of the CONSOB Issuers' Regulations, which can be consulted in the Governance/Remuneration section of the website [www.bancasistema.it](http://www.bancasistema.it).

## 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, chosen from among independent, non-executive directors.

The Internal Control and Risk Management Committee was appointed by the Board on 24 May 2018 and is composed of the following members: Ms. Laura Ciambellotti, Ms. Carlotta De Franceschi, Mr. Federico Ferro Luzzi (independent and non-executive directors) and Mr. Daniele Pittatore (independent and non-executive director), continuing to have the right to attend the meetings without voting rights, as provided for in the regulations on the operation of the Committee.

Laura Ciambellotti, who is deemed to have suitable experience, has been appointed as Chairperson of the Committee.

Committee members possess such expertise, skills and experience as to be able to fully understand and monitor the Bank's risk strategies and guidelines. The Chairperson of the Committee possesses adequate experience in the field of accounting and finance or risk management, as assessed by the Board upon appointment of the directors.

The Internal Control and Risk Management Committee has a budget of € 25 thousand.

In 2020, the Committee met 14 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about three hours and forty-five minutes. On all occasions at least the majority of the Board of Statutory Auditors was in attendance.

From the beginning of 2021 until the date of publication of this document, the Committee met 3 times. On all occasions at least the majority of the Board of Statutory Auditors was in attendance. In 2021 the Committee is expected to hold a number of meetings no fewer than those held in the previous year.

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

As a rule, the Head of Corporate Affairs and other personnel working at that department 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 may – where necessary – liaise directly with the internal audit, risk control and compliance departments.

#### **Functions 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 regulations on its operation, the Committee has the following tasks:

- A) assess the most significant transactions approved by the Board of Directors, in terms of impacts on the Internal Control and Risk Management System;
- B) ensure to the Board of Directors an adequate preliminary review in evaluations and decisions relating to the Internal Control and Risk Management System;
- C) 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 and its effectiveness;
- D) 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) 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) 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) 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) 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 statutory audit, after hearing the opinion of the Board of Statutory Auditors;
- I) 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) 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) contribute, through evaluations and opinions, to the definition of the Company's policy on the subject of outsourcing corporate control departments;
- L) 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) 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, interface with the Manager in charge of financial reporting, the Board of Statutory Auditors and the Independent Auditors;

- N) 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 governance 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) express its opinion to the Board regarding the following:
  - 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) monitor the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Department;
- R) 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) perform any additional tasks assigned by the Board.

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 annual 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.

With at least half-yearly frequency, 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, at the first convenient meeting, on assessments carried out on individual issues on the Board's agenda, on which the Committee is called to express its opinion.

In 2020, aside from fulfilling periodic obligations, the Committee focused in particular on the following aspects:

- company procedure for related party transactions, acting as Committee for transactions with parties in conflict of interest and related parties, issuing prior opinions;
  - examination of the requests for information from the Bank of Italy, providing its opinions on the drafts responses prepared by the Bank's relevant departments;
- activities related to the Covid-19 health emergency;
- analysis of exposure to the football sector;
- analysis of exposures to troubled local authorities and verification of compliance with the prudential limit for large exposures;
- analysis of the adequacy of the resources of the control departments;
- analysis of the draft Sustainability Report in terms of controls and risks and possible assumption of responsibility;
- analysis of the consequences related to the new definition of default, in particular with regard to the amount of past due exposures and the interpretation of the "enforceability" of loans and receivables from public administration entities.

## 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, annually 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, when preparing the Corporate Governance Report.

The Board, 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 Department and ensures that the control departments are equipped with 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 Internal Control and Risk Management Committee and other Board Committees, each within its own purview;
- (iii) the Internal Audit Department and the other control departments (Risk and Compliance);
- (iv) the Board of Statutory Auditors;
- (v) the Supervisory Body.

The Bank is committed - also 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 mindset. 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 independent auditors have free access to the data, documents and information necessary for the performance of their activity.

### 11.1 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, committees and departments, decided to eliminate the role of Director responsible for the internal control system (a role previously assigned to the CEO).

### 11.2 HEAD OF THE INTERNAL AUDIT DEPARTMENT

The Board has appointed Mr. Franco Pozzi as the Head of the Internal Audit Department, upon recommendation of the Internal Control and Risk Management Committee and following consultation with the Board of Statutory Auditors, and has established the remuneration of the role.

