

**ANNUAL REPORT
ON
CORPORATE GOVERNANCE
AND THE SHAREHOLDER STRUCTURE
OF THE GROUP
PURSUANT TO ARTICLE 123-BIS OF THE CFA
2017 ACCOUNTING PERIOD**

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

CONTENTS

1 – GENERAL INTRODUCTORY REMARKS ON THE CORPORATE GOVERNANCE SYSTEM	3
1.1. Preliminary information	
1.2. General aspects of the corporate governance model pursuant to the applicable Supervisory Provisions	
2 – GENERAL INFORMATION ON THE OWNERSHIP SET-UPS AND ON OTHER CORPORATE ASPECTS, ON COMPLIANCE WITH A CODE OF CONDUCT AND ON THE GROUP STRUCTURE	8
2.1 Ownership arrangements and other corporate aspects of Banco Desio (Article 123-bis of the CFA, paragraph 1)	
2.2 Compliance with a corporate governance code (Article 123-bis of the CFA, paragraph 2, letter a)	
2.3 Group structure and management and coordination activities	
3 – BOARD OF DIRECTORS.....	13
3.1 Composition and requirements	
3.2 Independent Directors	
3.3 Functioning	
3.4 Powers	
3.5 Appointment	
3.6 Self-Assessment	
3.7 Training programmes	
3.8 Succession plans	
4 - SYSTEM OF POWERS AND AUTHORITY	22
4.1 General outlines	
4.2 Chairman - Executive Committee AISCI – General Manager	
4.3 Technical-operating committees	
4.4 Overall structure of the system of powers and authority of BPS	
5 - CONFLICTS OF INTEREST, TRANSACTIONS WITH RELATED PARTIES, CONNECTED PARTIES AND ARTICLE 136 OF THE CFA	25
6 – REMUNERATION AND INCENTIVE MECHANISMS - AND REMUNERATION COMMITTEE	27
6.BIS - REMUNERATION COMMITTEE.....	28
7 – INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM – AUDIT AND RISK COMMITTEE – EXECUTIVE APPOINTED TO DRAW UP THE ACCOUNTING DOCUMENTS AND FINANCIAL DISCLOSURE PROCESS - NON-FINANCIAL STATEMENT - DIVERSITY POLICIES.....	29
8 – CORPORATE INFORMATION	38
9 – BOARD OF STATUTORY AUDITORS	39
10 – RELATIONS WITH SHAREHOLDERS – FUNCTIONING OF THE GENERAL SHAREHOLDERS' MEETING	41
11 – SAVINGS SHARES – SPECIAL SHAREHOLDERS' MEETINGS – COMMON REPRESENTATIVE	42
12 – INDEPENDENT AUDITING FIRM.....	43
13 – CHANGES AFTER THE END OF THE ACCOUNTING PERIOD	43
14 - CONSIDERATIONS ON THE LETTER OF 13 DECEMBER 2017 BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE.....	43
ATTACHED SCHEDULES	
1 – STRUCTURE AND FUNCTIONING OF THE BOARD OF DIRECTORS AND THE COMMITTEES	
2 – STRUCTURE AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS	
3 – MAIN OFFICES HELD BY THE CORPORATE OFFICERS	
4 – SUMMARY OF COMPLIANCE WITH THE PROVISIONS OF THE CORPORATE GOVERNANCE CODE	

MAIN DEFINITIONS USED IN THIS REPORT

CBL: Consolidated Banking Law – Italian Legislative Decree No. 385/1993 as amended.

CFA: Consolidated Finance Act – Italian Legislative Decree No. 58/1998 as amended.

Corporate officers: Directors, Standing and Alternate Auditors, the General Manager and the Deputy General Manager¹

Executives with strategic responsibilities: the Deputy General Manager.

The **Appointed Executive:** the executive appointed to draw up the accounting documents as disciplined by Article 154-bis of the CFA.

Subsidiary bank: Banca Popolare di Spoleto SpA (hereinafter, for the sake of brevity, “BPS”).

Banks of the Group: the Parent Company (Banco di Desio e della Brianza SpA or, in short, “Banco Desio”) and the Subsidiary Bank as defined above.

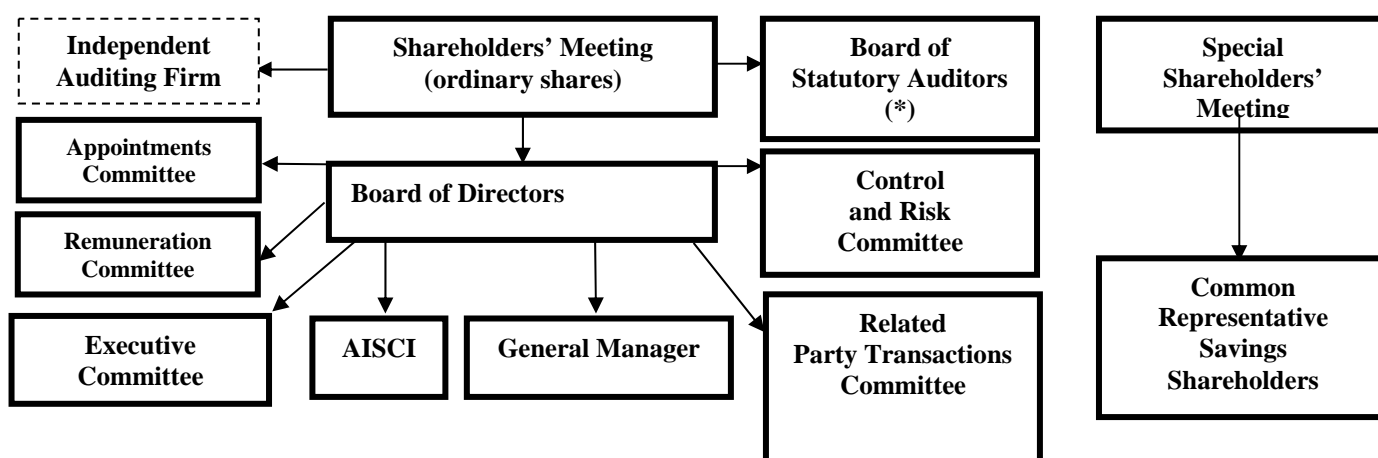
Group: the Banking Group as defined by the CBL, including Banco Desio (Parent Company) and the subsidiary banking and finance companies.

Supervisory Body: Bank of Italy and Consob.

1 – GENERAL INTRODUCTORY REMARKS ON THE CORPORATE GOVERNANCE SYSTEM

1.1 Preliminary information

During 2017, **no significant changes took place with regard to the essential profile within the overall corporate governance structure** of Banco Desio and the Group, except that after the renewal of the corporate offices on 6 April 2017, there is no Managing Director, while there is still a “Director responsible for the risk management and audit system” (“AISCI”) which previously coincided with the Managing Director. The AISCI is a member of the Control and Risk Committee. In detail, the structure of the Bodies of the Bank is represented by the following chart²:



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

² In the diagram, the **arrows** indicate the appointment and removal relationships between the main bodies (note that the BoD is also responsible for appointing/removing the Deputy General Manager, Appointed Executive and Heads of the Internal Auditing Divisions, in addition to the taking of similar measures with regard to the Executives in general)

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

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

- i) Senior Bodies (Board of Directors, Advisory/Proposal-making Committees³, Executive committee)
- ii) AISCI
- iii) Executive Parties (General Manager)
- iv) Technical-operating committees⁴
- v) Internal control functions
- vi) Appointed Executive

is disciplined, in observance of the legal, supervisory and Articles of Association restrictions, by **Corporate Bodies’ Internal Regulations** (for the sake of brevity “Internal Regulations”). With regard to the specific aspects not analysed by the Internal Regulations, reference is made to the “Organisational Structure and Description of Functions”, “Policies”, “Consolidated Codes” regarding function/process/product and “Internal Procedures”, documents also approved by the Board of Directors or, in case of “Consolidated Codes”, by the Executive Committee depending on the matter.

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

1. The **General Shareholders’ Meeting Regulation** (see Section 10 below);
2. **Information Flows Regulation for Corporate Bodies**;
3. **Control Coordination Document** (see Section 7 below);
4. **Internal Procedure regarding Corporate Information** (“Corporate Information Procedure”), containing, among other things, the functioning of the Corporate Bodies in specific reference to the dissemination of related documentation and the handling of privileged information and the register of the individuals who have access to them, as well as for the communication of Internal Dealing transactions; this Procedure was revised on 23 June 2016 as part of the adaptation measures to the new European regulations on market abuse entered into force on 3 July 2016 (in particular, to Regulation (EU) No. 596/2014 or “MAR”) (see section 8 below) and most recently on 21 December 2017 to incorporate the Guidelines issued by the Consob on this matter;
5. **Internal Procedure for Transactions with “Associated Parties”** and Article 136 of the CBL, adopted in compliance with Prudential Supervisory Provisions on risk assets and conflicts of interests with associated parties issued by the Bank of Italy, pursuant to Article 53 of the CBL (see section 5 below); said Procedure was also revised on 8 February 2018, with the input of the Committee for Related-Party Transactions, to take account of corporate changes (such as the Delisting of BPS) and organisational changes (such as the revision of the corporate organisational chart).
6. **Policy for the handling of conflicts of interest regarding investment services**, which the procedures used to identify the types of conflict of interest, potential or otherwise, in relation to the

³ The Advisory/Proposal-making Committees (Appointments Committee, Remuneration Committee, Audit and Risk Committee, Related Party Transactions Committee) are composed solely of Board members and are, as such, defined as internal board committees

⁴See Section 4.3 below.

provision of any investment service or activity, related service, etc. make reference to, by way of implementation of the provisions acknowledging the MIFID Directives (see paragraph 5 below);

7. **Policy for the regulation of “personal transactions”⁵ in relation to investment services**, also issued in implementation of the provisions transposing the MIFID Directives;
8. **Policy that defines the Group’s overall risk propensity (“Risk Appetite”)**, intended as the maximum amount of capital that the Group is prepared to make available to hedge risks against a set expected return and that contains the general rules for business risk management with reference to each type of risk indicated in Prudential Supervisory Provisions of the Bank of Italy, containing specific provisions relating to risk activities with “Associated Parties” pursuant to point 4.

Note that as part of a general reorganisation of the regulatory system, the “Procedures” in points 4 and 5 above were called “Regulations”.

* * *

In the presentation of this Report, the traditional layout was maintained that, owing to the lack of consistent provisions on the matter, takes into consideration the guidelines indicated from time to time by Borsa Italiana S.p.A. and by Assonime. In said context, the attached Table 4 was maintained, which included the schedule summarising the implementation status of the recommendations in the Corporate Governance Code for Listed Companies as per paragraph 2.2 below⁶ (for the sake of brevity “the Corporate Governance Code”).

This Report:

- has been drawn up in accordance with Article 123-bis of the CFA, which lays down a series of information on the ownership set-ups, the corporate governance practices, the risk management and internal audit systems relating to the financial disclosure process, and the composition and functioning of the general meeting, board and audit bodies; the independent

⁵ Personal Transaction is understood, for the specific purposes of the aforementioned Policy, as a trade in a financial instrument effected by or on behalf of a Relevant Person, where at least one of the following criteria is met:

- a. the Relevant Person is acting outside the scope of the activities he carries out in his capacity as a Relevant Person;
- b. the trade is carried out for the account of any of the following persons:
 - i. the Relevant Person;
 - ii. any person with whom the Relevant Person has a "Family Relationship" or "Close Ties";
 - iii. a person whose relationship with the Relevant Person is such that the Relevant Person has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of the trade.

A Relevant Person shall mean persons belonging to one of the following categories relating to each Group Company:

- a) members of "Corporate Bodies" (understood, also hereafter, as the Board of Directors and the Board of Statutory Auditors);
- b) shareholders who possess a significant equity investment in the Parent Company or in Group Companies;
- c) executives (including, also hereafter, the General Manager);
- d) employees;
- e) temporary workers and project-based contractors who participate in the provision of investment services and the exercise of investment activities;
- f) individuals who directly participate in the provision of services to the Parent Company and Group Companies based on an outsourcing agreement regarding the provision of investment services and related services.

Persons with whom the Relevant Person has a Family Relationship are:

- a. the (not legally separated) spouse or the common law spouse of the Relevant Person;
- b. the children of the Relevant Person;
- c. any other relative of the Relevant Person to the fourth degree (i.e. parents, grandparents, great-grandparents, grandchildren, first cousins, aunts, uncles and great-aunts and great-uncles) who has shared the same household as the Relevant Person for at least one year on the date of the Personal Transaction.

Parties with whom the Relevant Person has Close Ties means one or more individual or legal persons tied to a Relevant Person by:

- a) an equity investment (which means ownership, direct or by way of control, of 20% or more of voting rights or capital of an undertaking);
- b) control.

⁶ Corporate Governance Code for Listed Companies – Borsa Italiana – 2011 Edition (2015 revision)

auditing firm is required to express a consistent opinion on certain information required by the aforementioned Article 123-bis; this information is specified in section 2.1 below;

- has been approved by the BoD, subject to the assessment of the Independent Directors as per a specific recommendation in the Corporate Governance Code as assimilated in the Internal Regulations⁷. This assessment is attached to said Report ([Attachment A](#));
- is published, albeit as a separate document, together with the Report on Operations, which also contains the due references. Likewise, it contains references to the financial statement documentation (Notes to the Consolidated Financial Statements, Report on Operations, etc.), as well as the Remuneration Report as per the subsequent point, for the information contained therein, which otherwise would be duplicated; the latter is prepared in accordance with Article 123-ter of the CFA, which also contains the information required by Bank of Italy Circular no. 285 regarding remuneration and incentive policies and practices in banks and banking groups (7th update).

