

REPORT ON THE CONFORMITY OF BANCA SISTEMA  
S.P.A.'S CORPORATE GOVERNANCE MODEL WITH  
THE MODEL PROVIDED FOR IN THE CORPORATE  
GOVERNANCE CODE APPROVED BY THE  
CORPORATE GOVERNANCE COMMITTEE OF BORSA  
ITALIANA S.P.A.

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## INTRODUCTION

The purpose of this document ("**the Report**") is to report on the governance system adopted by Banca Sistema S.p.A. (hereinafter "**the Bank**," "**Banca Sistema**" or "**the Company**"), by comparing that system with the recommendations set forth in the current Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A. ("**the Corporate Governance Code**").

Adoption of the Corporate Governance Code is voluntary, since it is not required by any provision of law. Once a company has declared that it has adopted the Corporate Governance Code, that company is also free to assess whether to adopt the various standards laid down in the Code. However, if the company does not comply, it is required to provide an explanation (the "comply or explain" principle).

This Report illustrates Banca Sistema's corporate governance structure as established by the Articles of Association approved by the Extraordinary Shareholders' Meeting on 3 June 2015 ("**the Articles of Association**"). The Articles of Association had been approved in advance by the Bank of Italy by resolution 215/2015, of which the Company was notified by note no. 0557740/15 of 20 May 2015, on the assumption that the modifications concerned are not in conflict with the principle of sound and prudent management.

The entry into force of the Articles of Association is contingent on the commencement of trading of the Bank's shares on the Mercato Telematico Azionario (Italian Screen-based Market) organised and managed by Borsa Italiana S.p.A..

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## 1. COMPOSITION AND FUNCTIONING OF THE BOARD OF DIRECTORS

### 1.1 Composition, appointment, term of office and replacement

#### 1.1.1 Composition

The Bank is managed by a board of directors composed of nine members.

At the date of this Report, the members of the board of directors were appointed by the ordinary general meeting of Banca Sistema on 22 April 2014 and will remain in office until the date of the general meeting called to approve the financial statements at and for the year ending 31 December 2016.

#### 1.1.2 Lead independent director

Article 2.C.3 of the Corporate Governance Code provides that the board of directors is to appoint an independent director the lead independent director if (i) the chairman of the board of directors is the chief executive officer of the company or (ii) the office of chairman is filled by the person who controls the issuer. In the Bank's case, the conditions for appointment of a lead independent director have not been met.

#### 1.1.3 Requirements

Pursuant to Article 10.3 of the Articles of Association, directors must satisfy the requirements of professionalism and personal integrity, in addition to all other requirements established by provisions of laws, regulations and the Articles of Association in effect at the time. At least three, and no fewer than the number provided for in the laws, regulations and Articles of Association, of the directors must satisfy the independence requirements established in Article 148 (3) of Legislative Decree 58 of 24 February 1998 ("**Consolidated Law on Finance**" or "**TUF**"), as well as the requirements set forth in the Corporate Governance Code and any additional independence requirements applicable by law. The directors must also be appointed in accordance with applicable legislation concerning access to company bodies by the less represented gender.

In addition, in light of the particular nature of the Bank's business, persons who perform administrative roles (as well as management and control roles) within the Bank are required under Article 26 of Legislative Decree 385 of 1993 ("**Consolidated Law on Banking**" or "**TUB**") to satisfy the requirements of professionalism, personal integrity and independence established by the regulation of the Minister of the Economy and Finance adopted, in consultation with the Bank of Italy, in accordance with Article 17 (3) of Law 400 of 23 August 1988.

#### 1.1.4 Appointment, term of office and replacement

In accordance with Article 10 of the Articles of Association, the board of directors is appointed by the general meeting, on the basis of lists presented by the shareholders, in which candidates must be listed with sequential numbering.

The lists must be filed at the Company's office according to the terms and conditions established in applicable legislation and the Articles of Association. Each individual shareholder, as well as multiple shareholders belonging to a single group who are parties to a single shareholders' agreement as defined in Article 122 of the Consolidated Law on Finance, the party who controls the shareholder, the party by whom the shareholder is controlled and the party subject to joint control, as defined in Article 93 of the Consolidated Law on Finance, may present or participate in the presentation of, and vote for, a single list (the list presented). Each candidate may only stand for election on a single list, on pain of ineligibility.

Only shareholders who separately or together with other shareholders hold an interest of at least 2.5% in the Company with voting rights in general meetings' resolutions concerning the appointment of the administrative body are entitled to present lists.

Ownership of the minimum interest required to present a list is determined with regard to the shares on the record as owned by the shareholder on the day on which the lists are filed with the Company. In order to prove ownership of the number of shares required to submit lists, members putting forward lists have to submit or send to the registered office a copy of the appropriate certificate issued by an authorised intermediary proving ownership of the number of shares required for the submission of the list at least twenty-one days before the meeting called to approve the appointment of the members of the board of directors.

Lists must indicate candidates who satisfy the independence requirements and contain a minimum of three candidates, at least two of whom satisfy the independence requirements established by the law and the Articles of Association. Moreover, each list must include candidates of different genders, including for individual independent candidates, according to what is stated in the Meeting call notice, so as to enable the board of directors to be comprised pursuant to current regulations regarding gender equality.

The following must be filed along with each list, on pain of disqualification of the list concerned: a) information regarding the shareholders who have presented the list and the percentage of shares held; b) the declarations in which each candidate accepts the nomination (in the case of candidates positioned at sequential number "1" on each list, they also accept applicants for chair of the board) and declare, under their own responsibility that there are no causes of ineligibility or incompatibility, and that the requirements of professionalism and integrity and any other requirement stipulated

under current laws and these Articles of Association for undertaking the position are met; c) declarations of independence issued pursuant to the applicable legislative, regulatory and statutory provisions; as well as d) the CV of each candidate, containing extensive information of the individual's personal and professional characteristics, indicating for which theoretical profile he/she is suitable and the positions of administration and control covered.

