

**OPTIMAL QUALITATIVE AND QUANTITATIVE
COMPOSITION OF THE BOARD OF STATUTORY
AUDITORS**

BANCA SISTEMA S.P.A.

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1. Introduction

This document, named the “*Optimal Qualitative and Quantitative Composition of the Board of Statutory Auditors*” (the “**Quali-Quantitative Profile of the Board of Statutory Auditors**”) aims to identify the qualitative and quantitative composition deemed optimal for the effective performance of the duties and responsibilities assigned by applicable regulations to the statutory auditors of Banca Sistema S.p.A. (“**Banca Sistema**” or the “**Bank**”).

Specifically, Art. 12 of the MEF Decree (as defined hereinafter) requires that each body – to be understood, at banks, as referring to both the body with strategic supervision functions and the body charged with control functions – identify their optimal quantitative and qualitative composition in advance. Specifically, Art. 11 of the MEF Decree establishes that the composition of the management and control bodies must be adequately diversified so as to (i) increase discussion and dialogue within the bodies themselves, (ii) encourage the emergence of a plurality of approaches and perspectives when analysing matters and making decisions, (iii) effectively sustain the corporate processes of strategy formulation, operational and risk management, and monitoring of senior management's performance, and (iv) take account of the many interests that contribute towards the bank's sound and prudent management.

For the purposes above, this document contains the guidelines that the Board of Statutory Auditors of Banca Sistema – also in view of its upcoming expiry on approval of the financial statements as at 31 December 2022 – makes available to the Shareholders, in order to facilitate the process of defining the best proposals for the qualitative and quantitative composition of the new Board of Statutory Auditors of the Bank to be presented to the Shareholders at the Shareholders' Meeting called to elect the new control body.

The main applicable national and European sources referring to the requirements for corporate officers are summarised below:

- Italian Legislative Decree no. 58 of 24 February 1998 (“**Consolidated Law on Finance**”);
- Italian Legislative Decree no. 385 of 1 September 1993 (“**Consolidated Law on Banking**”);
- Art. 36 of Italian Law Decree no. 201 of 6 December 2011 “Urgent provisions for growth, equity and the consolidation of public accounts” converted, with amendments, by Italian Law no. 214 of 22 December 2011, “Interlocking Directorship” (“**Salva Italia Decree**”) and the “Criteria for applying Art. 36 of the “Salva Italia” Law Decree (“interlocking prohibition”)” published by the Bank of Italy, CONSOB and IVASS on 20 April 2012, as subsequently updated and amended;
- Decree of the Ministry of the Economy and Finance no. 169 of 23 November 2020, in force from 30 December 2020, laying down “Regulations governing the requirements, and the principles of eligibility for office, of bank officers, financial intermediaries, collective loan-guarantee consortiums, electronic money institutions, payment institutions and deposit guarantee systems” (“**MEF Decree**”);
- Ministerial Decree no. 162/2000 “Regulation containing rules for setting the requirements of professionalism and integrity of the members of the Board of Statutory Auditors of listed companies, to be issued based on Art. 148 of Italian Legislative Decree no. 58 of 24 February 1998” (“**Ministerial Decree 162/2000**”);
- Part I, Title IV, Chapter 1, Section IV (Composition of corporate bodies) of Bank of Italy Circular no. 285 of 17 December 2013 (the “**Supervisory Provisions**”);
- Corporate Governance Code for listed companies issued by the Corporate Governance Committee of Borsa Italiana S.p.A. (“**Corporate Governance Code**”);
- Regulation adopted by CONSOB with resolution no. 11971 of 14 May 1999, as subsequently amended (“**Issuers' Regulation**”);

- Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“**CRD**”);
- Regulation (EU) No 575 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (“**CRR**”);
- EBA Guidelines on Internal Governance (2021);
- EBA/ESMA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2016/36/EU and Directive 2014/65/EU (2021) (the “**EBA/ESMA Guidelines**”);
- Rules of Conduct of the Board of Statutory Auditors of Listed Companies (2018).

For the purpose of drafting this Quali-Quantitative Profile of the Board of Statutory Auditors, the provisions of the Bank’s Articles of Association, the provisions of internal regulations and the structure of corporate governance adopted by Banca Sistema were also taken into consideration.

2. Assessments regarding the optimal quali-quantitative composition of the Board of Statutory Auditors

With the approval of the financial statements as at 31 December 2022, the term of office of the Board of Statutory Auditors of Banca Sistema appointed on 23 April 2020 will come to an end. Therefore, at the next Shareholders’ Meeting, Shareholders will be asked to approve the appointment of new members of the Board of Statutory Auditors.

