

BANCA IFIS

**REPORT
ON CORPORATE GOVERNANCE
AND OWNERSHIP STRUCTURES**

2016

Pursuant to art. 123 of the CFA
(traditional administration and control model)

VALUE TO YOUR BUSINESS

**BANCA IFIS
GROUP**

Approving date: 16th March 2017
www.bancaifis.com



Banca IFIS S.p.A. - Registered office in Via Terraglio 63, 30174 Mestre, Venice - Registration number in the Companies Register of Venice and Tax Code 02505630109 - VAT number 02992620274 - REA (Administrative Economic Index) number: VE - 0247118 - Share capital Euro 53,811,095 - Registry of Banks no. 5508 - Parent Company of the Banca IFIS Banking Group S.p.A., enrolled in the registry of Banking Groups - Member of the Interbank Deposit Protection Fund, of the Italian Banking Association, of the Italian Factoring Association, of Factors Chain International

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Glossary

Code/Corporate Governance Code: the Corporate Governance Code of listed companies approved in July 2015 by the *Corporate Governance Committee* and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Cod. civ./c.c. Italian civil code.

Board: the Issuer's Board of Directors.

Issuer: the issuer of securities to which this report refers.

Financial year: the company's financial year to which this report refers.

Consob Issuer Regulations: regulations issued by Consob [Italian Securities and Exchange Commission] with resolution no. 11971 of 1999 (as amended) in respect of issuers.

Consob Market Regulations: regulations issued by Consob with resolution no. 16191 of 2007 (as amended) in respect of markets.

Consob Related Parties Regulations: regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as amended) concerning related-party transactions.

Report: the report on corporate governance and company shareholding structure that companies are required to prepare pursuant to Article 123-*b* of the Consolidated Finance Act.

CFA/Consolidated Finance Act: Legislative Decree no. 58 of 24 February 1998 (known in Italian as 'Testo Unico della Finanza' – TUF). 58.

CBA/Consolidated Banking Act: Legislative Decree no 385/1993 of 1 January 1994, implementing EU Directive 1989/646/EC (known in Italian as "Testo Unico Bancario" – TUB).

1. Issuer profile

Governance

Banca IFIS is the Parent Company of the Banca IFIS Banking Group and applies the traditional model of administration and control, believing it to be the most suitable way to ensure efficient management and effective controls.

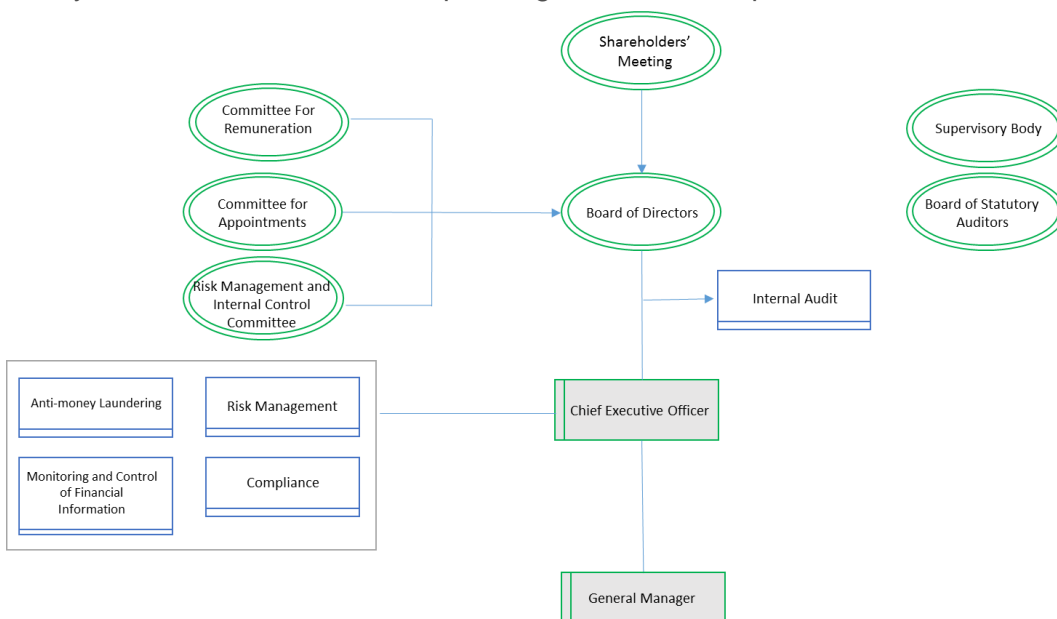
For Banca IFIS, the traditional model of administration and control has so far yielded excellent results in terms of value creation for shareholders, strengthening of capital and financial balance. The presence of minority shareholders within the Corporate boards, thanks to the slate vote mechanism included for some time in the Articles of Association, the growing capacity to provide financial support for SMEs and to bring insolvent individuals back into the fold of solvent debtors and potential borrowers of new credit, as well as the steady growth in the number of employees complement the Group's ability to meet the expectations of its stakeholders. The stability of the Bank and of the Group, which is also evident from the overall fruitful dialogue with the Supervisory Authorities, has, in turn, confirmed the choice of the traditional model.

Ultimately, the traditional model appears to be the most suitable to promote a harmonious and orderly development of the Group, as it places the skills relating to strategic supervision, management and control within a structure that has so far proved effective and efficient, facilitating clear definition of responsibilities, a streamlined decision-making process and an effective dialogue between the bodies themselves.

In the model applied by Banca IFIS:

- Strategic supervision is performed by the Board of Directors;
- The management function has been assigned to the C.E.O. The General Manager also performs management functions;
- Control is performed by the Board of Statutory Auditors.

Today, the overall structure of corporate governance is represented as follows:



Regarding the Bank of Italy's supervisory provisions on corporate governance (circular no. 285 of December 17, 2013 (as amended), Banca IFIS falls into the category of larger or operationally complex banks trading as a listed company.

In 2016, control of GE Capital Interbanca was acquired by Banca IFIS. Because of this transaction, to the date of approval of this document the Banking Group has taken the following configuration:

- Parent Company Banca IFIS;
- Interbanca S.p.A., a 99,99% subsidiary with banking licence;
- IFIS Finance, a financial company under Polish law, already 100% controlled by Banca IFIS;
- IFIS Factoring S.r.l., a financial company under Article 106 of the Consolidated Banking Act specialising in factoring, 100% controlled by Banca IFIS;
- IFIS Leasing S.p.A., a financial company under Article 106 of the Consolidated Banking Act specialising in Financial Leasing, 100% controlled by means of Interbanca S.p.A.

Banca IFIS also controls a non-financial corporation specialising in operational leasing, IFIS Rental Services S.r.l., which is not included in the scope of the Banking Group.

Mission

The Banking Group's activities, even after the acquisition of a 99.993% stake in GE Capital Interbanca S.p.A., are currently conducted in the following business areas:

- financial support, principally to SMEs, through *factoring* activities conducted in Italy and abroad, carried out both through the Parent Company's internal structures (International Area) and through the subsidiaries, IFIS Finance and IFIS Factoring.

Following the acquisition of 99.993% stake in GE Capital Interbanca S.p.A., these activities have been enhanced with the following solutions:

- corporate vehicle and capital goods financing, by selling varied leasing products according to demand and the provision of financial services (particularly lease and rental) in support of investment in equipment in the IT, Telecoms, *Office Equipment*, *Medical* and industrial machinery sectors;
- medium and long-term financial solutions to support companies in implementing structural investment that supports business competitiveness against a background of the continually evolving technology, objectives of commercial growth and the search for efficiency in products and business processes (*corporate lending*);
- solutions aimed at providing financial support in acquisitions and divestment of so-called *acquisition finance* (*structured finance*);
- outright purchase, which mainly concerns receivables to Italian National Health Service suppliers and through the packaging of solutions proposed to pharmacists, which include instalment financing for the consolidation of current loans;
- the non-recourse purchase of non-performing loans (due almost exclusively from individuals) from other intermediaries (mainly consumer credit companies and banks) and management of the associated credit value chain, from assisting debtors in drawing up sustainable repayment plans through a variety of communication channels (call centre, professional agents and external debt collection companies) to the collection of such loans (also through enforced

recovery where debtors have the economic, financial and asset resources to be able to pay but are unwilling to do so);

- purchase and management of tax credits;
- online *retail savings and deposits* developed through the Rendimax savings account and the Contomax current account; although these tools do not represent a specific business line for the bank, they are fully entitled to be classified among the Bank's operational segments thanks to the type of activity involved and the size of the savings and deposits.

Complementary to these activities are activities related to corporate treasury whose contents, arising at certain particularly important times, do not change the Banking Group's *mission* described above.

Corporate social responsibility

The Bank introduced its Code of Ethics following the Board resolution passed on 4 July 2003 and last updated on 22 September 2016. This Code states the rights, duties and responsibilities of the Group's components regarding all parties with whom they have dealings to accomplish their corporate purpose (clients, debtors, suppliers, employees and/or external collaborators, shareholders, supervisory bodies, institutions). It is therefore a directive with rules of conduct that must be kept in mind when carrying out daily operations, in compliance with the legislation and regulations in force in the countries where the Group operates. The Code establishes standards and rules of conduct designed to reinforce corporate decision-making processes and guide the conduct of all collaborators of the Group's companies.

The Code of Ethics requires consistent behaviour from management and other collaborators, i.e. actions which do not, even if only in spirit, differ from corporate ethical principles. Each Collaborator must respect the rules contained in this Code of Ethics during their activities.

The Code of Ethics also aims to contribute to greater cohesion among Group Collaborators, making them aware and attentive, within their functions and responsibilities, in pursuing, in different situations, business objectives with correct and fair methods.

Finally, the Code of Ethics assumes that working in an environment that gives equal value to propriety contributes to the growth of the working capacity of the individual and the company.

The document is available on the company website www.bancaifis.it in the "*Corporate Governance/The value of ethics*" section.

2. Information on the shareholding structure (as per Article 123-b, para. 1, CFA)

a) Structure of share capital (as per Article 123-b, para. 1, letter a), CFA)

To 31 December 2016, the issued and fully paid-up share capital is equal to €53,811,095.00, divided into 53,811,095 ordinary shares with a nominal value of €1, as shown in the table below:

STRUCTURE OF SHARE CAPITAL	No. of shares	% of share capital	Listed (market) / unlisted	Rights and obligations
Ordinary shares	53.811.095	100%	Listed (on MTA Milan electronic equity market)	Each ordinary share confers the right to one vote

As at 31 December 2016, there were no other financial instruments outstanding attributing the right to subscribe newly issued shares.

For the shares to be allocated as variable pay to the C.E.O., to the General Manager and to any other person considered as 'Key personnel', please refer to the remuneration report under Article 123-c of the CFA and the information document on equity-based remuneration plans as per Articles 114-b of the CFA and 84-b of the Issuer's Regulations. These documents are available on our website www.bancaifis.it in the "Shareholders' Meetings" and "Remuneration" sections.

b) Restrictions on the transfer of shares (as per Article 123-bis, para. 1, letter b), CFA)

There are no restrictions on the transfer of shares, except for the *retention* periods set out for shares allocated as variable pay to the C.E.O., to the General Manager and to "Key personnel". For more details on the shares to be assigned to these Corporate Officers, please refer to the remuneration report prepared as per Article 123-c of the CFA.

c) Significant shareholdings (as per Article 123-b, para. 1, letter c), CFA)

As at 31/12/2016, based on communications issued pursuant to Article 120 of the CFA and communications issued by relevant subjects pursuant to Article 152-h of the Issuers' Regulations stated that the subjects shown in the table below possess, directly or indirectly, shares with voting rights representing more than 3%¹ of share capital:

Declarant	Direct Shareholder		% of ordinary share capital	% of voting capital
FÜRSTENBERG SEBASTIEN EGON	La Scogliera S.p.A.	50.114%	50.225	50.225
	Fürstenberg Sebastien Egon	0.112%		
BOSSI GIOVANNI	Bossi Giovanni	3,443%	3,443	3,443
NORGES BANK	Norges Banck	3.028%	3,028	3,028

It is appropriate to point out that:

- The activity of the investment holding company La Scogliera S.p.A. is limited to holding its only significant equity investment - the controlling interest in Banca IFIS S.p.A.;
- Even though it is the majority shareholder, La Scogliera S.p.A. does not perform any management and coordination activity vis-à-vis Banca IFIS S.p.A.;

¹ Following the enactment of Legislative Decree no. 25/2016 of February 15, 2016, the threshold at which it is required to report to the market all significant equity interests held in companies with listed shares has been raised from 2% to 3%.

- La Scogliera S.p.A.'s corporate purpose expressly excludes management and coordination of the financial companies and banks in which it owns equity interests.

d) Shares granting special rights (as per Article 123-b, para. 1, letter d), CFA)

No shares have been issued that grant special control rights.

e) Employee shareholdings: mechanism for exercising voting rights (as per Art. 123-b, para. 1, letter e), CFA)

Any employees holding shares of the Company exercise their shareholder rights in the same ways as other shareholders.

f) Restrictions on voting rights (as per Article 123-b, para. 1, letter f), CFA)

There are no restrictions on the Company's voting rights.

g) Shareholder agreements (as per Art. 123-b, para. 1, letter g), CFA)

The Board of Directors of Banca IFIS S.p.A. knows of no agreements between the Company's shareholders as defined by Article 122 of the CFA.

h) Change-of-control clauses (as per Article 123-b, para. 1, letter h), CFA) **and statutory provisions on takeover bids** (as per Articles 104, para. 1c, and 104-b, para. 1)

Neither Banca IFIS S.p.A. nor its subsidiary companies have concluded significant agreements that take effect, are modified or lapse if change of control of the contractual party occurs.

Banca IFIS S.p.A.'s Articles of Association do not contravene the *passivity rule* laid down by Article 104, paragraphs 1 and 2, of the CFA nor do they envisage the application of the neutralisation rules laid down by Article 104-b, paragraphs 2 and 3, of the CFA.

i) Delegations of power to increase share capital and authorizations to buy treasury shares (as per Article 123-b, para. 1, letter m), CFA)

As at 31 December 2016, the Board was not empowered to increase share capital pursuant to Article 2443 of the Italian Civil Code, i.e. to issue equity securities.

The Ordinary Shareholders' Meeting of 22 March 2016 has not authorised the purchase of treasury shares, pursuant to Articles 2357 et seq. of the Italian civil code and Article 132 of Legislative Decree 58/98.

l) Management and coordination activity (as per Article 2497 et seq, Italian Civil Code)

Even though it is the majority Shareholder, La Scogliera S.p.A. does not perform any management and coordination activity in Banca IFIS S.p.A. In this regard, as noted above, it is noted that the corporate purpose of La Scogliera S.p.A. expressly excludes management and coordination of the financial companies and banks in which it owns equity interests.

Note that:

- the information required by Article 123-b, paragraph 1, letter i) ('agreements between the Company and its Directors ... entailing indemnities in the event of resignation or dismissal without just cause or if the employment relationship ceases following a takeover bid'), can be found in the remuneration report published pursuant to Article 123-c of the CFA;
- the information required by Article 123-b, paragraph 1, letter l) ('rules applicable to the appointment and substitution of Directors ... as well as any amendment of the Articles of Association, if different from additional legislative and regulatory rules applicable'), are illustrated in the section of this report dedicated to the Board of Directors (Section 4.1).

3. Compliance (as per Art.123-bis, para. 2, letter a), CFA)

Banca IFIS S.p.A. complies with the Corporate Governance Code of listed companies approved in 2006 by the *Corporate Governance* Committee and promoted by Borsa Italiana S.p.A., last updated in July 2015.

The Code is available to the public on the Corporate Governance Committee's website at the following link: <http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2015.pdf>.

Banca IFIS's *Corporate Governance* structure is not influenced by non-Italian laws.

IFIS Finance Sp. z o.o., a *factoring* company wholly owned by the Issuer, is a Polish legal entity and is therefore subject to Polish legislation. This, however, also because of the subsidiary's limited size in relation to the Parent Company, in no way affects Banca IFIS S.p.A.'s *Corporate Governance* structure.

4. Board of Directors

4.1. Appointment and substitution (as per Article 123-b, para. 1, letter l), CFA)

Members of the Board of Directors are appointed based on lists presented by shareholders. Candidates are listed in sequential order and their number must not exceed the maximum number of Members established by the Articles of Association (fifteen).

Only shareholders who, alone or together with others, own at least 1% of ordinary shares at the time of submission have the right to submit lists. A lower ownership threshold is possible and – as per current legislation – must be indicated in the notice convening the Shareholders' Meeting called to vote to appoint the Board of Directors.

A shareholder can neither submit nor vote for more than one list, not even via agents or fiduciary companies. Shareholders belonging to the same group and shareholders forming part of a shareholder agreement concerning the Company's shares cannot submit or vote for more than one list, not even via agents or fiduciary companies. A candidate may only appear on one list or they are considered ineligible.

Lists must be submitted to the Company's registered office at least twenty-five days prior to the date set for the Shareholders' Meeting in first call, and must be made available to the public at the Company's registered office, on the Company's website and according to other methods provided for by regulations in force at least twenty-one days prior to the date set for the Shareholders' Meeting in first call.

Ownership of the minimum number of shares needed for presentation of the lists is determined by taking into account the shares recorded in favour of the individual shareholder or multiple shareholders jointly on the day in which the lists are submitted to the Company. To substantiate the ownership of the number of shares necessary for presentation of the lists, shareholders may exhibit the relevant certification, even after submission of the lists, provided this is within the term set for publication of the lists by the Company.

