

CORPORATE GOVERNANCE PROJECT

Drafted pursuant to the Supervisory Provisions on corporate organisation and governance and on internal controls of banks

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1. Document purpose

This document constitutes the Corporate Governance Project of Banca Sistema S.p.A. (the “**Project**”), Parent of the Banca Sistema Group (hereinafter also “**Banca Sistema**” or the “**Bank**”), in accordance with the Bank of Italy Supervisory Provisions on corporate governance.

The Project illustrates the overall governance framework adopted by the Parent.

Specifically, the Project:

- (i) illustrates the reasons that make the administration and control model chosen by the Bank the most suitable for ensuring efficient management and effective controls;
- (ii) describes the specific choices relating to the organisational structure (tasks, powers and composition of the Corporate Bodies; proxy system; accounting control regime; incentive and remuneration systems; information flows), the rights of shareholders (regarding the right of withdrawal, quorum for passing resolutions of the Shareholders' Meeting and for challenging shareholders' and board resolutions, representation, etc.), the financial structure, the methods of managing conflicts of interest (e.g. transactions with related parties, obligations of company Representatives, etc.);
- (iii) provides an adequate representation of and reasons for the methods of connection between the Bodies and the Company Functions of the different members of the Group, with a specific focus on aspects relating to the system of governance of controls (powers of the bodies, information flows, risk management, etc.) and also giving an account, at consolidated level, of the organisational structures adopted by the Subsidiaries.

The Project is approved by the Bank's Board of Directors, with the favourable opinion of the Board of Statutory Auditors and is updated – with the same decision-making procedure – if there are significant organisational changes affecting the matters and assessments indicated in letters (i), (ii) and (iii).

2. Regulatory references

2.1. External Regulations

For the purposes of this document, the following regulatory provisions are relevant:

- the Italian Civil Code, Royal Decree no. 262 of 16 March 1942;
- Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments and updates ("**Circular 285**");
- Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments and updates ("**Consolidated Law on Finance**");
- Italian Legislative Decree no. 385 of 1 September 1993 and subsequent amendments and updates ("**Consolidated Law on Banking**");
- CONSOB Regulation no. 11971 of 14 May 1999, and subsequent amendments and updates, implementing the Consolidated Law on Finance laying down regulations for issuers ("**Issuers' Regulation**");
- the Corporate Governance Code for listed companies, approved by the Corporate Governance Committee, promoted by Borsa Italiana S.p.A. in January 2020 and entered into force on 1 January 2021 (the "**Corporate Governance Code**");
- the Decree of the Minister of Economy and Finance no. 169 of 23 November 2020 ("**Fit & Proper Decree**");
- the Supervisory Provisions on the procedure for assessing the suitability of representatives of banks, financial intermediaries, electronic money institutions, payment institutions and depositor guarantee schemes, issued by the Bank of Italy through its Order dated 5 May 2021;
- the Guidelines on the evaluation of the requirements and eligibility criteria for the performance of the duties of corporate representatives of LSI banks, financial intermediaries, collective loan-guarantee consortiums, electronic money institutions, payment institutions, trust companies and depositor guarantee systems, issued by the Bank of Italy on 13 November 2023;
- Legislative Decree 231 of 8 June 2001.

2.2. Internal Regulations

The following are also of relevance, among others:

- the Articles of Association;
- the General Bank Rules;
- the Regulations on the exercise of Management and Coordination Activities
- the Information Flows Regulations;
- the Rules governing Shareholders' Meetings;
- the Regulations on the Operation of the Board of Directors;

- the Rules of Procedure of the Internal Board Committees;
- the Regulations of the Control Functions;
- the Regulations for the coordination of the Control Functions;
- the Organisation, Management and Control Model pursuant to Legislative Decree no. 231/2001;
- the Internal Regulations Management Procedure;
- the Risk Management Policy.

3. The Banca Sistema Banking Group

The Banca Sistema Banking Group consists of the Parent Banca Sistema S.p.A. and **three (3) subsidiaries** subject to management and coordination by the Parent. In detail:

- Banca Sistema S.p.A., is the Parent of the Banca Sistema Banking Group (the “**Group**”). It is an independent bank, established in 1999, whose shares, since July 2015, have been listed on the **Euronext STAR Milan** segment of the Euronext Milan market of Borsa Italiana S.p.A.;
- Largo Augusto Servizi e Sviluppo S.r.l. (LASS), a 100% subsidiary of Banca Sistema, carries out, mainly in favour of the Group companies, the activities of promotion and participation in property transactions and investments and the financing, technical and financial coordination of the companies or entities in which it invests. Its corporate governance system provides for a Sole Director, appointed by the Parent, whose term of office is one year, which may be renewed, and an auditing firm;
- Kruso Kapital S.p.A., a company 70.59% owned by Banca Sistema. Since January 2024, Kruso Kapital has been listed on the Euronext Growth Milan segment of the Euronext Milan market of Borsa Italiana S.p.A. Its activities include the granting of financing, in particular in the form of collateralised loans of movable property, and is registered in the list of financial intermediaries pursuant to art. 106 of the Consolidated Law on Banking. Its governance system provides for a Board of Directors composed of seven members who hold office for three years, as well as a board of statutory auditors, composed of three standing auditors and two alternate auditors. The appointment of a legal auditing firm is envisaged;
- Etoimo Enechiro Monoprosopi a. e. Enechirodaneismou Kai Agoras Chrisou (ProntoPegno Grecia), a company established under Greek law, 100% owned by Kruso Kapital S.p.A. Its activities include the granting of financing, in particular in the form of collateralised loans of movable property, and purchasing gold. Its governance system provides for a Board of Directors composed of three to seven members, who remain in office for three financial years. An independent auditing firm has been appointed;
- Pignus - Crédito Economico Popular (CEP), a company established under Portuguese law, 100% owned by Kruso Kapital S.p.A. Its activities include the granting of financing, in particular in the form of collateralised loans of movable property, and purchasing gold. Its governance system provides for a Board of Directors composed of three members who remain in office for three financial years. A legal auditing firm has been appointed.

- Art-Rite S.r.l., a 100% subsidiary of Kruso Kapital S.p.A., operates as an auction house, including via the internet. Its governance system provides for a Board of Directors consisting of five members, three of whom are appointed by Banca Sistema on the recommendation of Kruso Kapital, who remain in office for three financial years. A legal auditing firm has been appointed. The company does not fall within the scope of the Banking Group, but is in any case subject to the management and coordination of Banca Sistema.

The Bank exercises management and coordination activities (pursuant to art. 2497 et seq. of the Italian Civil Code) on subsidiaries pursuant to art. 2359 of the Italian Civil Code, under which, pursuant to art. 61(4) of the Consolidated Law on Banking, it issues provisions to the members of the Banking Group for the execution of instructions issued by the Bank of Italy in the interests of the Group's stability.

The aforementioned activity is governed, in addition to by the General Bank Rules, also by the specific Regulations on the exercising of Management and Coordination activities, as well as by the Information Flows Regulations, approved by the Bank's Board of Directors.

In particular, in the exercising of management and coordination activities, the Parent is responsible for:

- approval of the corporate governance structure of the Subsidiaries;
- approval of the appointment, composition and remuneration of the administrative and control bodies of the Subsidiaries, within the limits set by their respective articles of association;
- approval of the appointment, replacement and removal of the Chairperson, the Chief Executive Officer and the General Managers of the Subsidiaries and approval of their remuneration;
- approval of the Group's control system;
- approval of risk management policies valid for the entire Group;
- approval of the Group's annual budget;
- approval of the Group's remuneration policies;
- approval of the purchase and sale of equity investments and mergers, demergers and transformations carried out by subsidiaries;
- approval of the purchase and sale of property by the Subsidiaries;
- approval of direct correspondence to the Supervisory Bodies and control of correspondence from them;
- approval of the self-assessment process of the bodies of the Group companies;
- approval of the organisational structure of the Subsidiaries;
- establish a uniform internal control system that ensures effective oversight of both the Group's overall strategic decisions and the operational balance of its components;
- coordinate and oversee the Group's ESG-related project initiatives.

