

BANCA **S I S T E M A**

REPORT ON CORPORATE GOVERNANCE AND SHAREHOLDER STRUCTURE

Banca Sistema Group

2015

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

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Glossary

Shareholders' Meeting: the Issuer's Shareholders' Meeting

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

Code/Corporate Governance Code: the Corporate Governance Code of listed companies drafted by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code: the Italian Civil Code.

Board of Statutory Auditors: the Issuer's Board of Statutory Auditors

Board of Directors: the Issuer's Board of Directors.

Consob: Italian Securities and Exchange Commission with registered office in Rome, Via G.B. Martini 3.

Supervisory Provisions for Banks: Circular no. 285 of the Bank of Italy of 17 December 2013 - Supervisory Provisions for Banks.

Issuer, Banca Sistema or Bank or Company: Banca Sistema S.p.A., with registered office in Milan, Corso Monforte 20.

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

Group: the banking group comprising Banca Sistema, as parent company, and SF Trust Holdings.

MTA: the Italian Equities Market organised and managed by Borsa Italiana.

PA: Italian public administrations.

Board of Directors' Regulations: the "Regulations on the Operation of the Banca Sistema S.p.A.'s Board of Directors" approved by resolution of the Board of Directors of 5 February 2016.

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

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

Consob Related-Party Regulations: the Regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as amended) on related-party transactions.

Report: this report on corporate governance and ownership structure that companies are required to prepare pursuant to art. 123-bis of the Consolidated Law on Finance.

SF Holdings Trust: Specialty Finance Trust Holdings Ltd, a company governed by English law, based in London, Dukes House, 32-38 Dukes Place, wholly owned by Banca Sistema.

Consolidated Law on Finance: Legislative Decree No. 58 of 24 February 1998.

Introduction

On 19 June 2015 Banca Sistema obtained by Consob the approval of the prospectus relating to the Initial Public Offering (IPO) aimed at the admission to trading of its shares on the Italian Equities Market (MTA), organised and managed by Borsa Italiana S.p.A. Consob's approval followed the decision by which, on the same date, Borsa Italiana approved the admission to listing on the MTA, STAR segment.

This document has been prepared pursuant to art. 123-bis of the Consolidated Law on Finance, according to the "Format for the Report on corporate governance and ownership structure", fifth edition, January 2015.¹

¹It should be noted that the previous disclosure on corporate governance and compliance with the Code had been provided by Banca Sistema on the occasion of the application for admission to listing of the Company's shares on the MTA, in compliance with the obligation provided for by Sec. IA.1.1, Table 1, point 1.11 of the Instructions to the Regulation of the markets organised and managed by Borsa Italiana S.p.A., by drafting a special report ("Report on the corporate governance system and compliance with the Corporate Governance Code of listed companies" approved by the Board of Directors of 26 March 2015), published in the dedicated section of the Bank's website.

1. Issuer's profile

Governance

The Company's corporate governance system is based on the principles recognized by international best practices as fundamental elements of good corporate governance: the central role of the Board of Directors, the proper management of conflicts of interest, the efficiency of the internal control system and transparency towards the market, with specific reference to the communication of corporate decisions.

Banca Sistema is the parent company of the Banca Sistema banking group, which includes SF Trust Holdings, and adopts the traditional management and control model, considering it the most suitable for its own operation, in order to ensure efficient management and effective controls.

The overall framework of Banca Sistema's corporate governance has been defined taking into account the current regulations and the recommendations contained in the Corporate Governance Code. The Bank is also subject to the provisions contained in the supervisory provisions on corporate governance issued by the Bank of Italy and contained, in particular, in the Supervisory Provisions for Banks (Part I, Title IV, Chapter 1).

In the model adopted by Banca Sistema:

- the strategic supervision function is performed by the Board of Directors;
- the Body with management function is the Board of Directors which, notwithstanding the matters within its competence pursuant to the law and the Articles of Association, has given general management powers to the Executive Committee and the CEO, who also holds the post of General Manager;
- the control function is performed by the Board of Statutory Auditors;
- the legal audit is entrusted to an auditing firm, in accordance with applicable regulatory provisions.

For the purposes of the listing, during the year some specific changes have been made in order to adapt them to the Supervisory Provisions for Banks. As a result, the current overall corporate governance structure is represented by the following scheme:



The powers and modes of operation of the corporate bodies are regulated by law, the Articles of Association and the resolutions passed by the competent bodies.

For information on the composition and functioning of the management and control bodies, reference is made to the specific sections of this Report.

2. Information on ownership structures

(Art. 123-bis, paragraph 1, of the Consolidated Law on Finance) as at 31.12.2015

a) Share capital structure (Art. 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)

On 2 July 2015, with the start of trading of the Bank's shares on the MTA, STAR segment, the conditions precedent were met as resolved by the extraordinary meeting on 3 June 2015 resulting, in particular, in an increase in the share capital that has been subscribed and paid in the amount of € 1,200,000.00 with the issue of 10,000,000 ordinary shares with a par value of € 0.12 each. Therefore, the new, fully subscribed and paid up share capital is € 9,650,526.24, subdivided into 80,421,052 shares, each with a par value of € 0.12. As at 31 December 2015, there were no changes compared to the aforementioned situation, and the share capital is as follows:

Categories of shares making up the share capital as at 31 December 2015:

SHARE CAPITAL STRUCTURE	Number of shares	% of share capital	Listed (market) / unlisted	Rights and obligations
Ordinary shares	80,421,052	100%	Listed (MTA)	Each ordinary share gives the right to cast one vote

As at 31 December 2015 no other financial instruments have been issued such as to give the right to subscribe new shares.

For shares to be allocated by way of variable remuneration to the CEO and the General Manager as well as any other employees falling into the category of "key personnel", reference is made to the Remuneration Report pursuant to art. 123-ter of the Consolidated Law on Finance and the Information document on remuneration plans based on financial instruments pursuant to article 114 bis of the Consolidated Law on Finance and article 84 bis of the Issuers' Regulations.

b) Restrictions on the transfer of securities (art. 123-bis, paragraph 1, letter b) of the Consolidated Law on Finance)

There are no restrictions on the transfer of securities, except (i) the retention periods set forth by the Internal Dealing Regulations, and (ii) the limits established by the shareholders participating in the shareholders' agreement in relation to which reference is made to paragraph g).

c) Major shareholdings (Art. 123-bis, paragraph 1, letter c) of the Consolidated Law on Finance)

As of 31/12/2015, from the disclosures made in accordance with Article 120 of the Consolidated Law on Finance and the disclosures made by relevant persons pursuant to art. 152-octies of the Issuers' Regulations, individuals who own, directly or indirectly, shares with voting rights in excess of 2% of the share capital are as follows:

Declaring party	Direct shareholder		% of the ordinary share capital	% of the voting capital
GARBI GIANLUCA	Società di gestione delle partecipazioni di BancaSintesi S.r.l.	23.102	23.611	23.611%
	Garbifin S.r.l.	0.509		
FONDAZIONE SICILIA	Fondazione Sicilia	7.399	7.399	7.399
FONDAZIONE PISA	Fondazione Pisa	7.399	7.399	7.399
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.399	7.399	7.399
SCHRODERS PLC	Schroders Investment Management Limited	4.101	6.727	6.727
	Schroders Investment Management North America Limited	2.527		
	Schroders Italy SIM S.p.A.	0.099		

b) Securities granting special rights (art. 123-bis, paragraph 1, letter d) of the Consolidated Law on Finance)

No securities have been issued granting special control rights.

e) Employee share ownership: mechanism for exercising voting rights (art. 123-bis, paragraph 1, letter e) of the Consolidated Law on Finance)

There is no employee share ownership scheme where the voting right is exercised by representatives of the latter.

f) Restrictions on voting rights (art. 123-bis, paragraph 1, letter f) of the Consolidated Law on Finance)

The company is not aware of the existence of restrictions on voting rights.

g) Shareholders' agreements (art. 123-bis, paragraph 1, letter g) of the Consolidated Law on Finance)

On June 3 2015 Società di gestione delle partecipazioni di BancaSintesi S.r.l., with registered office in Alba (CN), Corso Langhe 10 ("SGBS") and Fondazione Sicilia, with registered office in Palermo, Via Bara all'Olivella 2, Fondazione Pisa, with registered office in Pisa, Via Pietro Toselli 29 and Fondazione Cassa di Risparmio di Alessandria, with registered office in Alessandria, Piazza della Libertà 28 (collectively, the "Foundations" and, together with SGBS, the "Parties") signed a shareholders' agreement (the "Agreement") which, surpassing all provisions of any prior agreements entered into between them, covers certain aspects of Banca Sistema S.p.A.'s corporate governance and ownership structure.

Type of agreement

The Agreement, which is a significant shareholders' agreement pursuant to and for the purposes of Article 122, paragraph 1 and paragraph 5, letter. a), b), c) and d) of the Consolidated Law on Finance, was filed with Milan Companies' Register records on 7 July 2015.

Parties to the Agreement, financial instruments and number of voting rights granted under the Agreement

The parties adhering to the Agreement are SGBS and Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria.

The following table indicates the number of Banca Sistema's shares contributed to the Agreement by the above entities (the "Contributed Shares") and the number of voting rights related to them (the "Contributed Voting Rights") as of 31 December 2015, in addition to the percentage represented by such shares in relation to (i) the total number of Contributed Shares and Voting Rights, and (ii) the total number of shares forming Banca Sistema's share capital and their associated voting rights.

Shareholder	Number of Contributed Shares	% of total Contributed Shares	% of Banca Sistema's total shares	Number of Contributed Voting Rights	% of the total of Contributed Voting Rights	% of Banca Sistema's total voting rights
Società di gestione delle partecipazioni di BancaSintesi S.r.l.	18,578,900	51.01	23.10%	18.578.900	51.01	23.10%
Fondazione Sicilia	5,950,104	16.33	7.40%	5.950.104	16.33	7.40%
Fondazione Pisa	5,950,104	16.33	7.40%	5.950.104	16.33	7.40%
Fondazione Cassa di Risparmio di Alessandria	5,950,104	16.33	7.40%	5.950.104	16.33	7.40%
Total	36,429,212	100.00	45.30	36,429,212	100.00	45.30

No entity exercises individual control over Banca Sistema pursuant to Article 93 of the Consolidated Law on Finance. SGBS and Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria have enough votes to exercise a dominant influence in the Company's ordinary Shareholders' Meeting.

Capital policy

With reference to the financial year ended 31 December 2015, the Parties have undertaken not to distribute any profits if the total capital ratio of the Company does not exceed 14%. It was decided, finally, that if the Meeting decides in favour of the distribution of profits - in compliance with the above - the Parties will adopt the necessary resolutions so that the total capital ratio of the Company remains equal to or above 14%.

Restrictions on the circulation of shares

The Agreement provides for the obligation of the Parties not to sell the shares held in Banca Sistema (the "Investments") for the term of the Agreement, and hence until 1 July 2018, except for any transfers to the same or to individuals or legal entities tied to them by a control or connection relationship - as defined in art. 2359 of the Italian Civil Code - and except for the application of the continuation and drag along rights provided for by the same Agreement, which may be summarised as follows: (i) if SGBS becomes the holder of a stake in the Company above 51% of Banca Sistema's shares subject to the Agreement and intends to accept an offer of a third party who has expressed the desire to also acquire the Shares held at that date by the other Parties, SGBS will be entitled to request the other Parties - and these will have a duty - to sell to the third bidder the whole of its shareholding in the Company, under the same conditions and at the price per share offered by the third party, provided that the price offered by the third party is not below the average market price of Banca Sistema's shares in the month preceding the date of the sale, increased by 5%; (ii) if SGBS intends to accept an offer by a third party who has expressed a desire to acquire a percentage of the Company's share capital and if the offer concerns a percentage of shares above that held by SGBS, the Foundations will be entitled to request from SGBS and obtain that all or part of the shares owned by them which exceed the percentage of shares belonging to SGBS and that the third party intends to purchase, be transferred proportionally to the third party under the same conditions.

The Agreement, entered into by the Parties on 3 June 2015, came into effect at the start of the listing of the ordinary shares of the Company on the MTA - STAR segment, i.e. 2 July 2015 (the "Listing Date"). The Agreement has a term of three years starting from the Listing Date and hence until 1 July 2018.

h) Change of control clauses (art. 123-bis, paragraph 1, letter h) of the Consolidated Law on Finance) **and provisions of the Articles of Association concerning IPOs** (article 104, paragraph 1-ter and article 104-bis, paragraph 1)

Neither Banca Sistema S.p.A. nor SF Trust Holdings have entered into significant agreements that take effect, are modified or terminate upon a change of control of the contracting company.

Banca Sistema S.p.A.'s Articles of Association do not derogate from the *passivity rule* provisions set forth by art. 104 paragraphs 1 and 2 of the Consolidated Law on Finance, nor do they provide for the application of the neutralisation rules set forth by art. 104-bis, paragraphs 2 and 3, of the Consolidated Law on Finance.

i) Powers to increase the share capital and authorisations to purchase treasury shares (art. 123-bis, paragraph 1, letter m) of Consolidated Law on Finance)

On 27 November 2015 the Shareholders' Meeting approved the proposal put forward by the Board of Directors to purchase and sell treasury shares pursuant to articles 2357 et seq. of the Italian Civil Code, art. 132 of Legislative Decree 58/98 and Articles 77 and 78 of Regulation (EU) No. 575/2013 (CRR) and the Commission Delegated Regulation (EU) up to the maximum permitted by the regulations, which amounts to 3% of the total share capital and share premium reserve (which, at the Shareholders' Meeting date, corresponded to a value of about € 1.47 million).

The start of operations remains subject to obtaining authorisation from the Bank of Italy, whose administrative procedure was initiated on 26 January 2016.

As at 31 December 2015 Banca Sistema S.p.A. did not hold any treasury shares.

On 16 December 2015, the Board of Directors approved the launch of a 2016-2019 Stock Grant Plan with the approval of the related Regulations and the related resolutions for the establishment of a restricted legal reserve of profits tied

to the service of the free share capital increase for a maximum nominal amount of € 49,920.00 reserved for beneficiaries of stock grant plans for the 2016-2019 financial years and of the free share capital increase pursuant to art. 2349 of the Italian Civil Code at the service of the 2016 Stock Grant Plan and 2017-2019 plans and approval of the resulting draft amendment of Article 5 of the Articles of Association. The proposed amendment to the Articles of Association will be submitted to the extraordinary Shareholders' Meeting after obtaining authorisation from the Bank of Italy pursuant to Article 56 of Legislative Decree no. 385/1993.

I) Management and coordination activity (art. 2497 et seq. of the Italian Civil Code)

Banca Sistema, in its capacity as parent company of the BANCA SISTEMA banking group, pursuant to art. 61, paragraph 4, of Legislative Decree No. 385 of 1 September 1993, issues, in the performance of its management and coordination activity, instructions to the members of the Group to comply with the guidelines set forth by the Bank of Italy in the interest of the Group's stability.

It should be noted that:

- the information required by Article 123-bis, paragraph 1, letter i) ("agreements between the company and the directors which provide for compensation in case of resignation or dismissal without just cause or if their employment contract is terminated as a result of a 'takeover bid'), is contained in the Remuneration Report published pursuant to art. 123-ter of the Consolidated Law on Finance;
- the information required by Article 123-bis, paragraph 1, letter l) ("the rules governing the appointment and replacement of directors and the amendment of the Articles of Association, if different from the laws and regulations applicable in the alternative"), is illustrated in the section of the Report dedicated the Board of Directors (Section 4.1).

3. Compliance (art. 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)

Banca Sistema adheres to the Corporate Governance Code which can be consulted by the public on the website of the Corporate Governance Committee at: <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>).

SF Trust Holdings, a company wholly owned by the Issuer, is a British company and is therefore subject to English law, which, however, also in consideration of the limited size of the subsidiary compared to the Parent Company, does not have any influence on Banca Sistema S.p.A.'s Corporate Governance structure.

4. Board of Directors

4.1. Appointment and replacement (art. 123-bis, paragraph 1, letter l) of the Consolidated Law on Finance)

In accordance with Article 10 of the Articles of Association, the Board of Directors is appointed by the Shareholders' 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.

The 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 Chairman 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 the 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 on the individual's personal and professional characteristics, indicating for which theoretical profile he/she is suitable and the positions of management and control covered.

The directors appointed must inform the Board of Directors without delay if they cease to satisfy the 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, 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:

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- 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 Chairman 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; the candidates included in a progressive order in the list are elected in accordance with those limits;
- 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; the first candidate in the sequential order of the list in the possession of the independence requirements is elected. 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, the 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 Shareholders' Meeting, the Board of Directors will replace them by resolution approved by the Board of Statutory 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 Shareholders' 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 Shareholders' 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, paragraph 1, of the Italian Civil Code, directors appointed in this way shall remain in office until the next Meeting and those appointed by the Meeting shall remain in office for time that the directors they replaced would have remained in office.

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 Shareholders' 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.

Succession plans

Pursuant to the Corporate Governance Code (under Application Criterion 5.C.2), the Supervisory Provisions for Banks and the Articles of Association, the Board of Directors may adopt a succession plan for executive directors.