The lists must be accompanied by:

- information regarding the identity of shareholders who have presented lists, stating the percentage of shares held;
- a declaration by shareholders other than those who own, singly or jointly, a controlling or significant majority interest, certifying the absence of connections with the latter, as indicated in Article 147-c of the CFA and Article 144-o of Consob's Issuers' Regulations;
- Comprehensive information on candidates' personal and professional characteristics, as well as a declaration by the candidates themselves certifying possession of the requirements established by law and acceptance of their candidacy.

Candidates who do not meet the requirements of integrity, professionalism and independence established by Article 26 of Legislative Decree no. 385/1993. Please note that Legislative Decree 72/2015 initiated a comprehensive reform of the regulations of the requirements of corporate officers, intended to integrate the objective requirements of integrity and professionalism with criteria of competence and propriety that will be incorporated in secondary legislation to be issued by the Ministry of Economy and Finance. As of the date of this report, the new legislation has not been defined by the Ministry.

Each list must also indicate:

- at least a quarter of the members (if this ratio is not an integer, round it down to the next lowest whole number if the first decimal is less than or equal to 5; otherwise round it up to the next highest whole number) that meet the independence obligations provided for both by the Corporate Governance Code of listed companies required by Borsa Italiana S.p.A. and by Article 148, paragraph 3 of Legislative Decree no. 58/1998. These candidates must be the first four names on the list in ascending order;
- at least a third of the list must be made up of candidates representing the least represented gender, except for lists containing fewer than three candidates.

Board Members are elected as follows:

- 1) all Directors except one are elected from the list obtaining the highest number of votes at the Shareholders' Meeting, according to the ascending order in which they are indicated on the list,
- 2) one Director is elected from the list obtaining the highest number of votes at the Shareholders' Meeting that, as per Article 147-c, paragraph 3 of the CFA, is in no way connected, not even indirectly, with the shareholders who submitted or voted for the list that came first in terms of the number of votes.

Should this selection criteria fail to ensure proper balance in size of shareholding to the extent established on a case by case basis by Law, a sliding mechanism is applied to the selection from the list which obtained, during the Shareholders' Meeting, the highest number of votes based on the ascending order in which the candidates are indicated. This mechanism excludes the candidate or candidates of the most represented gender and reselects the candidate or candidates of the unrepresented gender.

If just one list of candidates is submitted, the names indicated on that list will be elected as Members of the Board of Directors, up to the number of Directors to be elected less one, who shall be elected

by the Shareholders' Meeting there and then, based on a simple majority but excluding from the vote the shareholders who submitted the single list, and based on the proposal of the shareholders not excluded from the right to vote.

In any case, at least a quarter of the Members of the Board of Directors must meet the independence requirements established both by the Corporate Governance Code for Listed Companies required by Borsa Italiana S.p.A. and by Article 148, paragraph 3 of Legislative Decree no. 58/1998.

If, during the year, fewer than a quarter of the Directors are found to meet such requirements, the Board will decide to terminate the role of one or two of its Members who have ceased to meet such requirements, based on the criterion of shorter tenure, or, in the case of equal tenure, lower age, and will co-opt one or two independent Members.

Existing legislation, without the involvement of slate voting, shall govern any replacement of Board members, except in cases involving the termination of all Directors.

In the event of cessation of the Director elected from the list that obtained the highest number of votes at the Shareholders' Meeting and that, as per Article 147-c, paragraph 3 of the CFA is in no way connected, not even indirectly, with the shareholders who submitted or voted for the list that came first in terms of number of votes, the Board will first check the continued availability of the candidates listed in the list, according to the latter's ascending order, and will co-opt Members based on this criterion of preference.

In case of termination of a Director belonging to the least represented shareholding, the co-opted Director shall in any event belong to the same type of shareholding.

Succession Plans

Our reflections on *governance* during 2016 led the Board to confirm the decision not to adopt a plan for the succession of Executive Directors in light of the interchangeability between the CEO and the General Manager for ordinary management purposes.

4.2. Composition (as per Article 123-b, para. 2, letter d), CFA)

As per the Company's Articles of Association, the Board of Directors is composed of a minimum of five up to a maximum of fifteen members, elected by the Shareholders' Meeting. They remain in office for a maximum of three years, established at the moment of election and expiring on the date of the Shareholders' Meeting called to approve the Annual financial statements for their last year of office.

The composition of the Board in office as at the end of this financial year, as also shown in Table 1 attached to this report, is as follows:

- Sebastien Egon Fürstenberg (President of the Board of Directors);
- Alessandro Csillaghy de Pacser (Vice President of the Board of Directors; Executive Director);
- Giovanni Bossi (CEO);
- Giuseppe Benini (Independent Director, *Lead Independent Director*);
- Francesca Maderna (Independent Director);
- Antonella Malinconico (Independent Director);
- Marina Salamon;
- Riccardo Preve;

- Daniele Santosuosso (Independent Director).

The present Board of Directors was elected at the Ordinary Shareholders' Meeting of 22 March 2016 for the years 2016, 2017 and 2018 and will expire on the date in which the Shareholders' Meeting called to approve the Annual financial statements for the year 2018 takes place.

A list of candidates was presented by the majority shareholder "LA SCOGLIERA S.P.A." and a proposal for the appointment of a member of the Board of Directors in the guise of Prof. Daniele Santosuosso from "Studio Legale Trevisan & Associates" on behalf of the following group of investors:

- Arca S.G.R., manager of the fund, Arca Economia Reale Equity Italia;
- Eurizon Capital S.G.R. S.p.A., manager of the funds, Eurizon Azioni Italia and Eurizon Azioni PMI Italia;
- Eurizon Capital SA, manager of the funds, Eurizon EasyFund-Equity Italy LTE and Eurizon EasyFund-Equity Italy;
- Fideuram Asset Management (Ireland), manager of the fund, Fonditalia Equity Italy.

The Group of shareholders, whose overall shareholding in the Bank was equivalent to 0.383%, confirmed the absence of affiliations and/or significant relationships with shareholders who hold, singly or jointly, controlling or significant majority stakes as set out in Article 147-c, 3rd paragraph, CFA and 144-o of the Issuer Regulations approved by resolution 11971/99 and, more generally, the Articles of Association and current legislation.

The list of candidates, the list of those elected and the percentage of votes obtained in relation to voting capital are shown below:

	List of candidates	List of those elected	Percentage of votes obtained
List submitted by the majority shareholder 'LA SCOGLIERA S.p.A.'	Sebastien Egon Fürstenberg Giuseppe Benini Francesca Maderna Antonella Malinconico Alessandro Csillaghy de Pacser Giovanni Bossi Riccardo Preve Marina Salamon Marzia Scarpa	Sebastien Egon Fürstenberg Giuseppe Benini Francesca Maderna Antonella Malinconico Alessandro Csillaghy de Pacser Giovanni Bossi Riccardo Preve Marina Salamon	97.88%
Proposed for appointment by "Studio Legale Trevisan & Associates" on behalf of a group of investors (total shareholding 0.0383%)	Daniele Santosuosso	Daniele Santosuosso	97.11%

Below we show a summary of the personal and professional characteristics of each Director in office as at the end of the financial year 2016 (pursuant to Article 144-j of Consob's Issuers' Regulations) based on the declarations provided by each of them and attached to the lists, as well as any subsequent updates notified by those concerned.

The Board of Directors, on the occasion of its renewal, has invited shareholders to consider, for the purposes of presenting lists of candidates, the Board's needs in terms of skills and competencies (also managerial), deemed necessary for an optimal composition of the Strategic Supervisory Body, as shown in the report on "Optimal Qualitative and Quantitative Composition of Banca IFIS's Board

of Directors" approved by the Board of Directors on 2 February 2016 and made available at the registered office, at "Borsa Italiana S.p.A." and the authorised storage mechanism, www.emarketstorage.com, as well as on the Banca IFIS website.

President of the Board of Directors – Sebastien Egon Fürstenberg

Mr. Sebastien Egon Furstenberg has operated in the factoring sector for more than 25 years; in 1983, he founded the company I.Fi.S. S.p.A. – Istituto di Finanziamento e Sconto (now Banca IFIS S.p.A.).

Since 1992, he has been the Sole Director and, since 2 February 2009, President of the Board of Directors of La Scogliera S.p.A., a company whose purpose is to purchase, manage and sell investments in banks and financial companies and which holds the majority equity interest in Banca IFIS S.p.A.

Vice President – Alessandro Csillaghy de Pacser

Alessandro Csillaghy de Pacser has operated in the factoring sector for more than 30 years and has been the Bank's Vice President since 1996, performing an executive role to develop the Bank's presence abroad, by means of contacts with local institutions and foreign entrepreneurs designed to further Banca IFIS's foreign business activities.

He has established representative offices in Romania and Hungary, and worked at the Bank's office in Paris, France for a while. Since 2011, he has been President of the Board of Directors, and carrying out organising and developing the subsidiary, IFIS Finance Sp. Z o.o., a factoring company in Poland. He currently manages the Bucharest representative office.

Chief Executive Officer – Giovanni Bossi

A graduate in Economics & Commerce and a licensed professional accountant, Giovanni Bossi has been registered in the Italian Public Register of Approved Statutory Auditors since 1992. In the past, he taught at the faculty of Finance Science and Law at Rome's Luiss University.

As a self-employed professional he provided consulting services to industrial and financial groups, also controlled by European *public companies*, located in Northern Italy, as well as to Italian companies in relation to the design and development of industrial and financial activities in East European countries.

Since May 1995, he has been the issuer's C.E.O. He has also been C.E.O. and then a Director of La Scogliera S.p.A., an office from which he resigned on 20 November 2012.

Director – Giuseppe Benini

He holds a degree in Economics and Business Administration from the University of Padua and has been enrolled since 1986 in the Association of Certified Public Accountants of Verona (section A) and in the Registry of Accounting Auditors.

He works as a Certified Public Accountant and Auditor and has acquired significant experience in:

- Legality and accounting controls;

- Organisational models (Italian Legislative Decree 231/2001) for banking, industrial and service companies;
- corporate restructurings as per Articles 67 and 182-b of the Italian Bankruptcy Law.

He assists leading national banks as an expert consultant in matters such as claw-backs, compounding and usury.

Director – Francesca Maderna

She graduated in Economics and Business Administration in 1988 and has been registered with the Belluno Association of Certified Public Accountants since 1990 and with the Italian Register of Legal Auditors under no. 33675 since 1995.

She is currently a Director of Clinica Mediterranea S.p.A. and Sole Director of Immobiliare del Nord S.p.A. - a property asset management company.

She has also held the office of Director in various companies operating in the hollow glass sector (AVIR Group).

Director - Antonella Malinconico

She graduated in Economics from the Federico II University of Naples, she received a PhD at the same University in Financial Sciences for Business. She is Associate Professor of Financial Intermediaries Economics at the University of Sannio and is Professor of Financial Intermediaries Economics and Corporate Finance; she has carried out research on numerous themes (including credit risk in banking intermediaries, management of non-performing Loans, Risk Management, prudential supervision and SME financing) and has written numerous publications.

Licensed to practise as a chartered accountant since 1995, she is a consultant on financial issues for many banks, for whom she also carries out training activities.

Previously she served as Deputy Director of the Bank of Italy Office in Naples and as a Director of the Banca Antonio Capasso S.p.A.

Director - Riccardo Preve

A Sociology graduate, in 1980, Riccardo Preve founded Preve Costruzioni S.p.A., a public works infrastructure construction company that controls other road signage and construction companies.

He operates heavily in the real estate field and has invested in the solar power sector.

He currently occupies the roles of President, C.E.O. and Technical Director in different industrial companies, and he is a Member of the Confindustria Council of Cuneo.

He previously acquired longstanding experience in various financial companies and was President of Banca di Credito Cooperativo.

Director – Marina Salamon

With a university degree in History (specialising in Economic History), in 1982, Marina founded Altana S.p.A. one of the foremost European medium/high-end children's apparel companies.

Controlla Doxa S.p.A., Doxa Marketing Advice S.r.l., Connexia S.p.A., Duepuntozero Research S.r.l. and Doxa Metrics S.r.l.: these are some of the leading Italian companies in the field of market research and web communication. The group also has minority interests in the companies The Visual Agency S.r.l. and Doxa Pharma S.r.l..

All business and financial activities belong to the holding company, Alchimia S.p.A., wholly owned, which also has a strong presence in the real estate sector. Alchimia S.p.A. has also invested in the solar power sector, through the construction or acquisition of solar parks in various Italian locations.

Director – Daniele Santosuosso

After obtaining his degree in Commercial Law, Prof. Santosuosso embarked on an academic path initially as a Scholar and *Visiting Fellow* at various universities abroad. He then became a Researcher, an Associate Professor in Commercial Law at 'La Sapienza' University in Rome and, finally, a Full Professor in Commercial Law at the same university. He is the author of many papers, articles, essays and books, as well as a Member of certain scientific publications and contributes to the Italian newspaper, *Il Sole 24 Ore*. He is also the Founder and Director of 'Rivista di Diritto Societario' (Corporate Law Review). He has been a Member of the Bar Association since 1992, has his own law firm and has held various institutional and corporate management posts (including as a Member of the Government Commission for the reform of company law in 2003).

Maximum number of offices held in other companies

The "Regulation on the maximum total number of offices that can be held by company Officers" was approved by the Shareholders' Meeting of 30 June 2009.

This Regulation first establishes that:

'The Officers of Banca IFIS S.p.A. accept office and maintain it insofar as they believe themselves able to dedicate the necessary time to the diligent performance of their tasks, considering both the number and the quality of offices held in the management and control bodies of other companies and the commitment required of them by their other professional activities and by associative appointments held'.

For the purposes of calculating the limits on the maximum total number of offices governed by the 'Regulation', the following items are relevant:

- a) Companies with shares listed in Italian or foreign regulated markets;
- b) Italian or foreign companies with shares not listed in regulated markets and that operate in the insurance and banking sectors and in the financial sector in general. In this latter regard, only financial companies subject to prudential supervision of the Bank of Italy and entered on the list of financial intermediaries under Article 106 of Legislative Decree No. 385/1993 are required. If they are foreign companies, only substantial shareholdings are required;
- c) 'Companies of significant size' (that is, those that have individual net equity of at least €100m based on the last approved set of annual accounts).

Conversely, offices held within the Banca IFIS Group or in companies other than those listed above, do not count.

In the Regulation, the term 'Executive posts' means the following roles:

- Chief Executive Officer
- General Manager

- Member of the Management Board
- Member of the Executive Committee.

The terms 'Non-Executive Director and controlling offices' refer to the following roles:

- Member of the Board of Directors without proxies;
- Standing Member of the Board of Statutory Auditors;
- Member of the Supervisory Board.

In addition to the office held at the Bank, an Executive Director:

- may not hold other executive offices in the companies identified, in terms of type or size, as per the Regulation;
- may hold up to a maximum of five offices as Non-Executive Director or Statutory Auditor in such companies.

In addition to the office held at the Bank, a Non-Executive Director may not hold more than ten positions of Director or Statutory Auditor in other companies identified, in terms of type or size, as significant as per the Regulations, of which no more than two may be Executive positions.

Candidates for appointment as Director or Statutory Auditor of Banca IFIS S.p.A. must provide the Bank with an updated statement of the management, direction and control roles held by each of them.

Following their appointment, the Company's Directors and Statutory Auditors must promptly notify Banca IFIS S.p.A.'s Corporate Affairs Department of any changes in the offices held by them in the management and control bodies of other companies.

Banca IFIS S.p.A.'s Board of Directors has the authority to grant possible exceptions, even temporary, to the maximum limit in the Regulation. As of the date of this report, no such exceptions have been granted.

Upon submission of the lists for the appointments made by the Shareholders' Meeting on 30 April 2013, all candidates have declared – when accepting their candidacy and possible appointment – to have read the 'Regulation' and to have verified not to hold a number of positions in other companies that exceed the prescribed limits.

Table 2 shows the number and type of positions held by Banca IFIS Directors to 31 December 2016, based on the information provided by them. In addition, to comply with the requirements of Bank of Italy Circular No. 285/2013 (Section VII, Chapter 1, Title IV, Part One), evidence was also provided of the positions held in the companies that are not considered relevant for the purposes of the "Regulation on the maximum number of offices that can be held by company officers".

Induction Programme

Regarding training for new members of the Board and the Board of Auditors, given the professional background of Director, Prof. Malinconico, (former Directors at other banks, as well as Professor of *Risk Management and Insurance, Financial Economics* at the University of Sannio) and the Auditor, Dr. Massimo Miani, (currently President of the Italian National Council of Chartered Accountants), it was not necessary to provide for specific courses.

During 2016, there has been a decline in training sessions, due primarily to the intense activity involving the management bodies, until November, in connection with the acquisition of GE Capital Interbanca Group. The task of training has restarted during December 2016 on issues such as the

culture of risk, the regulatory changes brought about by Legislative Decree 135/2016 coming into force and the changes introduced by the fourth directive on money laundering. Also in December, the external auditors, directors and internal auditors were given a training session on the regulatory changes that have occurred since Legislative Decree 135/2016 came in to force (implementing Directive 2014/56/EU which amends Directive 2006/43/EC on the statutory audits of annual and consolidated accounts).

