

FINECO

B A N K

ASSESSMENT OF THE QUALITATIVE AND QUANTITATIVE COMPOSITION OF THE FINECOBANK S.P.A. BOARD OF DIRECTORS

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INTRODUCTION

In compliance with provisions of the existing Supervisory Provisions for banks on corporate governance - Bank of Italy Circular no.285 dated 17 December 2013 – (the “**Supervisory Regulations**”), Boards of Directors of banks are required to identify their own optimal qualitative - quantitative composition for the effective completion of the duties and responsibilities entrusted to them by law, by the Supervisory Regulations, and by the Articles of Association.

According to the general principles set out in those Supervisory Regulations:

- A) from the quantitative profile, the number of members of corporate bodies must be appropriate to the size and complexities of the bank's organisational structure so as to effectively oversee all business operations as regards management and control;
- B) from the qualitative profile, the correct fulfilment of the duties falling under the responsibility of the bodies with strategic supervisory functions requires the presence of members:
 - fully aware of the powers and obligations inherent to the functions that each each of them are called upon to perform (supervisory or management functions; executive and non-executive functions; independent members, etc.);
 - who possess professional skills appropriate to the role they are required to fulfil, also for sitting on committees within the board, tailored to the bank's operational characteristics and size;
 - who have suitably diversified competencies, so that each member, on board committees and in board decisions, can effectively contribute to the effective management of risks in all areas of the bank;
 - who allocate time and resources commensurate with the complexity of their office, subject to compliance with the limits on the maximum number of offices provided in implementation of Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 (“**CRD IV**”);
 - whose action is directed towards pursuing the bank's overall interest, irrespective of the shareholder who voted for them or the list from which they were taken, acting with independent judgment.

The Supervisory Regulations, call for focus all members shall be considered, including non-executive members: the latter category is involved in decisions taken by the entire Board and has an important function in steering and monitoring choices made by executive members. The authority and professional expertise of non-executive members shall be adequate for duties that have become increasingly important for the sound and prudent management of the bank: it is therefore essential that non-executive board members have and relay an adequate knowledge of the banking industry, dynamics of the economic/financial system, legislation applicable to the finance and banking industry, and above all, risk management and control methodologies; this knowledge is fundamental for them to correctly perform their duties.

The Supervisory Regulations, also require the body that performs the strategic supervision role to be made up of independent members who oversee corporate management with independent judgment, contributing to ensuring that it is performed in the interest of the bank and coherently with the objectives of sound and prudent management. In banks of large sizes or with complex operations, the presence of specialized board committees (having instructing, consultative and proactive duties), even made up of those independent persons, facilitates the making of decisions, especially with reference to the most complex business sectors or those in which there is a higher risk of conflict of interest situations occurring.

The purpose of the Supervisory Regulations, is to guarantee - after the appointment process, which involves various bodies and functions (the appointments committee, as applicable; the Board of Directors; the Shareholders' Meeting) - on an ongoing basis, that management bodies include members capable of effectively performing the role assigned to them. This means that the necessary professional expertise must be clearly defined *ex ante*, and reviewed as necessary, to take into account any critical issues that are subsequently identified, and the process to select and appoint members must take this into account.

The members of the outgoing body are required, by the Supervisory Authority, to identify *ex ante* the qualitative and quantitative composition of the incoming bodies, which they deem to be optimal in relation to the Bank's objectives. In particular, it is required to define and justify the ideal profiles to suggest to the Shareholders, so as to help them identify the candidates for appointment, highlighting the most appropriate characteristics for the tasks to be carried out in the above bodies (and in any internal committee therein).

It is also important to specify that the proposal, by the outgoing Board Members, of guidelines to the Shareholders aimed at the identification of the optimal qualitative-quantitative composition of the management and supervisory bodies, also applies for the purposes of the implementation of the provisions of the Corporate Governance Code of Listed Companies ⁽¹⁾.

⁽¹⁾Application Criteria 1.C.1, letter h), concerning the identification and notification to shareholders of the evaluations concerning the professionals it is deemed important to have on the board.

1. ASSESSMENT BY THE BOARD OF DIRECTORS CONCERNING ITS OWN QUALITATIVE-QUANTITATIVE COMPOSITION

With the approval of the 2016 financial statements, the mandate of the Board of Directors of FinecoBank (referred to below as the “**Company**” or “**FinecoBank**”), appointed on 15 April 2014 comes to an end, and, consequently the Shareholders are requested to appoint new Directors at the next Shareholders’ meeting.

In this regard, it is pointed out that the said renewal is the first after the listing of FinecoBank shares on the Italian stock exchange (MTA) organised and managed by Borsa Italiana S.p.A. ⁽²⁾ and the appointment will be held, for the first time, on the voting list mechanism basis set out in the Company Articles of Associations.