With the approval of the Board of Directors' Regulations on 5 February 2016, the Board of Directors resolved to formalise a plan to ensure the orderly succession in executive leadership positions (executive directors, general manager) in case of termination for expiry of the mandate or for any other reason, in order to ensure business continuity and to avoid economic and reputational consequences.

4.2. Composition (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

In accordance with the Articles of Association, the Board of Directors is composed of nine members, elected by the Shareholders' Meeting. Directors remain in office for a period of no more than three years, as established by the deed of appointment, and will end their terms of office on the date of the Shareholders' Meeting called to approve the financial statements for the final financial year of their terms of office.

The composition of the Board in office at the end of the year 2015, as well as at the date of this Report (as is also shown in Table 2 attached to this Report), is as follows:

NAME AND SURNAME	POSITION	PLACE AND DATE OF BIRTH	DATE OF FIRST APPOINTMENT	DATE OF APPOINTMENT
Spögler Luitgard ²	Chairman	Renon (BZ), 21/01/1962	2015	27/11/2015
Pugelli Claudio	Deputy Chairperson	Rome (RM), 17/02/1951	2011	27/11/2015
Garbi Gianluca ¹	Chief Executive Officer	Milan (MI), 18/09/1970	2011	27/11/2015
Barba Navaretti Giorgio ³	Director	Turin (TO), 05/06/1960	2012	27/11/2015
Calzolari Michele ³	Director	Bologna (BO), 02/01/1955	2011	27/11/2015
De Franceschi Carlotta ¹	Director	Pordenone (PN), 21/12/1977	2015	27/11/2015
Pittatore Daniele ³⁻⁴	Director	Alessandria (AL), 09/09/1969	2014	27/11/2015
Puglisi Giovanni Antonino ¹	Director	Caltanissetta (CL), 22/06/1945	2011	27/11/2015
Zappia Andrea ³	Director	Tripoli (Libya), 24/09/1963	2015	27/11/2015

¹ Member of the Executive Committee

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

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

⁴ He held the position of Statutory Auditor in the period between 29 June 2011 and 22 April 2014.

Following the exit of shareholder SOF Luxco S.à.r.l. after the listing of the Company on the Stock Exchange, on 18 September 2015 Ms Lindsey McMurray and Mr Matthew Potter resigned with immediate effect, while on 22 September 2015 the following Directors resigned from the Board of Directors, with deferred effect: Gianluca Garbi, Claudio Pugelli, Giovanni Puglisi and Daniele Pittatore, in order to help the process of renewal of the Board of Directors, in order to better reflect the new ownership structure of the Bank. Being said resignation effective as of 30 November 2015 or from any earlier date on which the Company's Shareholders' Meeting may have been held to resolve on the reconstitution of the Board of Directors, on 27 November 2015 the Company's Ordinary Shareholders' Meeting was convened and appointed the current Board of Directors, which will remain in office for the years 2015, 2016 and 2017, i.e. until the date of the Shareholders' Meeting that will be convened to approve the financial statements at 31 December 2017.

On 30 October 2015 a single list of candidates was submitted by the shareholders adhering to the Shareholders' Agreement (Società di gestione delle partecipazioni di BancaSintesi S.r.l., Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria) including the following names in the following order:

Candidate no. 1	Luitgard Spögler (Independent)
Candidate no. 2	Gianluca Garbi
Candidate no. 3	Michele Calzolari (Independent)
Candidate no. 4	Giovanni Puglisi
Candidate no. 5	Claudio Pugelli
Candidate no. 6	Daniele Pittatore (Independent)

Subsequently, on 25 November 2015, the same shareholders adhering to the Shareholders' Agreement (Società di gestione delle partecipazioni di BancaSintesi S.r.l., Fondazione Sicilia, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria) proposed the remaining three people listed below for appointment to the position of Director, to be elected at the Shareholders' Meeting with the legal majority. These names are therefore added to the six candidates already mentioned in the majority list.

- Giorgio Barba Navaretti;
- Carlotta De Franceschi;

- Andrea Zappia.

Below is the list of elected members and the percentage of votes obtained in relation to the voting capital:

List submitted by the shareholders adhering to the Shareholders' Agreement		
List of candidates	List of elected members	Percentage of votes obtained
Spögler Luitgard	Spögler Luitgard	
Garbi Gianluca	Garbi Gianluca	
Calzolari Michele	Calzolari Michele	
Puglisi Giovanni Antonino	Puglisi Giovanni Antonino	
Pugelli Claudio	Pugelli Claudio	
Pittatore Daniele	Pittatore Daniele	
Barba Navaretti Giorgio	Barba Navaretti Giorgio	
De Franceschi Carlotta	De Franceschi Carlotta	
Zappia Andrea	Zappia Andrea	45.81%

The Articles of Association and the Board of Directors' Regulations stipulate that the directors must meet the professionalism and integrity requirements and any other requirements set forth by the regulations in force and the Articles of Association, meet the competence and fairness criteria, and devote the time necessary for their task to be carried out efficiently, so as to ensure the Bank's sound and prudent management.

At least three directors, and in any event a number of Directors not less than that required by the regulations in force, must meet the independence requirements of art. 148, paragraph three, of Legislative Decree no. 58 dated 24 February 1998, as well as those laid down by the Corporate Governance Code. The failure to meet the requirements for the office shall result in forfeiture thereof, except for the loss of the independence requirements identified above, which does not result in disqualification from the office if said requirements are still held by the minimum number of Directors.

Given the importance of the integrity requirements in terms of reputation, the candidates for the office of member of the Bank's Board of Directors, in addition to meeting the integrity requirements established by the current legislation, must not be in situations that could cause disqualification from the office of Director pursuant to the law, they must not have behaved in a manner which, while not constituting a crime, is inconsistent with the principles contained in the Bank's Code of Ethics or which, in any event, do not appear to be compatible with the post of bank director or may cause serious prejudice to the Bank in terms of reputation; the aforementioned profiles are evaluated with the prior support of the Nominations Committee.

In accordance with the sector's regulations, the Board of Directors, with the support of the Nominations Committee, carries out a thorough verification of the existence of the requirements of professionalism, integrity and independence, by drafting an analytical report. To this end, the Directors may issue a personal sworn declaration, with the authenticated signature of a public official, and in any event have an obligation to promptly inform the Bank of any changes in the information given in the context of the statements made.

Therefore, following the appointment by the Company's Shareholders' Meeting of 27 November 2015 of the Board of Directors, based on the documentation in acceptance of their candidacy, the newly appointed Directors deposited at the registered office a declaration certifying the possession of the necessary requirements to qualify as independent directors under the Articles of Association and applicable laws such as, in particular, Articles 147-ter, paragraph 4, and 148, paragraph 3, of Legislative Decree no. 58/1998 and art. 3 of the Corporate Governance Code promoted by Borsa Italiana S.p.A. Subsequently, on 16 December 2015 the Board of Directors ascertained the possession of the requirements of professionalism, integrity and independence also through authenticated personal sworn declarations given under Presidential Decree 445/2000 as amended and supplemented. On 5 February 2016 the verifications on the subject of the so-called interlocking prohibition were completed (Art. 36, paragraphs 2-bis and 2 ter, of Legislative Decree "Salva Italia").

The Board of Directors, upon the outcome of the verifications conducted first by the Nominations Committee and subsequently by the Board, therefore determined that all Directors are in possession of the requirements set forth by law and the composition of the Board is in compliance with the Articles of Association and regulatory requirements in relation both to the minimum number of independent directors and in compliance with gender regulations.

In accordance with the provisions of the Articles of Association, still by resolution of 27 November 2015, the new Board appointed a Chief Executive Officer, who also holds the post of General Manager. The Board of Directors granted the Executive Committee and the CEO the powers to manage the Company, reserving the decision on certain matters to its sole competence.

Maximum number of positions held in other companies

Without prejudice to the causes of ineligibility and disqualification as well as the maximum limit of positions provided for by the law and regulatory provisions, the acceptance of the office involves a preliminary evaluation of the possibility of being able to dedicate the necessary time to the diligent performance of the duties of Director, also taking into account the commitments of one's own work and professional activities, the number of Director or Statutory Auditor positions held in other companies, paying particular attention to those tasks that require greater involvement in ordinary company activities.

Pending the implementation of Article 26 of the Consolidated Law on Banking, in order to ensure that the Directors devote the time necessary to the effective performance of their duties, so as to ensure the sound and prudent management of the Bank, the Board of Directors, through the Board of Directors' Regulations, established the maximum number of management and control offices that can be held by the members of Banca Sistema's Board of Directors in companies outside the Group, as well as the procedure to be followed in case these limits are exceeded, as set out below.

The Bank's Directors must also take into account the provisions of art. 36 of Law No. 214/2011, which introduced the prohibition for holders of offices in the management, supervisory or control bodies and top executives of companies or groups of companies operating in the credit, insurance and financial markets to take on or exercise similar posts in competing companies or groups of companies.

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

Chief Executive Officer

- no additional executive role, except for positions in companies other than listed companies, banking, insurance and financial companies or large companies, directly or indirectly controlled by the CEO or in companies of the Banca Sistema Group;
- no more than two non-executive or control positions in other listed companies, banking, insurance and financial companies or large companies;
- no more than 7 offices in total.

Chairman

- no executive role in listed companies, banking, insurance and financial companies or large companies, except for positions in companies other than listed companies, banking, insurance, financial companies or large companies, directly or indirectly controlled by the Chairman or in companies of the Banca Sistema Group;
- no more than three non-executive or control positions in other listed companies, banking, insurance and financial companies or large companies;
- no more than 7 offices in total.

Non-executive Director

- no more than two executive roles, except for positions in companies other than listed companies, banking, +insurance, financial companies or large companies, directly or indirectly controlled by the Non-Executive Director or in companies of the Banca Sistema Group;
- no more than five executive positions in listed companies, banking, insurance and financial companies or large companies;

- no more than seven non-executive positions in listed companies, banking, insurance and financial companies or large companies;
- no more than 7 offices in total.

Explanatory notes

A) The following offices are understood to be executive positions:

- Director vested with management powers
- Member of the Executive Committee or Management Board
- General Manager

B) The following offices are understood to be non-executive or control positions:

- Member of the Board of Directors without management powers
- Member of the Surveillance Body
- Member of the Board of Statutory Auditors

C) The option to take the office of member of a Board of Statutory Auditors is ruled out for the Chairman and the CEO

D) More administrative, management and control positions within the same Group up to a maximum of 4 are considered in any case equivalent to 1 executive post in listed companies and in banking, insurance and financial companies or large companies. If more than 4, they are considered equivalent to two executive positions in listed companies and in banking, insurance and financial companies or large companies

E) Large companies are understood to be companies with:

- an amount of consolidated revenues exceeding € 500 million
- or

- a number of employees exceeding 500

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

The posts held by Banca Sistema S.p.A.'s Directors as at 31 December 2015 in the management and control bodies of other "relevant" companies for the purposes of the aforesaid regulations, on the basis of the information provided by them, are as follows:

Member	Office held in Banca Sistema	Offices held in other relevant companies
Luitgard Spögler	Chairman	Advanced Capital SGR S.p.A. (Director)
Claudio Pugelli	Deputy Chairperson	
Gianluca Garbi	Chief Executive Officer	
Michele Calzolari	Director	Sipi Investimenti S.p.A. (Director)
Giovanni Puglisi	Director	
Daniele Pittatore *	Director	Cordusio Fiduciaria S.p.A. (Chairman of the Board of A
Giorgio Barba Navaretti	Director	AoN Italia S.r.l. (Director)
Carlotta De Franceschi	Director	
Andrea Zappia	Director	Luxottica S.p.A. (Director)

4.3. Role of the Board of Directors (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

Tasks

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

Pursuant to Article 12 of the Articles of Association, the management 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 disclosure 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, management and accounting structure;
- g) any appointment of Deputy Chairpersons and their revocation, if appointed;
- h) the appointment and dismissal of the CEO. Any appointment or dismissal of the General Manager, if appointed, 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 Statutory Auditors, of the heads of the internal audit, risk management and compliance functions and of the manager responsible for drafting the company accounting documents;
- m) the determination of the criteria for the coordination and management of the Group companies;
- n) the sale and acquisition of treasury shares, in accordance with the resolution of authorisation by the Shareholders' Meeting and following authorisation from the Supervisory Authority;
- o) the issue of convertible bonds for a maximum overall amount of € 20,000,000 within the maximum period permitted by law;
- p) the establishment, closure and transfer of general offices or representative offices or subsidiaries;
- q) the drafting of the remuneration and incentive policies of the Company and Group, as well as the definition of the remuneration and incentive systems for at least the following persons: (i) executive board members; (ii) general manager, where appointed; (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 manager, where appointed) and of any other director responsible for specific tasks, in compliance with the applicable regulations in terms of remuneration and the Company's remuneration and incentive policies;
- 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 on the items delegated to the Executive Committee and to the CEO beyond the limits laid down for them;
- x) the delegation of powers to other directors and the power to modify, add and exclude these delegated powers;

For the powers under letters h), i), j), k), l), m), o), r), s), t), u), w), and x) to be valid, it is necessary to receive the favourable vote of at least 7 Directors, of which at least five come from the majority list, without prejudice to the fact that this strengthened decision-making quorum does not apply in relation to the decisions that will be adopted by the Company in accordance with the regulations following a motivated request by the Supervisory Authority.

For certain types of transactions or single deeds, 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 Statutory Auditors at least every three months on the general operating performance, business outlook and the most significant transactions, by size or characteristics, undertaken by the Company or its subsidiaries.

In addition, the Corporate Governance Code (i) in application criterion 1.C.1.a) and g), provides that the Board of Directors is to examine and approve the strategic, business and financial plans of the issuer and the group of which it is the parent company, while also periodically monitoring the implementation of such plans, and also to establish the corporate governance system of the issuer and the structure of the group; and (ii) that at least once a year the Board of Directors is to conduct an assessment of the functioning of the Board and its committees, as well as their size and composition, while also considering elements such as the professional characteristics, experience, including managerial experience, and the gender of its members, as well as their length of service. If the Board of Directors 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.

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

In light of the foregoing, in accordance with the 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 management body of the Company, even if management powers have been delegated.

Training activities

The Bank adopts appropriate training initiatives to ensure that the wealth of technical expertise of the members of the Board of Directors and the Board of Statutory Auditors, as well as the heads of the main corporate functions, necessary to carry out their duties with awareness, is preserved over time. In the case of new appointments, special training plans shall be prepared for facilitating the integration of new members in the corporate bodies.

During 2015, new initiatives were launched, also by gathering of the indications that emerged from the Directors, with regard to the knowledge and awareness of the risk profile undertaken by the Bank (such as the "Risk Seminar"). Training initiatives for Directors will be promoted also for 2016, aimed at providing them with adequate knowledge of the sector in which the Company operates, the business dynamics and their evolution, as well as the regulatory framework.

Meetings and operation

In 2015, 14 meetings of the Board of Directors were held with an average duration of approximately three and a half hours. The number of meetings attended is shown in Table 2 attached to this Report.

For 2016, 7 meetings have been planned so far, of which 2 have already been held as of 15 March 2016.

In compliance with the obligations imposed on listed issuers by art. 2.6.2 of Consob Market Regulations, the Board of Directors approves the calendar of corporate events on an annual basis, to be communicated to Borsa Italiana, for dissemination to the public, within thirty days from the end of the previous financial year.

In particular, the calendar specifies, within the framework of the Board of Directors' meetings established for the new financial year, the dates set for the approval of the draft financial statements, the interim report and the quarterly reports, as well as the date scheduled for the Shareholders' Meeting held to approve the financial statements.

The Board of Directors' Regulations stipulate that:

- the documentation supporting the discussion of the items on the agenda will be sent by e-mail or fax or made available through the site <https://bancasistema.ftopia.net> which Directors and Statutory Auditors can access within the fifth working day prior to the date set for the meeting, except in urgent cases where the documentation is made available within the day before the meeting and in any case as soon as possible;
- said documentation be sent or made available upon instruction of the Chairman, by the Bank's Corporate Affairs Department;
- where the Chairman deems it appropriate in relation to the content of the item and the related resolution, also in order to avoid the risk of improper disclosure of confidential information, made possible by the communication tools used independently of the will of the parties concerned, the documentation may be provided directly at the meeting by giving prior notice to the Directors and Statutory Auditors within the deadline mentioned above; should they deem it necessary, they can still have access to the information available at the Company's registered office as from the day before the meeting and in any case as soon as available.

The abovementioned procedures and time limits for sending the documentation to the Board were generally complied with during the year 2015.

The evaluations put forward at the annual self-assessment of the Board of Directors (concluded in its meeting of 28 April 2015) on the schedule of Board meetings, on the exhaustiveness of the agenda, on the timing and content of the information transmitted before the meetings, on meeting attendance, on the conduct and progress of the works, as well as the accuracy of the minutes, are generally satisfactory.

The Board has identified the Corporate Affairs Department as the corporate structure responsible for carrying out the tasks that the Articles of Associations entrust to the Secretary in charge of drawing up the minutes. In addition, pursuant to the Board of Directors' Regulations, the Chairman may invite to attend the Board meeting managers or other employees of the Company or other professionals or external consultants whose presence is deemed useful by the Chairman in relation to the matters to be discussed.