The directors appointed must inform the board of directors without delay if they cease to satisfy requirements after having certified that they satisfied those requirements when appointed, as well as if they become subject to any causes for ineligibility or disqualification. The loss of the requirements for the position will entail revocation, with it being specified that the loss of the independence requirements mentioned above in relation to a director, notwithstanding the obligation to immediately notify the board of directors, shall not lead to revocation if the requirements are met by the remaining minimum number of directors pursuant to applicable legislation and the Articles of Association.

Directors will be elected as follows:

- a) from the list that obtains the majority of votes (majority list) a number of directors equal to six are elected, of which at least one is in possession of the independence requirements as above; candidates are elected on the basis of the progressive order shown by the list; the candidate positioned at sequential number "1" is appointed chair of the company's board of directors;
- b) two directors, of which at least one in possession of the independence requirements as above will be taken from the list, if any, that gets the most votes after the list referred to in subparagraph a) above, which is not connected in any way, even indirectly, to that list and / or with the shareholders who submitted or voted for the majority list; are elected in those limits candidates in a progressive order in the list;
- c) one independent director will be taken from the list, if any, which receives the highest number of votes after the list in b), which is not connected in any way, even indirectly, with previous lists and / or the shareholders who presented or voted on the previous lists; is the first candidate in the sequential order of the list in the possession of the independence requirements. In the event that only two lists have been submitted and allowed, the remaining independent director will be chosen from the list referred to in point b). To this end, however, lists that do not obtain a percentage of votes equal to half of that required for the submission of lists shall not be taken into account.

Directors may not be appointed for a period of more than three years and will end their terms of office on the date of the general meeting called to approve the financial statements for the final financial year of their terms of office. Directors may be re-elected.

If one or more directors leave office during the year, due to resignation or for any other reason, and provided that the majority of directors are still directors appointed by the general meeting, the board of directors will replace them by resolution approved by the board of auditors, in accordance with the following indications:

- a) the board of directors will appoint the replacement from the individuals on the same list as that including the director who has left office and the general meeting will decide by the legal majorities in compliance with the same criterion;
- b) if there are no previously unelected candidates remaining on that same list, the previously unelected candidates remaining on that same list do not satisfy the necessary requirements, or for any other reason it is not possible to comply with the provisions of point a) above, the board of directors will appoint the replacement, and the general meeting will then confirm the appointment, according to the legal majorities, without use of the list-based voting procedure.

In any event, observance of the minimum number of directors provided for in applicable legislation must be assured, along with observance of current laws on gender equality and the protection of minorities.

Pursuant to article 2386, subsection one of the Italian Civil Code, directors appointed in this way shall remain in post until the next Meeting and those appointed by the Meeting shall remain in post for time that the directors they replaced would have remained in post.

If the majority of the directors leaves office due to resignation or other causes, the entire board of directors will be dismissed (with effect from the subsequent reconstitution of the board), and the general meeting must be called, as above, in accordance with Article 2386 of the Italian Civil Code, in order to reconstitute the entire board of directors.

#### **1.1.5 Succession**

Pursuant to the Corporate Governance Code (5.C.2), the board of directors may adopt a succession plan for executive directors. In accordance with Circular 285 of the Bank of Italy of 17 December 2013 - Supervisory Provisions for Banks, as well as with the current Articles of Association, the Company's board of directors will assess whether to institute such a plan.

#### **1.1.6 Current composition of the board of directors**

The Company's board of directors in office at the date of this Report is composed of nine members and was appointed by the ordinary general meeting of Banca Sistema on 22 April 2014. The current members of the board of directors, who will remain in office until the date of the general meeting called to approve the financial statements at and for the year ending 31 December 2016, are

indicated in the following table, which also presents the position filled by each and their main personal details.

NAME AND SURNAME	POSITION	PLACE AND DATE OF BIRTH	DATE
Giorgio Basevi <sup>2</sup>	Chairman	Genoa (GE), 01/08/1938	22/04/2014
Gianluca Garbi <sup>1</sup>	Chief Executive	Milan (MI), 18/09/1970	22/04/2014
Lindsey McMurray <sup>1</sup>	Director	Glasgow (Great Britain),	22/04/2014
Giorgio Barba Navaretti <sup>1 and</sup>	Director	Turin (TO), 05/06/1960	22/04/2014
Claudio Pugelli	Director	Rome (RM), 17/02/1951	22/04/2014
Giovanni Antonino Puglisi	Director	Caltanissetta (CL), 22/06/1945	22/04/2014
Daniele Pittatore <sup>3</sup>	Director	Alessandria (AL), 09/09/1969	22/04/2014
Michele Calzolari <sup>3</sup>	Director	Bologna (BO), 02/01/1955	22/04/2014
Matthew James Gary	Director	Reading (Great Britain),	22/04/2014

<sup>1</sup> Member of the Executive Committee.

<sup>2</sup> Independent director pursuant to Art. 148 (3) of the Consolidated Law on Finance.

<sup>3</sup> Independent director pursuant to Art. 148 (3) of the Consolidated Law on Finance and Art. 3 of the Corporate Governance Code.

The members of the board of directors in office at the date of this Report all have their official domiciles at the Bank's office.

