

**OPTIMUM QUALITATIVE-QUANTITATIVE
COMPOSITION OF BANCA IFIS'S BOARD OF
DIRECTORS**

Approved by the Board of Directors on 11 February 2019

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1. Introduction

The Supervisory Provisions for banks regarding corporate governance (Bank of Italy Circular no. 285 – First Part – Heading IV – Chapter I – “Supervisory Provisions” or “Provisions”) state that the Board of Directors should identify in advance the qualitative-quantitative composition it believes is optimum, identifying the candidate profiles believed to be appropriate for these purposes and providing reasons for those choices.

Similar themes are also covered by the Corporate Governance Code for listed companies (the “Code”), adopted by the Corporate Governance Committee in March 2006 last amended in July 2018. In this regard, it refers, in particular, to: the application criteria 1.C.1, letter h, *“the Board ... gives shareholders, prior to appointing the new Board, guidelines on the managerial and professional figures who are deemed to be appropriate for appointment to the Board”*; the comment at Article 2, *“shareholders, when submitting lists and subsequently appointing directors, will assess, including in light of the opinion expressed by the Board on the subject, the candidates’ professional characteristics, gender characteristics and managerial experience, in relation to the issuer’s size and complexity, and the specific nature of the sector in which it operates, as well as the size of the Board of Directors”*.

Thus, the Provisions, in line with the evolution of the rules, principles and guidelines developed at international and European level, govern the role and function of the management and control bodies and their relationships with the company structure.

In fact, a bank’s organisational structure and corporate governance, as well as responding to the interests of the business, must ensure sound and prudent management, which is an essential regulatory and supervisory objective. Therefore, a management body’s composition plays a central role in it efficiently fulfilling the duties entrusted to it by law, supervisory provisions and the Articles of Association.

In accordance with what is set out by the Provisions’ general principles, from a quantitative perspective, the number of members of bodies must be appropriate to the size and complexity of the bank’s organisational structure with the aim of efficiently safeguarding the company’s entire operations with regard to management and control.

From a qualitative perspective (skills and role within the Board of Directors), for a strategic supervision body to fulfil its duties correctly, its members must:

- be fully aware of the powers and obligations inherent to the duties they are required to carry out (executive and non-executive duties, independent members, etc.);
- have a level of professional skill that is appropriate for the role, including with regard to the Board’s internal committees, and adjusted to the operating characteristics and size of the bank;
- have common yet diversified skills, in order to ensure that each member, both within internal committees and as part of the collective decision-making process, which, among other things, helps identify and pursue suitable strategies and assure effective risk management in all areas of the bank;
- dedicate sufficient time and resources to the complexity of their duties, complying with the limits to the total number of posts held;

- address their actions to the pursuit of the Bank's overall interests, regardless of the shareholding structure that voted for them or the list from which they are drawn, being independent in action and judgement.

The Provisions also state that careful consideration must be given to all Board members, including non-executive directors in that they contribute to the decisions taken by the entire Board and are required to carry out an important communication and monitoring role regarding the choices made by the executive officers. The authority and professionalism required of non-executive members must be appropriate to the duties they are asked to perform, which are a determining factor for sound and prudent management of the bank.

The Provisions further set out that the strategic supervision body must be made up of independent individuals who oversee company management with autonomy of judgement, helping ensure that it is carried out in the interests of the bank and in line with the objectives of sound and prudent management. Appointing independent individuals to specialist Board committees (with investigating, consulting and propositional roles) helps the decision-making process in larger banks or banks with greater operating complexity, especially with reference to more complex activity sectors or sectors in which there is a greater risk of conflicts of interest.

The objective of the Provisions is to guarantee that senior management bodies – as part of the appointment process, which involves multiple bodies and departments (Appointments Committee, Board of Directors, Shareholders' Meeting), and ongoing – are comprised of individuals who are able to ensure that the role entrusted to them is carried out effectively. This means that the professional skills needed to carry out these roles must be clearly defined in advance – and reviewed continually to take into account problems, issues and difficulties that have emerged – and that the selection process and the appointment of candidates reflect these guidelines.

In this context, the outgoing Banca IFIS Board of Directors, to facilitate the optimum identification of candidates to be proposed for the renewal of the Management Body, believes it appropriate to draw Shareholders' attention to the principal requirements of the Provisions regarding the composition of the Board of Directors and Board Committees. The essential components of these requirements are as follows:

- for larger banks or banks with greater operating complexity that adopt the traditional management and control model, the maximum number of Directors is set at 15, except for exceptional cases which will be assessed and justified in detail;
- at least one quarter of the members of the Board of Directors must be Independent Directors, who possess the professional skill and authority to ensure a high level of dialogue within the body to which they belong and to make a significant contribution to forming the will of the body;
- the President of the Board of Directors must have a non-executive role and must not carry out management functions, not even *de facto*;
- larger banks or banks with greater operating complexity must set up three specialised Committees within the strategic supervision body. These Committees are to cover the subjects of "appointments", "risks" and "remuneration";
- each of these Committees must be composed of 3-5 members, each of whom will be non-executive and the majority of whom will be independent. Committees must differ in composition by at least one member and, where a Director has been elected from a minority shareholder list, they will sit on at least one Committee. The President of each Committee is chosen from among its independent members.