The Board of Directors and the Board of Auditors, in light of this 1st update of 6 May 2014 of Bank of Italy Circular No. 285 of December 17, 2013, which, among other things, suggests appropriate *training plans to ensure that the wealth of technical skills required by members of the management and control bodies and the heads of the key business functions to perform their roles responsibly, is preserved over time*. They have worked hard to ensure that the training programme to be put in place for the year 2017 not only takes into account the training needs that emerged from the process of self-assessment, but also includes the training needs identified in the 2015 assessment that, for the reasons outlined above, were not administered. The acquisition of the former GE Capital Group Interbanca S.p.A. on 30 November 2016 has also increased the size and expertise of the Bank (Lending, Factoring, financial and operational Leasing), introducing the need to develop training plans that guarantee a high knowledge of every aspect dealt with by Banca IFIS Group.

4.3. Role of the Board of Directors (as per Article 123-b, para. 2, letter d), CFA)

During 2016, 21 meetings of the Board of Directors were held, each lasting around four and a half hours. Attendance percentages are shown in Table 1 attached to this report.

From the start of 2017 until the date of approval of this document, 5 Board meetings were held, including the one in which the "Report" was approved. The number of Board meetings in 2017 is expected to be in line with last year.

To fulfil the obligations established for listed issuers by Article 2.6.2 of Borsa Italiana S.p.A.'s Market Regulations, the Board of Directors annually approves the Corporate Events Calendar, to be notified to Borsa Italiana, for disclosure to the public, within 30 days from the end of the previous financial year.

The Directive Transparency II (2013/50/EU), implemented in Italy by Legislative Decree no. 25 of February 15, 2016, removed the obligation to publish interim management reports but retains the right to reintroduce periodic information in addition to financial and six-monthly reports, albeit only under certain conditions and subject to regulatory impact analysis as to costs and benefits. This provision has been integrated into the Issuer's Regulation through the inclusion of the new article 82-c, in view of which, Banca IFIS has announced the choice of continuing to produce and publish quarterly information, in accordance with previous practice, in accordance with the Borsa Italiana rules for the STAR segment and to ensure continuity and regularity of information to the financial community.

Therefore, the dates fixed for the Shareholders' Meeting to consider the Annual Statement and the Board of Directors' meetings to approve the draft budget and the quarterly/half-yearly reports have been entered into the Calendar.

The 'Regulations on the convening and functioning of Board of Directors' Meetings', last updated on 13 October 2015, establish that:

- the documentation supporting discussion of agenda items is made available to each Director and Statutory Auditor, using suitable means, by the end of the third working day before the

date fixed for the meeting, except in urgent cases when documentation is made available by the end of the day before the meeting and in any case as soon as possible;

- this documentation will be sent or made available, on the President's order, by the Bank's Corporate Affairs Department;
- Where the President deems it advisable due to the topics and related resolution involved – also in order to avoid risk of disclosing confidential information, possible given the means of communication used and quite apart from the intentions of those concerned – the briefing documentation can be provided directly at the meeting, advising Directors and Statutory Auditors of this beforehand by the deadline indicated above so that, if they deem it appropriate, they can access the information at the Company's registered office by the end of the day before the meeting and in any case as soon as available.

The procedures and time limits for sending the documentation to the Board as described above were normally observed during 2016. The situation whereby the President identified the opportunity to provide documents directly during a meeting almost never arose. This occurred in negligible percentage terms with respect to the totality of the issues addressed by the Board, mainly for the provision of more accurate versions of communications to be disseminated on periodic financial reporting, that is during negotiations concerning purchases or sales of non-performing receivable portfolios, as well as during the acquisition of the ex-GE Capital Interbanca Group.

The assessments that emerged at the annual Board of Directors' self-assessment (concluded during its meeting of January 16, 2017) showed that an improvement of the opinions expressed by the directors regarding the process of making documentation available regarding agenda items, also in terms of the timing and content of the materials, the content of the minutes as well as the frequency of meetings. On this last point, the ideas for improvement that emerged in the previous year concerning the possibility of increasing the number of meetings to better manage joint discussion and the treatment of topics, also meant that the Directors' opinion would improve. The average duration of a Board meeting was held to be consistent with the nature of the meeting itself (e.g. informative, advisory, decision-making) and commensurate with the quantity and complexity of the matters to be discussed, the number of participants and the documentation to be examined. Finally, the technical conduct of the sittings, coordination of meetings, the level of detail of the issues were maintained satisfactorily in line with the prior year assessments.

Pursuant to the Articles of Incorporation, Board meetings are attended by the General Manager in a consulting role. The Board of Directors have chosen the Corporate Affairs Office to be the office responsible for carrying out the duties that the Articles of Association entrusts to the Secretary for preparing reports and minutes. In addition, pursuant to the above 'Regulations', the President can invite managers or other employees of the Company to attend Board meetings, as well as other parties or external advisors whose presence is deemed useful in relation to the matters to be addressed.

During 2016, the Head of Corporate Affairs attended the meetings.

Speakers also included:

- the Financial Report Officer, the Accounting Manager and the *Investor Relations Officer*, especially where financial reporting documents were presented;
- the managers of Counterpart Assessment and Trust Assessment sections (or other employees at these facilities) to assist the Board in assessing trust practices;

- The Head of the Organisation & Information Systems Area, the Head of Strategic Planning and Management Control and the Head of the NPL Business Unit and other unit managers when topics addressed concerned their related activities and responsibilities.

Lastly, the Head of *Internal Audit*, the *Chief Risk Officer and the Compliance* and the Head of the Anti-Money Laundering Unit presented their reports and work plans directly to Directors, in accordance with current Bank of Italy supervisory regulations.

Finally, representatives of the consulting firms, Parente & Partners, KPMG, Clifford Chance and Banca IMI attended some Board meetings to support the Bank during the acquisition of the ex-GE Capital Interbanca Group.

Pursuant to Article 14 of the Articles of Association, besides the duties that, mandatorily, cannot be delegated, the matters deemed to be the exclusive prerogative of the Board of Directors include:

- the business model, strategic guidelines and operations, as well as business and financial plans;
- the internal audit system guidelines, ensuring that they are consistent with the strategic and risk appetite measures established as well as being able to keep up with the evolution of the business risks and the interaction between them;
- defining the identifying criteria for the most important operations to be subjected to prior approval by the risk control function;
- updating the Articles of Association to regulatory requirements;
- strategic guidelines and operations, as well as the Group's business and financial plans;
- the purchase and disposal of equity investments, companies and/or company branches leading to changes in the group, or investments or disinvestments exceeding 1% (one percent) of the shareholders' equity reported in the Company's last approved financial statements.

Based on strategic indications, size objectives and additional qualitative-quantitative elements of the Strategic Plan, the ICAAP Report and a document setting out the attention and alarm limits for the main risk indicators are drawn up and approved annually by the Board of Directors. In accordance with the requirements of the Supervisory Provisions for banks, as defined by Bank of Italy Circular 285, the ICT Strategic Plan was also approved.

In 2016, the Board of Directors also approved some documents that are part of the review process of organisational structures and informational events initiated by the Bank; the extension of the scope of the group resulted in the need to update several internal regulation documents including the General Regulations and Group Regulations, the system of delegation, the internal rules on accounting and the internal control system.

The Board assesses the Company's general performance, during examination of the financial reports governed by Article 154-c of the CFA and during the comparison (expected after approval of the mid-year results) between the planning objectives and actual results and in correspondence with the other documents provided by the strategic planning process.

The Board also continually assesses, as part of its responsibilities, the appropriateness of the Bank's organisational, administration and general accounting set-up.

The suitability of the organisational, administration and general accounting set-up of the Bank's subsidiaries is evaluated by the Board of Directors by means of certain corporate *governance* and *control* tools, identified in the 'Group Regulations' which define the roles of the Parent Company and its subsidiaries, as well as defining management/coordination activities in both the strategic-management and technical-operational control fields.

Regarding the companies, Interbanca S.p.A., IFIS Leasing S.p.A., IFIS Factoring S.r.l. and IFIS Rental Services S.r.l., the Board was provided with all the tools necessary to start, during the negotiation stage, some considerations regarding the ownership structure of future subsidiaries; the governing body with strategic oversight. In fact, the CEO regularly briefed the Board not only on the evolution of relations with counterparts but also on the sharing of documents between the ex-GE Capital Interbanca Group and Banca IFIS structures.

In this context, the Board of Directors could have also taken note of the Companies' existing internal control systems and assess their potential consistency with the system adopted by the Bank. These reflections led, at the end of the acquisition process, to the establishment of a special directive for the adapting the structures and internal control systems of the new subsidiaries to those of the Banking Group.

Description of the organisational model characteristics of the Group's Internal Control System and the variation of the activities carried out by the Group's control units (that is, in the scope of the Parent Company's management and coordination activities over its subsidiaries) is contained in the "Group Internal Control System Document" and in the Regulations Governing Control Functions.

Pursuant to the provisions of the Articles of Association highlighted earlier, the Board has the prerogative of prior review and approval of the transactions of the Issuer and its subsidiaries, when such transactions are of significant strategic, economic, equity or financial importance. In such cases, the following *process* is adopted: the Board of Directors mandates the C.E.O. to perform a feasibility study of the transaction, in order to assess the risks and opportunities. This study must contain all the parameters necessary to permit informed decision-making by the Board of Directors. The Board, after having reviewed the feasibility study, can either approve the transaction or ask for further in-depth analysis.

The Board has not established general criteria to identify transactions of significant strategic, economic, equity or financial importance for the Bank since these operations can only be approved by the Board itself, during the planning process or, as has occurred to date, because of key points that modify already-approved strategic objectives and risk appetite.

The Board examined the issue of general criteria to identify transactions with associated parties of significant strategic, economic, equity or financial importance for the Bank when it approves the 'Procedure for Transactions with Associated Parties'. In addition, the Board, at its meeting of 10 November 2016, approved updates to the Policy regarding risk controls and conflicts of interest arising for associated parties and the procedure for transactions with associated parties, following a favourable opinion of the Appointed Executive, of the Board of Auditors and the Risk and Control Committee in its make-up of independent directors.

As previously stated, the Board of Directors, during its meeting of 16 January 2017, and considering the provisions and instructions provided by the Bank of Italy, concluded its annual evaluation on the functioning of the Board and its Committees as well as on their size and composition. This evaluation process was carried out by means of distributing a questionnaire, in the weeks prior, which varied according to the role of the person due to complete it (e.g. the President of the Board of Directors, Members of Internal Committees etc.).

This evaluation was carried out considering the usual elements, such as Members' professional characteristics and experience, both managerial and general, as well as their seniority in office, also with a view to preparing the opinions to be expressed to the shareholders on those figures whose presence on the Board is deemed appropriate.

With regards to the evaluation methods used, first, the President chose the staff within the Bank to manage this process that fit the criteria set by the Bank in the Self-Assessment Process Regulations. During the self-assessment process, the designated individual (Head of Corporate Affairs) was assisted by an external professional, Mr. Ferdinando Parente, from the company Parente & Partners S.r.l., who previously undertook a technical assistance and consultancy role to ensure the process complied with the main obligations of the Bank.

The consultancy role mainly focussed on preparing the questionnaire and helping Corporate Affairs to define the quantitative and qualitative assessment criteria for the members of the Board of Directors and in the following self-assessment as to whether each Member meets the relative requisites.

After preparing the questionnaire, Mr. Parente provided support during the following phases of the self-assessment process:

- investigation: helping to gather the information and data on which the assessment was based, also through interviews with the Board Members involved;
- processing: helping to analyse the information acquired and presenting the results;
- collating the results of the process within a specific document.

The questionnaire, in addition to having an opening section in which general questions to the Director are included (such as age and education), consists of two main parts: (i) Evaluation of the Board of Directors and (ii) Self-assessment of skills.

Specifically, the questionnaire contained the following sections:

- Qualitative composition of the Board of Directors;
- Functioning of the Board of Directors;
- The Board of Directors' strategic role;
- The degree to which the Board of Directors is involved in defining risk propensity and the preparation of suitable information on risk performance;
- Information flows and circulation of information;
- Evaluation of the remuneration and incentive system for Board Members;
- Evaluation of the President of the Board of Directors;
- Self-assessment of the President of the Board of Directors;
- Evaluation of the Chief Executive Officer;
- Self-assessment of the Members of the Committees set up within the Board of Directors.
- Self-assessment of skills.

The section dedicated to Self-assessment of skills aims to assess if the following knowledge and skills exist within the Board of Directors:

- regarding laws and regulations applying to the activities carried out;
- regarding specific areas ensuring the sound and prudent management of the Bank.

The information gathered, through the completion of the questionnaire, is evaluated by the Board and the overall results help to define the actions to be taken to resolve any weak points identified.

The questions contained in the questionnaire required an answer in the form of a rating from 1-5 where one is the lowest score and five is the highest.

In general, the 2016 evaluations are significantly better than those achieved in 2015. This difference is partly the result of the new composition of the Board of Directors appointed by the Shareholders' Meeting of 22 March 2016.

These desired results were achieved in 2015: improved gender diversity, and the role of independents, which made the composition of the Audit Committee more efficient. The number of meetings held was deemed adequate. The documentation in support of the resolutions was adequate. It was found that more focus was required on training sessions and cognitive study and discussion.

It should also be noted that the areas with a relatively low score, although assessed as satisfactory, were those where the Board was involved strategically and the degree to which the Board was involved in defining risk appetite and on adequate information on the progress of risk.

The Shareholders' Meeting has not authorised any exceptions to the ban on competition envisaged by Article 2390 of the Italian Civil Code.

4.4. Delegated Bodies and Officers

C.E.O.s

In the model applied by Banca IFIS:

- Strategic supervision is performed by the Board of Directors;
- The management function has been assigned to the C.E.O. The General Manager also performs management functions;

Management powers cover the following main areas:

- Human resources management;
- Granting and use of credit;
- Treasury;
- Spending management.

Distribution of management powers is calibrated at a decreasing rate according to the levels of authorisation, from the Board of Directors down to operating units.

The most significant limits in terms of value and area are summarised below, whilst systematic information flows also exist concerning the exercise of powers at any given time, as well as compliance with related quantitative limits:

Human resources management	Regarding human resources management, the C.E.O. is responsible for decisions concerning the start, management and cessation of executives' employment, without prejudice to the authorities maintained by the Board for relations with key managers and/or those in staff functions serving the Board and in any case without prejudice to the Board prerogatives on managers of control functions established by the supervisory provisions for banks.
Granting and use of credit	<p>The system of delegations for the assumption and management of credit risk was, on a case by case basis, appropriate to the evolution of the business model and to the organisational structure, with a view to coherence with the strategic directions and the limits set by the Risk Appetite Framework.</p> <p>The Chief Executive Officer, at the time of drafting this Report:</p> <ul style="list-style-type: none"> • may authorise the assumption of credit risks up to €30m per counterpart for the business of financing companies operated under the brand name Credi Impresa Futuro; • form part (together with the General Manager and the Business Unit Manager) of the Committee authorised to purchase portfolios of non-performing loans up to a maximum of €30m; • may purchase tax credits up to a maximum of €10m; • may approve mortgage operations within the context of the commercial offer to pharmacists up to €1.5m; • may decree suspension/waiver of legal action, adherence to agreed budgets, the filing of claims up to €4m; • may alter deadlines and/or define repayment plans for amounts of up to €10m; <p>Within the scope of risk positions assumed by the Board of Directors, the C.E.O. is also granted the following powers:</p> <ul style="list-style-type: none"> • to suspend, revoke and resume operations; • to change the amount of risk, convert its technical form and change its operational characteristics without worsening the overall risk position;

	<ul style="list-style-type: none"> to distribute risk in terms of 'loans to couples', loan duration, debtor's ceiling (individual or group) and multiple group credit line.
Treasury	<p>The Treasury management system was also adjusted during 2016, in view of the enlargement of the scope of the Banking Group and the funding needs of the newly acquired companies.</p> <p>The powers of the Chief Executive Officer, at the time of drafting this report, can be summed up as follows:</p> <ul style="list-style-type: none"> asset repurchase operations, liabilities deposits and financing repurchase operations up to 24 months; stock trading within the limits set by the Board of Directors. <p>The total financial leverage limit is 5 times the consolidated net equity while the financial leverage limit for shares with a residual maturity greater than 18 months is 2.5 times the consolidated net equity.</p>
Spending management	<p>Within the annual forecasts contained in the Budget approved by the Board of Directors, the following engagement and spending powers are attributed to the CEO:</p> <ul style="list-style-type: none"> generally, up to €1,000,000 for expense provision decisions regarding lease assets and liabilities, whose single yearly calculation is contained within a limit of €200,000 disposal or destruction of movable assets in general, no longer considered useful to the Company, even if not fully depreciated, and the deletion from the inventory of unused assets, within the limit of the original cost of the individual asset of €150,000

Pursuant to Article 15 of the Articles of Association, in emergencies, the C.E.O. can take decisions concerning any deal or transaction that is not the sole prerogative of the Board of Directors, immediately informing the President and notifying the Board at its next available meeting.

The CEO, Mr. Giovanni Bossi, holds the position of CEO of the company, Interbanca S.p.A., controlled by Banca IFIS Banking Group and a bond issuer listed on MOT [an Italian bond market operated by Borsa Italiana]. Therefore, the situation of *interlocking directorate* does not apply.

President

The President has not been given any management powers.

As he is the majority shareholder, the President, via the corporate governance mechanisms described in this report and particularly at Shareholders' Meetings, plays a significant role in determining corporate strategies.

Executive Committee (as per Art. 123-b, paragraph 2, letter d) CFA)

The Articles of Association do not envisage the setting up of an Executive Committee.

