



**Report of the Board of Directors
on the Quali-Quantitative Composition
of the illimity Bank S.p.A. Corporate Bodies**

February 2022

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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.

On 21 February 2022, the General Meeting of illimity’s shareholders approved the adoption of the “one-tier” corporate governance model, characterised by having a Board of Directors on which the members of the Audit and Internal Control Committee (as the body having the function of control) also sit, adopting in addition a revised version of the Bylaws with an updated text. The new Bylaws will be effective from the date of the Shareholders’ Meeting called to approve the 2021 financial statements (planned for April 2022) and the renewal of the corporate bodies.

In the “one-tier” corporate governance model, management functions are performed by the Board of Directors as a whole, while control functions are carried out by an *ad hoc* internal board committee, set up as a Audit and Internal Control Committee, whose members are appointed by the Shareholders’ Meeting.

In this context the composition of the corporate bodies assumes fundamental importance.

It should be noted that following the resolutions adopted by the Shareholders’ Meeting on 21 February 2022, the corporate bodies in office at the date of this document⁽¹⁾ must be renewed by the Shareholders’ Meeting approving the 2021 financial statements, planned to take place in April 2022. 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 the current Bylaws⁽²⁾, the Board of Directors can file its own list of candidates for the position of Director in view of the upcoming Shareholder’s Meeting, following the specific procedure laid down for the submission of such list⁽³⁾.

With respect to the previous document on the Orientation of the Board of Directors on the optimum qualitative and quantitative composition of the Board (published in 2021), it should be emphasised that the above-mentioned revision to the Bank’s corporate governance model with the adoption of the “one-tier” system calls for a revision and refinement of the previous orientations as to the optimum qualitative and quantitative composition of the corporate bodies with respect to that expressed by the current composition of the Board. This revision and refinement was formalised by the Board of Directors on 25 February 2022,

⁽¹⁾ The Board of Directors currently in office was appointed by the Shareholders’ Meeting in April 2021, while the term of the Board of Statutory Auditors currently in office, which was appointed by the Shareholders’ Meeting in January 2019, expires at the Shareholders’ Meeting approving the 2021 financial statements.

⁽²⁾ Reference should be made to the contents of the transitional provisions pursuant to article 33 of the new Bylaws.

⁽³⁾ Reference should be made to the *Procedure for the presentation by the Board of Directors of a list of candidates for the renewal of the corporate bodies*, which may be consulted on the Bank’s website.

and following the governance procedures performed subsequent to the self-evaluation process for 2021, the Board approved this document⁽⁴⁾.

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 must establish in advance the qualitative and quantitative composition of the Board they consider to be 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 a number of members suitable and not excessive 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 position, without prejudice to the need to comply with the limits on the number of positions they may hold as stated in applicable laws and regulations 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.

Attention is placed on all board members, including the non-executive directors, as these share in 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

⁽⁴⁾ The Board availed itself of the advisory services of Crisci & Partners in performing the self-valuation process and preparing and finalising this document. Crisci & Partners is an independent professional firm with long and significant experience in the area of consultancy, aimed at the continuous improvement of the structure and practice of corporate governance, of the composition, functioning, performance evaluation and formation of the Board of Directors and its Committees and the development of corporate leadership. Crisci & Partners helps in the formation and refining of Boards of Directors and in the performance evaluations of the Board and its Committees and additionally submits proposals for development plans for the Board, its Committees and individual Directors.

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 (Nominating 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 recommendations into account.

The result of the analysis performed by the corporate bodies involved (Nominating 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 unaffected, with any differences with the analysis performed by the Board being motivated.

