

**ANNUAL REPORT  
ON  
CORPORATE GOVERNANCE  
AND THE SHAREHOLDER STRUCTURE  
OF THE GROUP  
PURSUANT TO ARTICLE 123-BIS OF THE CFA  
2018 ACCOUNTING PERIOD**

BANCO DI DESIO E DELLA BRIANZA S.p.A.  
Registered office in Via Rovagnati, 1 – 20832 Desio (Monza and Brianza)  
Tax Code no. 01181770155  
Registered in the Metropolitan Chamber of Commerce of Milan, Monza and Brianza and Lodi, REA no. MB-129094  
Share capital 67,705,040.00 Euros fully paid-up  
Member of the Interbank Deposit Protection Fund  
and the National Guarantee Fund  
Entered in the Bank Register with ABI Code no. 3440/5  
Parent Company of the Banco di Desio e della Brianza Banking Group  
Entered in the Banking Group Register under no. 3440/5

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**MAIN DEFINITIONS USED IN THIS REPORT**

- CBL:** Consolidated Banking Law – Italian Legislative Decree No. 385/1993 as amended.
- CFA:** Consolidated Finance Act – Italian Legislative Decree No. 58/1998 as amended.
- Company representatives:** Directors, Standing and Alternate Auditors, the General Manager and the Vice General Manager<sup>1</sup>
- Executives with strategic responsibilities:** the General Manager and the Vice General Manager.
- The Appointed Executive:** the executive appointed to draw up the accounting documents as disciplined by Article 154-bis of the CFA.
- Subsidiary bank:** Banca Popolare di Spoleto SpA (hereinafter, for the sake of brevity, “BPS”).
- Banks of the Group:** the Parent Company (Banco di Desio e della Brianza SpA or, in short, “Banco Desio”) and the Subsidiary Bank as defined above.
- Group:** the Banking Group as defined by the CBL, including Banco Desio (Parent Company) and the subsidiary banking and finance companies.
- Supervisory Body:** Bank of Italy and Consob.
- AISCI:** the Director Appointed to head the internal control and risk management system (AISCI)

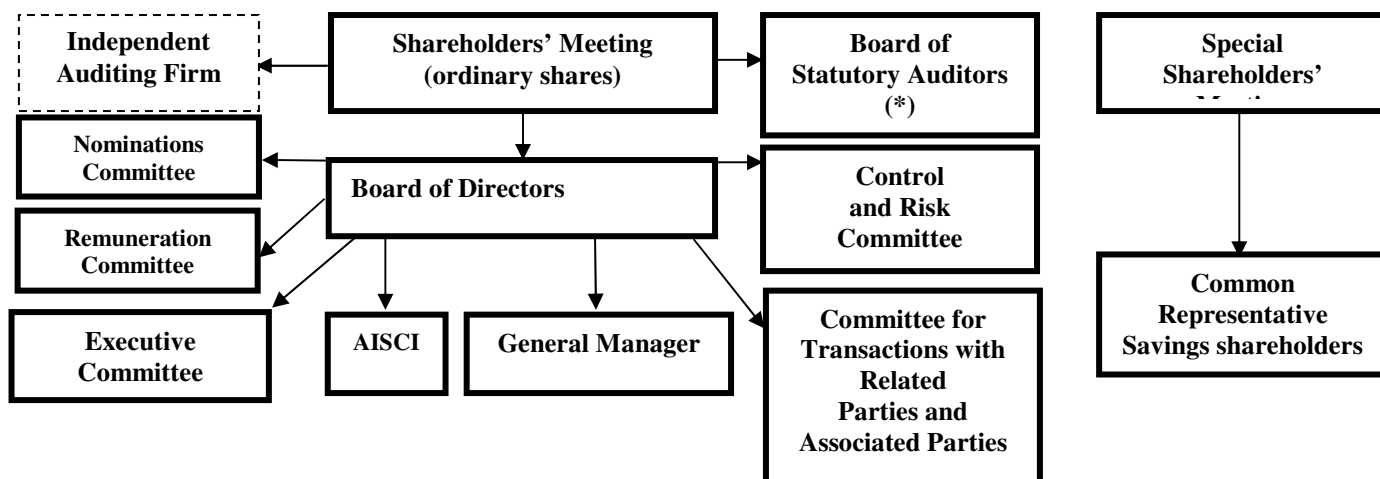
**1 - GENERAL INTRODUCTORY REMARKS ON THE CORPORATE GOVERNANCE SYSTEM**

**1.1 Preliminary information**

During 2018, **no significant changes took place with regard to the essential profile within the overall corporate governance structure** of Banco Desio and the Group<sup>2</sup>. In detail, the structure of the Bodies of the Bank is represented by the following chart<sup>3</sup>:

<sup>1</sup> In this Report, “Vice General Manager” means the Vice General Manager or, if more than one, the Vice General Managers appointed as and when. At present, a "Substitute" Vice General Manager (who, in addition to performing his duties, replaces the General Manager in case of absence or impediment) and a "Business" Vice General Manager are in office.

<sup>2</sup> On 11 December 2018, the Boards of Directors of Banco Desio and of Banca Popolare di Spoleto approved the draft merger via incorporation of the latter. For additional information, please refer to the Report on Operations. For this transaction and for the consequent change to the share capital of Banco Desio, an application was submitted to the Bank of Italy in accordance with Articles 56 and 57 of the Consolidated Banking Law. No other changes have occurred that would



(\*) the Board of Statutory Auditors also performs the tasks of the Supervisory Body established pursuant to Italian Legislative Decree No. 231/2001 (hereinafter, also “SB 231”) - For more detail, see section 7

The division of functions between the Shareholders’ Meeting, the Board of Directors, the Board of Statutory Auditors and the Independent Auditing Firm is disciplined by legal and supervisory regulations, to which the **Articles of Association** refer. With regard to the general aspects, the division of the functions between:

- i) Senior Bodies (Board of Directors, Advisory/Proposal-making Committees<sup>4</sup>, Executive committee)
- ii) AISCI
- iii) Executive Parties (General Manager)
- iv) Technical-operating committees<sup>5</sup>
- v) Internal control departments
- vi) Appointed Executive

make it necessary to submit to the Bank of Italy a revision to the Corporate Governance Project in accordance with Circular no. 285.

<sup>3</sup>In the diagram, the arrows indicate the appointment and removal relationships between the main bodies (note that the BoD is also responsible for appointing/removing the Vice General Manager, Appointed Executive and Heads of the Internal Control Departments and the Executives in general).

<sup>4</sup> The Advisory/Proposal-making Committees (Appointments Committee, Remuneration Committee, Control and Risk Committee, Committee for Transactions with Related Parties and Associated Parties) are composed solely of Board members and are, as such, defined as internal board committees.

<sup>5</sup>See Section 4.3 below.

**is disciplined, in observance of the legal, supervisory and Articles of Association restrictions, by the “Internal Regulations of the Corporate Bodies, of Board Committees and of the General Management” for**

brevisity, “Internal Regulations”). With regard to the specific aspects not analysed by the Internal Regulations, reference is made to the “Organisational Structure and Description of Functions (“Organisational Chart)” and to “Policies” (also approved by the Board of Directors), as well as to Process Regulations. Process Regulations are, as a rule, approved by the Executive Committee, unless the matters are reserved to the competence of the Board of Directors by virtue of legal, regulatory, Articles of Association provisions and/or of resolutions of the Board itself, the Process Regulations pertaining to controls and risk remaining in any case reserved to the approval of the Board.

In 2018, it was deemed advisable to separate the Internal Regulations of the Board of Statutory Auditors from the aforesaid Internal Regulations, most recently revised in the meeting of 22 May 2018.

In addition, the legislative system regarding the matters involved in this Report remains characterised essentially by the following documentation:

1. **General Shareholders’ Meeting Regulations** (see Section 10 below);
2. **Regulations of the Information Flows of Corporate Bodies**, most recently revised with Board resolution of 8 November 2018;
3. **Regulations for Coordinating the Controls and the information flows of the Parent Company** (See Section 7 below) most recently revised with Board resolution of 6 September 2018;
4. **Internal Regulations regarding Corporate Information of the Banco Desio Group** (“Corporate Information Procedure”), revised with resolution of 21 December 2017, containing, among other things, the functioning of the Corporate Bodies in specific reference to the dissemination of related documentation and the handling of privileged information and the register of the individuals who have access to the same, as well as for the communication of Internal Dealing transactions;
5. **Internal Regulations for Transactions with “Associated Parties”** and Article 136 of the CBL, adopted in compliance with Prudential Supervisory Provisions on risk assets and conflicts of interests with associated parties issued by the Bank of Italy, pursuant to Article 53 of the CBL (see section 5 below) most recently revised with board resolution of 8 February 2018;
6. Policy for identifying and managing conflicts of interest most recently revised with board resolution of 9 November 2017, referenced by the procedures used to identify the types of conflict of interest, potential or otherwise, in relation to the provision of any investment service or activity, related service, etc., by way of implementation of the provisions acknowledging the MIFID Directives (see Section 5 below);
7. **Policy for the regulation of “personal transactions”<sup>6</sup> in relation to investment services**, also issued in implementation of the provisions transposing the MIFID Directives;

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<sup>6</sup>Personal Transaction is understood, for the specific purposes of the aforementioned "Policy", as a trade in a financial instrument effected by or on behalf of a Relevant Person, where at least one of the following criteria is met:

8. **Policy that defines the Group’s overall risk propensity (“Risk Appetite”)**, intended as the maximum amount of capital that the Group is prepared to make available to hedge risks against a set expected return and that contains the general rules for business risk management with reference to each type of risk indicated in Prudential Supervisory Provisions of the Bank of Italy, containing specific provisions relating to risk activities with “Associated Parties” pursuant to point 4.

The year 2018 was characterised, as stated, by a systematic revision of the corporate regulations, carried out essentially to modernise their structure in line with the best practices of supervised intermediaries. In addition to the aforesaid documents, this revision also involved the Regulations of the Internal System for Reporting Violations (“Whistleblowing”, resolution of 28 June 2018 - see Section 7 below); the SB Regulations 231 (resolution of 2 August 2018 - see Section 7 below; as well as the Code of Ethics (resolution of 28 June 2018 - see Section 7 below).

\* \* \*

In the presentation of this Report, the traditional layout was maintained that, owing to the lack of consistent provisions on the matter, takes into consideration the guidelines indicated from time to time by Borsa Italiana S.p.A. and by Assonime. In said context, the attached Table 4 was maintained, which included the schedule summarising the implementation status of the recommendations in the

- 
- a. the Relevant Person is acting outside the scope of the activities he carries out in his capacity as a Relevant Person;
  - b. the trade is carried out for the account of any of the following persons:
    - i. the Relevant Person;
    - ii. any person with whom the Relevant Person has a "Family Relationship" or "Close Links";
    - iii. a person whose relationship with the Relevant Person is such that the Relevant Person has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of the trade.
- A Relevant Person shall mean persons belonging to one of the following categories relating to each Group Company:
- a) members of "Corporate Bodies" (understood, also hereafter, as the Board of Directors and the Board of Statutory Auditors);
  - b) shareholders who possess a significant equity investment in the Parent Company or in Group Companies;
  - c) executives (including, also hereafter, the General Manager);
  - d) employees;
  - e) temporary workers and project-based contractors who participate in the provision of investment services and the exercise of investment activities;
  - f) individuals who directly participate in the provision of services to the Group Parent and Group Companies based on an outsourcing agreement regarding the provision of investment services and related services.
- Persons with whom the Relevant Person has a Family Relationship are intended as:
- a. the (not legally separated) spouse or the common law spouse of the Relevant Person;
  - b. the children of the Relevant Person;
  - c. any other relative of the Relevant Person to the fourth degree (i.e. parents, grandparents, great-grandparents, grandchildren, first cousins, aunts, uncles and great-aunts and great-uncles) who has shared the same household as the Relevant Person for at least one year on the date of the Personal Transaction.
- Parties with which the Relevant Person has Close Links means one or more individual or legal persons linked to a Relevant Person by:
- a) an equity investment (which means ownership, direct or by way of control, of 20% or more of voting rights or capital of an undertaking);
  - b) control.

Corporate Governance Code for Listed Companies as per Section 2.2 <sup>7</sup>below (for the sake of brevity “the Corporate Governance Code”).

This Report:

- has been drawn up in accordance with Article 123-bis of the CFA, which lays down a series of information on the ownership set-ups, the corporate governance practices, the risk management and internal audit systems relating to the financial disclosure process, and the composition and functioning of the general meeting, board and audit bodies; the independent auditing firm is required to express a consistent opinion on certain information required by the aforementioned Article 123-bis; this information is specified in section 2.1 below;
- has been approved by the BoD, subject to the assessment of the Independent Directors as per a specific recommendation in the Corporate Governance Code as assimilated in the Internal Regulations<sup>8</sup>. This assessment is attached to said Report (Attachment A);
- is published, albeit as a separate document, together with the Report on Operations, which also contains the due references. Likewise, it contains references to the financial statement documentation (Notes to the Consolidated Financial Statements, Report on Operations, etc.), as well as the Remuneration Report as per the subsequent point, for the information contained therein, which otherwise would be duplicated; the latter is prepared in accordance with Article 123-ter of the CFA, which also contains the information required by Bank of Italy Circular no. 285 regarding remuneration and incentive policies and practices in banks and banking groups.

This Report and the aforementioned Remuneration Report are also published on the website [www.bancodesio.it](http://www.bancodesio.it) in the “La Banca/Governance/Documenti Societari” (The Bank/Governance/Corporate Documents) section.

## **1.2 General aspects of the corporate governance model pursuant to the applicable Supervisory Provisions<sup>9</sup>**

The corporate governance model of Banco Desio is essentially structured on three legislative levels characterised by the Articles of Association, the Internal Regulations and the Control Coordination Document, whose main aspects are summarised below.

### **1.2.1. Articles of Association**

#### **Duties and powers of the corporate bodies**

<sup>7</sup> Corporate Governance Code for Listed Companies – Borsa Italiana – 2011 Edition (2015 update)

<sup>8</sup> The Independent Directors meet at least once a year in the absence of the other Directors (as a rule, at the time of the approval of the Annual Corporate Governance Report and for the purpose of expressing their opinion on the aspects they are responsible for, for which please refer to notes 23 and 24).

<sup>9</sup> The provisions to which reference is made are now contained in the aforementioned Circular No. 285.

### **A.1 Board of Directors**

The body tasked with strategic supervision is first and foremost reserved the decisions concerning strategic policies and transactions as well as business and financial plans. This provision is included in both the Articles of Association of the Parent Company and in the Articles of Association of the Subsidiary Bank (for further details see section 3 below). Among the powers that cannot be delegated, the BoD is responsible for the appointment of the heads of the internal auditing and compliance departments and the definition of the essential elements of the overall architecture of the internal audit system<sup>10</sup> (subject to the favourable opinion of the Board of Statutory Auditors). The Board of Directors also carries out management functions.

### **A.2 Board of Statutory Auditors**

The body with auditing function oversees the observance of the legal, regulatory and Articles of Association provisions, the correct administration, and the adequacy of the organisational and accounting set-ups of the bank. The Articles of Association of the Parent Company and of the Subsidiary bank assign the Board of Statutory Auditors the related duties and powers, which are illustrated within said Articles, according to the structure indicated in Circular no. 285. Furthermore, as stated, the Board of Statutory Auditors performs SB 231 functions in both Banks, taking account not only the aforementioned Circulars no. 263 and 285, but also the provisions of paragraph 4-bis of Article 6 of the aforementioned Italian Legislative Decree 231/2001, and a specific recommendation in the Corporate Governance Code with regard to the Parent Company. The relevant provision is added to the respective Articles of Association.

## **B. Composition of the Corporate Bodies**

With regard to the Parent Company and to the subsidiary Bank, the regulation of “list voting” is in force for the election of the members of the BoD and the Board of Statutory Auditors, already introduced in the Articles of Association, by virtue of Article 147-ter and Article 148 of the CFA. Moreover, the Articles of Association of the Parent Company also include the “gender quota” regulations introduced by Law no. 120/2011<sup>11</sup> for companies listed in regulated markets. The Articles of Association of the Parent Company and of the subsidiary Bank have provisions for “independent directors”.

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<sup>10</sup> Among the “essential elements of the overall architecture of the system of controls”, the Provisions themselves indicate “powers, responsibilities, information flows and handling of conflicts of interest”.

<sup>11</sup> Note that according to this regulation the “gender quota” must be at least 1/5 for the first office (2014-2016) and at least 1/3 for the following two offices (2017-2019 and 2020-2022).



### **C. Remuneration and incentive mechanisms**

In both Banks of the Group, the provisions of Bank of Italy Circular no. 285 are shown: i) in the Articles of Association with respect to the general principles, where the Ordinary Shareholders' Meeting, in addition to establishing fees due to the Bodies it has appointed, approves the remuneration policies, including the plans based on financial instruments, and the criteria/limitations for any amounts agreed in view or on the occasion of the early termination of employment or cessation from office of identified staff ("golden parachutes") as provided for by the aforementioned Circular no. 285; ii) in the Internal Regulations with regard to the application guidelines (for more details also see section 6 below).

#### **1.2.2. Internal Regulations of the Corporate Bodies, of Board Committees and of the General Management**

With regard to the regulatory provisions that are complementary to Articles of Association provisions as per the previous section 1.2.1, the Internal Regulations of the Banks of the Group acknowledge the application guidelines of Bank of Italy Circular no. 285 as per points A.2) Board of Statutory Auditors and C) Remuneration and incentive mechanisms (for further details also see section 6 below). It is also established, within the Internal Regulations of the Banks of the Group, that the Statutory Auditors cannot undertake offices in bodies other than the Board of Statutory Auditors within other Group Companies, as well as with companies in which Banco Desio directly or indirectly holds a strategic investment<sup>12</sup>. With reference to the role of Chairman of the Board of Directors, who according to the general principles expressed in the same Circular no. 285, (s)he performs an important role for the purpose of encouraging internal dialogue and ensuring the balancing of the powers, in the Internal Regulations of the Banks of the Group it is specified that "the Chairman of the Board of Directors promotes a communicative and transparent relationship among the members of the Board, to assure the effective functioning of the corporate governance system; for this purpose, the Chairman "within the scope of his/her function, directed at promoting internal dialogue and assuring the balancing of powers within the Board of Directors with respect to its different members, and to the General Manager in relation to the role described in Section 4.2 below, supervises the organisation of the Board's activities and the dissemination of related information, promoting the constant performance of the Board's role in strategic oversight and management, maintains relations with the Chairman of the Board of Statutory Auditors and with the Chairmen of the advisory/proposal-making committees established within the Board of Directors", serving as their main interlocutor". For more details, see also section 4.2 below.