In light of the above, and also the Introduction, the Board of Directors of FinecoBank was requested to identify its optimal qualitative-quantitative composition, including professional and independence characteristics of candidates, bearing in mind that their authority and professionalism must be well suited to the tasks that directors are called upon to perform on such corporate bodies (and within their committees, if any) and taking into consideration the size and operative complexity of the Company.

In preparing the profile, in addition, consideration has also been given to the experience accrued during the mandate with regard to the activities and methods of functioning of the Board and its Committees as well as, more specifically, the results of the self-assessment processes conducted in the last three years.

This document is made available to the Shareholders in good time so that they can take it into consideration while selecting candidates. Shareholders obviously retain the right to make their own assessment of what constitutes an optimal Board composition, justifying any differences with regard to the analysis made by the Board.

1.1. Qualitative composition of the supervisory body

Given the reference framework previously outlined, in formulating the recommendation for the shareholders who are to submit the lists of candidates regarding the professionalism and expertise deemed necessary for the purposes of the optimal composition of the Board of Directors of FinecoBank the latter wishes to emphasise the importance of:

- ensuring, also for the future, in the supervisory body, a balanced combination of profiles and experiences, favouring, in view of the challenges faced by the Bank, even greater expertise in terms of familiarity with the banking sector, strategic guidelines and risks and controls;
- promoting aptitude profiles capable of ensuring the optimal performance of the office by the directors;

⁽²⁾ FinecoBank was admitted to the MTA on 2 July 2014. From 1 April 2016, the Company became part of the share index FTSE-Mib.

- confirming a delegation system that qualifies the Chief Executive Officer as the only executive member of the Board of Directors, whilst ensuring that the latter is able to verify the exercise of the powers granted;
- guaranteeing the dialectic provided by independent directors, based upon the presence of an appropriate number of the latter in the composition of both the Board and the Committees;
- identifying the availability of time and resources as a key component to enable the effective conduct of the directors' roles within the Board and its Committees;
- further promoting the diversity requirements already present, as regards, in particular, international projection (irrespective of nationality) and gender diversity;
- ensuring the distribution of the Directors' seniority, also promoting the value of having members of different ages.

1.1.1. Professional experience requirements

As more specifically regards professional experience requirements - subject to compliance with what is provided in that regard by existing regulations - the Board believes that candidates to the Board of FinecoBank, shall have a good knowledge and experience of preferably two or more of the following areas:

THE BANKING INDUSTRY and techniques for assessing and managing risks connected with banking: gained through long-term experience in administration, management and control in the financial sector;

BUSINESS MANAGEMENT AND COMPANY ORGANISATION: gained through long-term experience in administration, management and control in companies or groups of a considerable economic scale;

READING AND UNDERSTANDING FINANCIAL STATEMENTS OF A FINANCIAL INSTITUTION: gained through long-term experience in administration and control in financial companies or in working as an independent professional or university lecturer;

CORPORATE AFFAIRS (auditing, compliance, legal affairs, etc.): gained through long-term experience in auditing or management control in large-scale companies or working as an independent professional or university lecturer;

FINANCIAL REGULATION: gained through specific, long-term experience in financial companies or supervisory bodies or in working as an independent professional or university lecturer;

GLOBAL DYNAMICS OF THE ECONOMIC/FINANCIAL SYSTEM: gained through considerable experience in research organisations, research departments of companies or international organisations, or supervisory authorities;

EXPERIENCE AND FAMILIARITY WITH MARKETS IN WHICH FINECOBANK OPERATES gained through studies or research at research organisations or through long-term business or professional activities at organisations, groups or companies (public or private), even at

international level.

INTERNATIONAL EXPERIENCE AND KNOWLEDGE OF INTERNATIONAL MARKETS RELATING TO FINECOBANK'S ACTIVITY, gained through studies or previous professional or academic experiences;

KNOWLEDGE AND EXPERTISE IN THE FIELD OF INFORMATION TECHNOLOGY, acquired through studies or practical professional experience in previous positions held.

The Board recommends that all the above areas be covered, as far as possible, by board members, because diversified experience and expertise ensure professional profiles that complement each other and foster dialogue and the effective operation of the Board.

Save for the above, the Board also recommends that when Shareholders make nominations, at least one candidate from each list meet the independence requirements pursuant to point 1.1.5 below - and have sufficient experience to sit on Control Bodies or Internal Controls and Risks Committees of banks, financial or insurance companies, so as to effectively contribute to the management of risks the bank is exposed to, which, as established by the Supervisory Regulations, is a function assigned to company bodies.

