



**Orientation of the Board of Directors**

**of illimity Bank S.p.A.**

**on the optimum qualitative and quantitative**

**composition of the Board**

**25 February 2021**

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## 1. Premise

illimity Bank S.p.A. (“illimity” or the “**Bank**”) is the parent company of the illimity Bank S.p.A. Banking Group, and accordingly the Board of Directors (also the “**Board**” or the “**Management body**”) determines the strategies of the group as a whole together with its risk assumption and control policies, and constantly and continuously monitors the analyses made and decisions taken, ensuring that the Group is soundly and prudently managed.

In this context the composition of the Board of Directors has fundamental importance.

The term of the current Board of Directors ends with the Shareholders’ Meeting approving the 2020 annual financial statements, planned for April 2021. The Board is therefore required to express an orientation on what it believes to be its optimum quantitative and qualitative composition, in accordance with applicable laws and regulations (as described further below).

Pursuant to article 15 of illimity’s bylaws, the Board of Directors whose term is now ending is going to submit a list of candidates for the position as Director in view of the upcoming Shareholders’ Meeting.

Lastly, it is noted that illimity adopts the “traditional” corporate governance model by which the Board of Directors is responsible for management functions and the Board of Statutory Auditors for control functions. Within the ongoing evaluations on the corporate governance model regarded as optimum for the growth of the Bank and the Group, also taking into account the new Business Plan to be approved during the year, further assessments may arise and, following the internal evaluation process, could possibly be submitted to a review of the new Board of Directors and the shareholders, stressing the fact that any possible revision of the Bank’s corporate governance model could call for a subsequent revision or refinement of the orientations on the optimum qualitative and quantitative composition of the corporate bodies compared to those stated in this document.

## 2. Introduction

The current supervisory corporate governance regulations for banks, issued by the Bank of Italy in Part I, Title IV, Chapter 1 of Circular no. 285 of 17 December 2013 (the “**Supervisory provisions**” or the “**Circular**”), require that, for the purpose of appointing or co-opting Directors, the Boards of Directors of banks establish in advance the qualitative and quantitative composition of the Board they regard as optimum for the effective discharge of the duties and responsibilities assigned to them by law, by the Supervisory provisions and by the corporate bylaws, in accordance with the following principles and guidelines:

- ✓ from a quantitative standpoint, by having an adequate and not oversized number of members for the size and complexity of the bank’s organisational structure, in order to control the whole of the company’s operations in an effective manner as far as its management and controls are concerned;
- ✓ from a qualitative standpoint, the proper discharge of duties requires persons to sit on bodies having a strategic and operational supervisory function who:
  - are fully aware of the powers and obligations inherent in their duties;
  - have the professional skills suitable for the role to which they are assigned, also

in any internal committees within the management body, with these calibrated in relation to the bank's operating features and size;

- have broad-based and appropriately diversified skills across all members to enable each of these, both in the committees on which they sit and in collegiate decisions, to provide a real contribution, *inter alia*, to the identification and pursuit of suitable strategies and ensure the effective government of risks in all the areas of the bank;
- are able to dedicate adequate time and resources given the complexity of their role, without prejudice to compliance with the limits on the number of positions they may hold as stated in applicable laws and in the bylaws;
- direct their work to the pursuit of the bank's overall interest, regardless of the shareholding structure that appointed them, operating with an independent judgement.

The attention is placed on all board members, including the non-executive directors, as these share the decisions taken by the Board of Directors as a whole and are required to perform an important dialectic and monitoring function over the choices made by the executive members.

The Supervisory provisions additionally require "independent" persons to be appointed to the body performing the function of strategic supervision, with these overseeing corporate operations with an autonomous view and contributing to ensuring that these are performed in the company's interest and consistent with the objectives of sound and prudent management. The involvement of independent directors in internal board committees with investigative, advisory and propositional duties is also recommended, to assist in taking more carefully considered decisions, especially those concerning more complex areas of activity or where the risk of a conflict of interest is higher.

The appointment process is arranged to ensure that – both in the appointment process, which sees several bodies and functions involved (Appointments Committee, Board of Directors, Shareholders' Meeting), and on a continuous basis - the management and control bodies consist of persons able to perform the role assigned to them in an effective manner. This means that the professional skills required for achieving this result must be clearly defined in advance – and possibly reviewed over time to take into account any critical matters that may have arisen – and that the selection and appointment process must take such indications into account.