For completeness of information, the outgoing Board would like to draw attention to the applicable national and European regulations on the subject. Notably:

- Bank of Italy's Supervisory Provisions for Banks, Circular no. 285 of 17 December 2013 regarding corporate governance (Part I, Heading IV, Chapter 1);
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV);
- EBA guidelines on internal governance (2017);
- EBA/ESMA Joint Guidelines on the assessment of the suitability of members of the management body and key function holders (2017);
- ECB, Guide to fit and proper assessments (2018);
- Corporate Governance Code for listed companies (2018).

It should also be noted that the current Provisions detail roles, responsibilities and duties of the strategic supervision body and its committees – other than those set out by general regulations – also referring, in this regard, to regulations for remuneration and incentive systems and internal control systems.

Finally, it should be underlined that in formulating its recommendations to Shareholders, the Board of Directors has also considered the principles contained in the draft Ministerial Decree which recall the regulations on suitability requirements and criteria for performing duties being issued pursuant to, among other things, Article 26, Italian Consolidated Banking Law (TUB).

Notwithstanding the fact that the responsibility for ensuring the suitability of candidates submitted on lists, in relation to current legislation and regulations and the provisions of the Articles of Association, lies with the submitting Shareholders, the outgoing Banca IFIS Board of Directors reserves the right to publish supplements and/or amendments to this document if – prior to the deadlines set out for submitting lists – significant changes are made to legislation and regulations on the subject, for example resulting from the issuance of the above Ministerial Decree.

2. Characteristics of the Bank

Banca IFIS S.p.A. is the Parent Company of "Gruppo Banca IFIS", which currently operates in the following fields:

- financial support: principally to SMEs, through factoring activities in Italy and abroad, carried out both through the Parent Company's internal structures (International Area) and through its Polish subsidiary, IFIS Finance;
- leasing: with the acquisition of the ex-Interbanca Group, Banca IFIS has also entered the financial lease and operating lease markets (managed by IFIS Rental Services), with particular reference to the transportation, instrumentation and technology sectors;
- corporate banking (managed by Banca IFIS): aimed at supporting companies to develop internal or external business lines and, in particular, in extraordinary transactions aimed at repositioning, expanding, and/or developing alliances or mergers;
- outright purchase: mainly concerning receivables claimed against Italian healthcare providers and through packages of solutions offered to pharmacists, which include instalment financing for current debt consolidation;

- the non-recourse purchase of non-performing loans (due almost exclusively from individuals) from other intermediaries (mainly consumer credit companies and banks) and management of the associated credit value chain, from assisting debtors in drawing up sustainable repayment plans through a variety of communication channels (call centre, professional agents and external debt collection companies) to the collection of such loans (also through enforced recovery where debtors have the economic, financial and asset resources to be able to pay but are unwilling to do so);
- purchase and management of tax credits;
- granting of short- and medium-term financing to pharmacies (through Creditfarma) and the organised and coordinated management of transactions aimed at facilitating the disposal, administration and collection of trade credits granted by these pharmacies to the Italian National Health Service and public and private healthcare providers;
- financing through INPDAP or INPS pension-backed loans, salary-backed loans (for public, state or private employees) and authorised salary deductions;
- online retail deposits developed through the rendimax deposit account and the contomax current account; although these tools do not represent a specific business line for the bank, they are fully entitled to be classified among the Bank's operational segments thanks to the type of activity involved and the size of the deposits.

Thus, Banca IFIS has a solid and diversified, and therefore sustainable, business model, which enables it to achieve positive economic results, with manageable and contained risk.

The Bank has adopted a traditional management and control system, based on a Board of Directors and a Board of Statutory Auditors, appointed by the Shareholders' Meeting. There are also 3 Board committees, formed in line with the Supervisory Provisions and the guidelines contained in the Corporate Governance Code (Risk Management and Internal Control Committee, made up of 4 members, Appointments Committee and Remuneration Committee, made up of 3 members each).

As shown in the Report on Corporate Governance and Ownership Structures, for Banca IFIS, this configuration represents the most suitable structure to ensure the most efficient management and effective controls, as well as satisfying the interests of shareholders and all stakeholders.

Banca IFIS is categorised among the Less Significant Institutions subject to direct supervision by the Bank of Italy.

In accordance with what is established by the Provisions and by the applicable legislation and regulations, Banca IFIS can be considered as a bank with particularly complex operations, considering its size and the types of activity carried out, directly or on behalf of Group companies, but also due to the fact that it is listed on a regulated market (the "Star" segment of the Borsa Italiana).

The Bank adheres to the Corporate Governance Code (last amended in July 2018) promoted by the Corporate Governance Committee constituted by the Italian Business Associations (ABI, ANIA, Assonime, Confindustria) and Italian professional investor associations (Assogestioni), as well as by the Borsa Italiana.

3. Guidelines from the outgoing Board of Directors on the optimum composition of the new management body

In view of the renewal of the Corporate Bodies by the Banca IFIS Shareholders' Meeting called to pass a resolution to approve the financial statement for the 2018 financial year, the Board of

Directors, in accordance with what is set out in the Articles of Association, the Provisions and the Code, with the support of the Appointments Committee, has begun activities to define *ex ante* the appropriate professional profiles which must be considered by the Shareholders when selecting and appointing Directors.