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<sup>12</sup> As indicated by the aforementioned Circular No. 285, "strategic" for such purposes is understood to mean the equity investment that is equal to at least 10% of the share capital or the voting rights during ordinary Shareholders' Meetings of the investee company and 5% of the consolidated regulatory capital of the Banking Group.

### **1.2.3. Regulations for Coordinating the Controls and the information flows of the Parent Company**

The Control Coordination Regulations define the tasks and responsibilities of the auditing Bodies and functions within the Banco Desio Group (in particular, procedures, moments of coordination, organisational reports, and relevant links among the above-mentioned company departments), as well as the duties and responsibilities of the control departments, the main audits carried out by each function, the information flows between the different functions and between them and the corporate Bodies, the coordination and collaboration procedures eliminating any potential overlaps and allowing to develop synergies between the departments establishing, *inter alia*, that the Internal Control System consists of the set of the rules, procedures, organisational structure and coordination mechanisms that aim at essentially assuring the compliance of the Group Companies' operations with respect to the corporate strategies and with internal and external regulations. To this end, the Parent Company, as part of the Group's management and co-ordination activities, regulated as a whole by the "Group Regulations" adopted at that time, exercises: a) strategic control on the evolution of the various areas of activities where the Group operates and the impending risks on the portfolio of activities carried out; b) management control aimed at maintaining the balance of the economic, financial and equity conditions, both for individual companies and the Group in its entirety; c) technical-operating control aimed at evaluating the various risk profiles contributed to the Group by the individual subsidiaries. For more information, see also section 7 below.

## **2 - GENERAL INFORMATION ON THE OWNERSHIP SET-UPS AND ON OTHER CORPORATE ASPECTS, ON COMPLIANCE WITH A CORPORATE GOVERNANCE CODE AND ON THE GROUP STRUCTURE**

This section contains information on the ownership arrangement and the corporate aspects **pursuant to Article 123-bis of the CFA**, as well as on the Group structure and the management and coordination activities, according to the various banking and statutory rules. Unless specified otherwise, the information listed below refers to the Banks of the Group.

Banco Desio is qualifiable as an "SME" in accordance with Article 1, Paragraph 1, Letter *w-quarter.1*) of the CFA, which defines SMEs as the enterprises, issuing listed shares, whose revenue is less than 300 million Euros, or whose market capitalisation is less than 500 million Euros. Issuers of listed shares that exceeded both the aforesaid limits for three consecutive years are not considered SMEs. The checks carried out following promulgation of Consob Resolution no. 20621 of 10 October 2018 allowed to ascertain that, although Banco Desio's revenue (which for banks is represented by the gross income) in the financial year ended on 31 December 2017 amounted to 418 million Euros, Banco Desio falls within the definition of SME provided above, because its market capitalisation as at 30 June 2018 amounted to 278 million Euros. If, for three consecutive years, Banco Desio were to

exceed both the aforesaid limits relating to revenue and capitalisation, it would cease to be included in the SME category.

## **2.1 OWNERSHIP ARRANGEMENTS AND OTHER CORPORATE ASPECTS OF BANCO DESIO (Article 123-bis of the CFA, paragraph 1)**

### **a) Structure of the share capital**

Banco Desio's share capital, fully subscribed and paid-up, is made up of a total of 130,202,000 shares (with a par value of 0.52 Euros each), of which 117,000,000 ordinary shares (around 90% of the total) and 13,202,000 non-convertible savings shares (around 10% of the total). The ordinary shares, listed since 1995 in the MTA (On-line Equity Market), grant the holders the rights and obligations envisaged by current legislation (in particular, the right to profits and voting rights pursuant to Articles 2350 and 2351 of the Italian Civil Code), without Articles of Association exceptions or limitations.

The non-convertible savings shares, issued at the time of the share capital increase and listed on the MTA in 1999, have the following specific features, established by special legislation (Article 145 of the CFA) and by the Articles of Association: they lack the right to vote during ordinary and extraordinary shareholders' meetings; they can be bearer shares, except those held by Representatives; they are not convertible, on an optional basis, into ordinary shares; they have a preference with regard to the allocation of the profit for the year, which must never be less than 7% of their par value; in the event the company is wound up, they have a right of pre-emption with regard to the reimbursement of capital for their entire par value; in the event of exclusion from trading of the ordinary and savings shares, these savings shares automatically change into shares with a limited right to vote for the resolutions of the Extraordinary Shareholders' Meeting, without prejudice to the equity privileges indicated above. With regard to the category organisation, see section 11 below.

Other specific categories of shares or financial instruments sharing in the profit endowed with specific equity or administrative rights have not been issued nor is the option to issue the same envisaged by the Articles of Association.

### **b) Restrictions on the transfer of shares**

No voluntary or Articles of Association restrictions on the circulation of the shares are envisaged, such as limits to the possession of shareholdings or approval clauses. Furthermore, making equity investments in the Banks' share capital that would exceed the specific percentage thresholds is subject to restrictions established by the CBL and Supervisory Provisions.

### **c) Significant investments**

Shareholders who hold stock in Banco Desio **of over 5<sup>13</sup>%** as at 31 December 2018 were as follows:

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<sup>13</sup> By effect of the assumption, by Banco Desio, of the qualification as an SME in accordance with the aforementioned regulations, the threshold for reporting material shareholdings rose from 3% to 5%.

- with regard to the share capital represented by a total of 117,000,000 ordinary shares:

- |   |                     |
|---|---------------------|
| - Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A.<br>(controlling interest) | 52.92%              |
| - Avocetta S.p.A.   | 8.60%               |
| - Stefano Lado <sup>14</sup> (of which 5.88% through Vega Finanziaria SpA)          | 8.04% <sup>15</sup> |

<b>Total</b>	<b>69.56%</b>
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- with regard to the share capital represented by a total of 13,202,000 savings shares:

- |  |                     |
|--|---------------------|
| - Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A.    | 44.69%              |
| - Avocetta S.p.A.  | 10.62%              |
| - Stefano Lado (of which 4.33% through Vega Finanziaria SpA) | 6.06% <sup>16</sup> |
| - Averla Srl   | 5.39%               |

<b>Total</b>	<b>66.76%</b>
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The information on significant investments was essentially acquired on the basis of the entries in the Shareholders' Register, as well as the indications received by the company in accordance with Article 114, section 7 of the CFA (Internal Dealing) and Article 120 of the CFA (Ownership arrangements).

#### **d) Securities that grant special control rights**

No securities that grant special control rights have been issued.

#### **e) Shareholdings of employees: voting procedure**

Currently, there are no active employee shareholding plans.

#### **f) Restrictions on voting rights**

Restrictions on voting rights are not envisaged, except for the above limitation regarding savings shares and without prejudice to the restrictions envisaged by ad hoc legislation (for example: failure to acquire authorisation for the purchase of significant investments, not meeting "good standing" requirements by those investing in the share capital, failure to fulfil specific disclosure obligations vis-à-vis the Bank of Italy and Consob, etc.).

#### **g) Agreements between shareholders**

<sup>14</sup> The shareholding interest referred to Mr. Stefano Lado includes 6,500 shares (0.006%) held by his spouse

<sup>15</sup> Pending succession of Luigi Stefano Lado on an equity interest of 33.33% of the capital of Vega Finanziaria SpA (Stefano Lado owns another interest of 33.33%).

<sup>16</sup> See above note 14

There are no shareholders' or corporate agreements between shareholders, as envisaged by current provisions (Article 20 of the CBL and Article 122 of the CFA).

#### **h) Change of control clauses**

Banco Desio and/or its subsidiaries do not have any significant agreements outstanding, whose effectiveness is subordinated, or which change or cease in the event of any change in the control of the Bank. Note that BPS has no significant agreements outstanding, whose effectiveness is subordinated, or which change or cease in the event of any change in the control of BPS (without prejudice to the service agreement and tax consolidation agreement in force with the Parent Company, for the effects of which reference is made to the information provided in the notes to the financial statements).

#### **i) Indemnity paid to directors in the event of early termination of employment**

Refer to section 6 below of the Remuneration Report.

#### **l) Appointment and replacement of Directors and Statutory Auditors and Articles of Association amendments**

The appointment of Banco Desio's BoD and Board of Statutory Auditors has been disciplined by the procedure set forth in Article 147-ter and Article 148 of the CFA, respectively.

The BoD is made up of a minimum of 8 and a maximum of 12 members<sup>17</sup>, according to the decisions of the Shareholders' Meeting, and is appointed by means of "majority" list voting that, in the event of the presentation of two or more lists of candidates, envisages the appointment of all the Directors less one from the list that obtained the greatest number of votes expressed during the Shareholders' Meeting (majority list). One Director is appointed from the minority list that has obtained the greatest number of votes expressed after the majority list, provided that the number of votes is at least equal to half of the quorum necessary for the presentation of the lists and on condition that the minority list is not linked to the shareholders who have presented or voted for the majority list.

These lists can be presented by shareholders who are owners of ordinary shares equal to at least 2.5% of the share capital represented by ordinary shares and must be presented at least 25 days before the Shareholders' Meeting, accompanied by: documentation proving the identity of the shareholders and their legitimate right to present the list; individual declarations accepting the candidacy and statement of compliance with the prescribed requirements, including independence requirements, as well as the Curriculum Vitae of the candidates; declarations, of the shareholders who present the minority lists, of the absence of any link with the majority shareholders.

In the event the Director appointed from the minority list leaves office, the BoD is obliged to co-opt, where possible, a non-elected candidate from the same list. In any event, during the Shareholders' Meeting called to resolve the replacement of the Directors appointed from minority lists, the candidates can only be presented by other shareholders not linked to those who have presented and

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<sup>17</sup> On 6 April 2017, the Extraordinary Shareholders' Meeting resolved to raise this maximum number from 11 to 12

voted for the majority list at the time of BoD appointment and the appointment of the Director takes place by means of a relative majority.

With regard to the Board of Statutory Auditors, a similar procedure applies with the following changes: two Standing Auditors and two Alternate Auditors are appointed from the majority list; a Standing Auditor, who will take on the office of Chairman, and an Alternate Auditor, are appointed from the first minority list not linked to the majority shareholders, irrespective of the number of votes obtained. In the event that in the 25 days prior to the Shareholders' Meeting, only the majority list has been duly presented, the deadline for the filing of the minority lists is extended by 3 days and the presentation quorum is halved.

Amendments to the Articles of Association are the exclusive responsibility of the Extraordinary Shareholders' Meeting, except in those cases where the law and the Articles of Association permit approval by the BoD. In any event, the Article of Association amendments are subject to the prior assent of the Bank of Italy in accordance with Article 56 of the Consolidated Banking Law. For further information, relating to the management body and the auditing body, see sections 3 and 9 below.

**m) Powers pursuant to Article 2443 of the Italian Civil Code and authorisations to purchase own shares**

No powers have been granted to Banco Desio's BoD for increasing the share capital as per Article 2443 of the Italian Civil Code, nor for issuing financial instruments sharing in the profits. There are no Shareholders' Meeting authorisations for the purchase of own shares in force.

**2.2. COMPLIANCE WITH A CORPORATE GOVERNANCE CODE (Article 123-bis of the CFA, paragraph 2, letter a)**

As illustrated in previous Reports, Banco Desio complies with the Corporate Governance Code for Listed Companies as from its first issue by Borsa Italiana. In detail, the Code was adopted on a generalised basis, with the exception of certain criteria of a circumscribed nature that was considered not necessary or appropriate to assimilate fully. For detailed information on the status of adherence to individual recommendations of the Code, refer to the attached [Table 4](#). The Code is available on the following website [www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.pdf](http://www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.pdf)

**Additional information laid down by Article 123-bis, paragraph 2 of the CFA, referring to financial disclosure (letter b), the functioning of Shareholders' Meetings and dealings with shareholders (letter c) and the composition/functioning of management and audit bodies (letter d) is provided, specifically, in sections 3, 7, 9 and 10 below. Section 7 also contains information about the non-financial statement.**

**2.3. GROUP STRUCTURE AND MANAGEMENT AND COORDINATION ACTIVITIES**

**Information in this section reflects (unless otherwise specified) the situation as at 31 December 2018.**

Banco Desio is the Parent Company of the **banking group** by the same name, pursuant to Articles 60 and 61 of the CBL, which currently includes the following companies:

<b>Banco Desio e della Brianza SpA</b>	Parent bank
<b>Banca Popolare di Spoleto SpA</b>	Directly controlled bank (81.67%) <sup>18</sup>
<b>Fides SpA</b>	Finance company entered in the Financial Intermediaries Registry, directly controlled (100%)
<b>Desio OBG Srl</b>	Directly controlled (60%) special purpose vehicle for the issue of Covered Bonds

Banco Desio exercises management and co-ordination activities over these companies, both according to current banking system provisions and in accordance with Article 2497 et seq. of the Italian Civil Code. To this end, a special “Group Regulation” that regulates the matter as a whole was adopted at that time.

**Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A.**, a financial company whose main purpose is the management of the controlling equity investment in Banco Desio, is the party that exercises control over said Bank according to applicable laws (Article 2359 of the Italian Civil Code and Article 23 of the CBL).

As the result of a specific Articles of Association provision, however, **it does not exercise management and co-ordination activities** over Banco Desio and its subsidiaries, based on neither banking legislation nor statutory provisions. Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. does not hold any other controlling interests<sup>19</sup>.

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<sup>18</sup>BPS shares were delisted from the MTA with Borsa Italiana Decision of 25 September 2017 starting from 3 October 2017 (“Delisting”). BPS maintains its qualification as an “Issuer of financial instruments intended for the public to a significant extent, in accordance with Articles 2-bis and 108 Paragraph 4 of the Issuers’ Regulation” (“Public Issuer”). On 11 December 2018, the Boards of Directors of Banco Desio and of Banca Popolare di Spoleto (“BPS”) approved, as stated, the draft merger via incorporation of the latter.

<sup>19</sup> In accordance with Articles 11 and 99 of Regulation EU no. 575/2013 (CRR) Brianza Unione is also obligated, starting from the accounting date of 30 June 2018, to forward prudential supervisory reports (“COREP”) and statistical reports (“FINREP”) on a consolidated basis. As consequence, Banco Desio, starting from the same accounting date, no longer sends the related reports on a consolidated basis because they are transmitted by Brianza Unione. Brianza Unione has appointed Banco Desio with a dedicated service agreement for the execution of some activities concerning the drafting and forwarding of the reports. For additional information, please refer to the Report on Operations.

### **3 - BOARD OF DIRECTORS**

The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFA and articles 144-octies and 144-novies of the Issuers' Regulation and reflects (unless otherwise specified) the situation as at 31 December 2018. For its development, see section 13 below. For information about the diversity policies applied by the Banco Desio Group in relation to the membership of the administration, management and control bodies with regard to aspects such as age, gender and education and professional experience, in accordance with Article 10 of Italian Legislative Decree no. 254/2016, please refer to section 7 below.

#### **3.1 Composition and requirements**

Banco Desio's current Board of Directors is made up of 12 Directors and was appointed by the Shareholders' Meeting held on 6 April 2017, using the list voting mechanism pursuant to section 2.1.l) above. Its term expires with the Shareholders' Meeting held for the approval of the financial statements as at 31 December 2019. In the case at hand, a single list was submitted by the majority shareholder. The composition of the BoD, together with other information on the structure of the Management Body and Committees, is included in the attached [Table 1](#).

On the basis of the special reference legislation for banks with listed shares<sup>20</sup>, Directors must meet specific good standing and professionalism requirements, otherwise they will no longer be eligible for office. Specifically, with regard to professionalism, at least three years of experience in at least one of the following areas is required: management, audit or executive activities within companies; professional activities in matters pertaining to the banking, financial, insurance sectors or functional activities in banking; a university lecturing position in the law or economics faculties; public administrative or executive functions pertaining to the lending sector or which involve the management of economic-financial resources. With regard to the office of Chairman, the aforementioned experience must cover at least five years. For the offices of Managing Director and

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<sup>20</sup> On 2 August 2018, the Implementation regulations of Article 26 CBL were submitted for consultation by the MEF, which, after hearing the Bank of Italy, is called upon, as known, to identify in compliance with CRD4: a) the homogeneous good standing requirements for all the representatives; b) the professional standing and independence requirements, graded according to proportionality principles; c) the criteria of competence, consistent with the office to be held and with the characteristics of the bank, and of adequate composition of the body; d) the criteria of correctness, concerning, among other things, the business relations of the representative, the behaviour with regard to the supervisory authority and the sanctions or corrective measures imposed by them, restrictive measures concerning professional activities carried out, as well as any other element likely to affect the correctness of the representative; e) the limits to the number of offices held by bank representatives, graded according to proportionality principles and taking into account the size of the intermediary; f) the causes that involve the temporary suspension from the office and its duration. The consultation document was analysed by the Appointments Committee also in light of the observations transmitted by the ABI to the MEF.



General Manager, specific expertise in matters pertaining to the lending sector is required, gained in positions of adequate responsibility for at least five years. The Board of Directors is responsible for verifying that the Representatives meet the requisites within 30 days of appointment, by means of the procedure established by the Bank of Italy's Supervisory Provision. In short, the BoD checks and resolves that the requirements have been met, after consulting the Board of Statutory Auditors (who perform their own specific check<sup>21</sup>), for each individual representative, involving the abstention of the party concerned, on the basis of suitable documentation produced by said Representatives (examples: certificates, declarations, curricula vitae, affidavits or similar, declarations made by companies/bodies they worked with, etc.).

Information on the personal and professional characteristics of the Directors, as well as information on their satisfaction of the requirements described in this section, are published upon submission of the lists for the renewal of corporate offices, in compliance with governing Consob regulations. For more detail, refer to section 3.5 below. Their curricula are also made available on the [www.bancodesio.it](http://www.bancodesio.it) website, in the section "La Banca/Governance/Corporate Governance/Consiglio di Amministrazione" (The Bank/Governance/Corporate Governance/Board of Directors).