## 1.2 Nomination committee

In accordance with the corporate governance provisions established by the Bank of Italy in Circular 285 and by Borsa Italiana in the Corporate Governance Code (cf. Art. 4), on 28 May 2015 the Bank's board of directors, amongst its other actions, resolved to modify the number, composition and functions of its board committees, with effect from the commencement date of trading of the Bank's shares on the MTA (Italian Screen-based Market), STAR Segment. Among the other committees instituted as a result of the above decree, a nomination committee was formed. The nomination committee is to be composed of three non-executive members, the majority of whom must satisfy the independence requirement (the chairman of the committee must be chosen from amongst the independent directors). The nomination committee is assigned the functions provided for in the Corporate Governance Code, including (a) formulating opinions for the board of directors concerning the size and composition of the board of directors and expressing recommendations regarding the

professionals whose presence on the board of directors is deemed appropriate, as well as on the subject of the limit on concurrent positions and waivers of the non-compete undertaking provided for in Article 2390 of the Italian Civil Code (cf. the application criterion in 5.C.1.a); and (b) suggesting candidates for the board of directors in cases of co-option, where it is necessary to replace independent directors (cf. application criterion 5.C.1.b).

In addition, in accordance with Bank of Italy Circular 285, the nomination committee is responsible for performing a supporting role for the bodies charged with strategic supervision and management of the following processes: (i) nomination or co-option of directors, by expressing its opinion of the suitability of the candidates whom the board has identified to fill positions through its prior analysis. With regard to the need to ensure an adequate degree of diversification in the collective composition of the board, the committee - without prejudice to the obligations imposed by regulations governing listed banks - must set an objective (target) level for the less represented gender and draw up a plan to increase the members of the less represented gender to reach that target level; (ii); self-assessment of bodies; (iii) verification of the conditions laid down in Article 26 of the Consolidated Law on Banking; and (iv) definition of succession plans for senior executive positions.

Finally, in accordance with application criterion 4.C.1.e of the Corporate Governance Code, the nomination committee may use all types of resources that it deems appropriate, including external consulting services, in order to obtain thorough information regarding the personal and professional characteristics of the candidates and to select the persons most suited to the Company's projected operational needs.

### **1.3 Independent directors**

In accordance with principles 3.P.1 and 3.P.2 of the Corporate Governance Code, an adequate number of non-executive directors must be independent, meaning that they cannot be at that time or recently have been in any direct or indirect relationship with the issuer or parties tied to the issuer that might compromise the independence of their judgement. The independence of directors is assessed by the board of directors after the board is appointed and with annual frequency thereafter.

It should also be noted that in the comment on Article 3, the Corporate Governance Code specifies that in cases of issuers with concentrated ownership, or where a controlling group is otherwise identifiable, there emerges a need for certain directors also to be independent of the controlling shareholders or of the shareholders otherwise capable of exercising significant influence.

With respect to the number of independent directors (without prejudice to the provisions of the Consolidated Law on Finance), the Corporate Governance Code, application criterion 3.C.3, requires that at least one-third of the members of the board of directors (rounded down if one-third of the members is not a whole number) must be independent and that there must also be at least two independent directors. However, according to the STAR Regulations, there must be at least three independent directors on a board with nine members. As may be seen from the table in the previous section, the current composition complies with this requirement.

#### **1.4 Role and competencies of the board of directors**

The Corporate Governance Code requires that the board of directors manage the issuer, meet regularly and act in such a way as to ensure the efficient performance of its functions.

Directors are required to act and resolve independently and in an informed manner, with the priority of creating value for shareholders from a medium-/long-term perspective.

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

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

- a) the determination of the general guidelines relating to the company's development, the strategic operations, business and financial plans of the company, as well as the assessment of the general management performance;
- b) the approval of the company structure and corporate governance, thereby guaranteeing a clear separation of tasks and functions as well as the prevention of conflicts of interest;
- c) the approval of the accounting reporting systems;
- d) the supervision of the public information and communication process;

- e) the adoption of measures aimed at ensuring an efficient dialogue with the management function and with the managers of the main corporate functions, as well as gradual control of the choices and decisions these make;
- f) the risk management policies, as well as, after the Board of Auditors has expressed its opinion, the assessment of the functionality, effectiveness, efficiency of the internal control system and adequacy of the organisational, administrative and accounting structure;
- g) any appointment of Deputy Chair and its revocation, if appointed;
- h) the appointment and dismissal of the CEO. Any appointment or dismissal, if appointed of the general director, which shall necessarily coincide with the CEO;
- i) the assumption and transfer of strategic shareholdings;
- j) the approval and modification of the main internal regulations;
- k) the establishment, modification and removal of internal committees for the company's bodies;
- l) the appointment, replacement and dismissal, after listening to the view of the Board of Auditors, of the managers of the internal review, risk management and compliance functions, of the manager tasked with drafting the accounting and corporate documents;
- m) the determination of the criteria for the coordination and direction of the group's companies;
- n) the sales and acquisition of treasury shares, in accordance with the resolution of authorisation by the Shareholders' Meeting and following authorisation from the Supervisory Authority;
- o) the issue of convertible bonds for a maximum overall amount of 20,000,000 Euros within the maximum period permitted by law;
- p) the establishment, closure and transfer of general offices or representative offices or subsidiaries;
- q) the elaboration of the remuneration and incentives policies of the company and group, as well as the definition of the systems of remuneration and incentives for at least the following persons: (i) executive board members; (ii) general director where nominated; (iii) managers of the main lines of business, company functions or geographic areas; (iv) those who report directly to the bodies with corporate functions of strategic supervision, management and control;

- r) the remuneration of the CEO (and of the general director, if nominated) and of any other director responsible for specific tasks, in compliance with the applicable regulations in terms of remuneration and the company's policies of remuneration and incentives;
- s) the approval of the annual budget;
- t) the attribution, modification and removal of the powers delegated to the Executive Committee and to the CEO;
- u) the adoption of the company's development policies which are necessary in order to determine the long-term business plan and the budget for the period;
- w) the resolutions of the items delegated to the Executive Committee and to the CEO beyond the limits laid down for them;
- x) the delegation of the powers to other directors and power to modify, add and exclude these delegated powers;

For certain types of legal transactions, the board may delegate individual directors, and determine the content, limits and methods of exercise, where applicable, of such delegated powers.