Reporting to the Board

During 2016, the CEO carried out two deliberations as a matter of urgency in accordance with Article 15 of the Articles of Association, the most important of which was the authorisation of a higher *binding* offer price within the limits set out for that role.

The Board received reports on the exercising of management powers at different intervals depending on the type of power involved.

The rules for reporting on the use of powers are summarised below:

Report on liquidity status	monthly
Composition of investment securities portfolio	monthly
Credit-granting activity	monthly
Report on use of spending powers	quarterly

Report on use of HR management powers	half-yearly
Incentive system (report on criteria adopted by Senior Management)	annually

4.5. Other Executive Directors

There are no other Directors considered Executive Directors because they hold:

- office as the C.E.O. or President of a strategically significant subsidiary;
- management positions in the Bank or in a strategically significant subsidiary or in the Parent company.

In addition to the C.E.O., the definition of 'Executive Director' also includes the Vice President in relation to activities promoting the corporate image and commercial development in some foreign markets.

4.6. Independent Directors

The Board performs its own assessments of the requirements established by the Corporate Governance Code for Directors classified as independent at the first meeting after appointment by the Shareholders' Meeting. It also assesses, periodically, the Directors' level of independence. On 22 April 2016, following its appointment, the Board ascertained that four of its Members (Giuseppe Benini, Francesca Madera, Antonella Malinconico and Daniele Santosuosso) met independence requirements as per the criteria contained in the Corporate Governance Code for Listed Companies, making the outcome of its assessments known by means of a communication to the market.

In addition, the Board of Statutory Auditors, pursuant to Application Criterion 3.C.5. of the Corporate Governance Code, checked, on the same date, the application of the criteria and of the scrutiny procedures used by the Board of Directors to assess the independence of its Members and deemed it compliant with the indications provided by the Corporate Governance Code.

The Board of Directors, annually check the independence requirements provided for by the Corporate Governance Code and by paragraph 3 of Article 148 of the CFA regarding the Directors Giuseppe Benini, Francesca Maderna, Antonella Malinconico and Daniele Santosuosso. The last check was performed at the Board meeting of 22 December 2016.

At its meeting of 6 February 2017, the Board of Statutory Auditors verified whether the criteria and procedures adopted by the Board on this occasion had been correctly applied.

The independent directors have not considered it necessary to hold official meetings in the absence of other administrators considering that the Control and Risk Committee, consisting in its entirety of independent directors, and part of the Appointed Committee and Remunerations Committee, formed mostly by non-executive independent directors, has provided sufficient opportunities for communication between themselves. In addition to which, during 2016, the independent directors have often asked for advice on a variety of subjects, maintaining both short, lively discussion between themselves, and alongside committee meetings and Board of Directors' meetings.

As of the date of this report, those Directors who, in the lists for nomination to the Board (March 2016) had indicated their suitability to qualify themselves as independent, maintained their independence.

4.7. Lead Independent Director

In line with the guidelines established by the Corporate Governance Code for Listed Companies, as the President of the Board of Directors is also the majority shareholder of La Scogliera S.p.A. and thus controls Banca IFIS, the Board of Directors has designated an independent Director as *Lead Independent Director*. The latter has the task of being the point of reference and coordination for Directors' requests and contributions of (non-executive and, particularly, independent) and improving Board operations, also ensuring that information flows between Directors are constant and effective. The Lead Independent Director has the power to call, when deeming it appropriate or at the request of other Directors, specific meetings solely for independent Directors for significant matters relating to Board operations and/to company operations in general.

On 22 March 2016, the Board of Directors appointed Mr. Giuseppe Benini as *Lead Independent Director* for the period 2016-2018, confirming the choice already made for the years 2013-2015.

In his capacity as President of the Control and Risk Committee, the *Lead Independent Director* guided its activity and encouraged the good conduct of its meetings primarily with respect to those with the Board of Directors to discuss specific topics, in the areas of competence and through exchange with the reference manager, reporting, where necessary, to the Board a summary of this preliminary inquiry.

Finally, the *Lead Independent Director* played an active role within the Bank's operations with related parties and associated subjects, ensuring timely analysis and discussion on quarterly reports and on the list of subjects surveyed, stimulating dialogue focussing on preventive decisions that existing procedures reserve for members of the Control and Risk Committee composed of independent directors.

5. Processing of corporate information

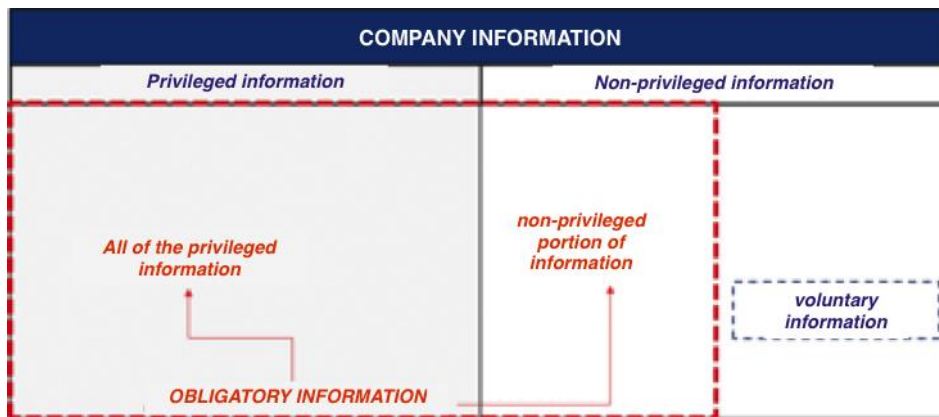
At its meeting of 20 September 2016, the Board approved an update of the "Corporate Information Management Policy" adopted under the applicable criterion at 1. C. 1, letter j of the Corporate Governance Code. The proposal was examined from a preliminary and appraisal-oriented perspective during a joint meeting of the Risk Management and Internal Control Committee and the Supervisory Board pursuant to Legislative Decree no. 231/2001.

The entry into force of EU regulation no. 596/2014 (so-called *Market Abuse Regulation*) has made it necessary to review the document to make it conform to new EU derivation rules. The amendment also affected the name of the document (previously called "Group Regulation") which now is consistently classified as an internal regulatory source. Finally, we took the opportunity to adapt the contents of the document to the changed organisational structure of the Bank by analytically describing the tasks and responsibilities of the organisational units involved in the process.

The Corporate Information Management Policy regulates in detail the identification, internal management and disclosure of privileged information, as well as the internal management and external communication of Corporate Information other than information of a privileged nature. It also regulates tasks and responsibilities regarding dealings with the financial community.

We consider Corporate Information to be any information and/or news concerning Banca IFIS and/or Financial Instruments issued by it that is not in the public domain and that has been generated within the Bank itself.

The scope of relevant corporate information for policy purposes is as follows.



5.1 Adopted definitions

Privileged Information: information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more Issuers or to one or more Financial Instruments and which, if made public, could have a significant effect on the prices of those Financial Instruments or on the price of related derivative Financial Instruments.

We consider information to be of a precise nature if it refers to a set of existing circumstances or that can reasonably be expected to occur or to an event that has occurred or which can reasonably be assumed that will occur and if such information is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or that event on the prices of Financial Instruments or of related derivative Financial Instruments. In that regard, if a prolonged process that is intended to achieve, or that determines, a particular circumstance or a particular event, said future circumstances or future event, as well as milestones of this process that are connected to the realisation or the determination of the future circumstances or event can be considered as precise information.

An intermediate step in a protracted process is considered Privileged Information if it meets the criteria set out in this definition in relation to Privileged Information.

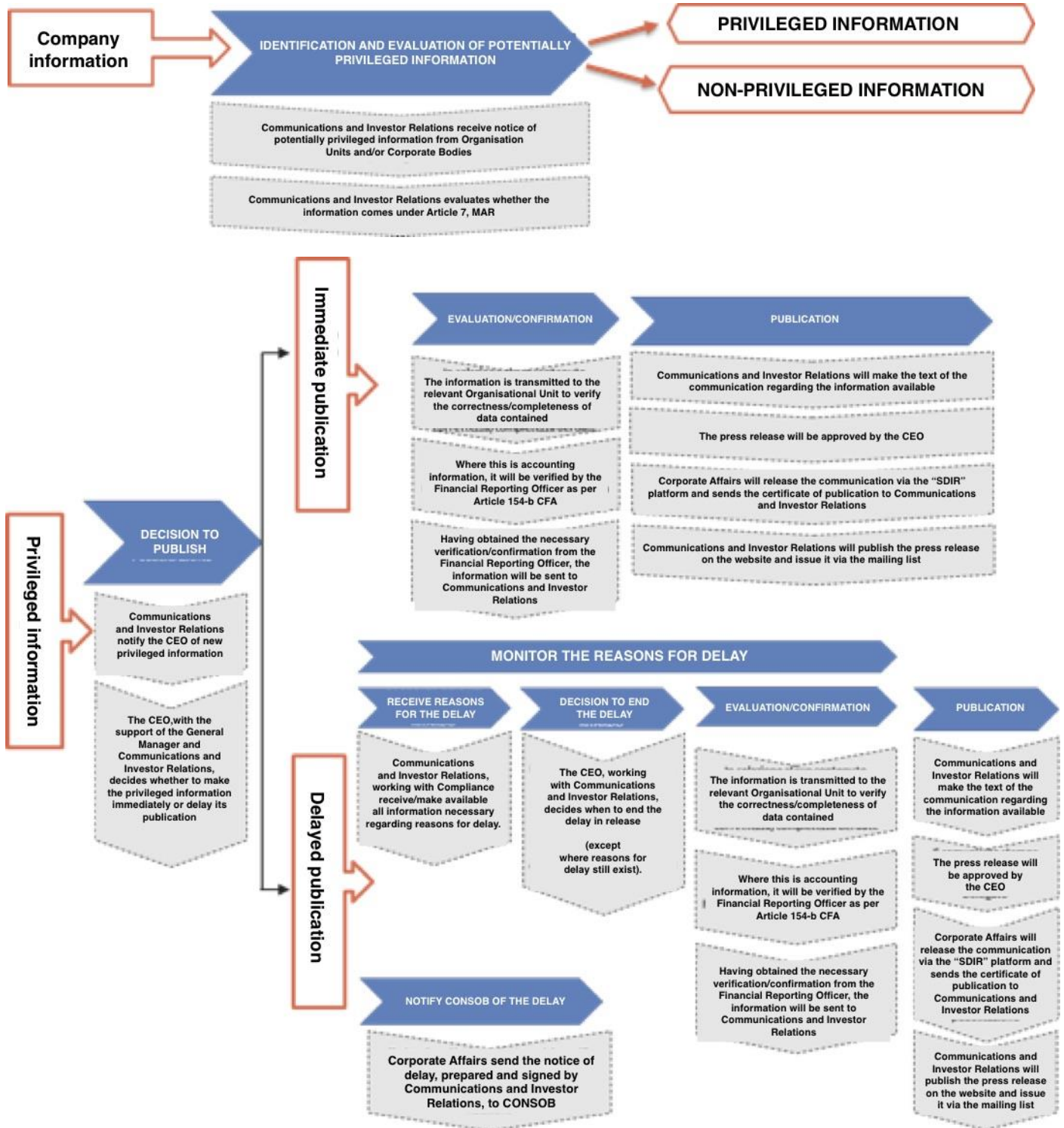
For information which, if communicated to the public, would probably have a significant effect on the prices of Financial Instruments and/or derivative Financial Instruments, that is a piece of information that a reasonable investor would probably would use as one of the elements on which to base their investment decisions.

Delayed Privileged Information: information that has been classified as privileged per the meaning of the Policy, but it has been decided to delay disclosure in accordance with what is specified below.

Systematically Important Privileged Information: this is Privileged Information whose disclosure poses the risk of compromising the financial stability of Banca IFIS and the financial system. This includes, but is not limited to, information concerning temporary liquidity problems and the need for temporary liquidity support from a Central Bank.

5.2 Internal management and external communication of Privileged Information, Delayed Privileged Information and Systemically Important Privileged Information.

Below is a graphical representation of the process of internal management and external communication of Privileged Information, Delayed Privileged Information and Systemically Important Privileged Information.



5.3 Internal management and external communication of Obligatory Information (other than Privileged Information)

All Obligatory Information is managed by the process governed by applicable external regulations and internal guidelines.

The information contained in "Information and Communication Plan" prepared under the "Recovery Plan" which the Bank is drawing up, is managed in accordance with the same provisions, notwithstanding what is covered in this policy regarding Privileged Information.

If the Obligatory Information is Privileged Information, the provisions of paragraph 5.2 will apply.

Once the preparation process is complete, the Obligatory Information, except any Privileged Information, are released to the public via means decided on a case by case basis and provided for by the rules in force, as well as those considered appropriate by Communications and Investor Relations.

5.4 Meetings with the financial community

The Bank holds regular meetings with the financial community. During these meetings, information is provided on operating performance as well as other relevant data that, while not likely to significantly affect the price of Financial Instruments issued by Banca IFIS, can still influence the course of business. For this reason, the Bank will give prior notification to the market regarding the date and time of the meetings and will send to the same authorities the information material provided to participants.

By the conclusion of meetings, Banca IFIS publishes the summary of the topics covered, if it is not already public, using both the "SDIR" platform, and the Bank's corporate website, giving evidence of NIS codes and time of transmission.

6. Internal Board Committees (as per Article 123-b, para. 2, letter d), CFA)

The following Committees existed within the Board of Directors:

- The Risk Management and Internal Control Committee, consisting of four Non-Executive and independent Directors, as better explained in Section 10;
- The Appointments Committee, consisting of three Non-Executive Directors, two of whom are independent, with an independent President, as better explained in Section 7;
- The Remuneration Committee, consisting of three Non-Executive Directors, two of which being independent, with an independent President.

The Board of Directors has also appointed a Supervisory Body equipped with autonomous powers of initiative and control pursuant to Legislative Decree no. 231/2001, currently chaired by an external member and composed of three permanent members (two independent directors and the Head of Internal Audit), all more specifically specified in the third paragraph of Section 11.

No function of one or more Committees has been reserved to the entire Board, under the President's coordination, as required by the Corporate Governance Code.

No further committees have been set up in addition to those reported in this section.

7. Appointments Committee

Composition and role of the Appointments Committee (as per Article 123-b, para. 2, letter d) CFA)

The Appointments Committee must be made up of at least three Members chosen from among the non-Executive Members of the Parent Company's Board of Directors, the majority of whom must be independent.

The Committee therefore consists of the Director, Giuseppe Benini (independent and non-Executive), the Director, Riccardo Preve (non-Executive), and, in the capacity of President, the Director, Daniele Santosuosso (independent and non-Executive).

The Regulations governing the Appointments Committee allow the President of the Parent Company's Board of Statutory Auditors, or another Statutory Auditor delegated by him on a case by case basis, to attend. The other members of the Board of Auditors may also participate. The C.E.O. and the General Manager of the Parent Company may also take part where the topics to be discussed do not concern them.

The Committee may avail itself and/or request the presence of:

- external consultants, which can be chosen from among the Members of the Parent Company's Board of Directors, provided that such experts do not, at the same time, provide the Parent Company and/or its subsidiaries, with services of such significance as to compromise the independent judgement of said consultants;
- any Corporate Officer or employee of the Parent company or of another Group company.

During 2016, the Appointments Committee met four times to discuss the topics within their competence. The meetings lasted 45 minutes. the Corporate Affairs unit assisted the meetings in the usual way. In detail, the Bank's consultant, Mr. Ferdinando Parente, attended the first meeting; the second meeting (in concert with the Remuneration Committee) was attended by the CEO, the General Manager and HR manager; the third meeting was attended by the President of the Board of Auditors; and the last meeting of the year was attended only by members of the Committee.

For 2016, with plans for the renewal of roles, it is foreseeable that the Appointments Committee will also oversee, in addition to the process of self-assessment, the verification of professional requirements, integrity and independence expected from new members.

At the beginning of 2017, the Appointments Committee met twice to express its opinion, for the approval by the Board of Directors, on the summarised report on the self-assessment process that the Board started in November 2016 and concluded during the Board Meeting of 16 January 2017, and on the document regarding the optimal qualitative-quantitative composition of the Board of Directors.

Duties of the Appointments Committee

This Committee helps the Board of Directors and the other corporate bodies in the following processes:

- nominating and co-opting Directors; The Committee gives advice during the early assessment phase regarding the size and the best qualitative and quantitative composition of the Board of Directors, also in terms of Members whose presence on the Board is considered opportune and in terms of legal rules and regulations in force. The Committee also gives advice after the nomination process has taken place, checking that the size and the qualitative and quantitative composition of the Board considered optimal prior to this process and corresponds to the situation

after it; in cases of co-opting substitute independent Directors, the Committee proposes candidates to the Board;

- the self-assessment of corporate bodies; specifically, the Committee submits to the President of the Board of Directors proposals for the person or persons in charge of the self-assessment process of corporate bodies, with strategic supervision and management functions;
- verifying the existence of the requisites of professionalism, integrity and independence in those subjects with accounting, management and control roles, in compliance with Article 26 of Legislative Decree no. 385/1993 (The 1993 Banking Law);
- defining succession plans for senior management positions (C.E.O. and General Manager) due to expiry of mandates or for any other reason, to ensure business continuity and to avoid economic damage or damage to reputation.

Furthermore, this Committee:

- helps the Risk Management and Internal Control Committee to find and propose to the Board of Directors suitable candidates to nominate for managerial positions of control;
- gives its opinion to the Board of Directors on limits to the number of positions that Directors and Statutory Auditors can hold and on any departures from the non-competition clause as per Article 2390 of the Italian Civil Code.

