

OPTIMAL QUALITATIVE AND QUANTITATIVE COMPOSITION OF THE BOARD OF DIRECTOR

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1 INTRODUCTION

The effectiveness of organisational structures and corporate governance represents an essential condition for banks in the pursuit of their corporate objectives due to the nature of the banking business itself; it also ensures conditions of sound and prudent management, an essential objective of regulatory and supervisory controls.

The composition of the governing bodies plays a particularly central role for the effective performance of the duties entrusted to them by law, under regulatory provisions and pursuant to the By-laws; the division of tasks and responsibilities within the corporate bodies must be consistent with the role assigned to them within the scope of the chosen management and ownership system.

Quantitatively, the number of members of the governing bodies shall be appropriate to the size and complexity of the Bank's organisational structure in order to effectively supervise the entire business operations in respect of management and controls.

The composition of the bodies must not be too large: an excessive number of members may reduce the incentive of individuals to take steps to carry out their own tasks and may hinder the functioning of the body itself.

In qualitative terms, the proper performance of the functions requires that corporate bodies may rely upon individuals who:

- are fully aware of the powers and obligations related to the functions that each one of them is required to perform;
- are appropriately qualified for the position and suitable with regard to the operations and size of the Bank;
- have wide and appropriately diversified skills, so that each of the members can actually help to identify and pursue appropriate strategies and ensure effective governance of risks in all the Bank's operating areas;
- who devote time and resources according to the complexity of their duties, subject to the limits on the number of tasks laid down in implementation of the relevant legislation;
- direct their actions in pursuit of the Bank's overall interests, regardless of the corporate structure which voted for them or the slate from which they were drawn, and operate with independent judgement.

It is therefore appropriate that the composition of the Board of Directors, covered below, is adequate from the qualitative and quantitative profile, in relation to the operations and size of the Bank.

2 AIMS OF THE DOCUMENT

Pursuant to the Supervisory Provisions, in accordance with Bank of Italy Circular no 285 dated 17 December 2013 1st update on 6 May 2014 (Title IV, Chapter 1 "Corporate Governance"), the Boards of Directors of banks are required to identify their own qualitative and quantitative composition considered optimal for the proper fulfilment of the responsibilities entrusted to them.

The aim of this paper is, therefore, to identify and define, in full compliance with the By-laws and the legal and regulatory provisions, the characteristics of the qualitative and quantitative composition of the Board of Directors of Banca Sistema SpA for the purpose of its renewal.

These provisions provide principles and implementing guidelines on the composition of the body responsible for strategic supervision which should serve as a guide in the selection of the members of this body. In this regard, the regulations in question provide that the Board of Directors:

- identifies in advance the qualitative and quantitative composition considered optimal, identifying and explaining the "theoretical" profile" of the candidates (including the characteristics of professionalism and independence) considered appropriate for these purposes;
- subsequently checks the correspondence between the qualitative and quantitative composition considered optimal and that actually resulting from the appointment process.

The relevant findings must be brought to the attention of the Shareholders in time so that the selection of candidates to be presented takes into account the skills required. The same results are to be sent to the Bank of Italy.

In view of the start of the process of listing Banca Sistema S.p.A.,’s shares on the STAR segment of the Milan stock exchange managed by the Italian Stock Exchange, the Board of Directors, in the preparation of this document, hereby takes note that as of now, in this perspective, it will have to comply with the legal and statutory regulations governing the corporate governance of a listed company, acknowledging also the recommendations contained in the Code of Self-Governance.

3 THEORETICAL PROFILE OF THE BOARD MEMBER

The Board of Directors has identified the following characteristics, in terms of professionalism, integrity and independence, to be held by candidates proposed by the shareholders to hold the office of director, depending on the specific role assigned to them, in order to ensure an optimal composition of the Board (in terms of skills).