The result of the analysis performed by the corporate bodies involved (Appointments Committee, Board of Directors) must be made available to Shareholders in sufficient time for them to take account of this when selecting candidates. The possibility for Shareholders to make different assessments about the optimum composition of the Board of Directors obviously remains unaltered, justifying any possible differences from the analysis performed by the Board.

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The new *Corporate Governance Code* (the "**CG Code**"), with which illimity complies – approved by the Corporate Governance Committee and published on 31 January 2020, previously known as the *Code of Self Discipline* for listed companies and revised in its latest version in July 2018

– pursues the same objectives.

The CG Code recommends that at the end of its term and with reasonable notice with respect to the publication of the call notice for the Shareholders' Meeting held for its renewal, the Board shall express its orientation to Shareholders on what in its view is the optimum quantitative and qualitative composition, taking account of the results of the annual self-assessment process on the size, composition and functioning of the Board and its Committees (the "**Orientation**").

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It is noted for the purpose of this Orientation that in drawing up its recommendations to Shareholders, the Board also took into consideration the provisions of Decree no. 169 of the Ministry of Economy and Finance of 23 November 2020 ("**DM 169/2020**"), implementing article 26 of the Legislative Decree no. 385 of 1 September 1993 (the "**Consolidated Banking Law**" or "**TUB**") on the governance of the suitability requirements and criteria for holding a position as corporate representative for banks, financial intermediaries, guarantee consortia (*confidi*), electronic money institutions, payment institutions and deposit guarantee systems. DM 169/2020 became effective on 30 December 2020.

For completeness, the following sets out the additional national and European regulations applicable to the subject (and of interest herein), as it is essential for the principles these contain to be reflected in the lists:

- 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) and Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms;
- EBA "Guidelines on internal governance under Directive 2013/36/EU" of 26 September 2017;
- EBA and ESMA (European Securities and Markets Authority) "Joint 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" (the "**Joint EBA/ESMA Guidelines**") of 26 September 2017;
- ECB, Guide to fit and proper assessments (2018).

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This document has therefore been prepared by illimity's Board of Directors in accordance with the Supervisory provisions and the CG Code with the aim of making Shareholders aware – in view of the upcoming election of the members of the Bank's Board of Directors, planned to take place at the Shareholders' Meeting approving the 2020 annual financial statements – of the qualitative and quantitative composition that the Board considers to be optimum, so that their selection of candidates may take account of this.

The document is made available to Shareholders in good time and– as required by the provisions set forth by the Supervisory Authority – verification will be made at a later date that the qualitative and quantitative composition of the elected Board corresponds to this profile.

### **3. Self-assessment process on the optimum qualitative and quantitative composition of the Board of Directors**

The analyses performed by the Board of Directors on what it considers to be the optimum qualitative and quantitative composition are the result of a detailed and formalised examination. In addition, within the scope of the corporate governance model adopted by illimity, the Nominating Committee performs an advisory role during the phase of analysis and definition of what is considered to be the optimum qualitative and quantitative composition.

The Bank's management body took the following elements into account to perform such analysis:

- ✓ the current legal and regulatory framework;
- ✓ the "significance" of the Bank pursuant to article 6, paragraph 4, of Council Regulation (EU) No. 1024/2013;
- ✓ the type of activity conducted by the Bank and the illimity Group;
- ✓ the ownership structure and the quotation of illimity on the STAR segment of Borsa Italiana's Electronic Stock Market;
- ✓ illimity's system of corporate governance, referring to its bylaws, the internal regulations of its corporate bodies, the key principles of its corporate governance and the rules and regulations within the Group;
- ✓ the way in which the Board and its Committees function and the subsequent commitment and activity, as well as the results of the self-assessment processes conducted by the bodies.

For further details on the Group and its business model reference should also be made to the Bank's website (section <https://www.illimity.com/it/investor-relations/corporate-governance>) and to the *Reports on corporate governance and ownership assets* published by the Bank.