In order to allow the shareholders more easily to interpret the expertise held by each candidate, the Board requests that the appointment proposal is accompanied by curricula along with a declaration signed by the candidates themselves providing analytical evidence of the expertise accrued in the various areas listed above.

1.1.2. Aptitude profiles

The Board also recommends that due consideration is given to the following aptitude profiles as qualifying for the role of Member of the FinecoBank Board of Directors:

- goal orientation, collaboration and guidance skills, namely:
 - ability to analyse various issues from different perspectives and, therefore, to actively promote sharing and argumentation (premise of a collective and well-informed decision) by encouraging comparison and exchange of views and, to that effect, valuing all the skills and professionalism within the Supervisory body;
 - ability to enrich the Board's discussions with goal-oriented interventions aiming, in general, at pursuing the Company's development and business interests and at creating value for its Shareholders;
- decision-making ability, namely: ability to identify and pursue the issuer's strategic and business objectives, and to encourage such conduct.

1.1.3. Dedication, Time commitment & Number of offices

In light of the indications contained in the Supervisory Regulations, the availability of time and

resources to dedicate to performing the office, based upon the nature and quality of the same, is an essential requirement to be guaranteed by candidate directors, also in relation to the activities deriving from participation in the works of the board committees, for members thereof.

To this end, it should take into account the necessary time for the analysis of the documentation sent ahead of each board meeting, as well as commitment for attending offsite events, informal and/or induction sessions.

With regard specifically to FinecoBank, it is noted - by way of information – that in each financial year of the three year period 2014-2016, on average, 12 meetings of the Board of Directors, 17 meetings of the Audit and Related Parties Committee, 10 meetings of the Remuneration and Nomination Committee were held with an average duration of approximately 2 hours for meetings of the Board, approximately 3 hours for meetings of the Audit and Related Parties Committee and approximately 2 hours for the meetings of the Remuneration and Nomination Committee.

In view of the foregoing, the Board recommends that candidates accept the office only when they believe that they are able to dedicate the necessary time to that position, considering their commitments to other activities, work-wise or professional, as well as the conduct of offices covered in other companies.

In that regard, it is clear that the number of those offices represents a significant indicator of the time taken to fulfil the same. On the subject of the number of positions, the Board considers it should mention the provisions of the Directive CRD IV, where states that each Board member may only simultaneously occupy one of the following combinations of board member position (excluding positions in the organisation whose main objectives are not commercial):

- one executive position and two non-executive positions;
- four non-executive positions;

with the specifications that the following are considered as a single office as director: a) offices as executive or non-executive director covered within the same group; b) offices as executive or non-executive director covered within enterprises in which the entity has a qualified holding. ⁽³⁾

nevertheless without prejudice to regulations on the subject which could result from the issue of Ministerial Decrees to implement Article 26 of the Consolidated Banking Act (as amended by Legislative Decree 72/2015 to implement CRD IV in national law).

1.1.4. Incompatibility, ineligibility, forfeiture

Due to the multiple causes of incompatibility, ineligibility and forfeiture that may affect the application to and/or appointment in and /or keeping of the role - such as, by way of non-limiting example, those referred to in Article 2382 of the Italian Civil Code and Article 187-*quater* of Legislative Decree no. 58 of 24 February 1998, (Consolidated Finance Act, "TUF") - Shareholders are recommended to pay special attention to the interlocking prohibition with regard to roles cross-

⁽³⁾ Article no. 91 of the Directive CRD IV

cutting the credit and financial markets

More precisely, in compliance with Article 36 of Law 214/11 on “*personal cross-investments in the credit and financial markets*” and on the prohibition applicable to “*holders of positions in management, supervisory and control bodies and officers in the management of groups or companies operating on the credit, insurance and financial markets to undertake or perform equivalent functions in competing companies or groups of companies*”, the Board of Directors recommends, when making nominations, Shareholders select candidates that have been previously assessed for incompatibility as per the above-mentioned law.

1.1.5 Independence

In accordance with Consob Regulation no. 16191 of 29 October 2007 for listed companies subject to the management and coordination of another Italian company with shares listed on regulated markets, the Board of Directors, from the next term of office onwards, must comprise a majority of independent directors; this will comply with the principles of the Corporate Governance Code for Listed Companies and guarantee the correct and efficient operation of board committees.

In view of the above, the Board recommends that Shareholders' proposals for appointments are defined so as to guarantee that the majority of board members meet the independence requirements as of Article 3 of the Corporate Governance Code for Listed Companies.

Save for cases of incompatibility established by current regulations, the Board also believes that in order to ensure the independent judgement of board members of the Company, candidates should not hold - or take on - elected or government appointments at national and/or local level, or sit on organising committees or governing bodies of political organisations.

