

The Internal Audit Department's report on the correct application of the 2022 Remuneration Policies of the Banca Sistema Group

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

This report details the results of the audits conducted by the Internal Audit Department (the “**Department**”) on the compliance of the remuneration practices with the “2022 Remuneration Policies Document of the Banca Sistema Group” (the “**2022 Policies**”) pursuant to the relevant provisions of Bank of Italy Circular No. 285 of 17 December 2013¹.

The 2022 Policies introduced new criteria for determining the variable remuneration of Group² employees, which are consistent with market practice, in order to base the amount of the bonus pool payable on performance, in addition to determining the variable remuneration of each material risk taker based on their actual contribution to the ex-ante assigned risk-adjusted targets.

The audits were conducted under a standardised control framework³ suitable for providing the required assurance to shareholders and compliance with supervisory requirements.

The process of preparing the 2022 Policies was coordinated by the **Human Capital Department**, to ensure compliance with the relevant provisions and to align them with the market in which the Bank operates.

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

The **Compliance and Anti-Money Laundering Department** has verified ex ante the compliance of the 2022 Policies with the applicable legal framework, the Articles of Association and the Bank's Code of Ethics, taking into account the inherent legal and reputational aspects, especially in relations with customers. At the end of the audits, it presented its opinion as required by applicable supervisory regulations to the Shareholders' Meeting of 28 April 2022.

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

²The Bank's Human Capital Department has prepared a specific “Operational Procedure regarding flexible bonuses assignable to the Bank Group's employees”, approved by the Board of Directors on 11 October 2022, applying the provisions of the 2022 Policies.

³ The controls carried out are those set out in the Position Paper of the Associazione Italiana Internal Audit (AIIA) on “Provisions in relation to remuneration and incentive policies and practices in banks and banking groups”.

The **Finance Department**, has verified the compliance of the 2022 Policies with the Bank's medium and long term objectives and strategies through the definition of the final level of the "gate" and access criteria to define the bonus pool payable.

The **Manager in charge of financial reporting** verified the compliance and consistency of the Policies with the accounting and company documents, their accuracy with respect to the approved accounting entries for the period ended 31.12.2022, as well as certifying the achievement of the corporate access conditions and criteria.

The 2022 Policies have been preliminarily examined by the Bank's Remuneration Committee and Board of Directors, which expressed their favourable opinion, before being formally approved by the Shareholders' Meeting on 28 April 2022, in compliance with the Articles of Association (art. 9.2) and Bank of Italy Circular No. 285/2013.

The audits carried out by this Department concerning the application of the 2022 Policies reveal the following:

- The Remuneration Committee, in its meeting of 14 March 2023, and the Board of Directors, in its meetings of 17 and 30 March 2023, each for their respective areas of responsibility, assessed the allocation of the 2022 incentives, verifying that the following "gates" set in the 2022 Policies incentive system had been reached:
 - i) Condition for distribution: achievement of a consolidated net income at 31.12.2022 greater than 75% of the budgeted result for 2022.
 - (ii) Condition for access: exceeding the RAF Level 1 thresholds of the "Total Capital Ratio" (TCR), equal to 15%, and "Liquidity Coverage Ratio" (LCR), equal to 125%.

The condition for distribution of the bonus pool was met as the consolidated gross earnings achieved as at 31.12.2022 was € 31,866 thousand, which exceeds the threshold by € 27,864 thousand, equal to 75% of the budgeted profit of € 37,152.53 thousand.

The condition for access was also achieved, as both ratios are above the RAF thresholds and equal to 15.93% for TCR and 271.45% for LCR, respectively. Based on the interpolation of the funding curve, the total variable remuneration component was € 2,617 thousand.

The Remuneration Committee and the Board of Directors of the Bank, during their respective meetings held between February and March 2023, analysed the criteria for applying the 2022 Policies, highlighting the actual achievement of the quantitative indicators for establishing the amount of the bonus pool distributable for the year (e.g. estimates of the access criteria, adjustment factors, etc.), with the support of the Human Capital Department and based on the actual results from the draft consolidated financial statements as at 31.12.2022. In the same meetings, the performance of the Chief Executive Officer/General Manager was also assessed against the assigned objectives, as was the performance of the heads of the control departments reporting directly to the Board of Directors.

