

AUDIT COMMITTEE TERMS OF REFERENCE (FROM THE CHARTER OF THE COMMITTEE)

1. GENERAL PROVISIONS AND PURPOSE

- 1.1. The Audit Committee (hereinafter: the Committee) shall be a standing Committee established by the Supervisory Board of the Bank.
- 1.2. The competence of the Bank's Committee shall apply also to the Bank's subsidiaries without prejudice to the prerogatives of the Subsidiaries' Corporate Bodies. The term "Bank" used hereinafter automatically refers also to its Subsidiaries, if applicable.
- 1.3. The Committee has respectively recommending, advisory and supporting functions towards Supervisory Board with particular reference to the periodic evaluation of the adequacy and effectiveness of the overall internal control system of the Bank.
- 1.4. The Committee shall perform its functions according to the principles of independence and autonomy.

2. AUTHORITY

- 2.1. The Committee has authority to:
 - perform controls autonomously or request them to the Bank's relevant functions;
 - request information, explanations and support to any structure of the Bank and / or to the statutory auditors;
 - request the Bank's competent body for the authorization to engage external consulting;
 - request the presence of the Bank's managers at its meeting(s), as well as the presence of the external advisors and / or statutory auditors;
 - invite occasional attendees.
- 2.2. The Committee in performing its duties is assisted by the Bank's Internal Audit function, which must be technically and adequately skilled in order to support the Committee in carrying out its audits, analysis and other duties undertaken on an ongoing basis.

3. RESPONSIBILITIES

- 3.1. The Committee shall assess annually the adequacy, efficiency and functionality of the internal control system and of the accounting system of the Bank.

The Committee represents a reference point for all the Bank's control functions (Risk Management, Internal Audit, Compliance and Anti-Money Laundering) as well as the local Administrative Financial Governance and verifies their effectiveness and the adequacy of their coordination;
- 3.2. The Committee shall analyse information regarding the most significant and transversal/structural criticalities of the Bank from the internal control perspective, submitted to it by the internal control functions, the Administrative Financial Governance or the internal committee in charge of coordinating internal control functions. The Chairman of the Audit Committee shall report on the outcome of its assessment to the Supervisory Board of the Bank and other competent governance bodies of the ISP Group, as stipulated from time to time in the Group regulatory framework.

4. SPECIFIC TASKS AND DUTIES

- 4.1. The Committee has the following responsibilities:

Financial Reporting

- 4.1.1. to analyse the annual financial statements and quarterly financial reports;
- 4.1.2. to review the most important accounting issues, also in relation to complex and/or extraordinary operations;
- 4.1.3. to oversee that the establishment of accounting policies by the Bank is in line with the ISP Group standards;
- 4.1.4. to monitor the financial reporting process and submit recommendations or proposal to ensure its reliability and integrity;
- 4.1.5. to monitor the adequacy and functionality of the administrative-accounting system (including the related IT systems) as well as its reliability in correctly representing the management facts;
- 4.1.6. to monitor the effectiveness of the internal quality control, risk management system and internal audit regarding the financial reporting;
- 4.1.7. to examine the periodic reports on the administrative-financial governance activities carried out by the Reporting Officer, the flaws of the accounting processes and the status of the related corrective actions;
- 4.1.8. to examine the periodic reporting on the results achieved in the application of the criteria and procedures aimed at the classification, assessment and management of impaired loans and to assess the need to define measures to improve such criteria and procedures.