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

1.2 General aspects of the corporate governance model pursuant to the applicable Supervisory Provisions⁸

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

1.2.1. Articles of Association

Duties and powers of the corporate bodies

A.1 Board of Directors

The body tasked with strategic supervision is first and foremost reserved the decisions concerning strategic policies and transactions as well as business and financial plans. This provision is included in both the Articles of Association of the Parent Company and in the Articles of Association of the Subsidiary Bank (for further details see section 3 below). Among the powers that cannot be delegated, the BoD is responsible for the appointment of the heads of the internal auditing and compliance divisions and the definition of the essential elements of the overall architecture of the internal audit system⁹ (subject to the favourable opinion of the Board of Statutory Auditors). This provision is included in the Articles of Association of the Banks of the Group (even though in the Subsidiary Bank it effectively refers to functions performed by the Parent Company by virtue of the “Service Agreement”, with particular reference to the internal audit, compliance and risk management functions, as well as anti-money laundering). The Board of Directors also carries out management functions.

⁷ The Independent Directors meet at least once a year in the absence of the other Directors (as a rule, at the time of the approval of the Annual Corporate Governance Report and for the purpose of expressing their opinion on the aspects they are responsible for).

⁸ The Provisions to which reference is made are now contained in the aforementioned Circular No. 285.

⁹ Among the “essential elements of the overall architecture of the system of controls”, the Provisions themselves indicate “powers, responsibilities, information flows and handling of conflicts of interest”

A.2 Board of Statutory Auditors

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

B. Composition of the Corporate Bodies

With regard to the Parent Company and to BPS, the regulation of “list voting” is in force for the election of the members of the BoD and the Board of Statutory Auditors, already introduced in the Articles of Association, by virtue of Article 147-ter and Article 148 of the CFA. Moreover, the Articles of Association also include the “gender quota” regulations introduced by Law no. 120/2011¹⁰. The Articles of Association of the Parent Company and of BPS make provision for “independent directors”. For details, see sections 3 and 9 below in this Report and, as regards BPS, its Report published on the website www.bpspoletto.it in the section “Investor Relations”.

C. Remuneration and incentive mechanisms

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

1.2.2. Internal Regulations

With regard to the regulatory provisions that are complementary to Articles of Association provisions as per the previous section 1.2.1, the Internal Regulations of the Banks of the Group acknowledge the application guidelines of Bank of Italy Circular no. 285 as per points A.2) Board of Statutory Auditors and C) Remuneration and incentive mechanisms (for further details also see section 6 below). With reference to point B) Composition of the corporate bodies, the general limits are extended to the Internal Regulations of BPS on the accumulation of the office of Director and Statutory Auditor respectively, similar in part to those already adopted, by law and/or due to self-governance, within the Parent Company (for further details also see sections 3 and 9 below). It is also established, within the Internal Regulations of the Banks of the Group, that the Statutory Auditors cannot undertake offices in bodies other than the Board of Statutory Auditors within other Group Companies, as well as with

¹⁰ Note that according to this regulation the “gender quota” must be at least 1/5 for the first office (2014-2016) and at least 1/3 for the following two offices (2017-2019 and 2020-2022).

companies in which Banco Desio directly or indirectly holds a strategic investment¹¹. With reference to the role of Chairman of the Board of Directors, who according to the general principles expressed in the same Circular no. 285, performs an important role for the purpose of encouraging internal dialogue and ensuring the balancing of the powers, in the Internal Regulations of the Banks of the Group it is specified that “the Chairman furthers the effective functioning of the corporate governance system, guaranteeing the balance of powers with respect to the Executive Directors, as well as the General Manager”. For such purposes, the Chairman “supervises the organisation of the Board’s activities and the dissemination of related information, promoting the constant performance of the Board’s role in strategic oversight” and “acts as the spokesperson of the Board of Statutory Auditors and the advisory/proposal-making committees established within the Board of Directors”. For more details see also section 4.2 below.

1.2.3. Control Coordination Document

The Control Coordination Document, most recently revised on 29 November 2016 and renamed “Group Control Coordination and Information Flow Document” since it has also materially incorporated the detailed table of information flows on internal control, defines the tasks and responsibilities of the Auditing bodies and functions within the Banco Desio Group (in particular, procedures, moments of coordination, organisational reports, information flows and relevant links among the above-mentioned company departments) establishing, among other things, that the Internal Audit System is made up of a series of rules, procedures, organisational structures and coordination mechanisms that aim to essentially ensure the compliance of Group company operations with corporate strategies and internal and external regulations. To this end, the Parent Company, as part of the Group’s management and co-ordination activities, regulated as a whole by the “Group Regulations” adopted at that time, exercises: a) strategic control on the evolution of the various areas of activities where the Group operates and the impending risks on the portfolio of activities carried out; b) management control aimed at maintaining the balance of the economic, financial and equity conditions, both for individual companies and the Group in its entirety; c) technical-operating control aimed at evaluating the various risk profiles contributed to the Group by the individual subsidiaries. For more information, see also section 7 below.

2 – GENERAL INFORMATION ON THE OWNERSHIP SET-UPS AND ON OTHER CORPORATE ASPECTS, ON COMPLIANCE WITH A CODE OF CONDUCT AND ON THE GROUP STRUCTURE

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

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

a) Structure of the share capital

Banco Desio’s share capital, fully subscribed and paid-up, is made up of a total of 130,202,000 shares (with a par value of Euro 0.52 each), of which 117,000,000 ordinary shares (around 90% of the total) and 13,202,000 non-convertible savings shares (around 10% of the total). The ordinary

¹¹ As indicated by the aforementioned Circular No. 285, “strategic” for such purposes is understood to mean the equity investment that is equal to at least 10% of the share capital or the voting rights during ordinary Shareholders’ Meetings of the investee company and 5% of the consolidated regulatory capital of the Banking Group.

shares, listed since 1995 in the MTA (On-line Equity Market), grant the holders the rights and obligations envisaged by current legislation (in particular, the right to profits and voting rights pursuant to Articles 2350 and 2351 of the Italian Civil Code), without Articles of Association exceptions or limitations.

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

Other specific categories of shares or financial instruments sharing in the profit endowed with specific equity or administrative rights have not been issued nor is the option to issue the same envisaged by the Articles of Association. For information on the shares previously subject to assignment to employees of Group companies, please refer to the appropriate Information Document of the Stock Grant Plan, pursuant to Article 114-bis of CFA and Article 84-bis of Consob Regulation no. 11971/99, available also on the website, www.bancodesio.it, in the section "La Banca / Governance / Corporate Governance / Assemblea / Tutte le Assemblee (Archivio Governance) / 2011" (The Bank / Governance / Corporate Governance / Shareholders' Meeting / All Shareholders' Meetings / 2011"). The Remuneration Report pursuant to Article 123-ter CFA also contains information on how this Plan was concluded after the end of 2015 and was no longer re-proposed.

b) Restrictions on the transfer of shares

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

c) Significant investments

Shareholders who hold equity investments in Banco Desio of **over 3%** as at 31 December 2017 were as follows:

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

- Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. (controlling interest)	52.92%
- Avocetta S.p.A.	8.60%
- Stefano Lado ¹² (of which 5.88% via Vega Finanziaria SpA)	7.99%
- FIDELITY: FIDELITY CENTRAL INVESTMENT PORTFOLIOS LLC FIDELITY INVESTMENT TRUST: FIDELITY INTERNATIONAL	3.05%

Total

72.56%

¹² The interest referred to Mr. Stefano Lado includes 6,500 shares (0.006%) held by his spouse and 313,539 shares (0.268%) held by his brother Luigi Lado.

- with regard to the share capital represented by a total of 13,202,000 <u>savings</u> shares:	
- Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A.	44.69%
- Avocetta S.p.A.	10.62%
- Lado Stefano (of which 4.33% through Vega Finanziaria SpA)	6.06%
- Averla Srl	5.35%
Total	66.42%

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

d) Securities that grant special control rights

No securities that grant special control rights have been issued.

e) Shareholdings of employees: voting procedure

Refer to letter a) above regarding the previous 2011-2013 Stock Grant Plan for Banco Desio Group management, as well as the specific Disclosure Document mentioned therein.

f) Restrictions on voting rights

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

g) Agreements between shareholders

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

h) Change of control clauses

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

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

Refer to section 6 below of the Remuneration Report.

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

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

The BoD is made up of a minimum of 8 and a maximum of 12 members¹³, according to the decisions of the Shareholders' Meeting, and is appointed by means of "majority" list voting that, in the event of the presentation of two or more lists of candidates, envisages the appointment of all the Directors less one from the list that obtained the greatest number of votes expressed during the Shareholders' Meeting (majority list). One Director is appointed from the minority list that has obtained the greatest number of votes expressed after the majority list, provided that the number of votes is at least equal to half of the quorum necessary for the presentation of the lists and on condition that the minority list is not linked to the shareholders who have presented or voted for the majority list.

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

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

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

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

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

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

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

As illustrated in previous Reports, Banco Desio complies with the Corporate Governance Code for Listed Companies as from its first issue by Borsa Italiana. In detail, the Code was adopted on a generalised basis, with the exception of certain criteria of a circumscribed nature that was considered not necessary or appropriate to assimilate fully. For detailed information on the status of adherence to

¹³ On 6 April 2017, the Extraordinary Shareholders' Meeting resolved to increase this maximum number from 11 to 12

individual recommendations of the Code, refer to the attached Table 4. The Code is available on the following website www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf

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

2.3. GROUP STRUCTURE AND MANAGEMENT AND COORDINATION ACTIVITIES

Information in this section reflects (unless otherwise specified) the situation as at 31 December 2017.

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

Banco Desio e della Brianza SpA	Parent bank
Banca Popolare di Spoleto SpA	Directly controlled bank (81.70%) ¹⁴
Fides SpA	Finance company entered in the Financial Intermediaries Registry, directly controlled (100%)
Desio OBG Srl	Directly controlled (60%) special purpose vehicle for the issue of Covered Bonds

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

Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., a financial company whose main purpose is the management of the controlling equity investment in Banco Desio, is the party that exercises control over said Bank according to applicable laws (Article 2359 of the Italian Civil Code and Article 23 of the CBL). As the result of a specific Articles of Association provision, however, **it does not exercise management and co-ordination activities** over Banco Desio and its subsidiaries, based on neither banking legislation nor statutory provisions. Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. does not hold any other controlling interests.

The foreign subsidiaries:

Credito Privato Commerciale SA Swiss company **put into liquidation**, directly controlled (100%)

¹⁴ BPS shares were delisted from the MTA with Borsa Italiana Notice of 25 September 2017, effective from 3 October 2017 (the "Delisting"). BPS maintains the qualification of "Issuer of financial instruments widely distributed among the public in accordance with Articles 2-bis and 108, Paragraph 4 of the Issuers' Regulation" ("Issuer of Widely Distributed Securities")

Rovere Società di Gestione SA Luxembourg company **put into liquidation**, directly controlled (80%)

left the scope of the banking group following the termination of their banking and financial licences by virtue of special provisions requested by the supervisory authorities of the two countries within their voluntary liquidation proceedings, which have now reached the final stage.

CPC was excluded from the consolidation area as from 1 January 2016 due to the substantial completion of the liquidation procedure of the company already reached on that date. The same treatment was adopted for Rovere, due to the fact that on 26 September 2016 the Extraordinary Shareholders' Meeting of the company approved some amendments to its own articles of association, by eliminating, among other things, all the provisions concerning the fact that it belonged to the Banco Desio Group. The liquidation procedure of **Rovere** was completed on 27 October 2017 with the **removal** of the company from the Trade and Company Register of Luxembourg.

CPC, currently the only subsidiary with registered offices in a non-EU nation, observes the transparency conditions laid down by Article 36 of the Consob Market Regulations (Reg. 16191/2007). In particular, with reference to said Swiss subsidiary, Banco Desio acquires documentation pertaining to the Articles of Association, the composition and powers of the corporate bodies, taking into account the liquidation procedures specific to Swiss law. For the sake of completeness, it should be specified that the non-Italian laws to which the Bank's foreign subsidiary is subject (in liquidation, as stated) do not influence Banco Desio's corporate governance structure.

For more information on the operations that gave rise to the current arrangement above, please refer to the “significant corporate events” in the Management Report.

3 – BOARD OF DIRECTORS

The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFA and articles 144-octies and 144-novies of the Issuers' Regulation and reflects (unless otherwise specified) the situation as at 31 December 2017. For its development, see section 13 below. For information about the diversity policies applied by the Banco Desio Group in relation to the membership of the administration, management and control bodies with regard to aspects such as age, gender and education and professional experience, in accordance with Article 10 of Italian Legislative Decree no. 254/2016, please refer to section 7 below.

3.1 Composition and requirements

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

On the basis of the special reference legislation for banks with listed shares¹⁵, Directors must meet specific good standing and professionalism requirements, otherwise they will no longer be eligible for office. Specifically, with regard to professionalism, at least three years of experience in at least one of the following areas is required: management, audit or executive activities within companies; professional activities in matters pertaining to the banking, financial, insurance sectors or functional activities in banking; a university lecturing position in the law or economics faculties; public administrative or executive functions pertaining to the lending sector or which involve the management of economic-financial resources. With regard to the office of Chairman, the aforementioned experience must cover at least five years. For the offices of Managing Director and General Manager, specific expertise in matters pertaining to the lending sector is required, gained in positions of adequate responsibility for at least five years. The Board of Directors is responsible for verifying that the Representatives meet the requisites within 30 days of appointment, by means of the procedure established by the Bank of Italy's Supervisory Provision. In short, the BoD checks and resolves that the requirements have been met, after consulting the Board of Statutory Auditors (who perform their own specific check¹⁶), for each individual representative, involving the abstention of the party concerned, on the basis of suitable documentation produced by said Representatives (examples: certificates, declarations, curricula vitae, affidavits or similar, declarations made by companies/bodies they worked with, etc.).

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

3.2 Independent Directors

Of the 12 Banco Desio Directors in office, **5** are qualified as Independent, according to the specific provisions of Articles 147-ter and 148 of the CFA and the standards of the Corporate Governance Code (the only exception is the criteria of "nine years" permanence in the BoD which, due to the reasons indicated in attached Table 4 in compliance with the resolution adopting the Code on 22 February 2007, is not, however, considered in itself to be indicative that the individual does not meet the independence requirement)¹⁷. The assessment of independence is subject to BoD resolution and appropriate review by the Board of Statutory Auditors, specifically examining the individual positions of the Directors on the basis of suitable documentation available to the company or disclosure made by the party concerned, who abstains from voting and favouring, in any case, substance over form.