During 2015 the meetings were therefore attended by the Head of the Legal and Corporate Affairs Department, as secretary, or other employees of said corporate structure.

The following persons were always in attendance:

- the Chief Financial Officer - Manager responsible for preparing the Company's financial reports - for the presentation of the draft financial statements, the interim report and the quarterly reports, as well as the financial performance of the Banca Sistema banking group;
- the Head of Risk and Compliance for his reports and programmatic plans (Risk, Compliance and Anti-Money Laundering in accordance with the current supervisory regulations issued by the Bank of Italy);
- the Head of the Corporate Affairs Department in support of the organisation and minute-taking activities of Board meetings.

The Head of the Internal Audit Department illustrates the multi-year Audit Plan and the quarterly reports on the activities carried out directly to the Directors, in accordance with the current supervisory regulations issued by the Bank of Italy.

During 2015, the Board approved several documents in order to comply with the regulations issued by the Bank of Italy with update no. 15 of 2 July 2013 of Circular 263 of 27 December 2006 (whose regulatory principles are currently contained in Circular 285/13 of the Bank of Italy). Based on the strategic guidelines, the size objectives and the further qualitative and quantitative elements of the Business Plan, the ICAAP and the Risk Appetite Framework Report with the attention and alarm thresholds for the key risk indicators identified are prepared and approved annually by the Board. Following the amendments to the Consolidated Law on Banking and the Consolidated Law on Finance, introduced by Legislative Decree No. 722 of 12 May 2015, the Bank of Italy updated the "Supervisory Provisions for Banks" (Circular no. 285 of 17 December 2013) by introducing in the Italian banking system the so-called "whistleblowing", which Italian banks must adopt as from 31 December 2015. In this regard, the Board of Directors of 16 December 2015 appointed Mr

Franco Pozzi as the person responsible for the management of reports of illegal banking activities committed by the Bank's personnel.

The Board evaluates the overall management performance at least quarterly, in particular during the examination of the financial reports provided for by art. 154 *ter* of Consolidated Law on Finance and on the occasion of receipt of a quarterly report (*tableau de bord*) prepared by the Risk Department, which summaries, from time to time, the overall performance of the Company's management in terms of the risks undertaken.

The same quarterly report is prepared by the Internal Audit Department and contains a summary of the checks carried out in the period according to the Audit Plan, the findings emerged with indication of the critical level, the planned corrective measures, the implementation times, the project managers, the follow-up activities and the other training activities completed in the period.

The Compliance and Anti-Money Laundering Department also reports to the Board of Directors on matters within its purview, according to similar procedures to those of the other control departments.

The aforesaid documents, after being submitted to the Board, are transmitted to the Bank of Italy.

The Board of Directors also examines, on a quarterly basis, a comparison document between the objectives of the Business Plan and the results actually achieved.

The Board also evaluates, on an ongoing basis, as part of the discussion of the matters within its purview, the adequacy of the Bank's overall organisational, management and accounting structure. The adequacy of the subsidiary's overall organisational, management and accounting structure is evaluated by the Board through a number of governance tools.

The description of the characteristics of the organisational model of the internal control system is contained in the "Control Departments Coordination Regulations", in the General Bank Rules and in the regulations of the respective control Departments, including the regulations of the Manager responsible for preparing the Company's financial reports.

The Board of Directors, with reference to the supervisory provisions concerning the identification of the most significant transactions (MST) and the "Risk Management Policy" approved by the Board of Directors on 20 May 2014, determined that, based on the type of the various transactions, in addition to the ordinary risk governance system, the Risk Department must provide its preliminary opinion on the consistency with the RAF, thereby acquiring, depending on the nature of the transactions, the opinions of the other departments involved in the risk analysis and management process. The body competent to decide on the nature of the transaction from time to time thus acknowledges the said opinion.

As part of the listing process, the Board of Directors approved the new 2015-2018 Business Plan of the Group.

The Chairman, with the help of the secretary of the Board of Directors, always ensured that the documentation relating to items on the agenda was made known to the Directors and Statutory Auditors with adequate notice prior to the date of the Board meeting, ensuring the timeliness and completeness of the pre-meeting information, adding specific notes illustrating the items on the agenda, and adopting the necessary measures to preserve the confidentiality of the data and information provided.

Self-assessment

The Board of Directors, in its meeting of 20 February 2015, in the light of the provisions and guidelines contained in the Supervisory Provisions for Banks, led the annual assessment on the functioning of the Board and its committees as well as their size and composition. In conducting the self-assessment process, the designated body was assisted by an external consultant identified in the firm Ernst & Young Financial Business Advisors.

Finally, as regards the self-assessment process to be carried out during the 2016, the Nominations Committee, in view of the recent renewal of the Board of Directors, has deemed it appropriate to launch the self-assessment process starting from Q3 in order to allow the new Board of Directors - in office since 27 November 2015 - to be able to

formulate its own assessments having had the opportunity to acquire the necessary knowledge of the operations of the corporate bodies in the specific context of Banca Sistema's business and the governance model established by the latter.

At the meeting of 15 March 2016, the Board of Directors nevertheless confirmed that the composition appears to be in line with the statutory and regulatory requirements with reference both to the minimum number of independent directors and the compliance with gender regulations.

Competing activities

The Company has not authorised exceptions to the prohibition on competition laid down in Article 2390 of the Italian Civil Code.

4.4 Delegated Bodies

The Board of Directors' Regulations stipulate that, 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 content of the powers must be determined analytically, and characterised by clarity and precision, also in the indication of the quantitative or value limits and of any procedures, in order to allow the Board to timely verify their correct performance as well as to exercise its own powers to give directives and the assume powers of other bodies;

Mr Garbi typically performs these duties within the scope of the various extra-board committees - such as, but not limited to: (i) the CEO Committee, wherein he monitors, coordinates and gives instructions to the heads of the Bank's departments, (ii) the Risk Management Committee, wherein he takes decisions regarding risk activities having previously evaluated the investigation conducted by the relevant departments, (iii) the Technical-Organisational Committee, wherein he identifies, coordinates and defines the priorities of the main projects and initiatives launched by the Bank as well as (iv) the working groups of business areas such as the Banking Committee and the Factoring Working Group.

With reference to external representation powers and the Bank's commitment towards third parties, the powers and limits from time to time conferred by the Board of Directors upon Mr Garbi in his capacity as CEO remain unprejudiced. Mr Garbi will be called upon to answer for its actions as General Manager directly before the Board of Directors.

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.

Chairman of the Board of Directors

Pursuant to Article 17 of the Articles of Association, the Board of Directors elects a Chairman from among its members.

The Board of Directors also has the option to appoint a Deputy Chairperson, who shall have the power, in the case of the absence or incapacity of the Chairman, to chair the Shareholders' Meeting and the Board of Directors' meetings.

The Chairman of the Board of Directors has a non-executive role and does not carry out, not even de facto, management functions.

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

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.

On 27 November 2015 the Board of Directors appointed the Executive Committee thereby granting it the following powers:

1. Buy or sell business units, securities, shares or other non-strategic investments or assets envisaged in the annual budget for a value above € 5,000,000 and buy or sell business units, securities, shares or other non-strategic investments outside the annual budget or assets with a value or cost below € 30,000,000 subject to approval of the Bank's Risk Committee;
2. without prejudice to the powers and limits mandatorily required under the Articles of Association and pursuant to the laws or regulations, issue bonds for a total value of less than € 50,000,000;
3. approve guarantee transactions or enter into derivative contracts as part of the ordinary trading activity with a value of between € 5,000,000 and € 50,000,000, subject to approval of the Bank's Risk Committee
4. put forward proposals with regard to the Company's organisational structure and the evaluation of the compatibility between remuneration/incentive policies and long-term corporate strategies;
5. notwithstanding the mandatory obligations provided for by the Articles of Association and by the laws or regulations relating to remuneration and incentive systems, resolve on the proposals coming from the CEO on hires, layoffs and amendments to the contracts of: (i) directors; and (ii) all other employees having a basic salary above € 200,000;
6. implement the Company's development policies that are necessary in order to establish a development and budget plan, ensuring their implementation and compliance with corporate policies;
7. enter into interbank agreements involving pool transactions and loan agreements between € 5,000,000 and € 50,000,000 and subject to approval of the Bank's Risk Committee;
8. enter into agreements relating to ordinary or special loans with or without mortgage of a value between € 5,000,000 and € 50,000,000 and subject to approval of the Bank's Risk Committee;
9. enter into deposit contracts secured by the transfer of receivables due from public or private institutions or mortgage of a value between € 5,000,000 and € 50,000,000 and subject to approval of the Bank's Risk Committee;
10. approve *factoring* transactions or the purchase of receivables (*with or without recourse*) of a value between € 5,000,000 and € 50,000,000 in respect of a single debtor, thereby agreeing all terms and conditions, including for example: determination of any significant interest, the payment terms and conditions, the inclusion of indemnity clauses, and subject to the approval of the Bank's Risk Committee;
11. grant sureties or in any event provide other guarantees and approve the transfer of receivables of a value between € 5,000,000 and € 50,000,000 and subject to approval of the Bank's Risk Committee;
12. limited to the Company's assets and requirements, negotiate, with any bank or other lending institution, all transactions involving a loan or financing of any kind for a value above € 5,000,000 and arrange the transfer of sums of money between the Company's current accounts for a value above € 5,000,000;
13. sign, modify and terminate contracts for the provision of services covered by the annual budget for a value above € 5,000,000 and sign, modify and terminate contracts for the provision of services not covered by the annual budget for a value not exceeding € 20,000,000;
14. sign, modify and terminate all rental contracts, including leases, movable and immovable assets, insurance policies and the fulfilment of any other subsequent activity for a value above € 5,000,000;
15. conduct any banking or stock exchange transaction and sign the associated documents for a value above € 5,000,000;
16. establish mortgages and make swaps on the same within the scope of the annual budget for a value above € 5,000,000 and establish mortgages and swaps on the same outside of the scope of the annual budget for a value not exceeding € 30,000,000;
17. act in respect of any dispute and decide on settlement agreements (in or out of court) for value of up to € 30,000,000 upon consultation with the Bank's compliance department;

18. waive all enforcement proceedings.

Pursuant to the current provisions of Article 136 of the Consolidated Law on Banking, the Board of Directors, at its meeting of 15 March 2013, granted to the Executive Committee, for transactions falling within the limits of the powers delegated to the same from time to time, the power to adopt resolutions regarding transactions falling within the scope of the new art. 136 of the Consolidated Law on Banking.

The composition of the Executive Committee in office at the end of 2015, as well as at the date of this Report (as is also shown in Table 2 attached to this Report), is as follows:

- Gianluca Garbi (Chairman)
- Giovanni Puglisi
- Carlotta De Franceschi

During 2015 the meetings were therefore attended by the Head of the Legal and Corporate Affairs Department, as secretary, or other employees of said corporate structure.

The Executive Committee will meet at least monthly. In 2015, 14 Committee meetings were held with an average duration of approximately one and a half hours. The Committee meetings were always attended by at least one Statutory Auditor. As at 15 March 2016 the Committee held two meetings.

* * *

The powers conferred by law and the Articles of Association upon the Board of Directors and the current system of delegations to the Executive Committee and the CEO are not such as to deprive the Board of its prerogatives (see Code of Corporate Governance, comment to Art. 1). The powers delegated to the executive bodies 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.

Reporting to the Board

As regards the performance of executive powers, the Board received from the CEO, also in his capacity as Chairman of the Executive Committee, the reports with different frequencies depending on the subject of the power in compliance with the periodic reporting requirements of the delegated bodies to the Board and the Board of Statutory Auditors in accordance with Articles 12 and 17 of the Articles of Association.

4.5. Other Executive Directors

There are no other Directors who may be deemed executive in addition to those who are already members of the Executive Committee.

4.6 Independent Directors

Pursuant to article 10 of the Articles of Association, at least three Directors, and in any event a number of Directors not less than that required by the regulations in force, must meet the independence requirements of art. 148, paragraph three, of Legislative Decree no. 58 dated 24 February 1998, as well as those laid down by the Code of Corporate Governance of Listed Companies ("**Independent Directors**").

During 2015, the independent Directors, albeit not recognising the need to meet in a formal session in the absence of the other Directors, often exchanged views on a variety of topics, thereby maintaining a lively debate within them both verbally and on the side-lines of the meetings of the Committees and the Board of Directors.

Following appointment, at the meetings of 27 November 2015 and 16 December 2015, the Board of Directors verified the Statutory Auditors' integrity, professionalism and independence requirements, pursuant to art. 148, paragraph 3, of Legislative Decree No. 58/1998, on the basis of the Personal Sworn Declarations provided for by Presidential Decree No. 445 of 28 December 2000. Subsequently, at the Board meeting of 5 February 2016 the Board of Directors determined the

non-existence of cases of incompatibility in accordance with art. 36 of the "Salva Italia" Decree and, where applicable, in accordance with art. 27-quater of Law Decree No. 1 of 24 January 2012 in respect of all members of the Board of Directors.

The Board of Directors determined the eligibility to qualify as independent directors pursuant to the Articles of Association and the applicable laws and regulations and, in particular, Articles 147-ter, paragraph 4, and 148, paragraph 3, of Legislative Decree no. 58/1998 and art. 3 of the Corporate Governance Code promoted by Borsa Italiana S.p.A. in respect of Directors Giorgio Barba Navaretti, Michele Calzolari, Daniele Pittatore and Andrea Zappia.

On the other hand, as regards Ms Luitgard Spögler, the possession of the independence requirements pursuant to art. 148, paragraph 3, of Legislative Decree No. 58 of 24 February 1998, according to art. 10.3 of the Articles of Association of Banca Sistema, has been ascertained. Following her appointment to the post of Chairman of the Board of Directors, however, Ms Spögler cannot be considered independent applicable within the meaning and for the purposes of the provisions of art. 3, criteria 3.c.1.b and 3.c.2., of the Corporate Governance Code promoted by Borsa Italiana S.p.A., applicable pursuant to art. 147 ter, paragraph 4, of Legislative Decree No. 58 of 24 February 1998.

As at the date of this report, the Directors who, in the lists for the appointment of the Board (November 2015), had indicated their eligibility to qualify as independent, have continued to meet the independence requirement.

The Board of Statutory Auditors ascertained the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members.

4.7 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.

5. Treatment of corporate information

Banca Sistema - aware that the flow of *price sensitive* information (pursuant to art. 114, paragraph 1, of the Consolidated Law on Finance) must be regulated, in accordance with current regulations, according to principles of fairness, clarity and equal access to 'information - adopted, pursuant to application Criterion 1.C.1, letter j) of the "Internal Rules for the management and disclosure of confidential and inside information", approved by the Board of Directors on 26 March 2015. The CEO and/or Chairman of the Board of Directors are responsible for the disclosure of corporate information, thereby ensuring, through compliance with the aforesaid Rules, the correct disclosure to the market with specific reference to inside information.

In accordance with the Rules, the Bank relies on the Investor Relations department, which reports to the CFO, for managing relations with institutional investors and financial analysts, in order to ensure the disclosure of consistent information and news about the Company's activities, as well as the dissemination of price sensitive press releases.

The Board of Directors approved specific provisions aimed at governing the procedures for the treatment of confidential and inside information and for keeping a Register of persons with access to inside information.

During the Financial Year, following the listing, the Company complied with its obligations under the Consolidated Law on Finance, the Issuer's Regulations and the Regulation of the markets organised and managed by the Borsa Italiana in terms of dissemination of regulated information to the public using the "1Info-Sdir" managed by Computershare S.p.A.. Concurrently, for the storage of regulated information, the Company has adhered to the centralised storage mechanism, called "1Info", available at www.1info.it, managed by Computershare S.p.A..

Confidential information

The Rules require the adoption of all necessary precautionary measures in the treatment of confidential information so that its confidential nature is not adversely affected.

The Rules stipulate that all members of corporate 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 Rules.

The entities which, for the purposes of the office, come into legitimate possession of confidential information relating to the Bank and/or the Banca Sistema Group, are required to:

- a) maintain secrecy regarding Confidential Information;
- b) treat such information only within the context of authorised channels, by adopting the necessary care so that its circulation within the corporate environment is not prejudiced given its confidential character;
- c) comply with the provisions and the required procedure for the disclosure of documents.

Any confidential information relating, directly or indirectly, to the Company, its financial instruments or the Group, which cannot be classified as inside information, insofar as it is related to events and circumstances that have not yet occurred, is subject to confidentiality.

Inside Information

Pursuant to the law, any information of a precise nature - relating, directly or indirectly, to the Company, its financial instruments or the Group - not in the public domain and of such nature, if made public, as to significantly affect the price of the related financial instruments shall qualify as inside information.

A piece of inside information is deemed to be of a precise nature:

a) if it refers to a set of circumstances which exists or may reasonably be expected to come into existence or an event which has occurred or may reasonably be expected to occur;

b) if it is sufficiently specific to allow conclusions to be drawn on the possible effect of the set of circumstances or of the event specified in letter a) on the prices of the Company's financial instruments.

Information which - if made public - could have a significant effect on the prices of financial instruments means information which a reasonable investor would presumably use as one of the elements on which to base his investment decisions.