In exercising its management and coordination activities, the Parent may:

- issue Group policies and regulations;

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- establish adequate information flows;
- require prior consultation with directors or senior management of subsidiaries on specific issues and operations, as well as their support on issues of interest to the subsidiaries themselves.

4. Administration and control model and Organisational Structure

4.1. The model adopted

The Parent adopts the traditional administration and control system, considered the most suitable model to ensure efficient management and effective controls, pursuing the objective of an appropriate balance of powers, as well as a timely allocation of the functions of the strategic supervision, management and control functions.

The choice to adopt the traditional model is based, in particular, on the following considerations:

- a) the structure of the Bank's ownership structure, as well as the size and operational complexity of the Bank and the banking group to which it belongs, which have led to the selection of the traditional model, which has always been adopted by the Company, as the best solution for ensuring the sound and prudent management of the activities and associated risks;
- b) an appropriate balance of powers and a precise distinction of roles and responsibilities, which were considered more effective compared to the dual and single models, so as to avoid overlaps;
- c) the practice of the Italian banking system which, in preferring the traditional model, confirms its effectiveness and transparency with respect to less established alternative models;
- d) the absence of contrary considerations from shareholders or other parties who have various types of relations with the Bank.

Under the traditional corporate governance model adopted by the Bank:

- the strategic supervision function is performed by the Board of Directors;
- the management function is performed, within the scope of the powers assigned:
 - (i) by an Executive Committee, composed of three members, of which the Chief Executive Officer is a member by right and who also holds the role of Chairperson; and
 - (ii) by the CEO, who also holds the office of General Manager;
- 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 assignment of the management function to the Chief Executive Officer and the Executive Committee, provided for in art. 13 of the Articles of Association, is aimed at ensuring a correct balance of powers. The Board of Directors is responsible for assigning the powers to the Chief Executive Officer and the Executive Committee, respectively. Such powers are clearly defined so as to distribute the duties between said bodies, along with their responsibilities.

4.2. The Governance Bodies

4.2.1. Board of Directors

Through its institutional governance, the Board of Directors ensures sound and prudent management, with a view to ensuring the continuity and development of the Bank.

The Board of Directors plays a central role both in the organisation of the Bank and in the management and coordination activities that the Bank exercises over the Banca Sistema Group, through strategic control over the development of the various business areas in which the Group operates and the risks identified in the activities carried out, management control aimed at ensuring the economic, financial and capital equilibrium is maintained by both the individual companies and the Group as a whole, and technical and operational control focused on assessing the various risk profiles attributed to the Group by the individual subsidiaries, as well as the Group's overall risks.

To this end, the Bank's Board of Directors approves and periodically reviews the rules governing the management and coordination activities and verifies their proper implementation, promptly promoting any necessary corrective measures.

The Bank's Board of Directors is vested with all powers of ordinary and extraordinary management: it determines the overall governance structure of the Bank, establishes the strategic guidelines and objectives to be implemented by the Chief Executive Officer, oversees the system of controls necessary to monitor their implementation and performs the functions required under applicable legislation.

The Board of Directors is called in particular to:

- approve the organisational and corporate governance structure of the Bank, ensuring a clear distinction of tasks and functions as well as the prevention of conflicts of interest, verifying their correct implementation and swiftly advocating the necessary corrective measures;
- approve the accounting and reporting systems;
- supervise the Bank's public information and communication process;
- ensure effective dialogue with the Chief Executive Officer/General Manager and the Executive Committee and with the Heads of the main company functions, verifying the choices and decisions they make;
- approve, review and update the recovery plan, as well as amend and update it at the request of the Supervisory Authority;
- adopt, at the request of the Supervisory Authority, the changes to be made to the activity, organisational structure or corporate form of the Bank or the Banking Group, and other measures necessary for achieving the purposes of the recovery plan, as well as eliminate the grounds that necessitate early intervention;
- decide to adopt a measure provided for in the recovery plan or refrain from adopting a measure, even when the circumstances call for it;
- approve a policy for the promotion of diversity and inclusivity.

In addition to the powers not delegated by law, the Board of Directors is responsible for:

- the appointment and removal of the General Manager;
- the appointment of the Group Outsourcing Manager;
- the acquisition and sale of strategic equity investments;
- the approval and amendment of internal regulations with Group scope, as well as the main internal regulations;

- the possible establishment and/or abolition of committees within company bodies;
- the appointment and removal of Heads of the internal control functions (Internal Audit, Compliance and Anti-Money Laundering, Risk and Sustainability).

Within the scope of the internal control system, the Board of Directors, being a body with a supervisory function:

▪ defines and approves:

- the business model, being mindful of the risks to which this model exposes the Bank and understanding the ways in which risks are identified and assessed;
- the strategic guidelines and periodically reviews them in relation to changes in the Bank's business and the external context, in order to ensure their continued effectiveness;
- risk appetite and risk governance policies;
- the risk objectives ("Risk Appetite") and the threshold of risk tolerance when drawing up the Risk Appetite Framework (RAF), setting in advance the Bank's risk/return objectives and the associated operational limits;
- guidelines for the internal control system, ensuring that the system is consistent with the set strategic guidelines and risk appetite and able to identify changes in company risks and any interaction between them;
- the criteria for identifying the most significant transactions (MST) to be submitted for prior review by the Risk and Sustainability Department;
- the general guidelines for the ICLAAP (Internal Capital and Liquidity Adequacy Assessment Process), ensuring consistency with the RAF and timely adaptation in the event of significant changes in the strategic guidelines, the organisational structure and the business environment; promotes the full use of ICLAAP findings both for strategic purposes and in business decisions; appoints and dismisses, subject to the mandatory opinion of the Board of Statutory Auditors, the Manager in charge of financial reporting and determines his/her powers and resources;

▪ approves:

- the establishment of the corporate control functions, the related tasks and responsibilities, the methods of coordination and collaboration, the information flows between these functions and between them and the corporate bodies;
- the appointment of managers reporting directly to the Chief Executive Officer and the General Manager;
- the risk management process and assesses its compatibility with the strategic guidelines and risk governance policies;
- the policies and processes for evaluating company activities and, in particular, financial instruments, verifying that they remain appropriate; it also sets maximum limits on the Bank's exposure with respect to financial instruments or products whose valuation is uncertain or problematic;
- the process for the development and validation of internal risk measurement systems used for regulatory purposes and periodically evaluates their correct functioning;
- the process for approving new products and services, starting new activities, entering

new markets;

- the Group Policies, including the corporate policy on the outsourcing of company functions and the Bank's staff remuneration and incentive policies;
- the outsourcing or reintegration of essential or important functions and of the Bank's IT system or its critical information systems components;
- the adoption of internal risk measurement systems for determining capital requirements;
- the general guidelines of the management system for credit and counterparty risk mitigation techniques, which governs the process of acquisition, assessment, control and implementation of the risk mitigation tools used;
- the code of ethics – with which the members of the company bodies and employees and agents are required to comply – which defines the principles of conduct (e.g. ethical rules and rules to be observed in relations with customers) and the company's activities must be inspired by;
- at least once a year, the programme of activities, including the audit plan prepared by the internal audit function, and examines the annual reports prepared by the corporate control functions. It also approves the multi-annual audit plan;
- the Recovery plan and the related updates for the subsequent sending of the document to the Supervisory Authority.
- internal whistleblowing systems.