¹⁵ On 2 August 2017, the Implementing Regulations of Article 26 CBL was made available for consultation by MEF, which, after hearing the Bank of Italy, is called upon, as known, to identify in compliance with CRD4: a) the homogeneous good standing requirements for all the representatives; b) the professional standing and independence requirements, graded according to proportionality principles; c) the criteria of competence, consistent with the office to be held and with the characteristics of the bank, and of adequate composition of the body; d) the criteria of correctness, concerning, among other things, the business relations of the representative, the behaviour with regard to the supervisory authority and the sanctions or corrective measures imposed by them, restrictive measures concerning professional activities carried out, as well as any other element likely to affect the correctness of the representative; e) the limits to the number of offices held by bank representatives, graded according to proportionality principles and taking into account the size of the intermediary; f) the causes that involve the temporary suspension from the office and its duration. The consultation document was analysed by the Appointments Committee also in light of the observations transmitted by the ABI to the MEF.

¹⁶ With regard to the specific assessment of the Board of Statutory Auditors regarding the requisites of the Directors and the Statutory Auditors, also see section 9 below

¹⁷ In compliance with the aforementioned Circular no. 285, also the independence requirements of the Corporate Governance Code adopted by Banco Desio are reported, in addition to those established by the CFL, in the Articles of Association, as well as the minimum number of Independent Directors to an extent equal to 1/4 (the actual number of 5 is therefore currently higher than the minimum number of 3)

The checks are envisaged after appointment, as well as when establishing Committees that require the participation of a certain number of Independent Directors, at the time of approval of the Self-Assessment Report of the BoD and of this Report (as well as each time the BoD considers it appropriate in relation to any situations that may change the qualification of independence relating to one or more Directors). The Directors, by virtue of said evaluations and checks performed in 2017 and also confirmed during the approval of this Report, who currently meet the independence requisites (all in accordance with both the CFA and the Corporate Governance Code, with the exception of the aforementioned “nine year” criteria) are listed below:

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

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

The Independent Directors, take part in the Board’s work and the activities of the advisory/proposal-making Committees to which they belong (i.e., the Control and Risk Committee and the Remuneration Committee, of which they form the majority, as well as the Appointments Committee and the Related Party Transactions Committee, consisting solely of three Independent Directors)¹⁸. Said Directors met on 16 January and 8 February 2018, to express their assessment of the aspects of the present Report that are under their competence, taking into account the role assigned by the Code, among non-executive members, especially to these Directors¹⁹. The **Independent Directors’ assessment** (which also takes into account the results of the self-assessment process per the following sect. 3.6) is attached to the present Report (**Attachment A**).

3.3 Functioning

As a rule, Banco Desio’s Board of Directors meets monthly, which is more frequently than the at least bi-monthly schedule envisaged in the Articles of Association. During 2017, a total of 19 meetings were held, the majority of which scheduled at the beginning of the year. For 2018, at least 16 meetings have been scheduled. The dates of the meetings to approve periodic accounting documents (draft financial statements and consolidated financial statements, interim financial reports and quarterly voluntary reports) were made public, in January, within the context of the Annual Calendar of Corporate Events, in compliance with stock exchange legislation. The publication of the Corporate Calendar falls within the sphere of a more extensive process of scheduling the Board’s work for all Group companies, which sees the involvement of the same BoDs of the Parent Company and the subsidiaries, for the purpose of optimising the activities of the Corporate Bodies consistent with the general principles of efficiency and effectiveness established by both the Corporate Governance

¹⁸ In accordance with the Supervisory Provisions, the Independent Directors oversee the management of the company with independent judgement, contributing to ensuring that it is carried out in the interest of the company and consistently with sound and prudent management objectives, serving as a balance with respect to the executive members and the management of the bank and promoting internal debate within the body of which they are members.

¹⁹ For convenience, an extract from the Comments on Standard No. 2 of the Code is presented: Non-executive directors enhance board discussions with expertise formed outside the company, of a general strategic or specific technical nature. These skills make it possible to analyse the various subjects being discussed from different points of view and, therefore, contribute towards stimulating the dialogue that is the distinctive condition for a well thought-out and informed collective decision. The contribution of non-executive directors is particularly useful on matters where the interests of the executive directors and those of the shareholders may not coincide, such as the remuneration of said executive directors and the internal audit and risk management system.

Code and the aforementioned Circular no. 285. Internal regulations concerning the information flows between and within the Corporate Bodies are based on the same principles and were formalised in the “Information Flows Regulation for Corporate Bodies”. These regulations are aimed at ensuring a circulation of information consistent with the needs of the Directors and Statutory Auditors to act in an informed manner and, at the same time, with the need to maintain organisational safeguards to avoid the risk of the improper use of confidential information.

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

3.4 Powers

The BoD is vested with all the powers of ordinary and extraordinary administration, except for the faculties reserved for the Shareholders' Meeting by legal and/or supervisory provisions. In addition to the functions that cannot be delegated, decisions concerning the following matters are reserved by the Articles of Association for the exclusive competence of the BoD, also in accordance with the provisions of Circular no. 285:

- the setting of policies that affect the general management of the Bank's and Group's business and, within this sphere, decisions concerning strategic guidelines and transactions as well as the business and financial plans, approval of the organisational and corporate governance set-up, approval of the accounting and reporting systems and supervision of the public disclosure and bank communication process;
- the issuing and amendment of internal regulations, with the exception of amendments that merely adapt to the provisions of current legislation or to Shareholders' and Board Meeting resolutions already adopted and effective;
- the establishment, transfer and closing down of branches and representative offices;

- the purchase, development and sale of real estate property assets other than those granted under financial lease as part of its institutional activities;
- the purchase and sale of equity investments that involve changes in the Banking Group or, in any event, the undertaking or disposal of controlling or associated interests or which involve exceeding the authorisation thresholds according to the applicable provisions. The BoD has the faculty to delegate, establishing the related limits, conditions and formalities, the purchase and sale of shares of subsidiary companies listed on organised markets, provided that these operations take place: a) in observance of current regulations concerning issuers, brokers and markets; b) under the aforementioned authorisation thresholds;
- the setting of criteria for the management and co-ordination of the Banking Group and the other subsidiary companies, as well as criteria for executing instructions from Bank of Italy;
- the appointment and removal of the General Manager, Deputy General Managers and Executives and determining the powers assigned to them and to Middle Management;
- the appointment and removal of the Heads of Internal Auditing Divisions as well as the Appointed Executive and the definition of the essential elements of the overall architecture of the internal audit system, subject to the favourable opinion of the Board of Statutory Auditors;
- the appointment and removal of members of the board committees required by applicable legal and regulatory provisions (in particular, the Appointments Committee, the Remuneration Committee, the Control and Risk Committee and the Related Party Transaction Committee), as well as the establishment, appointment and regulation of additional committees with proposal-making, advisory and/or coordination roles, if any, with determination of their tasks.

Furthermore, as per the Articles of Association, the Board of Directors is assigned responsibility, which cannot be delegated but can be submitted to the Shareholders' Meeting, for the following possible resolutions: merger via incorporation of companies wholly or at least 90% owned; establishing and closing down of secondary offices; reducing share capital in the event of the withdrawal of shareholders; adapting the Articles of Association to regulatory provisions; transferring the company's registered offices within Italy. The powers listed above include those provided for in the Corporate Governance Code and, in particular, the inherent responsibility of approving strategic, business and financial plans. The assessment of the general organisational and accounting set-up, envisaged by the Code, falls under the exclusive responsibilities of the BoD, established by the Internal Regulations, consistent with supervisory legislation regarding the internal audit system and individual and Group risk management policies. The Internal Regulations also reserve for the Board the specific responsibility of operational management, whose division between the BoD and the Bodies delegated by the same is expressed in terms of both business area and/or amount (as detailed in section 4 below). In general, the approach described above also relates to the Board of Directors of BPS, although with some adaptations to the characteristics of said subsidiary.

The BoD of Banco Desio is also tasked, at Group level, with approving strategies, policies and reporting pertaining to sustainability matters (as described in detail in section 7 below).

3.5 Appointment

Without prejudice to the description in sections 2.1.l) and 3.1 above, as part of the Corporate Governance Code's recommendations, Banco Desio's BoD also established, in the Internal Regulations, the following general criteria relating to the accumulation of the appointments by directors²⁰: a) establishing the number of appointments as Director or Standing Auditor held in other

²⁰ Note that for auditors' offices, specific regulatory norms are in force with regard to the number of offices that can be held (Article 144-duodecies of the Consob Issuers' Regulations)

listed companies and/or supervised companies as 5²¹ (excluding subsidiary, associated and investee companies directly or indirectly invested in to a significant extent by Banco Desio from this group) in cases where the “interlocking ban” does not apply pursuant to Article 36 of Law no. 214/2011; for such purposes, with regard to the notion of “investee companies invested in to a significant extent” reference should be made to the sector regulations (for example: 3% of capital for listed companies, 5% for supervised companies); b) incompatibility between the office of Executive Director in Banco Desio and any executive appointment covered in other listed companies and/or supervised companies (again excluding subsidiaries, associated companies and investee companies invested in to a significant extent by Banco Desio from this group) in cases where the “interlocking ban” does not apply pursuant to Article 36 of Law no. 214/2011.

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

3.6. Self-Assessment

On 10 February 2015, the Board of Directors approved the Internal Self-Assessment of Bodies Regulation in order to regulate the relevant process in conformity with the provisions of Circular no. 285. It particularly identified the methodologies to use (mainly based on each Director filling in a special questionnaire and on holding a special complementary interview, possibly also in writing, when filling in the questionnaire) and the profiles to be analysed – on the aggregate level – regarding the composition (professional competence, independence, etc.) and functioning (operating procedures, information flows, etc.) of the Board and Committees formed within it. Said Regulation was revised on 8 February 2018, providing, *inter alia*, the prior involvement of the Appointments Committee in the procedure for selecting the consulting company appointed to support the self-assessment process.

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

The consulting firm selected for the self-assessment of the Bodies of the Parent Company and of BPS with reference to 2016 and most recently to 2017 (Limentani & Partners Srl) ensures professional standing and independence deemed suitable for the fulfilment of the office in question, under the

²¹ in this context, “supervised companies” are understood to be: banks, insurance companies, stock brokerage companies, asset management companies and finance companies enrolled in the special register pursuant to Article 106 of the CBL (Italian)

supervision of the Chairman, without prejudice to the auxiliary advisory support (which consisted mainly in the preparation and management of an IT “tool” for collecting and processing the replies to the questionnaires, as well as in the consultants' oral interviews) in relation to the assessments reserved to the exclusive competence of the Bodies themselves. This is a company specialising in governance and banking supervision that supports certain assessment and rationalisation processes of the internal control functions within the Banco Desio Group by virtue of specific appointments.

As a result of the board resolution of 30 November 2017, the self-assessment process for 2017 was launched last November, using the aforementioned Self-Assessment Regulation as a reference, which identifies as parties appointed to the activity prodromic to the Board of Directors passing of the self-assessment resolution the Appointments Committee with an advisory role in compliance with Circular no. 285. A summary of the **results of the self-assessment process** is attached to the present Report **(Attachment B)**.

Previously, the Board of Directors passed the self-assessment resolutions with reference to the years from 2011 to 2016 and gave positive opinions considering the implementation, over the years, of measures concerning: preparation of the aforementioned Information Flows Regulation for Corporate Bodies; refining the practices and procedures for distributing Board documentation (also by adopting - as said - a special IT platform); optimising certain aspects of the system of powers; planning training and continuing professional education courses for Directors; identifying a “theoretical profile” for Directors, also upon renewal of offices. Compliance with this profile of the appointments made by the Shareholders’ Meeting on 6 April 2017 was checked “ex-post” on 27 April 2017.

This “theoretical profile” was duly updated, always as part of the self-assessment process, in view of the appointments carried out by the Shareholders' meeting on 6 April 2017. With reference to the areas of competency and other suitability requirements²² taken into consideration, please refer to the appropriate document published on the website www.bancodesio.it, in the section La Banca/Governance/Corporate Governance/Assemblea (The Bank/Governance/Corporate Governance/Shareholders’ meeting).

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

NAME	PRIMARY ACTIVITY	APPOINTMENT DATE INDIVIDUAL OFFICE	TERMINATION DATE INDIVIDUAL OFFICE	TOTAL SENIORITY IN THE OFFICES HELD AT THE COMPANY
------	------------------	------------------------------------	------------------------------------	--

²² Reference is also made to the applicable indications contained in the document “Joint ESMA and EBA Guidelines on the suitability of members of the management body and key function holders under Directive 2013/36/EU (known as CRD4) and Directive 2014/65/EU (known as MIFID2)”

Agostino GAVAZZI - Director - Deputy Chairman - Chairman - Chairman of the EC	Director banking sector	05/05/1983 10/04/1992 30/04/2002 06/04/2017	09/04/1992 29/04/2002 05/04/2017	35 years
Stefano LADO - Director - Deputy Chairman - Chairman	Director banking sector Attorney	23/04/1993 28/04/2008 06/04/2017	27/04/2008 05/04/2017	25 years
Tommaso CARTONE - Managing Director - AISCI - Deputy Chairman	Director banking sector	20/06/2012 27/09/2012 06/04/2017	05/04/2017	6 years
Paolo GAVAZZI - Director - Executive Director	Freelance Professional	28/04/1997 06/04/2017	05/04/2017	21 years
Egidio GAVAZZI - Executive Director	Director banking sector	28/04/2008		10 years
Tito GAVAZZI - Executive Director	Director banking sector	29/04/2014		4 years
Graziella BOLOGNA - Executive Director	Director banking sector	29/04/2014		4 years
Marina BROGI - Independent Director - Chairman of the RPTC	Company Director University lecturer	26/04/2012 06/04/2017 “	09/05/2013	2 years ²³
Nicolò DUBINI - Independent Director - Chairman of the RC	Company Director	06/04/2017 “ “		1 year
Cristina FINOCCHI MAHNE - Independent Director - Chairman of the AC	Company Director	30/05/2013 06/04/2017		5 years
Gerolamo PELLICANO' - Independent Director - Chairman of the CRC	Attorney	30/04/2002 29/04/2014		16 years
Gigliola ZECCHI BALSAMO Independent Director	Company Director	29/04/2014		4 years

²³ Marina Brogi has left her first office on 9 May 2013 and was appointed again on 6 April 2017.