Inside information may consist of a decision taken or an activity put in place by either the Company (the "Inside Information within the Company"), or by entities other than the Company or if it is an objective fact, event or circumstance (the "Inside Information outside of the Company"). The Inside Information within the Company is disclosed following the adoption of the decision or the performance of the activity by the corporate body or the person responsible for the matters covered by the same information. The Inside Information outside of the Company is disclosed following an assessment carried out by the Chairman of the Board of Directors and/or the CEO.

The Rules set out a procedure for the management and disclosure of inside information (particularly for price sensitive press releases).

Based on the provisions contained in the Consolidated Law on Finance and the implementing provisions issued by Consob, the Company has created and regularly updates a Register of people who, due to their work or professional activities or duties performed, have permanent or occasional access to inside information.

The Investor Relations department is responsible for keeping and updating the Register of persons with access to inside information.

6 Board Committees

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

In accordance with Articles 4, 5, 6 and 7 of the Corporate Governance Code and the Supervisory Provisions for Banks, in order to promote an efficient system of information and consultation, which enables the Board to conduct a better assessment of certain topics within its purview, the Board has set up internal committees (the "**Committees**"), small units in charge of advising and issuing recommendations to the Board on matters within their purview, without prejudice to decision-making powers that cannot be delegated and the responsibilities of the Board. In the performance of their duties, the Committees have the right to access the information and corporate departments required to perform their respective tasks.

The Bank shall provide adequate information, in the Corporate Governance Report, on the establishment and composition of the Committees, the contents of the mandate entrusted to them, as well as, on the basis of the indications provided for by each committee, the activity actually performed during the year.

In addition to the Executive Committee (for which reference is made to paragraph 4.4), the following Committees are set up within the Board of Directors as at 31 December 2015 and at the date of the Report:

- Internal Control and Risk Management Committee, comprising four non-executive directors, three of whom are independent, and with an independent chairman, as explained in further detail in Section 7;
- Nominations Committee, comprising three non-executive directors, two of whom are independent, and with an independent chairman, as explained in further detail in Section 8;
- Remuneration Committee, comprising three non-executive directors, two of whom are independent, and with an independent chairman, as explained in further detail in Section 9;
- Ethics Committee, composed of the Deputy Chairperson of the Board of Directors, an independent director and the Head of Legal and Corporate Affairs, as described in further detail in Section 10.

The Board of Directors, although the Company, in view of its status as a bank, was already equipped with Board Committees in line with the Supervisory Provisions for Banks, for the purposes of the listing procedure, resolved, on 28 April 2015 (effective as from the date of listing of the shares on the MTA market organised and managed by Borsa Italiana S.p.A.):

- to split the Nominations and Remuneration Committee into a Nominations Committee and a Remuneration Committee, defining their respective duties (it being necessary for the two committees to have at least one different member and be composed of a majority of independent directors and in any case of all non-executive members);
- to rename the Internal Control Committee as Committee for Internal Controls and Risk Management with broader duties, thereby assigning to the latter responsibilities regarding transactions with related parties and the redefinition of its mission.

Subsequently, following the appointment by the Shareholders' Meeting of 27 November 2015 of new Directors, the Board of Directors, on the same date, reconstituted the aforesaid Committees.

The Board of Directors had already appointed a Surveillance Body with autonomous powers of initiative and control pursuant to Legislative Decree 231/2001, currently chaired by the Chairman of the Board of Statutory Auditors and consisting of other two standing members (one independent director and the head of the Internal Audit Department), all as specified in further detail in Section 12.3).

No duties of one or more committees provided for by the Corporate Governance Code were reserved to the entire Board, under the coordination of the Chairman.

No other committees than those set out in this Section have been set up within the Board of Directors.

7. Nominations Committee

The Board has set up a Nominations Committee.

Composition and operation of the Nominations Committee (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

It is provided for that the Nominations Committee be composed of at least three members chosen from among non-executive directors, the majority of whom are independent.

The Committee is composed of Director Andrea Zappia (independent and non-executive), with the office of Chairman, Director Michele Calzolari (independent and non-executive) and Director Luitgard Spögler (non-executive).

During 2015 the Committee, also in the previous set-up as Nominations and Remuneration Committee in place prior to the listing, met 6 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about 1 hour and a half.

From the beginning of 2016 until the date of approval of this document, the Committee met once.

In 2016 the Committee is expected to hold a number of meetings not less than those held in the previous year.

The Nominations Committee is therefore composed of three of the nine members of the Board of Directors chosen from among the non-executive directors, the majority of whom are independent and in possession of the specific requirements of professionalism and expertise. The Chairman of the Committee, Mr Andrea Zappia, was chosen by the Board from among the independent directors in possession of adequate experience, which was considered adequate by the Board at the time of appointment, at its meeting on 27 November 2015.

In the performance of its duties, the Committee also takes into account the objective of ensuring that the decision-making processes of the Board of Directors are not dominated by a single person or group of persons which may prejudice the Company.

In the performance of its duties, the Nominations Committee may use all types of resources that it deems appropriate, including external consulting or publicity, such as external experts, in order to obtain thorough information regarding the personal and professional characteristics of the candidates and to select the persons most suited to the Company's projected operational needs.

The Head of Legal and Corporate Affairs or other employees working at that structure are invited to attend the Committee meetings. Summary minutes of each meeting, signed by the Chairman and by the Secretary, and filed with the secretary office of the Board of Directors, are drawn up.

The Committee has access to all relevant corporate information for the performance of its duties.

Duties and Responsibilities of the Nominations Committee

Within its sphere of influence, the Committee has advisory, selection and proposal-making duties to support the Board of Directors on the matter of appointment of the members of the Board.

The Committee carries out all the tasks assigned to it by the Corporate Governance Code and, in particular, it performs an advisory and proposal-making role in the identification of the optimal composition of the Board of Directors, thereby specifying the professional figures whose presence may be conducive to its correct and effective functioning and possibly contributing to the preparation of the succession plan for the Company's executive directors.

In particular, the Committee:

- submits opinions to the Board of Directors regarding the Board's size and composition;
- formulates recommendations regarding the professional figures whose presence within the Board is deemed appropriate, as well as regarding the limits on the number of offices and any exceptions to the competition prohibition provided for by art. 2390 of the Italian Civil Code;
- proposes to the Board of Directors candidates for director offices in case of co-option, should the replacement of independent directors be necessary;
- submits opinions to the Executive Committee in case of appointment of the direct reports to the CEO, even if not qualified as managers.

In accordance with the Circular, the Committee is responsible for performing a supporting role for the bodies charged with strategic supervision and management of the following processes:

- 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 composition of the Board, the Committee - without prejudice to the obligations imposed by regulations governing listed banks - must set a target level for the less represented gender and draw up a plan to increase this number to reach that target level;
- self-assessment of bodies;
- verification of the conditions laid down in Article 26 of the Consolidated Law on Banking, Legislative Decree No. 385 of 1 September 1993 (*Requirements of professionalism, integrity and independence of corporate officers*);
- definition of succession plans for senior executive positions.

8. Remuneration Committee

The Board has set up a Remuneration Committee.

Composition and operation of the Remuneration Committee (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

It is provided for that the Remuneration Committee be composed of at least three members chosen from among non-executive directors, the majority of whom are independent.

The Committee is composed of Director Giorgio Barba Navaretti (independent and non-executive), with the office of Chairman, Director Michele Calzolari (independent and non-executive) and Director and Deputy Chairperson Claudio Pugelli (non-executive).

During 2015 the Committee, also in the previous set-up as Nominations and Remuneration Committee in place prior to the listing, met 6 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about 1 hour and a half.

From the beginning of 2016 until the date of approval of this document, the Committee met twice.

In 2016 the Committee is expected to hold a number of meetings not less than those held in the previous year.

The Remuneration Committee is therefore composed of three of the nine members of the Board of Directors chosen from among the non-executive directors, the majority of whom are independent and in possession of the specific requirements of professionalism and expertise. At least one member must have appropriate knowledge and experience in financial matters or remuneration policies. The Chairman of the Committee, Mr Giorgio Barba Navaretti, was chosen by the Board from among the independent directors in possession of adequate experience, which was considered adequate by the Board at the time of appointment, at its meeting on 27 November 2015.

The Head of Legal and Corporate Affairs or other employees working at that structure are invited to attend the Committee meetings. Summary minutes of each meeting, signed by the Chairman and by the Secretary, and filed with the secretary office of the Board of Directors, are drawn up.

In the performance of its duties, the Committee ensures suitable functional and operational links with the competent corporate departments, has access to the necessary Company's information and functions for the performance of its duties and, according to the procedures established by the Board of Directors, can avail itself of external advisers.

The Company shall make available to the Committee adequate financial resources for the performance of its duties and to ensure operational independence, within the limits of the budget approved by the Board of Directors.

If the Committee intends to make use of the services of expert consultants in order to obtain information on market practices regarding remuneration policies, the Committee verifies in advance that such persons are not in situations that could compromise their independence of judgement, such as in cases where such persons provide simultaneously to the human resources department, directors or key officers services of such significance as to actually impair the independence of judgement of the same consultants.

The Committee reports to the shareholders on the methods of performance of its duties; to this end, the annual Shareholders' Meeting should be attended by the Chairman or another member of the Committee.

Duties and Responsibilities of the Remuneration Committee

Within its sphere of influence, the Committee has advisory and proposal-making duties vis-à-vis the Board of Directors.

In accordance with the Corporate Governance Code, the Committee performs a proposal-making and investigation role vis-à-vis the Board of Directors, with regard to the definition of a remuneration policy for directors and key officers.

In particular, the Committee has the following duties:

- A) periodically evaluate the adequacy, overall consistency and actual application of the general policy adopted for the remuneration of directors and key management personnel, also on the basis of the information provided by the managing directors; formulate proposals to the Board of Directors in that regard;
- B) submit proposals or issue opinions to the Board of Directors for the remuneration of executive directors and other directors who cover specific offices as well as for the identification of performance objectives related to the variable component of that remuneration; monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

In accordance with the Circular, the Committee also performs the following duties:

- (i) puts forward proposals on the remuneration of personnel whose remuneration and incentive systems are determined by the Board of Directors;
- ii) has an advisory role for the determination of the criteria for the remuneration of all key personnel;
- iii) carefully monitors the proper application of the rules on the remuneration of the managers in charge of the corporate control functions, in close coordination with the Board of Statutory Auditors;
- iv) takes care of preparing the documentation to be submitted to the Board of Directors for the related decisions;
- v) collaborates with the other committees within the Board of Directors, in particular with the Internal Control and Risk Management Committee in assessing whether the incentives provided by the remuneration system take into account the risks, capital and liquidity;
- vi) ensures the involvement of all competent corporate functions in the process of preparing and monitoring of the remuneration and incentive scheme policies and practices;
- vii) formulates, on the basis of the information received by the competent corporate functions, opinions on the achievement of the performance objectives linked to the incentive plans and on the verification of the other requirements laid down for payment of the remuneration;
- viii) provides adequate feedback on its activity to the corporate bodies, including the Shareholders' Meeting.
- ix) reports to the shareholders on the manner in which it performs its duties and, to this end, it is required that the Chairman of the Committee or another member be in attendance at the Annual Shareholders' Meeting;

9. Directors' Remuneration

Pursuant to Article 17.3 of the Articles of Association, the members of the administrative body are entitled to be reimbursed for expenses incurred as a result of their office, including travel and transfer expenses, and a fee determined by the Meeting at the time of appointment.

The remuneration of directors serving as Chairman, Deputy Chairperson (if nominated), CEO, members of the Board who are entrusted with special missions and members of the Executive Committee is established by the Board of Directors, upon the advice of the Board of Statutory Auditors, as well as upon the proposal of any internal committee established for this purpose, in compliance with the remuneration and incentive policies approved by the Shareholders' Meeting.

The Meeting can determine an overall amount for the remuneration of all directors, including those vested with specific tasks and for the General Manager, where appointed, pursuant to article 10.7 of the Articles of Association.

Furthermore, in accordance with the recommendations of art. 6 of the Corporate Governance Code and in accordance with the "Provisions on remuneration and incentive policies and practices of Banks and Banking Groups" issued by the Bank of Italy, art. 6 of the Articles of Association stipulates that the ordinary Shareholders' Meeting, in addition to determining the remuneration paid to the bodies it has appointed, approves: (i) the remuneration and incentive policies in favour of the members of the Board of Directors and the Board of Statutory Auditors, and the remaining personnel; (ii) any remuneration plans based on financial instruments (such as stock options); (iii) the criteria for the determination of the remuneration to be granted in case of early termination of the employment contract or early termination of office, including the limits laid down for this amount in terms of the annual fixed remuneration and the maximum amount resulting from their application.

Pursuant to the Articles of Association, the ordinary Shareholders' Meeting, at the time of approving the remuneration and incentive policies, also resolves on any proposal to set a limit on the ratio between the variable and fixed remuneration of individual staff at more than 100% (ratio of 1 : 1), but not exceeding the maximum limit of 200% (ratio of 2: 1). In this case, the Shareholders' Meeting resolution is based on a proposal of the Board of Directors, indicating at least: (i) the functions to which those persons affected by the decision belong, for each function, their number and those who are identified as "key personnel"; (ii) the reasons underlying the proposed increase; (iii) the implications, even in a forward-looking perspective, on the Company's ability to continue to comply with all applicable prudential rules. The proposal of the Board of Directors is approved by the ordinary Shareholders' Meeting when: (i) the Meeting is constituted with at least half of the share capital and the decision is taken by the favourable vote of at least 2/3 of the share capital represented at the Meeting; or (ii) the decision is taken by the favourable vote of at least 3/4 of the share capital represented at the meeting, regardless of the share capital with which the Meeting is constituted.

Finally, according to the Articles of Association, the Meeting shall be provided with adequate information on the remuneration and incentive policies adopted by the Company, and their implementation, as required by the laws and regulations applicable from time to time.

As for the other information to be provided in this section, reference is made to the relevant parts of the Remuneration Report published pursuant to art. 123 ter of the Consolidated Law on Finance.

10. Ethics Committee

The Board has set up an Ethics Committee.

Composition and operation

It is provided for that the members appointed by the Board of Directors, participating permanently in the Committee, are the Deputy Chairperson of the Board of Directors, an independent director and the Head of Legal and Corporate Affairs. The office of Chairman shall be taken by the Deputy Chairperson of the Board of Directors.

The Committee is therefore composed of Director and Deputy Chairperson Claudio Pugelli (non-executive), with the office of Chairman, Director Andrea Zappia (independent and non-executive) and the Head of Legal and Corporate Affairs Marco Pompeo.

Duties and Responsibilities of the Ethics Committee

The Committee is responsible for investigating and evaluating the ethical principles to be submitted to the Board of Directors for the definition of the policy relating to the ethical principles and evaluate the extent to which these principles must be applied to the Company and supervise the publication of the Corporate Social Responsibility reports and guidelines for external corporate communications on this matter.

The Ethics Committee is responsible for defining the code of conduct and issuing an opinion on the code of ethics of the Bank approved by the Board of Directors.

During 2015 the meetings were therefore attended by the Head of the Legal and Corporate Affairs Department, as secretary, or other employees of said corporate structure.

11. Internal Control and Risk Management Committee

The Board set up an Internal Control and Risk Management Committee, which is also responsible for matters relating to transactions with related parties.

Composition and operation of the Internal Control and Risk Management Committee (art. 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

The Committee is composed of Director Michele Calzolari (independent and non-executive), with the office of Chairman, Directors Giorgio Barba Navaretti and Daniele Pittatore (independent and non-executive) and Director Luitgard Spögler (not independent and non-executive).

The works are coordinated by the Chairman and meetings are minuted on a regular basis.

During 2015 the Committee met 8 times, as shown in Table 2 attached to this Report, while the average duration of the meetings was about two and a half hours. 6 meetings were also attended by the Board of Statutory Auditors.

From the beginning of 2016 until the date of approval of this document, the Committee met twice, always with the attendance of the Board of Statutory Auditors.

In 2016 the Committee is expected to hold a number of meetings not less than those held in the previous year.

The Internal Control and Risk Committee is therefore composed of four of the nine members of the Board of Directors chosen from among the non-executive directors, the majority of whom are independent. Committee members must be in possession of such expertise, skills and experience as to be able to fully understand and monitor the Bank's risk strategies and guidelines.

At least one member 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. The Committee Chairman, Mr Michele Calzolari, was chosen by the Board from among the independent directors in possession of adequate experience in accounting and finance or risk management. His experience was deemed appropriate by the Board at the time of appointment, at its meeting on 27 November 2015.

During its meetings, the Committee collaborated, subject to prior agreement and for the discussion of individual items, with the CEO, the Manager responsible for preparing the Company's financial reports and the Independent Auditors. It collaborated systematically with the Head of Risk Management and Compliance, and other Department resources invited upon request, as well as with the Head of the Internal Auditing Department, who systematically attended the meetings of the Committee with a view to achieving synergy between the different players of the internal control system. With a view to analysing the works of the Board, the Committee also collaborated with the Head and other employees of the Operations Department, or the IT Organisation Area.

The Head of Legal and Corporate Affairs or other employees working at that structure are also invited to attend the Committee meetings. Summary minutes of each meeting, signed by the Chairman and by the Secretary, and filed with the secretary office of the Board of Directors, are drawn up.