In addition, the Board of Directors:

▪ ensures that:

- the structure of the Bank is consistent with the activity carried out and with the business model adopted, avoiding the creation of complex structures not justified by operational purposes;
- the internal control system and the company organisation are constantly aligned with the principles set out in Circular 285 – Section I and that the corporate control functions meet the requirements and comply with the provisions of Section III of the aforementioned Circular. Should deficiencies or anomalies emerge, it promptly promotes the adoption of appropriate corrective measures and evaluates their effectiveness;
- the implementation of the RAF is consistent with the approved risk appetite and tolerance threshold, and periodically assesses the adequacy and effectiveness of the RAF and the compatibility between the actual risk and the risk objectives;
- the strategic plan, the RAF, the ICLAAP, the Recovery Plan, the budgets and the internal control system are consistent, also taking into account the evolving internal and external conditions in which the bank operates;
- the amount and allocation of capital and liquidity held is consistent with the risk appetite, risk governance policies and risk management process;
- at least once a year, the programme of activities of the corporate control functions is approved and it examines the annual reports prepared by the said functions. It also approves the multi-annual audit plan.
- With regard to internal risk measurement systems for determining capital requirements,

the Board of Directors:

- approves the adoption of the aforementioned systems. In particular, it approves the choice of the system deemed appropriate and the related project in which the activities connected with its preparation and implementation are planned, responsibilities identified, implementation times defined and investments envisaged in terms of human, financial and technological resources determined;
- periodically verifies that the choices made remain valid over time, approving substantial changes to the system and providing for overall supervision of the proper functioning of the system;
- supervises, with the support of the competent functions, the actual use of the internal systems for management purposes (use test) and their compliance with the other requirements envisaged in the legislation;
- at least once a year, examines the references provided by the validation function and adopts, with the opinion of the Board of Statutory Auditors, a formal resolution certifying compliance with the requirements envisaged for the use of the systems.

The Board of Directors is composed of executive and non-executive directors and a minimum number of independent directors, in accordance with the provisions of the relevant regulations, in force from time to time, the Articles of Association and the Corporate Governance Code to which the Bank adheres.

At the invitation of the Chairperson, the Chief Executive Officer and the Executive Committee, the company's directors, or any person the Board wishes to invite for certain topics and operations, with advisory functions, may be invited to attend meetings of the Board of Directors.

On an annual basis, the Board of Directors carries out the self-assessment process, in accordance with the provisions of Circular 285, the Corporate Governance Code and international best practices.

The Board of Directors approves and periodically updates the operating regulations of the Board.

4.2.2. Chairperson of the Board of Directors

The Chairperson of the Board of Directors fosters internal consensus within the Board.

In accordance with the responsibilities attributed pursuant to art. 2381(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 acts as an interlocutor with the Board of Statutory Auditors and the internal committees.

The Chairperson of the Board of Directors ensures the effectiveness of the Board discussions and endeavours to ensure that the resolutions adopted by the Board are the result of a proper debate and the conscious and reasoned contribution of all its members. To this end, the Chairperson ensures that: i) the documentation supporting the Board resolutions or, at least, preliminary information on the matters to be discussed, is forwarded to directors sufficiently in advance of the meeting; ii) the documentation supporting the resolutions and, in particular, the documentation provided to non-executive members, is quantitatively and qualitatively adequate with respect to the items to be discussed.

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, with the support of the Secretary of the Board, ensures:

- (i) that the pre-Board information and the additional information provided during the meetings are such as to allow the Directors to act in an informed manner in the performance of their role;
- (ii) that the activity of the Board committees with preliminary investigations, proposal-making and advisory duties is coordinated with the activity of the Board of Directors;
- (iii) in agreement with the Chief Executive Officer and the Executive Committee, that the Bank's executives and those of the Group companies reporting to it, responsible for the competent corporate functions according to the subject matter of the Board meeting, intervene at the meetings of the Board of Directors, including at the request of individual Directors, to provide the appropriate insights on the items on the agenda;
- (iv) that all Directors and Statutory Auditors are able to participate, following their appointment and during their term of office, in initiatives aimed at providing them with an adequate knowledge of the business sectors in which the company operates, of the company dynamics and their evolution including with a view to the sustainable success of the company itself as well as of the principles of correct risk management and the regulatory and self-regulatory framework of reference;
- (v) the adequacy and transparency of the self-assessment process of the Board of Directors, with the support of the Appointments Committee.

The Chairperson also ensures the preparation of suitable succession plans covering the entire organisational structure of the Bank.

4.2.3. Executive Committee

The Executive Committee is granted specific powers to support the Board of Directors for the ordinary management of the Bank, exercised according to the guidelines and policies formulated by the Board, without prejudice to the powers reserved to the latter.

Pursuant to the provisions of art. 13 of the Articles of Association, the Executive Committee is composed of three members appointed from among the Directors, including, by law, the Chief Executive Officer, who chairs it; the Board of Statutory Auditors participates in the meetings of the Executive Committee, pursuant to art. 2405 of the Italian Civil Code.

At the invitation of its Chairperson, the directors of the Bank, or any person whom the Executive Committee may wish to invite for certain matters and operations, with advisory functions, may be invited to attend the meetings of the Executive Committee.

In particular, the Executive Committee:

- resolves, within certain thresholds established by the Board of Directors, to reclassify and/or adjust the value of individual credit positions;
- resolves on the establishment, modification and abolition of the Bank's Departments and corporate structures and the appointment of their Heads who do not belong to the first reporting line of the Chief Executive Officer/General Manager, with the exception of the Heads of the control functions;

- formulates proposals to the Board of Directors with regard to the organisational structure of the first reporting line of the Chief Executive Officer/General Manager and the relevant Heads;
- formulates proposals to the Board of Directors for the approval of internal, corporate and Group regulations pertaining to the Board of Directors, including:
 - (i) company policies;
 - (ii) internal regulatory sources on credit management;
 - (iii) other internal regulatory sources falling within the competence of the Board of Directors;
- formulates proposals to the Board of Directors regarding the acquisition and sale of Group shareholdings, including extraordinary transactions;
- formulates proposals to the Board of Directors for resolutions on credit securitisation transactions;
- formulates proposals to the Board of Directors regarding the guidelines of the annual budget and multi-annual budget plans, including the Funding Plan;
- formulates proposals to the Board of Directors relating to the annual budget and multi-annual plans; proposes to the Board of Directors the allocations of funds in the financial statements, reporting on the uses thereof;
- formulates proposals to the Board regarding projects for the development of the Company's activities, including the diversification of products, customers and/or services;

4.2.4. Chief Executive Officer/General Manager

Alongside the Executive Committee, the Chief Executive Officer and General Manager also handles the management function and is therefore responsible for the implementation of the strategic guidelines and corporate management.

The Chief Executive Officer oversees implementation of the strategic guidelines, the RAF and the risk governance policies defined by the Board of Directors, and is responsible for taking all necessary steps to ensure that the organisation and the internal control system conform to the principles and requirements set out in Sections I and III of Circular 285, and monitors compliance with these principles and requirements on an ongoing basis.

The Chief Executive Officer has an understanding of all business risks, including the possible risks of malfunction of internal measurement systems and, in the context of integrated management, their correlation with each other and the changing external environment. In this context, the CEO is able to identify and assess the factors, including the complexity of the organisational structure, from which risks to the Bank may arise

The CEO manages the Bank's activities within the limits of the powers conferred upon him or her and in compliance with the general management guidelines determined by the Board of Directors. The CEO, within the limits of the powers conferred upon him or her by the Board of Directors, may delegate decision-making powers in respect of lending and ordinary management to managers, office managers, middle managers, branch managers and other company employees, within set limits that shall be commensurate with their functions and level.