To conduct its activities, in 2020 the Internal Audit Department was allocated a budget of € 20,000 for consultancy services and € 5,000 for employee reimbursements.

The Head of the Internal Audit Department is not in charge of any operational area and reports directly to the Board so as to ensure the necessary level of independence for the effective performance of the associated duties.

The Internal Audit Department is an integral part of the Internal Control System (ICS). It is engaged in assurance and advisory activities designed to identify, with a view to third-level controls, 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 and the 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 departments and bodies charged with control tasks, thereby avoiding any overlaps, the Bank has adopted "Regulations for the coordination of the control departments" which establish the duties and responsibilities of the control bodies and departments, as well as the information flows and the procedures for coordination and cooperation between the parties involved.

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 control purposes, which enable 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, cash management, etc.).

The 2020 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 11 March 2020. 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 departments 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 (Internal Control and Risk Management Committee, Board of Directors, Board of Statutory Auditors), on a quarterly basis, a tableau de bord which summarises the following information:

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

In 2020, in addition to the activities envisaged in the plan, the Internal Audit Department performed an audit together with the Compliance & AML Department in response to a joint communication from the Bank of Italy and IVASS of 17 March 2020 with the subject "Offer and placement of products combined with loans". On 25 September 2020 the heads of the aforementioned control departments presented the Board of Directors with a report of the outcomes of the audits requested by the Supervisory Authorities.

### **11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 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, Management and Control Model laid down by Legislative Decree No. 231 of 8 June 2001.

This measure was also taken in the belief that the adoption of the so-called "231 Model" 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 231 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 the principles established in its Code of Ethics. In this context, it is believed that the adoption and effective implementation of the 231 Model improves the Bank's corporate governance, thereby limiting the risk of committing offences.

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

Implementing the provisions of Decree 231/2001, the Board of Directors of the Bank has adopted the Model and established a Supervisory Body (below also "SB") with control body functions, to monitor the operation, effectiveness and application of the 231 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 departments 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) An independent non-executive director, who will ensure the autonomy of the body and constant liaising with the Board.
- (iii) The Head of the Internal Audit Department, 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 Model approved by the Board of Directors.

Note that the Shareholders' Meeting of the Bank held on 23 April 2020 appointed the new Board of Statutory Auditors, which will remain in office until approval of the financial statements for 2022. As required by the Model, the Chairperson of the Board of Statutory Auditors is also appointed as Chairperson of the SB. The aforementioned Shareholders' Meeting confirmed Mr. Massimo Conigliaro as Chairperson of the Board of Statutory Auditors for the next three years, and consequently the composition of the SB remained unchanged and is as follows:

- Massimo Conigliaro (Chairperson of the Board of Statutory Auditors);
- Daniele Pittatore (non-executive and independent Director with consolidated experience in the issues relevant to 231 models);
- Franco Pozzi (Head of the Internal Audit Department).

The SB 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, and every six months reports to the Board of Directors on its work.

Each year the SB determines the financial resources necessary for the fulfilment of its institutional duties. There were no expenditures for external consultancy assignments in 2020.

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 crimes (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).

During 2020 the SB assessed the potential impacts of the Covid-19 health emergency under Legislative Decree 231/01 and any actions to be taken. In this regard, the SB examined the potential for criminal liability of persons within the Company, with consequent possible administrative liability of entities, in relation to the ongoing health emergency. Based on this analysis the SB did not consider it necessary to update the 231 Model, as the potential indirect risks are already adequately mapped, although the emergency has undoubtedly raised the direct risk to health and safety aspects.

Based on meetings held with the Bank's managers directly involved in emergency management, the SB believes that the Bank has reacted promptly and effectively to the ongoing health emergency, especially with regard to the prevention of possible Covid-19 infections at work which, in accordance with the provisions introduced by art. 42 of Law Decree no. 18 of 17 March 2020, constitute a work-related injury pursuant to Legislative Decree no. 81/08. All Bank employees, with the exception of those involved in the operation of the branches, have been allowed to work remotely, providing them with the necessary devices and effectively preventing possible infections related to work.