In this regard, an assessment was carried out into the way the Board and its Committees function and the relative commitment required.

With this document, based on the results of the above assessment, the Board now intends to make its guidelines available to Shareholders which set out the best way to identify the candidates to propose for appointment as directors. Following appointment, as required by the Supervisory Provisions, the new Board of Directors will check that its actual qualitative-quantitative composition is optimum in comparison with that developed during the appointment process. In particular, those checks will be carried out as part of the fit and proper persons assessment pursuant to, as noted, Article 26, Italian Consolidated Banking Law (TUB).

On this point, it is worth recalling that, when the Management Body was last renewed, the Board of Directors identified its ideal qualitative-quantitative requirements, making them available to Shareholders (for the first time) and carrying out subsequent checks – as required by the Supervisory Provisions – to ensure that the qualitative-quantitative composition of the elected Board meets those requirements. Subsequently, over the course of the three-year period 2016-2018, the Board of Directors has carried out a self-assessment for each financial year on the size, composition and function of the Board and its internal Committees. The results have always shown that the Board's composition, in terms of size and function, is highly suitable.

For the 2018 financial year, the Board's end-of-mandate evaluation was also carried out to prepare this document, regarding the optimum qualitative-quantitative composition for renewing the Board.

3.1 Quantitative composition of the Board of Directors

Firstly, the Bank's Articles of Association state that the Board of Directors will be composed of a minimum of 5 to a maximum of 15 directors. In accordance with the Provisions and the Corporate Governance Code, the Articles of Association also state that at least a quarter of the Board of Directors must be made up of independent directors.

It is worth pointing out that gender quotas for corporate bodies of listed companies were introduced by Italian Law no. 120 of 12 July 2011. This law amends Article 147-*ter*, Italian Consolidated Finance Law (TUF), introducing paragraph 1-*ter* which requires the gender composition of the management body to meet a certain criterion. This states that the least represented gender must make up at least a third of elected directors.

In light of what is set out above, it should be noted that, following the self-assessment carried out by the Bank for the 2018 financial year, it has been suggested that it would be appropriate to assess the possibility of increasing the number of members of the Board of Directors considering the growing operating complexity and diversification which now characterise the Bank and the evolutions in the regulatory framework and the target market, as well as the appearance of new risks over time.

This proposal also appears to be in line with an appropriate numerical composition of its Committees, in accordance with the Provisions and the Code, which should also take account of the extent and significance of their operations and the need to have a suitable number of independent members which guarantees the efficient functioning of the Committees in which the

Board's activities are divided. This also helps ensure an efficient balance of skills in the Committees.

In this context, considering that the current Board is composed of 9 members, including a Vice-President (executive director), 4 Independent Directors and 3 members of the least represented gender, Shareholders are requested to carefully assess whether they should maintain its current composition (in light of the above considerations) or modify it, bringing its number to 11 members (providing for 2 Vice-Presidents and 5 Independent Directors).

3.2 Qualitative composition of the Board of Directors

With regard to the qualitative composition, the Board of Directors, with this document, intends to provide Shareholders submitting lists of candidates with guidelines regarding the professional skills and competencies deemed necessary to ensure an optimally composed Board of Directors, considering the Bank's size and internal organisation, as well as the nature, extent and complexity of its activities.

Firstly, regarding the qualitative aspect, it should be noted that members of the Board of Directors must:

- guarantee a level of professional skill appropriate to the operating complexity and size of the Bank. To this end, Directors must have gained specific experience from their continued activities;
- have a degree of diversification of skills and abilities which guarantees that they make an appropriate contribution to the work of the Board;
- dedicate sufficient time and resources to the complexity of their duties, respecting the limits to the total number of posts held;
- operate with autonomy and independence of judgement, addressing each of their actions to achieving the Bank's overall interests.

There must also be:

- independent individuals who oversee company management using independence of judgement so that it guarantees sound and prudent management in the interests of the Bank;
- non-executive members with well-defined roles and duties, who are an effective counterbalance to the Bank's executives and management, supporting internal dialogue within the body to which they belong, particularly when a single corporate body is attributed multiple functions.

3.2.1 Integrity requirements and propriety criteria

Firstly, a Director will be considered to possess the integrity requirements in the absence of elements that suggest the contrary and in the absence of justified doubts regarding the individual's integrity.

In fact, regarding the integrity requirements, the provisions of Articles 4 and 5 of Italian Ministerial Decree no. 161/1998 ("Regulations laying down rules for identifying the integrity and professional skill requirements for company officers of banks and causes for suspension") and, in accordance with Article 147-*quinquies*, paragraph 1, Italian Consolidated Finance Law (TUF), the provisions referred to in Article 2, Italian Ministerial Decree no. 162/2000 ("Regulations laying down rules for fixing the integrity and professional skill requirements for members of the Board of Statutory

Auditors of listed companies to be issued on the basis of Article 148, Italian Legislative Decree no. 58 of 24 February 1998”) apply, to which you should refer.

Anyone not having these requirements will not be able to take on the role or, if already in post, will be removed from it. Attention should also be paid to the causes of suspension from the post of Director set out in Article 6 of the quoted Italian Ministerial Decree no. 161/1998. This is notwithstanding provisions on the subject which may result from the issuance of an Italian Ministerial Decree implementing Article 26, Italian Consolidated Banking Law (TUB).