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, also taking account of the results of the annual self-evaluation 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 Legislative Decree no. 385 of 1 September 1993 (the “**Consolidated Law on Banking**” or “**TUB**”), on the governance of the suitability requirements and criteria for holding a position as a director or corporate officer for banks, financial intermediaries, guarantee consortia (*confidi*), electronic money institutions, payment institutions and deposit guarantee systems. DM 169/2020 came into effect 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 they contain to be reflected in the lists:

- articles 147-ter and 147-quinquies of Legislative Decree no. 58 of 24 February 1998 (the “**Consolidated Law on Finance**” or “**TUF**”);
- article 26 of the TUB;
- article 36 of Decree Law no. 201 of 6 December 2011 on “*Urgent provisions for growth, equity and the consolidation of the public accounts*” converted, with amendments, by Law no. 214 of 22 December 2011,

known as the “Interlocking Directorship” law, and “Criteria for the application of article 36 of the ‘Save Italy’ decree law” (the “Prohibition on Interlocking” paper) published by the Bank of Italy, Consob and ISVAP on 20 April 2012 and subsequently amended;

- Ministerial Decree no. 169/2020 on the *“Governance of the suitability requirements and criteria for holding a position as a director or corporate officer for banks, financial intermediaries, guarantee consortia (confidi), electronic money institutions, payment institutions and deposit guarantee systems”*;
- Part I, Title IV, Chapter 1, Section IV (Composition and appointment of corporate bodies) of Circular no. 285 of the Bank of Italy of 17 December 2013 following Revision no. 35 of 30 June 2021;
- the Regulation adopted by Consob by way of Resolution no. 11971 of 14 May 1999, as amended;
- the Regulation adopted by Consob by way of Resolution no. 20249 of 28 December 2017, as amended;
- 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, as amended;
- “Guide to fit and proper assessments” published by the European Central Bank on 15 May 2017 as revised December 2021;
- “Guidelines on internal governance” issued by the European Banking Authority on 21 March 2018 and subsequently revised on 2 July 2021;
- “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” of 26 September 2017, revised on 2 July 2021;
- the CG Code, approved by the Corporate Governance Committee of Borsa Italiana S.p.A. on 31 January 2020 and applicable, by the companies adopting the code, from the first financial year beginning after 31 December 2020, informing the market of this in the corporate governance report to be published during 2022.

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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 corporate bodies (namely the Board of Directors and Audit and Internal Control Committee), which following the resolution adopted by the Shareholders’ Meeting on 21 February 2022 is due to take place at the Shareholders’ Meeting approving the 2021 annual financial statements – of the qualitative and quantitative composition of the corporate bodies that the Board considers to be optimum, so that their selection of candidates may take this into account.

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 bodies corresponds to the present profile.

3. SELF-EVALUATION PROCESS PERFORMED BY THE BOARD OF DIRECTORS ON THE OPTIMUM QUALITATIVE AND QUANTITATIVE COMPOSITION

The analyses performed by the Board of Directors to identify what it considers to be the optimum qualitative and quantitative composition are the result of a detailed and formalised examination. In addition, within the ambit of the corporate governance model adopted by illimity, the Nominating Committee performs an

advisory role during the phase of analysis and determination of what is considered to be an optimum qualitative and quantitative composition.

The Bank's management body took the following aspects into consideration in performing 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 fact that illimity is listed 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 relative commitment and activity that is called for, as well as the results of the self-evaluation processes conducted by the bodies.

For further details of the Group and its business model reference should also be made to the Bank's website (section <https://www.illimity.com/it/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 the criteria contained in the Bylaws on the composition of the Board and its internal committees, the main details of which are described in the following.

Pursuant to the Supervisory Provisions, the number of directors in banks that are significant for the ECB or listed banks which adopt the "one-tier" management and control model should not exceed 19 (nineteen).

Article 16 of the Bylaws of illimity Bank (approved by the Shareholders' Meeting on 21 February 2022) requires that the Board of Directors should have an odd number of members lying between 9 (nine) and 15 (fifteen), 3 (three) of whom shall constitute the Audit and Internal Control Committee, appointed by the Shareholders' Meeting after establishing the number of members.

In application of the above-mentioned provision of the Bylaws and following the recalled passage to a "one-tier" corporate governance model, **an optimum size of 13 (thirteen) members of the Board of Directors as a whole (including the members of the Audit and Internal Control Committee)** is recommended, which may be proposed for approval by the Shareholders' Meeting, where it is considered useful to be able to broaden the extent of available experience, expertise and professional competence arising from the increase in the number of Board members and where it is desired to pursue a balanced use of the Directors' time in the composition of the Board committees.