The President of the Committee reports to the Board of Directors on activities carried out, at the next available meeting.

Committee meetings were properly documented in minutes and signed by the Members.

The Committee may access all company information deemed relevant for the performance of its tasks and may use, autonomously, the Bank's financial resources in the amount established by the Board and with the requirement of reporting the use of funds, at least once a year, usually during the review of the report on corporate governance and ownership structures.

The Board of Directors, with its resolution of 3 February 2015, allocated a budget of €60,000 per year to the Appointments Committee that can be used autonomously, with the requirement that this Committee reports back to the Board detailing its use of these funds as per the applicable regulations.

8. Remuneration Committee

Please refer to the relevant parts of the Remuneration Report published in compliance with Article 123-c of the CFA.

9. Directors' Remuneration

Please refer to the relevant parts of the Remuneration Report published in compliance with Article 123-c of the CFA.

10. Risk Management and Internal Control Committee

The Board has set up a Risk Management and Internal Control Committee within itself.

Composition and role of the Risk Management and Internal Control Committee (ex. Art 123-b, para. 2, letter d) CFA)

The Committee consists of independent and non-Executive directors, Giuseppe Benini (as President), Francesca Maderna, Antonella Malinconico and Daniele Santosuosso.

Its work is coordinated by the President and minutes are duly taken during its meetings.

During 2016, the Committee met 23 times, as shown in Table 1 enclosed with this report, with meetings lasting an average of one hour and forty minutes. 6 joint meetings have been held with the Board of Auditors and one joint meeting with the Board of Auditors, Appointments Committee and Remuneration Committee.

Since the beginning of 2017, until the date of approval of this document, the Committee met nine times, of which two was jointly held with the Board of Statutory Auditors.

It is expected that this Committee will not hold fewer meetings in 2017 than last year.

The Risk Management and Internal Control Committee is made up of four of the nine members of the Board of Directors chosen from among the independent non-Executive directors in accordance with Principle 7. P. 4. of the Corporate Governance Code. Members of this Committee must have the necessary knowledge, competence and experience to be able to fully understand and monitor the Bank's risk strategies and appetite.

At least one of its Members must have suitable experience in financial and accounting matters or in risk management, and this is assessed by the Board of Directors upon appointment. The Board of Directors has chosen Mr. Giuseppe Benini from among its independent members as President of the Committee, as he has the necessary experience in these matters. The Board's decision regarding Mr. Benini's experience was reached on his nomination, during its meeting of 22 March 2016 and again later during the self-assessment process for summit bodies.

In addition to the holding of joint meetings with the Board of Directors, with the Supervisory Body, pursuant to Legislative Decree 231/2001, and with the other committees within the Board of Directors, during its meetings, the Committee, also interacted, based on prior agreement and to address individual topics, with the C.E.O., the General Manager, the Financial Reporting Officer, the Compliance and Anti-Money Laundering Officers, the External Auditing firm, the *Chief Risk Officer* and the *Chief Operating Officer*. It systematically interacted with the Head of Internal Audit, who normally attends the Committee's meetings with a view to promoting collaboration between the various Internal Audit stakeholders. The Committee has again explored, in view of the investigation with respect to board jobs, with the Manager and other employees of Problematic Credit unit, the Head of Strategic Planning and Management Control, the Head of Organisation, the Head of Non-Performing Loans, the Head of NPL Development Organisational Unit, the Head of Trust Assessment, the Head of Counterpart Assessment and the Head of Tax Credit Evaluation Business Unit, the Head of Banca IFIS Impresa in Italy, *Privacy and Security Management* and Head of Complaints.

It is normal for the Head of Corporate Affairs and/or other Members from this Office to be invited to Risk Management and Internal Control Committee meetings.

Duties of the Risk Management and Internal Control Committee

The Committee provides its preliminary opinion to the Board of Directors on:

- The Risk Management and Internal Control System Guidelines;

- The adequacy of the Risk Management and Internal Control System with respect to the company's characteristics and to the assumed risk profile, as well as its efficacy;
- the work plan prepared by the Head of *Internal Audit*;
- the main characteristics of the Risk Management and Internal Control System and its adequacy;
- the results presented by the external auditor in the letter of recommendations, if any, and in the report on the main issues which came up during the external audit.

With regards to the appointment and revocation of the Head of *Internal Audit* and the allocation of resources suited to the fulfilment of their responsibilities by the Board of the Directors, the Risk Management and Internal Control Committee is required to provide its favourable opinion (which is binding).

When aiding the Board of Directors, the Risk Management and Internal Control Committee:

- evaluates, together with the Financial Reporting Officer, and in consultation with the External Auditor and of the Board of Statutory Auditors, the correct application of accounting standards and their uniformity for preparing the consolidated financial statement;
- expresses opinions on specific aspects pertaining to the identification of the main corporate risks;
- examines the periodical reports covering the evaluation of the Risk Management and Internal Control System, and those of relevance prepared by the *Internal Audit Office*;
- monitors the autonomy, adequacy, efficacy and efficiency of the *Internal Audit Office*;
- may ask the *Internal Audit Office* to carry out checks on specific operational areas, at the same time notifying the President of the Board of Statutory Auditors;
- examines the annual plans of the Control Office/Departments and the reports on their implementation;
- identifies and proposes, with the contribution of the Appointments Committee, the heads of the corporate control functions to be appointed;
- contributes, through reviews and opinions, to defining the company policy regarding the outsourcing of business control functions;
- ensures that all corporate audit departments correctly conform to the indications and guidelines approved by the Board of Directors and assists the latter in developing the document to coordinate control functions and the group and company internal control system, in general.

Regarding the tasks relating to management and control of risks, the Committee acts as support to the body with strategic supervisory function:

- in defining and approving strategic direction and risk management policies. Within the RAF [Risk Appetite Framework], the Committee carries out evaluation and proposal activities necessary for the Board of Directors to define and approve the risk objectives and the tolerance threshold;
- in verifying correct implementation of strategies, of risk management policies and of the RAF;
- in defining policies and the evaluation processes for corporate activities, including verifying that the price and terms of transactions with customers are consistent with the business model and risk strategies.

Without prejudice to the powers of the Remuneration Committee, the Committee ascertains that the incentives underlying the Bank's remuneration and incentive system are consistent with the RAF.

The President of the Risk Management and Internal Control Committee reports to the Board of Directors at the first available meeting, on the activities carried out, on the possible activation of financial autonomy, as well as on the adequacy of the risk management and internal control system. The President of the Committee, where necessary, evaluates the appropriateness of possible further forms of reporting.

Regarding transactions with related parties and/or affiliated subjects, the Risk Management and Internal Control Committee (consisting of independent Directors only), also performs the functions assigned to it by the Board of Directors, as governed within the scope of the 'Procedure' in force.

During 2016, the Committee's activity regarded the following key guidelines:

- procedure for transactions with related parties (obtaining prior opinion from independent Directors and receiving a quarterly report on trends in these positions);
- presentation and implementation of the audit Programme Plan 2016-2018 and of the other reports provided for by the *Internal Audit* supervisory legislation;
- discussion with those responsible for Risk Management, Anti-Money Laundering and Compliance in their respective plans and annual reports, on the quarterly Tableau de Bord then sent to the Bank of Italy, and on ICAAP and RAF reporting;
- preparatory work for the Board of Directors for matters concerning:
 - quarterly evaluations on receivables and other financial statement items, in view of the periodic financial reports;
 - dialogue with the Financial Reporting Officer and with the company responsible for auditing the accounts;
 - dialogue with the head of the Business Continuity Plan and with the executives responsible for ICT governance (strategic plan, reports, disaster recovery and business continuity tests and plans);
 - Internal regulations (organisational policies, processes and procedures);
 - Management of corporate projects;
 - Management trends and prospects;
 - Liaison with Supervisory Authorities.

In the first meeting of 2017, the Committee actively participated in the process which led the Board to express a positive assessment on the fact that the Audit and Risk system is aligned with the principles laid down in section I of Chapter 7 of Heading V of Bank of Italy circular 263 and that business control functions meet the requirements and comply with the provisions of section III of the quoted Supervisory Regulations.

The President of the Board of Statutory Auditors - or another Auditor delegated by the President on a case by case basis - assists with the Committee's work. If deemed appropriate in connection to the issues to be discussed, the Risk Management and Internal Control Committee and the Board of Statutory Auditors meet jointly.

Committee meetings were properly minuted and signed by the Members.

The Risk Management and Internal Control Committee may access all company information deemed relevant for the performance of its tasks and may use, autonomously, the Bank's financial resources in the amount established by the Board and with the requirement to report on any use of these funds.

The Board of Directors has allocated the Risk Management and Internal Control Committee annual budget of €60,000, to be used autonomously, subject to reporting to the Board on their use of funds.

11. Risk Management and Internal Control System

Under the strategic plan, the Board of Directors has defined the nature and level of risk compatible with the strategic objectives of the Bank, including in its assessment all risks which may be deemed significant from a perspective of medium to long term sustainability.

The definition of the Group Strategic Plan enables:

- precise presentation of the risk/return objectives to be pursued;
- assessment of the consistency of the strategic objectives of profitability and market share with the operating limits, the risk appetite and risk capacity (consistency between business strategy, Risk Appetite Frameworks - "RAF" - , and ICAAP);
- checking of the consistency of the strategic objectives expected compared both with the competitive environment in which Banca IFIS and its subsidiaries operate and with the results achieved in previous years.

Banca IFIS Banking Group's strategic planning process is based on a three-year strategic plan approved by the Board of Directors on a yearly basis. This Plan annually adjusts the strategic prospects drawn up in the previous document and extends their temporal horizon to the following year. The 2016-2018 Strategic Plan, approved in March and updated in July, does not consider the prospects for enlarging the Group's scope, since the strategic guidelines relating to the purchase of the ex-GE Capital Interbanca Group were subsequently formalised in the transaction's licence application sent to the Bank of Italy.

The Parent Company's Board of Directors defines the Group's RAF that - in line with the group *risk capacity*, with the Group's *business model* and with the Group's strategic plan - establishes, both at overall group level and for its individual components, the risk appetite, the tolerance thresholds, the risk limits, the risk governance policies and the processes necessary to define and implement them.

In the group RAF, the circumstances, including the results of the stress scenarios, are specified, which the CEO uses, with the support of the Parent Company's Risk Management unit and the business structures concerned, to define and implement specific containment actions.

The risk objectives and the tolerance levels are presented also considering:

- capital adequacy;
- profitability;
- overall liquidity position.

Besides the Group "RAF", the Parent Company's Board of Directors defines:

- A. within the "Group Policy for Assessing Capital Adequacy" and "Group Policy for Managing Significant Risk":
 - the Group's capital adequacy assessments process (ICAAP);
 - the Group's processes for managing significant assumed and assumable risks;
- B. within the ordinary credit management policies - the latter being Business Unit-specific - as well as the consent policy:
 - the lending process adopted by every single Parent Company BU;

- the ways in which subsidiaries must apply for Parent Company consent to implement resolutions passed regarding particular types of transactions.

During 2016, the process for preparing a restructuring plan has begun. Directive No. 59 of 15 May 2014 "Bank recovery and Resolution Directive" (BRRD) has introduced a common crisis management framework in the EU for banking intermediaries and investment firms. As well as identifying the tasks and powers of the national crisis management authorities, it has identified specific obligations for brokers aimed at ensuring they adopt timely measures designed to prevent default. In this context, the Italian Legislature, during November 2015, enacted Legislative Decree No. 181/2015, which is intended to modify the CBA and the CFA to implement European obligations on the recovery of banks and investment firms. The new Article 69-e governs the introduction of the recovery plan that, in the context of bank self-regulation, creates the reference framework for the internal management of deteriorating financial and equity positions. This plan would be situated ideally between the internal control system and the resolution system (introduced by BRRD).

Following the acquisition of the ex-GE Capital Interbanca Group, at the request of the Board of Directors, further consideration was given to the need to extend the document's scope of reference.

Consistent with the strategic directions and the risk appetite established, the internal control system can identify the evolution of corporate risks and the interaction between them. The Internal Control System consists of a collection of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of various goals, including containment of the risk within the limits indicated by the RAF. The Risk Management and Internal Control System also:

- contributes to managing the company in a manner consistent with corporate objectives laid down by the Board, encouraging informed decision-making;
- helps to ensure the safeguarding of company assets, the efficiency and effectiveness of business processes, the reliability of information provided to governing bodies and to the market, compliance with laws and regulations, as well as the Articles of Association and internal procedures.

The Board of Directors approved the document "Internal Control System Guidelines" that defines:

- a) the principles underlying the Internal Control System;
- b) the internal control system's development process, with comprehensive division of the governing bodies' tasks regarding the stages of: a) design of the internal control system; b) implementation of the internal control system; c) evaluation of the internal control system; d) external communication regarding the internal control system;
- c) the elements that characterise risk governance;
- d) the organisational control model;
- e) the control roles and tasks assigned to the organisational units that carry out the company's control functions;
- f) the liaison methods between organisational units that carry out the company's control functions;
- g) the information flows between the organisational units that carry out the company's control functions and between the organisational units and the corporate bodies.

The Parent Company, Banca IFIS, formalises and informs its subsidiaries of the criteria governing the different stages that constitute the risk management process. It also validates the risk management process within the group. The Parent Company decides on the adoption of the internal risk-measurement systems and determines its essential characteristics, assuming responsibility for implementing the project, as well as overseeing the correct functioning of the systems and their constant methodological, organisational and procedural adjustment.

The Parent Company also issues its subsidiaries with directives for the design of the company's internal control system. The subsidiaries adopt an internal control system that is consistent with the Group's control strategy and policy, subject to compliance with applicable regulations on an individual basis. It is, however, necessary that the Parent Company, while respecting local constraints, adopts all initiatives intended to ensure standards of control and protective measures that are comparable to those provided for by Italian supervisory regulations, including in cases where foreign legislation does not provide for similar levels of attention.

The internal control system was designed considering the applicable rules and peculiarities of the business practised both by Banca IFIS and its subsidiaries and provides, generally, for the institution of all corporate control functions. The only exceptions are the companies mentioned below, according to their operating characteristics as well as the limited level of risk to which they expose the Group:

- IFIS Rental Services S.r.l.;
- IFIS Finance Sp. z o.o.².

The overall assessment of the internal control system is based on "system assessments" and "operation checks".

System assessments are performed by verifying that the choices regarding rules, information procedures and organisational structures are consistent:

- a) with external regulatory and legislative requirements ("conformity assessment");
- b) with internal prescriptions that are not reflected in external regulations or, in the absence of internal regulations, with market standards identified ex ante, consistent with the objectives defined and the operations being implemented ("adequacy evaluations").

Operation checks are carried out to ensure the regularity of the activities being performed, in respect of:

- a) external regulatory and legislative requirements and any relevant internal regulation that implements the same ("compliance audits");
- b) with internal regulations that are not reflected in the external legislation or, in the absence of internal regulations, with the market standards identified ex ante, consistent with the objectives defined and the operations being implemented ("adequacy evaluations").

The Board of Directors plays a key role in assessing the effective functioning of the risk management and internal control system which is important for the sustainability of the issuer in the medium to long term. As already reported, at their first meeting of 2017, the Board of Directors, noting the Risk Management and Internal Control Committee's assessment, expressed a positive assessment on

² Companies which, in compliance with local requirements, provide for the appointment of a member of its Board as head of its anti-money laundering obligations.

the fact that the internal control system and the corporate organisation are aligned with the principles indicated in section I, Chapter 7, Title V of Bank of Italy Circular 263, now contained in Part One, Heading IV of Bank of Italy Circular 285 (11th Update of 21 July 2015).

a) Key characteristics of the risk management and internal control systems in relation to the financial reporting process

a.1. Introduction

Regarding the financial reporting process, the Risk Management and Internal Control Systems are components of the same overall 'System', which is designed, among other things, to ensure the trustworthiness, accuracy, reliability and timeliness of financial reporting.

To ensure appropriate protection and correct mitigation of the risk of erroneous financial reporting, Banca IFIS has a specific analysis *framework* that crosses the various business processes and which seeks to identify and control the main risks that the Company is exposed to in the execution of the relevant transactions that generate the information contained in the financial statement and any other information of a financial nature.

Application of the *framework* is designed to ensure accuracy, reliability and timeliness of financial reporting, integrating it with the overall risk management and internal control system.

The provisions in the Articles of Association concerning the 'Finance Director' ('Finance Director'), the appointment of the present Finance Director, the Group Risk Management Policy for erroneous financial reporting, the updated "Financial Director's Scope of Activity" and the "Finance Director's Regulations and the Monitoring and Control of Financial Information", approved by the Board of Directors comprise, together with the overall set of administrative and accounting procedures, the collection of measures adopted by the Bank to cover the risk of erroneous financial reporting.

The *framework* consists of several levels of analysis that, together, define adequate Group administrative and accounting procedures. It is based on the principles and guidelines defined by *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organisations of the Treadway Commission* (known as CoSO) and by the *Control Objectives for Information and related Technology* (known as CobiT), considered internationally accepted reference models.