In addition to the integrity requirements referred to in the above Provisions, officers must satisfy high standards of propriety in their previous personal and professional conduct, so as to leave no doubt about their ability to guarantee sound and prudent management of the Bank.

Considering the importance of these requirements and criteria from a reputational perspective, the Board gives its firm recommendation that candidates to be appointed as Directors of Banca IFIS (as well as requiring to be in possession of the integrity requirements and to satisfy the propriety criteria set out in Article 26, Italian Consolidated Banking Law (TUB) and in implementing ministerial decrees that may apply at the time of appointment):

- are not involved in situations which may be a cause of suspension from the post of Director;
- are not – and have not been in the past – in situations which, with regard to the economic activities and financial conditions of the candidates (or businesses that are controlled by these candidates, or that are investees to a significant degree or managed by them), are or have been, even potentially, able to affect their reputation or have led to significant losses for the Bank;
- have not behaved in a manner which, even if not constituting an offence, is not compatible with the post of Director of a bank or may lead the Bank to suffer serious consequences from a reputational perspective.

It remains valid that the significance of any facts and circumstances and any impact, including cumulative, that they may have as to whether or not the candidate meets the criteria of propriety in personal and professional conduct, including previous conduct, will be assessed by the new Board of Directors to check if, even if these situations should arise, the sound and prudent management of the Bank is preserved, particularly its reputation and public trust.

3.2.2 Professional skill requirements and competency criteria

The Board of Directors recommends that the Shareholders ensure that the Management Body includes individuals:

- who have common yet diversified managerial skills and technical skills in legal matters, accounting, taxation, finance, risk management and control, corporate governance, IT processes, company organisation and human resources;
- with significant and consolidated experience in carrying out management, administration and control activities in banks and/or businesses.

At the date of preparing this document, the professional skill requirements set out in Article 1 of the quoted Italian Ministerial Decree no. 161/1998 apply, to which you should refer. Anyone not having these requirements will not be able to take on the role or, if already in post, will be removed from it. This is notwithstanding provisions on the subject which may result from the issuance of an Italian Ministerial Decree implementing Article 26, Italian Consolidated Banking Law (TUB).

Banca IFIS's Board of Directors has defined the optimum composition which guarantees that the professional experience and skills matured by its officers complement each other. A level of professional skill has been identified which takes into account the results of the self-assessment process carried out by the Board of Directors (see paragraph 4) and the need for suitable professional and managerial skills to be possessed by the different members of the Management Body (executive, non-executive, independent).

Specifically, with regard to professional experience requirements – subject to compliance with legislation and regulatory provisions in force at the time of appointment – the Board recommends that candidates for the post of Director of Banca IFIS meet the competency criteria aimed at proving their suitability for the post, considering the duties inherent in the role and the size and operating characteristics of the Bank. For these purposes, both academic knowledge – acquired through study and training – and practical experience gained in carrying out previous or current working activity are considered significant.

Therefore, in accordance with the directions and guidelines defined at national and international level, the outgoing Board recommends that each Director possesses appropriate knowledge and competency in at least two of the following areas:

- banking business and banking and financial products and activities (principal processes in this sector including, among other things: services to customers; payment systems; lending; investment services; securities consultancy and brokerage; treasury and liquidity management; property financing, factoring, leasing, salary-backed loans, non-performing loans);
- financial-economic system trends (principal economic variables and their interdependence, national and international markets and system forecasting models);
- sector regulations (legislation and regulations regarding banks and finance businesses, governance, taxation, anti-money laundering, usury, banking transparency, privacy, Corporate Social Responsibility (CSR), etc.);
- internal control systems and risk management and control methodologies (subjects relating to the definition and structuring of internal control systems, with particular reference to second- and third-level company control departments: Compliance, Anti-Money Laundering Unit, Risk Management, Validation, Internal Audit);
- risk management and control methodologies (methodologies for measuring and managing risks, main internal risk management processes and tools, e.g. ICAAP, ILAAP, RAF, Recovery Plans, etc.); methodologies and models for measuring company assets; managing non-performing loans; stress test methodologies;
- corporate governance (relationships with stakeholders, corporate social responsibility, remuneration and incentive systems, managing conflicts of interest);
- company management processes (e.g. group management and administration, management control, management of key resources, marketing and communication);
- knowledge of organisational structures and IT systems (business organisation; outsourcing policies; management powers; ICT and connected business processes; operational continuity and disaster recovery; data management; fintech, digital transformation and big data);
- accounts and financial reporting (financial statement and financial reporting).

Academic knowledge and practical experience in the above fields must be appropriate to the duties inherent in the role assumed by the officer and to any specific powers and responsibilities attributed, including participation in Committees, as well as to the size and operating complexity of the Group.

In particular, officers with executive duties are to be chosen from people who have at least five years' experience in the following fields, including alternately:

- management or control activities or management duties in the lending, financing, securities or insurance sectors;
- management or control activities or management duties within listed companies or that have a size and complexity greater than or comparable to (in terms of turnover, nature and complexity of organisation or activities carried out) those of Banca IFIS.