### **4. Quantitative composition of the Board of Directors**

It is worth drawing Shareholders' attention to the principal regulatory principles and those contained in the bylaws on the composition of the Board and its Internal committees, the main details of which are described below.

Pursuant to the Supervisory provisions, in larger-sized banks or those with greater operational complexity adopting the "traditional" management and control model the number of directors should not exceed 15 (fifteen).

Article 12 of the Bank's bylaws states that the Board of Directors shall not have fewer than 7 (seven) and not more than 11 (eleven) members holding the requirements set forth by applicable laws, to be appointed by the Shareholders' Meeting after establishing the number of members.

Again in accordance with article 12 of the Bank's bylaws, there must be at least 4 (four) "independent" directors (assessed as such pursuant to the above-mentioned DM 169/2020).

The Chair of the Board of Directors must have a non-executive role and must not perform managerial duties, not even of a de facto nature.

At least 4 (four) Committees specialising in “nominations”, “risks”, “remuneration” and “related parties and connected persons” shall be set up inside the body in charge of strategic supervision, that were set up by the Bank since the listing on the Stock Exchange in 2019. The outgoing Board has also set up a Sustainability Committee.

As a rule, each of the above Committees must consist of between 3 (three) and 5 (five) members, all non-executive and with a majority of independent ones. The Committees must have at least one member not in common, and any Directors elected by minorities shall be a member of at least one Committee. The Chair of each Committee is chosen among the independent members. The Related Parties Committee consists exclusively of independent Directors.

It is recalled that Law no. 160 of 27 December 2019 made changes, *inter alia*, to the provisions of Legislative Decree no. 58 of 24 February 1958 (the “TUF”) on gender balance in the corporate bodies of listed companies. Since 1 January 2020, at least two-fifths (previously one-third) of members must be of the less-represented gender.

Taking into consideration all the recommendations made by the Bank of Italy in its Supervisory provisions, the complexity of illimity’s organisational structure, also with the aim to adequately monitoring its management, the results of the board’s evaluation process and the need for a suitable structure in Committees within the management body, **the Board considers the current number of 9 (nine) Directors to be appropriate and the current ratio between Executive Directors (1) and Non-executive directors (8), of whom the majority independent (5), to be adequate**, as this is suitable for ensuring the effective functioning of the Board of Directors.

The Board believes that such orientation ensures an appropriate balancing of the skills and experience called for by the complexity of the Bank’s business, considering in addition that such size enables each of the Directors to have sufficient involvement in, and obtain a high level of detail on any subject matter, also in the Committees, thereby increasing the effectiveness of the Bank’s governance.

This recommendation also appears consistent with the need for a numerical composition of the Committees that is appropriate for taking into account the extent and importance of their operations and ensuring an efficient balancing of skills, in line with the requirements of the Supervisory provisions and of the CG Code.

## 5. Qualitative composition of the Board of Directors

Shareholders are invited to keep in mind that – as well as the need for individual members to comply with article 26 of the TUB and DM 169/2020 (which should be read in full for the purpose of the suggested ex ante assessments with an end to the preparation of any lists of candidates) – the composition of the management body must as a whole express the know-how, skills, abilities and experience needed to understand the Bank’s activities, including the main risks to which it is exposed. The collective composition must also be suitably diversified – from the standpoint of age, training, professional paths, personal qualities and skills, gender,

diversity and the period for which Directors have held the position – in order to:

- ✓ encourage an exchange of views and dialectic within the body;
- ✓ foster the emergence of a plurality of approaches and perspectives when analysing issues and taking decisions;
- ✓ provide effective support for the business processes of drawing up strategies, managing assets and risks and controlling the work performed by senior management;
- ✓ take into account the variety of interests that contribute to a sound and healthy management of the Bank.

In addition, the following are also required:

- ✓ independent persons who oversee corporate operations with an independent view so that sound and prudent management in the Bank's interest can be achieved;
- ✓ non-executive members with clearly defined roles and duties who act effectively as a counter-weight to the Bank's executives and management, fostering dialect within the body to which they belong.

The right of Shareholders to perform their own assessments on the optimum composition of the management body is not affected, nor that to propose candidates consistent with these, justifying any differences with the analyses conducted by the Board of Directors in this Orientation.

