



**Recommendations on the Optimal Qualitative and Quantitative  
Composition of the Board of Directors**

*pursuant to the Order issued by the Bank of Italy on 11 January 2012,  
and Article 2 of the Corporate Governance Code.*

## **1. Foreword**

Corporate bodies are responsible for managing the risks to which banks are exposed, primarily through the timely identification of the sources of risk, their related trends, and effective risk containment.

Ultimate responsibility for most of these tasks lies with the Board of Directors which is solely accountable for strategic oversight and determines management policy in concert with the Chief Executive Officer and the General Manager.

For the Board of Directors to function properly, it must be made up of members with professional qualifications, skills and experience commensurate with their responsibilities, taking due account of the extent and nature of the Bank's business operations. The skill set, qualification and experience represented on the Board of Directors must be broad and diversified so that each Company director, both whilst acting as a member of a Board committee, or when contributing to decisions to be made by the Board as a whole, is in a position to ensure effective risk management in all the bank's and the banking group's areas of operation.

Moreover, Company directors must dedicate to the discharge of their respective functions time and resources commensurate with the complexity of their assigned tasks.

The supervisory instructions on corporate governance and organisation, issued by the Bank of Italy on 4 March 2008, place particular emphasis on these specific issues, and lay down implementing guidelines and principles to be followed by financial institutions in determining the composition of their respective Boards of Directors.

Within the same context, the Order issued by the Bank of Italy on 11 January 2012 further requires the Board of Directors to put forward recommendations regarding the qualitative and quantitative composition deemed to be optimal for supervisory and governing bodies, in a report duly supported by a statement of grounds, the requirements individual candidates for Board membership ought to meet in theory — in terms of professionalism as well as independence, where necessary — to ensure an ideal Board.

Pursuant to the supervisory instructions, the procedures through which Board appointments are made must be transparent and ensure adequate representation of the various components of the Company's base, on supervisory and governing bodies.

Similar goals are also pursued by the Corporate Governance Code for Listed Companies, adopted by the Corporate Governance Committee in March 2006, and recently amended in December 2011, which, in the comment to Article 2, puts forward a recommendation for the Board of Directors to express an opinion on the general and professional features, including experience, also in managerial positions, to be deemed desirable in Company directors and officers, taking due account of the dimensions, complexity and peculiarities of the Issuer's business operations, as well as the size of the Board of Directors in question.

Moreover, the above-mentioned Bank of Italy Order requires the results of the analyses undertaken to be brought to the attention of the Bank's shareholders in a timely manner so that they may take the recommended professional requirements into account when drawing up and subsequently voting on lists of candidates for Board membership.

## **2. Procedures for the appointment of the Board of Directors**

The procedures for the appointment of the Board of Directors are regulated under Article 15 of the Articles of Association, which provide for:

- (i) adequate representation of qualified minorities through list-voting mechanism, as well as
- (ii) adequate presence of independent directors, via the replacement mechanism, where necessary.

In order to ensure that qualified minorities are adequately represented on the Board, a list of candidates for election to Board membership by the relevant General Shareholders' Meeting may be submitted by any and all shareholders who, on their own or together with others, hold at least 2.00% of the Company's overall ordinary voting stock.

The lists must contain a number of candidates no higher than the number of members to be elected, listed by progressive number with a specific indication of the candidates who meet the statutory requirements of independence. Each candidate may appear on only one list, upon penalty of ineligibility.

Should only one list be submitted, all the members of the Board of Directors shall be appointed from the said list.

Should, on the other hand, two or more lists be submitted, the first candidates on the list obtaining the greatest number of votes, equal to eight ninths of the number of members of the Board of Directors determined by the Shareholders' Meeting — with rounding down in the case of split number — will be elected Board members. The remaining directors shall be drawn from the other lists, which may in no event be directly or indirectly linked to shareholders that have submitted or, otherwise, voted in favour of the list that received the highest number of votes.

To ensure that the Board of Directors comprises the required number of Independent Directors, Article 15 of the Articles of Association provides for a replacement mechanism that is triggered in the event the number of elected Board members who satisfy independence requirements is not sufficient to ensure compliance with the regulatory provisions applicable to the Company.