Again pursuant to article 16 of the Bylaws, all the Directors making up the Audit and Internal Control Committee and at least 4 (four) of the Directors who do not sit on the Audit and Internal Control Committee must be "independent" pursuant to applicable *pro tempore* laws and regulations and the Bylaws.

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.

Four specialised Committees were established within the body with a strategic supervisory function on the Bank's listing on the Stock Exchange in 2019 (the Nominating Committee, the Remuneration Committee, the Related Party Transactions Committee and the Risks Committee). A fifth committee (the Sustainability Committee) was added to these in 2020.

As stated earlier, the passage to a "one-tier" system of corporate governance leads to the need to establish the Audit and Internal Control Committee, and in accordance with the Supervisory Provisions its 3 (three) members will be directly appointed by the Shareholders' Meeting.

Each of the above Committees must, as a rule, have between 3 (three) and 5 (members), all non-executive, with the majority of these being independent. The committees must each differ by at least one member and, where there is a Director elected by the minorities, he or she must be a member of at least one Committee.

Law no. 160 of 27 December 2019 made changes, *inter alia*, to the TUF's provisions 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 lesser-represented gender.

Taking into consideration the recommendations made by the Bank of Italy in its Supervisory Provisions, the complexity of illimity's organisational structure, also for the purpose of ensuring an adequate monitoring of operations, the results of the Board's evaluation process (for 2021), the need for a detailed structure in Committees within the management body and the upcoming establishment of the Audit and Internal Control Committee, following the passage to the "one-tier" corporate governance system, the Board considers a number of 13 (thirteen) Directors to be suitable and the resulting ratio to be established between Executive Directors (1) and Non-Executive Directors (12), of whom the majority independent, including in these the members of the Audit and Internal Control Committee, to be adequate.

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 about, the issues, 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 suitable for taking into account the extent and importance of their operations, in order to ensure an efficient balancing of the skills to be found in the Committees, in line with the requirements of the Supervisory Provisions and the CG Code.

In addition to the need to comply with gender balance in the composition of the corporate bodies, as required by laws and regulations and the Bylaws, in compliance with Circular 285 (36th revision) illimity Bank would see it desirable to continue respecting best practice after the results of the discussions of the Shareholders' Meetings on the corporate bodies, providing that:

- every board committee should have at least one member of the lesser represented gender; and

- the Chairs of the bodies with controlling and strategic supervisory functions and the Chief Executive Officer should be of a different gender (if possible).

5. QUALITATIVE COMPOSITION OF THE BOARD OF DIRECTORS

Shareholders should bear 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 recommended 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 path, 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 for 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 possibility for Shareholders to perform their own assessments on the optimum composition of the management body is not affected, nor that to present candidates consistent with these, with any differences with the analyses conducted by the Board of Directors in this Orientation to be motivated.

5.1 Professionalism and expertise requirements

The requirements of professionalism and expertise set forth in articles 7 and 10 of DM 169/2020 are applicable at the date of preparation of this Orientation (these regard the requirements and criteria needed by the members of a bank's management body to be fit for holding the position), and reference should be made to such. A person failing to hold the requirements set forth in article 7 may not take the position, or if they already hold office they automatically fall. The Board of Directors assesses whether the expertise criteria required by article 10 are satisfied, with reference to a person's theoretical knowledge, acquired through studies and training, and practical experience, gained through previous or current work experience.

The question of the professionalism of Directors, to the extent applicable here, is moreover also the subject of specific consideration in the European Central Bank (ECB) Guide and the guidelines issued by the European Banking Authority (EBA) as far as regards the fit and proper assessment of members of the management

body.