The Chief Executive Officer is also responsible for all further activities assigned to him/her by

the Articles of Association and those assigned by the Supervisory Provisions and/or by further self-regulatory rules approved by the competent Corporate Bodies of the Bank, and in particular by the General Bank Rules.

The General Manager has the power/duty of direction, coordination and supervision of all Divisions, Departments, Functions and units, organisational and project-related, however defined, of the Banking Group.

4.2.5. Internal board committees

To ensure an efficient system that provides the Board of Directors with an effective assessment of specific matters falling within its purview, Committees have been established - in addition to the Executive Committee - that have been assigned powers and responsibilities with respect to various matters.

The Internal board Committees, established by the Board of Directors, are:

- The Internal Control, Risk Management and Sustainability Committee, which, inter alia, supports the Board of Directors and the Executive Committee in defining the guidelines relating to the internal control system and, at least once a year, assesses its adequacy, efficiency and effectiveness, ensuring that all risks to which the Bank is exposed are identified, adequately measured, managed and monitored; the Internal Control, Risk Management and Sustainability Committee also assumes the functions of Committee for transactions with parties in conflict of interest and related parties, governed by CONSOB Regulation adopted by resolution no. 17221 of 12 March 2010 and subsequent updates, as well as by Bank of Italy Circular no. 263 of 27 December 2006 and subsequent updates;
- The Appointments Committee, which, inter alia, formulates opinions on the size and composition of the Board of Directors and expresses recommendations on the limits on the number of appointments. In addition, it makes recommendations on the professional figures whose presence on the Board of Directors is deemed appropriate and proposes candidates to the Board of Directors for the position of director in cases of co-option, where independent directors need to be replaced;
- The Remuneration Committee, which, inter alia, evaluates the adequacy, overall consistency and concrete application of the general policy adopted for the remuneration of directors and key management personnel, submits proposals and formulates opinions to the Board of Directors on the remuneration of executive directors and other directors who hold particular positions, and expresses its assessments and proposals on the remuneration of personnel whose remuneration and incentive systems are approved by the Board of Directors (in particular, the Chief Executive Officer/General Manager, managers and Heads of corporate control functions reporting directly to the Chief Executive Officer/General Manager), as well as on the determination of the variable component of the remuneration of managers of control functions reporting directly to the Chief Executive Officer/General Manager;
- The Ethics Committee which, inter alia, supports the Board of Directors in identifying and assessing the ethical principles for defining the conduct policy, evaluating the degree to which said principles must be applied to the corporate environment; it supervises over the publication of the Code of Ethics and the guidelines for external corporate communications regarding this matter.

More details on the operation and duties of these committees are contained in specific regulations approved by the Board of Directors.

4.2.6. Anti-Money Laundering Representative

The Anti-Money Laundering Representative:

- has adequate knowledge, skills and experience regarding money laundering risks, anti-money laundering policies, controls and procedures, as well as the business model of the Bank and the sector in which it operates;
- has adequate time and resources to effectively perform their duties.
- The Anti-Money Laundering Representative constitutes the main point of contact between the Compliance and Anti-Money Laundering Department and the Board of Directors and ensures that the latter has the information it requires to fully understand the relevance of the money laundering risks to which the Bank is exposed, for the purposes of exercising their respective powers.
- The Anti-Money Laundering Representative:
 - ensures that anti-money laundering policies, procedures and internal control measures are adequate and proportionate, taking into account the characteristics of the Bank and the risks to which it is exposed;
 - assists the Board of Directors in assessing the organisational structure and allocation of resources of the Compliance and Anti-Money Laundering Department, including any decision to assign responsibility for the functions assigned to the Compliance and Anti-Money Laundering Department to the same Anti-Money Laundering Representative;
 - ensures that company bodies are periodically informed about the activities carried out by the Compliance and Anti-Money Laundering Department as well as about the discussions with the Authorities;
 - informs the corporate bodies of the violations and critical issues concerning anti-money laundering of which they become aware and recommends the appropriate actions;
 - verifies that the head of the Compliance and Anti-Money Laundering Department has direct access to all the information necessary for the fulfilment of his/her tasks, has sufficient human and technical resources and tools and is informed of any deficiencies relating to AML matters identified by the other internal control functions and by the supervisory authorities;
 - ensures that the issues and proposals for action reported by the Head of the Compliance and Anti-Money Laundering Department are assessed by the Board of Directors.

The Anti-Money Laundering Representative in the parent appointed by the Bank also plays the role of Anti-Money Laundering Representative at Group level.

4.3. Management of conflicts of interest

In general, all Company Representatives, employees and agents, in the exercising of their respective powers and functions, must refrain from making decisions and carrying out activities that conflict with the interests of the Bank and/or the Group Companies or which are, in any case, incompatible with their duties.

The Bank's Board of Directors, with the prior favourable opinions of the Board of Statutory Auditors and the Committee composed exclusively of Independent Directors, has adopted "*Regulations for the management of transactions with parties in conflict of interest*" (the "**Regulations**"), which seek, in particular, to define, within the context of the Bank's operations and, more generally, those of the subsidiaries, the principles and rules to be observed for the monitoring of risk arising from situations of possible conflict of interest determined by the proximity of certain parties to the decision-making centres of the Bank and the subsidiaries.

In compliance with the regulatory provisions – specifically: art. 2391-bis of the Italian Civil Code; arts. 53 and 136 of the Consolidated Law on Banking; the international accounting standard IAS 24; the 'Related-party Transactions Regulation' adopted by Consob with Resolution no. 17221 of 12 March 20101, as subsequently amended; Circular 285; art. 88 of Directive 2013/36/EU – the Regulation in particular identifies:

- the parties to which the above regulations apply;
- the criteria for the identification and classification of major and minor transactions;
- possible derogations and exemptions which the Bank may invoke;
- rules concerning the investigation, negotiation, proposal, resolution and approval of transactions, distinguishing between those of greater or lesser importance, with regard both to transactions carried out directly by the Parent and those carried out through the Subsidiaries;
- the methods of involvement of the Independent Directors;
- the information flows to be provided to the Corporate Bodies;
- the information to be provided to Consob and the market for Related-Party transactions;
- the requirements of periodic reporting to the Bank of Italy on risk activities with respect to Related Parties.

4.4. Control bodies

4.4.1. Board of Statutory Auditors

The Bank's Board of Statutory Auditors verifies that the Parent carries out its strategic and management control activities over the Group companies and works in close collaboration with the corresponding bodies of the subsidiaries.

The Board of Statutory Auditors is responsible for supervising over the completeness, adequacy, functionality and reliability of the Internal Control System, RAF and ILAAP process.

The Board of Statutory Auditors supervises the observance of legal, regulatory, and statutory provisions, proper administration, the adequacy of the organisational and accounting structure, and the proper performance of the strategic and management control activities by the Bank. In addition, pursuant to art. 149, paragraph 1, of the Consolidated Law on Finance, the Board of Statutory Auditors also supervises the practical implementation of the corporate governance rules envisaged in codes of conduct drawn up by companies that manage regulated markets or trade associations to which the Bank adheres, as well as the adequacy of the provisions issued by the Bank to Subsidiaries to obtain from the latter all the information necessary for compliance with public disclosure obligations.