### 5.1 Professionalism and competence requirements

At the date of drafting of this Orientation, the requirements of professionalism and competence set forth in articles 7 and 10 of DM 169/2020 (regarding the requirements and criteria needed by a bank's corporate representatives to be fit for holding the position) are applicable, and reference should be made to such. Lack of requirements set forth in article 7 prevents to possibility to take the position or the forfeiture from office shall the position be already held. The Board of Directors assesses whether the competence criteria required by article 10 are satisfied, with reference to a person's theoretical knowledge, acquired through education and training, and practical experience, gained through previous or current work experiences.

The question of the professionalism of Directors, as far as it concerned here, is moreover the subject of specific consideration in the guidelines issued by the European Banking Authority (EBA) and the European Central Bank (ECB) Guide as far as fit and proper assessments of corporate representatives are concerned.

More specifically, without prejudice to the provisions of applicable law, taking into account the results of the self-assessment process performed in the first part of 2021, the **Bank's Board recommends that the set of professional skills that the management body should express as a whole** – determined in terms of a broad-based variety of professional experiences and backgrounds and balanced among the various Directors so that the Board of Directors has internal access to a significant representation of such and ensures that they complement one another – should cover the following areas:



- ✓ *banking business and activity and banking and financial products;*
- ✓ *dynamics of the economic and financial system;*
- ✓ *competitive context and banking and financial markets;*
- ✓ *strategic planning and vision;*
- ✓ *legal, corporate and banking and financial regulation;*
- ✓ *knowledge of internal control systems and risk management and control methodologies;*
- ✓ *banking governance and management systems;*
- ✓ *corporate management and organisation and information technology (IT) processes;*
- ✓ *accounting and financial disclosures;*
- ✓ *managerial/entrepreneurial skills possibly obtained in an industrial environment;*
- ✓ *skills in the sphere of turnaround financing not only in terms of the financial technicalities but also of an awareness of the implications for business operations; and*
- ✓ *technological innovation skills in general.*

The **Chair** of the Board of Directors should:

- be a figure endowed with authority and personal prestige who can both ensure that the Board of Directors works in a proper and transparent manner during his term and to represent a guarantee figure for the Shareholders;
- possess personal characteristics that enable a strong spirit of collaboration and a strong sense of cohesion to be created among the Board's members;
- be suitably prepared in matters of corporate governance, having gained significant previous experience in the sphere – and preferably at the head – of boards of directors of suitable complexity and size, and having shown a marked sensitivity towards governance issues in the performance of his or her duties in these positions;
- possess experience and familiarity in managing issues of strategic importance in the sphere of the Board of Directors, as well as specific business issues;
- possess skills in the economic-financial and legal fields, and possibly basic technical know-how in the banking sector;
- have a suitable international culture, accompanied by the knowledge of foreign languages, in particular English.

The **Chief Executive Officer** should:

- have detailed knowledge of the financial institution sector and its evolution;
- have significant technical skills in the economic-financial sphere and everything concerning banking and financial services;
- have gained significant and successful professional experience at the head of banking or complex financial institutions;

- hold an acknowledged strategic vision;
- be a figure endowed with authority, acknowledged leadership qualities and a management style directed towards creating a team spirit among co-workers;
- have gained experience in an international sphere, accompanied by the knowledge of foreign languages, in particular English.

Given the importance of a diversification of skills, experiences and backgrounds, in line with the spirit of the illimity Group and as part of the challenges posed by sustainability and ESG (Environmental, Social and Governance) issues and, more generally, by a reconsideration of the “corporate purpose”, **the other Directors** should all be non-executive and hold the integrity and, in a large majority, independence requirements established by law and by Banking Supervision provisions, and in addition should:

- a) be represented by figures having a **managerial** and/or **professional** and/or **academic-institutional** profile who bring in a diverse and complementary set of skills and experiences, in this way contributing to the overall suitability of the Board, additionally taking into account the benefits that may result from the presence on the Board of persons of different genders, age bands and seniorities;
- b) possess suitable seniority, understood as proven experience in complex organisational structures in a business and/or professional and/or academic and/or institutional environment;
- c) have gained experience in the sphere of boards of directors of companies, preferably listed and of significant size and complexity;
- d) hold skills that enable him or her to participate effectively in the work of both the Board of Directors and the various Committees set up within the Board;
- e) possess, or be able to acquire through appropriate induction activities, the technical know-how needed to understand the activity of the illimity Group and the risks to which it is exposed in order to suitably exercise the precise stimulation and control function the role demands;
- f) display social intelligence, independence of judgement and the ability to listen and relate at all levels;
- g) have an international culture, accompanied by a suitable knowledge of foreign languages and in particular English.