More specifically, without prejudice to the provisions of current legislation, on the basis of the results of the self-evaluation process performed in January 2022, 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 between 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;**
- ✓ **planning and strategic vision;**
- ✓ **legal and corporate affairs and banking and financial regulation;**
- ✓ **knowledge of internal control systems and risk management and control methodologies;**
- ✓ **banking governance and management systems;**
- ✓ **business management and organisation and information technology (IT) processes;**
- ✓ **accounting and financial disclosures;**
- ✓ **managerial/entrepreneurial skills possibly 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.**

In the self-evaluation process (for 2021) and in the process of preparing these Orientations to the Shareholders, the Board of Directors has been requested to provide its recommendations on the principal professional skills which with their various pervasiveness should characterise the new Board, including Directors who are also members of the Audit and Internal Control Committee.

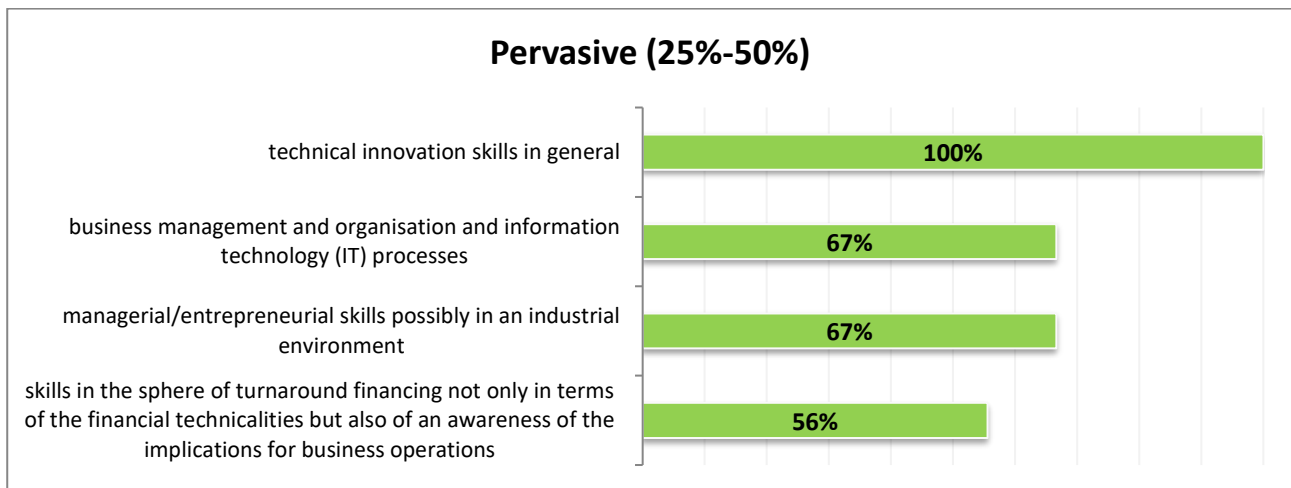
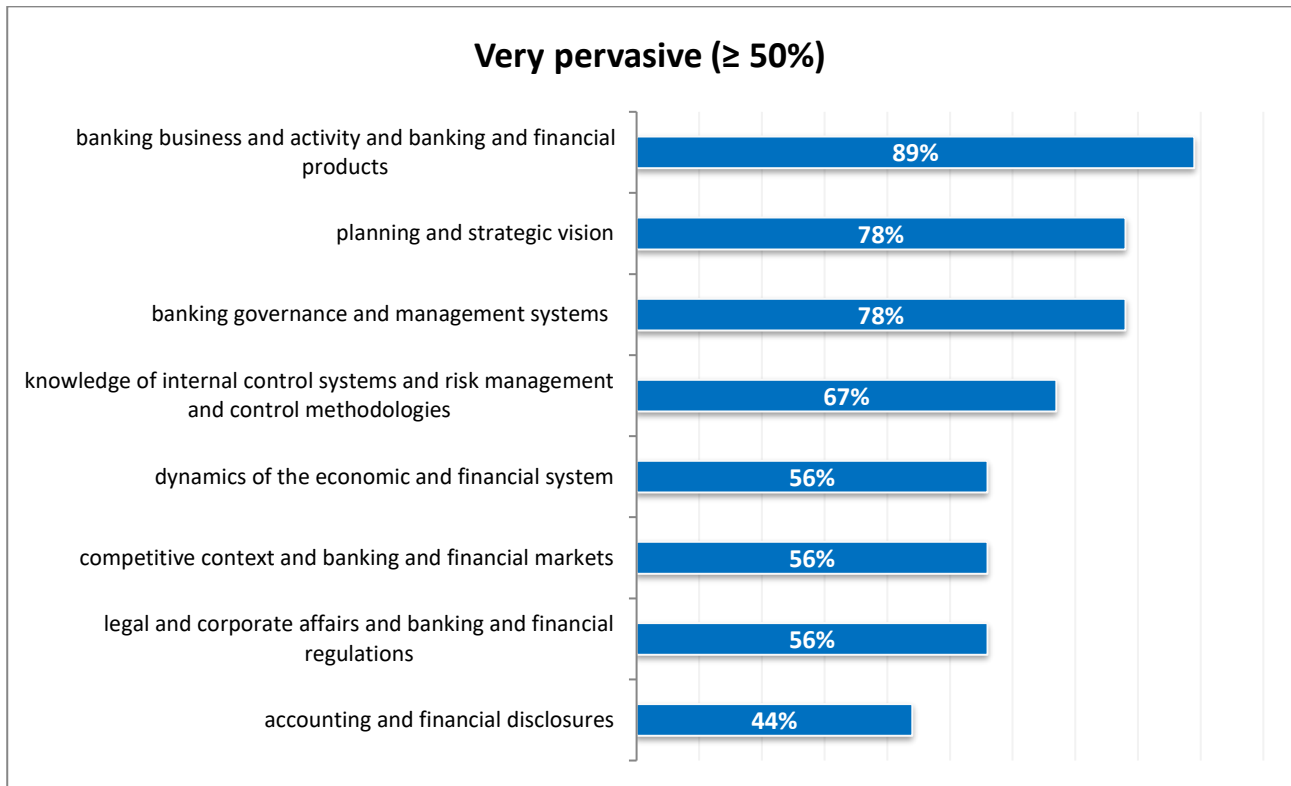
Given that all candidates are first and foremost required to have a “*basic*” knowledge of the banking sector as a preliminary for the development of their role and continuity on the Board, illimity's Board of Directors sets out below a Skills Matrix, identifying for each specific skill factor the extent to which this should ideally be pervasive in the Bank's Board of Directors.