While such remote working avoided possible infections among personnel, it also exposed the security of the Bank's information systems, as users are not connected at the Bank's premises but through private networks of employees in their homes, which are clearly not comparable to those implemented in the Bank's offices. In this regard, it was found that the Bank's technological infrastructure responded more than satisfactorily, as did the quality of service to users, despite the speed with which the situation had to be managed. Indeed, within a few days 90% of the Bank's employees were able to work from home.

The SB is the recipient of the reports established by the Model, 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 Model. 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 whistleblowing reports were received in 2020 and no training sessions were held on the issues addressed in Decree 231.

#### **11.4 INDEPENDENT AUDITORS**

By resolution of 18 April 2019, the Issuer's Shareholders' Meeting, pursuant to articles 14 and 16 of Legislative Decree no. 39/2010 and articles 2409-bis et. seq. of the Civil Code, appointed the Independent Auditors BDO Italia S.p.A., based on a reasoned proposal put forward by the Board of Statutory Auditors, with the mandate (i) for the statutory 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 operations in the accounts for the years 2019/2027, as well as (ii) for the review of the interim reports from 30 June 2019 to 30 June 2027.

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

The audit of the separate financial statements and consolidated financial statements also involves the audit of the financial statements of subsidiaries or associates under Italian law.

#### **11.5 MANAGER IN CHARGE OF FINANCIAL REPORTING AND OTHER COMPANY ROLES AND DEPARTMENTS**

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 the Consolidated Law on Finance, 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 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", has been appointed as the "Manager in charge of financial reporting".

The Board has attributed the following powers and means to the Manager in charge of financial reporting:

- 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 separate 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 information 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 may request any corporate documents including contracts with third parties.

The Manager in charge of financial reporting shall have adequate powers and means to carry out his 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 independent auditors other than the entity in charge of the audit, who were 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 departments/bodies, in addition to the information flows required by law with the various control departments and the Governance and Control Bodies, the Manager in charge of financial reporting receives from all organisational units the maximum support necessary for the performance of his 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 an organisational unit have been outsourced to third parties, the head of the organisational 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 organisational 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 the Accounts Matrix and the submission of supervisory reports on a consolidated basis.

#### 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, in accordance with 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 documents, 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 separate 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 match the accounting books and records;
- c) they are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer and all the companies included in the scope of consolidation;
- d) the Directors' Report includes a reliable analysis of business performance and results, as well as of the position 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 for 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.

### 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, 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 compliant with current regulations and aligned with international best practices, cooperating to this end with the departments 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/optimise the Risk Appetite, taking into consideration the direct impacts on the budget/plan;
- defines common operational risk assessment metrics in line with the RAF, coordinating with the Compliance Department and 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.

### 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, codes of ethics) 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 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, i.e. 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 relevant 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; verifies their appropriateness and correct application;
- Identifies, on an ongoing basis, the rules applicable to the Bank and the measurement/assessment of their impact on business processes and procedures;
- Proposes organisational and procedural changes aimed at adequately controlling the compliance risks identified, including those related to money laundering and terrorism financing risks;
- Prepares periodic information flows to the corporate bodies and other company departments involved regarding the identification and assessment of compliance risks, the description of the activities carried out, any critical issues found and the remedies identified;
- Checks the effectiveness and progress 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 Standardised Archive (former Centralised Computer Archive);
- Sends to the Financial Information Unit monthly aggregate data and objective communications on the entries in the Standardised Archive (former Centralised Computer Archive);
- Assesses the reports of transactions at risk of money laundering and terrorism financing received;
- Assists and advises the data controller (Banca Sistema) in all matters relating to privacy;
- Verifies the correctness of the contractual clauses regarding regulations and privacy, in conjunction with the Legal Department;
- Carries out control activities in all matters within its direct purview as well as in matters within its indirect purview in cooperation with the Specialised Departments that are directly responsible for them;
- Manages relations with the Bank of Italy and other Supervisory Authorities for the matters within its remit;
- Validates the product oversight governance process for new products or in the event of significant changes to existing products;
- Validates the assessment of incidents if they constitute major incidents;
- Prepares the reports to the Supervisory Authorities envisaged by the reference rules and regulations for the matters within its purview.

