

Policy governing the  
control of risk activities  
and conflicts of interest  
in the face of associated  
parties

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## **1 Objectives and document management**

### **1.1 Document objectives**

Banca IFIS carries out its business activities in compliance with national and EU regulations and, inspired by the fundamental principles of fairness and consistency for achievement of the best financial results whilst respecting company ethics, also in adherence to regulations on administrative responsibility, as per Legislative Decree 231/2001.

Being aware that the proximity of certain people to the decision-making centres of the Parent company, and Subsidiaries under its supervision and control, can compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with these parties, the Bank, as the Parent company, wishes to adopt procedures to prevent both the risk of distortions/misrepresentations in the resource allocation process and the risk of financial exposure that is not adequately measured and presided over.

This Policy outlines the approach that the Bank, as the Parent company and in execution of its usual business activities, intends to follow in order to effectively manage the risks that may lead to conflicts of interest in transactions with related parties and connected subjects.

The Policy is adopted pursuant to:

- (i) Article 2391-bis of the Italian Civil Code and the regulations containing provisions relating to transactions with related parties issued by Consob with Resolution no. 17221 of 12 March 2010 and subsequently amended by Resolution no. 17389 of 23 June 2010;
- (ii) Title V, Chapter 5, of the 'New prudential supervisory provisions for banks' (Circular no. 263 of 27 December 2006, as amended following Update no. 9 of 12 December 2011) concerning risk activities and conflicts of interest in the face of associated parties;
- (iii) The Legislative Decree of 1 September 1993: The 1993 Banking Law, with particular regards to Articles 53 and 136;
- (iv) Article 2391 of the Italian Civil Code, concerning the interests of Directors;
- (v) Article 2391-bis of the Italian Civil Code, in relation to transactions with related parties;
- (vi) The International Accounting Standards for the purpose of drawing up the Annual and Half-yearly financial reports (in accordance with IAS 24), which include specific accounting of transactions with related parties;
- (vii) Legislative Decree no. 58 of 24 February 1998: The Consolidated Law on Finance.

### **1.2 Recipients of the document**

This document has been diffused, to the extent it is applicable, to all organizational units within the Bank and the Subsidiaries under its supervision and control.

### **1.3 Document management**

This Policy has been adopted by means of a Board resolution of the Board of Directors, upon receipt of the analytical and justified favourable opinion of the Parent company's Financial Reporting Officer, the Risk Management and Control Committee (only its Independent directors) and the Board of Statutory Auditors.

Upon occurrence of significant changes in the strategic orientation of the Group or, at the very least, every three years, the Parent Company's Board of Directors reviews this Policy with the help of the Risk Management and Control Committee and the Board of Statutory Auditors.

The parties responsible for management of this document are:

Parent Company					Companies of the Group
Drafting	Validation	Approval	Diffusion	Filing	Implementation
<u>Responsible:</u> Organizational Dept.	C.E.O.				
<u>Operational support:</u> Risk Management Compliance Corporate Affairs	Risk Management and Control Committee Board of Statutory Auditors	Board of Directors	Organizational Dept.	Organizational Dept.	Board of Directors
<u>Sharing:</u> General Manager	Chief Reporting Officer				

## 1.4 Definitions of terms used

**Banking group:** Banca IFIS SpA and the companies controlled by the Banking Group.

**Managers of strategic importance:** Head of the **Trade Receivables BU**, the Chief Financial Officer and the Chief Risk Officer.

**Corporate officers:** Directors, Statutory Auditors and the General Manager.

**Transactions:** Transactions with associated parties that involve the assumption of risk, the transfer of resources, services or obligations, with or without exchange of a consideration, including merger and spin-off transactions (**excluding strictly partial spin-offs/splits, in that the transaction involves all parties equally**). The definition of transactions with related or associated parties is also further specified in the Procedure governing management of transactions with associated parties.