In light of that stated above, before the meeting, the Bank’s Board of Statutory Auditors must identify its optimal quali-quantitative composition to achieve the objectives identified by the regulations, and verify that the actual quali-quantitative composition resulting from the appointment process matches the optimal one.

This Quali-Quantitative Profile of the Board of Statutory Auditors is made available to Shareholders in good time so that they can consider it in identifying candidates.

2.1. The quantitative composition of the Board of Statutory Auditors

In Art. 17.1, the Bank’s Articles of Association require that the Shareholders’ Meeting appoint three standing auditors and two alternate auditors.

2.2. The qualitative composition of the Board of Statutory Auditors

The members of the Board of Statutory Auditors must be suited to performing the position, according to that set out in the regulations from time to time in force and the Articles of Association. Specifically, they must meet the requirements of professionalism, integrity and independence and the criteria of ability, fairness and time availability, and the specific limits to concurrent positions held set out by the regulations in force.

In formulating the recommendations contained in this Quali-Quantitative Profile of the Board of Statutory Auditors targeted to the shareholders that will submit lists of candidates, it is worth reiterating the importance of:

- ensuring, also for the future, a balanced combination of profiles and experience in the control body;
- promoting profiles with professional characteristics and aptitudes capable of ensuring the optimal performance of the position by the Statutory Auditors;
- identifying candidates with adequate time availability to allow for the effective performance of the role of Statutory Auditor of the Bank;

- without prejudice to the application of the regulations in force on the balance of genders, further promote the characteristics of diversity that are already present, taking account of the training, professional experience, gender diversity and distribution of seniority of the Statutory Auditors.

2.2.1. Individual requirements of integrity and fairness criteria

All candidates for the position of member of the Board of Statutory Auditors must meet the requirements of integrity prescribed under the regulations in force from time to time. Specifically, candidates for the position of Statutory Auditor of the Bank must meet the requirements of integrity pursuant to Art. 2 of Ministerial Decree 162/2000 and Art. 3 of the MEF Decree.

In addition to meeting the afore-mentioned requirements of integrity, candidates must also meet the criteria of fairness in prior personal and professional conduct, according to the provisions of Art. 4 of the MEF Decree.

The situations indicated in Art. 4 of the MEF Decree do not automatically make a candidate unsuitable, but require an assessment – based on one or more of the parameters set out in Art. 5 of the MEF Decree – by the Board of Statutory Auditors, conducted in relation to the principles of sound and prudent management as well as safeguarding the reputation of the Bank and the public's trust.

The criterion of fairness shall not be met when one or more of the situations indicated in Art. 4 of the MEF Decree points to a serious, specific inadequacy regarding the candidate's conduct, which conflicts with the objectives indicated in paragraph 1 of Art. 5 of the MEF Decree.

2.2.2. Individual requirements of professionalism

Pursuant to Art. 1 of Ministerial Decree 162/2000 and Art. 9 of the MEF Decree, candidates for the position of member of the Board of Statutory Auditors must meet specific requirements of professionalism, to be applied jointly.

Specifically, at least one of the Standing Auditors, if there are three of them, and at least one of the Alternate Auditors shall be enrolled in the register of statutory auditors who have conducted statutory auditing for a period of no less than three years.

Statutory auditors who do not meet that requirement shall be selected:

- (i) pursuant to Art. 1, paragraph 2 of Ministerial Decree 162/2000, among those who have gained overall experience of at least three years in:
 - a) administrative or control or management positions in corporations with share capital of no less than two million euro, or
 - b) professional activities in or academic tenure of law, economics, financial or technical-scientific subjects at university that strictly relate to the company's business, or
 - c) executive positions at public entities or public administrations operating in the credit, financial or insurance sectors, or, in any event, in sectors strictly relating to that of the bank's business.

For the purposes of points b) and c) above, Art. 17.2 of the Bank's Articles of Association requires that issues concerning the financial, credit and insurance sectors shall be considered to be strictly relating to the company's business;

- (ii) pursuant to Art. 9, paragraph 2 of the MEF Decree, among those individuals who have carried out, for at least three years, also alternatively, statutory auditing or one of the activities set out in Art. 7, paragraph 2 of the MEF Decree, i.e., who have performed, for at least three years, also alternatively:
 - a) professional activities pertaining to the credit, financial, securities or insurance sector, or in any case concerning the Bank's business; the professional activities in question must be of an appropriately

complex nature also with regard to the recipients of the services provided, and they must be carried out on a continuous, significant basis in the aforementioned sectors;

- b) university lecturing as a first or second-level academic, in the field of law, economics or other subject area pertaining to the activities of the credit, financial, securities or insurance sector;
- c) management, executive or senior management functions, at public entities or public administrations, pertaining to the credit, financial, securities or insurance sector, provided that the entity or authority for whom the person in question worked is of a comparable size and complexity to that of the bank where the position is to be held.