The *framework* analysis levels are as follows:

- Process level controls: these are checks carried out at the process level. Their implementation provides evidence that adequate administrative and accounting procedures are applied in order to ensure effective internal control over financial reporting;
- IT *General Controls* or "ITGC"): these are controls that operate at the corporate level and are specifically related to the Information Technology management processes supporting execution of business processes; they relate, for example, to software maintenance and acquisition processes, physical and data security management, application development and maintenance, etc.

a.2. Description of key characteristics of present risk management and internal control systems in relation to the financial reporting process (the "System")

The process of managing the risk of erroneous financial reporting and the modes of collaboration and coordination between the Monitoring and Control of Financial Information structure (which is

overseen by the Finance Director), the Accounting and Budgeting section and the Bank's other structures and bodies are defined within the Group Policy to manage the risk of erroneous financial reporting, approved by the Board of Directors. Accounting and Budgeting section is delegated to perform administrative and accounting tasks, as well as producing financial reports with the contribution of the Finance Director and certified by the latter pursuant to Article 154-b of the CFA.

a.2.1 Phases of the risk management process regarding erroneous financial reporting

The operational approach that characterises the overall fraud risk management process is structured, consistent with the phases of the risk management process adopted by the Bank, in the following sub-processes:

- **Identification:** the Monitoring and Control of Financial Information structure, with operational support from the Accounting and Budgeting section, identifies entities and the process steps to be included in the scope of verification activities. The significance of subsidiary companies is assessed annually based on the criteria adopted.
- **Risk assessment:** the risks identified are evaluated in terms of potential, considering the relevant frequency (number of cases where the error may be encountered) and severity (level of potential loss resulting should the error occur). Subsequently, the Monitoring and Control of Financial Reporting structure evaluates the adequacy of the defined organisational safeguards in terms of risk prevention relating to erroneous financial reporting and consistency with the external legislation in force, in addition to the main best practices disseminated nationally and internationally (so-called assessment of *control* design).
- **Monitoring:** Monitoring and Control of Financial Reporting structure, in considering the adequacy expressed on the administrative and accounting procedures, it verifies that the identified controls are put into practice in the manner and frequency prescribed and are tracked with filing of the relevant evidence (so-called verification of the effective application of control)
- **Mitigation:** the evaluation of the adequacy and the actual application checks can highlight possible deficiencies in organisational safeguards laid down for reducing the risk of erroneous financial reporting. On receipt of the results of evaluation and monitoring activities, the Organisation will define, with the support of the Monitoring and Control of Financial Reporting and Accounting and Budgeting, corrective action and/or actions for strengthening the safeguards already in place.
- **Reporting:** the Monitoring and Control of Financial Reporting department prepares a report every six months which it shares with the Chief Executive Officer and subsequently presents it to the Board of Directors, to the Risk Management and Internal Control Committee and to the Board of Statutory Auditors. The report shows the checks carried out, their results and any problems encountered. The Financial Reporting Officer uses the suitability and effective application checks for the administration & accounting procedures to provide the certification required pursuant to Article 154-b, paragraph 5, of Legislative Decree no. 58/98.

a.2.2 Roles and functions involved

In light of the important responsibilities conferred, the Financial Reporting Officer is attributed appropriate powers and resources to perform the functions of the role, as detailed in the last paragraph, number 11.5. The Financial Reporting Officer receives all cooperation necessary from all the Bank's organisational units to carry out their activities, having been guaranteed free access to all locations, all information, all accounting records and all documents relating to the task. If necessary, the FRO may also request information or documents held by external suppliers, through the relevant internal

reference point for the outsourced activity. Finally, the Financial Reporting Officer may agree with each organisational unit involved in the process, the procedures for transmitting the information flows necessary to accomplish its activities.

The Financial Reporting Officer, in performing his/her activities, has access to the Monitoring and Control of Financial Reporting section, for which he/she is responsible. This section assesses the completeness, appropriateness, functionality and reliability of the internal control system, focusing on producing financial reports and managing erroneous reporting risk.

The Monitoring and Control of Financial Reporting section works closely with the Finance, Organisation and Operations Departments, each in relation to their own activities.

Internal Audit assesses the completeness, adequacy, functionality and reliability of the management of risk of incorrect financial reporting.

As part of the management and coordination activities exercised by the Parent Company over Group Companies, the Parent Company's Accounting and Financial Reporting Office issues administrative and accounting guidance to be followed by the appropriate departments.

To this end, the Parent Company's Financial Reporting Officer, as part of the management and coordination activities exercised by Banca IFIS over its subsidiaries:

- establishes adequate administrative and accounting procedures for the preparation of the consolidated financial statement;
- confirms by an appropriate report attached to the consolidated financial statement:
 - the above guidance is punctually and adequately reflected in IFIS Finance's reporting;
 - that the annual management report contained in the consolidated financial statement includes a fair review of IFIS Finance's economic and financial situation, together with a description of the principal risks and uncertainties to which it is exposed.

We must emphasise that Banca IFIS's new corporate structure, following the acquisition of the ex-GE Capital Interbanca Group which was completed on November 30, 2016, has impacted directly on the risk management process of erroneous financial reporting.

Since the subsidiary Interbanca's Articles of Association provide (even if the company is not listed) for its own FRO, pending the implementation of the corporate simplification process undertaken by the Group, financial management and coordination responsibilities are given to the Parent Company's FRO; within this context, Interbanca's FRO is therefore required to:

- to carry out quarterly controls that ensure, for each individual entity within the ex-Interbanca Group, the adequacy and effective application of the administrative and accounting procedures for the preparation of financial reports. These checks are conducted in compliance with the Parent Company's provisions and summarised in an appropriate checklist prepared and updated annually (if the need arises) by Banca IFIS's Monitoring and Control of Financial Reporting section.
- to release, based on checks carried out, the quarterly confirmation/declarations sent to the Parent Company's Financial Reporting Officer regarding the adequacy and effective application of administrative and accounting procedures for the preparation of periodic financial reports (quarterly, half-yearly, yearly). These confirmations sent to the Parent Company's Financial Reporting Officer will be released in time for the Parent Company's Board of Directors to approve the consolidated financial statement.

The Parent Company's Financial Reporting Officer 1659 analyses certifications issued by Interbanca's Financial Reporting Officer and checks the latter's control results carried out for the purpose of proper consolidated financial reporting. Any critical issues emerging will be summarised in a report prepared by the Parent Company's Financial Reporting Officer, submitting it for the attention of the Board.

11.1. Head of the Risk Management and Internal Control System

The Board of Directors, appointed by the shareholders at the Ordinary Shareholders' Meeting of 22 April 2016, has confirmed the C.E.O. as Head of the Risk Management and Internal Control System. In his managing role, he constantly reported back to the Board of Directors on all aspects of corporate management, including verification of the overall adequacy, effectiveness and efficiency of the Risk Management and Internal Control System.

Furthermore, the CEO:

- coordinated the preparation of Group Policies for the control and management of principal corporate risks and their presentation to the Board of Directors for approval on a case by case basis (compliance risk, operating risk, credit risk, interest rate risk, concentration risk, IT risk);
- coordinated the preparation of the document, 'Group and Individual Internal Control System – Guidelines', its presentation to the Board of Directors for approval and any subsequent amendments made to it;
- oversaw the adaptation of this system to changes in operating conditions due to the legal and regulatory frameworks governing them.

During 2016, there was no need for the C.E.O. to report to the Risk Management and Internal Control Committee, or to the Board of Directors, as no critical problems were encountered by him while carrying out his role, and no problems were reported to him by others.

11.2. Head of *Internal Audit*

Since mid-2006, the position of Head of *Internal Audit*, reporting to the Board of Directors, has been held by Ruggero Miceli. The *role* assigned to the *Internal Audit* office by the relevant regulations approved by the Board of Directors includes verification that the Risk Management and Internal Control System is always complete, adequate, fully operational and reliable.

Mr. Miceli was appointed at the Board meeting held on 4 August 2006, as Head of overseeing the functionality of the Risk Management and Internal Control System. Based on the supervisory provisions and corporate governance rules in force at the time, no other nominations were proposed.

At the time of hiring, Mr. Miceli's remuneration package was approved by a Committee from within the Board that, at the time, had duties similar to the current Remuneration Committee. Remuneration policies for corporate officers, employees and associates of Banca IFIS Banking Group approved by the Shareholders' Meeting subsequently decided to exclude him from *stock option* plans, as with other managers of control functions, as established by supervisory requirements regarding organisation and corporate governance in the banking sector. The mechanism for possible variable salary components is governed within the scope of 'policies' approved by the Shareholders' Meeting, and requires the opinion of the Remuneration Committee and the authority of the Board of Directors.

Following the acquisition of the ex-GE Capital Interbanca Group, Mr. Ruggero Miceli also holds the position of Interbanca's Head of Internal Audit.

Internal Audit is not responsible for any operational area and is provided with resources on a case by case basis that are adequate to carry out its activities. *Internal Audit's* position within the organisational chart as a *staff function* of the Board of Directors, in addition to assuring its independence - consistent with Bank of Italy guidance and with sector *best practice* - facilitates the appropriate exchange of information with the Risk Management and Internal Control Committee, with the Board of Statutory Auditors and, in general, with corporate bodies and officers.

The Group's *Internal Audit* Regulations require the Parent Company's *Internal Audit Office* to define a plan of activities that, basing itself on a structured process of analysis and prioritisation of the main risks, considers the different levels of risk involved in the various activities and structures of the Parent Company and of its subsidiaries.

The Audit Programme Plan lists the control activities planned for the three-year period (multi-year plan) and contains a separate and detailed presentation of the activities planned for the first 12 months (annual plan). A specific section of the *Audit Programme Plan* is dedicated to *ICT auditing* activities.

Without prejudice to coordination of and cooperation with other control functions, considering the importance of the activities programmed by second-level control functions, the Audit Programme Plan is not usually presented until the Parent Company's Risk Management, Compliance and Anti-Money Laundering control units have submitted their own programmes of activity to the corporate bodies.

The Audit Programme Plan is forwarded simultaneously to the Board of Statutory Auditors, to the Risk Management and Internal Control Committee, to the President of the Board of Directors, to the Head of the Risk Management and Internal Control System (also the C.E.O.) as well as to the Parent Company's General Manager for subsequent review by the Board of Directors. The Programme Plan is updated any time it is deemed necessary, upon request from corporate bodies and/or when proposed by the Head of *Internal Audit*.

During 2016, the Head of *Internal Audit*:

- had direct access to all information useful to perform all functions;
- interacted constantly with the Risk Management and Internal Control Committee, with the Board of Statutory Auditors and with the Supervisory Body pursuant to Legislative Decree no. 231/2001 (of which the Head of Internal Audit is a member) regarding, among other things, his own work;
- submitted reports of all activities to the Risk Management and Internal Control Committee, to the Board of Statutory Auditors, to the President of the Board of Directors and to the Head of the Internal Control and Risk Management System (i.e. the C.E.O.), as well as to the General Manager;
- reported on his own work to the Board of Directors providing, regarding the processes and/or areas subject to audit, adequate information on the activity carried out, as well as Internal Control System and residual risk checks, including through instructions on compliance of the plans defined to mitigate risks. The quarterly reports (tableau de bord), the Annual report and any other reports and documents on specific and important topics fall within this scope.
- carried out specific activities concerning the reliability of information systems and accounting systems.

During approval of the 2016-2018 *Audit Programme Plan*, the Board of Directors also confirmed the decision-making autonomy of the Head of *Internal Audit* concerning training of Audit Office staff, purchase of publications and payment of association subscriptions, as well as assignment of further economic resources of €100,000, that can be used independently by the Head of *Internal Audit* for external consultancy.

The main activities carried out by the Head of *Internal Audit* during 2016, based on the above-mentioned *Audit Programmatic Plan*, concerned, to varying degree according to risk level, both the Parent company (Banca IFIS S.p.A.) and the subsidiary, IFIS Finance Sp. z o.o.

His work mainly referred to the following areas of operation: business loans, *non-performing loans*, general ledger, important outsourced operational functions and managing corporate liquidity. Work was also carried out concerning cross-corporate processes not directly ascribable to specific business areas, second-level corporate control functions and the IT system.

Besides the quarterly reports (Tableau de Bord) and the Annual report on work performed, in compliance with the requirements of Supervisory Bodies, the Head of *Internal Audit* also prepared specific reports concerning:

- assessments regarding the subsidiary, IFIS Finance Sp. z o.o.;
- remuneration policies;
- the ICAAP process;
- governance and management of liquidity risk;
- important outsourced operational functions;
- general ledger and regulatory reporting;
- Recovery Plan;
- internal violation report systems (*whistleblowing*).

Internal Audit also interacted with second level control units regarding the areas of risk they cover.

Internal Audit worked alongside BDO Sp. z o.o. to assist with *audit* activities performed on the Polish subsidiary.

11.3. Organisational Model as per Legislative Decree no. 231/2001

Banca IFIS, sensitive to the needs to ensure transparency and fairness in its business dealings, to safeguard its institutional role and image, the expectations of shareholders and those who work for and with the Bank, has deemed the implementation of the Organisational & Management Model envisaged by Legislative Decree no. 231/2001 to be consistent with its corporate policies.

This initiative was also taken in the conviction that application of the Organisational Model is a sound means of informing those who work for the Bank, spurring them to act fairly and consistently when performing and conducting their activities, to prevent the risk of perpetration of the crimes referred to in Legislative Decree no. 231/2001.

The Bank condemns conduct contrary to current legislative requirements and to the principles set out in the Bank's Code of Ethics. The application and effective implementation of the Model improves the Bank's *Corporate Governance*, limiting the risk of crimes being committed.

In preparing the organisational model, updated in 2015 in correlation to the requirements set out in Law no. 68 of 22 May 2015 and in Law no. 69 of 27 May 2015, Banca IFIS has used the guidelines

issued by the ABI (Italian Banking Association) for the adoption of organisational models in relation to banks' administrative responsibility. These guidelines provide orientation for the interpretation and analysis of the legal and organisational implications stemming from the introduction of Legislative Decree no. 231/2001.

The subsidiaries, Interbanca, IFIS Factoring and IFIS Leasing, will have their own Organisational Models.

Crimes pursuant to Legislative Decree no. 231/2001

At present, the rules in question refer to the following types of crime:

- crimes in dealings with Public Administration;
- computer crimes and unlawful processing of data;
- organised crime;
- counterfeiting of coins, legal tender, government stamps and identification instruments or signs;
- crimes against industry and trade;
- some types of corporate crimes;
- crimes with terrorist intent or aiming to subvert the democratic order;
- mutilation of female genitals;
- crimes against the person;
- market abuses;
- crimes (manslaughter and negligently causing serious or grievous bodily harm) committed because of violations of occupational health and safety regulations;
- receiving, laundering and use of cash, assets or other benefits of unlawful provenance, as well as self-laundering (as from 1 January 2015);
- copyright breaches;
- convincing people to be silent or to make false statements to court authorities;
- environmental crimes;
- employing illegal workers;
- corruption between private individuals.

To fully observe and interpret the Parent Company's Organisational Model, as well as those of subsidiaries, IFIS Leasing, IFIS Factoring and Interbanca, Supervisory Bodies have been established for each.

The Board of Directors, at its meeting of 22 March 2016, confirmed the choice, already expressed at its meeting of 13 November 2013, not to attribute Supervisory functions, as per Legislative Decree 231/2001, to the Board of Statutory Auditors. This topic was extensively discussed at the Board Meeting of 19 January 2016, also regarding the opinion formulated by the Appointments Committee and based on the guidelines concerning the qualitative and quantitative composition of company bodies to be made available to shareholders in view of the renewal of roles. The Board decided not to propose to the Shareholders' Meeting that the role of Supervisory Body, as per Legislative Decree 231/2001. In addition, with a view to the gradual improvement of the corporate structure, the possibility of adding an external member with specialist expertise to the Supervisory Body was discussed at the meeting.

The Body, following resolution of the Board of Directors appointed by the Shareholders' Meeting of 22 April 2016, is currently chaired by the external member, Mr. Andrea Martin and is composed of another three permanent members: the Directors, Giuseppe Benini and Daniele Santosuosso, and the Head of Internal Audit, Ruggero Miceli.

The Body holds office for three years and meets at least once a quarter. Meetings are regularly minuted, which are recorded in the minutes' register. The President of the Supervisory Board, or other component designated by the President on a case by case basis, reports to the Board of Directors, at the first possible meeting, on the activities carried out and, where this is the case, the activities being carried out and/or planned, as well as on any autonomous financial activity.

This Body is equipped with autonomous powers of initiative and control, pursuant to Legislative Decree no. 231/2001 "Protocol for the administrative liability of legal persons, companies and associations, even without legal personality".

Insofar as it is applicable, the Organisational Model adopted by the Bank also applies to its subsidiaries, considering the current Group structure, particularly regarding:

- Group Regulations;
- Code of Ethics;
- Group Accounting Manual;
- Proxy Systems;
- Group policies;
- Company procedures.

The Supervisory Body's Regulations are available on the Bank's website, in the section "Corporate Governance – The Value of Ethics".

11.4. External Auditor

The Shareholders' Meeting of 17 April 2014 appointed Ernst and Young S.p.A. to audit the Company's annual financial statement and the Group's consolidated financial statement as well as the limited auditing of Banca IFIS's half-yearly interim report, for each of the nine financial years running from 31 December 2014 until 31 December 2022.

Ernst & Young S.p.A. were also assigned upon a separate agreement formalized, the auditing of financial statements of holding company "La Scogliera S.p.A." and the subsidiaries of Banca IFIS.

11.5. Financial Reporting Officer

On 12 April 2016, the Board of Directors appointed Mrs. Mariacristina Taormina as Financial Reporting Office with effect from 18 April 2016.