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Due to the importance of these tasks for supervisory purposes, the Consolidated Law on Banking (art. 52) has established a functional liaison mechanism with the Supervisory Authority: the Board of Statutory Auditors shall inform the Bank of Italy without delay of all facts or acts of which it becomes aware that may constitute an irregularity in the management of the Bank or a violation of the rules governing banking activity. For these purposes, the Bank's Articles of Association, regardless of the administration and control model adopted, assigns the relevant tasks and powers to the Board of Statutory Auditors. The aforementioned functional link is also provided to CONSOB, to which the Board of Statutory Auditors reports the irregularities found in the supervisory activity and transmits the relevant minutes of the meetings and the assessments carried out as well as any other useful documentation, pursuant to art. 149, paragraph 3 of the Consolidated Law on Finance.

The Board of Statutory Auditors expresses an opinion on compliance with the procedures for appointing the Manager in charge of financial reporting and verifies that they meet the requirements of the Articles of Association. In addition to preparation and suitability, it assesses the necessary independence and operational autonomy of the Manager in charge of financial reporting, the structure and compliance with the principles of proper administration and, in particular, the adequacy of the organisational, administrative and accounting structure adopted and its concrete functioning.

The Board of Statutory Auditors is responsible for overseeing the functionality of the overall internal control system. In particular, they are required to assess the adequacy of all the functions involved in the control system, the proper fulfilment of the duties and the proper coordination thereof, as well as promote actions aimed at remedying any gaps and irregularities found.

Without prejudice to the reporting obligations to the Bank of Italy, the Board of Statutory Auditors shall inform the Board of Directors and the Chief Executive Officer of the deficiencies and irregularities found, request the adoption of appropriate corrective measures and verify their effectiveness over time.

When carrying out the necessary checks and inspections to fulfil this task, it relies upon the Bank's internal control structures and functions (Risks and Sustainability, Compliance and AML and Internal Audit), from which it receives sufficient flows of information. It is thus supported, without overlapping or duplication, in its activities, ensuring, through careful coordination of the bodies and Functions in charge, systematic and constant monitoring of the internal control system.

The Board of Statutory Auditors is specifically consulted, not only with regard to decisions on the appointment and dismissal of managers of corporate control functions (Risks and Sustainability, Compliance and Anti-Money Laundering and Internal Audit), but also on the definition of the essential elements of the overall architecture of the control system (powers, responsibilities, resources, information flows, management of conflicts of interest).

The Board of Statutory Auditors checks and investigates causes and remedies for management irregularities, performance anomalies, gaps in the organisational and accounting structure. It focuses particularly on compliance with the regulations on conflicts of interest. The controls are applicable to the entire company organisation, including checks on systems and procedures (e.g. information and administrative/accounting), the various business branches (credit, banking services, etc.) and operations (introduction of new products, entry into new business or geographical areas, business continuity, outsourcing).

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 Bank.

Also ascertains that there is adequate coordination between all the Functions 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.

With reference to the accounting control carried out by the external auditor, the Board of Statutory Auditors retains tasks related to the assessment of the adequacy and functionality of the accounting structure, including the related information systems, to ensure an accurate representation of company events.

With reference to the internal risk measurement systems for the determination of capital requirements, the Board of Statutory Auditors, with the contribution of the corporate control functions, monitors – as part of the more general activity of verification of the risk management process – the completeness, adequacy, functionality and reliability of the systems in question and their compliance with the requirements stipulated by law.

4.4.2. Supervisory Body pursuant to Italian Legislative Decree no. 231/01

The Supervisory Body (or “**SB**”) is a corporate body charged with overseeing the operation, effectiveness and application of the Organisational and Management Model (or “**OMM**”) whose purpose is to prevent the offences specified in Italian Legislative Decree no. 231 of 8 June 2001. The SB also ensures that the OMM is continuously and promptly updated.

The SB is composed of 3 members appointed by the Board of Directors: the Chairperson of the Board of Statutory Auditors or a third party with proven experience in the field pursuant to Italian Legislative Decree 231/2001, who also serves as chairperson of the SB in accordance with the law, a Director appointed by the Board of Directors and the Head of Internal Audit.

The SB's activities are governed by rules approved by the SB itself.

Every six months, the SB submits to the Board of Directors a report on the implementation of the OMM, highlighting any findings, the need to update the OMM, and the planning of activities to be carried out.

On an operational level, the SB is entrusted with the tasks of:

- activating the control procedures;
- conduct business surveys to enable up-to-date mapping of areas at risk;
- carrying out periodic checks and inspections by accessing company documents, including those of a confidential nature, information, data and procedures deemed useful;
- conducting internal investigations to ascertain alleged violations of the requirements of the OMM;
- promoting appropriate initiatives for the dissemination of knowledge and understanding of the OMM;
- obtaining, every six months, the information expressly requested from the Heads who manage the sensitive activities identified in the OMM (‘information flows’);
- coordinating with other company functions to monitor activities in areas at risk;

- verifying that the elements envisaged in the individual Special Parts of the OMM for the various types of offence are adequate and meet the requirements of compliance with the provisions of the Decree.

To pursue the objectives described, the SB shall have unrestricted access, i.e. without any hierarchical constraints that may affect its independence of judgement, to relevant company information. In addition, for the performance of its tasks, the SB is endowed with appropriate spending autonomy.

Lastly, it should be noted that the Bank's staff have precise reporting obligations to the SB regarding offences or irregularities of which they become aware during their employment relationship. In this regard, the Bank has made suitable electronic channels available to staff, which guarantee the confidentiality of the identity of the reporting parties. The latter are covered by the protections provided for in Art. 6 of Decree 231/2001, as amended by Law no. 179/2017 (whistleblowing).

The OMM forms part of the internal regulations and is also available to the public on the Bank's website.

4.4.3. Statutory audit

The position of statutory auditor of the accounts is conferred by the Shareholders' Meeting, on the proposal of the Board of Statutory Auditors, to an independent auditing firm.

The independent auditors are responsible for verifying, during the year, the regular keeping of the corporate accounts and the correct recognition of management events in the accounting records. They are also responsible for verifying whether the annual and consolidated financial statements correspond to the results of the accounting records and the assessments carried out and whether they comply with the rules to which they are subject. Lastly, with a specific report, an opinion is expressed on the annual and consolidated financial statements.

The independent auditors periodically liaise with the Board of Statutory Auditors, through the planning of specific meetings and the periodic exchanging of information. The independent auditors shall promptly notify the Bank of acts or events, observed in the performance of its assignment, that may constitute a serious violation of the rules governing banking activity or that may affect the continuity of the company or lead to a negative judgement, a judgement with findings or a declaration of impossibility of expressing an opinion on the financial statements. The auditing firm shall send the Bank of Italy any other data or document requested.

4.4.4. Manager in charge of financial reporting

The Manager in charge of financial reporting is appointed by the Board of Directors.

The Board of Statutory Auditors expresses an opinion on compliance with the procedures for appointing the Manager in charge of financial reporting and verifies that they meet the requirements of the Articles of Association. In addition to preparation and suitability, it assesses the necessary independence and operational autonomy of the Manager in charge of financial reporting, the structure and compliance with the principles of proper administration and, in particular, the adequacy of the organisational, administrative and accounting structure adopted and its concrete functioning.

The Manager in charge of financial reporting is responsible for:

- preparing and approving, where necessary with the support of the corporate structures,

the administrative and accounting procedures for the preparation of the individual financial statements, the half-yearly and quarterly reports and any other communication of a financial nature, communicating their content to the heads of the corporate structures concerned, in agreement with the Chief Executive Officer;

- carrying out, even with the support of a consultancy firm, control, analysis and verification activities of the administrative and accounting processes, assessing their adequacy and proper application, including the establishment of a testing strategy that defines the operating methods, controls and methods to be used for monitoring (testing) the system of procedures in place;
- identifying, evaluating and implementing the risk management system and controls for the areas under its responsibility;
- collecting, verifying and archiving the attestations/statements required by the Regulations of the Manager in charge of financial reporting and providing technical and operational support to the organisational structures and companies involved in the accounting reporting processes;
- validating in advance any accounting information concerning operating results, financial position and cash flows to be disclosed to the market and, where required by applicable regulations, issuing the statement on the relevant press release;
- issuing, in conjunction with the Chief Executive Officer, the statement on the statutory financial statements, the consolidated financial statements and the half-yearly report required by law.