Note that, pursuant to Art. 9, paragraph 3 of the MEF Decree, the Chairperson of the Board of Statutory Auditors shall be selected among individuals who meet the requirements set out in paragraph 1 or in paragraph 2 of Art. 9 of the MEF Decree – as referred to above – who have gained professional experience of at least two years more than that required in those paragraphs.

Note that, pursuant to Art. 9, paragraph 3 of the MEF Decree, for the purposes of compliance with paragraphs 1, 2 and 3 of Art. 9 of the MEF Decree, for Statutory Auditors who are not enrolled in the register of statutory auditors, account shall be taken of experience gained in the twenty years prior to the appointment; experience gained in several functions during the same period shall only be counted for the period in question, and shall not be calculated on a cumulative basis.

2.2.3. Ability criteria

In addition to the requirements of professionalism set out in par. 2.2.2 above, candidates for the position of member of the Bank's Board of Statutory Auditors must meet the ability criteria set out in Art. 10 of the MEF Decree, designed to establish their suitability for the appointment, in view of the duties pertaining to the position and of the Bank's size and operations.

Account shall be taken of the technical understanding acquired through study and training, together with practical experience gained during previous or on-going jobs.

Specifically, pursuant to Art. 10, paragraph 2 of the MEF Decree, the criterion is assessed by the competent body, which:

- a) considers the theoretical knowledge and practical experience obtained in more than one of the following areas:
 - 1) financial markets;
 - 2) regulation in the banking and financial sector;
 - 3) guidelines and strategic planning;
 - 4) organisational and corporate governance frameworks;
 - 5) risk management (identification, assessment, monitoring, control and mitigation of the main types of risk in a bank, including the officer's responsibilities in these processes)
 - 6) internal control systems and other operational mechanisms;
 - 7) banking and financial activities and products;
 - 8) accounting and financial disclosure;
 - 9) IT;
- b) analyses whether the theoretical knowledge and practical experience in point a) is suitable in relation to:

- 1) the duties pertaining to the officer's position and any specific delegations or powers, including participation in committees;
- 2) the characteristics of the bank and the banking group it belongs to, if any, in terms of, *inter alia*, size, complexity, type of business conducted and connected risks, market of operation and countries in which it operates.

The assessment of the ability criteria pursuant to Art. 10 of the MEF Decree, as expressly set out in paragraph 4 of that Decree, "*may be foregone in the case of officers who meet the professionalism requirements set out in Articles 7, 8 and 9*" (in particular, see Art. 9 for the Board of Statutory Auditors), when such requirements are the result of experience spanning a period at least as long as that provided for in the annex to the MEF Decree, as specified below:

| | |
|---|--|
| Statutory Auditors enrolled in the register of statutory auditors who have engagements for the statutory audit of public-interest entities or entities subject to the intermediate system pursuant to Italian Legislative Decree no. 39/2010. | 3 years' experience |
| Other statutory auditors | 5 years' experience (gained over the course of the past 8 years) |
| Chairperson | 10 years' experience (gained over the course of the past 13 years) |

In order to guarantee the overall suitability of the control body, also focused on diversity criteria and the future challenges that the Bank will have to face, the outgoing Board of Statutory Auditors recommends that the candidates for the Bank's new Board of Statutory Auditors express a balanced composition of experience and theoretical and/or technical knowledge. In particular, the outgoing Board of Statutory Auditors recommends that, in identifying candidates, the following skills be specifically considered, in addition to those listed above pursuant to Art. 10, paragraph 2 of the MEF Decree:

- expertise and knowledge of issues linked to remuneration and incentive systems.
- previous experience in control bodies of banks or other listed financial intermediaries.

Pursuant to Art. 10, paragraph 5 of the MEF Decree, the ability criterion will not be met if the information acquired regarding the theoretical knowledge and practical experience points to the serious, specific inadequacy of the officer for the appointment in question. In the event of specific, limited shortcomings, the appointed body (i.e. the Board of Statutory Auditors) may adopt the measures required to rectify such shortcomings.