## **3. Role of the Board of Directors**

Under Banca Generali's corporate governance system, responsibility for strategic oversight vests with the Board of Directors which is accordingly in charge of approving resolutions on the Bank's strategic policy and monitoring the implementation of the latter over time.

Pursuant to Article 18 of the Articles of Association, in implementing the principles of the surveillance regulations, the Board of Directors is vested with full powers of ordinary and extraordinary management of the Company. It has the authority to deliberate on all matters pertaining to the corporate purpose that are not reserved to the exclusive competence of the Shareholders' Meeting. Moreover, Article 18 of the Articles of Association vests the Board of Directors with exclusive decision-making authority over all strategic matters, including determining the general management policy and the approval of strategic programmes, guidelines and transactions as well as the Company's industrial and financial plans and transactions entailing a significant impact on the Company's balance sheet, profit and loss account or cash flow.

Under the Articles of Association, the Board of Directors is exclusively qualified to deliberate on matters pertaining to the setting up or closing down of secondary offices, indication of which Directors may represent the Company and use the company signature, mergers (in the cases permitted by law), amendments to the provisions of the Articles of Association that no longer comply with new and mandatory regulatory provisions.

Moreover, pursuant to the current regulatory framework governing companies providing investment services, the Board of Directors is also tasked with drawing up corporate policies, measures, processes and procedures aimed at containing risks and ensuring financial stability as well as sound and prudent management.

#### **4. Composition of the Board of Directors – Number of Board members**

The composition of the Board of Directors plays a central role in the effective discharge of the tasks entrusted to it pursuant to law, supervisory instructions and the Articles of Association.

The number of Board members must therefore be commensurate with the size and complexity of the bank's organisational structure, so as to ensure that the Board is capable of effectively overseeing all corporate operations from the standpoint of management and supervision. However, the Board of Directors must not be made up of too large a number of members.

Pursuant to Article 15 of the Articles of Association, the Company is managed by a Board made up of no less than 7 (seven) and no more than 12 (twelve) members, appointed by the Shareholders' Meeting after determination of the number of members.

Members of the Board of Directors hold office for a maximum of three financial years. Their term ends on the date of the meeting called to approve the financial statements of the last financial year of said term and they are eligible for reappointment. In the case of appointment during the period of office, the mandate of the newly appointed members will expire with that of members already in office.

On 21 April 2009, the General Shareholders' Meeting established that throughout the financial years 2009, 2010 and 2011, the Bank's Board of Directors was to be made up of 10 members.

The size of the Bank's Board of Directors is in line with the system-specific data recently compiled by the Bank of Italy. As a matter of fact, a recent analysis of corporate governance, conducted by the Bank of Italy on a sample of 258 banks and holding companies of banking groups, revealed that in light of the their respective instruments of incorporation the mean number of Board members of corporations in the said category, amounted to 12.5, and that for the 90th percentile of banks ranked by "number of Board members", the said mean number amounted to 15 in the case of banks with assets valued at less than 3.5 billion euros, 17 for banks with assets valued at between 3.5 billion euros and 20 billion euros, and 21 for banks with assets valued at over 20 billion euros. (Source: *Bank of Italy – Analysis of amendments brought to the Articles of Association of banks to ensure compliance with the supervisory instructions on corporate governance: system-wide trends and best practices*).

The dimensions of the Company and the Group, as well as the specific features of their sectors of business, require the Board of Directors to comprise a wide variety of skills, experience, general knowledge and specialist know-how pertaining to developments in both, the broad macro-economic context, and more specifically, the fields of banking and finance.

In determining the optimal number of members to be appointed to the new Board of Directors, due account must also be taken of the Bank of Italy's express general recommendation to ensure that the strategic supervisory body is not so large as to negatively impact its functioning.

In consideration of all of the above, and taking due account of the bank's dimensions, a Board of Directors comprising no less than nine and no more than ten members appears optimal, since it would be endowed with all the professional skills and experience required to ensure efficient corporate management, without proving too unwieldy to function effectively.

## **5. Composition of the Board of Directors – Categories of Directors**

Since Banca Generali is subject to management and coordination by another Italian company with shares listed in regulated markets, the Board of Directors must consist of a majority of independent directors, pursuant to the provisions of Article 37, paragraph 1, letter d), of the Regulation adopted by CONSOB in Resolution No. 16191 of 29 October 2007, as amended.