Committee meetings must be attended by at least one member of the Board of Statutory Auditors (no such obligation existed in the Regulations of the Committee prior to the listing). Where deemed appropriate in relation to the issues to be discussed, the Internal Control and Risk Management Committee and the Board of Statutory Auditors meet jointly.

In performing its functions, the Committee has access to the information and Company functions necessary to the performance of the related tasks and may draw on the assistance of internal employees and, at the 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.

The Committee and the body tasked with the control function shall exchange any information of mutual interest and, where appropriate, coordinate for the performance of their respective tasks.

The Committee must be able to use external experts and - where necessary - liaise directly with the internal audit, risk control and compliance departments.

Duties and Responsibilities of the Internal Control and Risk Management Committee

The Committee, within its purview, has the task of assisting the Board of Directors in making inquiries, putting forward proposals and issuing advice in the assessments and decisions relating to the Company's Internal Control and Risk Management System (the "**Internal Control and Risk Management System**").

The Committee performs all of the duties assigned to it by the Corporate Governance Code, and in particular:

- A) 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 and the management of risks arising from detrimental facts that the Board of Directors may have become aware of
- B) it expresses its opinion to the Board of Directors regarding:
 - (i) the setting of guidelines for the Internal Control and Risk Management System, so that the main risks to which the Bank and its subsidiaries are exposed are properly identified and adequately measured, managed and monitored, in addition to determining the extent to which such risks are compatible with management of the Company in a manner consistent with the identified strategic objectives;
 - (ii) the assessment, at least once a year, of the adequacy of the Internal Control and Risk Management System to the characteristics of the Company and the risk profile assumed, as well as of the committee's effectiveness;
 - (iii) the approval, at least once a year, of the working plan drawn up by the Head of the Internal Audit function, after hearing the opinion of the Board of Statutory Auditors and the Director responsible for the Internal Control and Risk Management System;
 - (iv) the description of the main characteristics of the Internal Control and Risk Management System in the corporate governance report and the assessment of the committee's overall adequacy;
 - (v) the assessment of the results presented by the Independent Auditors in the letter of suggestions, where appropriate, and in the report on the fundamental issues identified during the legal audit, after hearing the opinion of the Board of Statutory Auditors;
 - (vi) the appointment and dismissal of the Head of the Internal Audit function;
 - (vii) the allocation to the Head of the Internal Audit function of adequate resources to carry out his duties;
 - (viii) the definition of the remuneration of the Head of the Internal Audit function in a manner consistent with the Company's policies;
- C) it assesses the proper use of accounting standards and the consistency of such standards for the purposes of preparation of the consolidated financial statements, in collaboration with the Manager responsible for the preparation of company accounting documents and after hearing the opinion of the Independent Auditors and Board of Statutory Auditors;
- D) it expresses opinions concerning specific aspects of identifying the main company risks;
- E) it reviews periodic reports regarding the evaluation of the Internal Control and Risk Management System and reports of particular importance drafted by the Internal Audit function;
- F) it monitors the autonomy, adequacy, efficacy and efficiency of the Internal Audit function;
- G) it requests 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 Statutory Auditors thereof;
- H) it reports 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 and on the adequacy of the Internal Control and Risk Management System;

- I) it assesses the reports by the Director responsible for 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;
- L) it performs any additional tasks assigned by the Board of Directors.

In accordance with the provisions of Article 2.3.3 of Bank of Italy Circular no. 285 of 17 December 2013, the Committee carries out functions in support of the Board of Directors regarding risks and the system of internal controls.

In this context, the Committee must place particular emphasis on all the instrumental activities necessary so that the Board can reach a fair and efficient determination of the RAF ("*risk appetite framework*") and the risk governance policies.

In this regard, the Committee also has the following tasks:

- (i) identifying and proposing the Heads of the Company control functions for appointment, in collaboration with the Nominations Committee;
- (ii) examining in advance the activity plans (including the audit plan) and annual reports of the Company supervision functions to be submitted to the relevant body;
- (iii) formulating assessments and issuing opinions to the body on compliance with the principles to which the internal control system and the corporate organisation must adhere and with the requirements that must be met by the Company control functions, bringing to the attention of the body any weaknesses and the resulting corrective actions to be implemented; to this end, it assesses the proposals of the management body;
- (iv) contributing, through evaluations and opinions, to the definition of the Company's policy on the subject of outsourcing corporate control functions;
- (v) checking that the internal control departments comply in full with the body's guidelines and assists the latter in the preparation of the coordination document required by Bank of Italy Circular no. 285 of 17 December 2013;
- (vi) evaluating the correct application of the accounting standards for the preparation of the separate and consolidated financial statements, and to that end, coordinating with the Manager responsible for preparing the Company's financial reports and the Surveillance Body.

With specific reference to the tasks in the area of risk management and control, the Committee supports the Board of Directors:

- in the definition and approval of strategic guidelines and risk management policies. As part of the RAF, the Committee makes the necessary assessments and proposals so that the Board of Directors, as required by Bank of Italy Circular no. 285 of 17 December 2013, may define and approve the risk objectives ("Risk appetite"), and the tolerance threshold ("Risk tolerance");
- in checking the correct implementation of the strategies, risk governance policies and the RAF;
- in the definition of the policies and processes for evaluating Company activities, including the verification that the price and conditions of the transactions with customers are consistent with the business model and the risk strategies.

Notwithstanding the powers of the Remuneration Committee, the Committee ascertains that the incentives underlying the Company's remuneration and incentive system are consistent with the RAF.

Notwithstanding the powers of the Remuneration Committee, the Committee ascertains that the incentives underlying the Company's remuneration and incentive system are consistent with the RAF.

The Committee, in its component consisting solely of independent directors, also undertakes the functions of Committee for transactions with parties in conflict of interest, governed by the CONSOB Regulation containing provisions relating to transactions with related parties, adopted by resolution no. 17221 of 12 March 2010 and subsequently amended by Resolution no. 17389 of 23 June 2010, and by the law on "Risk activities and conflicts of interest vis-à-vis related parties" set forth by Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27 December 2006, "New prudential supervisory provisions for banks" and subsequent updates.

The Committee reports to the Board of Directors after the second half of the year on its activities and the adequacy of the Internal Control and Risk Management System even if, according to the practice adopted, the Chairman of the Committee reports to the Board from time to time, at the first useful meeting, on the activities carried out.

In 2015 the activities of the Committee focused on the following activities:

- procedure for transactions with related parties and issuance of prior opinions from the independent directors;
- adjustments to the provisions of the 1st update of 6 May 2014 of Bank of Italy Circular 285/2013 on corporate governance;
- adjustments to the provisions of the 15th update of 2 July 2013 of Bank of Italy Circular 263/2006 (now Circular 285/2013);
- presentation and implementation of the Programmatic Plan of the 2016-2017 audit activities;
- presentation of the plans of activities of the Risk Management and Compliance Department, respectively, for the anti-money laundering, compliance and risk management areas and the summary report concerning the activities carried out during the year;
- all preliminary activities envisaged in the Committee Regulations in relation to the works of the Board of Directors.

12. Internal Control and Risk Management System

The Board of Directors plays an important role within the scope of the Bank's Internal Control and Risk Management System.

For the matters related to risks and the system of internal controls, the Bank's Board of Directors relies on the Internal Control and Risk Management Committee, composed of at least three independent directors, with the task of supporting, with investigative, advisory and proposal-making functions, the assessments and decisions of the Board of Directors regarding the Internal Control and Risk Management System, as well as those relating to the approval of the periodic financial reports.

The Board of Directors, upon consultation with the Internal Control and Risk Management Committee, evaluates the adequacy of the Internal Control and Risk Management System with respect to the characteristics of the Company and its risk profile, as well as its effectiveness by preparing a specific report on an annual basis.

The Board of Directors, upon recommendation from the Director responsible for the Internal Control and Risk Management System, and subject to the favourable opinion of the Internal Control and Risk Management Committee and upon consultation with the Board of Statutory Auditors, appoints and dismisses the Head of the Internal Audit Function and ensures that the control functions are equipped with the adequate resources to carry out their duties.

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

- (i) the Board of Directors;
- (ii) the Director responsible for the Internal Control and Risk Management System, who may rely on the support of any extra-Board Committees for his/her assessments;
- (iii) the Internal Control and Risk Management Committee and other Board Committees, each within its own purview;
- (iv) the Internal Audit Department and other control functions (Risk Management and Compliance Department);
- (v) the Board of Statutory Auditors;
- (vi) the Surveillance Body.

The Company is committed - through the adoption of a Code of Ethics - to the dissemination at all levels of a culture characterised by the awareness of the existence of controls and the adoption of a control-oriented mentality. Internal controls are understood to be all those necessary or useful tools for addressing, managing and checking business activities with the aim of ensuring compliance with laws and Company procedures, protecting corporate assets, efficiently managing operations and providing accurate and complete accounting and financial data.

The responsibility for implementing an effective internal control system is shared at every level of the organisation. Therefore, all employees, within the scope of their respective functions, are responsible for the definition and proper functioning of the control system.

The auditing firm is permitted to have free access to the data, documents and information necessary for the conduct of the audit.

Roles and Functions involved

Given the significant responsibilities entrusted to him, the Manager responsible for preparing the Company's financial reports shall have adequate powers and means to carry out his functions, as stated in the last paragraph of this Section. Specifically, the Manager responsible for preparing the Company's financial reports, who is responsible for the activity and its coordination, relies on the support of both internal personnel and of an auditing firm other than the entity in charge of the audit, which was entrusted with the task of assisting the Manager responsible for preparing the Company's financial reports in the evaluation activity described above.

With regard to relations with the Bank's structures/Bodies, in addition to the information flows required by law with the various control functions and the Governance and Control Bodies, the Manager responsible for preparing the Company's financial reports receives from all Business Units the maximum collaboration necessary for the performance of his activities, by ensuring free access to all areas, information, accounting records and documentation and the timely, complete, accurate and reliable provision of all the required data. In case some of the activities managed by a Business Unit have been outsourced to third parties, the Head of the Business Unit undertakes to ensure that the Manager responsible for preparing the Company's financial reports can also access the information available to such persons. The Manager responsible for preparing the Company's financial reports agrees the procedures for the implementation of appropriate information flows with each Business Unit.

The authorised persons provide the Manager responsible for preparing the Company's financial reports with the information and any certifications deemed necessary to allow the latter to comply with the formalities required under Articles 123-bis and 154-bis, paragraph 5, of the Consolidated Law on Finance and with the formalities required by Bank of Italy Circulars 272 and 115 concerning accounting supervisory reports (*Matrice dei conti*) and the submission of supervisory reports on a consolidated basis.

12.1 Director responsible for the Internal Control and Risk Management System

For the purpose of the listing process, the Board of Directors' Meeting of 28 April 2015 assigned to the CEO the role of Director responsible for supervising the operation of the Internal Control and Risk Management System in accordance with Article 7.C.4 of the Corporate Governance Code, by implementing the guidelines related thereto defined by the Board of Directors, with the support of the Internal Control and Risk Management Committee, thereby ensuring that all necessary actions to implement the system are taken.

In particular, in accordance with Article 7.C.4 of the Corporate Governance Code, the Director responsible for the Internal Control and Risk Management System, subject to the provisions laid down by primary and secondary legislation in the banking sector:

- 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 conducts 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, the Chairman of the Control and Risk Committee and Chairman of the Board of Statutory 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.

During 2015 there has been no need to promptly report to the Internal Control and Risk Management Committee or the Board of Directors about any problems and critical issues emerged in the conduct of its activity or which it may otherwise have been informed of.

12.2 Risk and Compliance Department

The Bank, in line with the principles of gradualness and proportionality, entrusted to a single department, the Risk Management and Compliance Department (the Department) the performance of the second-level controls.

This Department includes: the Risk Management Department, which acts as the Bank's risk control function, and the Compliance and Anti-Money Laundering Department (before April 2014 reporting to the Legal and Corporate Affairs Department) which oversees the risk of compliance with the regulations, including the risk of money laundering and terrorism financing. The Risk Management and Compliance Department reports to the CEO and is independent from the company functions tasked with the operational management of risks: The Compliance and Anti-Money Laundering

Department, in accordance with regulatory provisions, in the event of specific shortcomings in terms of anti-money laundering and compliance risk may report directly to the Bank's Board of Directors

The Compliance and Anti-Money Laundering Department includes the roles of the Compliance Officer and the Head of Anti-Money Laundering, who, for specific matters, functionally report to the Board of Directors.

In addition to the periodic reports required by the reference regulations (e.g. Plans of activities and periodic reports), the Department periodically shares the progress of its activities with the Top Management, on the occasion of the CEO Committee.

The Head of the Risk Management and Compliance Department, Cesare Santacroce, has the technical and professional skills needed to carry out the duties assigned to him. Mr Santacroce was appointed Risk Manager by the Board of Directors on 1 February 2012 and then, on 31 July 2014, also interim Head of the Compliance and Anti-Money Laundering Department, with effect as from 19 July 2014.

To ensure proper interaction between all the functions and bodies charged with control tasks, thereby avoiding any overlaps or shortcomings, the Bank has adopted a "Regulation for the coordination of the control functions", which defines the duties and responsibilities of the various control bodies and functions, as well as the information flows and the procedures for coordination and collaboration between the parties involved.

The remuneration criteria of the personnel belonging to the Risk Management and Compliance Department do not compromise their impartiality and the incentive system is consistent with the purposes of the function and with their tasks. In line with supervisory provisions on remuneration policies and practices, the variable component of the remuneration payable to the members of corporate control functions may not exceed the limit of one third of the fixed component and the allocation of the bonus depends exclusively on the achievement of qualitative objectives, not connected in any way to the Bank's financial results.

During 2015, the Department completed the plan of the activities planned for the year and has been involved in a number of business projects.

Below is a detail of the tasks of the Risk Management and Compliance and Anti-Money Laundering Departments.

Risk Management Department

The Risk Management Department is tasked with the identification, management and monitoring of all risks to which the Bank is or may be exposed. The Risk Management Department has the duty to cooperate in the formulation and implementation of the Risk Appetite Framework (RAF) and the related risk governance policies, and the various stages that make up the risk management process as well as in setting operational limits for the assumption of various types of risk.

The Risk Management Department:

- is responsible for measuring and controlling, in both a timely and forward-looking manner, the Bank's exposure to the different types of risk (e.g.. market, credit, interest rate, liquidity, operational and country, strategic, reputational), defines and proposes to the competent Body the threshold of risk tolerance for each identified risk category (Risk Tolerance) and continuously monitors its adequacy; risk measurement takes into account the uncertainty inherent in the assessment of certain types of financial instruments;
- develops and maintains risk measurement, management and control systems aligned with international best practices, cooperating to this end with the functions responsible for the relevant company processes;
- verifies the adequacy of the RAF and the risk and operational limit management process; identifies the measures able to improve/optimize the Risk Appetite, taking into consideration the direct impacts on the budget/plan;
- defines common risk assessment metrics in line with the RAF, coordinating with the Compliance and ICT functions;
- provides the management body with the Bank's risk appetite, i.e. the maximum Total Capital that the Bank is willing to allocate to cover risks.

Compliance and Anti-Money Laundering Department

The Compliance and Anti-Money Laundering Department, which includes the Anti-Money Laundering function, oversees the management of the compliance risk with regard to all the Company's activities, ensuring that the internal procedures are adequate to prevent this risk, and in particular that they:

- prevent the violation of external rules (laws and regulations) and internal rules (codes of conduct, ethical codes) applicable to the Bank in order to avoid incurring legal or administrative sanctions, significant financial losses or damage to reputation;

- prevent and combat money-laundering operations and the financing of terrorism, in order to mitigate the risk of violation of internal and external rules on the matter.
- The Department collaborates with other departments of the Bank for the definition of methods for the assessment of compliance risks.
- With regard to the supervision of the compliance risk following the inclusion of the Bank's Compliance and Anti-Money Laundering Department in the Risk Management and Compliance Department, a new methodological approach has been defined with regard to the activities of this Department, based on a risk-based perspective, taking advantage of the synergies with the activities already carried out by the Department on the subject of risk management; in this context, a centralised compliance model has been adopted which provides for regulations with a direct scope or supervised directly by the Department and with an indirect scope, for which a specialist function is in place with primary responsibility for the management and monitoring of the compliance risk.
- Specifically, the Department:
 - supports the corporate departments for the definition of methods for the assessment of compliance risks.
 - Identifies appropriate procedures for the prevention of the risk, with the option to request the adoption thereof; verifying their appropriateness and correct application.
 - Identifies, on an ongoing basis, the rules applicable to the Bank and the measurement/assessment of their impact on business processes and procedures.
 - Proposes organisational and procedural changes aimed at adequately controlling the compliance risks identified.
 - Prepares information flows addressed to the corporate bodies and the departments involved (e.g.: operational risk management and internal audit).
 - Checks the effectiveness of the organisational changes (structures, processes, including operational and commercial procedures) suggested for the prevention of the compliance risk; the involvement in the prior assessment of compliance with applicable regulations of all innovative projects including operations in new products or services) as well as in the prevention and management of conflicts of interest among the various activities carried out by the Bank, both in relation to employees and executives.
 - Assists and advises the Bank's corporate bodies in all matters in which there is a significant compliance risk and collaborates in personnel training on the provisions applicable to their activities, in order to promote a corporate culture based on the principles of honesty, fairness and respect for the letter and spirit of the rules.