Internal Control System

- 4.1.9. to oversee the functionality and reliability of the Bank's procedures ensuring compliance with laws, regulations and the Articles of Association, based on the assessment at least annually by the Compliance, Anti-Money Laundering, Administrative Financial Governance and Internal Audit Functions;
- 4.1.10. to monitor compliance with anti-money laundering rules and the comprehensiveness, functionality and adequacy of the anti-money laundering controls;
- 4.1.11. to issue its prior opinion on the proposed evolution of the structural aspects of the internal control system framework (powers, responsibilities, resources, information flows, conflict of interest management) of the Bank;
- 4.1.12. to assess the efficiency and adequacy of the Bank's internal control system, by obtaining regular reports from the control functions and local Administrative Financial Governance;
- 4.1.13. to verify that all the control functions (Risk Management, Internal Audit, Compliance and Anti-Money Laundering) are independent, adequately and properly skilled and structured in order to accomplish their functions and have unrestricted and direct access to the Committee and the Supervisory Board;
- 4.1.14. to analyse and evaluate together with the Head of the local control functions and local Administrative Financial Governance the annual plans, the activities, the headcount, the organizational structure and regulation of the function;
- 4.1.15. to examine the periodic reports of the Heads of Risk Management, Internal Audit, Compliance and Anti-Money Laundering, and of the Reporting Officer, as well as information on specific situations or critical issues; process the related observations and propose to the Supervisory Board any action to be taken;
- 4.1.16. to verify and investigate the causes and remedies of management irregularities and performance anomalies, possibly with support from the control functions and from the local Administrative Financial Governance;
- 4.1.17. to verify the adoption of corrective actions recommended by the control functions of the Bank, by the local Administrative Financial Governance and by the Committee and monitor the remediation plans' progresses;
- 4.1.18. to examine the results of any audit activity performed by the Supervisory Authorities, statutory auditor or by the Parent Company control functions and to monitor the adoption of the corrective actions recommended;
- 4.1.19. to examine the process of communicating the Code of Conduct to the staff and to monitor the compliance with it;

- 4.1.20. to monitor and promote initiatives for developing a corporate culture based on control and on the principles of honesty, fairness and respect of the regulations (included the Code of Ethics).

Statutory Audit

- 4.1.21. to monitor the statutory audit of the financial statements, based on the regular meetings at least semi-annually with the statutory auditors and taking into account any findings and conclusions by the competent Authority;
- 4.1.22. to inform the Supervisory Board of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting;
- 4.1.23. to examine the activities carried out by the statutory auditors, including the working plan, and to assess the results presented in the report, in the additional report, in the management letter and in any other significant document, discussing the relevant issues;
- 4.1.24. to review and monitor the independence of the statutory auditors and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with the Group Policy;
- 4.1.25. to oversee the procedure for the selection of statutory auditor and recommend the statutory auditor to be appointed according to the Group Policy;

Other responsibilities

- 4.1.26. to monitor the adequacy, overall reliability and security of the IT system (to the extent of its impacts on the internal control system) and also in terms of the business continuity plan, supported by the company's control functions;
- 4.1.27. to review periodically the adequacy of the Committee Charter and submit the proposed changes for the approval of the Bank's competent body and Group Control Functions.

5. INTERACTION BETWEEN AUDIT AND RISK COMMITTEE

- 5.1. The Audit and Risk Committee shall interact on matters of mutual interest and in order to ensure the full and balanced coverage of the continuous internal control system monitoring and assessment on the one hand and overseeing sound risk management and respect of the risk strategy on the other hand.
- 5.2. The interaction between the two Committees shall be ensured through the following:
- 5.2.1. periodical meetings, at least twice a year, between the Committees' Chairmen with the goal of defining a high-level focus of the respective Committees for the upcoming period and the areas of possible common interest;
- 5.2.2. ensuring cross-attendance of the Committees' Chairmen, in quality of ad hoc invitees, at the meetings dealing with potentially significant matters for the other Committee's mission and/or defined focus;
- 5.2.3. submitting to the relevant Committee, or request the Bank's competent function to do so, any issues emerged within the Committee activities that can have potentially significant impact on the other Committee's mission and/or defined focus.
- 5.3. The provisions 5.1 and 5.2 can be applied analogously to the interaction between the Committee and other committees supporting the Supervisory Board of the Bank in its supervisory function.

6. REPORTING RESPONSIBILITIES

- 6.1. The Chairman of the Committee shall report to the Supervisory Board of the Bank possibly at each meeting and at least every six months, and informs about the overall activities performed, issues analysed and conclusions adopted, recommending the necessary actions for the strengthening of the internal control system and of the administrative-accounting system and in general highlighting significant issues to be brought to the Board's attention.

- 6.2. The Chairman of the Committee shall prepare annually a written report giving assurance to the Supervisory Board on the accomplishment of the tasks and duties of the Committee.