### **3.2 Independent Directors**

Of the 12 Banco Desio Directors in office, **5** are qualified as Independent, according to the specific provisions of Articles 147-ter and 148 of the CFA and the standards of the Corporate Governance Code (the only exception is the criteria of "nine years" permanence in the BoD which, due to the reasons indicated in attached Table 4 in compliance with the resolution adopting the Code on 22 February 2007, is not, however, considered in itself to be indicative that the individual does not meet the independence requirement)<sup>22</sup>. The assessment of independence is subject to BoD resolution and appropriate review by the Board of Statutory Auditors, specifically examining the individual positions of the Directors on the basis of suitable documentation available to the company or disclosure made by the party concerned, who abstains from voting and favouring, in any case, substance over form. The checks are envisaged after appointment, as well as when establishing Committees that require the participation of a certain number of Independent Directors, at the time of approval of the Self-Assessment Report of the BoD and of this Report (as well as each time the BoD considers it appropriate in relation to any situations that may change the qualification of independence relating to one or more Directors). The Directors, by virtue of said evaluations and checks performed in 2018 and also confirmed during the approval of this Report, who currently meet the independence requisites (all in accordance with both the CFA and the Corporate Governance Code, with the exception of the aforementioned "nine year" criterion) are listed below:

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<sup>21</sup> With regard to the specific assessment of the Board of Statutory Auditors regarding the requisites of the Directors and the Statutory Auditors, also see section 9 below

<sup>22</sup> In compliance with the aforementioned Circular no. 285, also the independence requirements of the Corporate Governance Code adopted by Banco Desio are reported, in addition to those established by the CFL, in the Articles of Association, as well as the minimum number of Independent Directors to an extent equal to 1/4 (the actual number of 5 is therefore currently higher than the minimum number of 3)

- **Mr. Gerolamo Pellicanò** (first appointed 30.04.2002)
- **Cristina Finocchi Mahne** (first appointed 30.05.2013)
- **Gigliola Zecchi Balsamo** (first appointed 29 April 2014)
- **Marina Brogi** (appointed 6 April 2017)
- **Nicolò Dubini** (appointed 6 April 2017)

The first appointment of Prof. Marina Brogi had started on 26 April 2012 and had ended on 9 May 2013.

The Independent Directors, take part in the Board's work and the activities of the advisory/proposal-making Committees to which they belong (i.e., the Control and Risk Committee and the Remuneration Committee, of which they form the majority, as well as the Appointments Committee and the Committee for Transactions with Related Parties and Associated Parties, consisting solely of three Independent Directors)<sup>23</sup>. Said Directors met on 30 January and 26 February 2019, to express their assessment of the aspects of the present Report that are under their competence, taking into account the role assigned by the Code, among non-executive members, especially to these Directors<sup>24</sup>. The **Independent Directors' assessment** (which also takes into account the results of the self-assessment process per the following sect. 3.6) is attached to the present Report (**Attachment A**)

### **3.3 Functioning**

As a rule, Banco Desio's Board of Directors meets monthly, which is more frequently than the at least bi-monthly schedule envisaged in the Articles of Association. During 2018, a total of 18 meetings were held, the majority of which scheduled at the beginning of the year. For 2019, at least 15 meetings have been scheduled. The dates of the meetings to approve periodic accounting documents (draft financial statements and consolidated financial statements, interim financial reports and quarterly voluntary reports) were made public, in January, within the context of the Annual Calendar of Corporate Events, in compliance with stock exchange legislation. The publication of the Corporate Calendar falls within the sphere of a more extensive process of scheduling the Board's work for all

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<sup>23</sup> In accordance with the Supervisory Provisions, the Independent Directors oversee the management of the company with autonomous judgement, contributing to ensure that such management is carried out in the interest of the company and consistently with sound and prudent management objectives, serving as a counterweight with respect to the bank's executive and management components and promoting dialogue within the body of which they are members.

<sup>24</sup> For convenience, an excerpt from the Comments on Standard No. 2 of the Code is presented: Non-executive directors enhance board discussions with expertise formed outside the company, of a general strategic or specific technical nature. These skills make it possible to analyse the various subjects being discussed from different points of view and, therefore, contribute towards stimulating the dialogue that is the distinctive condition for a well thought-out and informed collective decision. The contribution of non-executive directors is particularly useful on matters where the interests of the executive directors and those of the shareholders may not coincide, such as the remuneration of said executive directors and the internal audit and risk management system.

Group companies, which sees the involvement of the same BoDs of the Parent Company and the subsidiaries, for the purpose of optimising the activities of the Corporate Bodies consistent with the general principles of efficiency and effectiveness established by both the Corporate Governance Code and the aforementioned Circular no. 285. Internal Regulations concerning the information flows between and within the Corporate Bodies are based on the same principles and were formalised in the “Information Flows Regulations for Corporate Bodies”. These regulations are aimed at ensuring a circulation of information consistent with the needs of the Directors and Statutory Auditors to act in an informed manner and, at the same time, with the need to maintain organisational safeguards to avoid the risk of the improper use of confidential information.

In accordance with the provisions of the Articles of Association and the Corporate Information Regulations, the Chairman calls the BoD meetings by means of a notice that contains the list of issues to be discussed at least 5 days in advance. The documentation relating to the matters on the agenda is made available to Directors and Statutory Auditors, by means of a dedicated IT platform, through an e-mail generally sent at least 3 days in advance (7 days for the previous meeting’s minutes). The documents not transmitted within 48 hours prior to the meeting (typically those that are “price sensitive” in order to maximise the protection of privileged information as a precaution against any possible form of IT violation by third parties) are made available for consultation at the General and Corporate Secretary’s Office starting from the morning of the day prior to the same meeting. The Board of Directors deems usually this advance reasonable and is observed. Especially for particularly complex documents, the provision is made prior to the above-mentioned minimum terms and sometimes prior to sending the notice of call. In any case, without prejudice to possible cases of “price sensitivity”, adequate in-depth analyses are made during the meetings if it was not possible to provide the documents in question early enough in order to ensure their confidentiality or for other reasons of opportunity/urgency. Confidentiality restrictions regarding the documentation and information subject to Board resolution are decreed – consistent with the mentioned market abuse regulations – also by the Corporate Information Regulations, for Directors, Statutory Auditors, external auditors and all employees who enter into possession of potentially price sensitive documentation and information. In this context, specific provisions discipline access to the minutes of Board of Directors’ meetings, without prejudice to the fact that all interested parties are assured that the necessary information is made available to carry out their responsibilities in an informed manner (For further details on this Procedure, see section 8 below). The information in question is also provided directly by the head of the company divisions (in particular the internal audit managers) who, to this end, are regularly called to take part in the meetings (also of the internal board Committees) to help illustrate the subjects within their competence on the agenda.

### **3.4 Powers**

The BoD is vested with all the powers of ordinary and extraordinary administration, except for the faculties reserved for the Shareholders’ Meeting by legal and/or supervisory provisions. In addition to the functions that cannot be delegated, decisions concerning the following matters are reserved by

the Articles of Association for the exclusive competence of the BoD, also in accordance with the provisions of Circular no. 285:

- the setting of policies that affect the general management of the Bank's and Group's business and, within this sphere, decisions concerning strategic guidelines and transactions as well as the business and financial plans, approval of the organisational and corporate governance set-up, approval of the accounting and reporting systems and supervision of the public disclosure and bank communication process;
- the issuing and amendment of Internal Regulations, with the exception of amendments that merely adapt to the provisions of current legislation or to Shareholders' and Board Meeting resolutions already adopted and effective;
- the establishment, transfer and closing down of branches and representative offices;
- the purchase, development and sale of real estate property assets other than those granted under financial lease as part of its institutional activities;
- the purchase and sale of equity investments that involve changes in the Banking Group or, in any event, the undertaking or disposal of controlling or associated interests or which involve exceeding the authorisation thresholds according to the applicable provisions. The BoD has the faculty to delegate, establishing the related limits, conditions and formalities, the purchase and sale of shares of subsidiaries listed on organised markets, provided that these operations take place: a) in observance of current regulations concerning issuers, brokers and markets; b) under the aforementioned authorisation thresholds;
- the setting of criteria for the management and co-ordination of the Banking Group and the other subsidiaries, as well as criteria for executing instructions from Bank of Italy;
- the appointment and removal of the General Manager, Vice General Managers and Executives and determining the powers assigned to them and to Middle Management;
- the appointment and removal of the Heads of Internal Auditing Divisions as well as the Appointed Executive and the definition of the essential elements of the overall architecture of the internal audit system, subject to the favourable opinion of the Board of Statutory Auditors;
- the appointment and removal of members of the board committees required by applicable legal and regulatory provisions (in particular, in addition to the appointment of the Executive Committee, the appointment of the Appointments Committee, the Remuneration Committee, the Control and Risk Committee and the Committee for Transactions with Related Parties and Associated Parties), as well as the establishment, appointment and regulation of additional committees with proposal-making, advisory and/or coordination roles, if any, with determination of their tasks.
- the appointment and revocation of the AISCI, as well as the determination of the related duties.

Moreover, the Internal Regulations attributes to the BoD:

- the approval of the corporate organisational structure and governance;
- approval of the accounting and reporting systems and supervision of the public disclosure and bank communication process<sup>25</sup>, in accordance with the Supervisory Provisions in force from time to time;

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<sup>25</sup> Circular 285, Part I, IV.1.III. Par. 2.2 Letter e)

- the approval, with reference to the activities of the Appointed Executive to draw up the accounting documents, with the input of the Control and Risk Committee and the favourable opinion of the Board of Statutory Auditors, of the Internal Regulations pertaining to its duties and/or of “Financial Reporting”, as well as non-financial statement. The Board of Directors ensures that its own evaluations and decisions relating to the approval of the financial statements, of the other corporate accounting documents and to the relations with the Independent Auditor are supported by an adequate preparatory activity and assesses, with the input of the Board of Statutory Auditors, the results posted by the Independent Auditor in its own reports;
- the approval of the corporate policy pertaining to the outsourcing of corporate functions (also within the Group), with the opinion of the Control and Risk Committee, constantly retaining full responsibility, knowledge and governableness of the risk factors relating to the outsourced functions;
- the appointment of Managers in charge of first line functions and of those regulated by specific legal and regulatory provisions;
- the appointment of the Data Protection Officer (DPO); this office was introduced by Regulation EU 2016/679;
- the definition and approval of the corporate recovery plan;<sup>26</sup>
- the review/approval of the report of the corporate functions and structures, such as, by way of non-comprehensive example, the annual report on complaints, the report containing aggregate data pertaining to whistleblowing, as well as all reports prescribed in the Flows Regulations.

To the Board of Directors are also exclusively reserved the review and approval of the “significant” transactions carried out also by the subsidiaries, the term “significant” meaning, by way of non-comprehensive example, at least the following extraordinary transactions: capital increases, transfers in companies, acquisitions/sales of business units, transformations and liquidations, the merger via incorporation of companies included in the Group at least at 90%, the establishment and closure of secondary branches, share capital reductions, in case of withdrawal by the shareholder, the transfer of the registered office of the company inside the territory of Italy, the establishment, transfer and/or closing down of branches and representative offices. The powers listed above include those provided for in the Corporate Governance Code and, in particular, the inherent responsibility of approving strategic, business and financial plans. The assessment of the general organisational and accounting set-up, envisaged by the Code, falls under the exclusive responsibilities of the BoD, established by the Internal Regulations, consistent with supervisory legislation regarding the internal audit system and individual and Group risk management policies. The Internal Regulations also reserve for the Board the specific responsibility of operational management, whose division between the BoD and the Bodies delegated by the same is expressed in terms of both business area and/or amount (as detailed in section 4 below). In general, the approach described above also relates to the Board of Directors of BPS, although with some adaptations to the characteristics of said subsidiary.

The BoD of Banco Desio is also tasked, at Group level, with approving strategies, policies and

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<sup>26</sup> Provisions of Bank of Italy “Measure pertaining to recovery plans”, March 2017

reporting pertaining to sustainability matters (as described in detail in section 7 below).

### **3.5 Appointment**

Without prejudice to the description in sections 2.1.l) and 3.1 above, as part of the Corporate Governance Code's recommendations, Banco Desio's BoD also established, in the Internal Regulations, the following general criteria relating to the accumulation of the appointments by directors<sup>27</sup>: a) establishing the number of appointments as Director or Standing Auditor held in other listed companies and/or supervised companies as 5<sup>28</sup> (excluding subsidiary, associated and investee companies directly or indirectly invested in to a significant extent by Banco Desio from this group) if exceedance and/or incompatibility situations occur, the Board of Directors examines on a case by case basis any non-compliant situations and assumes the consequent initiatives, subject to the general principle whereby Directors accept appointments solely when they expect to be able to devote the necessary time to the performance of their duties; if the Shareholders' Meeting authorises, in a general and preventive manner, waivers of the competition prohibition prescribed by the law (Article 2390 of the Italian Civil Code, Paragraph 1), without prejudice to compliance with the aforesaid current provisions pertaining to the "interlocking ban"<sup>29</sup>, the Board of Directors assesses the merit of each problematic instance and reports any critical issues to the first useful Shareholders' Meeting.

For this purpose, each Director informs the Board of Directors, upon accepting the candidacy/appointment or verifying law requirements, about any activities exercised in competition with the Bank and/or with the subsidiaries and, subsequently, of any significant change.

Without prejudice to the specific related provisions (with particular reference to those envisaged by law regarding the "interlocking ban" between competing banking, financial and insurance groups) the aforementioned general principles pertaining to accumulation of duties should not be considered compulsory and should a situation of non-compliance occur, it would not, in itself, entail termination from office. In addition to performing a specific assessment at least annually with regard to the "interlocking ban", in compliance with the application criteria issued by Supervisory Authorities<sup>30</sup>, the BoD reserves the right to evaluate any non-compliant situations pertaining to accumulation of duties on case-by-case basis, without prejudice to the principle, defined in the Code, according to which the assessment regarding opportunities to accept offices is put to the discretion of the interested parties, including in internal committees, exclusively "when they feel they are able to dedicate the time necessary to perform their duties". The offices covered by Banco Desio's Directors and Statutory Auditors in the Parent Company (Brianza Unione), in subsidiary, associated and investee companies, and in other listed and/or supervised companies, are summarised in the attached Table 3. The

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<sup>27</sup> Note that for auditors' offices, specific regulatory norms are in force with regard to the number of offices that can be held (Article 144-duodecies of the Consob Issuers' Regulations)

<sup>28</sup>in this context, "supervised companies" are understood to be: banks, insurance companies, stock brokerage companies, asset management companies and finance companies enrolled in the special register pursuant to Article 106 of the CBL (Italian)

<sup>29</sup> Article 36 of the "Save Italy Decree" converted into Law no. 201/2011 and supervisory application criteria of 20 April 2012.

<sup>30</sup> Lastly, of note is the joint Communication by Consob, Bank of Italy and IVASS of 21 December 2018, which revised the criteria for the application of the "interlocking ban".

aforementioned limits on the accumulation of offices by Directors are similarly established in the Internal Regulations of BPS.

### **3.6. Self-Assessment**

The Board of Directors has approved the Internal Self-Assessment of Bodies Regulations in order to regulate the relevant process in conformity with the provisions of Circular no. 285. It particularly identified the methodologies to use (mainly based on each Director filling in a special questionnaire and on holding a special complementary interview, possibly also in writing, when filling in the questionnaire) and the profiles to be analysed – on the aggregate level – regarding the composition (professional competence, independence, etc.) and functioning (operating procedures, information flows, etc.) of the Board and Committees formed within it. Said Regulations were revised on 8 February 2018, providing, *inter alia*, the prior involvement of the Appointments Committee in the procedure for selecting the consulting company appointed to support the self-assessment process.

The assessment methodology (whose application is appropriately differentiated during the three-year office of the Board) is based on updated models in light of the banking sector's best practices. The use of a consultant and the carrying-out of the interview in oral form by the consultant are envisaged at least every 3 years.

The aforementioned Self-Assessment Regulations identifies, among the parties appointed to carry out the preliminary activity to the Board of Directors' passing of the self-assessment resolution, the Appointments Committee with an advisory role in compliance with Circular no. 285. A summary of the **results of the self-assessment process** is attached to the present Report (**Attachment B**).

As a result of the Board resolution of 18 October 2018, the self-assessment process was started without the aid of an external professional, requiring the Chairman of the Board of Directors to carry out the consequent activities with the support of the Secretary of the Board.

To maintain methodological continuity with the previous years, to support the execution of the process, the "Board Evaluation Tool", already used for the previous year's Self-Assessment was utilised. The utilised release incorporates revisions in compliance with European regulations on the matter and mainly the EBA Guidelines. The methodology for replying to the questions provides for the expression of an assessment on a scale with 4 decreasing levels from "effective / adequate" to "ineffective / inadequate". The results have been provided in anonymous form in the Self-Assessment Report. On this occasion, Representatives were asked, *inter alia*, to report any issues of interest to be included in the Induction Plan for the year 2019.

As part of the self-assessment process, consideration was given to the number of years in office (from the first appointment) of each member of the Board of Directors, as summarised below:

NAME	PRIMARY ACTIVITY	APPOINTMENT DATE INDIVIDUAL OFFICE	TERMINATION DATE INDIVIDUAL OFFICE	TOTAL SENIORITY IN THE OFFICES HELD AT THE COMPANY
<b>Agostino GAVAZZI</b> - Director - Vice Chairman - Chairman - Chairman of the EC	Director banking sector	05/05/1983 10/04/1992 30/04/2002 06/04/2017	09/04/1992 29/04/2002 05/04/2017	36 years
<b>Stefano LADO</b> - Director - Vice Chairman - Chairman	Director banking sector Attorney	23/04/1993 28/04/2008 06/04/2017	27/04/2008 05/04/2017	26 years
<b>Tommaso CARTONE</b> - Managing Director - AISCI - Vice Chairman	Director banking sector	20/06/2012 27/09/2012 06/04/2017	05/04/2017	7 years
<b>Paolo GAVAZZI</b> - Director - Executive Director	Freelance Professional	28/04/1997 06/04/2017	05/04/2017	22 years
<b>Egidio GAVAZZI</b> - Director - Executive Director	Director banking sector	28/04/2008 28/04/2011		11 years
<b>Tito GAVAZZI</b> - Executive Director	Director banking sector	29/04/2014		5 years
<b>Graziella BOLOGNA</b> - Executive Director	Director banking sector	29/04/2014		5 years
<b>Marina BROGI</b> - Independent Director - Chairman of the RPTC	Company Director University lecturer	26/04/2012 06/04/2017 “	09/05/2013	3 years <sup>31</sup>
<b>Nicolò DUBINI</b> - Independent Director - Chairman of the RC	Company Director	06/04/2017 “ “		2 years

<sup>31</sup> The first appointment of Prof. Marina Brogi had ended on 9 May 2013 and she was appointed again on 6 April 2017.



<b>Cristina FINOCCHI MAHNE</b> - Independent Director - Chairman of the AC	Company Director	30/05/2013 06/04/2017		6 years
<b>Gerolamo PELLICANO'</b> - Independent Director - Chairman of the CRC	Attorney	30/04/2002 29/04/2014		17 years
<b>Gigliola ZECCHI BALSAMO</b> Independent Director	Company Director	29/04/2014		5 years
<b>AVERAGE SENIORITY</b>				<b>12 years</b>

After the offices renewal in 2014, the average seniority decreased from 13 to 9 years (approximately - 30%) and it subsequently rose each year to 12 years exclusively as a result of the elapsing of time, since in the meantime, in the 2017 renewal, there were no cessations/appointments of Directors which would have significantly affected this number.

