

OPTIMAL QUALITATIVE AND QUANTITATIVE COMPOSITION OF THE BOARD OF DIRECTORS

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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, in particular, becomes of crucial importance for the effective performance of the duties entrusted to them by law, by the regulatory provisions and the By-laws. Moreover, the distribution of tasks and responsibilities within the corporate bodies must be consistent with the role assigned to them under the chosen governance and control 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 inherent in the functions that each of them is expected to carry out;
- 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;
- 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 PURPOSE 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 S.p.A. 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.

It should also be noted that the findings and recommendations formulated in the context of this document adequately take into account also the opinions and guidelines expressed on this issue by the international

Bodies and Authorities, especially the guidelines issued by the *European Banking Authority* (“EBA”) ¹ and the Guide of the *European Central Bank* (“ECB”) - in the process of being amended - for the evaluation of the professionalism and integrity of corporate officers ².

In particular, EBA focuses its attention on the requirements of the members of the corporate bodies, indicating that both the Bank and the Supervisory Authority are required to check that the same are satisfied.

The aforesaid guidelines require members of the corporate bodies to be equipped with:

- enough time to perform their duties, including in the light of the further positions held in other companies within or outside the same banking Group;
- adequate professionalism and expertise, as well as personal characteristics in line with the requirements of sound corporate governance;
- independent judgement, also in the light of potential conflicts of interest.

Finally it must be noted that this document also takes into account the Bank's adherence (following the listing of its shares on the STAR segment of the MTA managed by Borsa Italiana S.p.A.) to the principles of the Code of Corporate Governance for listed companies³.

3 THEORETICAL PROFILE OF THE BOARD MEMBER

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

The following sections provide a full description of the characteristics mentioned above.

¹ European Banking Authority, *Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06)* of 22 November 2012. Account was also taken of the new version of the aforesaid document available for public consultation by EBA in November 2016, the closing date of which is scheduled for 28 January 2017.

² European Central Bank, *Draft guides to fit and proper assessments*, document available for public consultation in November 2016, with closing date scheduled for 20 January 2017.

³ Application criterion 1.C.1, lett. h, concerning the identification and notification to shareholders of the guidelines on managerial and professional roles whose presence within the body is considered appropriate.

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;

In particular, the following areas of knowledge (referred to the professional requirements related to cognitive and experiential profiles) and specialisation (referred to knowledge and experience of a “technical” nature) 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 control system
		<i>Risk Management</i>
		Reference standards

	Business	<i>Retail & Private Banking</i>
		<i>Corporate Banking</i>
		Loans and <i>Factoring</i>
		Knowledge of the target market also at an international level
	Support	Accounting, administration and tax
		Organisation and human resources
		Operations and <i>Information Technology</i>

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 eleven areas of specialisation, on the basis of the following scale:

- “completely adequate”: high level of knowledge of the main topics typically associated with the area, gained in an academic environment, in exercising the profession or with reference to work experience;
- “substantially adequate”: adequate level of knowledge of the main topics typically associated with the area, gained in an academic environment, in exercising the profession or with reference to work experience;
- “partially adequate”: basic level of knowledge of the main topics typically associated with the area;
- “inadequate”: not sufficiently adequate level of knowledge of 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	The Board Member or aspiring board member must
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	<p>have:</p> <ol style="list-style-type: none"> 1. “substantially adequate” knowledge in at least two of the four areas of knowledge; <p>or</p> <ol style="list-style-type: none"> 2. “completely adequate” for at least one of the four areas of knowledge;
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Critical Areas	<p>The Board Member or aspiring board member must have:</p> <ol style="list-style-type: none"> 1. “substantially adequate” knowledge in at least five of the eleven areas of knowledge; <p>or</p> <ol style="list-style-type: none"> 2. “completely adequate” knowledge in at least two of the eleven areas of knowledge;
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3.3 Aptitude requirements

In the light of the provisions laid down by the applicable Supervisory Provisions, the members of the Governing Bodies of the Banks must focus their actions on the pursuit of the overall interest thereof, regardless of the corporate structure of which they are an expression, operating with adequate independence of judgement.

To this end, the full awareness by each Director of his/her strategic role, as well as the possession of aptitude characteristics and requirements aimed at ensuring the proper management of the obligations arising from the position held, becomes an essential precondition.