In addition:

- **managerial profiles** should:
  - have gained experience in positions with significant managerial responsibilities in financial institutions or industrial groups of suitable size and complexity;
  - possess business judgement abilities and a high orientation towards strategy;
- **professional profiles** should:
  - have gained significant experience in positions in relevant professional or consulting firms;

- have performed professional activity closely related to the banking and financial institution sector;
- **academic and institutional profiles** should:
  - possess skills that are directly related to the banking and financial institution sector or the problems concerning it.

The following may be considered to be the general criteria for identifying the above skills:

- several years' entrepreneurial or managerial experience with high-level responsibilities in complex businesses (banks/companies/associations);
- consolidated functional experience at a senior level in complex businesses in the administrative/financial/legal area;
- several years' membership of Boards of Directors of comparable businesses;
- university teaching and/or qualified consulting activity in subjects relating to the specific skill.

As set forth in the Bank of Italy's Supervisory provisions, it is also a fundamental requirement for all non-executive directors to possess and express a suitable knowledge of the following: the banking business, the dynamics of the economic and financial system, the banking and financial regulatory framework and, above all, risk management and control methodologies.

Without prejudice to the above, the Board additionally recommends that at least one candidate per list – independent pursuant to article 7 below – should have relevant specialised experience in order to become a member of the Risk Committee (suitable knowledge and experience in accounting and financial matters or in risk management) or the Remuneration Committee (suitable knowledge and experience in financial matters or in remuneration policies), in this way providing an effective contribution to governing the risks to which the Bank is exposed, as such is identified as one of the main duties of the corporate bodies by the Bank of Italy in its Supervisory provisions.

To assist Shareholders in understanding the skills held by each individual candidate, the Board requires appointment proposals to be accompanied by resumes and a statement signed by the candidates providing detailed evidence of the skills obtained by him or her in the various areas listed above.

## 5.2 Aptitude profiles

In addition to the preceding, as set forth in the EBA/ESMA Joint Guidelines, the Board of Directors notes the relevant aptitude skills required to act as a Director:

- **Authenticity:** acts in line with his or her stated principals and values. Openly communicates his or her ideas and evaluations, fosters a climate of openness and honesty, informs his or her supervisor of the current situation as appropriate, assessing risks and problems jointly.
- **Judgement:** is capable of weighing up data and different courses of action and coming to a logical conclusion. Examines, recognises and understands the essential elements and issues. Has the breadth of vision to look beyond his or her area of responsibility,

especially when dealing with problems that may jeopardise the continuity of the undertaking.

- **Loyalty:** identifies with the undertaking and has a sense of involvement. Shows that he or she can devote sufficient time to the job and can discharge his or her duties properly, defends the interests of the undertaking and operates objectively and critically. Recognises and anticipates potential conflicts of personal and business interest.
- **Negotiating:** identifies and reveals common interests in a manner designed to build consensus, while pursuing the negotiation objectives.
- **Teamwork:** is aware of the group interest and makes a contribution to the common result; able to function as part of a team.
- **Strategic acumen:** is capable of developing a realistic vision of future developments and translating this into long-term objectives, for example by applying scenario analysis. In doing so, takes proper account of risks that the undertaking is exposed to and takes appropriate measures to control them.
- **Sense of responsibility:** understands internal and external interests and evaluates them carefully. Has the capacity to learn and realises that his or her actions affect the interests of stakeholders.

***Again taking account of the results of the self-assessment process, the Board would look favourably on having profiles within its structure possessing a high capacity for business judgement.***

### **5.3 Diversity**

In accordance with the requirements of paragraph 2d-bis of article 123-bis of the Consolidated Finance Law (TUF) and article 2, Principle VII and Recommendation 8, of the CG Code, after obtaining the opinion of the Sustainability Committee and the Nominating Committee, the Board determines diversity policy, with particular regard to the optimum composition of the Management body for performing its duties in the most effective manner, examining the matters for which it is responsible from different perspectives in relation to elements such as age, gender balance and the formative and professional path taken by its various members, in order to ensure a sufficient diversity of points of view and necessary skills for a good understanding of the current affairs, the risks and the long-term opportunities relating to business operations.