- The amount of the variable component of remuneration for the 2022 financial year for all beneficiaries was determined by observing a 1:1 ratio with respect to the fixed component, including for the Chief Executive Officer/General Manager, which, based on the new pay out curve, provides for a maximum of 125% of the fixed component, instead of the previous attainable limit of 200%. The criteria for deferral and payment in financial instruments laid down by the 2022 Policies were also applied for amounts exceeding € 50 thousand⁴, as well as confirming that the variable component granted to the heads of the internal control departments did not exceed the limit of 1/3 of their respective fixed remuneration.
- All the deferred portions (cash and shares) of the bonuses linked to the incentive system for the years prior to 2018 have been fully paid, while for subsequent years there are portions yet to be paid, based on the deferral methods set out in the remuneration policies for the respective years. The deferred portion relative to the 2019 financial year concerns 8 beneficiaries and will also be paid following the approval of the financial statements as at 31.12.2022, both for the cash portion of € 152,586 and for the 193,508 shares, already available in the stock of treasury shares.
- The variable up-front component for the 2022 financial year, as well as the deferred portion for the 2019 financial year that has reached the end of the deferral period, will be paid upon approval of the financial statements as of 31.12.2022 by the Shareholders' Meeting to be held on 28 April 2023 and, as a result, it was not possible to verify the actual payment of the approved amounts prior to issuing this report.
- The remuneration of the Chairperson of the Board of Directors and of the Directors for their activities complies with the resolutions of the Shareholders' Meeting of 30 April 2021 and does not include any incentive mechanism, apart from the Chief Executive Officer who, as already mentioned, also serves as General Manager. The remuneration of the Board of Statutory Auditors refers to that resolved following its appointment by the Shareholders' Meeting of 23 April 2020.

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

- 1) Starting in 2015, the Bank has signed non-compete agreements (NCA) with key personnel and other personnel possessing particularly significant experience and skills, pursuant to and for the purposes of Article 2125 of the Italian Civil Code. The amounts to be paid were determined in proportion to the fixed remuneration of the beneficiaries and advances were paid between 2015 and 2017. In March 2017, the agreement referred to above was revised and formalised in a

⁴The 2022 Policies provide for the payment of variable remuneration in cash only. Payment of the deferred portion will be made in two equal instalments (50%) in the first and second year following, subject to verification of compliance with the gates set out in the remuneration policies for each year in which they accrue (see Section 6.4.2.2 "Malus" of the 2022 Policies).

“protected” venue, excluding the payment of further advances during the employment relationship, while the payment of 75% of the gross annual remuneration and flexible benefits received in the last year of service, net of the advances paid, will be paid. The consideration will be paid in one or more instalments by the end of the month preceding the month of termination of the last of the three years following termination of employment, provided that the former employees comply with the agreed conditions. Should this not be the case, a breach of the NCA will result, for the former employee, in the immediate repayment of an amount equivalent to the total cost (including advance payments) incurred by the Bank, as well as, in the form of a contractual penalty, the immediate payment of the net amount corresponding to 35% of the gross annual remuneration for the last year of service including the flexible benefit.

During 2022, pursuant to the 2022 Policies (Section 6.6.3 “Retention Bonuses”) and in accordance with the resolutions of the Board of Directors of 25 November 2022, 29 new retention bonus agreements were entered into to replace the NCAs, which were consequently terminated, while 9 beneficiaries decided to continue with their non-compete agreements. The Chief Executive Officer agreed to the proposed replacement of the non-compete agreement with the retention bonus, although the effectiveness of this agreement was subject to the approval of the 2023 Remuneration Policies Document by the Ordinary Shareholders' Meeting.

The potential liability of the agreements referred to above is recognised in two provisions in the financial statements that were determined using the valuations of an expert actuary, in accordance with IAS 19. As of 31 December 2022, the provisions in the financial statements amounted to € 1,006 thousand for the retention bonus and € 496 thousand for the portion related to the NCA. The new agreements had a positive effect on the income statement of € 1,417 thousand due to the release of a portion of the previously accrued provision for the NCAs.

- 2) The minutes of the Remuneration Committee, the Internal Control and Risk Management Committee and the Board of Directors, for the meetings held between February and March 2023 during which matters relating to the application of the 2022 Policies were discussed, have not yet been formally approved and transcribed in the respective company books.

Milan, 12 April 2023

The Head of Internal Audit
of Banca Sistema S.p.A.