### **3.7 Training programmes**

As part of initiatives aimed at updating professional knowledge in the sector in which the Banco Desio Group operates, in business dynamics and their evolution, in the principles of proper risk management, as well as in the reference regulatory and self-regulatory framework, no. 35 training sessions were carried out as a whole as from 2012 (in addition to no. 4 meetings for analysing in depth that will be discussed below), properly diversified by subject and speakers (among which there are also specially qualified managers, advisors, jurists, economists and journalists), focusing on the following:

- issues related to the actual banking application of Italian Legislative Decree no. 231/2001 as regards administrative liability of companies and entities, recently also with reference to the offence of “self-laundering” inserted as from 2015 in the scope of the same Legislative Decree;
- the structure and functioning of the corporate governance system of banks, also with reference to the Corporate Governance Code;
- delving further into the regulations concerning transactions with related parties and associated parties (see Section 5 below);
- profiles pertaining to the process of issuing European Community regulations of greater interest for the banking sector;

- key aspects of the internal capital adequacy assessment process (“ICAAP”) and of the internal liquidity adequacy assessment process (“ILAAP”) and of the advanced internal rating-based (“AIRB”) assessment;
  - analysis of IT risk and of cyber risk and measurement of reputational risk;
  - the regulatory changes with regard to anti-money laundering, pertaining to supervisory and criminal aspects;
  - different macroeconomic and regulatory issues, including international, affecting the banking system and financial markets (e.g. “Basel 3”);
  - IFRS 9 and its impacts, in particular on internal credit management models;
  - the Recovery Plan in crisis scenarios, introduced by new prudential supervisory provisions (see section 7 below);
- sustainability issues in relation to the new rules on non-financial statement (see section 7 below);
- Product Governance in investment services;
  - Non-Performing Exposures (“NPE”);
  - Farming Credit;
  - General Data Protection Regulation (“GDPR”).
  - the implications on the banking system of digital innovation with particular reference to credit to enterprises;
  - the development of financial innovation (“fintech”, “blockchain”, etc.) and of innovation governance;
  - the disintermediation of payment services through digital payments (e.g. mobile payment services, P2P payments, etc.);
  - “data transformation” in the financial sector;
  - the development of banking communication (styles, channels, etc.).

In 2018, 13 training sessions were delivered as a whole, whereas 9 were held in 2017. In detail, these sessions, which had a total duration of approximately 27 hours, were widely attended by all Company Representatives and of the “corporate front lines”, to whom it was deemed useful to extend them, ended with a lively debate and were supported by a wealth of material that is now available to attendees in a dedicated electronic library.

In this context, also specific sessions on both governance and business topics held at ABI (Italian Bankers’ Association) and SDA Bocconi for newly appointed representatives were attended as from 2014.

An in-depth session, dedicated to the positioning of the Group in the market of reference, was also held with a strategic planning and business model approach and attended by the members of the Bodies of the various Group Companies and some corporate functions in the light of macroeconomic and regulatory scenarios, as well as the trends of regional economies (Lombardy, Umbria etc.). It was conducted by an outside banking business expert. This initiative, which followed those held in the last three years, falls within the “good practice” that the members of the Bodies meet once or twice a year

outside of board meetings in order to analyse in depth and discuss strategic questions as required by Circular no. 285.

A basically similar training course is scheduled for 2019. It will be appropriately updated and enriched to follow the new developments in the economic and regulatory scenario, European or otherwise, and planned in a more structured manner. A dedicated Policy is currently being prepared, *inter alia*.

### **3.8 Succession plans**

If the office of the General Manager is vacated in advance, the succession procedure is ordinarily implemented under the coordination of the Chairman taking into account, for the purposes of management continuity, the presence of the Substitute Vice General Manager. So far, it has not been deemed necessary to adopt a formalised succession plan, also taking into account that the changes involving the General Management in recent years were managed without any repercussion on the corporate activity.

## **4 - SYSTEM OF POWERS AND AUTHORITY**

**Information in this section reflects (unless otherwise specified) the situation as at 31 December 2018.**

### **4.1 General outlines**

This system, regulated at senior level, by the Articles of Association and, more specifically, by Internal Regulations<sup>32</sup>, has been structured on the basis of criteria consistent with the principle that the main decisions are reserved for the Board of Directors (in other words, those that Circular no. 285 summarises in the policy and supervision functions of corporate management) and the periodic reporting to said BoD by executive Bodies and Parties who are primarily delegated the **function of managing**, i.e. implementing the policies resolved by the BoD as it carries out its role of strategic supervision: **Executive Committee and General Manager**. The latter represents the apex of the internal structure and, as such, participates in the management function, and in the BoD and Executive Committee meetings, and also has the task of executing the resolutions adopted by the above-mentioned Bodies. The delegated Bodies and Parties, in addition to the general powers for their role, have different operating powers in various areas related to current operations, in particular, with regards to credit, commercial, legal and organisational issues, in line with their respective roles, as specified below. The layout of the powers defined in the Internal Regulations can be summarised as follows

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<sup>32</sup> The system of powers and authority is currently broken down also in various special powers of attorney issued as and when to individual names for specific categories of deeds. In addition, a more comprehensive regulation of the Group's assigned Powers is being prepared.

#### **4.2. Chairman - Executive Committee - AISCI - General Manager**

**The Chairman**, who is assigned a co-ordination and guarantee role for the purpose of the due functioning of the Board of Directors and the shareholders' meeting, and the Vice Chairman who replaces the former in the event of his absence or unavailability, are not assigned operating powers. They are assigned the representation of the Company in dealings with third parties and before the legal authorities on the basis of the Articles of Association, acting separately. Pursuant to the Articles of Association, the Chairman can adopt, for reasons of particular urgency, decisions which are the responsibility of the BoD or the Executive Committee (provided that they are not reserved by law or the Articles of Association for the exclusive competence of these bodies), with the obligation to promptly disclose the same to the BoD during the first available meeting<sup>33</sup>. This is a procedure of an exceptional nature that has almost never been applied. The Chairman is a high-profile representative (General Partner) of the Holding Company "Brianza Unione" (see Table 3, attached). As previously mentioned in section 1.2, the Chairman does not have operating powers and does not individually carry out operational functions, not even de facto. The same consideration applies to the Vice Chairman, who in the case at hand coincides with the AISCI. Certain rights on cash settlements with charity purposes are reserved to the Chairman, which can be exercised within a strictly limited amount and in compliance with particularly strict business policies and procedures, especially for what concerns identification of beneficiaries and carrying out of preliminary investigations.

**The Executive Committee** (appointed with the same term of office as that of the Board of Directors and currently consisting of 5 Directors) is granted operations management powers, with set limits on amounts, for matters not reserved exclusively for the BoD, by virtue of legal, regulatory, statutory provisions and/or of resolutions of the Board itself, those pertaining to controls and risk remaining in any case reserved to the Board. Pursuant to the Articles of Association, for particularly urgent reasons, the Executive Committee may also adopt decisions that are the responsibility of the Board of Directors, provided that they are not reserved by law exclusively for the latter. The Board itself must be informed of these decisions during the first subsequent meeting. The Chairman and the Vice Chairman may attend the meetings of the Executive Committee without voting rights.

In 2018, the Executive Committee met 7 times.

The **AISCI**, as non-executive Director, is tasked with ensuring – at an overall level – the functioning of the internal audit system, supervision of compliance risk, implementation of the internal capital adequacy assessment process ("ICAAP") and of the internal liquidity adequacy assessment process ("ILAAP") with the support in particular of the following functions that report directly to the Board of Directors: Internal Auditing; Risk Management; Compliance; Anti-money laundering; Executive Appointed to Draw up the Accounting Documents. (S)he is also involved in the processes relating to the Recovery Plan, participating in the Management Committee, in the capacity as Recovery

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<sup>33</sup> Urgent resolutions are passed by the Chairman upon the binding proposal of the General Manager

Committee, without voting rights with the role of liaison with the Control and Risk Committee and with the Board of Directors.

**The General Manager** executes the resolutions adopted by the BoD and by the Executive Committee and is the member of the top management of the operating structure, for which (s)he has management responsibility; thus, (s)he is particularly in charge of personnel management, of the organisation and functioning of company structures and carrying out current business affairs, according to the general policies established by the BoD and by the Executive Committee. Within the sphere of operational management, the General Manager has autonomous powers within amount limits lower than those of the Executive Committee. The General Manager reports to the BoD and participates, in accordance with the Supervisory Provisions, in the management function performed by the BoD itself and by the Executive Committee.

The executive Bodies and parties inform the BoD and the Board of Statutory Auditors, according to the provisions of the Information Flows Regulations for Corporate Bodies, with regard to activities carried out within the sphere of the assigned powers and the performance of Banco Desio and subsidiaries. Reports that provide a comparison between the results achieved and those scheduled are also envisaged. Detailed indications on the amounts representative of the limits of the powers assigned are not provided, because the authorisation standards differ according to the matters dealt with.

Given the system of powers described above, Directors Graziella Bologna, Agostino Gavazzi, Egidio Gavazzi, Paolo Gavazzi and Tito Gavazzi are also considered executive directors, as they are members of the Executive Committee and in consideration of the frequency of meetings and the expansion of its responsibilities. For the sake of thoroughness, note that no Director covers executive positions within Banco Desio, or in the subsidiaries, or in the parent companies, nor has the appointment of overseeing specific areas of the corporate operations ensuring a steadfast presence in said company and/or acquiring information from the operating structures and/or participating in the meetings of the Committees pursuant to the subsequent Section 4.3 (except for the attendance of an Executive Director at the meetings of the Asset Liability and Wealth Management meetings<sup>34</sup> with a coordination role and the attendance without voting rights of the Chairman at the meetings of the aforesaid Committees); no Director holds directive roles in subsidiaries or the Holding Company; other Directors hold administrative offices in the Holding Company and/or subsidiaries (in this context, the Vice Chairman of Banco Desio currently also serves as Chairman of the subsidiary BPS); the General Manager of Banco Desio currently also holds several Board offices in the subsidiaries BPS

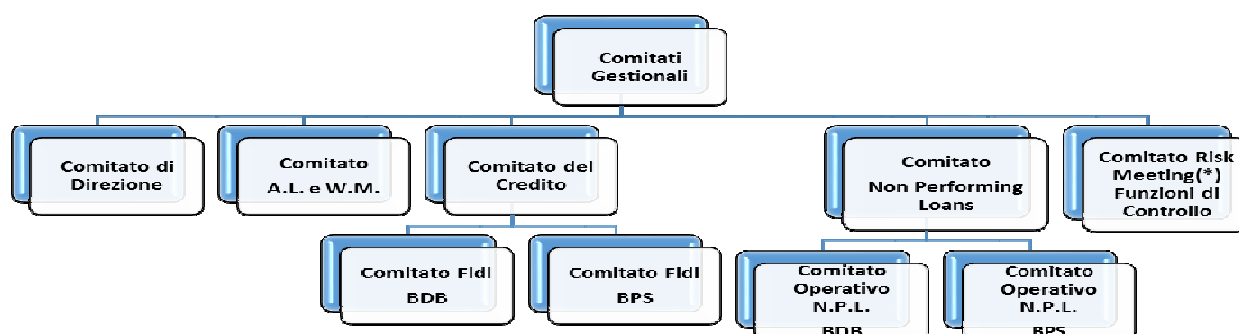
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<sup>34</sup> In 2018, the decision was made to limit the participation in the Asset Liability and Wealth Management Committee of the Heads of the Finance Department and of the Wealth Management Department for the topics under their respective competence.

(Chief Executive Officer and member of the Executive Committee since 1 February 2019 - see Section 13 below) and Fides.

#### **4.3 Technical-operating committees**

Besides the Executive Committee and the three Advisory/Proposal-making Committees discussed above, at the technical-operating level the BoD set up certain “Management” Committees, regulated by a dedicated document attached to the Internal Regulations for Corporate Bodies. They are schematically represented as follows:



The Management Committee also serves as the “Sustainability Steering Committee” with the performance of the corporate functions deemed necessary (see in detail section 7 below).

#### **4.4. Organisational Structure and outsourced Important Operating Functions (F.O.I.)**

##### **Organisational Structure**

The organisational structure of the Bank, described by the dedicated document “Corporate organisational chart and description of the functions (Function chart)” most recently revised with board resolution of 18 October 2018, comprises mutually coordinated Organisational Units.

The term “Organisational Unit” means a set of mutually coordinated human and material resources for the accomplishment of specific corporate goals.

Organisational Units are ordered hierarchically and are positioned at different levels of the corporate structure according to:

- the scope and the nature of their responsibilities, attributions and activities;
- the organisational complexity and the internal articulation that characterises them.

### **General Management**

General Manager

Substitute Vice General Manager

Business Vice General Manager

### **Central Functions** These comprises:

Units in the staff of the Board of Directors (Internal control departments including the Appointed Executive),

Units in the staff or reporting in line hierarchy the General Manager,

Units in the staff or reporting in line hierarchy with the Substitute Vice General Manager,

Units reporting in line hierarchy with the Business Vice General Manager

Each Organisational Unit (Department/Area/Office) has specific strategic responsibility and result responsibilities, in relation to the economic and operational goals defined for the functions and the activities under their competence.

### **Territorial Network**

Territorial Areas

The term “Territorial Area” means a grouping of distributive networks, operating on a determined territory, coordinated at decentralised level in order to valorise territorial proximity, optimise the effectiveness of the commercial action and maximise the financial and capital results.

Branch Networks

Branches are decentralised Organisational Units tasked with carrying out operating and commercial activities with clients, according to efficiency and service quality and effectiveness criteria.

Corporate Network

The Corporate Network is the set of the Corporate Managers dedicated to the commercial relationship with Corporate Clients segment to maximise each client’s risk/return ratio, seeking continuous improvement of commercial effectiveness.

Within each Area, the Corporate Network operates across the Branch Network, under the coordination and the direction of the competent Area Manager.

Private Network

The Private Network is the set of the Private Managers dedicated to the commercial relationship with the Private Clients segment to maximise each client’s risk/return ratio, seeking continuous improvement of commercial effectiveness.

Within each Area, the Private Network operates across the Branch Network, under the coordination and the direction of the competent Area Manager.

#### **Outsourced Important Operating Functions (F.O.I.)**

- Provision of “payment systems” services (e.g. document management, cheques, delegated powers, transfers)
- Full Outsourcing of Information System
- Provision of services (Application Centre, processing of electronic flows containing operating data for payment operations)
- Electronic banking (remote banking)
- Credit recovery
- Application centre services in e-money area
- Custody and Settlement Services in Italy and abroad
- Provision of services related to bonds (management of corporate/administrative events and transfer of bonds outwards)
- Transmission of data, voice, hosting disaster recovery site
- Management of the transport, escorting, custody, cash counting, delivery of valuables and private security

#### **4.5. Overall structure of the system of powers and authority of BPS**

As regards BPS, the system of powers (as far as possible in line with that of the Parent Company) is essentially characterised, at 31 December 2018, by the presence of:

- a BoD comprising 11 directors, of which 7 independent;
- an Executive Committee consisting of 3 Directors;
- a General Manager who executes the resolutions adopted by the BoD and by the Executive Committee and is the member of the top management of the operating structure, for which he/she has managerial responsibility, being *inter alia* placed in charge of the management of current business affairs and personnel.

For the introduction, starting from 1 February 2019, of the additional office of a Managing Director, see Section 13 below.

The Chairman of BPS, who is assigned a co-ordination and guarantee role for the purpose of the due functioning of the Board of Directors and the Shareholders’ Meeting, and the Vice Chairman who replaces the former in the event of his absence or unavailability, are not assigned operating powers. They are assigned the representation of the Company in dealings with third parties and before the legal authorities on the basis of the Articles of Association, acting separately. The Chairman of BPS can adopt, for reasons of particular urgency, decisions that are the responsibility of the BoD (provided that they are not reserved exclusively for this Body by law or the Articles of Association), with the



obligation to promptly disclose them to the BoD during the first available meeting. This is a procedure of an exceptional nature and it has never been used. The Chairman of BPS however has a non-executive role and does not carry out operational functions, not even de facto. The Chairman of BPS is a high-profile representative (Vice Chairman) of the Parent Company. Certain rights on cash settlements with charity purposes are reserved to the Chairman of BPS, which can be exercised within a strictly limited amount and in compliance with particularly strict business policies and procedures, especially for what concerns identification of beneficiaries and carrying out of preliminary investigations.

#### **5 – CONFLICTS OF INTEREST, TRANSACTIONS WITH RELATED PARTIES, CONNECTED PARTIES (COLLECTIVELY REFERRED TO AS “ASSOCIATED PARTIES”) AND “ARTICLE 136 OF THE CBL**

The subject of conflicts of interest with reference to the various spheres of corporate operations (disbursement of credit, investment services, etc.) is subject to a prudent approach adopted by the Banks of the Group. At present, the relevant main Internal Regulations for this matter are as follows:

- the Internal Regulations for Transactions with Associated Parties and Article 136 of the CBL of the Parent Company (as also implemented by BPS with the specific “Addendum”); the associated risk policy is integrated in the “Risk Appetite Policy”;
- the “Policy” containing the general rules for governing conflicts of Interest regarding investment services.

#### **Internal Regulations for Transactions with Associated Parties and “Article 136 of the CBL”**

This Internal Regulations, adopted pursuant to Article 2391-bis of the Italian Civil Code and Article 53 of the CBL, is primarily characterised by the existence of a Committee for Transactions with Related Parties and Associated Parties, with regard to decision-making processes. This advisory body is composed of 3 Independent Directors and is entitled to receive information and/or issue opinions, which are binding in certain cases, on transactions with related parties and associated parties as set forth, based on the quantitative and qualitative criteria established by the Consob Regulation and relevant Bank of Italy Provisions, in the Internal Procedure that – in addition to the Committee’s methods of operating – governs the various types of total or partial exceptions in relation to small amounts or ordinary transactions, as well as the membership to the Group of the counterpart in the transaction (in the absence of significant interests of other related parties and associated parties). The expected assessment to be carried out at least every three years on the need to make revisions to the Internal Procedure carried out last year yielded a negative result. Said Procedure was nonetheless

updated to take into account corporate changes (such as the Delisting of BPS) and organisational changes (such as the revision of the corporate organisational chart).

An independent annual expenditure budget of 25,000.00 Euros was assigned to the Committee for Transactions with Related Parties and Associated Parties for 2018 (and reconfirmed for 2019). In 2018, no need to use this budget was noted.