12.3 Internal Audit

The Internal Audit department (or "internal audit") is appointed by the Board of Directors and is an integral part of the internal control system (ICS). It is engaged in assurance and advisory activities designed to identify, with a third level assessment, the regular performance of all activities, any violations of procedures and regulations, and to periodically assess the completeness, adequacy, reliability and overall operation of the ICS and risk management system. It helps the organisation to achieve its objectives through a systematic professional approach, which generates added value insofar as it is aimed at evaluating and improving control, risk management and corporate governance processes.

The Internal Audit department performs an advisory role vis-à-vis the Board of Directors and the top management for the actions aimed at the improvement of the ICS and the dissemination of a "control culture" within the company. In addition, as part of the collaboration and exchange of information, for the matters within its remit, it reports on a regular basis to the Board of Statutory Auditors, the Internal Control and Risk Management Committee, the Surveillance Body and the Independent Auditors.

The Internal Audit Department acts according to a mandate provided by a specific regulation approved by the Board of Directors. Moreover, to ensure proper interaction between all the functions and bodies charged with control tasks, thereby avoiding any overlaps or shortcomings, the Bank has adopted a "Regulation for the coordination of the control functions", which defines the duties and responsibilities of the various control bodies and functions, as well as the information flows and the procedures for coordination and collaboration between the parties involved.

Since February 2013, the responsibility of the Bank's internal audit function is entrusted to Franco Pozzi; he was appointed by the Board on 19 December 2012, upon the proposal of the Executive Committee and the favourable opinion of the Board of Statutory Auditors and the Nominations and Remuneration Committee. According to the supervisory provisions and self-regulation rules in force at the time, no other opinions were explicitly acquired. At the

same Board meeting, the Head of the Internal Audit Department was also appointed member of the Surveillance Body pursuant to Legislative Decree 231/2001.

In order to achieve the level of independence necessary to effectively carry out the internal audit activities planned, the Head of the Department reports directly to the Board of Directors and is appointed and dismissed, thereby stating the reasons, by the body in charge of strategic supervision, upon consultation with the body tasked with the control function; its appointment and revocation must be promptly communicated to the Bank of Italy.

The remuneration criteria of the personnel belonging to the Internal Audit Department do not compromise their impartiality and the incentive system is consistent with the purposes of the function and with their tasks. In line with supervisory provisions on remuneration policies and practices, the variable component of the remuneration payable to the members of corporate control functions may not exceed the limit of one third of the fixed component and the allocation of the bonus depends exclusively on the achievement of qualitative objectives, not connected in any way to the Bank's financial results.

In order to properly perform its duties, the Internal Audit Department has access to all the Bank's activities, including those outsourced. The personnel operating within the Internal Audit Department is equipped with appropriate technological resources and, solely for consultation and inquiry purposes, has specific access to the various applications used by the Bank, in support of the monitoring activity, capable of guaranteeing independent data extrapolation and processing, as well as for the selection of samples for testing procedures.

The Internal Audit Department, for each financial year, manages a specific budget for any tasks assigned to external specialists for the purpose of carrying out activities that internal resources are not able to perform independently. To this end, a leading external consultancy company, in consortium with other client institutions, is appointed to check the technological facilities of the outsourcer's information systems (Banking Services Consortium), including networking and application penetration tests. The activities for monitoring internal information systems were carried out with the support of external consultants.

Audit activities are planned annually, based on a structured analysis approach and prioritisation of the key risks (so-called "risk-based" approach), which assesses the different degrees of risk of the Bank's activities and structures. In order to identify the steps to plan and determine their priorities, the following aspects were also considered:

- the evolution of the Bank's business provided for in the 2014-2016 Business Plan;
- the items requiring attention arising from the results of the audits carried out in the past;
- the analysis of operational risks identified by the Risk Management & Compliance Department and formalised in the Operational Risk Framework;
- the mandatory annual audits required by Bank of Italy regulations (e.g. IT audit, ICAAP, remuneration policy, evaluation of the RAF, etc.), and those on an ongoing basis recommended by the Supervisory Authorities (e.g. CQS, audit on the Compliance and Anti-Money Laundering Department).

The multi-year Audit Plan (2015-2017) was submitted to a preliminary examination by the CEO Committee, the Internal Control and Risk Management Committee, the Board of Statutory Auditors and, subsequently, to the formal approval of the Board of Directors, which took place at its meeting on 4 December 2014. The Corporate bodies, the Supervisory Authorities and the Head of the Internal Audit Department may request amendments and/or additions to the plan following particularly risky events or situations they have detected, thereby informing the Board of Directors.

The main activities carried out by the Head of the Internal Audit Department during 2015 concerned, to a different extent depending on the level of risk, the following operating processes of the Bank: factoring, treasury, SME financing, investment services, banking products, salary- and pension-backed loans and certain additional business processes not directly related to individual structures. Actions were also carried out concerning the mandatory audit activities concerning the information system (ICT auditing), including the Company's business continuity plan, the second-level control business functions (compliance and anti-money laundering), the process of defining the Risk Appetite Framework (RAF) and the correct application of remuneration policies. Since the last quarter of 2015, the Internal Audit Department has also been appointed to support the Manager responsible for preparing the Company's financial reports to conduct the verification of the key controls of the relevant administrative and accounting processes.

The results of the activities conducted by the Internal Audit Department are formalised in special audit reports that are sent simultaneously to the members of the CEO Committee and the structures subject to audit. The audit reports contain the details of the findings, any areas for improvement of the control system emerged and the actions planned to overcome them, with an indication of the person in charge of the remedial actions and the deadlines for their implementation. The Internal Audit Department monitors, through follow-up activities, the completion of the corrective actions identified, informing the CEO of any delays.

The Head of the Internal Audit Department submits to the attention of the Corporate Bodies, on a quarterly basis, a *tableau de bord* which summarises the following information:

- the controls carried out by the Internal Audit Department set out in the Audit Plan;
- the findings emerged during the above checks indicating the critical level, the planned corrective measures, the implementation timing and the project managers;
- the follow-up of the findings;
- the other activities carried out in the period.

The above information is also sent to the Banking Supervision Service 2 (*Servizio Supervisione Bancaria 2*) of the Bank of Italy.

The Internal Audit Department monitors, on an ongoing basis, the removal of any anomalies found in accordance with the agreed terms and within the envisaged deadlines (follow-up), thereby reporting any possible delays compared to the envisaged deadlines.

12.4 Organisational and Management Model pursuant to Legislative Decree 231/2001

Banca Sistema, aware of the need to ensure transparency and fairness in the conduct of the business, in order to protect its institutional role and image, the expectations of shareholders and of those who work for and with the Bank, has deemed it appropriate, in line with its corporate policies, to implement the Organisational and Management Model (or "OMM") laid down by Legislative Decree 231/2001 and available on the Issuer's website www.bancasistema.it.

This initiative was also taken in the belief that the adoption of the OMM may be a valid awareness-raising instrument for those who work for the Bank, so that they adopt, in the performance and in the conduct of their activities, correct and consistent behaviour, such as to prevent the risk of committing the offences specified in Legislative Decree 231/2001.

The Bank condemns any conduct contrary to the applicable legal provisions and ethical principles also established in the Code of Ethics. In this context, the adoption and effective implementation of the Model improves the Bank's Corporate Governance system, thereby limiting the risk of committing crimes.

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

The Special Section of the Organisational Model includes the following predicate offences that Banca Sistema intends to prevent

- a) crimes committed in relations with the Public Administration (art. 24);
- b) computer crimes and unlawful data processing (art. 24-bis);
- c) corporate offences (art. 25-ter);
- d) market abuse (art. 25-sexies);
- e) crimes committed in violation of the rules on the protection of health and safety at work (art. 25-septies);
- f) receipt of stolen goods, money laundering and use of money, goods or benefits of unlawful origin, as well as self-laundering (art. 25-octies);

In accordance with the provisions of Legislative Decree 231/2001, a Surveillance Body (SB) has also been established, which is entrusted with the task of supervising the functioning and observance and updating of the OMM. The Board of Directors' Meeting of 27 November 2015 deemed it appropriate to give continuity to the activities already carried out by the Surveillance Body by appointing as members a collective structure, separate from the Board of Auditors, whose

characteristics are governed by the regulations on the functioning of the SB. In particular, the Board has retained the "mixed" nature of the SB composition by appointing the following members:

- (i) a non-executive and independent director, who will ensure the independence of the body and constant liaising with the Board of Directors;
- (ii) the Head of the Internal Audit Department of the Bank, so as to ensure proper coordination of the audit activities, thereby avoiding any duplication and exploiting possible synergies of the internal controls
- (iii) the Chairman of the Board of Statutory Auditors who, in representation thereof, shall 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.

Therefore, the Body currently consists of the following members:

- Diego De Francesco (Chairman of the Board of Statutory Auditors);
- Michele Calzolari (Independent Director);
- Franco Pozzi (Head of the Internal Audit Department).

The Body remains in office for three years and reports to the Board of Directors on its activities every six months. The meetings are regularly minuted and registered in a special book. This Body is vested with autonomous initiative and control powers, including the power to request and obtain information from all levels and operating departments of the Bank, making use of the Internal Audit Department.

The Board annually allocates to the SB the necessary financial resources for the acquisition of any advice necessary for the fulfilment of its institutional duties.

The SB is the recipient of the information requirements established by the OMM, particularly with respect to the reporting of news relating to the commission or attempted commission of offences in the interest or to the advantage of the Bank specified in Legislative Decree 231/2001, as well as of any violations of the rules of conduct laid down by the OMM. In order to protect its full independence and confidentiality, the report may be issued directly to the SB, by using the appropriate electronic mailbox. No reports were received during 2015.

12.5 Independent Auditors

By resolution of 27 April 2010, the Issuer's Shareholders' Meeting, pursuant to articles 14 and 16 of Legislative Decree 39/2010 and Articles 2409-bis et. seq. of the Italian Civil Code, appointed the Independent Auditors KPMG S.p.A., based on a reasoned proposal put forward by the Board of Statutory Auditors, with the mandate (i) for the legal audit of the financial statements of the Issuer and the consolidated financial statements of the Group, including the oversight of corporate accounting and the correct reporting of operating events in the accounts for the years 2010-2018, as well as (ii) for the limited review of the interim reports from 30 June 2010 to 30 June 2018.

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

The audit of the financial statements and of the consolidated financial statements also involve the audit of the financial statements of subsidiaries or associated companies. The audit of the subsidiary SF Trust Holdings is formalised by a separate agreement.

12.6 Manager responsible for preparing the Company's financial reports

In accordance with article 23 of the Articles of Association, the Board of Directors, after hearing the mandatory but not binding opinion of the Board of Statutory Auditors, appoints the Manager responsible for preparing the Company's financial reports pursuant to article 154-bis of legislative decree no 58 of 24 February 1998, and possibly establishes a given period for the task to be completed, selecting him/her from among the Company's managers with proven experience in accounting and financial matters, granting them adequate powers and means to perform the tasks assigned pursuant to law. This same Board of Directors shall also have the power to revoke the Manager responsible for preparing the Company's financial reports. The remuneration of the Manager responsible for preparing the Company's financial reports is set by the Board of Directors.

On 26 March 2015 the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, appointed as "Manager responsible for preparing the Company's financial reports", with effect as from 2 July 2015 (the listing date), Ms. Margherita Mapelli, who holds the position of Head of Finance and Administration. The Board also positively verified the satisfaction of the integrity and professionalism requirements of the Manager responsible for preparing the Company's financial reports laid down by the Articles of Association and by the applicable regulations.

The Board of Directors granted to the Manager responsible for preparing the Company's financial reports the powers and means described below:

- she is vested with all the powers and means necessary to perform the tasks attributed to her as required by law;
- she holds an adequate executive position, reporting directly to the CEO of Banca Sistema;
- she has adequate access to any and all information deemed relevant for the performance of her duties;
- she relies on the support of people within her department to carry out the activity;
- she is endowed with the powers to carry out the supervision of existing business processes and authorise new ones when they have an impact on the financial statements, the consolidated financial statements and the documents subject to certification;
- she must be able to rely on the Company's information systems in order to have a suitable accounting system to ensure the adequacy of procedures and controls;
- she may rely, where necessary and/or appropriate, on the collaboration of other business organisational units, other than those arranged by the latter as Company manager, for the performance of her duties in accordance with procedures to be agreed with them;
- for the purposes of traceability and transparency, she arranges the most appropriate record keeping methods for the documents with an impact on the accounting reports of Banca Sistema S.p.A.

The Manager responsible for preparing the Company's financial reports has the same powers of inspection and control available to the Board of Statutory Auditors and the Independent Auditors, within the limits, however, of the duties and functions assigned to her. The Manager responsible for preparing the Company's financial reports has access to any corporate documents including contracts with third parties.

12.7 Financial reporting process

As regards the main characteristics of the Internal Control and Risk Management System in relation to the financial reporting process, including on a consolidated basis, according to the legal provisions of art. 154-bis of the Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports certifies in a written statement that the documents and communications of Banca Sistema issued to the market and related to the financial reports, including the interim reports, correspond to the documentary evidence, books and accounting records (Article 154 bis, paragraph 2).

The Board of Directors ensures that the Manager responsible for preparing the Company's financial reports is endowed with suitable powers and resources for performing the tasks allocated to her, as well as compliance with the administrative and accounting procedures.

The CEO and the Manager responsible for preparing the Company's financial reports certify, in a specific report attached to the financial statements, the half-year report and the consolidated financial statements (Article 154-bis, paragraph 5) that:

- a) they were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) they correspond to the results of the accounting books and records;
- c) they are suitable for providing a true and fair view of the financial position and results of the issuer and all the companies included in the scope of consolidation;
- d) the report on operations includes a reliable analysis of business performance and results, as well as of the position of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

As part of the financial reporting process, all the main key controls inherent in the relevant administrative and accounting processes were defined and formalised. These controls should ensure the reliability and accuracy of financial

reporting, while a series of controls have been planned to certify the adequacy of the procedures and the effectiveness of the operational controls conducted by the Internal Audit Department.

12.8 Coordination among the entities involved in the internal control and risk management system

With a view to strengthening the coordination and information exchange mechanisms between the functions and the corporate bodies in charge of risk management and the internal control system, and in order to capture, while respecting mutual independence, economies of scope, as well as to develop control methods consistent with corporate operations, appropriate organisational measures and information flows have been defined.

Although contacts and correlations are already existing between the functions, in particular on the occasion of bilateral comparisons, the attendance at meetings thereof by other corporate bodies and Heads of operational structures allows effective coordination between the various parties involved in the internal control and risk management system.

In particular, the Internal Control and Risk Management Committee allows the coordination between the activities of the Internal Audit Departments, whose Heads, including the Manager responsible for preparing the Company's financial reports, are invited to participate; Committee meetings are always attended by at least one member of the Board of Statutory Auditors, who allows the exchange of information flows. The Independent Auditors are also required to participate in this Committee. The Director responsible for the Internal Control and Risk Management System also interacts with the other corporate functions and bodies with an active role in risk management and internal control system in order to maintain an effective system of internal control and risk management.

The corporate control functions also collaborate by using some common parameters for integration within the scope of the risk management and internal control system, such as the use and adoption of methods and means of detection and evaluation based on the same reference parameters, the identification of formalised coordination moments for the planning of activities and the sharing in the identification of any remedial actions.

On 15 March 2016 the Board of Directors, upon consultation with the Internal Control and Risk Management Committee, approved the update to the Regulations for the Coordination of the Control Functions. The Regulations are adopted by the Board of Directors of Banca Sistema S.p.A. (i) in order to comply with the principles established by the Corporate Governance Code, prepared by the Committee for Corporate Governance of Listed Companies, promoted by the Borsa Italiana (hereinafter the "Corporate Governance Code"), which the Bank adheres to on a voluntary basis, and (ii) in order to take into account the provisions regarding organisational structure and corporate governance contained in Legislative Decree 385/1993 (the "Consolidated Law on Banking") and in the supervisory provisions for banks referred to in Bank of Italy Circular No. 285 of 17 December 2013 (the "Supervisory Provisions").

13. Directors' interests and transactions with related parties

The Board of Directors, at its meeting held on 28 April 2015 approved, with the favourable opinions of the Board of Statutory Auditors and the Committee consisting exclusively of independent directors, the "Procedure for the management of transactions with parties in conflict of interest", by resolution subject to the listing of Banca Sistema S.p.A.'s shares on the regulated market managed by Borsa Italiana S.p.A. with effect from the first day of trading of the aforesaid shares (as from 2 July 2015).

The Procedure intends to define, in the context of the transactions carried out by the Bank and, more generally, by the Group, the principles and rules to be followed for monitoring risks arising from situations of possible conflict of interest determined by the proximity of certain people to the decision-making bodies of the Bank and the Group.