2.2.4. Professional characteristics

In addition to the requirements of professionalism as per par. 2.2.2. above, the outgoing Board of Statutory Auditors recommends that, in selecting candidates, the officer's personal characteristics and abilities (soft skills) also be suitably considered. These include:

- Independent judgment and integrity;
- Aptitude for cooperation;
- Ability to communicate;
- Ability to work in a team;
- Ability to interact with management;
- Ability to constructively handle conflicts.

2.2.5. Availability of time and energy, without prejudice to that set forth in par. 2.2.7 below. Diversity and gender balance

The outgoing Board of Statutory Auditors is aware that a suitable degree of diversification - in terms of skills and professionalism, education and professional career, experience, age, term of office and gender - favours multiple approaches and points of view within the body and the collective suitability of the control body.

With regard to the latter, note that Art. 148, paragraph 1-*bis* of the Consolidated Law on Finance requires that the control body comply with a gender composition criterion, based on which, a quota of at least two-fifths of the elected members be reserved to the less represented gender. In that regard, pursuant to Art. 144-*undecies*.1, paragraph 3 of the Issuers' Regulation, where the application of gender division criteria does not result in a whole number of members of the administrative or control body belonging to the less represented gender, this number is rounded up, except for the corporate bodies made up of three members, for which the rounding takes place by default to the lower unit.

Note that, save for the provisions of law, pursuant to the Supervisory Provisions, in bodies with strategic supervision and control functions, the number of members of the less represented gender amounts to at least 33% of the members of the body. The articles of association of banks govern the important aspects to ensure ongoing compliance with the gender balance set out in these application guidelines.

In that regard, Art. 17.1 of the Bank's Articles of Association specifies that, in accordance with the need to ensure an adequate degree of diversification in composition in terms of skills, experience, age, international profile and gender, at least one of the standing auditors and one of the alternate auditors (or any higher number prescribed by regulations in force from time to time) from the Board of Statutory Auditors must be of the least represented gender.

The Board of Statutory Auditors reiterates the need for the candidates proposed by shareholders to ensure, in forming the lists, compliance with the balance of genders, at least in the minimum percentage required by the regulations in force.

2.2.6. Independence requirements

The Board of Statutory Auditors must meet the independence requirements set out in applicable regulations and, specifically, those set out:

- in Art. 148, paragraph 3 of the Consolidated Law on Finance;
- in Art. 14 of the MEF Decree;
- in Recommendation no. 9 (which refers to Recommendations no. 7 and no. 6) of the Corporate Governance Code.

Independence is assessed, according to the timing and methods set out in Recommendation no. 6 of the Corporate Governance Code, by the control body, based on the information provided by each Statutory Auditor.

Independent judgment

All candidates for the position of member of the Board of Statutory Auditors, are required to act, *inter alia*, pursuant to Art. 15 of the MEF Decree by exercising fully independent judgment and on the basis of their awareness of the duties and rights associated with office, in the interests of the sound and prudent management of the Bank, and in compliance with the applicable regulations from time to time in force. In order to preserve independent judgment, the members of the Board of Statutory Auditors shall provide the information requested pursuant to Art. 15, paragraph 2 of the MEF Decree and the reason why any relevant cases pursuant to that provision would not concretely violate their independent judgment.

2.2.7. Time availability and limit on the number of offices a member may hold

By virtue of the provisions of the applicable regulations, the available time to dedicate to performing the position, based on its nature, quality and complexity, is a fundamental requirement that Statutory Auditor candidates must guarantee, also relating to the activities deriving from their participation in the work of the Board Committees.

The necessary commitment to prepare for the meetings must be considered, taking account of the numerous issues to be discussed and the volume of supporting documentation. The necessary commitment to participate in the recurring induction and training meetings organised for the Board of Statutory Auditors' benefit must also be considered.

The members of the Board of Statutory Auditors are required to dedicate sufficient time to the performance of the office, in compliance with Art. 16 of the MEF Decree.

The Supervisory Provisions also specify that it must be ensured that the members of the bodies with control functions guarantee adequate time availability for their position, considering:

- the nature and quality of the required commitment and the functions performed at the Bank, also in relation to its characteristics;
- other positions held in companies or entities, commitments or work performed.