Pursuant to Articles 12.2 and 17.2 of the Articles of Association, in accordance with the provisions of the Corporate Governance Code, (i) the board of directors is responsible for ensuring that the organisational, administrative and accounting structure is suited to the nature and the size of the company and (ii) that the delegated bodies report to the board of directors and the board of auditors at least every three months on the general operating performance, business outlook and the most significant transactions, by size or characteristics, undertaken by the Company or its subsidiaries.

In addition, the Corporate Governance Code (i) in application criterion 1.C.1.a, provides that the board of directors is to examine and approve the strategic, industrial and financial plans of the issuer and the group of which it is the parent, while also periodically monitoring the implementation of such plans, and also to establish the corporate governance system of the issuer and the structure of the group; and (ii) in application criterion 1.C.1.g, that at least once a year the board of directors is to conduct an assessment of the functioning of the board and its committees, as well as their size and composition, while also considering elements such as professional characteristics, experience, including managerial experience, and the gender of its members, as well as their length of service. If the board of directors elects to secure the services of outside consultants for self-assessment purposes, the corporate governance report must provide information concerning any additional

services rendered by those consultants to the issuer or companies in a relationship of control with the issuer. In the Bank's case, those criteria are reflected in Articles 12.2 a) and b) and 10.11.

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

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

#### **1.5 Powers of the chairman of the board of directors**

Pursuant to Article 17 of the Articles of Association, the Chairman (i) ensures the smooth functioning of the Board, promotes internal dialogue and ensures the balance of power, in accordance with the tasks relating to the organisation of the board's proceedings and the flow of information that may be assigned by the Italian Civil Code; (ii) promotes the effective functioning of the corporate governance system, ensuring a balance between the powers of the CEO and the other executive directors and is the interlocutor of the body with the control function and internal committees; (iii) ensures that the self-assessment process is carried out effectively and that the company draws up and implements induction programmes and training plans for the board members and, where required, succession plans for the top executive positions; (iv) organises and coordinates the board of directors' activities, ensuring that that priority is afforded to issues of strategic importance, ensures that these are allowed as much time as is necessary, ensures the effectiveness of the Board discussions and ensures that the resolutions reached by the Board are the result of a proper debate between executive and non-executive directors and the conscious and reasoned contribution of all its members; (v) ensures that adequate advance information is provided to all directors on the agenda of the Board of Directors; (vi) convenes meetings of the board of directors and shall decide on its agenda, taking into account any instances or issues listed by shareholders, directors or committees and verifies the validity of its constitution and ascertains the identity and legitimacy of those present and the voting results; (vii) supervises implementation of the resolutions of the governing bodies and on the 'general performance of the company; (viii) may participate, without a vote, in meetings of the executive committee; and (ix) diligently and promptly encourages any other activity whose power he / she is awarded under the provisions of law or regulations in force.

The chairman of the board of directors acts as the chair of its meetings. If the chairman is absent or incapacitated, he will be replaced by the deputy chairman, where appointed, or by another person designated by the board of directors, failing which the general meeting will designate one of the attendees chairman by simple majority of the capital represented.

In accordance with the provisions of this section, the powers attributed to the chairman of Banca Sistema's board of directors reflect the related application criteria laid down in the Corporate Governance Code (cf. 1.C.5 and 1.C.6).

#### **1.6 Powers of the chief executive officer**

The board of directors appoints a chief executive officer from among its members and has the power to assign the position of general manager to that same chief executive officer. The position of general manager may only be assigned to the chief executive officer. The chief executive officer manages the company's activities within the constraints of the powers conferred upon him and in compliance with the general management guidelines determined by the board of directors.

Within the limits of the powers conferred upon him by the board of directors, can delegate decision-making powers in respect of the giving of credit and ordinary management to executives, officials, middle managers, branch managers and other company employees, within predetermined limits graded on the basis of their functions and level covered.

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

#### **1.7 Executive committee**

Pursuant to Art. 14 of the Articles of Association, the board of directors may appoint an executive committee from amongst its members and determine the term of office, powers, attributions and methods of functioning of such committee. The executive committee consists of three directors, and the chief executive officer is a member of the committee by right. The chairman cannot be a member of the executive committee, but may participate in its meetings, without the right to vote.

The directors concerned will remain in office for the period determined on each occasion by the board of directors, which will also determine their powers and attributions, and may revoke all or

some of the members of the committee at any time. The term of office of the executive committee may not exceed that of the directors who make up the committee.

The meetings of the Executive Committee can be attended by managers of the company, or any other person that the Executive Committee wishes to invite to support its work on specific issues, on the invitation of the chief executive officer.

The executive committee will meet at least monthly.

In light of the foregoing, considering that the powers of the board of directors listed in section 1.4 above may not be delegated by the board of directors, in keeping with the principles of the Corporate Governance Code, the powers granted to the chief executive officer and the executive committee cannot deprive the board of directors of its prerogatives (cf. the Corporate Governance Code, comment on Art. 1). The powers delegated to the executive bodies mentioned above must be such as to allow the board of directors always to maintain a central role in the process of making decisions concerning the strategic guidance of the Company.

## **2. REMUNERATION OF DIRECTORS AND EXECUTIVES**

From a general standpoint, the Corporate Governance Code provides that the remuneration of directors and strategic executives is to be set at a level sufficient to attract, retain and motivate persons endowed with the professional qualities suited to allowing them to manage the issuer successfully (6.P.1).