AVERAGE SENIORITY				11 years
------------------------------	--	--	--	-----------------

After the offices renewal in 2014, the average seniority decreased from 13 to 9 years (approximately - 30%) and it subsequently rose each year to 11 years (the level reached last year remained unchanged, partly as a result of the renewal of the offices in 2017).

3.7 Training programmes

As part of initiatives aimed at updating professional knowledge in the sector in which the Banco Desio Group operates, in business dynamics and their evolution, in the principles of proper risk management, as well as in the reference regulatory and self-regulatory framework, no. 25 training sessions were carried out as a whole as from 2012 (in addition to no. 4 meetings for analysing in depth that will be discussed below), properly diversified by subject and speakers (among which there are also specially qualified jurists, economists and journalists). They focused on:

- issues related to the actual banking application of Italian Legislative Decree no. 231/2001 as regards administrative liability of companies and entities, recently also with reference to the offence of “self-laundering” inserted as from 2015 in the scope of the same Legislative Decree;
- the structure and functioning of the corporate governance system of banks, also with reference to the Corporate Governance Code;
- profiles pertaining to the process of issuing European Community regulations of greater interest for the banking sector;
- key aspects of the internal assessment of capital adequacy process (“ICAAP”) and of the internal model for the rating-based credit risk assessment (“AIRB”);
- different macroeconomic and regulatory issues, including international, affecting the banking system and financial markets (e.g. “Basel 3”);
- the implications on the banking system of digital innovation;
- the development of banking communication (styles, channels, etc.).
- IFRS 9 and its impacts, in particular on internal credit management models;
- the Recovery Plan in crisis scenarios, introduced by new prudential supervisory provisions (see section 7 below);
- the development of digital finance (“fintech”, “bitcoin”, etc.) and on “cyber security” matters;
- the regulatory changes with regard to anti-money laundering, pertaining to supervisory and criminal aspects;
- sustainability issues in relation to the new rules on non-financial disclosure (see section 7 below).

In 2017, 9 training sessions were delivered as a whole.

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

An in-depth session, dedicated to the positioning of the Group in the market of reference, was also held with a strategic planning and business model approach and attended by the members of the Bodies of the various Group Companies and some corporate functions in the light of macroeconomic and regulatory scenarios, as well as the trends of regional economies (Lombardy, Umbria etc.). It was

conducted by an outside banking business expert. This initiative, which followed those held in the last three years, falls within the “good practice” that the members of the Bodies meet once or twice a year outside of board meetings in order to analyse in depth and discuss strategic questions as required by Circular no. 285.

A basically similar training course is scheduled for 2018. It will be appropriately updated and enriched to follow the new developments in the economic and regulatory scenario, European or otherwise, and planned in a more structured manner. The related plan was submitted to the Appointments Committee and to the Board of Directors on 27 February 2018

3.8 Succession plans

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

4 - SYSTEM OF POWERS AND AUTHORITY

Information in this section reflects (unless otherwise specified) the situation as at 31 December 2017.

4.1 General outlines

This system, regulated at senior level, by the Articles of Association and, more specifically, by Internal Regulations²⁴, has been structured on the basis of criteria consistent with the principle that the main decisions are reserved for the Board of Directors (in other words, those that Circular no. 285 summarises in the policy and supervision functions of corporate management) and the periodic reporting to said BoD by executive Bodies and Parties who are primarily delegated the **function of managing**, or rather, implementing the policies resolved by the BoD as it carries out its role of strategic supervision: **Executive Committee and General Manager**. The latter represents the apex of the internal structure and, as such, participates in the management function, and in the BoD and Executive Committee meetings, and also has the task of executing the resolutions adopted by the above-mentioned Bodies. The delegated Bodies and Parties, in addition to the general powers for their role, have different operating powers in various areas related to current operations, in particular, with regards to credit, commercial, legal and organisational issues, in line with their respective roles, as specified below. The layout of the powers defined in the Internal Regulations can be summarised as follows

4.2. Chairman - Executive Committee AISCI – General Manager

The Chairman, who is assigned a co-ordination and guarantee role for the purpose of the due functioning of the Board of Directors and the shareholders' meeting, and the Deputy Chairman who replaces the former in the event of his absence or unavailability, are not assigned operating powers.

²⁴ The system of powers and authority is currently broken down also in various special powers of attorney issued as and when to individual names for specific categories of deeds.

They are assigned the representation of the Company in dealings with third parties and before the legal authorities on the basis of the Articles of Association, acting separately. Pursuant to the Articles of Association, the Chairman can adopt, for reasons of particular urgency, decisions which are the responsibility of the BoD or the Executive Committee (provided that they are not reserved by law or the Articles of Association for the exclusive competence of these bodies), with the obligation to promptly disclose the same to the BoD during the first available meeting²⁵. This is a procedure of an exceptional nature that has almost never been applied. The Chairman is a high-profile representative (General Partner) of the Holding Company “Brianza Unione” (see Table 3, attached). As previously mentioned in section 1.2, the Chairman does not have operating powers and does not individually carry out operational functions, not even *de facto*. The same consideration applies to the Deputy Chairman, who in the case at hand coincides with the AISCI. Certain rights on cash settlements with charity purposes are reserved to the Chairman, which can be exercised within a strictly limited amount and in compliance with particularly strict business policies and procedures, especially for what concerns identification of beneficiaries and carrying out of preliminary investigations.

The Executive Committee (appointed with the same term of office as that of the Board of Directors and currently consisting of 5 Directors) is granted operations management powers, with set limits on amounts, for matters not reserved exclusively for the BoD. Pursuant to the Articles of Association, for particularly urgent reasons, the Executive Committee may also adopt decisions that are the responsibility of the Board of Directors, provided that they are not reserved by law exclusively for the latter. The Board itself must be informed of these decisions during the first subsequent meeting. The Chairman and the Deputy Chairman may attend the meetings of the Executive Committee. In 2017, the Executive Committee met 11 times. Also for 2018, one meeting is expected to be held each month.

The AISCI, as non-executive Director, is tasked with ensuring – at an overall level – the functioning of the internal audit system, supervision of compliance risk, implementation of the process for assessing capital adequacy (“ICAAP”) with the support in particular of the following functions that report directly to the Board of Directors: Internal Auditing; Risk Management; Compliance; Anti-laundering, Executive Appointed to draw up the accounting documents.

The General Manager executes the resolutions adopted by the BoD, the Executive Committee and, in his/her capacity as a member of the top management of the operating structure, is placed in charge of the management of personnel, the organisation and functioning of company structures and carrying out current business affairs, according to the general policies established by the BoD and the Executive Committee. Within the sphere of operational management, the General Manager has autonomous powers within amount limits lower than those of the Executive Committee. The General Manager reports to the BoD and participates, in accordance with the Supervisory Provisions, in the management function performed by the BoD itself and by the Executive Committee.

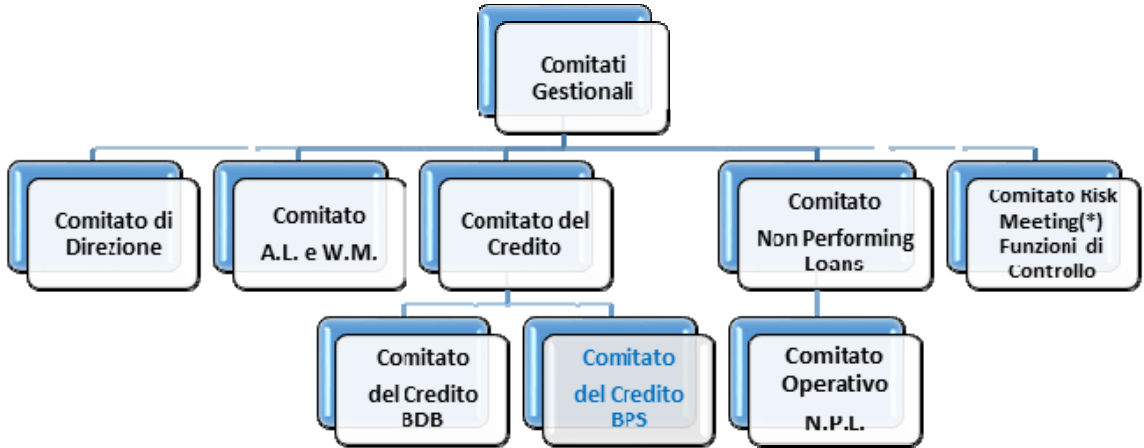
The executive Bodies and parties inform the BoD and the Board of Statutory Auditors, according to the provisions of the Information Flows Regulation for Corporate Bodies, with regard to activities carried out within the sphere of the assigned powers and the performance of Banco Desio and subsidiary companies.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

²⁵ Any urgent resolutions are passed by the Chairman upon the binding proposal of the General Manager

Given the system of powers described above, Directors Graziella Bologna, Agostino Gavazzi, Egidio Gavazzi, Paolo Gavazzi and Tito Gavazzi are also considered executive directors, as they are members of the Executive Committee and in consideration of the frequency of meetings and the expansion of its responsibilities. For the sake of thoroughness, note that: no director covers executive positions within Banco Desio, or in the subsidiary companies, or in the parent companies, nor has the appointment of overseeing specific areas of the corporate operations ensuring a steadfast presence in said company and/or acquiring information from the operating structures and/or participating in the meetings of the Committees pursuant to the subsequent paragraph 4.3 (except for the attendance of an Executive Director at the meetings of the Asset Liability and Wealth Management meetings with a coordination role and the attendance of the Chairman at the meeting of the aforesaid Committees); no Director holds directive roles in subsidiaries or the Holding Company; other Directors hold administrative offices in the Holding Company and/or subsidiaries (in this context, the Deputy Chairman of Banco Desio currently also serves as Chairman of the subsidiary Bank).

4.3 Technical-operating committees

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



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

4.4. Overall structure of the system of powers and authority of BPS

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

- a BoD comprising 12 directors²⁶, of which 7 independent, as at 31 December 2017;

²⁶ For its development, see section 13 below.

- an Executive Committee consisting of 4 Directors;
- a General Manager charged with executing the BoD's resolutions, as well as handling current business affairs and personnel.

The Chairman of BPS, who is assigned a co-ordination and guarantee role for the purpose of the due functioning of the Board of Directors and the Shareholders' Meeting, and the Deputy Chairman who replaces the former in the event of his absence or unavailability, are not assigned operating powers. They are assigned the representation of the Company in dealings with third parties and before the legal authorities on the basis of the Articles of Association, acting separately. The Chairman of BPS can adopt, for reasons of particular urgency, decisions that are the responsibility of the BoD (provided that they are not reserved exclusively for this Body by law or the Articles of Association), with the obligation to promptly disclose them to the BoD during the first available meeting. This is a procedure of an exceptional nature. The Chairman of BPS however has a non-executive role and does not carry out operational functions, not even *de facto*. The Chairman of BPS is a high-profile representative (Deputy Chairman) of the Parent Company. Certain rights on cash settlements with charity purposes are reserved to the Chairman of BPS, which can be exercised within a strictly limited amount and in compliance with particularly strict business policies and procedures, especially for what concerns identification of beneficiaries and carrying out of preliminary investigations.

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

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

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

Internal Procedure for Transactions with Associated Parties and “Article 136 of the CBL”

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

nonetheless updated, as stated, to take into account corporate changes (such as the Delisting of BPS) and organisational changes (such as the revision of the corporate organisational chart). An independent annual expenditure budget of Euro 25,000.00 was assigned to the Committee for Transactions with Related Parties for 2017 (and reconfirmed for 2018). The Committee meeting minutes are duly recorded in the specific register.

In 2017, the Related Party Transactions Committee met 11 times, to collect information and/or issue opinions mainly with regard to the following transactions:

- Subordinated loans of the Parent Company in favour of BPS (transaction of lesser significance) on 22 June;
- Covered bond issue programme (Desio OBG) (transaction of greater significance) on 22 June and 17 July.

On the occasion of the establishment of the Committee after renewal of the offices, a fact-finding meeting was held with regard to the procedural aspects of preliminary investigation, assessment/resolution and reporting of Transaction with Related Parties, as well as of the organisation of the works of the Committee. In this context, particular focus was dedicated to the analysis of lending practices and the related conditions, to monitor their consistency with those of the market.

For more information, refer to the entire Internal Procedure published, in compliance with the Regulations themselves, on the website www.bancodesio.it – in the section “La Banca/Governance/Documenti societari/Parti correlate” (The Bank/Governance/Corporate Documents/Related parties”. For a summary of these transactions relating to 2017, resolved in the aforementioned Internal Procedure, reference should be made to the financial statement disclosure and especially Part H of the Notes to the Consolidated Financial Statements.

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

The Policy containing the General Rules for handling Conflicts of Interest regarding investment services has the aim of illustrating the guidelines that the Group has adopted for handling conflicts of interest when providing investment services and activities, related services or a combination of these services, following the endorsement in the Italian legal system of the “MIFID” Directives.

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

6 – REMUNERATION AND INCENTIVE MECHANISMS - REMUNERATION COMMITTEE

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

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

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

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

The Remuneration Committee is an advisory/proposal-making body with the main task of: i) formulating opinions and/or proposals on the remuneration of Directors for the BoD in cases in which the decision is the responsibility of a Board Committee of the Parent Company and/or Shareholders' Meeting/Board Committee of the subsidiaries, specifically, decisions concerning Directors who have been appointed to certain offices and/or granted operating powers, as well as the General Manager and the Deputy General Managers(s), as well as: ii) formulating opinions and/or proposals for the BoD regarding general policies and specific criteria for management remuneration, including at the Group level and any stock-based incentive plans. As part of the above responsibilities, the Remuneration Committee is involved in defining, assessing and monitoring retribution and incentive systems, in compliance with Circular no. 285. To formulate its opinion on the matters under the respective competence, in 2017, the Remuneration Committee met 6 times and some of the meetings saw the discussion, for areas within their competence, of issues associated with implementing the Group incentive system, in order to ensure its consistency with the objectives and compliance with the regulations also in light of the evolution of the reference scenario. Besides, in this area, for what

concerns the offices held by the management in investee companies, the rule to pay into the company the relevant fees was adopted, consistent with the “best practices” in force on the matter. An independent annual expenditure budget of Euro 25,000.00 was assigned - for mixed use with the Appointments Committee - to the Remuneration Committee for 2017 (and reconfirmed for 2018, but no longer with mixed use but in said amount distinctly for each of the two Committees). The Committee meeting minutes are duly recorded in the specific register and the Chairman of the Committee informs the first available Board of Directors of it (which is normally held on the same day).