1.1.6 Gender quotas

Law no. 120 of 12 July 2011 introduced gender quotas for corporate bodies of listed companies in Italy. The Law amended Article 147 - *ter* of the Consolidated Finance Act (TUF), introducing Article 1 - *ter*, which requires compliance with a criterion establishing the gender composition of the board of directors, according to which one-third of seats are to be allocated to the least represented gender .

The Board therefore recommends that each shareholders list that expresses a number of at least 3 (three) candidates is composed of both genders, in order to grant the balance between gender to the minimum required by law and regulations.

1.1.7 Integrity requirements

Considering the importance of integrity, in terms of reputation, the Board has recommended that candidates appointed for the position of Director of FinecoBank in addition to the integrity requirements established in Ministerial Decree no. 161 of 18/03/1998, and Ministerial Decree no. 162 of 30/03/2000 (as provided by Article 147-*quinquies* of TUF):

- are not - and have not been in the past - in situations that, with regard to the economic activities and financial conditions of said candidates (or of the companies controlled by, significantly invested in or directed by the latter), are –or have been - even potentially likely to affect their reputation or involve significant losses for the Bank,
- not adopt conduct which, although not constituting an offence, is not compatible with the position of board director of a bank or may result in serious consequences for the bank's reputation.

2.2. Quantitative composition of the supervisory body

As mentioned in the introduction of this document, the Supervisory Regulations,, alongside general considerations in relation to the quantitative profile of the supervisory body, introduced stricter requirements in that regard, which it is worth noting here:

- in banks of large size or with complex operations, the maximum number of directors is no more than 15, except in exceptional cases, which must be analytically assessed and motivated;
- in banks of large size or with complex operations, the strategic supervision body must establish within it three specialist committees in relation to “nominations”, “risks” and “remuneration”;
- each of the aforementioned board committees must be composed, as a rule, of 3- 5 members, all non-executives and mostly independent. The committees must be differentiated from each other by at least one member and, where a director elected by the minorities is present, that director forms part of at least one committee.

With regard to the Company, Article 13 of the Articles of Association provides that the Board be constituted by a minimum of three to a maximum of fifteen members. At the time of appointment of the Board currently in office, the Shareholders' Meeting resolved to set at nine the number of its members.

The Board’s self-assessment – conducted in accordance with the Supervisory Regulations, and with Corporate Governance Code for Listed Companies to which FinecoBank adheres – it clearly emerged that the board composition set by Shareholders’ at the previous election is adequate. Specifically, all Directors agreed that the current size of the Board is just about optimal for facilitating discussions and subsequent decision-making. The Directors also took a favourable view on the current ratio between independent and non-independent Directors ⁽⁴⁾ and recommended that it be retained when the new board is appointed (in this regard, see also the indications in paragraph 1.1.5. above).

⁽⁴⁾ The current Board of Directors consists of majority of independent directors

The current number of Board members appears consistent with an adequate number of members of the committees to be set up under the Supervisory Regulations, taking into account the extent and significance of their operations. In this respect, the Board, in accordance with the Supervisory Regulations, recommended that three internal committees be established, instead of the two currently present (i.e. (i) an *Appointments Committee*, (ii) a *Remuneration Committee* and (iii) a *Risks and related Parties Committee*), hoping that each committee, as well as the three members that should constitute each of them, confirms the exclusive presence of independent directors pursuant to the TUF and the Corporate Governance Code.

In addition to the above, an increase of minority shareholders within the Board would seem desirable, raising up to two the total number of directors expressed by the minorities themselves. Supporting a governance system that strengthens the protection of minorities, with a view to achieve an interest common to all shareholders and in line with best practices in terms of composition of listed companies' Boards of Directors, is, in fact, well perceived.

In addition to this suggestion, it is also recommended that in both the quantitative and qualitative definition, when the list are presented, due consideration is given to all the aforementioned criteria, so as to ensure a balanced composition.

2. INDUCTION AND TRAINING

Lastly, following on from Bank of Italy recommendations concerning the need for banks to employ training programs to ensure that the members of governing bodies are in possession of appropriate technical skills and expertise, the Board advises that future members, especially those newly appointed, benefit from an appropriate induction course, continuing on from that which has just been given.

It is pointed out that for each of the last three-years of the term of office, FinecoBank organised a series of continuous training initiatives, among witch, those regarding regulatory frameworks and subjects of corporate importance and strategic value.

In this spirit it is also considered that the growing investment in training will constitute also in future both an important building block on the path to an understanding of today's increasingly more complex scenarios and also a valuable opportunity to create a sense of belonging to the Board with members knowledgeably filling their roles to the full.