In the cases of executive directors and strategic directors, remuneration must be defined in such a way as to align their interests with the pursuit of the priority goal of creating value for the shareholders from a medium-/long-term perspective. A significant portion of the remuneration of holders of delegated management powers and those who perform functions relating to management of the company, including on a de facto basis, must be tied to the achievement of specific objectives, as indicated and determined in advance in the remuneration policy.

On the other hand, the remuneration of non-executive directors is commensurate with the commitment required of each of them, including as regards their participation in one or more committees, where applicable. However, the remuneration of non-executive directors may not be tied to the financial performance achieved by the issuer, except to an immaterial degree. In any event, such non-executive directors cannot be the beneficiaries of shared-based remuneration plans, barring a reasoned decision of the general meeting to the contrary (6.P.2).

In particular, Banca Sistema's ordinary general meeting approves the following, in addition to establishing the compensation to which bodies of the Bank are entitled:

- (i) the remuneration and incentive policies for directors, statutory auditors and other key personnel;
- (ii) remuneration plans, if any, based on financial instruments (for example, stock options);
- (iii) the criteria for determining the 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 years of fixed remuneration and the maximum amount resulting from application of such criteria.

## **2.1 Remuneration committee**

The Corporate Governance Code provides that the board of directors is to establish an internal remuneration committee, composed of independent or non-executive directors, with an independent majority, at least one of whom must possess knowledge and experience in the fields of finance or remuneration policies.

In accordance with the following, as well as with the corporate governance prescriptions established by the Bank of Italy in Circular no. 285, on 28 May 2015 the Bank's board of directors instituted, amongst other bodies, a remuneration committee composed of three non-executive members, two of whom are independent (the chairman of the committee is chosen from among the independent directors).

In order to perform its duties effectively and responsibly, the remuneration committee has access to the company information relevant to this end and possesses sufficient financial resources to ensure that it enjoys operational independence. In addition, in order for the incentives underlying the remuneration and incentive system to be consistent with the Bank's management of its risk profiles, such as capital and liquidity, the remuneration committee may rely upon the assistance of experts, including external experts, in the fields concerned.

## **3. INTERNAL CONTROL SYSTEM**

The Company's board of directors approves the fundamental lines of the Company's internal control system, understood as the set of processes aimed at monitoring the efficiency of company operations, the reliability of financial information, observance of laws and regulations and the protection of the Company's assets.

The duties of the board of directors, in accordance with the Corporate Governance Code, include (i) monitoring, preventing and managing the risks to which the Company is exposed by establishing guidelines for the control system suited to ensuring that the risks concerned are properly identified, as well as adequately measured, monitored, managed, and assessed, including in light of the protection of the Company's assets and sound, prudent management of the enterprise; (ii) periodically assessing, no less than once a year, the adequacy, efficacy and actual functioning of the internal control system.

The board of directors also appoints (7.P.3.a.i):

- the director charged with supervising the functionality of the internal control system (the "**Responsible Director**"), who is assigned the duties set out in point 3.1 below. The Company's Responsible Director, Chief Executive Officer Gianluca Garbi, was appointed on 28 April 2015;
- the members of the control and risks committee (7.P.3.a.ii), who are assigned the functions set out in point 3.2 below.

The Company has also instituted an Internal Audit Function (7.P.3.b), which is assigned the responsibilities described in point 3.3. On 12 December 2012, in accordance with the Supervisory Instructions, the Company appointed Franco Pozzi the head of its Internal Audit function.

Finally, the Company's internal control system is completed, for the portion relating to the prevention of the risk of commission of offences and thus compliance, by a code of ethics, approved by the issuer's board of directors on 1 February 2012, and by an organisational, management and control model adopted by the board of directors on 9 March 2012 in accordance with Legislative Decree 231/2001 ("**the Model 231**"). In application of that statute, on 31 July 2013 the Company then updated its Model 231. On 22 April 2014 it also appointed its supervisory board ("**Supervisory Board**"), which acts seamlessly in a supervisory capacity with regard to the functioning and observance of Model 231, and which also monitors and assesses the state of implementation of preventative measures, on which it reports periodically to the board of directors and board of auditors.

At the date of this Report, the Supervisory Board was composed of the three following members:

- Michele Calzolari, in the capacity of Chairman of the Supervisory Board and independent director;
- Giorgio Basevi, in the capacity of independent director pursuant to the Consolidated Law on Finance; and
- Franco Pozzi, head of Internal Audit.

By resolution of the board of directors of 31 July 2013, the Bank updated and approved its Code of Ethics ("**Code**"), which lays down the ethical principles and general rules that characterise the Bank's organisation and business. The Code is a useful instrument in preserving the Bank's value and integrity.

Finally, it should be noted that the Bank's directors, statutory auditors, executives, general management and employees of all levels and categories are required to comply with the Code. The Company is committed to promoting the adoption of the Code among its associated companies, subsidiaries, sales partners, consultants and collaborators, considering compliance with the Code as one of the key elements for assessing current and future relations. The Code is an integral part of Model 231.

### **3.1 The Responsible Director**

The Responsible Director is charged with supervising the functionality of the internal control system, managing risks, implementing the related guidelines set by the board of directors, with the support of the internal control committee, and ensuring that all actions necessary to the implementation of the system are performed.

In particular, in accordance with Article 7.C.4 of the Corporate Governance Code, the Responsible Director:

- a. identifies the main company risks, taking account of the characteristics of the activities performed by the issuer and its subsidiaries, and submits them periodically for the review of the board of directors;
- b. implements the guidelines established by the board of directors, oversees the planning, implementation and management of the internal control and risk management system, and constantly verifies that the system is adequate and effective;
- c. is responsible for adapting the system to changing operating conditions and the legislative and regulatory scenario;
- d. may request that the Internal Audit function conduct audits of specific operating areas and compliance with internal rules and procedures in the conduct of company transactions, while concurrently informing the chairman of the board of directors, chairman of the control and risk committee and chairman of the board of auditors thereof;

e. reports in a timely manner to the control and risk committee (or to the board of directors) concerning problems and critical issues brought to light in the conduct of its activity or of which it otherwise becomes aware, so that the committee (or board) may take the appropriate initiatives.