Officers with non-executive duties are to be chosen from people who satisfy the above requirements or have at least three years' experience in the following fields, including alternately:

- professional activities in the lending, finance, securities or insurance sectors or sectors that are useful to Banca IFIS activities; professional activities must be of an appropriate level of complexity, including with regard to recipients of services performed and must be carried out continuously and predominantly in the above sectors;
- university lecturing activities, such as first- or second-level teaching in legal or economic subjects or in other subjects that are useful to activities in the sectors in which Banca IFIS operates;
- directorial, managerial or senior management roles, however named, with public bodies or Public Administration working with the lending, finance, securities or insurance sectors and providing that the body in which the officer carried out these roles is of a comparable size and complexity to those of Banca IFIS.

The President of the Board of Directors is to be chosen from among people who have at least ten years' total professional experience in the banking and financial services sectors and in senior management positions.

The Chief Executive Officer and the General Manager are chosen from among people who have specific lending, financial, securities or insurance experience gained in management or control roles or management duties for a period of no less than ten years in the lending, financial, securities or insurance sectors, or in listed companies or companies of a comparable size and complexity to Banca IFIS.

The Board hopes that all the above skills are covered within the management body in that the presence of diversified skills and experience guarantees that the professional profiles complement each other and supports dialogue within and efficient function of the Board.

Based on the results of the self-assessment process carried out for the 2018 financial year, it is recommended that the members of the new Board of Directors are chosen from among individuals who are able to support all choices with business knowledge, ability to control risk, efficiency and promptness and with specific skills aimed at guaranteeing mastery of fundamental subject areas, such as – among other things – identifying strategic lines, company management and planning and measuring performance levels, internal control systems, outsourcing policies, the RAF, the ICAAP, the ILAAP, the Recovery Plans, managing conflicts of interest.

It is also appropriate that the professional skills shown by the directors are safeguarded and maintained over time so that sound management can be guaranteed. The speed of change and the growing complexity of the reference context require continuous professional development. This

need is further supported periodically by the provision of training sessions given by external professionals, which can help consolidate and improve the individual skills with regard to legislative and regulatory changes.

The Board, in emphasising the overall suitability that the Board must show, and also the importance for its members, both executive and non-executive, to be able, as a whole, to make decisions, invites Shareholders to submit lists that contain candidates who have skills to ensure an optimum combination of individuals having the characteristics described above. This will guarantee that internal dialogue is developed constructively, that the Board functions efficiently and, thus, that the Board and its internal Committees are suitable as a whole.

3.2.3 Induction and training

Following the Bank of Italy's recommendations regarding the need for banks to adopt training plans that are able to guarantee that members of corporate bodies have an appropriate background of technical skills, the Board of Directors hopes that future Directors, particularly those who are newly-appointed, benefit from a suitable induction course.

This course of action, including through individual training programmes, is aimed at ensuring that new Directors fully understand the Bank's structure, business model, risk profile and governance devices.

Based on the guidance provided by the EBA, the induction course for newly-appointed Directors should be started at the latest within a month of taking up the post and key information should be provided to them immediately after their appointment¹.

It is also appropriate that the professional skills shown by the directors are safeguarded and maintained over time. Indeed, the speed of change and the growing complexity of the reference context require continuous professional development. To this end, periodic training sessions must be made available, including with the help from external professionals, especially in light of important changes in legislation and regulatory provisions.

It should be highlighted that in the latest three-year mandate, Banca IFIS has promoted a continuous series of training initiatives relating to knowledge of macroeconomic scenarios, regulatory frameworks, and subjects of importance and strategic value to the business².

From a continuity point of view, it is believed that, also in future, growing investment in training is a qualifying prerequisite to fully understand today's ever more complex scenarios and a valuable opportunity to promote a sense of belonging to the Board, with each member of the management body performing their role in full knowledge.

To this end, the Provisions set out a central role for the President of the Board of Directors, who is called upon to ensure that the Bank prepares and implements training plans for the members of its management body.

In light of what is above, it is recommended that the new Board, also in consideration of the results of the self-assessment conducted for the 2018 financial year:

¹ See the "Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU", published by the EBA and by the ESMA in 2017.

² Specifically: Non-performing Loans, Risk Appetite Framework, ICAAP and ILAAP, risk data quality, Supervisory expectations, evolution of the roles and responsibilities of a bank's corporate bodies in a changing legislative and regulatory framework and new frontiers for the banking business, principal evidence emerging from supervisory activities conducted by the ECB and the Bank of Italy concerning internal governance and risk management, formalisation of the strategy and the operating plan for managing NPLs, scenarios and trends in the ICT market in the banking sector, digital transformation and IT risk, performance of investment services: principal developments in MiFID II and MiFIR.

- promptly encourages special induction sessions for new Directors to quickly acquire knowledge similar to that of reconfirmed directors;
- continually promote training and induction sessions to consolidate and develop the knowledge of each Board member and of the Board as a whole, with particular reference to the subjects for which training needs are greatest (Financing transactions against salary-backed loans IFRS 9; loans, ratings, mitigation, provisioning, performance of investment services/MiFID II-MiFIR; conduct risk, reputational and legal risk; strategic risk; risk data quality – aggregation and reporting).

3.2.4 Diversification and gender quotas

An appropriate degree of diversification in terms of age, gender and geographic origin gives, among other things, a plurality of approaches and perspectives in analysing problems and taking decisions, avoiding the risk of alignment with prevailing positions, within or outside the Bank. The level of diversification required must be calibrated on the basis of the structure and business needs: it is, in fact, necessary to ensure that there is consistency between the corporate governance structure and the composition of the Board of Directors in terms of diversification.