The Procedure - which reads as an organic compendium with the aim of dealing in a consistent manner with the governance aspects and areas of application, as well as with the procedural and organisational profiles - contains the provisions to be observed in the management:

- of transactions with related parties pursuant to the "Regulations containing provisions relating to transactions with related parties" adopted by Consob with resolution No. 17221 of 12 March 2010;
- of transactions with associated persons pursuant to the regulations on "Risk activities and conflicts of interest vis-à-vis associated persons ," established by Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27 December 2006 "New prudential supervisory provisions for banks", as amended;
- of the obligations of bank directors pursuant to art. 136 of Legislative Decree no. 385 of 1 September 1993 – the Consolidated Law on Banking.

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

The Procedure is available on the Internet site www.bancasistema.it (in the section "Corporate Governance – Related Parties and Associated Persons").

14. Appointment of Statutory Auditors

Pursuant to Article 18 of the Articles of Association, the Shareholders' Meeting appoints three standing Statutory Auditors and two alternate Statutory Auditors who remain in office for three financial years, may be re-elected and whose office ceases on the date of the Meeting convened to approve the financial statements for the third financial year of their office. The Statutory Auditors cease to hold office upon the expiry of the term which started at the time the Board was re-established. The law and the Articles of Association apply in respect of the appointment, dismissal and replacement of the Statutory Auditors.

The Statutory Auditors must meet the requirements of professionalism, integrity and independence prescribed under the regulations in force from time to time, including those indicated in the Decree of the Ministry of Justice No. 162 dated 30 March 2000, as well as those envisaged by the Corporate Governance Code to which the Company has adhered. Pursuant to the provisions of article 1, paragraph 2, letters b) and c) of that Decree, issues concerning the financial, credit and insurance sectors shall be considered to be strictly relating to the Company's business. The Statutory Auditors may hold offices as members of management and control bodies in other companies within the limits laid down by the applicable provisions.

Furthermore, in addition to those grounds provided for by law, being tied to the Company by an ongoing independent contracting or employment relationship, or any relationship involving the direct or indirect supply of goods and/or services, being a member of a management body of another bank or company whose business is in competition with that of the Company, or being tied to such other bank or company by an ongoing independent contracting or employment relationship are all grounds for dismissal or ineligibility.

The Statutory Auditors may not hold offices other than those of control at other companies belonging to the Group or to the financial conglomerate, or at companies in which the Company, including indirectly, holds a strategic interest.

In order to ensure that minority shareholders may elect a standing and an alternate Statutory Auditor, the appointment of the Board of Statutory Auditors is based on 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 standing Statutory Auditor, the other for candidates to the post of Alternate Statutory Auditor.

The 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 notice of call of the Shareholders' Meeting, so as to allow the Board of Statutory Auditors to be set up in accordance with current laws regarding gender equality. Shareholders which represent, including jointly, at least 2.5% (two point five per cent) of the share capital represented by voting rights for Shareholders' Meeting resolutions whose purpose is to appoint the members of the management body, or another number which may be established by mandatory legal or statutory provisions, are entitled to submit a list of candidates. The ownership of this minimum share necessary to submit lists 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's registered office. In order to prove the ownership of the number of shares required to submit lists, the shareholders who present or are involved in submitting lists, must submit or 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 Legislative Decree no. 58 of 24 February 1998, parent companies, subsidiaries and those subject to joint control pursuant to article 93 of Legislative Decree no. 58 of 24 February 1998, 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 submitted, and any candidate can only appear in a single list on pain of ineligibility. For the purposes of the preceding paragraph, an entity, even without a corporate status, which exercises direct or indirect control pursuant to Article 93 of Legislative Decree no. 58 of 24 February 1998 over the shareholder in question, and all the companies controlled directly or indirectly by this entity, are deemed to belong to the same group.

If the above provisions are not respected, for the purposes of the application of the provisions of this article, 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 other five (5) issuers, or in violation of any limits on concurrent positions established by applicable provisions of laws or regulations, and persons who do not meet the personal integrity and professionalism requirements established by applicable provisions of laws or regulations, cannot be included in the lists. Outgoing Statutory Auditors may be re-elected. The lists must be sent to the Company's registered office at least 25 (twenty-five) days prior to the Shareholders' Meeting called to resolve on the appointment of the control body and made available to the public at the registered office, on the Company's internet site and with the other means stipulated under applicable legal and regulatory provisions at least 21 (twenty-one) days prior to the Shareholders' Meeting. This shall be mentioned in the notice of call. In case only one list has been submitted within this period of 25 (twenty-five) days, or in case there are only lists presented by inter-related shareholders pursuant to current laws and regulations, lists may be submitted up to the third day subsequent to this date, unless a different period is stipulated under the applicable laws and regulations. In this case, the shareholders who - individually or jointly - are owners of shares representing half of the capital threshold previously identified shall be entitled to submit lists.

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 the 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.

The lists submitted which do not satisfy the provisions stated above shall be void.

Statutory Auditors are elected as follows:

- a) two standing Statutory Auditors and one alternate Statutory Auditor are drawn from the list that obtained the greatest number of votes at the Shareholders' Meeting, on the basis of the sequential numbering with which they are listed in the sections of the list;
- b) the remaining standing Statutory Auditor and the other alternate Statutory Auditor are drawn from the list that obtained the greatest number of votes at the Shareholders' Meeting and is not associated, directly or indirectly, with the list indicated in point a) above and/or with the shareholders who submitted 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 submitted by the shareholders with the greatest equity interest, or, subordinately, by the greatest number of shareholders, will prevail;
- d) where the Board of Statutory 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 standing member of the least represented gender is appointed by the Shareholders' Meeting with legal majority, to replace the last candidate from the majority list;
- e) where a single list or no list is presented and admitted, all the candidates for the positions indicated in the list or else those voted by the Shareholders' Meeting shall be elected standing and alternate Statutory Auditors, provided that these achieve the majority of votes expressed at the Meeting. All this is subject to compliance with the regulations in force on gender equality.

The chair of the Board of Statutory Auditors is assumed by the first candidate on the second list (where submitted and admitted) who has obtained the most votes.

When the requirements set forth by the law and the Articles of Association are not met anymore, the Statutory Auditor shall be disqualified from office.

Where a Statutory Auditor is replaced, the alternate Statutory Auditor belonging to the same list shall take over. If the substitution does not ensure compliance with the rules on gender equality, the Shareholders' Meeting must be convened as soon as possible in order to ensure compliance.

When the Shareholders' Meeting is to appoint the standing and/or alternate Statutory Auditors needed to make up the Board of Statutory Auditors, it shall proceed as follows: when it is to replace the Statutory Auditors elected in the majority list, the appointment comes about on the basis of majority voting without any constraints connected with the lists; when, on the other hand, Statutory Auditors elected from the minority list are to be replaced, the Shareholders' Meeting replaces them by majority voting, choosing from the candidates indicated in the list to which the Statutory Auditor to be replaced belonged, or in the minority list which won the second highest number of votes. Where the application for these procedures does not, for any reason, allow the replacement of the Statutory Auditors designated by the minority shareholders, the Shareholders' Meeting shall proceed on the basis of majority voting. However, while ascertaining the results of this vote, the votes from the shareholders who, according to the communication given pursuant to current rules, hold, including indirectly or even jointly with other shareholders belonging to a relevant shareholders' agreement pursuant to article 122 of Legislative Decree no. 58 of 24 February 1998, the majority of votes to be exercised at the Meeting, as well as the votes from the shareholders who control them, are controlled or are subject to joint control by them, shall not be calculated. The newly-appointed Statutory Auditors will cease together with those in post. All this is subject to compliance with the regulations in force on gender equality.

The ordinary Shareholders' Meeting sets the annual remuneration due to each Statutory Auditor pursuant to the regulations currently in force. Statutory Auditors shall also be reimbursed, on a lump-sum basis, for the expenses incurred in their work.

Statutory Auditors shall not be paid any fee based on the financial instruments and linked to the financial management results.

The Board of Statutory Auditors, in performing all the functions demanded of it in compliance with the laws and regulations in force, monitors:

- a) compliance with the laws, regulations and Articles of Association;
- b) compliance with the principles of proper management;
- c) the suitability of the organisational, management and accounting structure adopted by the Company and its actual functioning;
- d) the suitability and operation of the internal auditing system with specific regard to risk management;
- e) the other actions and facts set forth by the laws and regulations;

The Board of Statutory Auditors checks and investigates causes and remedies for management irregularities, performance anomalies, gaps in the organisational and accounting structure, and pays particular attention to compliance with the regulations concerning conflicts of interest.

In particular, the Board of Statutory Auditors ascertains that there is adequate coordination between all the functions and structures involved in the system of internal controls, including the Independent Auditors tasked with the legal auditing of the accounts, by promoting, where appropriate, adequate corrective measures. In this regard, a) the Heads of the Internal Audit, Risk Management and Compliance departments send their respective reports to the Board of Statutory Auditors; b) the Board of Statutory Auditors, and the Independent Auditors constantly exchange data and relevant information in order to complete the related tasks.

The Board of Statutory Auditors periodically checks its own adequacy in terms of powers, functioning and composition, taking account of the size, complexity and activities carried out by the Company.

Statutory Auditors can call upon, in carrying out the necessary checks and investigations, the structures and functions responsible for internet control, and also carry out, at any time, including individually, inspections and audits.

The Board of Statutory Auditors may ask the directors and all the internal control structures for news, including with reference to subsidiaries, on the performance of the business operations and on specific business operations. It may exchange information with the corresponding bodies of the subsidiaries in relation to the systems of management and control and on the general progress of the business activity.

In order to correctly carry out its duties, and particularly the obligation to promptly report to the Bank of Italy and, where required, to other Supervisory Authorities in relation to management irregularities or breaches of laws and regulations, the Board of Statutory Auditors is vested with the broadest powers set down by legal and statutory provisions. Moreover, the Board of Statutory Auditors reports to the Board of Directors on any shortcomings and irregularities found, requests the adoption of appropriate corrective measures and checks their effectiveness over time.

15 Composition and operation of the Board of Statutory Auditors (art. 123-bis, paragraph 2, letter d) of Consolidated Law on Finance)

In accordance with Article 18 of the Articles of Association, the Board of Statutory Auditors is composed of three standing members and two alternate members. The Statutory Auditors remain in office for three financial years, may be re-elected and end their term of office on the date of the Shareholders' Meeting called to approve the financial statements for the third financial year of their term of office. The Statutory Auditors cease to hold office upon the expiry of the term which started at the time the Board was re-established.

As at the date of this Report, the Board of Statutory Auditors of the Bank consists of five members, including three standing Statutory Auditors and two alternate Statutory Auditors appointed by the Company's Shareholders' Meeting on 22 April 2014, according to the criteria laid down by the Articles of Association in force at the time and, therefore, without the application of the criteria of submission of lists by shareholders, which, therefore, will be applied on the occasion of the appointment of the new Board of Statutory Auditors. The Board of Statutory Auditors will remain in office until the Shareholders' Meeting called to approve the financial statements as at 31 December 2016. The following table shows the members in office of the Board of Statutory Auditors, showing the respective position held and key personal details.

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

All members of the Board of Statutory Auditors have their address for service at the Company's registered office.

The requirements for members of the Board of Statutory Auditors are as follows:

- (i) the requirements set forth in Article 148, paragraph 3, of the Consolidated Law on Finance;
- (ii) the professionalism and personal integrity requirements set forth in the Decree no. 162 of the Ministry of Justice of 30 March 2000;
- (iii) the limits on concurrent positions established by Consob regulations.

* * *

During 2015, the Board of Statutory Auditors met at the Bank a total of 9 times, and reported to the Surveillance Body pursuant to Legislative Decree 231/2001, the independent auditors, the heads of the control departments as well as with a number of managers and employees of the Bank. The meetings and/or audits had an average duration of about an hour and a half.

From the beginning of 2016 until the date of approval of this document two meetings of the Board were held. In addition, the Statutory Auditors participated in two meetings of the Internal Control and Risk Management Committee. In 2016 the Board of Statutory Auditors is expected to hold a number of meetings in line with those held in the previous year.

There have been no changes in the composition of the Board since the end of the financial year.

Following appointment, at the meeting of 20 May 2014, the Board of Directors verified the Statutory Auditors' integrity, professionalism and independence requirements, pursuant to art. 148, paragraph 3, of Legislative Decree No. 58/1998, on the basis of the Personal Sworn Declarations provided for by Presidential Decree No. 445 of 28 December 2000. At the Board meeting of 25 June 2014 the Board of Directors thus determined the non-existence of cases of incompatibility in

accordance with art. 36 of the "Salva Italia" Decree and, where applicable, in accordance with art. 27-quater of Law Decree No. 1 of 24 January 2012 in respect of all members of the Board of Statutory Auditors.

In addition, the Board of Statutory Auditors periodically checks the suitability of its members to perform the functions of the control body in terms of professionalism, availability of time and independence, as well as their adequacy in terms of powers, operation and composition, taking into account the size, complexity and the activities carried out by Banca Sistema. As part of this verification, the continued satisfaction of the independence requirements of the members of the Board has been confirmed from time to time, according to all the criteria provided for by the Corporate Governance Code for the independence of directors. The Board of Statutory Auditors acknowledged the persistence of the independence requirements laid down by the Corporate Governance Code and by art. 148, paragraph 3, of the Consolidated Law on Finance for each of its members on the basis of the statements made by the latter. In making these assessments, the Board applied all the criteria provided for by the Code with reference to directors.

Consistent with the provisions of the Corporate Governance Code, and also in accordance with the provisions of art. 136, paragraph 1 ("Obligations of bank officers") of the Consolidated Law on Banking, a Statutory Auditor who has an interest, either directly or on behalf of third parties, in a certain transaction of the Issuer, shall timely and exhaustively inform the other Statutory Auditors and the Chairman of the Board about the nature, the terms, origin and extent of his/her interest. The Statutory Auditors are also included within the scope of the "Procedure for transactions with related parties" discussed in Section 12.

As part of the coordination with the other entities of the Internal Control and Risk Management System, the Board first reported, as required by the Corporate Governance Code, to the Internal Audit Department, whose Head normally attends the meetings of the Board, and to the Internal Control and Risk Management Committee. During 2015 the Board of Statutory Auditors participated 6 times in the meetings of the Internal Control and Risk Management Committee.

The Board of Statutory Auditors, in accordance with the provisions of the Bank of Italy - Supervisory instructions for banks - Circular No. 285 of 17 December 2013, launched the annual review process; said process was conducted via the distribution of a questionnaire drawn up with certain differences depending on the role.

This assessment was conducted taking into account routine items such as professional qualifications, experience (including managerial) and the gender of its members, as well as their length of service, including with a view to the preparation of the guidelines to be expressed to the shareholders regarding the figures whose presence in the Board is deemed appropriate.

With reference to the methods of implementation of the assessment process, on a preliminary basis, the Chairman has identified the internal personnel to be employed in the self-assessment process keeping in mind the criteria identified by the Bank within the scope of the Regulations on the self-assessment process. In conducting the self-assessment process, the designated body was assisted by an external consultant identified in the firm Ernst & Young Financial Business Advisors.

The information gathered through the completion of the questionnaire is evaluated collectively and the overall results help to define the actions to be taken in order to remedy any weaknesses identified.

The assessment expressed by the Statutory Auditors on the presence and array of skills required, approved first at the Board of Statutory Auditors' Meeting of 27 April 2015 and subsequently presented to the Board of Directors' Meeting of 28 April 2015, was largely positive, as all the areas covered by the assessment achieved a good or satisfactory evaluation.

16 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).

The Company also ensures adequate information on 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.

Within the context of shareholder relations, the Board of Directors promotes initiatives aimed at fostering the broadest possible participation of shareholders in Shareholders' 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 Shareholders' 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 Shareholders' Meeting), provided that the collegial method and the principles of good faith and equal treatment of shareholders are observed.

17. Shareholders' Meetings (art. 123-bis, paragraph 2, letter c) of the

The duties of the Shareholders' Meetings are aligned with those applicable to most Italian banks with listed shares. In particular, Banca Sistema's ordinary Shareholders' Meeting approves the following, in addition to establishing the remuneration to which bodies of the Bank are entitled: (i) the remuneration and incentive policies in favour of the members of the Board of Directors and of the Board of Statutory Auditors and of the remaining members; (ii) any remuneration plans based on financial instruments (for example stock options); (iii) the criteria for determining the fee to be paid in the case of early termination of the employment contract or of any early cessation of the task, including the limits set for this payment in terms of annuities of fixed remuneration and the maximum amount deriving from their application.

The Meeting, duly constituted, represents all the shareholders and its resolutions passed in compliance with the law and the Articles of Association are binding upon all shareholders, even if they are absent, abstaining or dissenting. The Meeting convenes in ordinary and extraordinary session in accordance with the law and the Articles of Association.

The ordinary Meeting is called at least once a year, every 120 (one hundred and twenty) days from the end of each financial year

Moreover, the Meeting is called by the management body whenever it deems it necessary and appropriate and in the cases provided by law or, following prior written notification to the Chairman of the Board of Directors, by the Board of Statutory Auditors or at least two of its members in accordance to what is provided under applicable legal provisions. The Meeting is also legally convened by the Board of Directors when a request is made to do so by shareholders representing at least twenty per cent of the share capital and where the request indicates the issue to be covered. Convening at the request of shareholders is not allowed for issues on which the Shareholders' Meeting legally resolves at the proposal of the directors or based on a project or report prepared by them.

Finally, the Meeting is convened in the other cases provided by law and the Articles of Association.