The Articles of Association of the Banks of the Group also envisage that the Ordinary Shareholders' Meeting, in addition to establishing the above fees, approves the remuneration policies, including plans based on financial instruments and the criteria/limits for any “golden parachutes”²⁷ as set out in Circular no. 285. The Shareholders' Meeting is ensured adequate disclosure on the implementation of the remuneration policies.

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

6.bis – APPOINTMENTS COMMITTEE

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

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

- to advise the Board of Directors in relation to the size and composition of the same and to express recommendations on the professional figures whose presence within the Board is deemed necessary, also in coherence with the Supervisory Provisions in relation to corporate governance and on the following issues:
 - maximum number of assignments as director or auditor that may be considered compatible with the effective conduct of the role of Director of the company, taking account of the participation of the directors on Committees and, to that end, identification of the general criteria differentiated on the basis of the commitment related to each role (of executive, non-executive or independent director), also in relation to the nature and dimensions of the companies in which the roles are held as well as their possible membership of the Group;
 - assessment, on their merits, of any problematic circumstances for the purposes of prohibitions on competition laid down by the legal or regulatory provisions;
- to support the Board of Directors in any co-opting resolutions of Directors and in the nomination/revocation of other Bank Representatives, as well as the designation of Representatives of subsidiary companies and possibly of associated and/or invested companies of strategic relevance;

²⁷ "Golden parachute" is any compensation to be paid in the event of early conclusion of the employment relationship or early termination of the office

- to support the Board of Directors in self-assessment activities performed in compliance with the Supervisory Provisions on corporate governance as well as verification of the legal requirements in accordance with Article 26 of the Consolidated Banking Law;
- to support the Board of Directors in assessments relating to the definition of succession plans of the senior positions of the executive body provided by the cited Supervisory Provisions;
- to support the Board of Directors in resolutions relating to the nomination and revocation of the heads of the internal control functions and of the Appointed Executive, liaising, to that end, with the Control and Risk Committee.

To formulate its opinions on the matters under its respective competence, the Appointments Committee met 9 times in 2017, and in some of the meetings, the following main topics were discussed, for matters under its competence:

- Self-Assessment Report of the Bodies for the year 2016 and theoretical profile for the renewal of the offices;
- Outcome of the verification of the interlocking prohibition;
- Designation of offices in subsidiaries;
- Replacement of the General Manager and connected resolutions - ascertainment of requirements;
- MEF Decree Outline "Article 26 CBL" in consultation and ABI observations;
- Indication of a candidate for co-optation by the BoD of BPS;
- Start of the process of self-assessment of the Bodies for 2017.

An independent annual expenditure budget of Euro 25,000.00 was assigned - for mixed use with the Remuneration Committee - to the Appointments Committee for 2017 (and reconfirmed for 2018, but no longer with mixed use but in said amount distinctly for each of the two Committees). The Committee meeting minutes are duly recorded in the specific register and the Chairman of the Committee informs the first available Board of Directors of it (which is normally held on the same day).

7 – INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM – AUDIT AND RISK COMMITTEE – EXECUTIVE APPOINTED TO DRAW UP THE ACCOUNTING DOCUMENTS AND FINANCIAL DISCLOSURE PROCESS - NON-FINANCIAL STATEMENT - DIVERSITY POLICIES

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

As previously noted, the banks are subject to regulations on the **internal audit and risk management system** established, in particular, by supervisory regulations on banking activities and the provision of investment services, issued by the Bank of Italy and Consob implementing the CBL and the CFA. As "public interest entities", banks are also subject to the regulations of Italian Legislative Decree no. 39/2010²⁸ governing the external auditing of accounts. In this area, the Board of Directors defines the nature and the level of the risk compatible with the strategic objectives of the issuer, including in its assessments all the risks that may become important with a view to mid/long-term sustainability of the activities of the Banco Desio Group. The Board plays a key role in the assessment of the actual operation of the internal control and risk management system that may be relevant in the aforesaid view. In the presence of relevant circumstances, the Board acquires the

²⁸ The mentioned Italian Legislative Decree 39 was amended by Italian Legislative Decree no. 135 of 17 July 2016 (Implementation of the 2014/56/EU directive that amends directive 2006/43/EC concerning the external auditing of the annual accounts and consolidated accounts) with no significant impact for the purposes of this paragraph

required information and takes all appropriate measures to protect the Group and market disclosure. This system features a complex structure that involves all the corporate levels, with specific duties reserved for the Board of Directors, the Board of Statutory Auditors, the AISCI, the General Manager and the individual in charge of internal auditing, represented by the pro-tempore Head of the Internal Auditing Department. This Department, like the Risk Management Department²⁹, Compliance Office and Anti-Money Laundering Office, was structured to report directly to the Board of Directors. The audit and reporting activities carried out by this Department are consistent with the specific recommendations of the Corporate Governance Code. The Parent Company outsources the functions of internal audit, risk management, compliance and anti-money laundering for BPS and Fides SpA.

* * *

In this context, the Board of Directors established an **Audit and Risk Committee** that, as shown in Table 1, is currently composed of 1 non-executive Director (the AISCI) and 2 Independent Directors, including the Committee Chairman. The Chairman of the Board of Statutory Auditors, or a Standing Auditor designated by the Chairman, participates in Committee meetings (as it usually occurs), and, in any event, the other Standing Auditors may also participate. In addition, the AISCI participates as the liaison between the BoD and the other members of the above-mentioned system. The General Manager, Vice General Managers and the heads of internal audit, risk management, compliance and anti-money laundering departments may also be invited to participate, as well as other employees/contractors/consultants, depending upon the specific issues to be discussed. The Audit and Risk Committee, as an internal Board committee, performs advisory/proposal-making functions and assists the BoD in its activities of supervising the proper functioning of the internal audit and risk management system, as well as assessment of the proper use of accounting standards. The Committee reports to the BoD on activities performed and the adequacy of the internal audit and risk management system through specific reports prepared every six months.

In assisting the Board of Director, the Committee also supports, with adequate investigation activities, the assessments and the decisions of the Board on the management of risks deriving from adverse events of which the Board has become aware³⁰

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

During 2017, the Committee met 15 times, in its role as advisory/proposal-making body for issues regarding the internal audit and risk management. Generally, the participants in the meeting, other than the Committee members, included the Chairman of the Board of Statutory Auditors and the Head of the Internal Auditing Department, as well as the managers of the Risk Management, Compliance and Anti-Money Laundering departments. Depending on the issues to be discussed, other Auditors,

²⁹ **In 2017, the Heads of the Internal Audit Department and of the Risk Management Department took the qualification, respectively, of “Chief Auditing Officer” and of “Chief Risk Officer”**

³⁰ The Corporate Governance Code also specifies that “a particularly important role within the internal audit and risk management system is normally carried out by the legal and compliance divisions, with a special reference to the supervision of the legal and non-compliance risks, including also the risk of committing criminal offences to the detriment or in the interest of the company”. With regard to the legal risk, this role is carried out by the Legal Department.

the Managing Director (until the expiration of the term on 6 April 2017), the General Manager, the Substitute Vice General Manager (Appointed Executive), as well as other Executives and/or employees and external consultants participated in individual meetings. In detail, besides the usual six-monthly reports to the BoD on the activities carried out by this Committee, the main subjects dealt with concerned, with specific reference to the internal audit and risk management system, *inter alia*:

- the plans prepared by the internal control functions and the relevant implementation (both for Banco Desio and for the Group);
- the periodic reporting produced by the internal control functions (also in terms of the Group) especially for what concerns the so-called “Tableau de bord” sent to the Bank of Italy on a quarterly basis;
- the sale of “Non-Performing Loans”, assessed as Transactions of Greater Significance (OMR);
- The 2017 Recovery Plan;
- the subordinated loan granted by the Bank to the special purpose vehicle Desio OBG, within the scope of the Programme for the issue of Covered Bonds;
- the review of the “Pooled” consortium initiative connected with the AIRB Project;
- the start of the utilisation of Cerved ECAI ratings for capital purposes;
- the revision of the general part of the 231 Organisational and Management Model;
- the evaluation of the ICAAP document, also with respect to the stress tests on the credit risk;
- the strategic guidelines of the Business Plan;
- the projects connected with the “Sustainability Report”;
- the changes to the organisational structure, with particular reference to the centralisation of the Audit function of the Subsidiary Banca Popolare di Spoleto SpA in the homologous function of the Parent Company.

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

The Committee has an independent budget for expenses of Euro 50,000.00 for 2017 (reconfirmed for 2018). The Committee meeting minutes are duly recorded in the specific register and the Chairman of the Committee informs the first available Board of Directors of it (which is normally held on the same day).

The Committee is also tasked, at the Group level, with supervising sustainability matters within the scope of its own consultative-proposal making role for the purposes of the approval by the BoD of strategies and policies on the matter (as described in detail in the final part of this section 7).

* * *

As regards the **Organisational Model pursuant to Italian Legislative Decree no. 231/2001**, which undergoes periodic maintenance, in 2017, an additional project was carried out - also for BPS and Fides - to update the Model with some newly introduced offences and with organisational changes, in addition to some initiatives directed at incorporating current “best practices”. In this context, the Code of Ethics was separated from the Model itself. This Model is published on the website www.bancodesio.it – in the section “La Banca/Governance/Documenti Societari” (The Bank/Governance/Corporate Documents).

The powers and functioning of the Board of Statutory Auditors in its role as Supervisory Body pursuant to Italian Legislative Decree no. 231/2001 (hereinafter, SB 231) were described in detail in the aforementioned Model and in a specific Regulation adopted by the SB 231 itself. The SB 231 is envisaged to have independent powers of initiative and control, supported by the Internal Auditing Department in supervisory activities, and must report every six months to the Board of Directors on

activities performed. The SB 231 currently has an independent budget for expenses of Euro 50,000.00 for 2017 (reconfirmed for 2018), in relation to other actions associated with the project to review the Model, with particular reference to training activities.

* * *

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

The internal system for reporting infringements envisaged by the Group uses specific, autonomous and independent communication channels, separate from the normal reporting lines. In particular, the system envisages two separate communication channels at the disposal of the personnel:

- primary channel: the Head of the Internal Auditing Department, as the Head of the internal system for reporting infringements;
- alternative channel: the Chairman of the BoD of the Parent Company, for all the reports for which the whistle-blower suggests a potential conflict of interest with the recipient of the primary channel.

The internal system for reporting infringements of the Group initially envisages the following two technical methods for sending reports:

- certified email box: “dedicated” certified email box that provides reserved access to the previously mentioned primary and/or alternative channels, or
- ordinary mail: “confidential” letter to the Head of the internal system for reporting infringements or to the subject identified as “alternative channel”.

No reports were received in 2017.

The Regulation of the internal system for reporting infringements is currently being revised as a result of the promulgation of specific law provisions on this matter.

* * *

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

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

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

- identifying the organisational parties involved in the preparation, approval, revision and management of the Plan in a crisis situation;

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

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

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

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

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

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

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

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

- implementation;

- assessment;
- reporting.

Based on the Model's scope, which applies to the entire Group, the tasks listed above are carried out for both the Parent Company and, as far as compatible, for the Group Companies included in the scope of consolidation. The Financial disclosure control model was updated in order to achieve a full integration of BPS into the Group at procedural level as well.

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

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

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

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

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

- supports the Board of Statutory Auditors and the Independent Auditing Firm in assessing the correct use and homogeneity of accounting standards for the purpose of preparing the individual and consolidated financial statements;
- provides the Supervisory Body pursuant to Italian Legislative Decree 231/01 with the related certification pursuant to Article 154-bis, paragraph 5 of the CFA as well as indications when specific critical situations are detected relating to the adequacy or operation of the financial disclosure control model;
- draws up an annual report to submit to the AISCI and the General Manager (according to their respective powers established by the Internal Regulations), subsequently transmitted to the Board

of Statutory Auditors, as well as to the Control and Risk Committee and the Board of Directors. This report contains:

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

Roles and functions

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

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

- interfaces with the Parent Company’s Organisational Processes and Products Department in order to verify that the administrative-accounting processes are formalised in specific organisational procedures, requesting specific supporting documentation from the Division;
- has the right to request specific certifications from the Organisational Processes and Products Department regarding:
 - the correct operation of company infrastructures and applications used to acquire, process and represent administrative-accounting information;
 - the existence of adequate procedures to guarantee the protection of company informational assets, also with regard to outsourced IT processes.
- promptly acquires information on planned activities and the subsequent results of activities carried out by the Parent Company’s Internal Auditing Department, and may avail himself of the support of this Department in carrying out his controls;
- has the right to request the Risk Management Department to carry out additional analysis and assessment of risks in administrative-accounting processes he identifies periodically when selecting “key accounts”;
- may request the Compliance Department to provide consulting for the assessment and management of compliance risk as well as for any corrective actions to be implemented;
- for the purpose of transmitting the certifications/declarations to the market (with specific regard to the annual, half-year and quarterly financial statements), requests that the “Parent Company’s Process Managers” issue specific internal certifications, or may assign said internal structures to carry out specific audit activities for the purpose of verifying the correct performance of administrative-accounting processes. As proof to support the certification and audit activities, the Appointed Executive may acquire specific internal documentation and/or reports from the business structures involved.