3.1 Roles within the Board of Directors

The By-laws and the relevant rules and regulations include the possibility of assigning the following roles / qualifications within the scope of the Board of Directors:

- Chair: promotes the effective functioning of the corporate governance system, encouraging board discussions and ensuring the balance of power, convenes the Board of Directors, sets the agenda and coordinates proceedings. The Chair plays a non-executive role not having been given any management delegation.
- CEO: responsible for the management function, based on the powers granted by the Board of Directors.
- Executive Directors: represented by any board members receiving proxies either individually or jointly and those who perform, including de facto, functions related to the management of the company.
- Non-executive directors: they act as counterweight to the executive directors and management of the Bank and facilitate internal dialogue.
- Independent directors: their duty is to supervise exercising independent judgement on corporate management, helping to ensure that this is carried out in the interest of the company and in a manner consistent with the objectives of sound and prudent management.

3.2 Professional characteristics of directors

For the proper fulfilment of the duties assigned to the Board of Directors, it is essential that broad and diversified skills are present among its members.

The directors are therefore chosen based on criteria of professionalism and competence from among those having many years of experience in:

- administration or control, or management tasks, with banks and / or other financial intermediaries (inside or outside the Banca Sistema banking group) and / or trade associations, corporations, foundations, relevant to the banking and financial sector;
- professional activity, in matters relating to the credit, financial or property sector or others pertaining to banking;
- teaching law or economics at a university.

The Chair of the Board of Directors, must have at least five years overall experience.

In order to determine the theoretical board member profile, the Board of Directors has identified a series of areas of knowledge and specialisation deemed vital in order to guarantee the correct discharging of their tasks which are duly taken into consideration.

- the relevant statutory provisions;
- the outcomes of the previous self-assessment processes;
- the operating scope and complexity of Banca Sistema S.p.A.;
- best practices in the sector;

Particularly, the following areas of knowledge and specialisation have been identified:

Areas of knowledge	Banking business
	Dynamics of the financial and economic system
	Regulations in the banking and financial sphere
	Risk control and management methodology

Critical Areas	Governance and control	<i>Corporate Governance</i>
		Internal supervisory system
		<i>Risk Management</i>
		Reference standards
		<i>Retail & Private Banking</i>
	Business	<i>Corporate Banking</i>
		Loans and <i>Factoring</i>
	Support	Accounting, administration and tax
		Organisation and human resources

	<i>Operations and Information Technology</i>
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In order to verify that these requirements are satisfied, the profile of each candidate must be accurately examined, with the allocation of a rating for each of the four areas of knowledge and for each of the ten areas of specialisation, on the basis of the following scale:

- "completely adequate": high level of knowledge on the main issues typically ascribed to the area, acquired in an academic environment, in the exercising of the profession or with reference to working experience;
- "substantially adequate": adequate level of knowledge on the main issues typically ascribed to the area, gained in an academic environment, in the exercising of the profession or with reference to work experience
- "partially adequate": basic level of knowledge of the main topics typically associated with the area;
- "inadequate" level of knowledge not sufficiently adequate on the main topics typically associated with the area.

Each candidate, in order to fulfil the task, must therefore comply with the following eligibility requirements, both in relation to his areas of knowledge and those of his specialisation.

Areas of knowledge	<p>The Board Member or aspiring board member must have:</p> <ol style="list-style-type: none"> 1. "substantially adequate" knowledge in at least two of the four areas of knowledge; <p style="text-align: center;">or</p> <ol style="list-style-type: none"> 2. "completely adequate" for at least one of the four areas of knowledge; 	
Critical Areas	<table border="1" style="width: 100%; text-align: center;"> <tr> <td style="background-color: #cccccc;">The Board Member or aspiring board member must have:</td> </tr> </table> <ol style="list-style-type: none"> 1. "substantially adequate" knowledge in at least four of the ten areas of knowledge; 	The Board Member or aspiring board member must have:
The Board Member or aspiring board member must have:		

	or 2. "substantially adequate" knowledge in at least one of the ten areas of knowledge;
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3.3 Requirements of integrity

Given the importance that the integrity requirements have under the reputation profile, the Board of Directors expresses the recommendation that the candidates appointed as directors of Banca Sistema S.p.A.:

- are in possession of the integrity requirements envisaged by Ministerial Decree no. 161 dated 18 March and Ministerial Decree no 162 dated 30 March 2000;
- do not fall within any of the situations which might be a cause of suspension of the functions of director pursuant to art. 6 of Ministerial Decree no 161 of 18 March 1998:
- have not behaved in such a manner which, although not constituting any offence, is incompatible with the position of director of a bank or might have implications on the bank's reputation.