Consequently, in light of the recommendation for the Board to be optimally comprised of nine or ten directors, five or six of the latter must qualify as independent directors to be tasked with overseeing corporate management in exercise of their independent judgement, and accordingly, contributing towards ensuring that business operations are conducted in the interest of the Company and in accordance with the principles of sound and prudent business administration.

With regard to the assessment policies to be followed in evaluating the independence of Company directors, in accordance with past practice in respect of previous Board appointments, the Board will assess the independence of its members, placing greater emphasis on substance than on form, and, in any event, deeming to be independent all those directors who meet the requirements of independence set forth in Article 148, paragraph 3, of Legislative Decree No. 58/1998.

Furthermore, pursuant to the provisions of the Corporate Governance Code for Listed Companies, as a general rule, a director will not be considered independent if he/she:

- a) directly or indirectly, including through subsidiaries, trust companies and third-party intermediaries, controls the Company or is in a position as to exert a significant influence over the same, or is party to a shareholder agreement under which one or more parties are afforded control of or a significant influence over the Company;
- b) is, or has been in the preceding three financial years, a key executive of the Company or a strategic subsidiary thereof, or a company subjected to common control with the Company, or a company or body that, even together with others on the basis of a shareholder agreement, controls the Company or is in a position as to exert a significant influence over the same;
- c) directly or indirectly (for instance through subsidiaries or companies in which he serves as a key executive, or professional partnerships or consultancy firms in which he/she is a partner) maintains, or has maintained in the previous financial year, significant commercial, financial or professional relationships with:
  - the Company or one of its subsidiaries or one or more of its key executives;
  - a person or party that, either alone or together with others pursuant to a shareholders' agreement, controls the Company or — in the case where the said party is a legal entity or body corporate — with the key executives thereof;
  - one or more of any of the aforesaid persons and/or parties, as an employee, at any time during the previous three financial years;

- d) currently receives, or has received in the previous three financial years, from the Company or a subsidiary or corporate parent thereof significant compensation (in addition to the “fixed” emoluments due to non-executive Directors of the Company and the remuneration for attendance at committees) including as part of stock option or other plans linked to corporate performance;
- e) has been a Director of the Company for more than nine years during the past twelve years;
- f) is an Executive Director in another company in which an Executive Director of the Company also holds a directorship;
- g) is a shareholder or Director of a company or entity belonging to the network of the company or firm appointed as the Company’s Independent Auditors;
- h) is a close family member of a person in one of the situations described above.

For the intents and purposes of the above, the “key executives” of a corporation or entity shall include: the Chairman of the entity, or the Chairman of its Board of Directors, as well as executive directors and key management personnel of the company or entity considered.

Furthermore, pursuant to the rules set forth in Article 37 of the CONSOB Resolution No. 16191 of 29 October 2007, as subsequently amended and extended, it is provided that no person who sits on the Board of Directors of a company or body engaging in management and coordination activities in respect of the Company or on the Board of Directors of any listed entity controlled by such company or body may be considered an independent director of the Company.

The Rules on the functioning of the Board of Directors further require the Board of Directors to be made up of a majority of non-executive directors who are to play the role of counterweight to the bank’s executive directors and management, and promote internal deliberation and debate, by enriching panel discussions with input based on their specialist know-how and experience, whilst at the same time endeavouring to ensure that all Board decisions are not only well-informed and approved following due reflection but also always in line with the Company’s interests.

The Company’s non-executive directors may in no event be deemed to include:

- (i) the Managing Directors and Chairmen of the Company or a strategic subsidiary thereof, in the case where the same are personally vested with delegated powers or play a specific role in shaping corporate policy and strategy;
- (ii) Directors who also serve as executives within the Company or within a strategic subsidiary thereof, or even within the Parent Company, in the case where the position also involves Banca Generali.

## **6. Composition of the Board of Directors – Gender representation**

Pursuant to Article 2 of Law No. 120/2011 (so-called “Pink Quota” Law) in force since 12 August 2011, listed companies are required to ensure that at least one third of the seats on their respective governing and control bodies are filled by persons who are not of the same gender as the individuals filling the other seats on each of the said bodies. From the standpoint of implementation, the law provides that from the first renewal of any and all the aforesaid governing and/or control bodies whose term is set to expire after 12 August 2012, at least one fifth the seats must be filled by persons who are not of the same gender as the individuals filling the majority of the seats on the said newly appointed governing and/or control bodies.