The following sections set out the matters not discussed in other specific paragraphs of this Orientation on the complementarity of skills and knowledge.

#### **Age and length of service in the position**

The Board of Directors should contain **members of different ages, generations and lengths of service in the position**, given also the fact that “illimity Bank S.p.A.” was formed in March 2019, to foster the creation of a proper balance between experience, continuity, innovation and risk appetite.

#### **Gender balance**

On gender balance, the Board of Directors reminds Shareholders that Law no. 160 of 27 December 2019 revised the provisions of the TUF on gender balance in the corporate bodies of listed companies. From 1 January 2020, **at least two fifths of members must be of the less represented gender.**

#### **Geographical origin and international experiences**

Despite the fact that illimity operates in Italy, the presence of Directors with education and professional experience in international environments is recommended anyway, being it useful for further raising the quality of the dialectic within the board and the understanding of international economic and financial dynamics.

### **6. Integrity requirements and propriety criteria**

The provisions of article 3 of DM 169/2020 are applicable as far as integrity requirements are concerned, and reference should be made to such legislation in this case. Persons not having these requirements cannot take office, while those that have already done so shall be forfeited from office.

Attention should additionally be given to the cases included in article 6 of DM 169/2020 in which Directors are suspended from office.

In addition to meeting the integrity requirements, Directors must also have satisfied propriety criteria in their past personal professional conduct. Reference should be made to articles 4 and 5 of DM 169/2020 for a comprehensive list of the cases taken into consideration for the purpose of assessing whether the propriety requirement has been satisfied, as well as a description of the relative ways the assessment should be made.

### **7. Independence**

#### **Independence**

The provisions of article 13 of DM 169/2020 and article 148, paragraph 3, as referred to by article 147-ter of the TUF, apply to the requirements for independence, and reference should be made to these sources of law in this case.

**The Board of Directors recalls that** in accordance with the requirements of the bylaws and in order to comply with the principles of the CG Code, ***the lists of candidates must be drawn up in order to ensure that taken as a whole at least 4 members of the management body hold the independence requirements stated in DM 169/2020.***

The Board additionally reminds Shareholders that as noted earlier, the Bank complies with the new CG Code (published on 31 January 2020). Article 2, Recommendation 7 is of particular relevance in this respect, listing a series of circumstances that jeopardise, or seem to jeopardise, the independence of a director, and reference should be made to this provision.

As required by the CG Code, the Board has established the criteria and the related quantification as far as the following are concerned: (i) the materiality level to be used when assessing *commercial relationships* as per paragraph c) of Recommendation 7 of the CG Code and (ii) the materiality level to be used when assessing *additional remuneration* as per

paragraph d) of Recommendation 7 of the CG Code.

***The Board accordingly believes that Directors for whom the following materiality parameters are exceeded may not be considered independent within the meaning of the CG Code:***

(i) for ***commercial relationships*** as per paragraph c) of Recommendation 7 of the CG Code: (a) in case of consultancy or personal and direct commercial relationships with the Director in question, fees exceeding EUR 50 thousand per annum in the three years preceding that of the appointment as independent Director or in the current year, or (b) in the case of commercial relationships with the professional firm and/or the consulting, financial, strategic or commercial firm (of which the Director in question is a partner or has been in such years), fees per annum in favour of said firm exceeding 5% (five per cent) of the total annual turnover or revenue of such firm (as declared by the Director himself) and in any case exceeding EUR 250 thousand per annum; and

(ii) for ***additional remuneration*** as per paragraph d) of Recommendation 7 of the CG Code: additional remuneration for the person concerned of at least EUR 50 thousand per annum in addition to the remuneration due for the position as Director of the Bank.

### **Independence of judgement**

The provisions of article 15 of DM 169/2020, to which reference should be made, apply as far as concerns the requirement for an independence of judgement (which all Directors must hold).