The Committee meeting minutes are duly recorded in full in the specific register and the Chairman of the Committee informs the first available Board of Directors of it.

In 2018, the Committee for Transactions with Related Parties and Associated Parties met 9 times, to collect information and/or issue opinions mainly with regard to the following:

- revision of the service agreement with Banca Popolare di Spoleto SpA;
- revision of Internal Regulations for Transactions with Related Parties and Associated Parties;
- upgrade of the commercial terms applicable to company Representatives and connected parties;
- participation in the national tax consolidation for Group taxation for the three years 2018, 2019, 2020;
- participation in the VAT Group for the three years 2019, 2020, 2021;
- Quarterly statistics of credit facilities to associated parties;
- “Tableau de Board” (Dashboard) of risks: transactions with associated parties and reconciliation with financial reporting;

The matter of Transactions with Related Parties and Associated Parties was also further discussed, at the initiative of the Committee Chairman, during an ad hoc training session for the company Representatives and the corporate front lines held on 28 June 2018 by an authoritative expert.

For more information on the adopted safeguards, refer to the entire Internal Procedure published, in compliance with the Regulations themselves, on the website [www.bancodesio.it](http://www.bancodesio.it) – in the section “La Banca/Governance/Documenti societari/Parti correlate” (The Bank/Governance/Corporate Documents/Related parties”. For a summary of the transactions relating to 2018, resolved in the aforementioned Internal Procedure, reference should be made to the financial statement disclosure and especially Part H of the Notes to the Consolidated Financial Statements.

The above also fulfils the obligation of shareholders’ meeting information required by the aforementioned supervisory regulations.

**The Policy containing the General Rules for identifying and handling Conflicts of Interest** has the aim of illustrating the guidelines that the Group has adopted for handling conflicts of interest when

providing investment services and activities, related services or a combination of these services, following the endorsement in the Italian legal system of the “MiFID” Directives.

The Parent Company has established and regularly updates a register that includes - noting the types of investment and related services concerned - the situations in which a conflict of interest has arisen, or, in the case of a service or activity underway, where a conflict of interest may emerge, which risks seriously damaging the interests of one or more customers. This register is maintained and updated by the Compliance Department and other Parent Company departments according to the Consolidated Law on Conflicts of Interest, including on behalf of Group Banks. This activity is expected to be carried out also on behalf of BPS and regularly reported to the Corporate Bodies by the Compliance Department itself.

## **6 – REMUNERATION AND INCENTIVE MECHANISMS - REMUNERATION COMMITTEE**

Criteria adopted to compensate and incentivise Group management are in line with general principles correlating these emoluments with the economic results achieved and the consistency with strategies and risk parameterisation, so as to avoid producing incentives in conflict with the interests of the Company over the long-term, as also indicated in the aforementioned Circular no. 285<sup>35</sup>.

The remuneration of Banco Desio’s General Manager and Executives with strategic responsibilities consists of a fixed portion and a variable portion, appropriately deferred in compliance with the aforementioned Circular no. 285, as better detailed in the mentioned Remuneration Report. With regard to the Parent Company’s BoD, the Articles of Association envisage that the Ordinary Shareholders’ Meeting determines the overall fee for the Directors other than the Chairman, Vice Chairmen and any Directors with operating powers or special duties; the BoD, having consulted the Board of Statutory Auditors, contributes to the determination of the fees of the latter, as well as the division between the other Directors of the overall fee established by the Shareholders’ Meeting. The division criteria also take into account appointments within the BoD and membership in the various Committees (including the offices as Secretary, if provided).

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For the BoD of BPS, there is a mechanism with basically similar guidelines to those adopted by the Parent Company.

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<sup>35</sup> Lastly, reference is made to the 25<sup>th</sup> update of Circular 285 promulgated on 13 October 2018, which achieves, in particular, conformity with the Guidelines concerning sound remuneration policies promulgated by the EBA to implement CRD4 and with other recent indications, defined internationally, on the same matter

The Remuneration Committee consists of 3 non-executive Directors, 2 of whom are independent, including the Chairman (see also Table 1 attached to the present Report). The Chairman of the Board of Statutory Auditors participates in the Committee's meetings, and other Alternate Auditors may also participate. The AISCI participates in case of remuneration involving the internal control departments and the Appointed Executive, as does the General Manager in case of appointments and remuneration involving parties included in the perimeter defined by the Consolidated Remuneration and Incentive System Code. The General Manager, each Vice General Manager and others who are in charge of relevant business areas (including internal audit) may be invited to participate in relation to the issues described above, as well as other employees/collaborators/consultant of the Bank and/or of its subsidiaries, depending upon the specific issues to be discussed.

The Remuneration Committee is an advisory/proposal-making body with the main task of: i) formulating opinions and/or proposals on the remuneration of Directors for the BoD in cases in which the decision is the responsibility of a Board Committee of the Parent Company and/or Shareholders' Meeting/Board Committee of the subsidiaries, specifically, decisions concerning Directors who have been appointed to certain offices and/or granted operating powers, as well as the General Manager and the Vice General Managers(s), as well as: ii) formulating opinions and/or proposals for the BoD regarding general policies and specific criteria for management remuneration, including at the Group level and any stock-based incentive plans. As part of the above responsibilities, the Remuneration Committee is involved in defining, assessing and monitoring retribution and incentive systems, in compliance with Circular no. 285. To formulate its opinion on the matters under its respective competence, the Appointments Committee met 10 times in 2018, and in some of the meetings, the following main topics were discussed:

- *Hiring and compensation of executives*
- *Remuneration policies – Determination of Identified Staff – Year 2018*
- *Annual report on remuneration policies*
- *Financial Advisors Project – New remuneration Policy*
- *Final accounting of the annual incentive system – additional information*

An independent annual expenditure budget of 25,000.00 Euros was assigned to the Remuneration Committee for 2018 (and reconfirmed for 2019).

The Remuneration Committee used the budget assigned for the expensing of the support contract entered into with a primary consultancy firm for the amount of 16,000 Euros + VAT (see below).

The Committee meeting minutes are duly recorded in full in the specific register and the Chairman of the Committee informs the first available Board of Directors of it.

Among the issues on which the Committee focused in particular, of note are the further studies carried out, with the support of a primary consultancy firm (selected by the Committee after carrying out a process of comparison with two other proposals), with regard to the criteria for processing

extraordinary transactions or transactions that cannot be influenced by the management for the purposes of opening the profitability gates of the aforesaid incentive system. To these further studies were dedicated the meetings of 20 September and 12 October 2018. In the context, the consultancy firm was asked to prepare, for subsequent inclusion in the Regulation of the Group Incentive Plan, an express flexibility clause, to allow - solely for the purposes of the final account of the Plan - the normalisation of the effects of transactions of this kind, so as to purify them “upstream” rather than normalising them “downstream”.

The Articles of Association of the Banks of the Group also envisage that the Ordinary Shareholders’ Meeting, in addition to establishing the above fees, approves the remuneration policies, including plans based on financial instruments and the criteria/limits for any “golden parachutes” as set out in Circular no. 285. The Shareholders’ Meeting is ensured adequate disclosure on the implementation of the remuneration policies.

For additional information on remuneration and incentive policies, refer to the Remuneration Report.

#### **6.bis – APPOINTMENTS COMMITTEE**

The Appointments Committee consists of 3 independent Directors (see also Table 1 attached to the present Report). The Chairman of the Board of Statutory Auditors participates in the Committee’s meetings, and other Statutory Auditors may also participate. The AISCI participates in case of appointments involving the internal control departments and the Appointed Executive, as does the General Manager in case of appointments involving parties included in the perimeter defined by the Consolidated Remuneration and Incentive System Code. The General Manager, each Vice General Manager and others who are in charge of relevant business areas (including internal audit) may be invited to participate in relation to the issues described above, as well as other employees/collaborators/consultants of the Bank and/or of its subsidiaries, depending upon the specific issues to be discussed.

The Appointments Committee is an advisory/proposal-making body with the main task of:

- to advise the Board of Directors in relation to the size and composition of the same and to express recommendations on the professional figures whose presence within the Board is deemed necessary, also in coherence with the Supervisory Provisions in relation to corporate governance and on the following issues:
  - indication of the maximum number of assignments as director or auditor that may be considered compatible with the effective conduct of the role of Director of the company, taking account of the participation of the directors on Committees and, to that end, identification of the general criteria differentiated on the basis of the commitment related to each role (of executive, non-executive or independent director), also in relation to the nature and dimensions of the companies in which the roles are held as well as their possible membership of the Group;

- assessment, on their merits, of any problematic circumstances for the purposes of prohibitions on competition laid down by the legal or regulatory provisions;
- to support the Board of Directors in any co-opting resolutions of Directors and in the nomination/revocation of other Bank Representatives, as well as the designation of Representatives of subsidiaries and possibly of associated and/or invested companies of strategic relevance;
- to support the Board of Directors in self-assessment activities so they are performed in compliance with the Supervisory Provisions on corporate governance as well as verification of the legal requirements in accordance with Article 26 of the Consolidated Banking Law;
- to support the Board of Directors in assessments relating to the definition of succession plans of the senior positions of the executive body provided by the cited Supervisory Provisions;
- to support the Board of Directors in resolutions relating to the nomination and revocation of the heads of the internal control departments and of the Appointed Executive, for which the Board of Directors has sole competence, liaising, to that end, with the Control and Risk Committee, with the AISCI and with the Board of Statutory Auditors.

To formulate its opinions on the matters under its respective competence, the Appointments Committee met 8 times in 2018, and in some of the meetings, the following main topics were discussed, for matters under its competence:

- *Hiring and compensation of executives*
- *Revision of the Bodies' Self-Assessment Regulations*
- *SAL Self-Assessment Process*
- *Outcome of the verification of the "Interlocking ban"*
- *Outcome of the Self-Assessment of the Bodies within the Board*
- *Increase of the number of the Directors of the subsidiary Fides SpA and consequent designation of a Representative of the General Management of the Parent Company*

An independent annual expenditure budget of 25,000.00 Euros was assigned to the Appointments Committee for 2018 (and reconfirmed for 2019). In 2018, no need to use this budget was noted.

The Committee meeting minutes are duly recorded in full in the specific register and the Chairman of the Committee informs the first available Board of Directors of it.

The new national and EU regulations and guidelines pertaining to "Fit & Proper" requirements for bank representatives were delved into also in a comparative manner by the Committee within an ad hoc meeting held on 10 June 2018. The Committee continued to monitor in particular the process of promulgation [not yet completed at the date of the present Report] of the Regulation implementing Article 26 of the CBL cited also in Section 3.2 above also in relation to the observation formulated by the ABI also with the contribution of Banco Desio.

**7 – INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM – CONTROL AND RISK COMMITTEE – EXECUTIVE APPOINTED TO DRAW UP THE ACCOUNTING DOCUMENTS AND FINANCIAL**

## **DISCLOSURE PROCESS - NON-FINANCIAL STATEMENT - DIVERSITY POLICIES - CODE OF ETHICS - WHISTLEBLOWING**

**The information in this section was provided also in accordance with Article 123-bis, section 2, letter b of the CFA**

Banks are subject to regulations on the **internal audit and risk management system** established, in particular, by supervisory regulations on banking activities and the provision of investment services, issued by the Bank of Italy and Consob implementing the CBL and the CFA. As “public interest entities”, banks are also subject to the regulations of Italian Legislative Decree no. 39/2010<sup>36</sup> governing the external auditing of accounts. In this area, the Board of Directors defines the nature and the level of the risk compatible with the strategic objectives of the issuer, including in its assessments all the risks that may become important with a view to mid/long-term sustainability of the activities of the Banco Desio Group. The Board plays a key role in the assessment of the actual operation of the internal control and risk management system that may be relevant in the aforesaid view. In the presence of relevant circumstances, the Board acquires the required information and takes all appropriate measures to protect the Group and market disclosure.

This system features a complex structure that involves all the corporate levels, with specific duties reserved for the Board of Directors, the Board of Statutory Auditors, the AISCI, the General Manager and the individual in charge of internal auditing, represented by the pro-tempore Head of the Internal Auditing Department. This Department, like the Risk Management Department<sup>37</sup>, Compliance Office and Anti-Money Laundering Office, was structured to report directly to the Board of Directors. The audit and reporting activities carried out by this Department are consistent with the specific recommendations of the Corporate Governance Code. The Parent Company outsources the functions of internal audit, risk management, compliance and anti-money laundering for BPS and Fides SpA.

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In this context, the Board of Directors established a **Control and Risk Committee** that, as shown in Table 1, is currently composed of 3 non-executive Director (the AISCI and 2 Independent Directors, including the Committee Chairman). The Chairman of the Board of Statutory Auditors, or a Standing Auditor designated by the Chairman, participates in Committee meetings (as it usually occurs), and, in any event, the other Standing Auditors may also participate. In addition, the AISCI participates as the liaison between the BoD and the other members of the above-mentioned system. The General Manager, Vice General Managers and the heads of internal auditing, risk management, compliance

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<sup>36</sup> The mentioned Italian Legislative Decree 39 was amended by Italian Legislative Decree no. 135 of 17 July 2016 (Implementation of the 2014/56/EU directive that amends directive 2006/43/EC concerning the external auditing of the annual accounts and consolidated accounts) with no significant impact for the purposes of this section.

<sup>37</sup> In 2017, the Heads of the Internal Auditing Department and the Risk Management Department took on the qualification, respectively, of “Chief Auditing Officer” and of “Chief Risk Officer”

and anti-money laundering departments may also be invited to participate, as well as other employees/contractors/consultants, depending upon the specific issues to be discussed. The Control and Risk Committee, as an internal Board committee, performs advisory/proposal-making functions and assists the BoD in its activities of supervising the proper functioning of the internal audit and risk management system, as well as assessment of the proper use of accounting standards. The Committee reports to the BoD on activities performed and the adequacy of the internal audit and risk management system through specific reports prepared every six months.

In assisting the Board of Director, the Committee also supports, with adequate investigation activities, the assessments and the decisions of the Board on the management of risks deriving from adverse events of which the Board has become aware<sup>38</sup>

Decisions taken regarding issues that fall under the BoD's responsibilities are communicated, verbally or otherwise, at the first available meeting, by the Chairman of the Committee, who normally provides a summary of the assessments of the Committee based on what is illustrated by those in charge of the above-mentioned functions (who are in any case invited to attend the discussion of these topics at the meetings of the BoD to illustrate their reports and provide any detail).

In relation to the introduction of the Non-Financial Statement (see below), the Control and Risk Committee was assigned a supervisory role for matters included in the project framework of the "Sustainability Report", as part of its consultative-proposal-making role for the purposes of the approval, by the Board of Directors, of the strategies and policies in question, and of the review of the related reporting.

During 2018, the Committee met 19 times, in its role as advisory/proposal-making body for issues regarding the internal audit and risk management. Generally, the participants in the meeting, other than the Committee members, included the Chairman of the Board of Statutory Auditors and the Head of the Internal Auditing Department, as well as the managers of the Risk Management, Compliance and Anti-Money Laundering departments. Depending on the issues to be discussed, the other Auditors, the General Manager, the Substitute Vice General Manager (Appointed Executive), as well as other Executives and/or employees and external consultants participated in individual meetings. In detail, besides the usual six-monthly reports to the BoD on the activities carried out by this Committee, the main subjects dealt with concerned, with specific reference to the internal audit and risk management system, inter alia:

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<sup>38</sup> The Corporate Governance Code also specifies that "a particularly important role within the internal audit and risk management system is normally carried out by the legal and compliance divisions, with a special reference to the supervision of the legal and non-compliance risks, including also the risk of committing criminal offences to the detriment or in the interest of the company". With regard to the legal risk, this role is carried out by the Legal Advice Department.



- the plans prepared by the internal control departments and the relevant implementation (both for Banco Desio and for the Group);
- the periodic reporting produced by the internal control departments (also in terms of the Group) especially for what concerns the so-called “Tableau de bord” sent to the Bank of Italy on a quarterly basis;
- the GACS (*Garanzia Carolarizzazione Sofferenze*, Non-performing Loans Securitisation Guarantee) and the aspects connected with its implementation;
- the AIRB Pooled Project, in terms of results achieved and organisational revision of the consortium initiative;
- (as mentioned above) the “Sustainability” Project, specifically the approval of “CSR Guidelines”, “CSR development Plan” and “2017 Sustainability statement of the Banco Desio Group - non-financial Statement in accordance with Italian Legislative Decree no. 254/16”;
- strategic evolutions in the ICT and Security fields;
- the organisational changes and FOI outsourcing;
- the revision of the Code of Ethics;
- the revision of the OMCM (General Part and Special Part);
- the revision of the Regulations for Information Flows of Corporate Bodies;
- the Operating Plan for managing the NPLs together with the related revision of the sale programme;
- the establishment of the Banco Desio VAT Group;
- the change of the business model relating to the management of the own securities portfolio;
- the Draft merger via incorporation of Banca Popolare di Spoleto in Banco Desio;
- the reply to Bank of Italy relating to the inspection on the matter of “Transparency” carried out by it at the Subsidiary Banca Popolare di Spoleto (this latter issue was discussed in a joint meeting with the Board of Statutory Auditors).

The Committee also systematically participated in joint meetings with the Board of Statutory Auditors and the Independent Auditing Firm held on the occasion of the preparation of annual and half-yearly reports.

The Committee has an independent budget for expenses of 50,000.00 Euros for 2018 (reconfirmed for 2019). In 2018, no need to use this budget was noted, since the amounts allocated by the corporate top management in support of the different initiatives carried out with reference to issues also under the Committee’s competence were deemed amply sufficient.

The Committee meeting minutes are duly recorded in full in the specific register and the Chairman of the Committee informs the first available Board of Directors of it.

The Committee is also tasked, at the Group level, with supervising sustainability matters within the

scope of its own consultative-proposal making role for the purposes of the approval by the BoD of strategies and policies on the matter (as described in detail in the final part of this section 7).

Sustainability matters were also discussed in depth by the Committee in the course of an ad hoc meeting held jointly with the Board of Statutory Auditors on 25 June 2018 (attended also by the consultancy firm that advises Banco Desio in the related projects).

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As regards the **Organisational Model pursuant to Italian Legislative Decree no. 231/2001**, which undergoes periodic maintenance, in 2017/2018, an additional project was carried out to update the Model with some newly introduced offences and with organisational changes, in addition to some initiatives directed at incorporating current “best practices” with particular reference to the revision of the SB 231 Regulations and, at the proper time, to the separation of the Code of Ethics from the Model (see above). This Model is published on the website [www.bancodesio.it](http://www.bancodesio.it) – in the section “La Banca/Governance/Documenti Societari” (The Bank/Governance/Corporate Documents).