The **Skills Matrix** indicates the opinion expressed by the current Directors as to the ideal pervasiveness and balance of each individual skill in the ideal composition of the Board of Directors.

The evaluations can be one of the following:

- *very pervasive*: held by a number of Director candidates exceeding one half of the total members of the Board;
- *pervasive*: held by at least a number of Director candidates representing around one quarter to one half of the total members of the Board;
- *not pervasive*: only held by one or two Director candidates.

SKILLS MATRIX – indicates the opinion expressed by the Directors in office at the date of preparation of this document (also after the results of the self-evaluation process for 2021) as to the necessary pervasiveness of each individual skill in the ideal composition of the corporate bodies.



The evaluations of the Directors of illimity (as part of the above-mentioned self-evaluation process for 2021) did not identify any skills among those listed in paragraph 5.1 which should be seen as necessary in a “*not pervasive*” way.

In the evaluations and recommendations expressed by the Board in preparing the Orientations for the Shareholders, the possibility should be considered of assessing candidates who, in addition to having at least a sufficient coverage of certain of the indicated skills, are at the same time able to contribute the following to the new corporate bodies:

- experience in fintechs/digital; and/or
- experience of turnarounds/financial restructuring; and/or
- experience, not necessarily in the banking sector, of data analysis and data modelling.