In this context, the Board of Directors draws attention to the fact that, generally, the CRD IV (Article 91) and the EBA/ESMA³ Joint Guidelines attribute great importance to diversification in the composition of the management body – not just from a gender balance perspective, but also from the point of view of age, geographic origin, professional and academic training, and personal qualities and skills – with the aim of promoting independence of opinion and critical sense in Directors, which contributes to more effective governance within the Bank. So that they are able to play an active role in business decisions, Directors are required to possess the minimum knowledge requirements in the different business areas as specified in paragraph 2.3.2 (*“Professional skills requirements and competency criteria”*).

As quoted above, with particular reference to gender quotas, Article 147-ter, paragraph 1-ter, Italian Consolidated Finance Law (TUF), as amended by Italian Law no. 120 of 12 July 2011 which introduced gender quotas in Italy with regard to the composition of corporate bodies of listed companies, requires that companies meet a composition criterion that guarantees gender balance in the management body.

To this end, in accordance with what is set out by the Bank’s Articles of Association, within the Board of Directors, at least a third of the number of candidates must belong to the least represented gender. Banca IFIS’s Board of Directors, considering the requirements set out in the Articles of Association and in relevant legislative and regulatory provisions, recommends, therefore, that at least 3 members belonging to the least represented gender are appointed, if the current composition is maintained, or 4 members, in the event that the number of Directors increases from 9 to 11.

Regarding diversity in composition of the Board of Directors, in light of the results of the self-assessment process conducted for 2018, and in line with the guidelines in the Corporate Governance Code, it is recommended that there is greater diversification in terms of background, with different ranges of age and seniority of post, and international approach.

3.2.5 Independence of judgement and independence requirements for some directors

³ Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (2017), Section 12;

The Board of Directors recommends that the new management body includes independent individuals who oversee company management using their autonomy of judgement, helping ensure that it is done in the interests of the Bank and in line with the objectives of sound and prudent management.

The Board underlines that independence of judgement is an attitude required of all Directors, both executive and non-executive: Directors who understand the rights and obligations connected with their post always operate with independence of judgement.

Independence of judgement is a behavioural model, which is demonstrated, in particular, during discussions and the decision-making process within the Board, and it is required of each Board member, regardless of whether or not the member is considered to be “independent” pursuant to legal or regulatory provisions which require that the Board is comprised of officers who satisfy this further requirement (“independent directors”).

All members of the Board of Directors should actively perform their duties and should be able to make sound, objective and independent decisions and judgements in carrying out their duties and responsibilities.

Furthermore, the applicable legislation and regulatory provisions have identified certain situations – including, but not limited to, the examples below – which could cause conflicts of interest that prevent independence of judgement:

- personal, professional or economic relationships with holders of qualified shareholdings in the bank or its subsidiary companies;
- personal, professional or economic relationships with key stakeholders;
- current or previous professional positions;
- personal, professional or economic relationships with other members of the bank’s board or those of its subsidiary companies;
- other economic interests (e.g. loans granted by the bank);
- political influence or relationships;
- working for or holding a post in or being a member of a control committee or a board of statutory auditors at a competing bank; and
- other interests, including family interests, which could cause conflicts of interest.

This is notwithstanding provisions on the subject which may result from the issuance of an Italian Ministerial Decree implementing Article 26, Italian Consolidated Banking Law (TUB) and which may apply at the time of appointment.

As required by the Provisions and the Corporate Governance Code, an appropriate number of non-executive Directors must be “independent”. The Board underlines that classifying a non-executive Director as “independent” is not a value judgement, rather it indicates a fact: the absence of relationships with the Bank, or with individuals connected with it, which may currently affect, as a result of the importance of those relationships to the individual, independence of judgement and open recognition of management operations.

Independent individuals must also show that they have authority, so that they can assure a high level of dialogue within the body to which they belong and, consequently, make an important contribution to forming the will of the body.

The Board recommends that at least one third of Directors are independent members in accordance with the application criteria set out in Article 148, paragraph 3, Italian Consolidated Finance Law (TUF), and in Article 3 of the Corporate Governance Code for listed companies,

referred to by Article 11 of the company's Articles of Association, notwithstanding provisions on the subject which may result from the issuance of an Italian Ministerial Decree implementing Article 26, Italian Consolidated Banking Law (TUB).

Due to the significance attributed by the Corporate Governance Code and by the regulatory framework to independent directors in the process of forming the will of the Board regarding subjects of particular significance and delicacy, the Board of Directors, adhering to the guidelines of the Corporate Governance Committee, hopes to see that the independence criteria indicated in the Articles of Association, the Code and the legislation and regulatory provisions in force at the time of appointment are applied rigorously, so that an efficient and appropriate governance system is assured. It is recommended that the Board of Statutory Auditors, as part of the duties attributed to it by law, checks that these criteria and the certification procedures adopted by the Board to assess the independence of its members are applied correctly.

The Board also underlines that cases which do not apply these criteria should be exceptional and, especially, should be subject to in-depth assessment of the situation surrounding the individual Director.