Pursuant to Article 19 of the Articles of Association:

- the Board of Directors, pursuant to Article 154-b of Legislative Decree No. 58/1998, appoint, subject to mandatory opinion from the Board of Auditors, a Financial Reporting Officer;
- the Financial Reporting Officer must be in possession of the integrity requirements laid down for the election to the role of statutory auditor by Article 2 of Ministerial Decree no. 162 of 30

March 2000 and the professional requirements envisaged for election to the Board of Directors of banks incorporated as a joint-stock company by Article 1, paragraph 1 of Ministerial Decree no. 161 of 18 March 1998.

The Board of Directors gives the Financial Reporting Officer autonomous spending powers, according to the Programme Plan of activities that it intends to implement. The Financial Reporting Officer must report periodically to the Board of Directors on the exercising of their spending powers.

The Financial Reporting Officer also has the right to:

- acquire from within the Bank information related to events, risk indicators or proposals for technical or organisational adjustments relating to administrative and accounting procedures;
- propose modifications to the internal control system where deemed appropriate;
- participate in Board meetings and those of the Board of Statutory Auditors and access the minutes of such meetings where the agenda includes the examination and/or the approval of the economic and financial data of the Bank, of the Group and of IFIS Finance.

Shown below are the Heads of the other company functions who have been assigned specific tasks on risk management and internal control:

- the position of *Chief Risk Officer* (CRO) is assigned to Mr. Kristian Tomasini. The Parent Company's *Risk Management* Department has an annual expenses budget, agreed upon with the Chief Executive Officer, according to the Programme Plan of activities presented;
- the role of Head of Compliance is attributed to Mr. Francesco Peluso who is allocated an annual budget of €25,000 that can be used for external consultancy, and it can be activated independently;
- the role of Anti-Money Laundering Officer is attributed to Ms. Giovanna Bazzaro to whom a similar annual budget is allocated.

The Heads of *Internal Audit*, Risk Management, Compliance and Anti-Money Laundering:

- must possess adequate professional expertise;
- are appointed and removed by the Board of Directors, after consulting with the Board of Statutory Auditors;
- have no direct responsibility for operational areas subject to audit;
- following the acquisition of the ex-GE Capital Interbanca Group, heads for the respective control functions within Interbanca were appointed.

The duties and responsibilities of above second level control Organisational Units are in line with the mentioned provisions for monitoring the internal control system enacted with Update no15. of Bank of Italy Circular No. 263/2006 and contained now in Part One, Heading IV of Bank of Italy Circular 285 (Update 11, 21 July 2015).

11.6. Coordination between parties involved in the Risk Management and Internal Control System

The *cross-membership* mechanisms and the non-excessive formation of committees, bodies and structures facilitate coordination between the subjects involved in the Risk Management and Internal Control System. During its meetings, the Risk Management and Internal Control Committee and the Board of Statutory Auditors interact frequently, subject to agreement and to discuss individual topics,

with the CEO, the Financial Reporting Officer, the External Auditing Firm, the *Chief Risk Officer*, the Head of Compliance and the Anti-Money Laundering Officer. They also systematically interact with the Head of *Internal Audit* who usually takes part in the meetings.

The Supervisory Body, pursuant to Legislative Decree. no. 231/2001, also benefits from the same *cross-membership mechanisms* and similar systematic methods when interacting with other parties involved in the Risk Management and Internal Control System.

At least quarterly, normally initiated by the Head of Internal Audit, the heads of organisational units who manage control functions take part in formal meetings to discuss and exchange views on the following issues:

- planning of respective major audit/control activities;
- analysis of main findings from actions taken, of remedial actions either underway or requested;
- status of various risk exposure levels;
- sharing of the risk map, also organised by organisational unit risk takers, and the potential significance of identified risks;
- sharing of reports, methods and terminology;
- as well as, in a more general sense, for a useful exchange of information and to analyse potential means of collaboration.

Meetings are subject to adequate traceability and, if it pertains to specific matters to be discussed, representatives of other organisational units may be invited to participate.

Finally, regarding modes of coordination between the parties involved in the Risk Management and Internal Control System, a specific web application has been developed to support reporting activities and the charting of possible improvement areas identified by the corporate bodies and by the Organisational and Control units, particularly regarding the Internal Control System.

As part of the Group Internal Control System, the Parent Company is responsible for the creation of a unitary system at Group level that enables the effective control of both the Group's strategic choices and the balanced management of individual components. In this context, the Parent Company will formalise and distribute the "Group Internal Management System Guidelines" to each Subsidiary.

Subsidiaries implement the "Guidelines" by adopting an internal control system that is consistent with Group strategy and policy, subject to compliance with applicable individual regulations. This consistency is brought about by the centralisation within Interbanca of compliance, anti-money laundering, internal audit and risk management functions (the latter function only partly) for IFIS Factoring and IFIS Leasing, and conferring the roles of heads of Interbanca's control functions to the heads of similar functions in Banca IFIS.

12. Directors' interests and related-party transactions

In November 2016, the Board of Directors approved - following favourable opinion from the Board of Auditors, the Risk Management and Internal Control Committee (composed of independent directors) and the Financial Reporting Officer - an update to the "Policy on risk controls and conflicts of interest in dealings with related-parties" and the "Procedure for related-party transactions" (a definition which embraces, in accordance with the Bank of Italy's supervisory provisions, "related parties" and subjects who are "connected").

The Policy, which outlines the approach that the Bank follows for an effective management of risks associated with conflicts of interest in transactions with related parties and connected subjects, and

the Procedure, which describes, among other things, the criteria for identifying transactions that must be approved by the Board after receiving opinion from (or involving) the Risk Management and Internal Control Committee is available on the website www.bancaifis.it (under "Corporate Governance – Corporate Documents – Group Regulations Regarding Related-Party Transactions").

The Board has not identified any need for further operating solutions to facilitate identification and appropriate management of situations in which a Director has an interest, either personal or on behalf of third parties.

13. Appointment of Statutory Auditors

The appointment of members of the Board of Statutory Auditors is regulated by Article 21 of the Articles of Association and takes place based on lists presented by shareholders on which candidates are listed in ascending order and with a number of candidates not exceeding the number of members to be elected. Each list consists of two sections: one for candidates for the office of Standing Auditor and the other for candidates for the office of Alternate Auditor.

A list can be presented by the shareholder or shareholders who, at the time of submission, own an equity interest equal to at least 1% of ordinary shares, or to another lower ownership threshold that – pursuant to current regulations – must be indicated in the notice convening the Shareholders' Meeting called to resolve the appointment of Statutory Auditors.

A shareholder can neither submit nor vote for more than one list, not even via agents or fiduciary companies. Shareholders belonging to the same group and shareholders forming part of a shareholder agreement concerning the Company's shares cannot submit or vote for more than one list, not even via agents or fiduciary companies. A candidate may only appear on one list or they are considered ineligible.

From the list that obtained the most votes, two standing auditors and one alternate auditor are elected based on the ascending numerical order in which they appear on the list; from the list that obtained the highest number of votes among the lists submitted and voted on by shareholders who are not connected with the majority shareholders in accordance with Article 148, paragraph 2 of Legislative Decree no. 58/1998, the candidate placed first in the standing auditor section of the list will be elected; the candidate placed first in the alternate auditor section of the list will be elected.

In the case of a tie between two or more lists, the oldest candidates will be elected as Statutory Auditors.

If the selection criteria do not ensure election to the Board of at least one Standing Auditor and one Alternate Auditor belonging to the least represented gender, a sliding mechanism is applied to the selection from the list obtaining, during the Shareholders' Meeting, the highest number of votes based on the ascending order in which the candidates are indicated. Such mechanism excludes the candidate or candidates of the more represented gender and reselects the candidate or candidates of the missing gender.

Presidency of the Board of Statutory Auditors is conferred to the Standing Auditor elected from the minority list mentioned above.

Outgoing Statutory Auditors can be re-elected.

If, notwithstanding the provisions of the Articles of Association, as indicated above, only one list is presented or only one list receives votes, three Standing and two Alternate Auditors will be elected – on condition that the list in question receives the majority of the votes represented at the Shareholders' Meeting – in the order in which they are indicated for the respective office on that list. The

Standing Auditor candidate indicated in first place on the list will be appointed President of the Board of Statutory Auditors.

In case of substitution of a Standing Auditor, his/her place is taken over by the Alternate Auditor belonging to the same list as the Auditor who has ceased to hold office.

If it is necessary to appoint standing and/or alternate auditors to complete the Board of Statutory Auditors following early termination of the auditors in office, the Shareholders' Meeting will proceed as follows: if auditors elected from the majority list must be replaced, the appointment of the auditor(s) takes place with majority voting, without list constraints. If it is necessary to substitute a Statutory Auditor designated by the minority, the Shareholders' Meeting will substitute him/her, with a relative majority vote, choosing the candidate from among the candidates on the list to which the Auditor to be replaced belonged, who have confirmed their candidacy at least 25 days before the date set for the Shareholders' Meeting in first call, together with statements concerning the absence of causes of ineligibility or incompatibility, as well as possession of the requirements needed to hold the office.

Lists must be submitted to the Company's registered office at least twenty-five days prior to the date set for the Shareholders' Meeting in first call, and are made available to the public at the registered office, on the Company's website and according to other methods provided for by regulations in force at least twenty-one days prior to the date of the Shareholders' Meeting in first call.

Ownership of the minimum number of shares needed to present a list is determined by taking into account the shares recorded in favour of the individual shareholder or multiple joint-shareholders on the day in which lists are submitted to the Company. To substantiate the ownership of the number of shares necessary for presentation of the lists, shareholders may exhibit the relevant certification, even after the submission of the lists, provided this is within the term set for publication of the lists by the Company.

The lists must be accompanied by:

- information relating to the identity of shareholders who presented the lists, stating the percentage of shares held;
- a declaration by shareholders other than those who own, including jointly, a controlling or relative majority interest, certifying the absence of connections to majority shareholders as set out in Art.144-e of the "Regulations implementing Legislative Decree no. 58/1998 regarding Issuers' Regulations" as well as any other significant relationships;
- comprehensive information on candidates' personal and professional characteristics, as well as a declaration by the candidates themselves certifying possession of the requirements established by law and acceptance of their candidacy.

Candidates who already hold Auditor positions in five other listed companies or who do not possess the integrity, professionalism and independence requirements set out in applicable regulations or that fall within the cases referred to in Article 148, para. 3 of Legislative Decree no. 58/1998 may not be included in candidate lists. Please note that Legislative Decree no. 72/2015 initiated a comprehensive reform of the regulations of the requirements of corporate officers, intended to integrate the objective requirements of integrity and professionalism with criteria of competence and propriety that will be incorporated in secondary legislation to be issued by the Ministry of Economy and Finance. As of the date of this report, the new legislation has not been defined by the Ministry.

Each list must indicate at least one candidate for the office of Standing Auditor and at least one candidate for the office of Alternate Auditor belonging to the least represented gender.

This requirement does not apply to lists with fewer than three candidates.

14. Composition and functioning of the Board of Statutory Auditors (as per Article 123-b, para. 2, letter d), CFA)

The membership of the Board of Statutory Auditors in office on the closing date of the 2016 financial year, as also shown in Table 3 attached to this Report, is as follows:

- President: Giacomo Bugna;
- Standing Auditor: Giovanna Ciriotto;
- Standing Auditor: Massimo Miani;
- Alternate Auditor: Guido Gasparini Berlingieri;
- Alternate Auditor: Valentina Martina.

The present Board of Statutory Auditors was elected at the Ordinary Shareholders' Meeting of 22 March 2016 for the years 2016, 2017 and 2018 and will expire on the date in which the Shareholders' Meeting called to approve the Annual financial statements for the year 2018 takes place.

A list of candidates was presented by the majority shareholder "LA SCOGLIERA S.P.A." and a proposal for the appointment of the Standing Auditor Giacomo Bugna, as President of the Board of Auditors and the Alternate Auditor, Anna Maria Allievi, by "Studio Legale Trevisan & Associates" on behalf of the following group of investors (total shareholding equal to 0.383%):

- Arca S.G.R., manager of the fund, Arca Economia Reale Equity Italia;
- Eurizon Capital S.G.R. S.p.A., manager of the funds, Eurizon Azioni Italia and Eurizon Azioni PMI Italia;
- Eurizon Capital SA, manager of the funds, Eurizon EasyFund-Equity Italy LTE and Eurizon EasyFund-Equity Italy;
- Fideuram Asset Management (Ireland), manager of the fund, Fonditalia Equity Italy.

The Group of shareholders confirmed the absence of affiliations and/or significant relationships with shareholders who hold, singly or jointly, controlling or significant majority stakes as set out in Article 147-c, 3rd paragraph, CFA and 144-e of the Issuer Regulations approved by resolution 11971/99 and, more generally, the Articles of Association and current legislation.

The majority shareholder, "LA SCOGLIERA S.p.A." presented to the Bank's Board of Directors a proposal regarding the allocation of fees to the Board of Auditors.

The list of candidates, the list of those elected and the percentage of votes obtained in relation to voting capital are shown below:

	List of candidates	List of those elected	Percentage of votes obtained
List submitted by the majority shareholder 'LA SCOGLIERA S.p.A.'	For the office of Standing Auditor		97.90%
	Giovanna Ciriotto Massimo Miani	Giovanna Ciriotto Massimo Miani	
	For the office of Alternate Auditor		
	Guido Gasparini Berlingieri Valentina Martina	Guido Gasparini Berlingieri Valentina Martina	
Proposed for appointment by "Studio Legale Trevisan & Associates" on behalf of a group of investors (total shareholding 0.0383%)	For the office of Standing Auditor and President		97.48%
	Giacomo Bugna	Giacomo Bugna	
	For the office of Alternate Auditor		
	Anna Maria Allievi		

Below we summarise the personal and professional characteristics of each Auditor (pursuant to Article 144-j of Consob's Issuers' Regulations) based on the statements provided by each of them and attached to the lists, as well as on any subsequent updates notified by those concerned.

President of the Board of Statutory Auditors – Giacomo Bugna

Mr. Bugna acquired his experience at a leading auditing firm, providing both auditing and *advisory* services for financial institutions.

In 1997-1998, he was responsible for introducing the certification of financial statements at the Bank of Italy. Since 2011, and until April 2014, he was a Member of the Board of the 'Fédération des Experts-comptables Européens' (Federation of European Expert Accountants), which groups together the professional associations of the 27 EU Member States

Standing Auditor – Giovanna Ciriotto

Director of the Board of Certified Public Accountants and Expert Bookkeepers of Venice, Director and Member of the same Board's continuous professional training commission, Ms. Ciriotto obtained a Degree in Economics and Business Administration from Venice's Università Cà Foscari. Since 2011, she has been a director of Fondazione Università Cà Foscari and is an expert on: company law and corporate governance, extraordinary transactions, property tax planning and consultancy, tax litigation. She is a partner with the accounting firm De Perini & Ciriotto, located in Venice.

Standing Auditor - Massimo Miani

Graduating in Economics and Business Administration from Venice's Università Cà Foscari, since 1989, Mr. Miani has been practising as a chartered accountant, specialising in corporate consulting for medium and large enterprises as senior partner of the accountancy firm, Burighel & Miani Associated Accountants. He has carried out and still carries out aspects of corporate governance and some extraordinary corporate transactions in leading national companies.

He held the office of Director and, later, Auditor and Supervisory Body member at Cassa di Risparmio di Venezia. He is currently Standing Auditor and Director in several medium to large companies.

Currently holds the position of President of the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili [National Council of Certified Public Accountants].

Alternate Auditor - Guido Gasparini Berlingieri

Mr. Berlingieri graduated in Business Management from Venice's Cà Foscari University. Since 1991, he has been registered in the Venice Albo dei Dottori Commercialisti e degli Esperti Contabili [Register of Certified Public Accountants] and the Albo dei Revisori Contabili [Auditors' Register] since 2011, he has worked as a founding partner in "GBA Studio Legale Tributario".

He is the author of many articles published in professional tax publications and is a speaker at numerous conferences. He was Professor of Tax Law at Venice's Cà Foscari University and a member of local and national study boards.

Currently holds the position of Standing Auditor in a local BCC [Cooperative Credit Bank].

Alternate Auditor – Martina Valentina

A graduate in Economics and Business Administration, since 1989, Ms. Valentina has been a member of the Venice Ordine dei Dottori Commercialisti e degli Esperti Contabili [Council of Certified Public Accountants] and owner of Studio Martina, based in Venice-Mestre.

Since 2013, she has held the position of Auditor of the Venice Ordine dei Dottori Commercialisti ed Esperti Contabili [Order of Public Accountants] and the Fondazione Dottori Commercialisti ed esperti contabili [Certified Public Accountants Foundation] of Marino Grimani, Venice. Since 2015, she has been a Director of the Associazione dei Dottori Commercialisti ed Esperti Contabili [Public Accountants Association] in Tre Venezie.

She is also Auditor in several companies in the Veneto region and insolvency administrator since 1993.

During 2016, the Board of Statutory Auditors met a total of 28 times at the Bank, during which it held discussions with the CEO, the General Manager, the three committees within the Board of Directors, the Supervisory Body pursuant to Legislative Decree no. 231/2001, the External Auditors, the Head of Internal Audit, the Financial Reporting Officer and the other control function organisational units as well as with numerous managers and employees of the Bank. Meetings lasted, on average, about two hours and forty minutes.

Since the beginning of 2017, until the date of approval of this report, the Board of Statutory Auditors has met six times, two of these was a joint meeting with the Risk Management and Internal Control Committee. The Board of Statutory Auditors is likely to hold a similar number of meetings during 2017 as it did in 2016.