Accordingly, the Board of Directors to be appointed by the scheduled General Shareholders' Meeting is not subject to the above-mentioned law.

Unreservedly sharing the grounds and reasons underlying the enactment of the aforesaid law, however, the Board of Directors feels that optimal Board membership can only be achieved by already opting, at this juncture, on a purely voluntary basis, to take concrete steps towards ensuring gradual compliance with the statutory requirements in question.

As a result, with a view to ensuring the optimal composition of the new Board, the outgoing Board of Directors feels that a concrete step ought to be taken in the direction of gender equality, with the assignment of at least one seat on the new Board to a person who is not of the same gender as the other directors.

## **7. Composition of the Board of Directors – Professional qualifications and experience**

In order for the Board of Directors to discharge its duties properly, it must consist of persons who (i) are fully aware of the powers and obligations inherent in the functions that each of them is called upon to perform, (ii) possess professional expertise suited to the positions they fill and appropriate to the bank's operational characteristics and size, (iii) provide skills spread amongst all members, diversified in such a way that each member may contribute to ensuring effective risk management in all areas of the bank, and (iv) dedicate adequate time and resources to the overall nature of their offices.

In qualitative terms, therefore, the skill set and professional know-how and experience represented on the Board of Directors must be commensurate with the dimensions and complexity of the bank and banking group's business operations, it being further understood that all Board members must dispose of the time and resources required to effectively discharge their functions.

As a result, the professional profiles and skill set represented on the Board must be in line with the banking group's business operations, and Board members must be selected with a view to endowing the Board with the specific specialist know-how required to ensure effective and conscientious corporate management and provide for adequate reflection, and, therefore, informed decision-making by the Board of Directors.

A Board comprising professionals from a broad variety of backgrounds offers the added advantage of allowing for specific tasks incumbent on the Board or Board Committees to be entrusted to pertinent sector specialists.

In light of the above, and as required under Article 26 of Legislative Decree No. 385 of 1 September 1993 and related implementing provisions (Regulation 161 issued by the Ministry of the Treasury, the Budget and Economic Planning on 18 March 1998), all Board members must be selected on the basis of professional qualifications and know-how and must have accumulated at least three years of working experience as:

- (i) company directors, control or executive managers;
- (ii) professionals working on matters pertaining to credit, finance, asset management, insurance or other fields related to the bank's business;
- (iii) university level lecturers or professors in law or economic fields;
- (iv) departmental heads, executive managers or key management personnel at public administrations or undertakings operating in areas related to the credit, finance, brokerage or insurance sectors, or at public administrations or undertakings that are not related to the afore-

mentioned sectors, provided that their functions include the management of economic and financial resources.

The persons appointed as Chairman of the Board of Directors and Chief Executive Officer must have acquired at least five years' experience in the above fields and/or positions.

Moreover, pursuant to the provisions of Article 26 of Legislative Decree No. 385 of 1 September 1993 and Article 147-*quinquies* of TUF, Board members must meet the requirements of personal integrity imposed on members of supervisory organs under Regulation 162 issued by the Ministry of Justice on 30 March 2000, as well as the requirements pertaining specifically to bank executives, under Regulation 161 issued by the Ministry of the Treasury, Budget and Economic Planning on 18 March 1998.

To form an opinion on the optimal skill set of the bank's governing body, the outgoing Board of Directors drew up a list of the professional requirements that individual company directors would have to meet to enable the Board as a whole to optimise its performance. The above-mentioned list of professional requirements was drawn up taking due account of regulatory provisions, the Guidelines on Internal Governance (GL44) issued by the European Banking Authority (EBA) on 27 September 2011, the recommendations set forth in the Corporate Governance Code for Listed Companies in respect of appointments to various committees, as well as system-wide best practices.

Given the crucial functions — of promoting internal debate, implementing appropriate checks and balances, and duly countervailing the authority of the Chief Executive Officer and the other executive directors — inherent to such office, the chairmanship of the Board of Directors ought to be invested in a person who has accumulated adequate professional experience as a bank director.

In light of the peculiarities of the bank and banking group's business operations, the optimal solution would entail assigning the position of Chief Executive Officer to a person with experience not only in administrative or managerial capacities within a bank or banking group, but who has also acquired specific knowledge in the field of financial advisory.