That said, the Board believes that the ideal composition of Banca IFIS's new management body, considering the requirements set out by the Articles of Association and by the relevant legislative and regulatory provisions, and the size and operating complexity of the Bank, should include at least 3 independent members out of 9 (if the composition remains as it is currently), or 5 independent members, if the number of Directors increases to 11.

The Board points out that, in line with the guidelines established by the Corporate Governance Code, considering that the President of the Board of Directors is also the majority shareholder in the company which controls Banca IFIS – as per the current composition – an independent Director must be designated as Lead Independent Director. In particular, this individual:

- will be a reference and coordination point for requests and contributions from non-executive Directors and, in particular, independent Directors;
- will collaborate with the President of the Board of Directors to guarantee that Directors receive complete and prompt information flows.

3.2.6 Time required for roles and limits to the total number of posts held

In light of the applicable governing provisions, the Board underlines that having the time available to carry out Board roles is an essential requirement which must be guaranteed by Board members. This commitment must also take into account that, within the Board, there are also internal Committees which play an important role, as they carry out preliminary investigation on important subjects. So, the Board recommends that Shareholders pay particular attention to this aspect when identifying candidates.

The outgoing Board of Directors hopes that candidates, included in lists submitted for appointment to the new management body, guarantee full availability to participate, in person or, at least, via video- or audio-conference, in Board meetings and Board Committee meetings, as well as taking part in informal meetings with other Directors.

The Board has estimated the minimum time necessary to carry out the role as set out below:

- | | |
|--|---------------|
| ▪ President of the Board of Directors | 2-3 days/week |
| ▪ Chief Executive Officer | full time |
| ▪ Non-executive member of the Board of Directors | 22 days/year |

- | | |
|--|--|
| ▪ Executive member of the Board of Directors | full time |
| ▪ Member of the Appointments Committee | 7 additional days/year |
| ▪ Member of the Remuneration Committee | 10 additional days/year |
| ▪ Member of the Risk Management and Internal Control Committee | 30 additional days/year |
| ▪ President of a Board Committee | 50% increase on the time estimated for the relevant member |

These estimates do not include the time necessary to prepare for meetings, so this must be added, considering the high number of subjects that are generally included on Banca IFIS Board meeting agendas, the notable volume of supporting documents which must be examined in relation to them, and any travelling time to the location fixed for meetings.

Consideration should also be given to the time needed to take part in training initiatives that the Bank will define over the course of the three-year mandate, induction modules, and the time that each officer will devote to other working or professional activities and to roles assumed in other companies and any other element which may significantly affect the time to be devoted to the role.

It goes without saying that each Director needs to limit the total number of roles assumed. A high number of roles is allowed where these are assumed, for the most part, in companies belonging to Groups, thus limiting the necessary time expended to carry out all activities.

As set out in the Provisions and in the Corporate Governance Code, Directors should accept their role only if they believe that they can dedicate the time needed to diligently carry out their duties, taking account of the commitment relating to their working and professional activities, the number of posts as Director or Auditor they hold in other companies listed on regulated markets (including foreign markets), in financial, banking or insurance companies or companies of significant size.

Notwithstanding any more rigorous limits set out in current pro tem legislation and regulations and, particularly, those resulting from the prohibition on interlocking, members of the Bank's Board of Directors must be bound to comply with the precise limits to the total number of posts held.

Regarding the number of posts held, the Board believes that it is appropriate to recall the provisions of the CRD IV Directive, where Article 91 states that each director may only hold simultaneously (excluding posts in organisations whose principal objectives are not commercial) one of the following combinations of director posts:

- 1 executive post and 2 non-executive posts;
- 4 non-executive posts;

notwithstanding provisions on the subject which may result from the issuance of an Italian Ministerial Decree implementing Article 26, Italian Consolidated Banking Law (TUB) (as modified by Italian Legislative Decree 72/2015 which implements the CRD IV into national legislation) and the provisions of Article 144-terdecies "*Limits to the total number of posts held*" of the Consob Resolution 11971/1999 (Issuer Regulations, last amended with Resolution no. 20710 of 21 November 2018).

On this point, the Shareholders' Meeting of 30 June 2009 approved the Banca IFIS "*Regulations on the total number of posts for company officers*", which identifies specific quantity thresholds regarding the number of posts held.

Particularly, the Regulations adopted by the Bank states that an executive Director, in addition to the post held within the Bank:

- may not hold other executive posts in the companies identified, in terms of type or size, as significant as per the Regulations;
- may hold up to a maximum of five posts as non-executive Director or Statutory Auditor in these companies.

In addition to the post held at the Bank, a non-executive Director may not hold more than 10 posts as Director or Statutory Auditor in other companies identified, in terms of type or size, as significant as per the Regulations, of which not more than 2 may be executive posts.

Observance of the above rules is essential for sound business management, therefore, the Board recommends that interested individuals must only accept candidacy where they can guarantee that they can participate diligently in the activities of the Board and its internal Committees, taking into account the professional activities to be carried out and any other posts held.

3.2.7 Incompatibility

In recalling the contents of the multiple rules which set out causes of incompatibility and conditions which may affect eligibility, as provided for by current legislation, the Board of Directors points out – in accordance with Article 36, Italian Decree Law 201/2011 (converted with amendments by Italian Law 214/2011), stating provisions regarding “*protection of competition and personal cross holdings in credit and financial markets*” – that candidates must show that there are no reasons for them to be incompatible with being elected to the Board.