4.5. Company Committees (Extra-Board Committees)

To ensure an efficient system that provides the Chief Executive Officer/General Manager and the Executive Committee with an effective assessment of specific matters falling within its purview, certain Committees have been established, which can meet face-to-face or remotely and which have been assigned powers and responsibilities with respect to various matters.

The Extra-Board Committees, in which the Chief Executive Officer/General Manager participates, are:

- The Group Committee (or Management Committee), representing the unifying body within the Group's divisional organisational structure. It has the duty of assisting the Chief Executive Officer in implementing the governance, management and coordination policies approved by the Board of Directors on behalf of the Group members, resolving any critical issues and sharing information regarding the Bank in its entirety, the individual Divisions and the subsidiary Kruso Kapital S.p.A.;
- The CEO Credit Committee (solely for cases that exceed the autonomy of the Heads of the Divisions), which supports the CEO and Board of Directors in all decisions concerning credit transactions submitted that exceed the authority of the division heads or the CEO. It is chaired by the Head of Factoring Receivables in the capacity as Group Credit Supervisor;
- The Risk, ALM and Sustainability Committee which supports the CEO in defining the strategies, credit risk policies, and revenue objectives and monitors capital adequacy with respect to the risk/profitability objectives, taking into account the various types of risks and the correlations between them;

- The Technical-Organisational Committee, which supports the CEO in monitoring the organisation's technical and operational requirements, makes proposals for intervention and improvement and supervises the setting up and development of the organisational model.
- The Crisis Management Committee, which is the Bank structure responsible for crisis management and, from its formation to its termination, is the highest decision-making and governance body of the Bank during a crisis. The Committee is chaired by the Chief Executive Officer, who convenes it based on indications received from the Head of Business Continuity;
- The Credit Monitoring Committee, in which the loans and receivables portfolio is analysed for the taking of the appropriate initiatives aimed at reducing, as far as possible, any past-due or non-performing loan issues.

4.6. Additional bodies

In addition to the corporate bodies represented above, the Bank's organisation is also made up of:

- the Manager in charge of financial reporting, who is appointed by the Board of Directors with the favourable opinion of the Board of Statutory Auditors;
- the Data Protection Officer (DPO), who is appointed by the Board of Directors and is currently identified as the Head of the Compliance and Anti-Money Laundering Department;
- the Head of the internal reporting (or whistleblowing) systems, who is currently identified as the Internal Audit Director;
- the Head of the distribution of insurance products, appointed in accordance with art. 2, paragraph 1, letter q) of IVASS Regulation no. 40 of 2 August 2018, who is appointed by the Board of Directors and carries out the management and/or coordination and control of the insurance distribution activities performed by the Bank.

4.7. Self-assessment of Corporate Bodies

In compliance with Circular 285, the Board of Directors is required to submit at least annually to a self-assessment process, by identifying, where the current structures are not already optimal, possible corrective actions.

The Board of Statutory Auditors is also required to carry out a self-assessment of its composition and operation, based on criteria and procedures consistent with its characteristics.

The purpose of the self-assessment is to provide the information needed to assess:

- the adequacy of the composition from the perspective of quality/quantity (including the assessment of the professionalism and skills deemed necessary following a specific ex ante identification), dimensions, balance of non-executive and independent components, adequacy of the appointment processes and selection criteria, as well as professional development;
- the effectiveness of the operating procedures (taking into account the holding of meetings, the frequency, duration, degree and methods of participation, the availability of time dedicated to the assignment, interaction between the members, the awareness of

the role played, the quality of board discussions), also highlighting any need to update the internal regulations to monitor the operation of the body and its adequate composition in the light of the operational context and the possible areas for improvement on which to intervene through the corrective measures to be adopted.

Each Body, taking into account the regulations applicable to it:

1. identifies in advance the qualitative/quantitative composition deemed optimal, identifying and justifying the theoretical profile (including characteristics of professionalism and possible independence) of candidates deemed appropriate for these purposes;
2. checks the consistency of the qualitative and quantitative composition deemed optimal with the composition of the Board actually resulting from the appointments process.

The self-assessment of the Corporate Bodies also takes into account the individual suitability checks required pursuant to the regulatory provisions and internal procedures in force from time to time.

At least once every three years, the self-assessment is carried out with the help of an external professional capable of ensuring independence of judgement. The results of the self-assessment constitute, among other things, the information and documentary basis on which the indications to be sent to the Shareholders' Meeting for the optimal qualitative/quantitative composition of the new collegiate bodies are prepared.

4.8. Proxy system

Pursuant to the Articles of Association, the Board of Directors may appoint, from among its members, an Executive Committee and/or a Chief Executive Officer (the "**Delegated Bodies**"). The powers, composition and modes of operation of the Delegated Bodies are governed by Articles 13 and 14 of the Articles of Association and, with regard to the Executive Committee, by the respective regulations on its operation.

To the extent permitted by the law and the Articles of Association, the Board of Directors may also grant specific powers, for the purposes of the performance of specific acts or negotiations, upon 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 are 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.

The Delegated Bodies and the Directors upon whom powers have been conferred are required to provide updates on the acts carried out and the activities completed in the performance of their powers, whenever requested by the Board of Directors and without prejudice to the periodic reporting obligations to be fulfilled by the Delegated Bodies to the Board of Directors and the Board of Statutory Auditors pursuant to Articles 12 and 16 of the Articles of Association.

The system of proxies is further detailed within the internal procedures, which are periodically updated and should be referred to for more information.

4.9. Internal Control and Risk Management System

The internal control system ensures that the company's activities are in line with the Company's

strategies and policies and are carried out in accordance with the principles of sound and prudent management.

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

- the Board of Directors;
- the Internal Control, Risk Management and Sustainability Committee and other Board Committees, each within its own purview;
- the control functions (Risk and Sustainability, Compliance & Anti-Money Laundering and Internal Audit);
- the Board of Statutory Auditors;
- the Supervisory Body pursuant to Italian Legislative Decree no. 231/01.

As for the control functions, in summary:

- the Risks and Sustainability function intervenes in identifying, managing and monitoring all the risks to which the Bank is or could be exposed. It cooperates in the definition and implementation of the RAF and the related risk governance policies by defining an adequate risk management process. It provides the Board of Directors with information about the risk appetite of both the Bank and the Group, i.e. the maximum total capital that the Bank is willing to allocate to cover risks. It defines and proposes to the Board of Directors the risk tolerance threshold for each risk category identified and continuously checks its adequacy; identifies suitable risk monitoring tools/indicators for the Risk Appetite Framework; outlines the reporting on the potential areas of risk detected and on possible mitigation measures (overcoming the Risk Tolerance and Risk Target) in order to keep the Risks, ALM and Sustainability Committee, the Internal Control, Risk Management and Sustainability Committee and the Board of Directors updated;
- the Compliance and Anti-Money Laundering function performs a structured set of activities aimed at monitoring compliance risk for all the Bank's organisational structures, including the protection of personal data, monitoring the risk of money laundering and terrorist financing with regard to all company activities and the outsourcing of activities. The Head of the Internal Audit Function is also the delegated officer pursuant to Article 36 of Italian Legislative Decree No. 231/07 as well as the Data Protection Officer of Banca Sistema, in accordance with Regulation (EU) no. 679/2016 (GDPR). The Head of the function has also been appointed Head of Outsourcing of the Banca Sistema Group, as well as Group Head of Anti-Money Laundering.
- the purpose of the Internal Audit function is to monitor, with a view to third-level controls, the regular performance of company operations in relation to the nature and intensity of the risks inherent in all the Bank's organisational structures. The planning of the audit activities prioritises audits on the identified business processes - and their cyclicity - based on their residual risks ('risk-based approach'). The Internal Audit function periodically assesses the completeness, adequacy, functionality (in terms of effectiveness and efficiency) and reliability of the organisational structure of the internal control system and information systems. In addition, it verifies the regularity of the operational activities and the evolution of risks, in order to draw the attention of the corporate bodies to possible improvements, with particular reference to the RAF, the risk management procedures and the means of monitoring and controlling them.