There have been no changes in the Board of Statutory Auditors' composition since the close of the financial year.

Following their appointment at the 22 March 2016 meeting of the Board of Directors, the Board has provided for verification of confirmation of the integrity, professionalism and independence required from the Auditors, referred to in Article 148, paragraph 3 of Legislative Decree No. 58/1998, based on Affidavits set out in Italian Presidential Decree no. 445 of 28 December 2000. The results of these first checks were made known via a press release.

In addition, the Board of Statutory Auditors periodically checks the suitability of its Members to perform the functions of the control body in terms of professionalism, availability of time and independence, as well as its adequacy in terms of powers, functioning and composition, considering the size and complexity of Banca IFIS and of its business activities. During this verification, it has been confirmed that, in each instance, the Members of the Board of Statutory Auditors continue to meet the independence requirements as per all the criteria established by the Corporate Governance Code for Directors' independence. The Board of Statutory Auditors, at its Meeting of 6 February 2017, confirmed that its members continue to meet the independence requirements as set out by the Corporate Governance Code and Article 148, paragraph 3 of the CFA. In carrying out this evaluation, the Board of Statutory Auditors applied all the criteria set out by the Code.

As previously stated, during 2016, training activity has reduced compared with the previous year, mainly due to intense activity involving corporate bodies in connection with the acquisition of ex-GE Capital Interbanca Group. However, in December, the Board of Auditors was involved in the recommencement of training activity by the consulting firm Parente & Partners on the topics shown above. The remuneration of statutory auditors is commensurate with the effort involved, the importance of the role played and the size and activity of the business.

Consistent with the provisions of the Corporate Governance Code and pursuant to the provisions of Article 136, para. 1 of the Consolidated Banking Act ("Obligations of banking officers"), if a Statutory Auditor either directly or on behalf of third parties has an interest in a certain transaction carried out by the Issuer, he/she must inform the other Statutory Auditors and the President of the Board promptly and exhaustively about the nature, terms, origin and extent of his/her interest. The Statutory Auditors also fall within the scope of the 'Procedure for related-party transactions' discussed in Section 12.

As part of the coordination with the other stakeholders of the Risk Management and Internal Control System, the Board of Statutory Auditors primarily held discussions, as envisaged by the Corporate Governance Code, with *Internal Audit*, whose Head normally attends the Board of Statutory Auditors' meetings, and with the Risk Management and Internal Control Committee, as well as with the Appointments and Remuneration Committees whose meetings are normally attended by the President of the Board of Statutory Auditors.

During 2016, six joint meetings were held between the Board of Statutory Auditors and the Risk Management and Internal Control Committee, and one joint meeting with all three Committees formed from within the Board of Directors.

Table 4, to comply with the requirements of Bank of Italy Circular No. 285/2013 (Section VII, Chapter 1, Heading IV, Part 1) shows the number and type of positions held by the members of Banca IFIS's Board of Auditors at the time of submission of this report, based on information provided by them.

15. Relations with shareholders

The Bank has created some easily identifiable and accessible sections on its website, which make available information of importance to shareholders to enable them to exercise their rights in an informed manner. The following sections contain information of interest: "Corporate Governance" > "Shareholders' Meetings", "Institutional Investor Relations" and "Private Investor Relations".

With its resolution of 19 January 2012, the Board of Directors appointed the Head of Communications and *Investor Relations*, Ms. Mara Di Giorgio, as *Investor Relations Manager*. The Investor Relations Department reports to the C.E.O.

Since 2010, for annual operating budget purposes, Banca IFIS has also had an interactive website, to make economic and financial documentation available to the public. Banca IFIS also shares its main performance indicators via its social media channels, on release of yearly and quarterly results.

16. Shareholders' Meetings (as per Article 123-b, para. 2, letter c), CFA)

The duties of the Shareholders' Meeting are like those found in most listed Italian banks. Specifically, the Shareholders' Meeting:

- approves the annual report;
- appoints (applying the slate vote mechanism) and revokes membership of the Board of Directors, and establishes their remuneration;
- appoints (applying the slate vote mechanism) and revokes membership and presidency of the Board of Statutory Auditors, and establishes their remuneration;
- resolves on remuneration policies for directors, employees and contractors and receives reports on the same;

- resolves on remuneration plans based on financial instruments;
- resolves on transactions that involve amendments to the Articles of Association;
- resolves on other matters reserved for it by the Articles of Association or by law.

Shareholders' Meetings may also be held outside the Company's registered office, provided the venue is in Italian territory. The Shareholders' Meeting is held at least once a year, within 120 days of the end of the Company's financial year.

Shareholder's Meetings may be attended by holders of voting rights whose legitimacy the Company has had confirmed via authorised intermediary before the end of the third day of open trading preceding the date set for the Shareholders' Meeting in first call. The communication is made based on the evidence at the end of the seventh accounting day of open trading before the day set for the Shareholders' Meeting in first call.

The above is without prejudice to legitimate attendance and the exercising of the right to vote if such communication is received by the Company after the above deadline, providing this is before the start of the Shareholders' Meeting in single call.

Those who are entitled to vote may be represented at the Shareholders' Meeting, pursuant to the law, by means of written proxy or proxy granted by electronic means.

Electronic notification of proxy may be made using the special form available on the Company website.

The Company designates for each Shareholders' Meeting, as indicated in the convening notice, one or more individuals to whom the holders of voting rights can grant, following the methods established by applicable normative provisions, a proxy with voting instructions on all or some of the proposals on the agenda. The Proxy has effect only with regards to the proposals for which voting instructions have been provided.

With regards to the majorities for the validity of resolutions and the drafting of the minutes, reference is made to legal provisions, to applicable regulations, to the Articles of Association and to the Shareholders' Meeting Regulations.

Only shareholders who, singly or jointly, own at least 1% of ordinary shares at the time of submission have the right to submit lists to appoint members of the Board of Directors. A lower ownership threshold is possible – as per current legislation – and must be indicated in the meeting notice convening the Shareholders' Meeting called to vote on appointing members to the Board of Directors. A shareholder can neither submit nor vote for more than one list, not even via agents or fiduciary companies. Shareholders belonging to the same group and shareholders forming part of a shareholder agreement concerning the Company's shares cannot submit or vote for more than one list, not even via agents or fiduciary companies. A candidate may only appear on one list or they are considered ineligible. One Director must be taken from a list different from the one receiving the most votes. In the event of the latter's cessation from office during the mandate, the Board will first check the continued availability of the candidates appearing on the list concerned, according to its ascending order, and will then co-opt based on this criterion of preference.

The majority shareholder, "LA SCOGLIERA S.p.A." presented several motions to the Shareholders' Meeting regarding topics on which no specific proposal had been formulated by the directors, regarding the number of members of the new Board of Directors (9 members), their tenure of office (three years 2016-2018) and the allocation of compensation to directors and statutory auditors.

The 'Shareholders' Meeting Regulations', the current version of which was approved by the Shareholders' Meeting on 30 April 2013, governs the way meetings are held and function.

The "Regulations", which specify the maximum duration of individual contributions by attendees, their order, the voting procedure, the contributions of Directors and Statutory Auditors, as well as the powers to settle and prevent the occurrence of conflict during Shareholders' Meetings, is available on the internet site, www.bancaifis.it, in the section, 'Shareholders' Meetings'.

As per the Shareholders' Meeting Regulations, the President of the Meeting, also drawing on the assistance of Company personnel, checks: that proxies are correct, the right of attendees to take part in the Meeting and the Meeting's proper constitution.

All those who attend have the right to speak on each of the topics discussed. Those with rights may ask questions on the items on the agenda before the Meeting takes place, within the terms set out by the regulations in force and indicated in the notice to convene. Questions received before the deadline indicated in the notice will be answered, at the latest, during the Meeting. A single answer may be given to questions with the same content. Those who intend to speak must ask the President, by written request containing an indication of the topic to which the question refers, after the President has read out the agenda items and up until the President declares discussion of the related topic closed. As a rule, the President gives permission to speak according to the chronological order in which requests are submitted. If two or more requests are submitted simultaneously, the President gives permission to speak according to the alphabetical order of the requesters' surnames. The President can authorise the submission of requests to speak by a show of hands. In such case, the President gives permission to speak according to the alphabetical order of requesters' surnames. Members of the Board of Directors, the Board of Statutory Auditors and the Bank's Senior Management, or Senior Management of other Group companies, as well as the representatives of the External Auditors and Company and Group personnel may all ask to join the discussion when the President deems it useful in connection with the topic to be discussed.

During the Ordinary Shareholders' Meeting held on 22 March 2016, only one Member of the Board of Directors was absent. Thus, the number of directors that attended was 8. Two out of three members of the Board of Auditors were also present.

During the Shareholders' Meetings, the C.E.O., on behalf of the Board of Directors, makes himself available to report on the activity performed and planned by the Board, while observing the rules for privileged information. The Board, through reports made available to shareholders under the terms established by the CFA and through ongoing fine-tuning of the organisation of institutional communication via the website, is committed to ensuring that shareholders receive sufficient information on the items necessary to enable them to take informed decisions on the resolutions proposed at Shareholders' Meetings.

During the Ordinary Shareholders' Meeting of 22 March 2016, Francesca Maderna (President) and the two Members in post until the approval of 2015 Financial Statement, Andrea Martin and Daniele Umberto Santosuosso, were present from the Remuneration Committee. Shareholders were informed of the methods used in performing the Committee's functions as part of the Remuneration Report as per Article 123-c of the CFA.

During the financial year, no changes occurred in Banca IFIS S.p.A.'s control structure.

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

Date:	Share price (€)	No. of shares forming share capital	Capitalisation (€)
30 December 2015	28,83	53.811.095,00	1.551.373.868,85
30 December 2016	26,00	53.811.095,00	1.399.088.470,00

Source: Bloomberg, closing price (PX-LAST)

The capitalisation trend reflects the changes observed in the trends of Banca IFIS securities and such changes are directly due to the results achieved and the outlook of the company. There were no resulting assessments on the prerogatives intended to protect minorities, which the President of the Board of Statutory Auditors and a director may express and that exercise social rights based on the large amount of information made available to investors and market operators.

17. Further corporate governance practices (as per Article 123-b, para. 2, letter a), CFA)

No further committees have been appointed other than those described in the previous sections. Adoption of the Organisational Model pursuant to Legislative Decree no. 231/2001 is discussed in the third paragraph of Section 11.

At the end of the financial year 2015, the Bank developed an internal system of reporting by employees of any irregularities or infringements of relevant legislation and internal procedures (known as *whistleblowing* systems), which guarantees a specific and confidential information channel and the anonymity of the complainant. This system is also accessible from "Corporate Governance" > "The Value of Ethics" section of the Banca IFIS website.

18. Changes since the end of the financial year

Since the end of the 2016 financial year, until the date of approval of this report, there have been no changes in the *corporate governance* structure.

Tables

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Appointment	Members	Board of Directors											Risk Mgt & Int. Ctrl C'ttee		Appointments Committee		Remun. C'ttee	
		Year of birth	Date first nom.*	In post since	In post till	List (Maj/min)**	Exec.	Non-Exec.	Indep. per Code	Indep. per CFA	Number of other posts***	(*)	(**)	(*)	(**)	(*)	(**)	(*)
President	Furstenberg Sebastien Egon	1950	05/08/1983	2016	2018	M		X			-	21/21						
Vice President	Csillaghy de Pacser Alessandro	1966	09/05/1995°	2016	2018	M	X				-	21/21						
C.E.O.	Bossi Giovanni	1960	09/05/1995	2016	2018	M	X				-	21/21						
Director (LEAD)	Benini Giuseppe	1954	30/04/2013	2016	2018	M		X	X	X	-	21/21	P	23/23	M	4/4		
Director	Maderna Francesca	1963	29/04/2010	2016	2018	M		X	X	X	-	20/21	M	23/23			P	11/11
Director	Malinconico Antonella	1968	22/03/2016	2016	2018	M		X	X	X		16/16		16/16				
Director	Preve Riccardo	1951	10/10/2005	2016	2018	M		X			-	20/21			M	4/4	M	7/7
Director	Salamon Marina	1958	10/10/2005	2016	2018	M		X			2	21/21						
Director	Santosuosso Daniele	1964	30/04/2013	2016	2018	m		X	X	X	1	21/21	M	22/23	P	4/4	M	11/11
DIRECTORS WHO LEFT DURING THE YEAR 2015																		
Director	Martin Andrea	1950	28/04/2004	2013	2015	M		X			-	5/5	M	7/7			M*	4/4
Quorum required for the presentation of lists during last appointment: 1%																		
No. of meetings held during the year in question:												BoD: 21	RM&IC: 23	AppCttee: 4	RemCttee: 11			

NOTES

* Date of first appointment means the date in which the Director was appointed to the Bank's Board of Directors for the very first time;

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

*** This column shows the number of posts held by the Director or Statutory Auditor in other companies listed on regulated markets, including foreign markets, in financial companies, banks, insurance companies or very large companies. Table 2 shows the tasks in full.

(*). This column lists the attendance record at meetings of the Board and the Board's Committees, respectively.

(**). This column shows the role of the Director in the Committee: "P": president; "M": member.

°Mr. Alessandro Csillaghy de Pacser has been Vice President of the Bank since 1996.

TABLE 2: POSITIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS IN OTHER COMPANIES

POSITIONS HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS IN OTHER COMPANIES												
	POSITIONS IN THE BANKING GROUP		POSITIONS IN LARGE COMPANIES FOR THE PURPOSES OF THE REGULATIONS ON THE MAXIMUM NUMBER OF POSITIONS						POSITIONS IN SMALLER COMPANIES FOR THE PURPOSES OF THE REGULATION ON THE MAXIMUM NUMBER OF OFFICES		TOTAL	
			Companies listed on regulated markets, including foreign markets		Financial, banking, insurance companies		Companies of significant size		Exec	Non-Ex		
	Exec	Non-Ex	Exec	Non-Ex	Exec	Non-Ex	Exec	Non-Ex				Exec
Fürstenberg Sebastien Egon	-	1	-	-	-	-	-	-	-	-	2	3
Csillaghy de Pacser Alessandro	-	1	-	-	-	-	-	-	-	2	-	3
Bossi Giovanni	1	-	-	-	-	-	-	-	-	1	-	2
Benini Giuseppe	-	1	-	-	-	-	-	-	-	-	17	18
Maderna Francesca	-	-	-	-	-	-	-	-	-	1	1	2
Malinconico Antonella	-	-	-	-	-	-	-	-	-	-	-	0
Preve Riccardo	-	-	-	-	-	-	-	-	-	4	-	4
Salamon Marina	-	-	-	-	-	-	-	-	2*	6	8	16
Santosuosso Daniele	-	-	-	-	-	-	-	-	1**	-	-	1
OTHER CORPORATE OFFICERS												
Staccione Alberto	2	1	-	-	-	-	-	-	-	-	1	4
	* Illy Caffè S.p.A., Morellato S.p.A.											
	** Lottomatica Holding S.r.l.											

Exec: Executive; Non – Ex: Non Executive

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Appointment	Members	Year of birth	Date first appointed *	In post since	In post till	List **	Indep. per Code	***	Number of other posts held*** *
President	Giacomo Bugna	1953	30/04/2013	2016	2018	m	X	28/28	4
Standing Auditor	Massimo Miani	1961	22/03/2016	2016	2018	M	X	18/20	6
Standing Auditor	Giovanna Ciriotto	1961	30/04/2013	2016	2018	M	X	28/28	7
Alternate Auditor	Valentina Martina	1959	22/03/2016	2016	2018	M	X	-	N/D
Alternate Auditor	Guido Gasparini Berlingieri	1965	22/03/2016	2016	2018	m	X	-	N/D
-----STATUTORY AUDITORS WHO LEFT DURING THE YEAR 2015-----									
Standing Auditor	Mauro Roviida	1949	05/08/1983	2013	2015	M	X	8/8	
Alternate Auditor	Luca Giacometti	1968	28/04/2004	2013	2015	M	X	-	
Alternate Auditor	Sonia Ferrero	1971	30/04/2013	2013	2015	m	X	-	
No. of meetings held during the year in question: 28 meetings									
Quorum required for minority shareholder to present lists for the election of one or more members (as per Article 148 TUF): 1%									

NOTES

* Date of first appointment means the date in which the Auditor was nominated to the Bank's Board of Statutory Auditors for the very first time;

** This column indicates the list from which each auditor was taken ("M": majority list; "m": minority list)

*** This column lists the participation of auditors at meetings of the Board of Statutory Auditors.

**** This column shows the number of posts held by the Director or Statutory Auditor as per Art. 148-b CFA. This list of posts is published by Consob on its internet site as per Article 144-o of Consob's Issuers' Regulations. Those Directors or Statutory Auditors with a controlling role in only one company are excluded from this disclosure obligation.

TABLE 4: POSITIONS HELD BY THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS IN OTHER COMPANIES

	POSITIONS HELD BY THE MEMBERS OF THE BOARD OF STATUTORY AUDITORS IN OTHER COMPANIES						
	Management and control in companies mentioned in Book V, Heading V, Chapters V, VI, and VII of the Civil Code				Other posts		TOTAL
	Banking group		Other				
	Exec	Non-Ex	Exec	Non-Ex	Exec	Non-Ex	
Giacomo Bugna		3		1	-	-	
Massimo Miani	-	-	-	6	1		7
Giovanna Ciriotta		3	-	4	-	-	7

Exec: Executive; Non – Ex: Non Executive