3.2.8 Behaviour requirements

As also set out in the Supervisory Provisions, the Bank’s senior management bodies must be made up of individuals who act in the overall interests of the Bank, regardless of the Shareholders who voted them to the Board or of the list from which they were elected. They must operate with independence of judgement. To this end, particular importance is given to the ability to initiate and ensure that, within the Board of Directors, a proper set of checks and balances is in place, in line with the principles of sound and prudent management which apply to all of the Bank’s operations.

The Board considers it essential that each Director must be fully aware of their strategic role and of the obligations inherent to the post. It is equally highlighted that the Board members’ specific competencies and authority must be exercised to guarantee an effective contribution to Board discussions, to make decisions in line with the overall interests of the Bank.

In this regard, the Board recommends that suitable consideration is also given to the following behaviour profiles as being qualifying characteristics for the post of Director:

- ability to collaborate;
- strategic approach;
- results-based and solution-based approach;
- ability to interact with and value the contributions of other Directors, encouraging agreement and comparison and favouring constructive debate.

The Board also recommends that, in identifying the candidate profiles for the post of President of the Board of Directors, suitable consideration is also given to the capacities for board leadership and business coaching needed to guarantee ordered, quick and consistent increase in critical skills required by the Bank’s organisation and culture.

4. Principal results of the Board of Directors' self-assessment process for the 2018 financial year

In accordance with what is set out in the Provisions, in the Corporate Governance Code and by internal Regulations on the subject that have been adopted, Banca IFIS's Board of Directors has conducted a self-assessment process regarding its qualitative-quantitative composition in relation to the 2018 financial year.

At the meeting of 17 January 2019 the Bank's Board of Directors approved the "*Report on the Board of Directors' Self-Assessment Process*" which includes the results of the process, and confirms the widely positive judgement on its composition and functions. Particularly:

- its quantitative composition is deemed to be appropriate to the Bank's complexity, size and objectives and is substantially in line with current guidelines and best practice which recommend that the management body is streamlined and not bloated. In particular, Banca IFIS's Board of Directors, made up of 9 members, complies with the legal and regulatory requirements set out for the number of independent Directors and gender quotas. There are, in fact, 4 independent Directors out of 9 on the Board and 3 out of the 9 members are women;
- the current configuration of the Board of Directors states that 7 out of the 9 members are non-executive; as well as the Chief Executive Officer, the Vice-President also holds the post of executive Director; the separation of roles within the Board of Directors (executive, non-executive and independent Directors) is believed to be mostly appropriate, as is the content of the responsibilities in terms of detail, clarity and precision and the separation of responsibilities between the Board and the Chief Executive Officer;
- with regard to the qualitative composition, the current professional competencies of the members of the Board of Directors have been considered to be prevalently appropriate to the Bank's size and business operations in line with legislative and regulatory changes made, including recent changes; the present composition also has a good level of diversification;
- the current composition of the Board of Directors ensures that the limits on the total number of posts held are complied with.

As already highlighted, the results of the above self-assessment process were considered in order to define the optimum qualitative-quantitative composition of the Board of Directors represented in this document.

5. Conclusions

The outgoing Board of Directors, considering the results of the self-assessment process conducted for the 2018 financial year and the opinion expressed by the Appointments Committee, prefers that lists of candidates, which will be submitted to renew the Bank's management body, will:

- maintain the current number of members, set at 9, unless further assessments require an increase in the number of management body members from 9 to 11, considering the operating complexity that now characterises the Bank and the changes to regulations and the target market;
- include a President who will not have operating responsibilities and a Chief Executive Officer;
- require that at least a third of members will belong to the least represented gender, in accordance with the provisions of Italian Law no. 120 of 12 July 2011;
- continue with the current composition of the Board of Directors and that at least 4 Directors

are independent members in accordance with the independence criteria set out in Article 148, paragraph 3, Italian Consolidated Finance Law (TUF), and in Article 3 of the Corporate Governance Code for listed companies, referred to in Article 11 of the company's Articles of Association, notwithstanding provisions on the subject which may result from the issuance of an Italian Ministerial Decree implementing Article 26, Italian Consolidated Banking Law (TUB).

- not include candidates who are incompatible with the role of Director, as a result of the posts they hold or shareholdings they possess in banks or asset management companies;
- include a wide range of professional skills and attitudes and suitable diversification of skills, in line with market best practice.

For this last point, it must be highlighted that as of the second half of 2017, significant changes were made to Banca IFIS's strategic and organisational context, with the consequent evolution of the Group, introducing the need for reflection on governance and the need to continually ensure that the skills of the members of the Board are maintained and improved, particularly by developing training plans that will ensure an ever deeper knowledge of each aspect - current and future – of the Bank's operations.

Therefore, the outgoing Board of Directors recommends that:

- the Board's collective experience will play a significant role in the strategic priorities which the Bank will face in the coming years;
- the new Board includes individuals who possess a mix of technical knowledge, competencies and experience which allow them to understand the principal business areas and principal risks to which the Bank is exposed;
- the overall experience gained, through study and training and through practical experience from posts held, is considered;
- the size, level of operating complexity, the extent of activities and the connected risks, the markets and diverse geographical area in which the Directors have worked are considered;
- Board members are open, have an international approach and are able to speak different foreign languages.