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

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

Non-Financial Statement (Sustainability Report)

On 10 January 2017, Italian Legislative Decree no. 254 of 30 December 2016 was published in the Official Gazette of the Republic of Italy (the “Decree”); it implements Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. The Decree introduced new transparency obligations in line with the aforementioned ECU provisions, both specifying the scope of these obligations (scope of the new obligations, content and procedures for publishing the non-financial statement, responsibilities of corporate bodies and of the independent auditor in the process of drafting and checking the statement) and implementing the specific regulatory options left to the member States.

Scope

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

Content of the NFS

To fulfil the general obligation set out above, Article 3, Paragraph 1, of the decree provides some additional indications that allow the necessary content of the NFS to be identified. In the first place, the information elements are indicated through which it is possible to assure that the enterprise activity is understood, which consist “at least” of the description: i) of the main risks, generated or incurred, in connection with socio-environmental issues and deriving from the enterprise activity or from products and services provided by it; ii) of the organisational and management model of the company, including the corporate models for preventing offences adopted in accordance with Legislative Decree 231/2001, which are relevant in the management of the socio-environmental issues indicated by the decree; iii) of the policies applied by the enterprise for the management of the impacts of the entrepreneurial activity within the non-financial areas referenced above and the results achieved by the implementation of these policies (Article 3, Paragraph 1, Letters from a) to c). In the second place, a significant - or “materiality” - criterion is expressly provided, for the selection of the information to be provided in the NFS with regard to all the profiles referenced above.

Consolidated non-financial statement

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

Procedure for the publication of the non-financial statement

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

- i) be included in a specific section of the report on operations; this section shall be expressly “marked” in this sense;
- ii) be contained in a distinct report, subject to the obligation to mark it in any case as a non-financial statement.

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

Tasks of the party appointed to audit the financial statements

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

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

Sustainability governance structure

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

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

Level	Body/Function	Duties/Activities
		<p>within the Banco Desio Group</p> <ul style="list-style-type: none"> ▪ At different levels, responsible for the collection, validation and transmission of the information to be included in the sustainability reports
Communication	Internal and external communication (Resources Department and External Relations Department)	Definition of communication activities/initiatives (in addition to the sustainability report) informing both internal and external interlocutors about the results of the activities
Coordination	Appointed Executive / Financial Statements and Accounting Control Office pursuant to Law 262	Sustainability coordination function

Diversity policies

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

In this regard, the practices adopted by the Banco Desio Group are consistent both with the aforementioned law provisions with regard to gender quotas (Law 120/2011), and with the Supervisory Provisions on the composition of the Corporate Bodies which require “an adequate degree of diversification in terms, *inter alia*, of competencies, experience, age, gender, international projection”. This aspect, pertaining specifically to the areas of competence of the Appointments Committee, is analysed in the self-assessment process per paragraph 3.6 above, taking into account the operational and dimensional complexity of the company. The aforesaid practices shall be formalised in a dedicated policy which, also consistently with the indications of the Italian Corporate Governance Committee³¹, shall be adopted in relation to the revision of the “theoretical profile” for the next renewal of the corporate offices, taking into account the aforementioned EBA/ESMA Guidelines in force since 30 June 2018 and the consequent revisions of the aforesaid Supervisory Provisions.

8 – CORPORATE INFORMATION

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

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

- the disclosure to the public of the privileged information and the possible delay of the communication itself, in the presence of well-defined conditions, resulting in the activation of a

³¹ Annual report on the implementation of the Corporate Governance Code - December 2017 (page 25-26)

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

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

Note that, in 2017, some “internal dealing” transactions were reported and disclosed for a total value of approximately Euro 38.7 thousand.

Banco Desio, like BPS as well inasmuch as it is applicable to Issuers of Widely Distributed Securities, publishes all the corporate documentation made public by law/regulations on its own website in full. As mentioned, BPS has its own website.

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

9 – BOARD OF STATUTORY AUDITORS

The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFA and articles 144-octies and 144-novies of the Issuers’ Regulation and reflects (unless otherwise specified) the situation as at 31 December 2017.

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

In addition to the integrity and independence requirements and the causes of ineligibility envisaged by special legislation and by the Corporate Governance Code for listed banks, the Statutory Auditors must meet – on penalty of forfeiture – the following professional standing requirements: at least one Standing Auditor and one Alternate Auditor (and, in any event, the Chairman) must be enrolled in the register of chartered accountants; those who do not meet this requisite must have gained specific experience in the activities and the sectors indicated in the Articles of Association. The satisfaction of requirements is verified by means of the “supervisory” procedure described by the BoD and, in

implementation of a specific recommendation of the Corporate Governance Code, the Board carries out a specific check on the observance of the aforementioned requirements. All the Statutory Auditors have been chosen from among those enrolled in the register of chartered accountants and are independent on the basis of both the CFA and the Corporate Governance Code (with the exception of the criteria of “nine years” permanence on the Board of Statutory Auditors which, due to the reasons already mentioned for the Directors in compliance with the resolution adopting the Code adopted on 22 February 2007, is not, however considered in itself an indication of non-compliance with the independence requirement).

The lists of the other offices held by the Statutory Auditors, pursuant to Article 2400 of the Italian Civil Code and Article 148-bis of the CFA, are published in the prescribed methods and timeframes, together with the information on the personal and professional characteristics of the Statutory Auditors (published upon submission of the lists for the renewal of Corporate offices, in compliance with governing Consob provisions). Their “curricula” are also available on the website www.bancodesio.it in the section “La Banca/Governance/Corporate Governance/Collegio Sindacale” (The Bank/Governance/Corporate Governance/Board of Statutory Auditors).

The Internal Regulations of the Italian Subsidiary Banks include a general limit on the accumulation of the offices of statutory auditor, by virtue of which these Statutory Auditors cannot undertake this office when they already cover the office of member of the audit body in five listed or supervised companies, in cases where the “interlocking ban” does not apply pursuant to Article 36 of Italian Law no. 214/2011; it is also established that the Statutory Auditors cannot undertake offices in bodies other than the Board of Statutory Auditors within other Group Companies, as well as with companies in which Banco Desio directly or indirectly holds a strategic investment³².

As previously stated, the Board of Statutory Auditors of Banco Desio, like those of BPS and Fides SpA, perform the functions of SB 231. During 2017, Banco Desio’s statutory auditors held a total of 68 collective meetings and assessment inspections at the head offices or the branches. The activities of the statutory auditors with reference to participation in the meetings of the Corporate Bodies are likewise summarised in [Table 2](#) containing, among other things, information on the average duration of the meetings; the other appointments covered by the statutory auditors in subsidiary, associated and investee companies or in listed and/or supervised companies are shown in [Table 3](#).

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

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

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

³² As indicated by the aforementioned Circular No. 285, “strategic” for such purposes is understood to mean the equity investment that is equal to at least 10% of the share capital or the voting rights during ordinary Shareholders’ Meetings of the investee company and 5% of the consolidated regulatory capital of the Banking Group.

10 – RELATIONS WITH SHAREHOLDERS – FUNCTIONING OF THE GENERAL SHAREHOLDERS’ MEETING

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

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

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

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

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

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

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

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

The General Shareholders' Meeting Regulations, which discipline the business of the meetings, including to the extent applicable the Special Savings' Shareholders' Meeting, aim to ensure the orderly participation of those entitled to attend, in line with the indications that emerged from the work carried out originally care of the pertinent Trade Associations. The underlying criteria that inspired the drafting of the Regulations was to guarantee a certain discretion in the powers of the Chair, albeit in

observance of legal and Articles of Association provisions, aimed at permitting appropriate flexibility in handling the general meeting business and ensuring the exercise of the rights of the shareholders, in particular the right to take part in the discussion, also with the faculty to reply. The provisions strictly pertaining to the undertaking of the Chair of the Meeting, the right to attend, personally or via proxy, the right to vote and the resolutions adopted by the meeting, remain disciplined by the Articles of Association, which furthermore do not envisage departures from legal regulations.

The minutes of the Banco Desio Shareholders' Meetings are taken by a Notary, including for Ordinary Shareholders' Meetings. In 2017, an Ordinary Shareholders' Meeting of Banco Desio was held to approve the financial statements as at 31 December 2016 (Extraordinary and Ordinary Shareholders' Meeting on 6 April 2017).

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

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

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

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

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

As envisaged in the Articles of Association, Banco Desio, as a rule via the General Secretariat and Corporate Affairs Department, promptly informs the Common Representative of price sensitive corporate transactions, usually via the forwarding of press releases and any other documentation made public by law. Thus far, no resolutions that are detrimental to the rights of the category, such

that they would require the approval of the Special Shareholders' Meeting have been adopted by Banco Desio's Bodies.

12 – INDEPENDENT AUDITING FIRM

The company appointed to audit the accounts in accordance with the law is Deloitte & Touche S.p.A. with registered office in Milan. Upon the proposal of the Board of Statutory Auditors, the assignment was granted by the Shareholders' Meeting of 26 April 2012, with the total duration until the approval of the 2020 financial statements. The total net agreed fee is 270,800 Euros for 2017. The individual responsible for the audit assignment is Mr. Maurizio Ferrero. The same company "Deloitte" is appointed to audit the accounts, again in accordance with the law, of all the Italian subsidiary companies, as well as the parent company, with a duration, where possible, in line with that of the Banco Desio appointment (except in the case of BPS, in which it became necessary to extend this term up to the 2022 financial year since its appointment, which by law must in any case last nine years as it is a listed company, was granted on 9 October 2014 following the bank's entry into the Group).

13 – CHANGES AFTER THE END OF THE ACCOUNTING PERIOD

Between the date of the end of the last accounting period (31 December 2017) and the below-indicated date of approval of this Report, no significant changes took place with respect to those illustrated in the previous sections.

On 19 December 2017, the Board of Directors of Banca Popolare di Spoleto resolved, as a result of the Delisting, to start a supervisory and statutory procedure entailing, *inter alia*, the decrease of the maximum number of Directors from 12 to 11, without prejudice to the list vote procedure for the appointment of the Board of Directors and of the Board of Statutory Auditors. At the same time, the Articles of Association provision on gender quotas per Law no. 120/2011 was eliminated, subject to compliance with the Supervisory Provisions on the composition of the Corporate Bodies. In this context, the Control and Risk Committee is to be suppressed as well, along with the Appointments Committee and the Remuneration Committee, while the Executive Committee and the Related Party Transactions Committee are maintained. The minimum number of Independent Directors was set to 1/4 (i.e. the proportion established by the aforementioned Supervisory Provisions) with a lower limit of 3. In addition, the Executive Appointed to draw up the accounting documents will also be suppressed. None of the Articles of Association amendments submitted to the Extraordinary Shareholders' Meeting of 22 March 2018 triggers the right to withdraw.

14 - CONSIDERATIONS ON THE LETTER OF 13 DECEMBER 2017 BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

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

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

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

Desio, 27 February 2018

On behalf of the Board of Directors
The Chairman
(Stefano Lado, Attorney)

INDEPENDENT DIRECTORS' ASSESSMENT

On 16 January 2018 and - in continuation - on 8 and 26 February 2018, the following Independent Directors of Banco di Desio e della Brianza SpA met:

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

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

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

- on the increase in the number of Independent Directors from 4 to 5 (3 of which belonging to the less represented gender within the Board of Director), which enhances board debates, as well as decision-making based on independent judgment with respect both to the majority shareholder and to corporate management;
- on the procedures for the conduct of board meetings, with particular reference to the frequency and the duration of the meetings and the depth of the discussions, in which Independent Directors participate in a particularly active manner, contributing to the internal debate and thereby fully performing their duties;
- on the training initiatives suggested also by the Independent Directors and directed at updating knowledge about the business sector, the corporate dynamics and their evolutions, correct risk management principles and the reference regulatory framework;
- on the role of the Chairman, who has full independence of judgment and regulates board debates, providing for the proper balance between the Directors' proposals and his/her own proposals, assuring that the debate is free and allowing everyone to express his/her viewpoint;
- on the introduction of the Sustainability Report and on the development of the projects connected therewith, which go beyond regulatory compliance pertaining to the Non-Financial Statement;

Upon reviewing the "Annual Report on Corporate Governance and on the Shareholder Structure of the Group in accordance with Article 123-bis of the Consolidated Law on Finance (TUF)", an equally positive assessment is expressed thereon.