#### 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 and the Consolidated Law on Finance. 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. 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 amended art. 6 of Legislative Decree No. 231/2001, which protects those reporting unlawful conduct pursuant to this Decree or violations of the Organisational Model under Decree 231, and provides specific channels to report unlawful conduct, 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 2020 and no training sessions were held on this subject.

#### Ethics Committee

The members appointed by the Board, participating permanently in the Committee, are the Deputy Chairperson of the Board 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 is composed of the Deputy Chairperson of the Board, Mr. Giovanni Puglisi (independent and non-executive director), the Chairperson of the Committee, Ms. Carlotta De Franceschi (independent and non-executive director) and Mr. Federico Ferro Luzzi (independent and non-executive director).

In 2020, the Committee met once, as shown in Table 2 attached to this Report; the duration of the meeting was about one hour.

From the beginning of 2021 up to the date of publication of this document, the Committee has yet to meet.

In 2021 the Committee is expected to hold a number of meetings similar to those held in the previous year.

The Ethics Committee is responsible for analysing the system of principles of ethics and conduct adopted by the Bank, and submitting 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, the recipients of the Code of Ethics with explanations and opinions in relation to the content of the provisions of the Code and their correct interpretation and application. The Committee receives 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 identification of breaches of the provisions of the Code, without prejudice to the powers provided for therein to the competent body or department (e.g. the Supervisory Body, the Board of Directors, the Board of Statutory Auditors, the CEO, the Head of Human Resources), is called upon to provide support of a preliminary nature, formulating opinions and recommendations and possibly hearing the parties involved in the procedure.

The Ethics Committee has also been tasked with the supervision of the process of drawing up the Sustainability Plan and the Sustainability Report, so as to define its own social, environmental and financial objectives and report transparently on its own performance, having approved, in the meeting held on 23 July 2019, the launch of the process of drawing up the Sustainability Plan and the Sustainability Report.

On 7 May 2020 the Ethics Committee endorsed the proposal to entrust the company KPMG with the mandate to start the process of drawing up the Sustainability Plan and the Sustainability Report, so as to define its own social, environmental and financial objectives and report transparently on its own performance.

#### **11.6 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 departments and the corporate bodies in charge of risk management and the internal control system, and in order to capture, while respecting mutual independence, economies of scope, as well as to develop control methods consistent with corporate operations, appropriate organisational measures and information flows have been defined.

Although contacts and correlations already exist between the departments, in particular on the occasion of bilateral discussions, attendance at their meetings by other corporate bodies and Heads of operational departments allows effective coordination between the various parties involved in the Internal Control and Risk Management System.

In particular, the Internal Control and Risk Management Committee allows the coordination between the activities of the internal control 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, and this allows the exchange of information flows. The Independent Auditors are also required to participate in this Committee.

The corporate control departments also collaborate by using some common parameters for integration within the scope of risk management and the 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 initiatives for the planning of activities and the shared identification of any remedial actions.

The Board of Directors, upon consultation with the Internal Control and Risk Management Committee, adopted Regulations for the coordination of the control departments: (i) in order to comply with the principles established by the Code of Conduct, prepared by the Corporate Governance Committee 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", issued 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, as amended;
- of transactions with associated persons pursuant to the regulations on "Risk activities and conflicts of interest vis-à-vis associated persons" established by Part III, Chapter 11 of Bank of Italy Circular no. 285 of 17 December 2013 "Supervisory Provisions for Banks";
- of bank officers' obligations pursuant to art. 136 of Legislative Decree no. 385 of 1 September 1993, the "Consolidated Law on Banking and Credit".

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

The Procedure for the management of transactions with parties in conflict of interest is available on the website [www.bancasistema.it](http://www.bancasistema.it) (in the section "Corporate Governance - Related Parties and Associated Persons").

The Procedure for the management of transactions with parties in conflict of interest is being reviewed following the amendments to the "Regulations containing provisions relating to transactions with related parties" adopted by CONSOB.

## 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 17 of the Bank's Articles of Association, published on the website [www.bancasistema.it](http://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 Code of Conduct<sup>3</sup>. 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 internal control system with specific regard to risk control;
- 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 departments and structures involved in the internal control system, including the Independent Auditors tasked with the statutory audit 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.