More specifically, it is recalled that all members must act with a full independence of judgement and with the awareness of the duties and rights inherent to the position, in the interest of the sound and prudent management of the Bank and in accordance with the law and any other applicable regulation.

The competent body assesses the independence of judgement of the person concerned in light of the information and reasons provided by that person and assesses whether legal and regulatory requirements, as well as any additional organisational or procedural measures adopted by the Bank or by the person concerned, are effective in dealing with the risk of the representative's lack of independence of judgement or his or her ability to affect the body's decisions.

If the existing requirements are considered insufficient, the competent body may: a) identify additional, more effective requirements; b) change the specific duties and roles assigned to the representative, including any delegated powers. If the measures are not adopted or are insufficient for overcoming the identified weaknesses, the competent body shall declare the forfeiture from office.

The competent body ensures the effectiveness of the requirements and the measures adopted to maintain the representative's independence of judgement, also in light of the conduct displayed by such person in practical terms in carrying out his or her duties in the position.

## **8. Incompatibility and the “interlocking prohibition”**

In accordance with article 36 of Decree Law no. 201/2011 (the “interlocking prohibition”) converted as amended into Law no. 214/2011 on provisions concerning “interlocking personal participations in the credit and financial markets” and the requirement that “holders of positions in management, supervisory and control bodies and senior officers of companies or groups of companies operating in the credit, insurance or financial market shall not assume or exercise similar positions in competing companies or groups of companies”, **the Board of Directors recommends Shareholders that lists submitted for the appointment of the new management body should only include candidates for whom an assessment over the absence of causes of incompatibility prescribed by said legislation has already been made.**

Positions as senior officers (general managers and, in listed companies, the financial reporting officer envisaged by article 154-*bis* of the TUF) and similar positions (and therefore also non-executive and control positions) held in competing companies and groups of companies operating in the credit, insurance and financial markets should also be included in determining positions held in management and supervisory bodies (management, executive and supervisory boards) and control bodies (boards of statutory auditors) to which the prohibition applies.

## 9. Available time

In light of the applicable provisions of laws and regulations, the amount of time to be dedicated to the position, given its natural quality and complexity, is a fundamental requirement that candidates for the position of Director must be able to guarantee, also in relation to the work required for participation at the meetings of the Board Committees, in case they are members. Consideration should also be given to the commitment required for participation at induction meetings.

With specific reference to illimity’s situation, for purely informational purposes it is noted that the following meetings were held in 2019 and 2020:

	2019	2020
Board of Directors	23	29
Induction meetings	7	2
Nominating Committee	2	3
Related-party transactions Committee	2	6
Remuneration Committee	7	7
Risks Committee	17	18
Sustainability Committee	N/A	4

After receiving the opinion of the Nominating Committee, having regard to the obligations for 2020 and the total number and duration of corporate events (29 meetings of the Board of



Directors with an average duration of 3 hours 20 minutes in 2020) and on the basis of the results of the self-assessment exercise, the **Board estimates that, on average, 45/75 working days per year (on the basis of 250 working days) and 360/600 working hours per year may be considered an adequate time for the position, depending on participation at Board Committee meetings.**

In consideration of the above, the Board recommends candidates to accept positions only if they believe they will be able to dedicate the necessary time, given the number and quality of the positions they hold in the management and control bodies of other companies and the commitment required by them and by any other working or professional activities and roles they may have, also making sure that their situation is consistent with any policies that the Bank may have adopted.

## **10. Number of positions held**

At the date of drafting of this Orientation, the limits on the number of positions that may be held are those established in articles 17 and 18 of DM 169/2020, to which reference should be made.

***No Director may assume a total number of positions in banks or other commercial companies (as defined in the Ministerial Decree) that exceeds one of the following alternative combinations:***

- a) 1 executive position and 2 non-executive positions;***
- b) 4 non-executive positions.***

The position held in the Bank must be included when calculating these limits.

Reference should be made to the above-mentioned article 18 of DM 169/2020 for a detailed explanation on exemptions and the way that positions should be combined.

If the total number of positions held by the person concerned exceeds the limit and the person does not withdraw from the position or positions that lead to the limit being exceeded, the competent body shall declare the forfeiture from office.