So that shareholders may conduct a prior assessment of the time commitment and availability to be requested from the candidates for member of the Board of Statutory Auditors and the candidates may assess whether they can guarantee their preparation for and participation in the meetings, the outgoing Board of Statutory Auditors indicates below the number of meetings and time commitment of members of the Board of Statutory Auditors, measured with reference to 2022:

With regard to the Bank's specific situation, for information purposes, it is noted that during 2022, 16 meetings of the Board of Statutory Auditors were held, 5 meetings of the Supervisory Body, 22 meetings of the Board of Directors, 16 meetings of the Internal Control and Risk Management Committee, 7 meetings of the Remuneration Committee, 11 meetings of the Appointments Committee and 2 meetings of the Ethics Committee. The Board of Statutory Auditors participates (usually all of its members) in the meetings of the Internal Control and Risk Management Committee. The Chairperson of the Board of Statutory Auditors participated in the meetings of the Remuneration Committee and one meeting of the Ethics Committee. The Chairperson of the Board of Statutory Auditors also chairs the Supervisory Body, as per the Articles of Association.

The outgoing Board of Statutory Auditors also calls attention to the expected threshold of participation in the meetings of the Board of Statutory Auditors, where Art. 2404 of the Italian Civil Code requires that "*Statutory Auditors who, without good cause, fail, in any one financial year, to participate in two meetings of the Board of Statutory Auditors shall forfeit their office*". Likewise, the Board of Statutory Auditors notes that Art. 149 of the Consolidated Law on Finance requires, *inter alia*, that "*members of the Board of Auditors who fail to attend shareholders' meetings without good cause or, in any one financial year, fail to attend two successive meetings of the board of directors or the executive committee shall be disqualified from office*" and therefore asks Shareholders to also pay attention to the expected participation threshold in the meetings of the Board of Directors and the Shareholders' Meetings.

That being said, with the aim of ensuring smooth functioning of the control body and the contribution of each member to the internal discussions of the Board of Statutory Auditors, the outgoing Board of Statutory Auditors has made an estimate to be used as reference to assess the minimum time deemed necessary for effective participation in meetings. This is summarised in the table below.

| Position | Time estimated to effectively perform the position at Banca Sistema |
|--|---|
| Chairperson of the Board of Statutory Auditors | 75 days per year |

| | |
|--|------------------|
| Standing Auditor | 55 days per year |
| Statutory Auditor member of the Supervisory Body | 6 days per year |

The Statutory Auditors of Banca Sistema are also required to comply with the provision of regulations and the Articles of Association that govern taking on positions in companies other than the Bank. To that end, the provisions of Articles 17 and 18 of the MEF Decree shall apply.

Specifically, in line with the provisions of Art. 17 of the MEF Decree, candidates for the position of Standing Auditor at Banca Sistema cannot take on a number of positions at banks or other commercial businesses (i.e. companies whose purpose is among those set out in Art. 2195, paragraph 1 of the Italian Civil Code) exceeding one of the following combinations:

- 1 executive role and 2 non-executive roles; or
- 4 non-executive roles.

Pursuant to the MEF Decree (see Art. 1, letter. h), “positions” shall mean those on the Board of Directors, the Supervisory Board, the Management Board, the Board of Statutory Auditors and General Manager, howsoever named; in foreign companies, the positions equivalent to those indicated shall be considered, based on the regulations applicable to the company.

That calculation must be carried out according to the criteria set out in the MEF Decree.

Shareholders are also informed that, pursuant to Art. 17.5 of the Bank’s Articles of Association, candidates acting as statutory auditors in another 5 (five) issuers, or in violation of any limits on concurrent positions established by the applicable provisions of laws or regulations, if any, cannot be included in the lists.

Pursuant to Art. 17.4 of the Articles of Association, 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.

2.2.8. Incompatibility

Without prejudice to the above limits, in addition to the reasons of incompatibility, ineligibility and forfeiture pursuant to law, which may impact running as a candidate or taking on/retaining the office, such as, merely by way of example, those set out in Art. 2399 of the Italian Civil Code, Statutory Auditor candidates must also comply with the interlocking prohibition set out in Art. 36 of Italian Law Decree no. 201 of 6 December 2011, setting out “*Urgent provisions for growth, equity and the consolidation of public accounts*” converted, with amendments, by Italian Law no. 214 of 22 December 2011. That Decree sets out a 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*”.

The Board therefore recommends that shareholders indicate candidates for whom it has been verified in advance that there are no reasons of incompatibility set out in the afore-mentioned rule.

Also note that, pursuant to Art. 17.3 of the Bank’s Articles of Association, 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 ineligibility or forfeiture.

2.2.9. Induction and training

The outgoing Board of Statutory Auditors promotes the participation of the Statutory Auditors in specific training initiatives to provide in-depth knowledge of the sectors in which the Bank operates, to guarantee the continuity and safeguarding of the experience gained by the Board of Statutory Auditors over the years. The Board of Statutory Auditors thus hopes that the future Statutory Auditors, specifically those newly-appointed, benefit from an adequate induction process, in line with that carried out in the past.