In view of the foregoing, the Board of Directors has identified the following aptitude requirements that all members thereof must possess:

- *Standing-up*: i.e. personal characteristics such as to enable them to explain and support their ideas by taking positions in total independence and in defence of the Bank's interests;
- *Communication*: ability to express ideas in a clear, direct and transparent manner;
- *Collaboration*: i.e. the ability to stimulate group discussions also by sharing one's own experiences and professionalism, with the ultimate aim of encouraging the development of collective and informed decisions;
- *Results Orientation*: focusing on results and on the quality of the same, also in order to ensure the achievement of the Bank's business objectives and customer satisfaction;
- *Strategic vision*: i.e. characteristics such as to ensure adequate assessment of potential business development lines including with a view to medium and long-term goals.

3.4 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.

3.5 Independence requirements

Save as provided for by the relevant law and regulations, pursuant to Article 10 of the By-laws, at least three directors must meet the independence requirements laid down by art. 148, third paragraph, of Legislative Decree 24 February 1998 no. 58 (so-called TUF), as well as those provided for by the Corporate Governance Code for listed companies.

3.6 Time availability and number of offices

The members of the Governing Bodies must ensure adequate commitment to the position held in terms of time, taking into account:

- the nature and quality of the required commitment, especially in light of the Bank's operational complexity;
- other positions held in companies or entities, as well as the commitments arising from their work, in compliance with the limits laid down in respect of the number of offices held.

To this end, it must also be taken into account that the commitment required on the part of the Bank's Directors is not limited to their participation in Board meetings, but also entails their participation in any Committees they may be members of, the analysis of the documentation in support of meetings, as well as participation in training sessions.

In this context, in order to ensure adequate availability of time by the Directors for the performance of their mandate, the Regulation on the operation of the Board of Directors of Banca Sistema S.p.A. provides for specific limits to the number of offices that can simultaneously be held by Board members. These limits take into account the relevant provisions pursuant to European Directive of 26 June 2013, no. 36 (so-called CRD IV) - *pending the issue of implementing ministerial decrees of Article 26 of the TUB* - and the nature of the office, as well as the size and operations of the Bank. In particular the following limits are provided for:

Chief Executive Officer

- no additional executive role, except for positions in companies other than listed companies, banking, insurance and financial companies or large companies, directly or indirectly controlled by the CEO or in companies of the Banca Sistema Group;
- no more than two non-executive or control positions in other listed companies, banking, insurance and financial companies or large companies;
- no more than 7 offices in total.

Chairman of the Board of Directors

- no executive role in listed companies, banking, insurance and financial companies or large companies, except for positions in companies other than listed companies, banking, insurance, financial companies or large companies, directly or indirectly controlled by the Chairman or in companies of the Banca Sistema Group;
- no more than 7 offices in total.

Non-executive Director

- no more than two executive roles, except for positions in companies other than listed companies, banking, insurance, financial companies or large companies, directly or indirectly controlled by the Non-Executive Director or in companies of the Banca Sistema Group;
- no more than five executive positions in listed companies, banking, insurance and financial companies or large companies;
- no more than seven non-executive positions in listed companies, banking, insurance and financial companies or large companies;
- no more than 7 offices in total.

3.7 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 the majority 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		OPTIMUM COMPOSITION OF THE BOARD OF DIRECTORS
<i>Governance and control</i>	<i>Corporate Governance</i>	For each area of specialisation, at least two of the members of the Board must have a “completely adequate” level of knowledge or at least five a level of knowledge which is “substantially adequate”.
	<i>Internal control 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>	
	Knowledge of the target market also at an international level	
<i>Support</i>	<i>Accounting, administration and tax</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, as well the evaluation of the satisfaction of the aptitude requirements aimed at ensuring the performance of their role. 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, in line with the provisions laid down by the By-laws, has deemed that, having regard to the Bank's specific characteristics, the optimum number of its members shall be nine. More specifically:

- a Chair without operating delegations;
- a Chief Executive Officer;
- a number of Directors equal to at least one quarter of the total members who meet the independence requirements referred to in paragraph 3.5 and in any case such as to achieve a composition of the committees within the Board in line with current regulations.

For the purposes of the composition of the Board of Directors due consideration must also be taken of the rules introduced by Law no. 120 of 12 July 2011 with regard to gender quotas for the composition of the governing bodies of listed companies. The law amended Article 147-ter of Legislative Decree of 24 February 1998, no. 58 (so-called TUF), requiring compliance with a criterion of the Board's gender composition whereby the less represented gender must be reserved a share of at least one third of the members. The transitional provisions of the aforesaid Law have also envisaged a gradual application of the rule with the provision that, upon the first renewal, the share of the less represented gender be at least equal to one-fifth of the members. In this context, the Board of Directors deems that at least three members of the less represented gender must be appointed within the Board.