

INTERNAL AUDIT DEPARTMENT'S REPORT ON THE CORRECT APPLICATION OF THE 2023 REMUNERATION POLICIES OF THE BANCA SISTEMA GROUP

To the attention of the Shareholders of Banca Sistema S.p.A.

This report details the results of the audits conducted by the Internal Audit Department (the "**Department**") on the compliance of the remuneration practices with the "*2023 Remuneration Policies Document of the Banca Sistema Group*" (the "**2023 Policies**") pursuant to the relevant provisions of Bank of Italy Circular No. 285 of 17 December 2013¹.

The 2023 Policies apply to all the companies of the Banca Sistema S.p.A. Group² (hereinafter, the "**Group**") and are aimed at defining, for all the Group entities, a remuneration system in line with the company's long-term values, strategies and objectives, linked to the results appropriately adjusted to take into account the risks, consistently with the capital and liquidity levels required to run the business.

The internal process of preparing the 2023 Policies was coordinated by the **Human Capital and Organisation Department**, to ensure compliance with the relevant provisions and to align them with the markets in which the Group companies operate.

The Bank's **Risk and Sustainability Department** assisted in determining the metrics for calculating corporate performance, validating the results and their consistency with the Risk Appetite Framework (**RAF**), also by establishing risk indicators to be used for (ex-ante and ex-post) adjustment mechanisms, expressing its opinion on the correct use of the aforesaid indicators.

The **Compliance and Anti-Money Laundering Department** has verified ex ante the compliance of the 2023 Policies with the applicable legal framework, the Articles of Association and the Bank's Code of Ethics, taking into account the inherent legal and reputational aspects, especially in relations with customers. At the end of the afore-mentioned audits, it presented its opinions, as required by applicable supervisory regulations, to the Board of Directors' Meeting of 17 March 2023 and to the Shareholders' Meeting of 28 April 2023.

The **Finance Department** has verified the compliance of the 2023 Policies with the Group's medium and long term objectives and strategies through the identification and determination of the final level of the "gate" and access criteria to define the bonus pool payable.

¹Part One, Title IV, Chapter 2, Section II, Paragraph 3 of Bank of Italy Circular No. 285 of 17 December 2013, provides that: "*The internal audit department also assesses, at least yearly, the remuneration practices compliance with the approved policies and with these provisions*". Note also that the 37th update of 24 November 2021 of Bank of Italy Circular No. 285/2013 completely replaced, Part One, Title IV, Chapter 2 ("*Remuneration and incentive policies and practices*") to transpose the principles of Directive 2013/36/EU ("*CRD IV*"), as amended by Directive (EU) 2019/878 ("*CRD V*"), and the guidelines and criteria agreed at international level, including those issued by the European Banking Authority (EBA) and the Financial Stability Board (FSB).

²The Bank's Human Capital and Organisation Department has prepared a specific "Operational Procedure regarding flexible bonuses assignable to the Bank Group's employees", approved by the Board of Directors on 26 May 2023, applying the provisions of the 2023 Policies.

The **Manager in charge of financial reporting** verified the compliance and consistency of the 2023 Policies with the accounting and company documents, their accuracy with respect to the approved accounting entries of the consolidated financial statements for the period ended 31.12.2023, as well as certifying the achievement of the corporate access conditions and criteria.

The 2023 Policies have been preliminarily examined by Banca Sistema S.p.A.'s Remuneration Committee and Board of Directors, which expressed their favourable opinion, before being formally approved by the Shareholders' Meeting on 28 April 2023, in compliance with the Articles of Association (art. 9.2) and Bank of Italy Circular no. 285/2013.

The audits carried out by this Department concerning the application of the 2023 Policies reveal the following:

- The Remuneration Committee, in its meeting of 7 March 2024, and the Board of Directors, in its meeting of 8 March 2024, each for their respective areas of responsibility, assessed the distribution and allocation of the 2023 bonus pool, verifying that the following "gates" to the 2023 Policies incentive system had been reached:
 - i) **Condition for distribution**: achievement of a consolidated net income at 31.12.2023 not below 80% of the budgeted result for 2023.
 - (ii) **Condition for access**: exceeding the RAF Level 1 thresholds of the "Total Capital Ratio" (TCR), equal to 15%, and "Liquidity Coverage Ratio" (LCR), equal to 115%.

The condition for distribution of the bonus pool was met as i) the consolidated gross earnings achieved as at 31.12.2023 were € 28,235 thousand, which exceeds the threshold by € 28,029 thousand, equal to 80% of the budgeted earnings of € 35,037 thousand; ii) both indicators are above the RAF thresholds and equal to 16.11% (TCR) and 547.47% (LCR), respectively. Based on the interpolation of the funding curve, the total variable remuneration component was € 2,058 thousand.