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<sup>3</sup> It is recalled that on 1 January 2021 Decree of the Minister of the Economy and Finance no. 169/2020 entered into force, laying down new provisions governing the requirements and the principles of eligibility of bank officers, financial intermediaries, collective loan-guarantee consortiums, electronic money institutions, payment institutions and deposit guarantee systems.

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 departments 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 departments 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 in 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 forth 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 expiry of their term when a new Board of Statutory Auditors is established.

At the date of this Report, the Bank's Board of Statutory Auditors is composed of five members - three standing auditors and two alternate auditors - appointed by Banca Sistema's ordinary Shareholders' Meeting of 24 April 2020 on the basis of the criteria laid down by the Articles of Association.

More specifically, the aforementioned Shareholders' Meeting of 24 April 2020 appointed Mr. Massimo Conigliaro to the position of Chairperson of the Board of Statutory Auditors and Ms. Lucia Abati and Mr. Marziano Viozzi as standing auditors. The same Shareholders' Meeting then appointed Mr. Marco Armarolli and Ms. Daniela D'Ignazio as alternate auditors. With respect to the previous composition of the Board of Statutory Auditors, in office until the approval of the financial statements at 31 December 2019, Mr. Viozzi replaced Mr. Biagio Verde in the office of standing auditor.

The Board of Statutory Auditors will remain in office until the Shareholders' Meeting called to approve the financial statements at 31 December 2022. 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	TERM EXPIRY DATE
Massimo Conigliaro	Chairperson	Catania (CT), 25/12/1969	23/04/2020	31/12/2022
Biagio Verde	Standing Auditor	Alessandria (AL), 18/07/1943	27/04/2017	23/04/2020
Marziano Viozzi	Standing Auditor	Fara Gera d'Adda (BG), 20/08/1946	23/04/2020	31/12/2022
Lucia Abati	Standing Auditor	Cesena (FO), 25/06/1979	23/04/2020	31/12/2022
Marco Armarolli	Alternate Auditor	Busto Arsizio (VA), 23/01/1973	23/04/2020	31/12/2022
Daniela D'Ignazio	Alternate Auditor	Atri (TE), 01/03/1978	23/04/2020	31/12/2022

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 integrity requirements set forth in Decree of the Ministry of Justice no. 162 of 30 March 2000;
- iii. the limits on concurrent positions established by Consob regulations.

During 2020, the Board of Statutory Auditors met a total of 14 times and liaised with the Supervisory Body pursuant to Legislative Decree no. 231/2001, the Independent Auditors, the Heads of the control departments,

and a number of managers and employees of the Bank. The meetings and/or audits lasted an average of about three and a half hours.

From the beginning of 2021 until the date of approval of this document, the Board of Statutory Auditors met twice. In the same period, the Board of Statutory Auditors attended all the meetings of the Internal Control and Risk Management Committee. In 2021, the Board of Statutory Auditors is expected to hold a similar number of meetings to those held in the previous year.

### **Diversity policies and criteria**

In appointing the members of the Board of Statutory Auditors, the Bank, as a listed issuer, acts in accordance with the Articles of Association and in compliance with the Consolidated Law on Finance and the Code of Conduct.

In particular, the Articles of Association provide that when shareholders appoint Statutory Auditors and prepare the slates, each slate must include candidates of different genders to ensure that the composition of the Board of Statutory Auditors is compliant with the provisions of law governing gender equality (one third for the Board of Statutory Auditors in office). Moreover, *"without prejudice to the incompatibilities provided by law, candidates acting as statutory auditors in another 5 (five) issuers, or in violation of any limits on concurrent positions established by applicable provisions of laws or regulations, and persons who do not meet the personal integrity and professionalism requirements established by applicable provisions of laws or regulations, cannot be included in the slates"* (art. 17.5 of the Articles of Association).

The Board of Statutory Auditors in office is composed of two male members (Chairperson and Standing Auditor) and one female member (Standing Auditor). There are two Alternate Auditors, one of each gender.

### **Periodic verification of suitability**

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 its 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 Code of Conduct for the independence of Directors. The Board of Statutory Auditors has confirmed that the independence requirements laid down by the Code of Conduct 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 Code of Conduct, 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 Directors 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.