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The attribution and the operation of the Board of Statutory Auditors in terms of **SB 231** are set out in detail in the same Regulations and consist *inter alia* of:

- constantly monitoring the effectiveness of the Model, with particular reference to its actual ability to prevent the commission of relevant offences;
- analysing the reports coming from personnel or from other parties, relating to the commission, or to the attempted commission, of predicate offences, and proposing to the competent corporate functions the adoption of penalties in accordance with the law and with the employment agreement, informing the Board of Directors;
- analysing the reports received by the Chairman of the SB 231 originating from the Whistleblowing System (see below) relating to the commission of violations as described in the Whistleblowing Regulations adopted by the Bank and proposing, informing the Board of Directors, the adoption of disciplinary or penalising measures in accordance with the law;
- coordinating with the competent corporate functions for the definition of personnel training programme in relation to the 231 regulations, also with regard to training on the Whistleblowing System;
- coordinating with the competent corporate functions (Internal Auditing, Compliance, General and Corporate Secretarial Office) to assess the adequacy of the Model and the need for its revision.

The SB 231 has independent powers of initiative and control, it also relies on the support in particular of the Internal Auditing Department in the supervisory activity and reports to the Board of Directors every six months on the activities it carries out.

The SB 231 has received from all involved functions the required reports, which indicated compliance and the adequacy of the Model, and no reports of violations of the Model have emerged. The Chairman of the SB has not received any reports from the Whistleblowing System.

The SB 231 has an independent budget for expenses of 50,000.00 Euros for 2018 (reconfirmed for 2019). During the year, the total use of the budget amounted to 13,900 Euros + VAT for training and continuing education activities and for the revision of the aforesaid Regulations.

For additional information, please refer to the Report of the Board of Statutory Auditors to the Shareholders' Meeting.

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The Group has an **internal system for reporting violations**, pursuant to Article 52-bis of the CBL, which acknowledges into the Italian legal system the provisions of Directive "CRD IV" on the so-called "**Whistle-blowing**".

The internal system for reporting infringements envisaged by the Group uses specific, autonomous and independent communication channels, separate from the normal reporting lines.

As stated, in 2018 it became necessary to revise the Regulations of the Internal System for Reporting Violations ("Whistleblowing").

In this regard, of note is the promulgation of Law no. 179 of 30 November 2017 pertaining to provisions for the protection of the authors of reports of offences or irregularities of which they became aware in the course of a public or private employment relationship. Said Law introduced, in particular, the obligation - prescribed by Article 6, Paragraph 2-*bis* Letter a and b, of Italian Legislative Decree no. 231/01 - to provide adequate information channels that allow whistleblowers to "submit, to protect of the entities' integrity, detailed reports of unlawful conducts, significant in accordance with the present Decree 231 and based on precise and consistent facts". In addition to the aforesaid regulatory intervention of a general nature, the lawmakers had already implemented the whistleblowing regulations in some specific contexts, mostly by promulgating laws transposing European regulations. Insofar as it is relevant in the banking field, the following laws are pointed out:

- Italian Legislative Decree no. 90 of 25 May 2017 transposing the Fourth Anti-money laundering Directive (Directive 2015/849/EU), whose provisions, for the first time in anti-money laundering laws, includes whistleblowing systems;

- Italian Legislative Decree no. 129 of 3 August 2017 transposing Directive 2016/1034 (EU) (MiFID II) on markets in financial instruments, which requires, *inter alia*, financial intermediaries to adopt specific procedures for the reporting of violations occurred in the course of the activities carried out, and of “market abuses”.

All this entailed a reorganisation and a further segmentation of the internal reporting channels. In addition to an existing generic channel, known as general whistleblowing regarding banking activities<sup>39</sup>, a specific anti-money laundering channel was introduced, i.e. the anti-money laundering whistleblowing channel, and one for “231” reports, the Supervisory Body (“SB”) whistleblowing channel; these latter reports refer exclusively to violations of the OMCM per Italian Legislative Decree no. 231/2001 and do not replace existing procedures and channels for the transmission of the usual mandatory reports and disclosures to the SB. The Chief Auditing Officer, as the Head of the internal violation reporting system, receives and assesses all general whistleblowing reports, except those referred to him/herself and to the Corporate Bodies (Board of Directors and Board of Statutory Auditors, as well as Supervisory Body). The Chief Auditing Officer also receives and assesses anti-money laundering reports, involving the Anti-money laundering officer, equally excepting those referred to him/herself and to the Corporate Bodies listed above. At the end of the assessment phase, the Head of the System immediately transmits in any case an information flow relating to the report and to the outcome of its assessment to the Chairman of the Board of Directors. The Chairman of the Supervisory Body of the Parent Company receives Supervisory Body whistleblowing reports and assesses them collectively with the members of the Body.

This without prejudice, in case of reports relating to the Subsidiaries, of the activities pertaining to the Parent Company’s Bodies, which involve the Bodies of the Subsidiaries for matters under their competence or for any collaboration.

The process for managing reports comprises reporting procedures and specific channels that ensure that the persons tasked with receiving, reviewing and assessing the reports are not hierarchically or functionally subordinated to the reported person, are not themselves the alleged perpetrators of the violations and do not have a potential interest related to the report which would compromise their impartiality and independence of judgment. The channels have been defined in such a way as to allow to avoid reports to persons who could be in conflict of interest situations with respect to the whistleblower, to the subject of the report or to any persons involved in the report. The internal system for reporting violations guarantees in any case the confidentiality and the protection of personal data of the persons who submits the report and of any reported person.

The new edition of the Code of Ethics was approved with a board resolution of 28 June 2018 with the involvement of the Control and Risk Committee and of the Board of Statutory Auditors.

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<sup>39</sup> Banking activities also include the “intermediary” and “issuers” fields, regulated by the Consob regulation (MiFID, MAR).

At the same time, the Bank of Italy and Consob activated specific channels dedicated to receiving Whistleblowing reports. The specific information about the reporting procedures are described on the respective websites.

After the aforesaid revision, specific training initiatives were carried out for all Group Personnel. No Whistleblowing reports were received in 2018.

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It should be recalled that in compliance with Directive 2014/59/EU - Bank Recovery and Resolution Directive and with the two Italian Legislative Decrees (Legislative Decree no. 180 and Legislative Decree No. 181) that transpose the aforesaid Directive in Italy, in 2017 the Bank prepared a **“Recovery Plan”** (hereafter also “Plan”) to address crisis situations, organically framed in the corporate risk governance logic, consistent with the Risk Appetite Framework (RAF) and based on monitoring indicators contained in the EBA Guidelines on the matter and on the selection of recovery options and procedures. The Plan is consistent with the indicated regulatory context and, in particular, it is prepared in compliance with Bank of Italy provisions, notified by it with its note of 15 February 2017 and subsequent note of 22 March 2017. The Plan was prepared considering the prudential scope of consolidation consisting of Banco Desio, Banca Popolare di Spoleto S.p.A. and Fides S.p.A.

Decisions pertaining to the approval and management of the Recovery Plan are made by the BoD as the Body with strategic supervision function.

The logical/operational process followed in the preparation of the Plan, on the basis of the indicated regulatory provisions, is structured in the following main steps:

- identifying the organisational parties involved in the preparation, approval, revision and management of the Plan in a crisis situation;
- analysing the strategic profiles, assuming as quantitative reference parameters the indicators contained in the RAF, selecting the relevant legal entity and business lines and the essential functions;
- selecting - in accordance with the RAF and in compliance with the regulatory indications - the recovery indicators;
- identifying the stress scenarios and measuring the related effects on the indicators, also for the purposes of verifying their calibration;
- identifying the recovery options and assessing the effects of their activation;
- regulating the communication forms prescribed by regulations.

The Recovery Plan shall be revised no later than April 2019.

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In relation to existing risk management and internal audit systems in the **financial disclosure process, consolidated or otherwise**, a series of disclosure, audit and intervention powers have been assigned to the Appointed Executive, which essentially involve:

- the possibility of receiving data/information from specific corporate departments; the right to carry out audits autonomously and through the Internal Auditing Department, as well as the right to request organisational changes in administrative-accounting activities;
- the possibility of participating in Board meetings that deal with administrative-accounting aspects and proposing policy and co-ordination actions vis-à-vis Group Companies (such as the appointment of their own Contact Persons in these Companies);
- the recognition of the financial autonomy of said Appointed Executive through the management of a specific annual expenditure budget.

The Articles of Association state that the BoD appoints the Appointed Executive, subject to the favourable opinion of the Board of Statutory Auditors and mandate the integrity and professional standing requirements, consistent with the current legislation for bank representatives. In particular, this party must possess specific expertise with regard to administrative-accounting matters gained, in a period of no less than three years, in positions of operating responsibility in the Company, the Group or other comparable companies or entities in terms of activities and organisational structure.

The Appointed Executive currently reports directly to the Board of Directors, while the Financial Statements and Accounting Control Office pursuant to Law 262 report directly to him and is supported directly by the Administration Division, maintaining constant supervision over the financial reporting process, to ensure the reliability and integrity of the accounting and operating information, consolidated or otherwise, with particular reference to the so-called “key accounts”.

With regard to the risk management and internal audit system in relation to the financial disclosure process, the BoD defined a specific risk control model relating to financial disclosure (“Financial Disclosure Control Model”), which is an integral part of the internal audit system at Group level. As indicated below, the main responsibilities of this model are assigned to the Appointed Executive.

The Control Model allows for the fulfilment of regulatory obligations relating to the adoption of a risk management and internal audit system for the financial disclosure process.

In this regard, the set of tasks aimed at identifying and assessing risks and controls on financial disclosure are part of the more general management process of the Control Model, which is broken down into the following phases:

- implementation;
- assessment;
- reporting.

Based on the Model's scope, which applies to the entire Group, the tasks listed above are carried out for both the Parent Company and, as far as compatible, for the Group Companies included in the scope of consolidation.

#### Phases in the Risk Management and Internal Audit System for the financial disclosure process

Within operations, Banco Desio has identified and defined the following types of financial disclosure risk, in line with its risk mapping:

- "risk of unintentional errors": the risk of material errors in the financial statements from actions unintentionally committed or omitted, resulting from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events;
- "risk of fraud": the risk of material errors in the financial statements resulting from an intentional act, committed in order to gain unjust or illegal advantages through false financial disclosure.

In addition, criteria have been established for identifying the specific significant company components, items and accounting schedules on which to focus the activities of planning, development and maintenance of administrative-accounting processes (including processes for reporting to the Parent Company by the subsidiaries for the purpose of drawing up the consolidated financial statements) as well as the phase of risk and control assessment. In particular, with regard to this phase, the assessment of risks and the effectiveness of controls are conducted in accordance with the methods defined by the Appointed Executive, shared with the Internal Auditing Department, and with support as necessary from the Parent Company's Risk Management and Compliance Department. In order to identify the approaches to assess financial disclosure risks, the Appointed Executive may avail himself of the Parent Company's operating risks management division. For the other Group Companies, the Internal Contacts of the Appointed Executive avail themselves of each Company's operating risk management division, where existing. For the specific purpose of assessing risks and controls in the disclosure system, the Appointed Executive is supported by the Organisational Processes Department as well as, where needed, the Parent Company's Internal Auditing Department. For the other Group Companies, the Internal Contacts of the Appointed Executive avail of the support of the Operating Department as well as, where needed, the Controller.

In terms of the methods used to inform top management on the Financial Disclosure Control Model, the Appointed Executive reports to the Corporate Bodies on the adequacy and effective application of this Model. In this regard, taking into account the provisions of Italian Legislative Decree no. 39/2010 on external auditing of accounts, the Appointed Executive:

- supports the Board of Statutory Auditors and the Independent Auditing Firm in assessing the correct use and homogeneity of accounting standards for the purpose of preparing the individual and consolidated financial statements;
- provides the Supervisory Body pursuant to Italian Legislative Decree 231/01 with the related certification pursuant to Article 154-bis, paragraph 5 of the CFA as well as indications when

specific critical situations are detected relating to the adequacy or operation of the financial disclosure control model;

- draws up an annual report to submit to the AISCI and the General Manager (according to their respective powers established by the Internal Regulations), subsequently transmitted to the Board of Statutory Auditors, as well as to the Control and Risk Committee and the Board of Directors.

This report contains:

- an explanation of activities carried out as well as any key critical situations found in the operation of the financial disclosure control model;
- an assessment of the significance of the risk, by proposing Group Companies considered “significant” and financial statement accounts classified as “critical”, to be analysed the following year;
- planning of activities to be carried out for the following year, also in consideration of the above points.

### Roles and functions

The responsibilities relating to the implementation and operational phases of the “Financial Disclosure Control Model”, taking into account the applicable regulatory context, which assigns specific responsibilities to the Appointed Executive, are assigned to Corporate Bodies and mainly to the Appointed Executive. For the purpose of carrying out his duties relating to preparing company accounting documents (mainly annual Financial Statements and Interim Financial Reports), the Executive is aided by the competent company officers of Banco Desio and the other Group Companies.

Operationally, the Appointed Executive, with the help of the Financial Statements and Accounting Control Office pursuant to Law 262, specifically avails himself of the support of the Administration Division and coordinates with departments of Banco Desio and Group Companies in order to receive information on the performance of activities which influence the economic, equity or financial position of Banco Desio and the other Group Companies. Specifically, the Appointed Executive:

- interfaces with the Parent Company’s Organisational Processes Department in order to verify that the administrative-accounting processes are formalised in specific organisational procedures, requesting specific supporting documentation from the Division;
- has the right to request specific certifications from the Organisational Processes Department regarding:
  - o the correct operation of company infrastructures and applications used to acquire, process and represent administrative-accounting information;
  - o the existence of adequate procedures to guarantee the protection of company informational assets, also with regard to outsourced IT processes.
- promptly acquires information on planned activities and the subsequent results of activities carried out by the Parent Company’s Internal Auditing Department, and may avail himself of the support of this Department in carrying out his controls;



- has the right to request the Risk Management Department to carry out additional analysis and assessment of risks in administrative-accounting processes he identifies periodically when selecting “key accounts”;
- may request the Compliance Department to provide consulting for the assessment and management of compliance risk as well as for any corrective actions to be implemented;
- for the purpose of transmitting the certifications/declarations to the market (with specific regard to the annual, half-year and quarterly financial statements), requests that the “Parent Company’s Process Managers” issue specific internal certifications, or may assign said internal structures to carry out specific audit activities for the purpose of verifying the correct performance of administrative-accounting processes. As proof to support the certification and audit activities, the Appointed Executive may acquire specific internal documentation and/or reports from the business structures involved.

For Group Companies, the Appointed Executive interfaces with the Contacts specifically identified for each Company (Internal Contacts of the Appointed Executive) on the reporting flows to acquire in order to ensure the regular preparation of the (annual, half-yearly and quarterly) Consolidated Financial Report, as well as of the non-financial statement (see below). Operationally, he receives specific certifications from his Contacts containing, at a minimum, the following information:

- assessment of the adequacy and effective application of administrative-accounting procedures, with specific reference to controls implemented to mitigate the main risks;
- assessment of the adequacy of controls and, more generally, of the organisational safeguards on financial disclosure established at company level;
- correspondence of the equity, economic and financial data and additional information provided for preparing the annual and half-year financial report with the accounting books and records;
- compliance of the accounting documents with the applicable international accounting standards;
- any critical situations, risks and uncertainties arising from the audits performed, as well as the related action plan.

### **Non-Financial Statement (Sustainability Report)**

We reference the provisions of Italian Legislative Decree no. 254 of 30 December 2016 (the “Decree”) implementing Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. From the financial years starting from 1 January 2017, the Decree introduced new transparency obligations in line with the aforementioned ECU provisions, both specifying the scope of these obligations (scope of the new obligations, content and procedures for publishing the non-financial statement, responsibilities of corporate bodies and of the independent auditor in the process of drafting and checking the statement) and implementing the specific regulatory options left to the member States.

Scope

The new transparency regime introduced by the Decree entails the obligation for companies or groups to prepare and publish, for each year, a “non-financial statement” (hereafter, “NFS”) that covers, “to the extent necessary to ensure understanding of the enterprise activity, of its performance, of its results and of the impact caused thereby, ... the environmental and social matters and issues related to personnel, human rights, combating active and passive bribery, which are significant taking into account the activities and characteristics of the company...” (Article 3, Paragraph 1). Parties obligated to publish the NFS are public interest entities: “relevant public interest entities” (or “RPIE”). In this regard, it should be remembered that, in accordance with Article 16 of Italian Legislative Decree no. 39/2010, the banks are included in the definition of “public interest entity”.

#### Content of the NFS

To fulfil the general obligation set out above, Article 3, Paragraph 1, of the Decree (as amended by Italian Law no. 145/2018) provides some additional indications that allow the necessary content of the NFS to be identified. In the first place, the information elements are indicated through which it is possible to assure that the enterprise activity is understood, which consist “at least” of the description: i) of the main risks, including the procedures for their management generated or incurred, in connection with socio-environmental issues and deriving from the enterprise activity or from products and services provided by it; ii) of the organisational and management model of the company, including the corporate models for preventing offences adopted in accordance with Italian Legislative Decree 231/2001, which are relevant in the management of the socio-environmental issues indicated by the decree; iii) of the policies applied by the enterprise for the management of the impacts of the entrepreneurial activity within the non-financial areas referenced above and the results achieved by the implementation of these policies (Article 3, Paragraph 1, Letters from a) to c). In the second place, a significant - or “materiality” - criterion is expressly provided, for the selection of the information to be provided in the NFS with regard to all the profiles referenced above.

#### Consolidated non-financial statement

RPIEs that are “parent companies” of a large group shall publish a consolidated non-financial statement (Article 4). Mirroring the obligation for parent companies to publish the consolidated NFS is the provision that exonerates a RPIE (like Banca Popolare di Spoleto) from the obligation to prepare the individual or consolidated NFS when such entity is included in the consolidated NFS prepared by another parent company that prepares the statement in any case (Article 6).

#### Procedure for the publication of the non-financial statement

With regard to the publication procedure, Article 5 of the decree provides that the NFS may:

- i) be included in a specific section of the report on operations; this section shall be expressly “marked” in this sense;

ii) be contained in a distinct report, subject to the obligation to mark it in any case as a non-financial statement.

Banco Desio adopted the option of (a) producing a separate Group document, consistently with the prevailing indication pertaining to the publication of sustainability reports by listed companies and more in particular by the main Italian banking groups and (b) to make use of the exemption provided for Banca Popolare di Spoleto (Article 6, Paragraph 1), which thus will not prepare an individual NFS because it is included in the consolidated NFS of the Banco Desio Group.