The Remuneration Committee and the Board of Directors of the Bank, with the support of the competent departments, analysed the criteria for applying the 2023 Policies, ascertaining the actual achievement of the quantitative indicators for establishing the amount of the bonus pool distributable for the year 2023 (e.g. estimates of the access criteria, adjustment factors, etc.), based on the actual results from the draft consolidated financial statements as at 31.12.2023. At the same meetings, the performance of the Chief Executive Officer/General Manager was also assessed against the assigned objectives.

- The amount of the variable component of remuneration relating to 2023 for all beneficiaries was calculated in compliance with the 1:1 ratio between variable and fixed remuneration, including that of the Chief Executive Officer/Managing Director. The criteria for deferral laid down by the 2023 Policies will be applied for amounts exceeding € 50 thousand³, as well as

³ The 2023 Policies provide for the payment of variable remuneration in cash only, in consideration of the new regulatory provisions on remuneration which allow banks with assets of less than € 5 billion (as an average of the last four years) to neutralise the provisions

confirming that the variable component granted to the heads of the internal control departments did not exceed the limit of 1/3 of their respective fixed remuneration.

- Following the approval of the financial statements as at 31.12.2023, the deferred portions of the variable remuneration relating to the 2020 and 2022 financial years will be paid to 9 employees, €341,824 in cash and 116,734 in Bank shares, the latter already available in the stock of treasury shares.
- The variable up-front component for the 2023 financial year, as well as the deferred portion for the 2020 financial year that has reached the end of the deferral period, will be paid upon approval of the financial statements as of 31.12.2023 by the Shareholders' Meeting to be held on 24 April 2024 and, as a result, it was not possible to verify the actual payment of the approved amounts prior to issuing this report.
- The remuneration of the Chairperson of the Board of Directors and of the Directors for their activities complies with the resolutions of the Shareholders' Meeting of 30 April 2021 and does not include any incentive mechanism, apart from the Chief Executive Officer who, as already mentioned, also serves as General Manager. The remuneration of the Board of Statutory Auditors refers to that resolved following its appointment by the Shareholders' Meeting of 28 April 2023.

The checks carried out revealed the following aspects, which are brought to the attention of the Shareholders:

- 1) Starting in 2015, the Bank has signed non-compete agreements (NCA) with key personnel and other personnel possessing particularly significant experience and skills, pursuant to and for the purposes of Article 2125 of the Italian Civil Code. The amounts to be paid were determined in proportion to the fixed remuneration of the beneficiaries and advances were paid between 2015 and 2017. In March 2017, the agreement referred to above was revised and formalised in a "protected" venue, excluding the payment of further advances during the employment relationship, while the payment of 75% of the gross annual remuneration and of the portion of flexible benefits received in the last year of service, net of the advances paid, will be paid. The consideration will be paid in one or more instalments by the end of the month preceding the month of termination of the last of the three years following termination of employment, provided that the former employees comply with the agreed conditions. Should this not be the case, a breach of the NCA will result, for the former employee, in the immediate repayment of an amount equivalent to the total cost (including advance payments) incurred by the Bank, as well as, in the form of a contractual penalty, the immediate payment of the net amount

relating to the disbursement of variable remuneration in financial instruments and to solely apply an "appropriate" deferral period. Payment of the deferred portions will be made in two equal instalments (50%) in the first and second year following, subject to verification of compliance with the gates set out in the remuneration policies for each year in which they accrue.

corresponding to 35% of the gross annual remuneration for the last year of service including the flexible benefit amount, in the form of a contractual penalty.

During 2022, pursuant to the 2022 Remuneration Policies (Section 6.6.3 “Retention Bonuses”) and in accordance with the resolutions of the Board of Directors of 25 November 2022, 29 new retention bonus agreements were entered into to replace the NCAs, which were consequently terminated, while 9 beneficiaries decided to continue with their non-compete agreements. The Chief Executive Officer agreed with the proposal to replace the non-compete agreement with a retention bonus, effective from the approval of the 2023 Remuneration Policies Document, which took place during the Shareholders' Meeting held on 28 April 2023.

The potential liability of the agreements referred to above is recognised in two provisions in the financial statements that were determined using the valuations of an expert actuary, in accordance with IAS 19. In the consolidated financial statements as of 31 December 2023, the balance of the afore-mentioned provisions amounted to €1,340 thousand for the retention bonus and €505 thousand for the NCAs, respectively.

- 2) It is acknowledged that the minutes of the Remuneration Committee, the Internal Control, Risk Management and Sustainability Committee and the Board of Directors, for the meetings during which matters relating to the application of the 2023 Policies were discussed, have not yet been formally approved and transcribed in the respective company books.

Milan, 05 April 2024

THE INTERNAL AUDIT DEPARTMENT