5.1.a Chair of the Board of Directors

The Chair of the Board of Directors should:

- be a figure endowed with authority and personal, professional and value-based prestige who is able to ensure that the Board of Directors works in both a proper and transparent manner during his or her term and represents a guarantee figure for the Shareholders and Stakeholders and in institutional relations;
- 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 on corporate governance matters, having gained significant previous experience in the sphere – and preferably at the head – of boards of directors of listed companies of adequate complexity and size, and having demonstrated 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 within the Board of Directors, as well as those of a specific business nature;
- have expertise in the economic-financial and legal fields, and possibly also basic technical knowledge in the banking sector;
- have an adequate international culture, accompanied by a knowledge of foreign languages and in particular English.

5.1.b Chief Executive Officer

The Chief Executive Officer should:

- have a deep understanding of the financial institution sector and its evolution;
- have significant technical expertise in the economic-financial field and in matters regarding banking and financial services;
- have gained significant and successful professional experience at the head of complex banking or financial institutions;
- possess an acknowledged strategic vision, a high level of strategic orientation and sound business judgement;
- be a figure endowed with authority, acknowledged leadership qualities and a management style directed towards creating a team spirit among co-workers;
- be in possession of, consistent with its history, illimity's culture and strategic objectives and sound entrepreneurial skills;
- have gained experience in an international sphere, accompanied by an adequate knowledge of foreign languages and in particular English.

5.1.c Other Directors

Given the importance of a diversified set of skills, experiences and backgrounds, in line with the spirit of the illimity Group and as part of the challenges raised by sustainability and ESG (Environmental, Social and Governance) issues, and more generally in reconsideration of the corporate purpose, the **other Directors**

should all be non-executive, hold the integrity and, in a large majority, independence requirements established by law and banking supervision provisions and, in addition:

- 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 in office;
- 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 that are 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 an adequate knowledge of foreign languages and in particular English.

5.1.d Audit and Internal Control Committee – Chair of the Committee

In addition to the need to satisfy the requirements to be met by all the other non-executive and independent Directors and to comply with the provisions of Ministerial Decree no. 169/2020, the Chair of the Audit and Internal Control Committee should desirably:

- have significant long-term experience as a member of Boards of Directors, ideally as Chair of a Control and Risks Committee or as Chair of a Board of Statutory Auditors in listed companies or groups of a size and complexity comparable with those of illimity Bank;
- have sound expertise in all regulatory and supervisory aspects;
- have sound risk evaluation and risk management expertise from a sustainability and business continuity standpoint;
- have experience and efficacy in evaluating and supervising the control system and functions;
- combine good leadership qualities with a solid pragmatism;
- be able to develop a constructive dialogue with the Chair of the Board, the Chief Executive Officer and the Chairs of the Board Committees;
- ideally have gained corporate managerial experience in groups of a size and complexity comparable with those of illimity Bank.

5.1.e Audit and Internal Control Committee – Director members

In terms of professional requirements, the provisions of article 16 of the Bylaws (approved by the Shareholders' Meeting on 21 February 2022) are applicable in the composition of the Audit and Internal Control Committee and, in particular, at least one member of the Committee must: (i) be registered as a legal auditor and (ii) must have practised as a legal auditor for a period of at least 3 (three) years.

The other members of the Audit and Internal Control Committee must have practised as a legal auditor, also alternatively and for a period of at least 3 (three) years, or must have proven experience in internal control and administration and finance; more specifically, the following shall also be taken into consideration:

- (i) having performed administration or control activities or managerial duties in the credit, financial, security or insurance sector;
- (ii) having performed administration or control activities or managerial duties in listed companies or those having a larger size and complexity or those similar to that of the Company;
- (iii) having performed professional activities (characterised by adequate levels of complexity and carried out on a continuous basis) on matters relating to the credit, financial, security or insurance sector or in any case regarding the Company's activity;
- (iv) having been a university lecturer of first or second level, on legal or economic subjects or on other subjects in any case functional to the credit, financial, security or insurance sector;
- (v) having performed managerial or senior managerial duties, under whatever name, in public entities or public administrations relating to the credit, financial, security or insurance sector, provided that the entity in which the person performed such duties is of a size and complexity comparable to that of the Company.