#### Tasks of the party appointed to audit the financial statements

Article 3, Paragraph 10, of the Decree establishes that the party appointed to audit the financial statements shall verify the preparation by the management body of the non-financial statement, disclosing it in a separate section of the audit report (issued under Article 14 of Italian Legislative Decree no. 39/2010).

The same party is appointed to express with a dedicated report, distinct from that of the auditor, a certification of the compliance of the information provided with respect to the requirements of Italian Legislative Decree no. 254/2016 and with respect to the principles, methodologies and procedures prescribed in Paragraph 3 of Article 3 of the same Italian Legislative Decree.

#### Sustainability governance structure

Banco Desio has adopted the sustainability governance structure which, taking into account the affinity/synergy with the current powers of the Control and Risk Committee related to the supervision of the internal audit and risk management system as well as on the correct utilisation of the accounting standards, entails, *inter alia*, assigning to the same Committee the supervision of sustainability issues:

Level	Body/Function	Duties/Activities
Strategic Governance	Board of Directors	Approval of strategies, policies and reporting relating to sustainability matters (environmental, social, etc.)
	Control and Risk Committee	Supervision of the aforesaid sustainability matters within the scope of its own consultative-proposal making role for the purposes of the approval by the BoD of strategies and policies on the matter, and of the review of the related reporting
Management Level	“Sustainability Steering Committee” identified in the Management Committee with the involvement, depending on the reported matters, of the specific Departments/Functions	<ul style="list-style-type: none"> <li>▪ Definition and proposal of the strategic lines and of the sustainability targets</li> <li>▪ Approval of sustainability activities</li> <li>▪ Sharing sustainability reports</li> </ul>
Operational / tactical level	All the corporate functions of the parent company and of the subsidiaries	<ul style="list-style-type: none"> <li>▪ Based on the plan defined by the Steering Committee, development of the concrete and operating activities to be planned during the year within the Banco Desio Group</li> <li>▪ At different levels, responsible for the collection, validation and transmission of the information to be included in the sustainability reports</li> </ul>

<b>Level</b>	<b>Body/Function</b>	<b>Duties/Activities</b>
Communication	Internal and external communication (Resources Department and External Relations Department)	Definition of communication activities/initiatives (in addition to the sustainability report) informing both internal and external interlocutors about the results of the activities
Coordination	Appointed Executive / Financial Statements and Accounting Control Office pursuant to Law 262	Sustainability coordination function

### **Diversity policies**

Article 10 of the Decree introduces the obligation to add in the present Report “a description of the diversity policies applied in relation to the membership of the administration, management and control bodies with regard to aspects such as age, gender and education and professional experience, as well as a description of the objectives, of the implementation procedures and of the results of such policies.”

In this regard, the practices adopted by the Banco Desio Group are consistent both with the aforementioned law provisions with regard to gender quotas (Law 120/2011), and with the Supervisory Provisions on the composition of the Corporate Bodies which require “an adequate degree of diversification in terms, inter alia, of competencies, experience, age, gender, international projection”. This aspect, pertaining specifically to the areas of competence of the Appointments Committee, is analysed in the self-assessment process per Section 3.6 above, taking into account the operational and dimensional complexity of the company. The aforesaid practices were formalised in a dedicated policy which, also consistently with the indications of the Italian Corporate Governance Committee<sup>40</sup>, was adopted with the board resolution of 28 February 2019, taking into account the aforementioned EBA/ESMA Guidelines in force since 30 June 2018. The matter is treated in connection with the broader project activities started within the scope of “Corporate Social Responsibility” (“CSR”) in relation to the aforesaid NFS<sup>41</sup>.

### **Code of Ethics**

<sup>40</sup> Annual report on the implementation of the Corporate Governance Code – December 2017 (page 25-26)

<sup>41</sup> It is specified that the diversity policy is applied starting from the time of renewal of the corporate Bodies of the Group companies whose mandates expire with the approval of the financial statements for the year ended on 31 December 2019 (therefore, the renewal of the Board of Statutory Auditors of Fides SpA whose mandate expires with the approval of the financial statement for the year ended on 31 December 2018 is outside the scope of the policy).

As provided in the project pertaining to sustainability issues, developed in the context of the introduction of the NFS, the path towards systematising the Code of Ethics continued with the inclusion of the provisions of the Guidelines for Corporate Social Responsibility (CRS) approved with the Board resolution of 27 February 2018 concerning in particular:

- relations with local communities;
- human rights and personnel matter, as well as diversity and equal opportunity;
- culture of legality;
- environmental responsibility;
- sustainable investments;
- relations with public institutions.

Since these issues are developed at the Group level, and the NFS is prepared at the Group level as well, it was deemed consistent for the Code of Ethics to be for all intents and purposes a Group document, based on values expressed by Banco Desio in its leading role as Parent Company and shared by all the other legal entities through the approval/transposition of the document by the respective Boards of Directors.

With respect to the formulation followed so far the ethical-social and environmental aspects achieved a weight equal at least to the juridical-economic aspects in the structure of the document.

It was deemed useful to dedicate a specific Section to the issue of “sexual harassment”.

In addition, a channel dedicated to the reports of violations of the Code of Ethics was identified that is distinct from the Whistleblowing system (dedicated to the reports of violations of the rules governing banking activities), while sharing some essential elements with it (refusal of anonymity, protection of the whistleblower, etc.). This channel is overseen by the Resources Department.

The new edition of the Code of Ethics was approved with a board resolution of 28 June 2018 with the involvement of the Control and Risk Committee and of the Board of Statutory Auditors.

## **8 - CORPORATE INFORMATION**

Governance of corporate information is formalised in the Corporate Information Procedure, containing, inter alia, the procedures for calling the Board of Directors and the Committees, for the provision of documentation on items on the agenda and the related confidentiality restrictions (also see previous section 1), as well as the discipline of the register of parties who, within the Group, have access to privileged information which is still confidential. In turn, BPS has adopted a similar Procedure.

The Procedure was updated on 23 June 2016 as part of the adaptation measures to the new European regulations on market abuse entered into force on 3 July 2016 (in particular, to Regulation (EU) No. 596/2014 or “MAR”) and most recently on 21 December 2017 to transpose the Guidelines issued by Consob on this matter. The new provisions significantly changed important aspects of the previously existing regulatory framework by widening the obligations of issuers for what concerns among other things:

the disclosure to the public of the privileged information and the possible delay of the communication itself, in the presence of well-defined conditions, resulting in the activation of a process that also includes a notification to Consob;

- the keeping of the so-called “Insider Register” with more stringent timing/methods;
- the disclosure to the public of transactions on financial instruments issued by company representatives and by persons closely related to them (known as “internal dealing”), likewise with more stringent timing/methods;
- the (newly introduced) prohibition for such entities to carry out transactions within 30 days prior to the publication of annual and half-yearly accounting data (known as “closed period”);
- the identification of the Inside Information Management Function (“FGIP”);
- the establishment of the “Relevant Information List” (“RIL”).

The FGIP was identified as the Substitute Vice General Manager, who for this purpose relies on the operational support of the General and Corporate Secretarial Office.

Note that, in 2018, some “internal dealing” transactions were reported and disclosed for a total value of approximately 134,488.50 Euros.

Banco Desio, like BPS as well inasmuch as it is applicable to Issuers of Widely Distributed Securities, makes available all the corporate documentation which must be made public by law/regulations on its own website in full.

For the purposes of completeness, note that on 29 January 2013, pursuant to Article 3 of Consob Resolution no. 18079 of 20 January 2012, the Board of Directors resolved to adhere to the “opt-out” regime envisaged by Articles 70, paragraph 8, and 71 paragraph 1-bis of Consob Regulation no. 11971/99, taking advantage of the right to deviate from publishing obligations for disclosure documents described in Attachment 3B of the above-mentioned Consob Regulation, in the event of significant transactions involving mergers, spin-offs, share capital increases through in-kind contribution of assets, acquisitions and disposals. Vice versa, BPS did not avail itself of this right in turn.

## **9 - BOARD OF STATUTORY AUDITORS**

**The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFA and articles 144-octies and 144-novies of the Issuers’ Regulation and reflects (unless otherwise specified) the situation as at 31 December 2018.**

Banco Desio's Board of Statutory Auditors in office was also appointed by the shareholders' meeting held on 6 April 2017 with the list voting mechanism illustrated in the previous paragraph 2.1.I), and falls from office as of the date of approval of the financial statements as at 31 December 2019; its composition is illustrated in attached Table 2. In the case at hand, a single list was submitted by the majority shareholder.

In addition to the integrity and independence requirements and the causes of ineligibility envisaged by special legislation and by the Corporate Governance Code for listed banks, the Statutory Auditors must meet – on penalty of forfeiture – the following professional standing requirements: at least one Standing Auditor and one Alternate Auditor (and, in any event, the Chairman) must be enrolled in the register of chartered accountants; those who do not meet this requisite must have gained specific experience in the activities and the sectors indicated in the Articles of Association. The satisfaction of requirements is verified by means of the “supervisory” procedure described by the BoD and, in implementation of a specific recommendation of the Corporate Governance Code, the Board carries out a specific check on the observance of the aforementioned requirements. All the Statutory Auditors have been chosen from among those enrolled in the register of chartered accountants and are independent on the basis of both the CFA and the Corporate Governance Code (with the exception of the criteria of “nine years” permanence on the Board of Statutory Auditors which, due to the reasons already mentioned for the Directors in compliance with the resolution adopting the Code adopted on 22 February 2007, is not, however considered in itself an indication of non-compliance with the independence requirement).

The lists of the other offices held by the Statutory Auditors, pursuant to Article 2400 of the Italian Civil Code and Article 148-bis of the CFA, are published in the prescribed methods and timeframes, together with the information on the personal and professional characteristics of the Statutory Auditors (published upon submission of the lists for the renewal of Corporate offices, in compliance with governing Consob provisions). Their “curricula” are also available on the website [www.bancodesio.it](http://www.bancodesio.it) in the section “La Banca/Governance/Corporate Governance/Collegio Sindacale” (The Bank/Governance/Corporate Governance/Board of Statutory Auditors). The Internal Regulations of the Italian Subsidiary Banks include a general limit on the accumulation of the offices of statutory auditor, by virtue of which these Statutory Auditors cannot undertake this office when they already cover the office of member of the audit body in five listed or supervised companies, in cases where the “interlocking ban” does not apply pursuant to Article 36 of Italian Law no. 214/2011; it is also established that the Statutory Auditors cannot undertake offices in bodies other than the Board of Statutory Auditors within other Group Companies, as well as with companies in which Banco Desio directly or indirectly holds a strategic investment <sup>42</sup>.

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<sup>42</sup> As indicated by the aforementioned Circular No. 285, “strategic” for such purposes is understood to mean the equity investment that is equal to at least 10% of the share capital or the voting rights during ordinary Shareholders’ Meetings of the investee company and 5% of the consolidated regulatory capital of the Banking Group.

As previously stated, the Board of Statutory Auditors of Banco Desio, like those of BPS and Fides SpA, perform the functions of SB 231. During 2018, Banco Desio's Statutory Auditors held a total of 63 collective meetings (of which 17 as SB 231), in some cases joint with other Bodies of the Group, and inspections at the head offices or the branches. The activities of the Statutory Auditors with reference to participation in the meetings of the Corporate Bodies are likewise summarised in Table 2 containing, among other things, information on the average duration of the meetings; the other appointments covered by the statutory auditors in subsidiary, associated and investee companies or in listed and/or supervised companies are shown in Table 3.

The remuneration of the Auditors is commensurate with the commitment required, the importance of the position held as well as the dimensional and sectoral characteristics of the Banco Desio Group companies.

The Board of Statutory Auditors performed its self-assessment process using the same method already adopted by the Board of Directors (see section 3.6 above), from which a positive judgment emerged.

For the diversity policies of the members of the Control Body, please refer to Section 7 where such policies are understood to refer to all Corporate Bodies.

## **10 – RELATIONS WITH SHAREHOLDERS – FUNCTIONING OF THE GENERAL SHAREHOLDERS' MEETING**

**The information in this section has been provided in accordance with Article 123-bis, section 2, letter c of the CFA**

As indicated in section 8, Banco Desio publishes the documentation of interest to its shareholders on its website, with particular reference to that pertaining to the exercise of their rights (attendance and voting, dividends, etc.), as managed by the General and Corporate Secretarial Office, which is on the staff of the General Manager. Specifically, the notice of call for Banco Desio's Shareholders' Meeting is published, within the legal deadlines differentiated according to the issues on the agenda, on the website [www.bancodesio.it](http://www.bancodesio.it) – in the section “La Banca/Governance/Corporate Governance/Assemblea” (The Bank/Governance/Corporate Governance/Shareholders' meeting), and concurrently in the national press.

The notice of call contains indications on methods for exercising the right to attend and vote, as summarised below.



Pursuant to Article 83-sexies of Italian Legislative Decree no. 58/98 (CFA) and Article 10 of the Articles of Association, parties holding the right to vote who have sent the Company a notification issued by an authorised intermediary based on the evidence in its accounting records at the end of the seventh trading day prior to the date set for the Shareholders' Meeting on first call may participate in the Shareholders' Meeting, or be represented according to the methods set forth by law. Those who are shown to hold shares only following this date shall not have the right to participate or vote in the Shareholders' Meeting.

Each party entitled to participate in the Shareholders' Meeting may be represented according to the methods set forth by law, without Articles of Association exceptions or limitations, by way of written proxy, as explained in detail in the notice of call for the Shareholders' Meeting.

The Board of Directors is entitled to establish, as and when, whether the proxy may be granted to a Designated Representative of the Company as defined by Article 135-undecies of Italian Legislative Decree no. 58/98, without cost to the shareholder, with voting instructions for all or some of the proposed agenda items.

Pursuant to Article 127-ter of Italian Legislative Decree no. 58/98, shareholders may ask questions about the agenda items, including prior to the Shareholders' Meeting, as explained in detail in the notice of call for the Shareholders' Meeting.

Pursuant to Article 126-bis of Italian Legislative Decree no. 58/98, shareholders who, including jointly, represent at least one-fortieth of the share capital with voting rights may request items be added to the agenda, indicating the additional issues proposed in their request, as explained in detail in the notice of call for the Shareholders' Meeting.

The General Shareholders' Meeting Regulations, which discipline the business of the meetings, including to the extent applicable the Special Savings' Shareholders' Meeting, aim to ensure the orderly participation of those entitled to attend, in line with the indications that emerged from the work carried out originally care of the pertinent Trade Associations. The underlying criteria that inspired the drafting of the Regulations was to guarantee a certain discretion in the powers of the Chair, albeit in observance of legal and Articles of Association provisions, aimed at permitting appropriate flexibility in handling the general meeting business and ensuring the exercise of the rights of the shareholders, in particular the right to take part in the discussion, also with the faculty to reply. The provisions strictly pertaining to the undertaking of the Chair of the Meeting, the right to attend, personally or via proxy, the right to vote and the resolutions adopted by the meeting, remain disciplined by the Articles of Association, which furthermore do not envisage departures from legal regulations.

The minutes of the Banco Desio Shareholders' Meetings are taken by a Notary, including for Ordinary Shareholders' Meetings. In 2018, an Ordinary Shareholders' Meeting of Banco Desio was held to approve the financial statements as at 31 December 2017 (27 March 2018).

As regards the Special Savings Shareholders' Meeting, refer to section 11 below.

## **11 – SAVINGS SHARES – SPECIAL SHAREHOLDERS' MEETINGS – COMMON REPRESENTATIVE**

**The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFA**

The characteristics of Banco Desio savings shares are indicated in the previous section 2 to which reference should be made. With regard to the organisational aspects of this category, the Articles of Association discipline the procedures for the disclosure to the Common Representative of potentially price sensitive transactions for savings shares, establishing that the Common Representative's fee may be paid by the Company through an Ordinary Shareholders' Meeting resolution and assigns the Common Representative management of the expense account to protect the category's interests, with the obligation to report to the Special Shareholders' Meeting. With regard to the Special Shareholders' Meeting, in addition to the appointment and activity requirements for the Common Representative, the Articles of Association refers to the law. The Special Shareholders' Meeting, held on 6 April 2017, resolved:

- subject to reporting on the activities carried out, the appointment of Mr. Francesco Foti as Common Representative for three accounting periods, with allocation of an annual fee of 10,000 Euros, inclusive of the lump-sum reimbursement of costs for fulfilling his duties and net of VAT and welfare contributions;
- establishment of a fund for the expenses necessary to protect the common interest for an amount equivalent to the fee due to the Common Representative, formally acknowledging that the recourse on the profits due to the savings shareholders exceeding the minimum guaranteed by the Articles of Association as envisaged by law, does not take place if the Ordinary Shareholders' Meeting resolves to assume the fee due to the Common Representative, to be paid by Banco Desio (resolution that was then adopted by the Ordinary Shareholders' Meeting held on the same date);
- to establish that the Common Representative must provide account of the use of the fund and, in any event, any costs incurred, as well as, in general, activities carried out, during the first Special Shareholders' Meeting called to resolve on the appointment to the office.

As envisaged in the Articles of Association, Banco Desio, as a rule via the General Secretariat and Corporate Affairs Department, promptly informs the Common Representative of price sensitive corporate transactions, usually via the forwarding of press releases and any other documentation

made public by law. Thus far, no resolutions that are detrimental to the rights of the category, such that they would require the approval of the Special Shareholders' Meeting have been adopted by Banco Desio's Bodies.

## **12 - INDEPENDENT AUDITING FIRM**

The company appointed to audit the accounts in accordance with the law is Deloitte & Touche S.p.A. with registered office in Milan. Upon the proposal of the Board of Statutory Auditors, the assignment was granted by the Shareholders' Meeting of 26 April 2012, with the total duration until the approval of the 2020 financial statements as at 31 December 2020. The agreed compensation is stated in dedicated comment notes contained in the Notes to the Consolidated Financial Statements and to the separate Financial Statements. The person appointed to conduct the audit is Mr. Maurizio Ferrero. The same company is appointed to audit, in accordance with the law, all Italian subsidiaries and the parent company, as well as to express with a dedicated report, distinct from that of the auditor, a certification of the compliance of the information provided in the Group's sustainability statement with respect to the requirements of Italian Legislative Decree no. 254/2016 and with respect to the principles, methodologies and procedures prescribed in Paragraph 3 of Article 3 of the same Legislative Decree.