## **11. Remuneration**

As per the remuneration, considering also the involvement of the Nominating Committee and the Remuneration Committee, the Board of Directors believes that the total remuneration granted to the current Board for the completed term compared to a significant sample of banks and financial institutions (under a benchmarking exercise) is overall in line and consistent with illimity's start-up phase, and that given the results achieved since September 2018 to the end of 2020 it is also appropriate to suggest a revision of the Board's remuneration on renewal – from a starting gross fixed total of emoluments of EUR 1,115,000 per annum to a total of at least EUR 1,350,000 per annum (with allocation being remitted to the Board after consultation with the Board of Statutory Auditors if such is not established by the Shareholders' Meeting) - which in light of the benchmarking exercise also takes into account the role of the Chairman and the operational challenges of the new business plan that await the Chief Executive Officer and the non-executive Directors, given in addition the required active participation in the work



of the strategic supervisory body and the Board committees.

## Appendix A

### Skills <sup>(1)</sup>

- a. **Authenticity:** is consistent in word and deed and behaves in accordance with own stated values and beliefs. Openly communicates his or her intentions, ideas and feelings, encourages an environment of openness and honesty, and correctly informs the supervisor about the actual situation, at the same time acknowledging risks and problems.
- b. **Language:** is able to communicate orally in a structured and conventional way and write in the national language or the working language of the institution's location.
- c. **Decisiveness:** takes timely and well-informed decisions by acting promptly or by committing to a particular course of action, for example by expressing his or her views and not procrastinating.
- d. **Communication:** is capable of conveying a message in an understandable and acceptable manner, and in an appropriate form. Focuses on providing and obtaining clarity and transparency and encourages active feedback.
- e. **Judgement:** is capable of weighing up data and different courses of action and coming to a logical conclusion. Examines, recognises and understands the essential elements and issues. Has the breadth of vision to look beyond his or her own area of responsibility, especially when dealing with problems that may jeopardise the continuity of the undertaking.
- f. **Customer and quality-oriented:** focuses on providing quality and, wherever possible, finding ways of improving this. Specifically, this means withholding consent from the development and marketing of products and services and to capital expenditure, e.g. on products, office buildings or holdings, in circumstances where he or she is unable to gauge the risks properly owing to a lack of understanding of the architecture, principles or basic assumptions. Identifies and studies the wishes and needs of customers, ensures that customers run no unnecessary risks and arranges for the provision of correct, complete and balanced information to customers.
- g. **Leadership:** provides direction and guidance to a group, develops and maintains teamwork, motivates and encourages the available human resources and ensures that members of staff have the professional competence to achieve a particular goal. Is receptive to criticism and provides scope for critical debate.
- h. **Loyalty:** identifies with the undertaking and has a sense of involvement. Shows that he or she can devote sufficient time to the job and can discharge his or her duties properly, defends the interests of the undertaking and operates objectively and critically. Recognises and anticipates potential conflicts of personal and business interest.

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<sup>(1)</sup> Source: Joint ESMA and EBA 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.

- i. **External awareness:** monitors developments, power bases and attitudes within the undertaking. Is well-informed on relevant financial, economic, social and other developments at national and international level that may affect the undertaking and also on the interests of stakeholders and is able to put this information to effective use.
- j. **Negotiating** identifies and reveals common interests in a manner designed to build consensus, while pursuing the negotiation objectives.
- k. **Persuasive:** is capable of influencing the views of others by exercising persuasive powers and using natural authority and tact. Is a strong personality and capable of standing firm.
- l. **Teamwork:** is aware of the group interest and makes a contribution to the common result; able to function as part of a team.
- m. **Strategic acumen:** is capable of developing a realistic vision of future developments and translating this into long-term objectives, for example by applying scenario analysis. In doing so, takes proper account of risks that the undertaking is exposed to and takes appropriate measures to control them.
- n. **Stress resistance:** is resilient and able to perform consistently even when under great pressure and in times of uncertainty.
- o. **Sense of responsibility:** understands internal and external interests, evaluates them carefully and renders account for them. Has the capacity to learn and realises that his or her actions affect the interests of stakeholders.
- p. **Chairing meetings:** is capable of chairing meetings efficiently and effectively and creating an open atmosphere that encourages everyone to participate on an equal footing; is aware of other people's duties and responsibilities.