As regards the independence requirements, *inter alia*, the members of the Audit and Internal Control Committee may not hold positions in corporate bodies other than those with a control function in other entities of the Banking Group, nor in companies in which the Bank holds, also indirectly, a strategic interest (in this context strategic shall mean a holding of at least 10% (ten per cent) in the share capital or voting rights at an Ordinary Shareholders' Meeting of the investee company and 5% (five per cent) in the consolidated regulatory capital of the Banking Group).

The members of the Audit and Internal Control Committee may not also be members of other Board Committees other than the Risks Committee, the Related Party Transactions Committee and the Remuneration Committee.

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 have a high orientation towards strategy;
- **professional profiles** should:
 - have gained significant experience in positions in relevant professional or consulting firms;
 - have performed professional activities closely related to the banking and financial institution sector;
- **academic or institutional profiles** should:
 - possess skills that are directly related to the banking and financial institution sector or matters concerning this.

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 – qualifying as independent pursuant to paragraph 7 below – should have qualifying 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 order to provide an effective contribution to managing the risks to which the Bank is exposed, identified by the Bank of Italy in its Supervisory Provisions as one of the main duties of the corporate bodies.

To assist Shareholders in understanding the skills held by each individual candidate, the Board requires appointment proposals to be accompanied by curricula vitae 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, the Board of Directors notes the relevant aptitude skills required to act as a Director as set forth in the EBA/ESMA Joint Guidelines:

- **Authenticity:** acts in line with his or her stated principals and values. Openly communicates his or her ideas and valuations, 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.

5.3 Diversity

In accordance with the requirements of paragraph 2d-*bis* of article 123-*bis* of the 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 composition of the Management Body and the extent this may be considered optimum for performing its duties in the most effective manner, examining the matters for which it is responsible from different perspectives in relation to aspects 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 the 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, in order to foster the creation of a proper balance between experience, continuity, innovation and propensity to risk. In evaluating the average age of its members (the Directors in office have an average age of 58.3 years), the Directors express their desire that this should decrease over time and become more consistent with the entrepreneurial and innovative features that characterise the Bank.

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 lesser represented gender**. This requirement is stated in the Bank’s new Bylaws (approved by the Shareholders’ Meeting on 21 February 2022) as far as regards the two sections of each list (for the Board of Directors as a whole and for the Audit and Internal Control Committee) and will be effective when the corporate bodies are renewed in 2022.

Geographical origin and international experience

Despite the fact that illimity operates in Italy, the presence of Directors with formative and professional experience in international environments is in any case recommended, being useful for further raising the quality of dialectic on the board and an 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 fall 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 and 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

In terms of independence requirements, in addition to those of article 16 of the new Bylaws, the provisions of article 13 of DM 169/2020 and article 148, paragraph 3, as referred to by article 147-ter of the TUF, also apply, and reference should be made to these sources of law in this case.

The laws and regulations established for the Board of Statutory Auditors apply as far as the independence requirements for the members of the Audit and Internal Control Committee are concerned.

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 (a) at least 4 (four) members of the management body (section A of the list) and (b) all 3 (three) members of the Audit and Internal Control Committee (section B of the list) hold the independence requirements pursuant to 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 appear 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 relative 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 the case of advisory 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 financial, strategic or commercial consultancy 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 a further EUR 50 thousand per annum compared to that paid 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 independence of judgement (which all Directors must hold).

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

The competent body assesses the independence of judgement of the person concerned in light of the information and justifications 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 person'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 person, including any delegated powers. If the measures are not adopted or are insufficient for overcoming the identified weaknesses, the competent body shall remove the person from office.

The competent body ensures the effectiveness of the requirements and the measures adopted to maintain the person'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 participation 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 reminds Shareholders that lists submitted for the appointment of the new management body should only include candidates for whom an assessment has been made that the causes of incompatibility prescribed by said legislation do not exist.**

The interlocking provision shall apply to positions held in management and supervisory bodies (management, executive and supervisory boards) and control bodies (boards of statutory auditors) including senior officers (general managers and, in listed companies, the financial reporting officers envisaged by article 154-*bis* of the TUF) and to 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.