### **Coordination with the control departments**

As part of the coordination with the other parties of the Internal Control and Risk Management System, the Board of Statutory Auditors liaised, first of all, as required by the Code of Conduct, with the Internal Audit Department, whose Head normally attends the meetings of the Board of Statutory Auditors, and with the Internal Control and Risk Management Committee. During 2020 the Board of Statutory Auditors attended all 14 meetings of the Internal Control and Risk Management Committee.

The Board of Statutory Auditors, in accordance with the Supervisory Provisions for Banks under Bank of Italy Circular no. 285 of 17 December 2013, also completed the annual self-assessment 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 self-assessment process found the functioning of the Board of Statutory Auditors to be "adequate".

## 16. SHAREHOLDER RELATIONS

Pursuant to Article 9.C.1 of the Code of Conduct, 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 department charged with performing this function.

On 28 April 2015, the Board of Directors appointed Mr. Carlo Di Pierro as Head of Investor Relations.

Banca Sistema also ensures adequate information as part of 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 of the bodies it appoints: (i) the remuneration and incentive policies in favour of the members of the Board of Directors, the Board of Statutory Auditors and 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 early termination of office, including the limits set for this fee in terms of annual payments of fixed remuneration and the maximum amount deriving from their application.

The ordinary Shareholders' Meeting is called pursuant to law at least once a year, within 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 current legal provisions. 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 specifies any dates for subsequent meetings, including a third call.

Pursuant to the provisions of art. 126-bis of the Consolidated Law on Finance, 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 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. The additional proposed resolutions on matters already on the agenda are made available to the public within the terms and in the manner set forth 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 the Consolidated Law on Finance.

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 the Consolidated Law on Finance 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 whom 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 of the above in accordance with the procedures set out in 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 the Rules governing Shareholders' Meetings.

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

The "Rules governing Shareholders' Meetings", which establish the maximum duration of the individual contributions, their order, the voting procedures, the contributions of the Directors and Statutory Auditors and the powers to settle and prevent the occurrence of conflicts within Shareholders' Meetings, are available on the website [www.bancasistema.it](http://www.bancasistema.it) (in the section "Governance/Corporate Documents").

\*\*\*

In 2020 there were two Shareholders' Meetings:

1. 23.04.2020 – Ordinary and Extraordinary Shareholders' Meeting
2. 27.11.2020 – Ordinary and Extraordinary Shareholders' Meeting

At the Shareholders' Meeting held on 23 April 2020, seven directors, the Chairperson of the Board of Statutory Auditors and one standing auditor were in attendance.

At the Shareholders' Meeting held on 27 November 2020, six directors and the entire Board of Statutory Auditors were in attendance.

The 2020 Shareholders' Meetings were held in a manner that was slightly different from the guidelines in the Articles of Association, in application of and in accordance with the extraordinary provisions issued by the competent Authorities in order to combat the spread of the COVID-19 pandemic.

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.

With regard to communications relating to major equity investments pursuant to art. 120 of the Consolidated Law on Finance relating to exceeding the threshold of 3% of Banca Sistema's share capital, please note that:

- a) on 28/07/2020 the company BASSAC sent the Bank a declaration of ownership of shares totalling 3.747%. Participation subsequently divested;
- b) on 21/10/2020 the company PREMIER INVESTISSEMENT sent the Bank a declaration of ownership of shares totalling 3.730%. Participation subsequently divested;
- c) on 4/2/2021 the company MONETA ASSET MANAGEMENT sent the Bank a declaration of ownership of shares totalling 5.120%;
- d) on 15/2/2021 the company CHANDLER SARL sent the Bank a declaration of ownership totalling 7.48%.

At the date of this report, the shareholders of Banca Sistema are as follows:

Shareholders	100%
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Gianluca Garbi	0.32%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler	7.48%
Moneta Micro Entreprises	5.12%
<i>Treasury shares</i>	0.04%
<i>Market</i>	48.09%

\*\*\*

The market capitalisation of the shares recorded, during the year 2020, the following values at the beginning and end of the period:

Date	Share price	Number of shares forming the capital	Capitalisation
2 January 2019	1.444	80,421,052	116,127,999
30 December 2020	1.848	80,421,052	148,618,104

## **18. 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.

It should be noted that the Bank has:

- adopted an Organisational Model pursuant to Legislative Decree 231/2001, as set out in paragraph 11.3;
- set up an Ethics Committee, as set out in paragraph 11.5;
- adopted a whistleblowing system, as set out in paragraph 11;
- introduced the so-called “increased voting rights” as described in paragraph 1.