The Meeting is convened in the town where the Company has its registered office or elsewhere provided this is in Italy, other Members States of the European Union, Switzerland or in the United States of America.

The Meeting is convened according to the terms and conditions fixed by law and by the statutory regulations applicable from time to time.

The notice of call must indicate the date, time, place of the meeting and the list of matters to be discussed and other information and particulars as may be required by the applicable laws and regulations currently in force.

The Meeting is convened on single call, pursuant to the meeting and decision quorum established by law under these circumstances, unless the notice of call does not foresee any dates for subsequent meetings, including a third call.

Pursuant to the provisions of article 126-bis of Legislative Decree no. 58 of 25 February 1998, the shareholders who, including jointly, represent at least one fortieth of the share capital, or a different smaller percentage of the share capital provided for by the regulations in force at the time, may, within a period of 10 (ten) days from the publication of the notice of call of the Shareholders' Meeting, unless a different period is provided under the law, request the integration of the list of items on the agenda, thereby indicating any further items, or present proposals for resolutions on items already on the agenda, within the limits and according to the methods provided for by the applicable laws and regulations. Whoever holds voting rights may individually submit resolution proposals to be debated at the Shareholders' Meeting.

After the agenda has been completed or subsequent proposals have been submitted to be discussed on the agenda, following the request for the agenda to be completed or proposals to be submitted as stated in the previous paragraph, notice is given, in the prescribed manner for the publication of the notice of call, at least 15 (fifteen) days prior to the

one fixed for the Meeting to be held, unless a different period is stipulated by law. Subsequent proposed resolutions for topics already on the agenda are made available to the public within the limits and according to the methods stipulated by the law.

Integration is not allowed for issues on which the Meeting legally resolves at the request of directors or on the basis of a project or report prepared by them, other than that indicated under article 125-ter, paragraph 1, of Legislative Decree no. 58 of 25 February 1998.

Where the formalities set out under the previous paragraphs or under any other formality required by law is not followed, the Meeting shall be deemed to be properly convened and may validly resolve on any issue, unless this is opposed by a shareholder who is not sufficiently informed, when the entire share capital is represented and the majority of members of the Board of Directors and Board of Statutory Auditors is represented. Under these circumstances, timely notice should be given of the resolutions passed to members of the Board of Directors and Board of Statutory Auditors who are not in attendance.

The right to attend the Shareholders' Meeting and exercise voting rights is certified by a notice to the Company, sent by the intermediary authorised under the provisions of law and regulations, in accordance with its accounting records, in favour of the party who has the right to vote. This notice is made on the basis of evidence from the accounts specified in article 83-quater, paragraph 3, of Legislative Decree no. 58 of 24 February 1998, relating to the end of the accounting day of the seventh trading day prior to the date set for the Meeting. To this end, reference is made to the date of the first call of the Meeting, provided that the dates of any subsequent calls are included in the single notice of call of the Meeting; otherwise, reference is made to the date of each call.

The persons entitled to attend and vote at the Shareholders' Meeting may be represented by another person or entity, including a non-shareholder, by means of a written proxy, within the limits and according to the methods stipulated by the law and applicable regulations. The proxy may be notified electronically via certified e-mail or using the special section of the Company website and other methods of notification as may be provided for in the notice of call, in accordance with applicable laws and regulations.

The Company has the option to appoint a person for each Meeting to which the shareholders may give a proxy with voting instructions for all or some of the proposals on the agenda in the manner provided by the law and applicable statutory regulations. The proxy is not effective with regard to proposals for which voting instructions have not been given.

Postal voting is also allowed.

Postal voting is exercised in the manner specified in the notice of call, in accordance with the applicable statutory provisions, using any means of communication (including fax and e-mail) which is appropriate to provide proof of receipt.

The Shareholders' 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 Shareholders' Meeting), provided that the collegial method and the principles of good faith and equal treatment of shareholders are observed. In this case, it is required that:

- a) the Chairman of the Shareholders' Meeting is able to unequivocally ascertain the identity and legitimacy of the participants, conduct the meeting and note and declare the results of the voting procedure.
- b) at the location where the video/audio conference is held, an attendance sheet should be kept giving the names of those attending the Meeting at that place; this attendance sheet shall be attached to the minutes of the Meeting;
- c) the person taking the minutes is able to adequately follow the events of the Meeting;
- d) the participants are able to take simultaneously part in the discussions and vote on the items on the agenda in real time;
- e) where the Meeting is not held in plenary session, the notice of call indicates the audio/video locations prepared by the Company at which the participants can attend; the meeting shall be deemed to have been held at the location where the Chairman and minute-taker are in attendance.

The means of telecommunications shall be recorded in the minutes.

The Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in the event of him/her being absent or incapacitated, by the Deputy Chairperson, if appointed, or any other person designated by the Board of Directors; otherwise, the Meeting appoints as Chairman one of the participants by simple majority of the capital represented.

The Chairman of the Meeting is assisted by a secretary designated by the Meeting, by simple majority of the capital represented and possibly by one or more scrutineers, including non-shareholders; where prescribed by law or where deemed appropriate by the management body, the functions of secretary are attributed to a notary designated by the latter.

The Chairman of the Meeting is responsible for ensuring that the Meeting is properly convened, ascertaining the right of shareholders to take part and vote, noting the legitimacy of the proxies, guiding and managing the discussion and proceedings of the Meeting, establishing the method of voting and also ascertaining and declaring the related results. In this he/she may be assisted by appropriate appointees.

The Meeting sessions are run and governed by law, these Articles of Association and by the Shareholders' Meeting Regulations.

There were no proposals to the Meeting by the shareholders that control the Issuer on matters on which a specific proposal had not been formulated by the directors.

The "Shareholders' Meeting Regulations", whose current version was approved by the Shareholders' Meeting of 28 April 2015, governs the orderly and effective conduct of meetings.

The "Regulations", which describe the maximum duration of the individual interventions, their order, the voting procedures, the actions of the directors and Statutory Auditors and the powers to compose and prevent the occurrence of conflicts within Shareholders' Meetings, is available on the website www.bancasistema.it (in the section "Governance/Documents").

Pursuant to the Shareholders' Meeting Regulations, the Chairman, also making use of the Company's personnel in charge, ascertains the regularity of the proxies, the right of those present to attend the Meeting and the quorum thereof.

After ascertaining the regular constitution of the Meeting, the Chairman or, upon invitation, those assisting him/her pursuant to art. 2.4, illustrates the items on the agenda and the proposals submitted to the approval of the Shareholders' Meeting. The Chairman, if the Shareholder's Meeting does not object, may vary the order of the items in the notice of call and may require that all or some of the items on the agenda be discussed together where these include objectively connected elements.

Unless the Chairman considers it necessary or unless a specific request is submitted and approved by the Meeting by the statutory majority required by law or the Articles of Association for resolving on matters, the Chairman may refrain from reading the reports of the Board of Directors drafted in accordance with Art. 125-ter of the Consolidated Law on Finance and Art. 72 of the Consob Regulation relating to the item/s on the agenda previously made available to the interested parties on the terms and in the manner provided for by law.

The shareholders are entitled to submit motions for resolutions that differ from those included on the agenda, provided that they are pertinent to said agenda and do not change or add to the matters to be discussed. The Chairman, having assessed the compatibility of the proposal on the agenda according to the abovementioned criteria, accepts it.

Requests to speak on individual items on the agenda may be submitted, after the debate is opened and following reading of the item on the agenda in respect of which the entitled individual in question wishes to speak on, but before the Chairman declares the debate on such item closed. Individuals with a right to speak intending to take the floor

must submit a request to the Chairman. Said request must be made by raising a hand, should the Chairman not have arranged for a written request procedure. In the case where requests to take the floor are made by the raising of hands, the Chairman shall grant the floor to the person who first raises his hand; in the case where it is not possible to determine precisely who was the first to raise his or her hand, the Chairman shall grant the floor in accordance with the order established by the Chairman himself, at his sole discretion. In the event where written requests to take the floor are required, the Chairman shall grant the floor in accordance with the order in which requests to speak were received. Under Article 127-ter of the Consolidated Law on Finance, those who have the right to vote can ask questions on the agenda even before the Shareholders' Meeting, by sending a specific notice to the Company at least 5 days prior to the first calling of the Shareholders' Meeting. These questions will be answered, at the latest, during the Meeting, once the discussion in relation to each item on the agenda has been concluded.

The Chairman of the Shareholders' Meeting is in charge of conducting the meeting, ensuring the correctness of the discussion and the right of individuals to speak. The Chairman, taking into account the nature and importance of individual items on the agenda, shall grant each speaker a time period of no less than 5 minutes and no more than 10 minutes to take the floor. After the allotted time, the Chairman may invite persons with the right to speak to conclude within the next 5 minutes. Subsequently, in the event the person has not yet finished speaking, the Chairman will act in accordance with Article 6.7, letter. a).

On a request of the interested parties entitled to participate, the interventions are summarised in accordance with Art. 2375 of the Italian Civil Code in the minutes of the Meeting.

The Chairman is responsible for maintaining order at the Shareholders' Meeting, ensuring that the Meeting is properly conducted, and preventing abuses of the right to speak. To this effect, the Chairman may take the floor away from a speaker:

- a) in the event a participant speaks without being entitled to do so or continues to speak after the predetermined time limit has expired pursuant to these Regulations;
- b) following a warning, in the event of clear and evident lack of relevance to the matter under discussion;
- c) in the event a speaker uses offensive, inappropriate or insulting language;
- d) if the speaker attempts to incite those present to violence or disorder.

In the event one or more people attending the Shareholders' Meeting hinder the proper conduct of the Meeting, the Chairman reminds them to comply with these Regulations. Should this admonishment not bear the desired results, the Chairman will resolve on the expulsion from the meeting room of the persons previously admonished for the duration of the discussion. In the abovementioned case, the person excluded, if among those entitled to speak, may appeal to the Shareholders' Meeting, who shall decide by simple majority.

The Chairman or, at his invitation, directors, statutory auditors and employees of the Company or its subsidiaries, reply after each intervention, or after all the interventions on each matter on the agenda, as required by the Chairman. The Chairman of the Shareholders' Meeting may suspend the meeting for a period not exceeding 2 hours in order to prepare the replies to the interventions. Once all the replies have been provided, the Chairman declares the discussion closed. Those who have requested the floor shall be entitled to a brief rejoinder.

When nobody else wishes to address the Meeting, answer or make any reply, the Chairman declares the discussion closed. After closing the discussion on the items on the agenda, no entitled attendee may take the floor to make further statements.

At the ordinary Shareholders' Meeting held on 26 March 2015, for the Board of Directors, the entire Board of Directors and the entire Board of Statutory Auditors were in attendance.

At the ordinary Shareholders' Meeting held on 3 June 2015, for the Board of Directors, three Directors were absent. Therefore, 6 directors attended the Shareholders' Meeting. The entire Board of Statutory Auditors was in attendance.

At the ordinary Shareholders' Meeting held on 27 November 2015, for the Board of Directors, three Directors were absent. Therefore, 6 directors attended the Shareholders' Meeting. The entire Board of Statutory Auditors was in attendance.

During the Shareholders' Meetings, the CEO, on behalf of the Board, is willing to report on the activities carried out and planned by the Board, in any event in compliance with the rules on inside information. The Board, also through the reports made available to the shareholders within the terms provided by the Consolidated Law on Finance and through the gradual fine-tuning of corporate communications through the website, endeavours to ensure that the shareholders receive adequate information on the elements necessary to pass, on an informed basis, the Shareholders' Meeting resolutions.

With effect from 2 July 2015, Banca Sistema's shares were admitted to listing on the Star segment of the MTA market organised and managed by Borsa Italiana with an offer price set at € 3.75 per share.

During the second half of the year, no changes have been introduced to Banca Sistema's ownership structure compared to the statements made by the shareholders pursuant to art. 120 of the Consolidated Law on Finance.

The market capitalisation of the shares recorded the following values at the beginning of the listing and at the end of the period:

Date	Share price	No. of shares making up the share	Capitalisation
02 July 2015	3.75	80,421,052	301,578,945.00
30 December 2015	3.886	80,421,052	312,516,208.07

Source: Bloomberg, closing price

18. Additional corporate governance practices

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

No further Committees were appointed in addition to those described in the previous Sections.

19. Changes following the end of the reference financial year

From year-end to the date of approval of this document, there have been no changes in the corporate governance structure.

TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES

SHARE CAPITAL STRUCTURE	Number of shares	% of share capital	Listed (market) / unlisted	Rights and obligations
Ordinary shares	80.421.052	100%	Listed (MTA)	Each ordinary share gives the right to cast one vote

Declaring party	Direct shareholder		% of the ordinary share capital	% of the voting capital
GARBI GIANLUCA	Società di gestione delle partecipazioni di BancaSintesi S.r.l.	23.102	23.611	23.611%
	Garbifin S.r.l.	0.509		
FONDAZIONE SICILIA	Fondazione Sicilia	7.399	7.399	7.399
FONDAZIONE PISA	Fondazione Pisa	7.399	7.399	7.399
FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	Fondazione Cassa di Risparmio di Alessandria	7.399	7.399	7.399
SCHRODERS PLC	Schroders Investment Management Limited	4.101	6.727	6.727
	Schroders Investment Management North America Limited	2.527		
	Schroders Italy SIM S.p.A.	0.099		

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Office	Members	BOARD OF DIRECTORS										Executive Committee		Internal Control and Risk Management Committee		Nominations Committee		Remuneration Committee		
		Year of birth	Date of first appointment *	In office since	In office until	List (M) **	Exec.	Non exec.	Indep. pursuant to the Code	Indep. pursuant to the Cons. Law on Finance	No. of other offices held***	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)
Chairman	Spögler Luitgard	1962	2015	2015	2017	M		X		X	1	2/2			M	1/1	M	1/1		
Deputy Chairperson	Pugelli Claudio	1951	2011	2015	2017	M		X			-	13/14							M	2/2
CEO •♦	Garbi Gianluca	1970	2011	2015	2017	M	X				-	13/14	C	15/15						
Director	Barba Navaretti Giorgio	1960	2012	2015	2017	M		X	X	X	1	13/14			M	1/1			C	1/1
Director	Calzolari Michele	1955	2011	2015	2017	M		X	X	X	1	14/14			C	8/8	M	6/6	M	6/6
Director	De Franceschi Carlotta	1977	2015	2015	2017	M	X				-	2/2	M	1/1						
Director	Pittatore Daniele	1969	2014	2015	2017	M		X	X	X	1	14/14			M	8/8	M	1/1		
Director	Puglisi Giovanni Antonino	1945	2011	2015	2017	M	X	X			-	12/14	M	1/1			C/M	5/5	C/M	5/5
Director	Zappia Andrea	1963	2015	2015	2017	M		X	X	X	1	1/2					C	1/1		
DIRECTORS WHO LEFT OFFICE DURING 2015																				
Chairman	Basevi Giorgio	1938	2011	2014	2015	-		X				12/12			C	6/7	M	4/4	M	4/4
Director	McMurray Lindsey	1971	2011	2014	2015	-	X					7/8	M	9/9						
Director	Potter Matthew	1983	2014	2014	2015	-		X				8/8								

Number of meetings held during the financial year:	Board of Directors	Executive Committee	Internal Control and Risk Management Committee	Nominations Committee	Remuneration Committee
	14	15	8	6	6

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

• Director responsible for the Internal Control and Risk Management System.

♦ Chief Executive Officer.

* Date of first appointment of each director shall mean the date on which the director was appointed for the first time (ever) in the Issuer's Board of Directors.

** This column shows the list from which each director was drawn ("M": majority list; "m": minority list; "BoD": the list submitted by the Board of Directors).

** This column indicates the number of offices as director or statutory auditor the party concerned holds in other companies listed on organised markets, including foreign markets, in financial, banking, insurance companies or large enterprises

Offices are written in full in the corporate governance Report.

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

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

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Office	Members	Year of birth	Date of first appointment (*)	In office since	In office until	List	Indep. pursuant to the Code	(**)	No. of other offices held (***)
Chairman	De Francesco Diego	1968	2014	2014	2016	-	X	9/9	-
Standing Statutory Auditor	Conigliaro Massimo	1969	2011	2014	2016	-	X	9/9	-
Standing Statutory Auditor	Verde Biagio	1943	2014	2014	2016	-	X	9/9	-
Alternate Statutory Auditor	Armarolli Marco	1973	2014	2014	2016	-	X		-
Alternate Statutory Auditor	Salvioli Gaetano	1966	2014	2014	2016	-	X		-

Number of meetings held during the financial year: 9

NOTES

* Date of first appointment of each statutory auditor shall mean the date on which the statutory auditor was appointed for the first time (ever) in the Issuer's Board of Statutory Auditors. This column indicates the attendance of statutory auditors at meetings of the Board of Statutory Auditors (indicate the number of meetings attended compared to the total number of meetings which could have been attended, e.g. 6/8, 8/8 etc.).

*** This column indicates the number of director or statutory auditor offices held by the person concerned pursuant to art. 148-bis of the Consolidated Law on and its implementing provisions contained in the Consob Issuers Regulations. The complete list of offices is published by Consob on its website in accordance with art. 144-quinquiesdecies of Consob Issuers Regulations.