More specifically, the structure of the Parent's internal control system is governed by the 'Regulations for the coordination of the control functions', to which reference should be made.

The Internal Control and Risk Management Committee, in conjunction with the drafting of its half-yearly reports, and the Board of Directors, in conjunction with the drafting of the annual Corporate Governance Report, evaluate the adequacy and effectiveness of the Internal Control and Risk Management System with respect to the characteristics of the Bank and its risk profile.

In relation to the risks that characterise the Bank's activities, the Board of Directors, in implementation of the RAF, has adopted specific company policies aimed at regulating risk management (including, but not limited, to credit, market, liquidity and contingency, money laundering, conflicts of interest, Market Abuse, cyber risk). These policies define the risk objectives and operational limits in line with the RAF, as well as the actions to be taken if they are exceeded or overrun.

In addition, information is provided in the ICAAP and ILAAP Report on the overall exposure to corporate risks and, in more detail, on the alignment between the Bank's capital planning process, corporate strategies and the RAF. This also allows the Bank to assess the consistency between the activities carried out and the business model adopted.

The Internal Control, Risk Management and Sustainability Committee also performs advisory and proposal-making duties, to support the activities of the Board of Directors with reference to environmental, social and governance (ESG) issues, in relation to each initiative through which the Bank pursues sustainable development and for the purpose of integrating ESG issues into the business plan.

At Group level, the Parent oversees and coordinates the Group's controls through three control functions within the Parent itself:

- the internal audit function,
- the compliance and anti-money laundering function and
- the risk management and sustainability function.

The Parent's control functions are responsible for coordinating and guiding the activities of their counterparts in the Subsidiaries, including by issuing Group policies and other regulations in their respective areas of responsibility.

The control functions of the Subsidiaries operate in accordance with the guidelines established by the Parent and report periodically to their respective functions within the Parent.

The results of controls conducted on the Subsidiaries, the findings and weaknesses identified, both in relation to the Group as a whole and in relation to the individual entities, and the corrective measures required to address the detected deficiencies, are documented in quarterly (Tableau de Bord) and annual reports on the activities performed by each function. These reports are submitted to the Parent's Board of Directors and sent to the Bank of Italy at the end of each quarter and at the close of the management cycle.

5. Information flows

5.1. Information flows within the Bank

The correct and efficient functioning of the Corporate Bodies requires not only an adequate composition, but also the preparation of equally appropriate information flows, procedures, working methods, meeting times.

To this end, the Board of Directors has approved specific Information Flows Regulations – which should be referred to for further details – which govern, inter alia, the operating practices (frequency of meetings, participation) that ensure the effectiveness and timeliness of their actions.

In detail, the contents and frequency (event-based or quarterly, bi-annual or annual) of the disclosures are provided:

- to the Board of Directors, to be made, in particular, by the Chief Executive Officer/General Manager, the Executive Committee and the Internal Board Committees (i.e. the Internal Control, Risk Management and Sustainability Committee, the Appointments Committee, the Remuneration Committee and the Ethics Committee);
- to the Board of Statutory Auditors, which, in attending, with the individual statutory auditors entitled to intervene, the meetings of the Board of Directors and the Internal Control, Risk Management and Sustainability Committee, receives, according to the same time frames, the same documentation and the same information sent to the respective members. The Board of Statutory Auditors shall also transmit observations and proposals to the Internal Control, Risk Management and Sustainability Committee and the Board of Directors or to the Executive Committee whenever it finds that the operating procedures and internal organisational structures require modification and upon the occurrence of any other event it deems relevant.

The Board of Statutory Auditors also receives specific information flows from the Directors of the control functions and the independent auditors;

- together with the CCIGR, the Chief Executive Officer and the Board of Directors, by the Supervisory Body, the Heads of the Company Divisions, the Group Credit Supervisor, the Corporate Strategy Manager, the Risk and Sustainability Department, the Compliance and Anti-Money Laundering Department, the Internal Audit Department, the ICT Department, the Finance Department, the Human Capital Department, the Banking Services Department, the Treasury Department, the Data Protection Officer.

Forms of communication and exchange of information between the Corporate Bodies are ensured, among other things, through:

- the participation of the Board of Statutory Auditors in all Shareholders' Meeting, plus meetings of the Board of Directors and the Internal Control, Risk Management and Sustainability Committee;
- the participation, without the possibility of voting, of the Chairperson of the Board of Directors in the meetings of the Remuneration Committee and the Internal Control, Risk Management and Sustainability Committee, in which the Chief Executive Officer may also participate, at the invitation of the Chairperson of the latter Committees;

- with regard to money laundering risks, the role of the Anti-Money Laundering Representative, who ensures that the corporate bodies are periodically informed about the activities carried out by the Compliance and Anti-Money Laundering Department, as well as about the discussions with the Authorities, and informs the corporate bodies of any AML violations and critical issues of which he or she becomes aware, while also recommending appropriate measures.

5.2. Information flows within the Group

Each Subsidiary ensures a complete and transparent flow of information to the Parent by means of adequate reporting, prepared by the respective functions in relation to their various areas of competence and in application of the group provisions in force from time to time.

The Sole Director/Chief Executive Officer/General Manager of the Subsidiary may be called upon to serve on extra-board committees of the Parent.

The Chairperson of the Board of Directors of the Parent may ask to meet with the Chairpersons of the subsidiaries or the members of their respective Boards of Directors, in order to effectively coordinate the governance of the Group.

In exercising its coordinated and uniform governance activity, the Parent communicates to its subsidiaries:

- the strategic and operational guidelines (for example, the general guidelines relating to the business plan and those relating to risk and budget) and the provisions with which the Subsidiaries must comply;
- decisions taken on authorisations or opinions requested by subsidiaries;
- changes in the governance structure, organisational structure, changes in powers and appointments that have effect on the subsidiaries;
- information that is of general relevance to the Group or of specific interest to the subsidiaries.

In addition, each Subsidiary is required to:

- communicate all data and information that the Parent deems necessary or appropriate in relation to the performance of its functions, including to comply with legal or Supervisory obligations;
- transmit, well in advance, the draft agenda for meetings of the Board of Directors, as well as the documentation and information relating to the most important topics;
- send a copy of the minutes of the Corporate Bodies;
- request prior opinions or authorisations from the Parent on matters where such an obligation exists;
- forward the correspondence received from the Supervisory Bodies and that sent to the Parent;
- promptly inform the Chief Executive Officer and the Board of Directors of the Parent of any fact that may reasonably be considered suitable to influence the structure of the Group by preparing information notes suitable to allow a complete and correct assessment of the effects that the circumstance could generate, and await the positive opinion of the Parent for the external disclosure of the information;

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- the Internal Control Functions of the subsidiaries shall send periodic information to the Parent's Control Functions;
- on a quarterly basis, report to the Board of Directors of the Parent on the general management performance and promptly when extraordinary or strategically important operations are initiated.