### **3.2 Control and risk committee**

On 28 May 2015 the Bank's board of directors, amongst its other actions, instituted a control and risk committee (formerly the "internal control committee"), which is assigned the functions provided for in the Corporate Governance Code, composed of three non-executive members, two of whom must be independent (the chairman of the committee is chosen from among the independent directors), and which is also assigned the functions of related-party transactions committee. One of the three members of the committee must possess adequate experience in the fields of accounting, finance and risk management, as assessed by the board of directors upon appointment.

In particular, the control and risk committee performs all of the duties assigned to it by the Corporate Governance Code, and in particular:

(i) it assists and supports the board of directors, and ensures that the board of directors benefits from adequate preliminary review in evaluations and decisions relating to the Company's internal control and risk management system, as well as in those relating to the approval of periodic financial reports (7.P.3);

(ii) it expresses its opinion to the board of directors regarding:

- setting guidelines for the internal control and risk management system, so that the main risks to which the Bank and its subsidiaries are exposed are properly identified and adequately measured, managed and monitored, in addition to determining the extent to which such risks are compatible with management of the company in a manner consistent with the strategic objectives identified;
- assessing, with at least annual frequency, the adequacy of the internal control and risk management system to the characteristics of the Company and the risk profile assumed, as well as the committee's efficacy;
- approving, with at least annual frequency, the working plan drawn up by the head of the Internal Audit function, in consultation with the board of auditors and the Responsible Director of the internal control and risk management system;
- describing the main characteristics of the internal control and risk management system in the

corporate governance report and expressing its assessment of the committee's adequacy;

- assessing the results presented by the independent auditor in the letter of suggestions, where appropriate, and in the report on the fundamental issues identified during the legal audit;
- appointing and dismissing the head of the Internal Audit function;
- ensuring that the head of the Internal Audit function possesses adequate resources to carry out his responsibilities;
- ensuring that the remuneration of the head of the Internal Audit function is defined in a manner consistent with the Company's policies;

(iii) assessing the proper use of accounting standards and the consistency of such standards for the purposes of preparation of the consolidated financial statements, in conjunction with the executive responsible for the preparation of company accounting documents and in consultation with the independent auditors and board of auditors (7.C.2.a);

(iv) expressing opinions concerning specific aspects of identifying the main company risks (7.C.2.v);

(v) reviewing periodic reports regarding the evaluation of the internal control and risk management system and reports of particular importance drafted by the Internal Audit function (7.C.2.c);

(vi) monitoring the autonomy, adequacy, efficacy and efficiency of the Internal Audit function (7.C.2.d);

(vii) requesting that the Internal Audit function, where it deems it necessary or appropriate to do so, conduct audits of specific areas of operations, while concurrently informing the chairman of the board of auditors thereof (7.C.2.e);

(viii) reporting to the board of directors, with at least half-yearly frequency, in conjunction with the approval of the annual and semi-annual financial reports, on the activities performed by and the adequacy of the internal control and risk management system (7.C.2.f);

(ix) assessing the reports by the Responsible Director in charge of the internal control and risk management system concerning problems and critical issues relating to the Bank's internal control and risk management system and the appropriate initiatives;

(x) performing any additional tasks assigned by the board of directors.

In performing its functions, the control and risk committee has access to the information and company functions necessary to the performance of the related tasks and may draw on the assistance of internal employees and, at the Bank's expense and within the budget limits approved

by the board of directors, external professionals, provided that they are suitably bound to the required confidentiality.

### **3.3 Internal Audit**

The Company's control and risk committee must approve the assignment of the functions provided for in the Corporate Governance Code to the Internal Audit function. More specifically, it must ensure the efficiency of the internal control system in relation to the protection of the Company's assets, accuracy of information, and compliance with application of the law and internal policies by company units and group companies.

In accordance with Article 7.C.5 of the Corporate Governance Code, the head of the Internal Audit function:

- a. verifies, both on an ongoing basis and in relation to specific needs and in accordance with international standards, the operation and suitability of the internal control and risk management system, through an audit plan approved by the board of directors, based on a structured process of analysis and priority identification of the main risks;
- b. is not responsible for any areas of operations and reports hierarchically to the board of directors;
- c. has direct access to all information useful in carrying out its tasks;
- d. prepares periodic reports concerning adequate information about its activities, the methods in which risk management is conducted and compliance with risk containment plans. Periodic reports must contain an assessment of the suitability of the internal control and risk management system;
- e. draws up reports on particularly significant events in a timely manner;
- f. submits the reports indicated in points d) and e) to the chairmen of the board of auditors, control and risk committee, board of directors and director responsible for the internal control and risk management system;
- g. verifies the reliability of the information system, including company accounting systems, in the context of the audit plan.

## **4. BOARD OF AUDITORS**

In accordance with Article 18 of the Articles of Association, the board of auditors is composed of three statutory auditors and two alternate auditors. The statutory auditors remain in office for three

financial years, may be re-elected and end their term of office on the date of the general meeting called to approve the financial statements for the third financial year of their term of office. Auditors cease to hold office upon the expiry of the term stipulated at the time the Board was established.

At the date of this Report, the Bank's board of auditors was composed of five members, three statutory auditors and two alternate auditors, appointed by the Company's ordinary general meeting of 22 April 2014. The board of auditors will remain in office until the date of the general meeting called to approve the financial statements for the year ended 31 December 2016. The following table illustrates the members of the board of auditors in office, with an indication of the position filled by each and the primary personal details.