Gerolamo Pellicanò

Marina Brogi

Cristina Finocchi Mahne

Nicolò Dubini

Gigliola Zecchi Balsamo

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

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

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

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

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

TABLE 1 - STRUCTURE AND OPERATION OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES AS AT 31.12.2017

BOARD OF DIRECTORS (Appointed by the Shareholders' Meeting of 6 April 2017 and in office until the approval of the financial statements as at 31 December 2019)									Executive Committee (appointed on 6 April 2017)		Nominations Committee (appointed on 6 April 2017)		Remuneration Committee (appointed on 6 April 2017)		Control and Risks Committee (appointed on 6 April 2017)		Shareholders' Meetings	Related Party Transactions Committee (appointed on 6 April 2017)	
Office	Name and Surname	Date of Birth	Date of first appointment	List	Independent	Executive	No. of other offices (outside the Group)	Meetings attended out of all meetings in 2017 (19)	Member of the Committee	Meetings attended out of all meetings in 2017 (11)	Member of the Committee	Meetings attended out of all meetings in 2017 (9)	Member of the Committee	Meetings attended out of all meetings in 2017 (6)	Member of the Committee	Meetings attended out of all meetings in 2017 (15)	Meetings attended out of all meetings in 2017 (1)	Member of the Committee	Meetings attended out of all meetings in 2017 (11)
Chairman from 6 April Deputy Chairman until 6 April	Stefano Lado	17.04.1960	23.04.1993	M	No	No YES (*)	3	19	No YES	3 upon invitation 2	No	3 upon invitation	YES from 6 April	2	No	2 upon invitation	1	No	2 upon invitation
Director from 6 April Chairman until 6 April	Agostino Gavazzi	05.04.1945	05.05.1983	M	No	YES (*) No	-	19	YES No	9	No	1 upon invitation	No		No		1	No	
Deputy Chairman and AISCI from 6 April Managing Director until 6 April	Tommaso Cartone	15.01.1942	19.06.2012	M	No	No YES (*)	-	19	No YES	2 upon invitation 2	No	5 upon invitation	No	6 upon invitation	YES from 6 April	11 4 upon invitation	1	No	2 upon invitation
Director	Egidio Gavazzi	14.08.1937	28.04.2008	M	No	YES (*)	-	18	YES	10	No		No		No		1	No	
Director	Paolo Gavazzi	29.05.1947	28.04.1997	M	No	YES (*)	-	19	YES from 6 April	9	YES until 6 April	4	YES until 6 April	4	YES until 6 April	4	1	secretary until 6 April	2
Director	Tito Gavazzi	20.10.1976	29.04.2014	M	No	YES (*)	-	19	YES	11	No		No		No		1	No	
Director	Graziella Bologna	08.12.1954	29.04.2014	M	No	YES (*) (**)	-	19	YES	11	No		No		No	1 upon invitation	1	No	
Director	Cristina Finocchi Mahne	01.07.1965	30.05.2013	M	YES	No	4	18	No		YES from 6 April	5 1 upon invitation	No	1 upon invitation	YES	12	1	YES until 6 April	2
Director	Gerolamo Pellicano'	14.09.1949	30.04.2002	M	YES	No	-	19	No		YES until 6 April	4	YES	6	YES	15	1	No	
Director until 6 April	Sandro Appetiti	02.04.1950	29.04.2014	M	YES	No	-	4	No		No		No		No		1	YES	2
Director	Gigliola Zecchi Balsamo	07.06.1942	29.04.2014	m	YES	No	-	13	No		YES	8	YES until 6 April	3	No		1	YES	6
Director from 6 April	Marina Brogi	15.07.1967	06.04.2017	M	YES	No	3	15	No		YES	4	No		No	1 upon invitation	1	YES	9
Director from 6 April	Nicolò Dubini	28.05.1948	06.04.2017	M	YES	No	1	15	No		No		YES	2	No		1	YES	9
General Manager from 11 July (***)	Angelo Antoniazzi	14.01.1962	11.07.2017(***)	-	No	No	-	8 as per Art. Assoc.		4 as per Art. Assoc.	No	1 upon invitation	No	1 upon invitation	No	5 upon invitation	1	No	2 upon invitation
General Manager until 11 July (***)	Luciano Camagni	31.08.1955	04.05.2016	-	No	No	1	9 as per Art. Assoc.		4 as per Art. Assoc.	No	3 upon invitation	No	3 upon invitation	No	8 upon invitation		No	5 upon invitation
Substitute Vice General Manager	Mauro Walter Colombo	18.04.1960	02.05.2016	-	No	No	-	17 as per Art. Assoc.		8 as per Art. Assoc.	No		No		No	4 upon invitation	1	No	1 upon invitation
Business Deputy General Manager	Maurizio Ballabio	24.08.1960	18.07.2016	-	No	No	-	17 as per Art. Assoc.		11 as per Art. Assoc.	No		No		No		1	No	

M = Majority List

m = Minority List

AVERAGE DURATION OF BoD AND COMMITTEE MEETINGS - 2017

Quorum required for minority to present lists for the election of one or more members (pursuant to Art. 147-ter CFL): 2.5%

(*) this Director is considered executive in connection with Executive Committee membership, considering his or her activity in terms of meeting attendance and extension of powers of said Committee.

(**) this Director sits on the Finance Committee in a coordination role.

(***) effective date 19.07.2017

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

TABLE 2 - STRUCTURE AND OPERATION OF THE BOARD OF STATUTORY AUDITORS
(Appointed by the Shareholders' Meeting of 6 April 2017 and with term of office expiring with the approval of the financial statements as at 31 December 2019)

Office	Name and Surname	date of birth	date of first appointment	list	Independence per Code of Corporate Governance	No. of other offices **	No. of meetings of the Board of Statutory Auditors attended		No. of General Meetings attended (tot. 1)	No. of BoD meetings attended (tot. 19)	No. of EC meetings attended (tot. 11)	No. of CRC meetings attended (tot. 15)	No. or RC meetings attended (tot. 6)	No. of AC meetings Attended (tot. 9)	No. of RPTC meetings attended (tot.11)
							(tot. 68)*	(of which 19 in accordance with SB 231)							
Chairman in office until 6 April	Eugenio Mascheroni	10/08/1938	14/04/1978 (Standing Auditor) 30/04/2002 (Chairman BoSA)	minority	SI	12	26	(of which 6 in accordance with SB 231)	1	4	2	4	2	2	2
Chairwoman (Standing Auditor until 6 April)	Giulia Pusterla	12/02/1960	29/04/2014	majority	SI	12	62	(of which 19 in accordance with SB 231)	1	17	6	13	4	4	7
Standing Auditor	Rodolfo Anghileri	28/02/1948	30/04/2002	majority	SI	10	61	(of which 19 in accordance with SB 231)	1	18	8	14	4	5	7
Standing Auditor in office since 6 April	Franco Fumagalli Romario	17/08/1962	06/04/2017	majority	SI	18	36	(of which 13 in accordance with SB 231)	=	15	8	11	2	4	7
Alternate Auditor	Negonda Elena	08/06/1977	29/04/2014	majority	SI	0	=		=	=	=	=	=	=	=
Alternate Auditor	Giovanni Cucchiani	04/08/1933	14/04/1978	majority	SI	0	=		=	=	=	=	=	=	=
Alternate Auditor	Paolo Pasqui	15/07/1956	29/04/2014	minority	SI	0	=		=	=	=	=	=	=	=

Average duration of Board meetings	2.50
------------------------------------	------

Quorum required for the minorities to present lists for the election of one or more members (pursuant to Art. 148 CFA): 2.5%

* Including inspections (individual or collective) at the Headquarters or the Branches of the Bank.

BoD: Board of Directors EC: Executive Committee CRC: Control and Risk Committee

AC: Appointments Committee RC: Remuneration Committee RPTC: Related Party Transactions Committee

**This column shows the number of offices as director or statutory auditor (outside the Group) held by the person.

TABLE 3 - MAIN OFFICES HELD BY THE REPRESENTATIVES OF BANCO DI DESIO E DELLA BRIANZA SPA AS AT 31 DECEMBER 2017

Name and Surname	Offices held in the Parent Company Banco di Desio e della Brianza SpA	Offices held in the Holding Com. Brianza Unione di Luigi Gavazzi e Stefano Lado Sapa	Offices held in Italian subsidiaries - associates - investee companies - other listed companies - other supervised companies (banks, stockbroking companies, asset management companies, holding companies, etc.)					
			Subsidiaries		Associated/Investee companies		Other	
			Company	Offices	Company	Offices	Company	Offices
Stefano Lado	Chairman, BoD Member, RC	Director (General)	Banca Popolare di Spoleto SpA	Chairman, BoD	Cedacri SpA C-Global Cedacri Global Services SpA	Director Chairman	Fondo Interbancario di Tutela dei Depositi	Director and Member of the Management Committee
Tommaso Cartone	Deputy Chairman and AISCI* Member, CRC		Banca Popolare di Spoleto SpA	Chairman, BoD				
Graziella Bologna	Director Member, EC		Banca Popolare di Spoleto SpA	Director and member, EC				
Marina Brogi (appointed by the Ord. Shareholders of 6 April 2017)	Director Chairman, RPTC Member, AC						Luxtistica Group Salini Impregilo SpA Clessidra SGR SpA	Director and member of Human Resource Committee Director, Chairman CRN and member of the RPTC Chairman, BoSA
Nicolò Dubini (appointed by the Ord. Shareholders of 6 April 2017)	Director Chairman, RC Member, RPTC						Parmalat SpA	Director, member CNR, CCR and RPTC
Cristina Finocchi Mahne	Director Chairman, AC Member, CRC						Trevi-Finanziaria Industriale SpA (Trevi Group) Natuzzi SpA Wireless Infrastructures Italiane SpA (Inwit) Italiaonline SpA	Director, member CCR, RPTC and CNR Director Director and Chairman of ARC Director, Chairman of ARC and member of the CNR
Agostino Gavazzi	Director Chairman, EC	Chairman (General)						
Egidio Gavazzi	Director Member, EC							
Paolo Gavazzi	Director Member, EC							
Tito Gavazzi	Director Member, EC	Director (General)	Fides SpA	Director				
Gerolamo Pellicano'	Director Chairman, ARC Member, RC							
Gigliola Zecchi Balsamc	Director Member, AC and RPTC							
Angelo Antoniazzi	General Manager (appointed by the BoD of 11 July 2017) starting from 19 July 2017)							
Mauro Walter Colombc	Substitute Vice General Manager							
Maurizio Ballabio	Business Deputy General Manager							
Giulia Pusterla	Chairman, BoSA (appointed by the Ord. Shareholders' Mtg. of 6 April 2017)		Banca Popolare di Spoleto SpA	Standing Auditor			Tod's SpA Risanamento SpA	Chairman, BoSA Director, Chairman of ARC, member, RPTC and RC
Rodolfo Anghileri	Standing Auditor	Standing Auditor	Fides SpA	Standing Auditor				
Franco Fumagalli Romaric (appointed by the Ord. Shareholders' Mtg. of 6 April 2017)	Standing Auditor							
Erminio Beretta (appointed by the Ord. Shareholders' Mtg. of 6 April 2017)	Alternate Auditor	Standing Auditor	Fides SpA	Alternate Auditor				
Massimo Celli (appointed by the Ord. Shareholders' Mtg. of 6 April 2017)	Alternate Auditor							
Elena Negonda	Alternate Auditor							

Notes: BOD: Board of Directors EC: Executive Committee RCC: Risk Control Committee RPTC: Related Party Transactions Committee BoSA: Board of Statutory Auditors AC: Appointments Committee and RC: Remuneration Committee

* Director Appointed to head the internal control and risk management system (AISCI)

TABLE 4 – SUMMARY OF COMPLIANCE WITH THE INDIVIDUAL PROVISIONS OF THE CODE OF CONDUCT FOR LISTED COMPANIES

The schedule summarises the state of compliance with the provisions of the Code, consistent with the Report Format indicated by Borsa Italiana, as adopted by Banco Desio. The information is also provided in accordance with Article 123-bis of the CFA

Subject	YES/NO	Summary of the reasons for any deviation from the Code's recommendations (or reference to the Report as well as other notes)
COMPLIANCE		
Indicated whether the Corporate Governance Code (2015 Revision) was adopted	YES	<p>The criteria for independence requirements for Directors and Auditors were implemented with the following exceptions: it has NOT been considered necessary to apply the independence requirement that the person cannot be in office for more than 9 years, since this parameter is not deemed significant especially in a situation such as the Bank's where, on the contrary, lengthy experience gained by a Director/Statutory Auditor who has always operated independently can be considered not as a weakness, but rather an enhancement of independence (if no other opposing factors intervene) and this is to Company's complete advantage in terms of the contribution of the Director/Statutory Auditor to the correct execution of the decision-making processes.</p>
Indicate whether the Bank or any of its strategically significant subsidiaries are subject to non-Italian legal provisions which influence the Bank's governance structure	NO	Also see section 2 of the Report
BOARD OF DIRECTORS		
Also see section 3 of the Report		
Indicate whether the BoD has established general criteria for the maximum number of offices in other companies compatible with the office of Director of the Bank	YES	
Indicate whether the BoD has been reserved the task of examining and approving: . the strategic plans of Banco Desio and the Group . the Corporate Governance System of Banco Desio . the Group structure	YES YES YES	
Indicate whether the BoD has assessed the adequacy of the organisational, administrative and accounting set-up of the Bank and its subsidiaries, with particular reference to the internal auditing system and the handling of conflicts of interests	YES	Also see sections 5 and 7 of the Report
Indicate whether the BoD has established, having examined the proposals/opinions of the Remuneration Committee and consulted the Board of Statutory Auditors, the remuneration of the Managing Director [if appointed], the Chairman and the Deputy Chairman, as well as the	YES	Also see section 6 of the Report
Indicate whether the BoD has assessed the general operating performance, taking into account the periodic disclosure of the appointed Bodies/Parties, as well as comparing the results achieved with those planned	YES	Also see section 4 of the Report
Indicate whether the BoD has been reserved the task of examining and approving, in advance, the transactions of Banco Desio and the subsidiaries that have significant strategic, economic, equity or financial importance	YES	Also see section 3 of the Report
Indicate whether the BoD has been reserved the task of examining and approving transactions with related parties and/or transactions in which one or more Directors have an interest on their	YES	Certain types of transactions with related parties (ordinary transactions other than those disciplined by Article 136 of the CBL) may be delegated within the limits envisaged by the
Indicate whether the BoD has established general criteria for identifying transactions (also with related parties) that have significant strategic, economic, equity or financial importance	YES	These are essentially extraordinary transactions (share capital increases, conferrals/business segment transfers, mergers/spin-offs) as well as transactions on equity investments, properties and branches

Indicate whether the BoD has carried out an assessment on the size, composition and functioning of said BoD and its Committees	YES	This evaluation is performed annually (on conclusion of the self-assessment process conducted using a method based on the processing of the responses of the Directors to the appropriate questionnaire) in conjunction with approval of the Report
Indicate whether the Shareholders' Meeting has authorised exceptions to the non-competence	NO	
APPOINTED BODIES		Also see section 4 of the Report
Indicate whether one or more Directors have received operating powers	YES	The Managing Director was in office until 6 April 2017
Indicate whether the Chairman of the BoD: . has received operating powers . covers a specific role in the drawing up of company strategies . is the main party responsible for managing operations . is the controlling shareholder of Banco Desio	NO NO NO NO	The Chairman is the representative of the company which controls Banco Desio
Indicate whether an Executive Committee has been established to which the BoD has delegated	YES	
Indicate whether the appointed Bodies/Parties have reported to the BoD with regard to the activities carried out when exercising the powers granted	YES	Reporting on the exercise of delegated powers is part of the provisions of the Information Flows Regulation for Corporate Bodies
OTHER EXECUTIVE DIRECTORS		Also see section 4 of the Report
Indicate whether within the BoD there are Directors considered executives because: . they cover the office of Managing Director or Executive Chairman in companies of strategic importance controlled by the Issuer . they cover executive offices within Banco Desio or in a subsidiary of strategic importance, or holding company, and the appointment concerns Banco Desio . they are members of the Executive Committee and due to the frequency of the meetings and subject matters dealt with, they are inherently involved in the current operations of Banco Desio	NO NO YES	
INDEPENDENT DIRECTORS		Also see section 3 of the Report
Indicate whether the BoD: . has, at the first opportune meeting after its appointment, assessed the independence requirements the non-executive Directors must satisfy . has assessed whether independence requirements continued to be met throughout the accounting period . during the assessments, has applied all the independence criteria envisaged by the Code	YES YES NO	The criteria of "9 years" is not applied for the reasons indicated above in point 1)
Indicate whether the Board of Statutory Auditors has checked the correct application of the assessment criteria and the procedures adopted by the BoD for assessing the independence requirements	YES	
Indicate whether the Independent Directors have met during the accounting period in the absence of the other Directors	YES	2 meetings in 2017 (both dedicated to the review of the Report and of the connected matters)
CORPORATE INFORMATION		Also see section 8 of the Report
Indicate whether the BoD has approved a procedure for internal management and external communication of corporate documents and information, with particular reference to privileged information	YES	The procedure in question was revised in 2017 to apply the newly promulgated Consob Guidelines for inside information