## **13 - CHANGES AFTER THE END OF THE ACCOUNTING PERIOD**

Between the date of the end of the last accounting period (31 December 2018) and the below-indicated date of approval of this Report, no significant changes took place with respect to those illustrated in the previous sections, with the exception of the appointment of a Managing Director of the subsidiary BPS in the person of the General Manager of Banco Desio (Angelo Antoniazzi) starting from 1 February 2019 (in consideration of the draft merger via incorporation of BPS in Banco Desio resolved by the respective Boards of Directors on 11 December 2018 and in order to allow the most efficient oversight of the preparatory activities for the completion of the project and the harmonisation of the two legal entities).

## **14 - CONSIDERATIONS ON THE LETTER BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE ADDRESSED TO THE ISSUERS<sup>43</sup>**

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<sup>43</sup> The Corporate Governance Committee, established by Associations of businesses and of professional investors, as well as by Borsa Italiana, approves, in accordance with the Corporate Governance Code for Listed Companies, an annual Report on the application of the Code itself. The purpose of the aforementioned letter and of the Report attached therewith is to highlight the monitoring carried out by the Committee and stress the main critical issues noted, to promote ever more aware enforcement of the Code by the Issuers that have

The recommendations formulated in this letter relating to last year were brought to the attention of the Board of Directors and of the Board of Statutory Auditors on 11 January 2018. The recommendations were also considered for the self-assessment process.

The recommendations already discussed in the respective sections of this Report, to which reference is made, pertained mainly to three areas of attention:

- completeness and usability of the pre-Board meeting disclosure (Section 3.3)
- determination of the remuneration policies, succession plans (Section 6 and Section 3.8)
- establishment of an appointment committee (Section 6.bis).

Therefore, with its letter of 21 December 2019 addressed to the Issuers, brought to the attention of the Chairman and of the Vice Chairman of the Board of Directors and of the Chairman of the Board of Statutory Auditors and analysed by the Independent Directors on the occasion of the preparation of the present Report, the Corporate Governance Committee, in light of the results for the 2018 Report and of the analysis of the Issuers' behaviours on the issues set forth in the letter of 2017, this year identified four main areas on which to urge not only the administrative body, but also, for matters under its competence, the auditing body, to a better and more substantial application of the best practice recommended by the Code.

For the related examination in relation to the position of Banco Desio, refer in full to the attached table **(ATTACHMENT C)**.

Desio, 28 February 2019

On behalf of the Board of Directors  
The Chairman  
(Mr. Stefano Lado)

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adopted it and, more in general, to promote the evolution of the corporate governance by all Italian listed companies according to the principles of the Code, regardless of their formal adoption thereof.

## **INDEPENDENT DIRECTORS' ASSESSMENT**

On 30 January 2019 and - in continuation - on 26 February 2019, the following Independent Directors of Banco di Desio e della Brianza SpA met:

- Gerolamo PELLICANO'
- Cristina FINOCCHI MAHNE
- Gigliola ZECCHI BALSAMO
- Marina BROGI
- Nicolò DUBINI

The meeting was called pursuant to Article 2.10 of the Corporate Bodies' Internal Regulation, in fulfilment of the provisions of the Corporate Governance Code for Listed Companies.

During the meeting, the Independent Directors expressed, inter alia, a positive assessment on the following aspects:

- the procedures for the conduct of board meetings, with particular reference to the frequency and the duration of the meetings and the depth of the discussions, in which Independent Directors participate in a particularly active manner, contributing to the internal debate and thereby fully performing their duties; and the role of the Chairman, who has full independence of judgment and regulates board debates, providing for the proper balance between the Directors' proposals and his/her own proposals, assuring that the debate is free and allowing everyone to express his/her viewpoint;
- the training initiatives suggested also by the Independent Directors and directed at updating, in an increasingly structured way, knowledge about the business sector, the corporate dynamics and their evolutions, correct risk management principles and the reference regulatory framework;
- the progressive evolution on "ESG" (Environmental, Social, Governance) factors, already started by the Group last year, which translated its concrete commitment within a specific sustainability development plan, with the hope for ever closer integration within the Board of Directors of the process for the definition of the sustainability goals with the process for the adoption of the business strategies;
- the upgrade of the credit granting and monitoring processes also on the basis of the projects involving the new AIRB models and, in this context, on the separation of the authority to grant credit from that of commercial development; this, confirming a cultural evolution of the Group towards a management approach that is also prospective in the relations with customers, supported to an ever greater extent with the application of the related assessment procedures (also further delved into in the course of the numerous induction sessions organised on the related issues). The independent Directors also hope that the necessary evolution of the competencies of the resources dedicated to these activities will continue.
- the Draft merger via incorporation of Banca Popolare di Spoleto in Banco Desio, which will allow to obtain significant benefits in terms of cost and revenue synergies setting the premises for the

redefinition of the local market presence through the rationalisation of the sales network, safeguarding the valorisation of the “BPS” brand in the Umbria region.

The Independent Directors acknowledge the analysis carried out, upon examining the Annual Corporate Governance Report, of the recommendations formulated most recently to the Issuers by the Italian Corporate Governance Committee in the following four areas: (i) pre-board meeting disclosure, (ii) independence criteria recommended by the Code, (iii), board review activities, (iv) remuneration policies. These areas were also considered during the self-assessment process of the Board of Directors (whose outcome is summarised in Annex B) and are represented in Annex C in reconciliation with the text of the Annual Corporate Governance Report.

Upon reviewing in detail the Annual Corporate Governance Report, an equally positive assessment is expressed thereon.

**Gerolamo Pellicanò**

**Cristina Finocchi Mahne**

**Gigliola Zecchi Balsamo**

**Marina Brogi**

**Nicolò Dubini**

**OUTCOME OF THE SELF-ASSESSMENT PROCESS OF THE BOARD OF DIRECTORS**

The subject of the self-assessment is the Board of Directors and, *inter alia*, the operation of the following Committees within the Board is reviewed:

- Executive Committee
- Control and Risk Committee
- Appointments Committee
- Remuneration Committee
- Committee for Transactions with Related Parties and Associated Parties

In conclusion, the Board of Directors deems that, for all analysed aspects with reference to the Administrative Body and to the Committees established within it, the self-assessment is concluded with a substantially positive judgement of validity. They are always able to make well-informed decisions, consistent with principles of sound and prudent management.

The above without prejudice to the fact that all the aspects considered in the self-assessment will continue to be monitored in relation to the development of the regulatory context of the financial sector and/or operations of the Banco Desio Group.

RECOMMENDATION OF THE ITALIAN CORPORATE GOVERNANCE COMMITTEE	Comments of the Italian Corporate Governance Committee	Corporate Governance Report Banco Desio for the year 2017	Corporate Governance Report Banco Desio for the year 2018
<p><b>RECOMMENDATION 1</b> The Committee invites the boards of directors to express an <b>explicit assessment of the adequacy of the pre-board meeting disclosure</b> received during the year. In particular, the <b>Chairmen</b> of the boards of directors are invited to <b>promote the assessment activity</b> and to ensure that the <b>confidentiality needs are safeguarded without compromising the adequacy and timeliness</b> of the information flows that precede board meetings.</p>	<p>A first critical area pertains to the pre-board meeting disclosure which, while it is progressively improving, is still a critical issue for the governance of many issuers. This emerges both from the qualitative analysis of the information provided by the issuers on the concrete application of the best practices recommended by the Code, and from the requests submitted by the directors upon self-assessment.</p> <p>In approximately half of the issuers, full transparency is not assured about the adoption of procedures directed at assuring adequate and timely information of all directors or no information is provided about actual compliance with them. Moreover, approximately one quarter of the listed companies does not apply these procedures when the disclosure is confidential in nature, nor does it provide alternative rules that assure, in such cases, a timely disclosure to the board.</p>	<p>In accordance with the provisions of the Articles of Association and the Corporate Information Procedure, the Chairman calls the BoD meetings by means of a notice that contains the list of issues to be discussed at least 5 days in advance. The documentation relating to the matters on the agenda is made available to Directors and Statutory Auditors, by means of a dedicated IT platform, through an e-mail generally sent <b>at least 3 days in advance (7 days for the previous meeting’s minutes)</b>. The documents not transmitted within 48 hours prior to the meeting (typically those that are “price sensitive” in order to maximise the protection of privileged information as a precaution against any possible form of IT violation by third parties) are made available for consultation at the General and Corporate Secretary’s Office starting from the morning of the day prior to the same meeting. <b>The Board of Directors deems this advance generally reasonable and observed.</b> Especially for particularly complex documents, the provision is made prior to the above-mentioned minimum terms and sometimes prior to sending the notice of call. In any case, without prejudice to possible cases of “price sensitivity”, adequate in-depth analyses are made during the meetings if it was not possible to provide the documents in question early enough in order to ensure their confidentiality or for other reasons of opportunity/urgency. Confidentiality restrictions regarding the documentation and information subject to Board resolution are decreed – consistent with the mentioned market abuse regulations – also by the Corporate Information Procedure, for Directors, Statutory Auditors, external auditors and all employees who enter into possession of potentially price sensitive documentation and information.</p>	<p>Unchanged since the previous Corporate Governance Report</p>



<p style="text-align: center;"><b>RECOMMENDATION OF THE ITALIAN CORPORATE GOVERNANCE COMMITTEE</b></p>	<p style="text-align: center;"><b>Comments of the Italian Corporate Governance Committee</b></p>	<p style="text-align: center;"><b>Corporate Governance Report Banco Desio for the year 2017</b></p>	<p style="text-align: center;"><b>Corporate Governance Report Banco Desio for the year 2018</b></p>
<p><b>RECOMMENDATION 2</b> The Committee invites the management bodies to <b>apply with more rigour the independence criteria</b> defined by the Code and the <b>audit bodies to watch over the correct application of these criteria</b>: the Committee stresses that the cases of missed application should be an exception and, above all, be the subject of in-depth assessment at the individual level, with reference to the individual directors’ situations, and the subject of comprehensive explanation in the corporate governance report.</p>	<p>The second critical area continues to pertain to the concrete and full application of the independence criteria recommended by the Code. The data collected in 2018 indicate that there is still a significant number of critical issues in the qualification of independent directors and the poor quality of the information provided by the issuers in case of missed application of one or more criteria indicated by the Code. Moreover, although this is expressly recommended by the Code, corporate governance reports rarely offer <b>information about the assessment of the materiality of the relations</b> that could be of relevance for the purposes of a correct application of the independence criteria. In view of the importance attributed by the Code and by the regulatory framework to independent directors in the board’s decision-making process on matters of particular relevance and sensitivity, the Committee observes that a less rigorous application of the criteria indicated by the Code can significantly affect the effectiveness and adequacy of the governance systems.</p>	<p>The Directors, by virtue of said evaluations and checks performed in 2018 and also confirmed during the approval of this Report, who currently meet the independence requisites (all in accordance with both the CFA and the Corporate Governance Code, with the exception of the aforementioned “nine year” criterion) are listed below:</p> <ul style="list-style-type: none"> <li>• Gerolamo Pellicanò</li> <li>• Cristina Finocchi Mahne</li> <li>• Gigliola Zecchi Balsamo</li> <li>• Marina Brogi</li> <li>• Nicolò Dubini</li> </ul> <p>TABLE 4 – Summary of compliance with the individual provisions of the Corporate Governance Code for listed companies Of the 12 Banco Desio Directors in office, 5 are qualified as Independent, according to the specific provisions of Articles 147-ter and 148 of the CFA and the standards of the Corporate Governance Code (the only exception is the criteria of “nine years” permanence in the BoD which, due to the reasons indicated in attached Table 4 in compliance with the resolution adopting the Code on 22 February 2007, is not, however, considered in itself to be indicative that the individual does not meet the independence requirement). The criteria for independence requirements for Directors and Auditors were implemented with the following exceptions: it has NOT been considered necessary to apply the independence requirement that the person cannot be in office for more than 9 years, since this parameter is not deemed significant especially in a situation such as the Bank's where, on the contrary, lengthy experience gained by a Director/Statutory Auditor who has always operated independently can be considered not as a weakness, but rather an enhancement of independence (if no other opposing factors intervene) and this is to Company's complete advantage in terms of the contribution of the Director/Statutory Auditor to the correct execution of the decision-making processes.</p>	<p>Unchanged from the previous Corporate Report</p>

RECOMMENDATION OF THE ITALIAN CORPORATE GOVERNANCE COMMITTEE	Comments of the Italian Corporate Governance Committee	Corporate Governance Report Banco Desio for the year 2017	Corporate Governance Report Banco Desio for the year 2018
<p><b>RECOMMENDATION 3:</b> The Committee invites the board of directors to assure <b>greater transparency about the procedures for the conduct of the board review</b>. The Committee recommends, especially for larger issuers, that a board member should oversee the board review process and that <b>procedures valorising each director’s individual contribution</b> should be adopted.</p>	<p>The third critical area pertains to the board review activity. Although self-assessment is very frequent (being carried out almost by 90% of issuers), it suffers from poor transparency in the description of the procedures with which it is carried out. In particular, one third of the issuers that carry out these activities do not provide information about the party tasked with conducting the preliminary investigation or do not indicate the instrument used for this activity. A second aspect pertains to the opportunity for greater involvement of a board component in the self-assessment process, at least with reference to the definition of the scope and procedures of execution. A significant number of companies that entrust the board review to corporate functions or outside consultants do not communicate whether and how the board or a component thereof (Chairman, LID or committee) oversees this process. Moreover, in most cases the board review process is carried out exclusively through the administration of standardised questionnaires, hence not providing a possibility of interaction with the individual board members and the possibility for them to report any issues deserving further study.</p>	<p>3.6. Self-Assessment The Board of Directors has approved the Internal Self-Assessment of Bodies Regulation in order to regulate the relevant process in conformity with the provisions of Circular no. 285. It particularly identified the methodologies to use (mainly based on each Director filling in a special questionnaire and on holding a special complementary interview, possibly also in writing, when filling in the questionnaire) and the profiles to be analysed – on the aggregate level – regarding the composition (professional competence, independence, etc.) and functioning (operating procedures, information flows, etc.) of the Board and Committees formed within it. Said Regulation was revised on 8 February 2018, providing, <i>inter alia</i>, the prior involvement of the Appointments Committee in the procedure for selecting the consulting company appointed to support the self-assessment process.</p> <p>The assessment methodology (whose application is appropriately differentiated during the three-year office of the Board) is based on updated models in light of the banking sector’s best practices. The use of a consultant and the carrying-out of the interview in oral form by the consultant are envisaged at least every 3 years.</p> <p>As a result of the board resolution of 30 November 2017, the self-assessment process for 2017 was launched, using the aforementioned Self-Assessment Regulation as a reference, which identifies as parties appointed to the activity prodromic to the Board of Directors passing of the self-assessment resolution the Appointments Committee with an advisory role in compliance with Circular no. 285. A summary of the results of the self-assessment process is attached to the present Report (<u>Attachment B</u>).</p>	<p>3.6. Self-Assessment <b>... unchanged ...</b> The aforementioned Self-Assessment Regulation identifies, among the parties appointed to carry out the preliminary activity to the Board of Directors’ passing of the self-assessment resolution, the Appointments Committee with an advisory role in compliance with Circular no. 285. A summary of the results of the self-assessment process is attached to the present Report (<u>Attachment B</u>).</p> <p>As a result of the Board resolution of 18 October 2018, the self-assessment process was started without the involvement of an external professional, requiring the Chairman of the Board of Directors to carry out the consequent activities with the support of the Secretary of the Board.</p> <p>To maintain methodological continuity with the previous years, to support the execution of the process, the “Board Evaluation Tool”, already used for the previous year’s Self-Assessment was utilised. The utilised release incorporates revisions in compliance with European regulations on the matter and mainly the EBA Guidelines. The methodology for replying to the questions provides for the expression of an assessment on a scale with 4 decreasing levels from “effective / adequate” to “ineffective / inadequate”. The results have been provided in anonymous form in the Self-Assessment Report. On this occasion, Representatives were asked, <i>inter alia</i>, to report any issues of interest to be included in the Induction Plan for the year 2019.</p>

ATTACHMENT “C” CORPORATE GOVERNANCE REPORT - RECONCILIATION BETWEEN RECOMMENDATIONS OF THE ITALIAN CORPORATE GOVERNANCE COMMITTEE AND TEXT OF THE REPORT

RECOMMENDATION OF THE ITALIAN CORPORATE GOVERNANCE COMMITTEE	Comments of the Italian Corporate Governance Committee	Corporate Governance Report Banco Desio for the year 2017	Corporate Governance Report Banco Desio for the year 2018
<p><b>RECOMMENDATION 4</b> The Committee invites the boards of directors and the committees with competence over remuneration to assess <b>the adequacy of the remuneration policies with the pursuit of the goal of the sustainability of the business activities in the medium-long term.</b> In particular, the Committee recommends, particularly to the competent bodies of medium-large issuers, <b>to enhance the connection of variable remuneration to parameters tied to long-term goals</b> and to <b>limit</b> to individual exceptional cases, with adequate explanation, <b>the possibility of paying amounts not tied to predetermined parameters</b> (i.e. “ad hoc” bonus).</p>	<p>The fourth critical area pertains, this year as well, to some substantial aspects of the remunerations of the executive directors. The Committee observes, in particular, only a marginal improvement in the attention which the policies dedicate to incentivising executive directors towards a management oriented towards the sustainability of the business activities in the medium-long term. In particular, nearly one quarter of the issuers does not provide long-term variable components, while approximately one third of the issuers (increasing) provides the possibility of paying “ad hoc” bonuses that are not the subject to clear regulation within the remuneration policy and for which then it does not seem possible to assess <i>ex ante</i> their consistency with the achievement of long-term goals, according to predictability and verifiability.</p>	<p><b>6</b> Remuneration and incentive mechanisms - Remuneration Committee  Criteria adopted to compensate and incentivise Group management are in line with general principles correlating these emoluments with the economic results achieved and the consistency with strategies and risk parameterisation, so as to avoid producing incentives in conflict with the interests of the Company over the long-term, as also indicated in the aforementioned Circular no. 285.  The remuneration of Banco Desio’s General Manager and Executives with strategic responsibilities consists of a fixed portion and a variable portion, appropriately deferred in compliance with the aforementioned Circular no. 285, as better detailed in the mentioned Remuneration Report. With regard to the Parent Company’s BoD, the Articles of Association envisage that the Ordinary Shareholders’ Meeting determines the overall fee for the Directors other than the Chairman, Deputy Chairmen and any Directors with operating powers or special duties; the BoD, having consulted the Board of Statutory Auditors, contributes to the determination of the fees of the latter, as well as the division between the other Directors of the overall fee established by the Shareholders’ Meeting. The division criteria also take into account appointments within the BoD and membership in the various Committees (including the offices as Secretary, if provided).</p>	<p><b>6</b> Remuneration and incentive mechanisms - Remuneration Committee  Unchanged</p>