3.4 Independence requirements

The afore-mentioned provisions by the Bank of Italy state that, by 2017, there must be a number of independent members of the Board of Directors equal to at least a quarter of the total. In order to identify them, the Board notes that the requirements under articles 10.7 and 10.8 of the Articles of Association must be taken in account.

3.5 Causes of incompatibility

In line with the provisions of art. 36 of Law Decree no. 201 of 6 December 2011 (converted into Law no. 214 of 22 December 2011), laying down rules on "personal cross holdings in the credit and financial markets" and of the prescribed prohibition on "holding office in any management, monitoring and control bodies or in senior management positions in companies or groups operating in the credit, insurance and financial markets and on accepting or exercising similar positions in competitor companies or groups", the Board of Directors recommends that shareholders submit lists of candidates to be appointed to the new Board of Directors,

after it has been verified that no grounds exist in respect of the causes of incompatibility prescribed by the provision in question.

4 OPTIMAL QUALITATIVE COMPOSITION

The Board of Directors of Banca Sistema S.p.A., has identified its own optimal qualitative composition by identifying the skills which should be present among its members, in order to guarantee an adequate mix of knowledge and experience.

AREA OF KNOWLEDGE	OPTIMUM COMPOSITION OF THE BOARD OF DIRECTORS
<i>Banking business</i>	Holding a level of knowledge which is at least "substantially adequate" in all the four areas identified, by at least half of the members of the Board.
<i>Dynamics of the financial and economic system</i>	
<i>Regulations in the banking and financial sphere</i>	
<i>Risk control and management methodology</i>	

AREA OF SPECIALISATION	OPTIMAL COMPOSITION OF THE BOARD OF DIRECTORS	
<i>Governance and control</i>	For each area of specialisation, at least one of the members of the Board must have a "completely adequate" level of knowledge or at least three a level of knowledge which is "substantially adequate".	
		<i>Corporate Governance</i>
		<i>Internal supervisory system</i>
		<i>Risk Management</i>
<i>Reference standards</i>		
<i>Business</i>		<i>Retail & Private Banking</i>
	<i>Loans</i>	

	<i>Banking services</i>
	<i>Accounting, administration and tax</i>
<i>Support</i>	<i>Organisation and human resources</i>
	<i>Operations and Information Technology</i>

In order to ensure compliance with these criteria, it is required that the applications put forward by the shareholders are accompanied by a CV aimed at identifying the specific skills profile. This is without prejudice to the shareholders having the option to give different assessments regarding the optimal composition of the Board of Directors. In these cases, where possible, shareholders are requested to provide appropriate reasoning with reference to the differences compared to the theoretical profile defined by the body in question.

5 OPTIMAL QUANTITATIVE COMPOSITION

The number of members of the Board of Directors is important for the correct performance of the tasks entrusted to this body under the regulatory and legal provisions and pursuant to the By-laws.

In respect of its quantitative composition, the Board of Directors, given that the Articles of Association state that the number of its members is equal to nine or ten, has deemed that, having regard to the Bank's specific characteristics, the optimum number of its members shall be nine. In particular:

- a Chair without operating delegations;
- a Chief Executive Officer;
- at least three board members in possession of the requirements of independence pursuant to paragraph 3.4.

As part of the listing process already explained in section 2 of the document, taking into account the provisions of Law no. 120 dated 12 July 2011 which introduced gender quotas in Italy for the composition of the governing bodies of listed companies, the Board of Directors now recommends that shareholders give due consideration to the recommendations of the Bank of 'Italy on the differentiation of board members by gender", and to this end, shall appoint at least two members belonging to the less represented gender.

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