9. AVAILABLE TIME

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

The Board of Directors sets out below the number of meetings and their average length, for 2019/2021, attended by members of the Board and the Committees, as well as those of the Board of Statutory Auditors⁽⁵⁾, to enable Shareholders and the candidates themselves to perform an accurate assessment of the amount of time to be dedicated to the position should they become members of illimity Bank's corporate bodies.

<u>Meetings</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Board of Directors	23	29	26
Nominating Committee	2	3	13
Related Party Transactions Committee	2	6	9
Remuneration Committee	7	7	14
Risks Committee	17	18	20
Sustainability Committee	N/A	4	12
Board of Statutory Auditors	25	27	20
Induction meetings	7	2	5

Average duration

Board of Directors	3h 30m
Nominating Committee	1h 30m
Related Party Transactions Committee	1h 35m
Remuneration Committee	1h 30m
Risks Committee	4h 30m
Sustainability Committee	1h 50m
Board of Statutory Auditors	2h 30m

In addition to the time needed to participate at the meetings, the time required to prepare for these should also be taken into consideration and, for the Chair of the Board and of each of the Committees, also the time required to perform the role and prepare, organise and coordinate the Board and Committee meetings.

The commitment required to take part in meetings dedicated to induction and recurrent training should also be considered, as well as any off-site activities carried out during the term of office.

⁽⁵⁾ Term expires on the approval of the 2021 financial statements. The figures for the Board of Statutory Auditors are provided for comparative purposes, in connection with any assessments to be made with respect to the upcoming appointment of the Audit and Internal Control Committee.

To the above should also be added any transfer time required to reach the location at which the meetings are held once systematic return is made to in-presence meetings.

With the aim of ensuring that the proper functioning of the corporate bodies and with the contribution of each member to the activity within each body, the Board of Directors of illimity Bank has made the following estimates, to be understood as a step towards evaluating the minimum time considered necessary for effective participation at the meetings:

Chair of the Board	60 days/year
Chief Executive Officer	Full time
Non-executive/Independent Director	30 days/year

Additional days for the specific positions:

Audit and Internal Control Committee (Chair/Member)	50/40 days/year
Nominating Committee (Chair/Member)	26/13 days/year
Related Party Transactions Committee (Chair/Member)	18/9 days/year
Remuneration Committee (Chair/Member)	28/14 days/year
Risks Committee (Chair/Member)	50/40 days/year
Sustainability Committee (Chair/Member)	24/18 days/year

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 of them by any other working or professional activities and positions they may hold, ensuring in addition that their situation is consistent with any policies that the Bank may have adopted.

10. NUMBER OF POSITIONS HELD

At the date of preparation 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 person fallen from office.

11. 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 present phase, and that given the results achieved since September 2018 to the end of 2021, with the renewal of the Board of Directors and the appointment of the Audit and Internal Control Committee (by the 2022 annual Shareholders' Meeting, following the resolution of 21 February 2022 for the passage to a "one-tier" model and a total composition of the corporate bodies of 13 members), it is also considered appropriate to recommend a partial revision of the remuneration of the corporate bodies – from a gross fixed total of emoluments of EUR 1,350,000 per annum for 2021 (for the 9-member Board of Directors alone, stated in the document on orientations of February 2021 and proposed to the Shareholders' Meeting of April 2021, to which, for comparative purposes, should be added the emoluments of EUR 170,000 per annum of the 3-member Board of Statutory Auditors) to at least a total of EUR 1,470,000 per annum for the Board of Directors, plus at least EUR 205,000 per annum for the Audit and Internal Control Committee (with allocation possibly remitted to the Board if not established by the Shareholders' Meeting itself) – which, in light of the mentioned benchmarking exercise, should also take into account the role of the Chair and the business 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, the Board committees and the Audit and Internal Control Committee.

Appendix A

Skills⁽⁶⁾

- 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.
- 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.

⁽⁶⁾ 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.

- 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.