## **19. CHANGES FOLLOWING THE END OF THE REPORTING YEAR**

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

## **20. OBSERVATIONS REGARDING THE LETTER DATED 22 DECEMBER 2020 OF THE CHAIRPERSON OF THE CORPORATE GOVERNANCE COMMITTEE**

As requested in the letter from the Chairperson of the Corporate Governance Committee dated 22 December 2020, the Board of Directors examined the Committee's recommendations during its meeting on 22 January 2021.

**TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES AT 31.12.2020**

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

check number of treasury shares

Shareholders	100%
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Gianluca Garbi	0.53%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler	7.48%
Moneta Micro Enterprises	5.12%
<i>Treasury shares</i>	0.21%
<i>Market</i>	48.09%

**TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES**

BOARD OF DIRECTORS													Internal Control and Risk Management Committee		Remuneration Committee		Appointments Committee		Ethics Committee	
Position	Members	Date of first appointment *	In office since	In office until	Slate **	Exec.	Non-exec.	Indep. pursuant to the Code	Indep. pursuant to the Cons. Law on Finance	No. of other offices held ***	(*)	(*)	(***) %	(*)	(***) %	(*)	(***) %	(*)	(***) %	
Chairperson	Luitgard Spögler	2015	2018	2020	M		X		X	1	18/18					8/8	M			
Deputy Chairperson	Giovanni Antonino Puglisi	2011	2018	2020	M		X	X	X	-	17/18			5/5	C			1/1	C	
CEO ◊	Gianluca Garbi	2011	2018	2020	M	X				-	18/18									
Director	Carlotta De Franceschi	2015	2018	2020	M		X	X	X	2	18/18	14/14	M					1/1	M	
Director	Daniele Pittatore	2014	2018	2020	M		X	X	X	2	18/18	14/14	M							
Director	Federico Ferro Luzzi	2018	2018	2020	m		X	X	X	1	18/18	14/14	M			8/8	C	1/1	M	
Director	Marco Giovannini	2018	2018	2020	M		X	X	X	2	15/18			5/5	M	7/8	M			
Director	Francesco Galietti	2018	2018	2020	m		X	X	X	-	18/18			5/5	M					
Director	Laura Ciambellotti	2018	2018	2020	m		X	X	X	-	18/18	14/14	C							

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
	18	n.a.	14	8	5	1

## NOTES

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

- This symbol indicates the Director responsible for the Internal Control and Risk Management System.
- ◊ This symbol indicates the person primarily responsible for managing the issuer (Chief Executive Officer or CEO).
- ◊ This symbol indicates the Lead Independent Director (LID).

\* 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 slate from which each Director was drawn ("M": majority slate; "m": minority slate; "BoD": the slate submitted by the Board of Directors).

\*\*\* This column indicates the number of positions as director or statutory auditor the party concerned holds in other companies listed on regulated markets, including foreign markets, in financial, banking, insurance companies or large companies. Offices are written in full in the corporate governance Report.

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

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

**TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

Position	Members	Date of first appointment (*)	In office since	In office until	Slate (**)	Indep. pursuant to the Code	Attendance at Board of Statutory Auditors meetings (***)	No. of other offices held (****)
Chairperson	Massimo Conigliaro	2011	2017	2022	M	X	14/14	-
Standing Auditor	Biagio Verde	2014	2014	2019	M	X	5/5	-
Standing Auditor	Marziano Viozzi	2020	2020	2022	M	X	9/9	
Standing Auditor	Lucia Abati	2017	2017	2022	M	X	14/14	-
Alternate Auditor	Marco Armarolli	2013	2014	2022	M	X	n.a.	-
Alternate Auditor	Daniela D'Ignazio	2014	2014	2022	M	X	n.a.	-

**Number of meetings held during the financial year: 14**

**NOTES**

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

\*\* This column shows the slate from which each Statutory Auditor was drawn ("M": majority slate; "m": minority slate).

\*\*\* 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.