NAME AND SURNAME	POSITION	PLACE AND DATE OF BIRTH	DATE APPOINTED
Diego De Francesco	Chairman	Naples (NA), 11/06/1968	22/04/2014
Massimo Conigliaro	Statutory auditor	Catania (CT), 25/12/1969	22/04/2014
Biagio Verde	Statutory auditor	Alessandria (AL), 18/07/1943	22/04/2014
Marco Armarolli	Alternate auditor	Busto Arsizio (VA), 23/01/1973	22/04/2014
Gaetano Salvioli	Alternate auditor	Bologna (BO), 21/11/1966	22/04/2014

All members of the board of auditors have their official domiciles at the Company's office.

The requirements for members of the board of auditors are as follows:

- (i) the requirements set forth in Article 148 (3) of the Consolidated Law on Finance;
- (ii) the professionalism and personal integrity requirements set forth in the Decree 162 of Ministry of Justice of 30 March 2000;
- (iii) the limits on concurrent positions established by Consob regulation.

As also established by Article 18 of the Articles of Association, auditors may assume positions on the management and control bodies of other companies, within the limits imposed by applicable provisions of a regulatory and other nature. Furthermore, in addition to those grounds provided for by law, being tied to the Company by an ongoing independent contracting or employment relationship, or any relationship involving the direct or indirect supply of goods and/or services, being a member of an administrative body of another bank or company whose business is in competition with that of the Company, or being tied to such other bank or company by an ongoing independent

contracting or employment relationship are all grounds for dismissal or ineligibility. Auditors may not assume tasks other than those of control at other companies belonging to the group or to the financial conglomerate, nor to companies in which the company, including indirectly, holds a strategic stake.

In order to ensure the election of a statutory and alternate auditor for minority shareholders, the appointment of the board of auditors comes about on the basis of lists presented by shareholders in which the candidates are listed in sequential order. The list is comprised of two sections: one for candidates for the position of statutory auditor, the other for candidates to the post of alternate auditor.

Lists which have a number of candidates equal to or greater than three must also include candidates of a different gender, in accordance with what is stated in the Meeting call of notice, so as to allow the board of auditors to be set up in accordance with current laws regarding gender equality. Both shareholders which present, including jointly at least 2.5% (two point five per cent) of the share capital represented by voting rights at Meeting resolutions whose purpose is to appoint the members of the administrative body, or another measure which may be established by mandatory legal or statutory provisions, can present a list of candidates. The holding of this minimum share necessary to submit lists is determined having regard to the shares which are registered to the shareholder on the day in which these lists are submitted to the company's head office. In order to prove the holding of the number of shares required to present lists, shareholders who present or are involved in submitting lists, must submit to deliver to the registered office a copy of the appropriate certificate issued by an authorised intermediary pursuant to law, issued within the period laid down for the publication of the lists. Each shareholder, including shareholders belonging to the same group, member of a shareholders' agreement pursuant to article 122 of the Consolidated Law on Finance, parent companies, subsidiaries and those subject to joint control pursuant to article 93 of the Consolidated Law on Finance, may not submit or be involved in the submission, either by proxy of trust company, in more than one list and may not vote on lists other than the one presented and any candidate can only appear in a single list under pain of being declared ineligible. The party, whether in company or other form, that directly or indirectly exercises control, as defined in Article 93 of the Consolidated Law on Finance, over the shareholder in question, and all direct or indirect subsidiaries of that same party, are regarded as belonging to a single group. If the above provisions are not respected, the position of the shareholder concerned will not be considered in regard to any of the lists.

Without prejudice to the situations of incompatibility provided for by law, candidates who serve as statutory auditors at five (5) other issuers, or in violation of any limits on concurrent positions

established by applicable provisions of laws or regulations, and persons who do not meet the personal integrity and professionalism requirements established by applicable provisions of laws or regulations, cannot be included in lists. Outgoing auditors may be re-elected.

The following must be filed, along with each list, by the deadlines indicated above: i) information concerning the identity of the shareholders who presented the list and the total percent interest held by those shareholders; ii) declarations whereby individual candidates accept their candidacy and attest, under their own responsibility, that there are no grounds for them to be considered ineligible or disqualified, including the limit on concurrent positions, and the satisfaction of the requirements established by laws, regulations and the Articles of Association for the respective positions; iii) a declaration by shareholders other than shareholders who, separately or collectively, hold a controlling or relative majority interest, attesting to the absence of relationships of association, as defined in applicable laws and regulations, with such shareholders; and iv) the curriculum vitae of each candidate, containing thorough information about each candidate's personal and professional characteristics, as well as an indication of management and control positions filled at other companies.

On the understanding that this procedure applies only when the entire board of auditors is re-elected, the board of auditors is appointed on the basis of lists presented by shareholders on which candidates are listed by sequential number and do not exceed the number of members of the board to be elected. The established procedures concerning lists for the appointment of members of the board of directors apply to the presentation, filing and publication of lists.

Auditors are elected as follows:

- a) two statutory auditors and one alternate auditor are drawn from the list that obtained the greatest number of votes, on the basis of the sequential numbering with which they are listed in the sections of the list;
- b) the remaining statutory auditor and the other alternate auditor are drawn from the list that obtained the greatest number of votes in the general meeting and is not associated, directly or indirectly, with the list indicated in point a) above and/or with the shareholders who presented or voted for the majority list, according to the sequential numbering with which they are listed in the sections of the list;
- c) in the event of a tie between lists, the list presented by the shareholders with the greatest equity interest, or, subordinately, by the greatest number of shareholders, will prevail;

d) where the board of auditors thus constituted does not ensure compliance with current laws in respect of gender equality, the last candidate elected from the majority list shall be replaced by the first candidate not elected from the same list belonging to the least represented gender or, failing this, by the first candidate not elected from the successive lists. Where this is not possible, the statutory member of the least represented gender is appointed by the Meeting with legal majority voting, to replace the last candidate from the majority list;

e) where a single list or no list is presented, all the candidates for the positions indicated in the list or else those voted by the Meeting shall be elected the statutory and alternate auditors, provided that these achieve the majority of votes expressed at the Meeting. This is notwithstanding compliance with the regulations in force in respect of gender equality.