6. Financial structure and shareholder rights

6.1. Share capital structure

Pursuant to art. 5 of the Articles of Association, the share capital of the Bank amounts to Euro € 9,650,526.24 (nine million six hundred and fifty thousand five hundred and twenty-six thousand euro and twenty-four cents) and is divided into 80,421,052 (eighty million four hundred and twenty-one thousand and fifty-two) shares with a nominal amount of € 0.12 (twelve cents) each.

The shares are issued in dematerialised form, are registered in the shareholder's name and are indivisible. The case of joint ownership is governed pursuant to the law.

Since July 2015, the Bank's shares have been listed on the Euronext STAR Milan segment of the Euronext Milan market of Borsa Italiana S.p.A.

6.2. Voting rights

Each share entitles the holder to one vote. However, pursuant to arts. 5.7 et seq. of the Articles of Association, an increase in voting rights mechanism is provided for, whereby each share carries two voting rights if both the following conditions are met: (a) the share has been held by the same shareholder, by reason of a right of entitlement to exercise the voting right (full ownership with voting rights attached or bare ownership with voting rights attached or usufruct with voting rights attached), for a continuous period of at least twenty-four months; (b) the satisfaction of the condition under point (a) above has been evidenced by continuous entry, for a period of at least twenty-four months, in a special list established at the Bank and governed by arts. 5.9 et seq. of the Articles of Association.

6.3. Representation at the Shareholders' Meeting

In compliance with the Articles of Association, 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 Bank 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 also 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.

6.4. Restrictions on transfer of shares

The Bank's Articles of Association do not provide for restrictions on the transferability of shares, in addition to what is stipulated in the pro tempore provisions in force on participation in the capital of credit institutions.

6.5. Quorums for the holding and resolutions of shareholders' meetings and for disputing shareholders' and directors' resolutions

Ordinary and extraordinary shareholders' meetings are constituted and may pass resolutions according to the quorums provided for by the provisions of the pro tempore law in force.

However, the Articles of Association stipulate that the Board of Directors' proposal to set a limit on the ratio between the variable and fixed remuneration of personnel at more than 100% (ratio of 1:1) - but not exceeding the maximum limit of 200% (ratio of 2:1) - shall be resolved upon by the Shareholders' Meeting when

- (i) the Meeting shall be quorate if at least half of the share capital and resolutions may be adopted with the favourable vote of at least 2/3 of the share capital represented at the Meeting; or
- (ii) resolutions may be adopted with the favourable vote of at least 3/4 of the share capital represented at the Meeting, irrespective of the share capital with which the Meeting is constituted.

With regard to disputing shareholders' resolutions or those taken by the Board of Directors, the quorums for holding meetings and passing resolutions stipulated in the pro tempore legal provisions in force shall apply.

6.6. Right of withdrawal

Pursuant to art. 6 of the Articles of Association, shareholders have a right of withdrawal in the mandatory cases established by law. The right of withdrawal in the cases under art. 2437, paragraph two of the Italian Civil Code is expressly excluded.

The time frames and methods for exercising such withdrawal are subject to the law.

7. Remuneration policies

In accordance with

- (i) the 'Report on the remuneration policy and remuneration paid', pursuant to Art. 123-ter of the Consolidated Law on Finance,
- (ii) Circular 285 (in particular, Part One, Title IV, Chapter 2, as subsequently amended and supplemented, on 'Remuneration and incentive policies and practices'),
- (iii) the provisions of the Corporate Governance Code, and
- (iv) the guidelines of the European Banking Authority (EBA) on sound remuneration policies,

the parent of a banking group prepares a remuneration policies document for the entire group, taking into account the characteristics of each group company, ensuring overall consistency, providing implementation guidelines and verifying the proper application of the policies by all companies within the group to also consider the various levels of achieving the objectives and the consequent impacts on the Group's risk profile and expected capital, liquidity and profitability targets.

In compliance with the aforementioned regulatory provisions, the Bank, as the parent of the Banca Sistema Banking Group, has approved the Remuneration Policy, which is valid for the entire Banca Sistema Group.

Due to the business model of Banca Sistema, whose mission is to become the leading independent operator in the field of 'Specialty Finance', based on a constant-growth strategy, which leverages the development of the expertise and capabilities of its resources by respecting and protecting customer relations over the long term, the purposes of the Group's remuneration strategy are as follows:

- to direct the efforts of executive directors and employees towards the priorities and objectives established at Bank and Group level, supporting the creation of value over the medium and long term;
- to attract and retain highly qualified personnel, also through external remuneration competitiveness;
- to motivate personnel, by recognising merit and encouraging the development of professional skills;
- to develop and improve the quality of the services provided to customers, avoiding marketing products that are not suitable to the needs and characteristics of the individual customer;
- to ensure sound and prudent management of the Bank and its risk profile, containing legal and reputational risks;
- ensure the overall achievement of sustainability objectives that take into account, among other things, environmental, social and governance (ESG) factors;
- to ensure remuneration fairness – also with respect to gender neutrality – rewarding individual employees for their contribution, the responsibilities given and their specific working conditions;
- to ensure conduct that is consistent with the Code of Ethics of the Group, the Group's internal regulations and the legislative and regulatory provisions applicable to Banca

Sistema and the Group.

The Group's remuneration strategy also takes account of the RAF (Risk Appetite Framework) adopted by the Bank, which includes specific performance indicators that take account of risk appetite.

The remuneration paid to the Group's personnel includes a fixed component, which is paid to all employees, a 'benefit' component, and a variable component that is paid to the 'key personnel' (without prejudice to the exceptions indicated in the Remuneration Policies Document), that may be applied to other employees of the Bank in line with the guidelines and principles of the said Policies and in compliance with the applicable law. The ratio between the variable and fixed components of remuneration is duly balanced, accurately calculated and carefully assessed in relation to the characteristics of Banca Sistema and of the various categories of personnel, particularly that of "key personnel".

The policy formation process involves:

- the Board of Directors, which, inter alia, formulates and approves the Bank's Remuneration Policies, submits them to the Shareholders' Meeting and reviews them at least once a year, and is responsible for their correct implementation. It also ensures that the Remuneration Policies are duly documented and accessible within the company, and that personnel are aware of the consequences of any breach of the provisions contained in the Policies; it defines the incentive plan for those persons within the 'key personnel' category, as well as for all other Group employees;
- the Remuneration Committee, which, inter alia, supports the Board of Directors in examining the Policies to be submitted to the Shareholders' Meeting;
- the Internal Control, Risk Management and Sustainability Committee, which, inter alia, ensures that the incentives underlying the remuneration and incentive system are consistent with the RAF;
- the Human and Organisational Capital Department, the Risk and Sustainability Department, the Compliance and Anti-Money Laundering Department, the Internal Audit Department, the Finance Department, the Manager in charge of preparing accounting and corporate documents, which support the Board of Directors and the Remuneration Committee, based on their respective competences and functions;
- the Board of Statutory Auditors, which has an advisory function and monitors the proper application of the remuneration policies based on the provisions and regulations in force at the time;
- the Shareholders' Meeting, which approves: (i) the Policies for the Group's employees and 'key personnel'; (ii) any remuneration plans based on financial instruments (for example, stock option and stock grant plans); (iii) the criteria for determining any compensation to be paid in the event of early termination of employment or early exit from office, including the limits upon such compensation in terms of the number of years of fixed remuneration and the maximum amount resulting from application of such criteria (golden parachute).

On approving the Policies, the Shareholders' Meeting also resolves on any proposal to cap the ratio between the variable and fixed remuneration paid to individual staff members at more than 1:1, but not in excess of the maximum limit of 2:1.