Ideally, the other Board members would be professionals with a wide variety of skills, experience, general knowledge and specialist know-how pertaining to developments in both, the broad macro-economic context, and more specifically, the fields of banking and finance.

In light of the above, the directors must have accumulated adequate experience:

- (i) in business administration in the banking, financial or insurance sectors,
- (ii) in the management of service-sector companies,
- (iii) in marketing,
- (iv) in finance,
- (v) in corporate oversight or risk management,
- (vi) as a lecturer or professor of law, economics, or subjects related to financial markets.

Moreover, in order to ensure the effectiveness of the Board Committees to be appointed, it would be advisable for the Board of Directors to comprise:

- (i) at least one independent director with appropriate experience in finance or remuneration policies, and
- (ii) at least one independent director with appropriate experience in accounting and finance, or risk management.



In light of the foregoing optimal composition of the Board of Directors in terms of the number and professional qualifications and experience of its members, it is the considered opinion of the outgoing Board of Directors that, to enable the new Board of Directors to function most effectively, the seats on the same must be filled by persons with specific professional qualifications and experience in fields outlined above.

To ensure compliance with the Order issued by the Bank of Italy on 11 January 2012 in respect of the corporate governance and organisation of Banks, it appears advisable for the information statement on the personal and professional features of each of the candidates for Board membership to be filed together with the related lists pursuant to Article 15, paragraph 9 of the Articles of Association, to include a curriculum vitae allowing for an assessment of the candidate in terms of the extent to which he or she could contribute towards ensuring that the Board is endowed with the optimal professional skill set described above.

With regard to the age of directors, in light of best practices that are gaining ever more acceptance throughout the sector, the outgoing Board of Directors recommends ensuring that, at the time of their appointment, all executive directors and all non-executive directors do not exceed 65 and 70 years in age, respectively.

## **8. Composition of the Board of Directors – Cumulation of appointments**

All Board members must devote to the duties of their office the time and effort necessary to ensure the diligent and effective discharge of their functions, and all the more so, if they are vested with specific executive tasks or otherwise appointed to Board Committees.

Appointments to the Board of Directors may therefore only be accepted after the appointees have determined that they are in a position to devote the time required to ensure the diligent performance of their tasks and duties as Board members, taking due account of their other professional and work-related commitments, in light of the number of directorships or auditorships they may hold within other corporations listed on regulated markets (including abroad) and in financial institutions, banks, insurance companies and large corporations, as well as their other professional activities, with special reference to positions entailing greater involvement in routine, day-to-day business management.

Towards such end, pursuant to the Rules governing the functioning of the Board of Directors, the number of appointments to the Boards of Directors and/or Boards of Auditors of other corporations a Company Director may simultaneously hold whilst considering to properly discharge his duties towards the Company has been determined — in light of the regulations in force from time to time — as illustrated in the table below:

	Listed companies <sup>(1)</sup>			Financial or insurance companies and banking inst.			Large corporations <sup>(2)</sup>		
	Executive Director	Non- executive Director	Statutory Auditor	Executive Director	Non- executive Director	Statutory Auditor	Executive Director	Non- executive Director	Statutory Auditor
Executive Directors	0	5	0	0	5	0	0	5	0
Non- executive Directors	2	5	2	2	5	2	2	5	2

In determining the total number of companies in which appointees to the Company's Board of Directors hold directorships or auditorships, no account may be taken of companies belonging to the Company's Group, with the exception of corporations listed on regulated markets (including abroad) and in financial institutions, banks, insurance companies and large corporations. Appointments to the corporate organs of several companies belonging to a single corporate group, other than the Company's Group, are, in practice, generally considered as a single appointment, with the exception of corporations listed on regulated markets (including abroad) and in financial institutions, banks, insurance companies and large corporations.

Milan, 13 March 2012

THE BOARD OF DIRECTORS

---

<sup>(1)</sup> If a financial institution, insurance company or bank is listed on the stock exchange or qualifies as a "large corporation", a directorship within a legal entity belonging to more than one of the aforesaid categories, counts as a single directorship for the intents and purposes of calculating the total number of directorships held.

<sup>(2)</sup> Companies with no less than two hundred employees for no less than a year.