Indicate whether initiatives have been undertaken to increase Directors' awareness with regard to the corporate situation and dynamics	YES	
COMMITTEES WITHIN THE BOD		Also see sections 6 and 4 of the Report
Indicate whether a Committee has been set up which carries out the functions of two or more of the committees envisaged by the Code	NO	
Indicate whether Committees other than those envisaged by the Code have been set up	YES	Executive Committee - Related Party Transactions Committee (an advisory committee prescribed by Consob/Bank of Italy regulations and consisting of 3 Independent Directors) in addition to some technical-operating committees outside the BoD
APPOINTMENTS COMMITTEE		Also see section 6 of the Report
Indicate whether the BoD has assessed whether to establish an internal Appointments	YES	
Indicate whether the Committee is made up of at least 3 Directors, all non-executive, the majority of whom are independent	YES	The Appointments Committee now consists entirely of independent directors
Indicate whether the minutes of the Committee meetings have been taken	YES	
Indicate whether the Committee has been assigned an expenditure budget for its activities	YES	25,000 Euros per annum (for 2017 still for mixed use between the Appointments Committee and the Remuneration Committee)
Indicate whether the Appointments Committee is assigned the following additional functions:		The advisory activity of the Committee is ordinarily carried out with the issue of opinions prior to submitting the resolution/disclosure proposals to the Board
. formulate opinions to the Board of Directors in relation to its size and composition and on the professionals whose presence within the Board is deemed advisable, as well as on the enforcement of the limits to the cumulation of offices and of the competition/interlocking prohibition	YES	The Appointments Committee is also involved in the BoD self-assessment process and the definition of the "theoretical profile" also for the purposes of the renewal of offices
. propose candidates to the BoD in co-opting cases, if independent directors have to be replaced	YES	
. indicate the candidates for the office of Independent Director to be submitted to the Shareholders Meeting	NA	No applicable because this requirement is fulfilled by the Articles of Incorporation provisions on list voting
. to support the BoD in the appointment/revocation of other representatives, as well as the designation of representatives of subsidiary companies and possibly of strategically relevant associated and/or investee companies	YES	
REMUNERATION COMMITTEE		Also see section 6 of the Report
Indicate whether the BoD has established an internal Remuneration Committee	YES	
Indicate whether the Committee is made up of at least 3 Directors, all non-executive, the majority of whom are independent	YES	
Indicate whether the Directors must refrain from participating in meetings where proposals are made relating to their remuneration	YES	
Indicate whether the Remuneration Committee is assigned the following additional functions:		The advisory activity of the Committee is ordinarily carried out with the issue of opinions prior to submitting the resolution/disclosure proposals to the Board

. to submit to the BoD proposals for the definition of the policies for the remuneration of the Executive Directors, of the other Directors appointed to particular offices and of Managers with strategic responsibilities	YES	
. to assess periodically the adequacy, overall consistency and actual application of the aforesaid policy, using, in this regard, information provided by the Managing Director [if appointed], and formulating proposals on this matter to the Board	YES	
. to submit to the Board of Directors proposals for the allocation of the total compensation established by the Shareholders' Meeting, as well as for the remuneration of the Executive Directors and of the other Directors holding particular offices, as well as on the setting of performance targets related to the variable component of that remuneration; to monitor the implementation of the decisions adopted by the BoD, verifying, in particular, the actual achievement of the performance targets	YES	
Indicate whether the minutes of the Committee meetings have been taken	YES	
Indicate whether during the performance of its tasks, the Committee has the possibility of accessing information and business functions, as well as availing itself of external consultants (verifying beforehand that the consultant is not in any situations that would compromise his/her independence of judgment)	YES	
Indicate whether the Committee has been assigned an expenditure budget for its activities	YES	25,000 Euros per annum (for 2017 still for mixed use between the Appointments Committee and the Remuneration Committee)
DIRECTORS' REMUNERATION		See also section 6 of this Report, as well the "Group Remuneration Policies Report" prepared in accordance with Article 123-ter of the CFA
Indicate whether a significant part of the remuneration of the Managing Director [if appointed], the General Manager and the Executives with strategic responsibilities is linked to specific results/objectives	YES	
Indicate whether share-based incentive plans have been envisaged in favour of the parties indicated above	NO	
Indicate whether the remuneration of the non-executive Directors is linked to a significant extent to the economic results of Banco Desio	NO	
Indicate whether share-based incentive plans have been envisaged in favour of non-executive Directors	NO	
Indicate whether agreements have been entered into between the Bank and the Directors, which envisage an indemnity in the event of resignation, removal without just cause or termination of the relationship following a take-over bid	NO	
CONTROL AND RISK COMMITTEE		Also see section 7 of the Report
Indicate whether the BoD has established a Control and Risk Committee	YES	

Indicate whether the Committee is made up of at least 3 Directors, all non-executive, the majority of whom are independent	YES	
Indicate whether at least one member of the Committee has specific experience with regard to accounting and financial matters, assessed as adequate by the BoD	YES	
Indicate whether the Committee has been assigned the following additional functions:		
. to provide a preventive opinion to the Board for the performance of the duties assigned to it by the supervisory regulations for internal control and risk management	YES	
. to assess, together with the Executive appointed to draw up the accounting documents, with the input of the independent auditor and of the Board of Statutory Auditors, the correct use of the accounting standards and their consistency for the purpose of drawing up the consolidated financial statements	YES	The consultative activities of the Committee pertaining to the auditing process are ordinarily carried out in the course of joint meetings with the independent auditor, promoted by the Board of Statutory Auditors in the performance of its duties (in companies with traditional governance model, this board constitutes the "internal control and audit committee" in accordance with Legislative Decree no. 39/2010 on the matter of the auditing of the accounts)
. to express, also upon the request of the Managing Director, opinions on specific aspects pertaining to the identification of the main corporate risks, as well as the planning and assessment of the internal audit system	YES	
. to examine the periodic reports, pertaining to the assessment of the internal control and risk management system, and those of particular relevance prepared by the internal audit department	YES	
. to ask the internal audit department - if deemed necessary - to carry out audits on specific operating areas, concurrently notifying the Chairman of the Board of Statutory Auditors		
. to monitor the autonomy, the adequacy, the effectiveness and the efficiency of the internal audit department	YES	
. to report to the BoD, at least once every six months upon approval of the annual and half-yearly financial report, on the activity carried out and on the adequacy of the internal control and risk management system	YES	
Indicate whether the Chairman of the Board of Statutory Auditors or a Standing Auditor has taken part in the Committee meetings	YES	
Indicate whether the minutes of the Committee meetings have been taken	YES	
Indicate whether during the performance of its tasks, the Committee had the possibility of accessing information and business functions, as well as availing itself of external consultants	YES	
Indicate whether the Committee has been assigned an expenditure budget for its activities	YES	Euro 50,000 per annum
INTERNAL CONTROL SYSTEM		Also see section 7 of the Report
Indicate whether the BoD has defined the policies of the internal control system so that the main risks pertaining to Banco Desio and the Group are identified, measured, handled and monitored, for the purpose of sound and prudent management	YES	
Indicate whether the BoD has assessed the adequacy, efficacy and functioning of the internal control system	YES	This assessment is usually carried out at the time of approval of the periodic reporting of the CRC and the internal audit, compliance and risk management divisions

Indicate whether the BoD has identified a Director to serve as the head of the internal control and risk management system (AISCI)	YES	This office was held by the Managing Director as long as he was in office, i.e. until 6 April 2017; currently the AISCI is the Vice Chairman and the AISCI is also a member of the CRC
Indicate whether the AISCI:		
. has identified the main business risks for the Bank and Group and has submitted them for the examination of the BoD	YES	
. has followed the guidelines of the BoD, overseeing the planning, creation and management of the internal audit system, constantly checking the adequacy, effectiveness and efficiency	YES	
. has adapted this system to the dynamics of operating conditions and the legislative and regulatory context	YES	
. has proposed the appointment, removal and remuneration of the individual in charge of internal	YES	
Indicate whether the BoD has appointed one or more parties tasked with checking that the internal control system is always adequate, fully operative and functioning	YES	It is mainly the head of the internal audit department
Indicate whether the individual in charge of internal auditing is hierarchically free from responsibility for any area of operations	YES	
Indicate whether the individual in charge of internal control has:		
. had direct access to all the information useful for carrying out their appointment	YES	
. reported on their activities to the Control and Risk Committee, the Board of Statutory Auditors and the Managing Director [if appointed] or the AISCI	YES	
Indicate whether Banco Desio has established an Internal Auditing function and whether the individual in charge is the same as the head of the function	YES	It is the Internal Audit Department
Indicate whether Banco Desio and the subsidiaries have adopted the Organisational Model pursuant to Italian Legislative Decree No. 231/2001	YES	
Indicate whether risk management and internal control systems exist in relation to the financial disclosure process, consolidated or otherwise	YES	These systems have now been also extended to the non-financial disclosure under Legislative Decree no. 254/2016
CONFLICTS OF INTEREST - OBLIGATIONS OF THE REPRESENTATIVES – TRANSACTIONS WITH RELATED PARTIES		Also see section 5 of the Report
Indicate whether the BoD has established a procedure for approving and carrying out transactions with related parties	YES	
Indicate whether the BoD has defined transactions or criteria for identifying transactions which must be approved by the BoD subject to the opinion of the Internal Control and Risk Committee and/or independent experts	YES	The opinion of the Control and Risk Committee is provided in the case of "Transactions of Greater Significance" ("O.M.R.") pursuant to Bank of Italy Circular 263
Indicate whether the BoD has adopted operating solutions suitable for facilitating the identification and adequate handling of situations where a Representative is the holder of an interest on his own account or on behalf of third parties	YES	
BOARD OF STATUTORY AUDITORS		Also see section 9 of the Report
Indicate whether the Board of Statutory Auditors:		
. has, at the first opportune meeting after its appointment, assessed the independence requirements the Directors must satisfy	YES	
. has assessed whether independence requirements continued to be met throughout the accounting period	YES	

. during the assessments, has applied all the independence criteria envisaged by the Code	NO	See similar note referring to the Directors
Indicate whether the same provisions applied to the Directors for the transactions in which they have a direct or indirect interest are applied to the Statutory Auditors	YES	
Indicate whether the Board of Statutory Auditors has overseen the independence of the independent auditing firm, checking the nature and entity of any extra services rendered by the same (or by the same network)	YES	
Indicate whether the Board of Statutory Auditors has coordinated with the Internal Audit Division and with the Control and Risk Committee during its activities	YES	
RELATIONS WITH SHAREHOLDERS		
Indicate whether Banco Desio has established a specific section on the website dedicated to important information for the shareholders	YES	
Indicate whether an investor relator has been appointed	YES	Giorgio Federico Rossin - Tel. No. 0362/613469 - E-mail: G.Rossin@bancodesio.it
Indicate whether the establishment of a corporate structure tasked with handling shareholder relations has been assessed	YES	The various activities pertaining to these dealings are the responsibility of the Investor Relator and the Legal and Corporate Affairs Division (on the staff of the General Manager)
ORDINARY SHAREHOLDERS' MEETINGS		
Indicate whether the Articles of Incorporation envisage the prior communication pursuant to Article 2370, section 2 of the Italian Civil Code, for the purpose of attending General Meetings	NO	
Indicate whether the shares in relation to which the communication to attend the meeting is requested remain restricted until said meeting is over	NO	
Indicate whether initiatives have been undertaken for facilitating attendance of the meeting and the right to vote (e.g. voting by mail, on-line voting, video-conference facilities)	NO	The right to vote in Shareholders' Meeting is exercised electronically through a "televoter" system
Indicate whether General Shareholders' Meeting Regulations have been adopted	YES	The General Shareholders' Meeting Regulations, as well as the Articles of Incorporation, are published on the website www.bancodesio.it in the section dedicated to "corporate governance"
Indicate whether the BoD has reported to the Meeting on the activities carried out and scheduled and has taken steps to ensure the shareholders adequate disclosure so that they can make the related decisions in full awareness of the facts	YES	This disclosure takes place in accordance with the law
Indicate whether during the accounting period, significant changes have taken place with regard to the market capitalisation of Banco Desio or its corporate structure	NO	
Indicate whether the BoD has assessed the appropriateness of proposing amendments to the Articles of Incorporations on the quorums for the exercise of the shares and rights protecting minority shareholders	NO	The corporate structure and the free float are such that they do not justify quorums less than the legal ones
ADDITIONAL CORPORATE GOVERNANCE PRACTICES		
Indicate whether Banco Desio applies additional corporate governance practices besides the legal or regulatory obligations	YES	Banco Desio adopted an Organisational Model pursuant to Italian Legislative Decree No. 231/2001 and the relevant functions of the Supervisory Body are performed by the Board of Statutory Auditors (see Section 7 of the Report)
CHANGES AFTER THE END OF THE REFERENCE ACCOUNTING PERIOD		
Indicate whether changes have taken place in the corporate governance structure as from the 2017 year end date	NO	