The chairmanship of the board of auditors is assumed by the first candidate on the second list who has obtained the most votes, if presented and allowed.

In order to ensure the effective performance of its duties by the board of auditors, the board of auditors is to be in constant contact with other company functions, including through the exchange of information, for example with the Internal Audit, Risk Management and Compliance functions.

In order to allow the board of auditors to perform its supervisory duties, including on an advance basis, the board of auditors is often allowed to take part in the board of directors' decision-making process by issuing advance opinions. However, the foregoing is without prejudice to the difference between the board of auditors, on the one hand, and the board of directors and control and risk committee, on the other, which are responsible for assessment, including on the merits, of operations, whereas the board of auditors has exclusively supervisory duties.

## **5. EXECUTIVE IN CHARGE OF THE PREPARATION OF ACCOUNTING AND COMPANY DOCUMENTS**

The Corporate Governance Code (comment on Article 7) recommends that the executive in charge of the preparation of company accounting documents draw up adequate administrative and accounting procedures for the drafting of financial disclosure documents.

Article 154-*bis* (1) of the Consolidated Law on Finance states that the Articles of Association must provide for the appointment of an executive responsible for the preparation of company accounting documents, following a mandatory opinion from the control body, with an indication of the professionalism requirements for the position.

Article 23 of the Company's Articles of Association lays down the professional requirements and methods of appointment of the executive responsible for the preparation of company accounting

documents, as governed by Article 154-*bis* of the Consolidated Law on Finance.

In particular, the executive in question must be appointed from the board of directors, following a mandatory, but non-binding opinion, from the board of auditors. Upon appointment, the board of directors may establish a certain period of duration of the assignment and grant him adequate powers and means for the performance of the tasks assigned to him by law, as well as his compensation. The board of directors may dismiss the executive responsible for the preparation of company accounting documents.

The executive responsible for the preparation of company accounting documents must have demonstrated experience in finance and accounting.

By resolution of the Board of Directors on 26 March 2015, following a favourable opinion from the board of auditors, the Bank appointed Margherita Mapelli as executive responsible for the preparation of company accounting documents, pursuant to Article 154-*bis* of the Consolidated Law on Finance, with effect contingent on the commencement of trading of the shares concerned on the Mercato Telematico Azionario - STAR Segment organised and managed by Borsa Italiana S.p.A..

## **6. HANDLING OF CONFIDENTIAL AND INSIDER INFORMATION**

Pursuant to Article 1.C.1.j of the Corporate Governance Code, the board of directors is required to adopt a procedure for the internal management and disclosure of documents and information concerning the issuer, with particular regard to insider information, by proposal of the chief executive officer or the chairman, so as to ensure that company information is properly managed. This procedure was adopted on 26 March 2015, with effect contingent on the commencement of trading of the shares concerned on the Mercato Telematico Azionario - STAR Segment, organised and managed by Borsa Italiana S.p.A..

### **6.1 Rules and procedures for the management of company information**

On 26 March 2015 the Bank's board of directors approved the adoption of rules and procedures for the internal management and disclosure of insider information regarding the Company. Those rules and procedures contain provisions governing the management of confidential information and the management and disclosure of insider information, as defined in Article 181 of the Consolidated Law on Finance, regarding the Company and parties in relationships of control with the Company, including companies controlled by the Company, as well as the fulfilment of legal obligations for the

public disclosure of such information. All members of company bodies, employees and independent contractors of the Company, the Company's parent company and the Company's subsidiaries who have access to confidential and insider information, for any reason, are required to comply with the procedure.

This resolution enters into effect on the date of commencement of the trading of the Company's shares on the Mercato Telematico Azionario (Italian Screen-based Market).

## **6.2 Procedure for keeping and updating the Insiders Register**

The board of directors must institute and regularly update a register of persons with access to insider information, as defined in Article 115-*bis* of the Consolidated Law, with respect to the obligation for listed issuers, parties in a relationship of control with such issuers and persons acting in their name or on their account. On 26 March 2015 the Bank's board of directors approved a procedure for managing and updating that register.

This resolution enters into effect on the date of commencement of the trading of the Company's shares on the Mercato Telematico Azionario (Italian Screen-based Market).

## **7. SHAREHOLDER RELATIONS**

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

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

When making this appointment, the Company will assess whether to establish an ad hoc company unit that supports the investor relator in performing his functions.

The Company also ensures adequate information in investor relations by providing access to the most relevant company documentation, in a timely, ongoing manner, in a dedicated section of the Company's website. During a subsequent session, the board of directors will also assess the adjustment/finalisation of the Company's website so that it conforms with applicable provisions.

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

To this end, the Company:

- a. adopted, on 3 June 2015, rules and procedures for the general meeting to be followed in order to ensure that sessions are conducted in an orderly, efficient fashion. Those rules and procedures provide, inter alia, that votes are to be held using electronic systems;
- b. provided, in Article 8.9 of the Articles of Association, that the general meeting may also be held with participants in multiple locations, adjacent or remote, linked by audio and video connection (audio only connection is allowed solely when the participants are easily recognisable by the chairman of the general meeting), provided that the collegial method and the principles of good faith and equal treatment of shareholders are observed.