**Related parties:** Group related parties are:

- The companies over which the Bank or Subsidiaries exercise, directly or indirectly (through subsidiaries, fiduciaries or nominees), control (also joint control) or significant influence;
- Joint ventures in which the Bank and/or Subsidiaries are part<sup>1</sup>;
- A stakeholder and/or a subject, other than a stakeholder, who can, alone, nominate one or more members of the Board of Directors, also through agreements stipulated in any way or statutory provisions which have as their purpose or effect the exercise of such rights or powers;
- Corporate officers of the Bank and Subsidiaries under its supervision and control;
- Managers of strategic importance in the Group;
- The complementary pension fund, collective or individual, Italian or foreign, established in favour of the Bank's employees or any entity related to it.

**Non-financial related party:** a related party who, directly or through subsidiaries, mainly carries out corporate activities that are non-financial, as defined in the regulations governing equity interests of banks and banking groups.

**Connected parties:** Parties that are connected subjects to the related parties over-leaf are:

<sup>1</sup> As far as related parties are concerned, IAS 24 accounting standard sets out as follows:

An entity is related to a reporting entity if any of the following conditions applies:

- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- Both entities are joint ventures of the same third party;
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.



- a) Subsidiaries<sup>2</sup> controlled by the stakeholder referred to previously in point c), by the Corporate officers mentioned in point d) or by the Managers of strategic importance as in point e);
- b) Close family members of the persons referred to in points c), d) and e);
- c) Companies over which such close family members exercise control or significant influence.

**Associated parties:** Associated parties are all the related parties and those parties connected to them.

**Close relatives:** A related party's relatives (not more than once removed) and their spouse or live-in partner and children. Relatives not more than once removed include grandparents, parents, children, brothers and sisters. Also falling under the category of 'close relatives' are the dependants of the related party and those of his/her live-in partner. In the case of parties associated with the Subsidiaries of the Group, where there are proven difficulties in obtaining information, the Parent company may exclude relatives that are once removed and limit analysis to immediate family only. Should this be the case, the Parent company must inform the Bank of Italy.

**Stakeholder:** A person who owns at least 10% of the voting rights or share capital.

**Control:** Pursuant to Article 23 of The 1993 Banking Law: the cases provided for in Article 2359, first and second paragraphs of the Italian Civil Code; Control through contracts or statutory provisions having as their purpose or effect the power to exercise management and coordination; Cases of control through dominating influence. Also falling under the category of control are cases of joint control, understood as being the contractually agreed sharing of control of a business. In this case, the following are considered controllers: a) Subjects who have the ability to exercise decisive influence over the company's financial and operational strategic decisions; b) The other parties who are able to influence management of the company due to shareholdings, agreements stipulated in any way and/or statutory provisions having as their purpose or effect the ability to exercise control. Control can also be exercised indirectly, through subsidiaries, fiduciaries, bodies or nominees. Companies that are controlled by entities that are, in turn, subject to joint control are not considered indirectly controlled.

**Significant influence:** the power to participate in determining the financial and operating policies of an investee enterprise, without having control. Significant influence is presumed in cases of possession of a shareholding interest, direct or indirect, equal to or greater than 20% of the share capital or voting rights in the Ordinary Shareholders' Meeting or equivalent body of the investee company, or 10% in the case of companies with shares listed on regulated markets.

Where possession of a shareholding interest is below the aforementioned threshold, significant influence can be found in one or more of the following circumstances:

- i. Representation of the investee company in the Board of Directors; The mere fact of having one member of the Board of Directors representing the minority does not constitute in itself significant influence, as provided for in the regulations governing issuers of shares listed on regulated markets;
- ii. Participation in the decision-making process, including participation in decisions concerning dividends or other types of profit distribution;
- iii. The existence of significant transactions between the stakeholder and the investee company;
- iv. The interchanging of managerial personnel;
- v. The provision of essential technical information.

Significant influence also occurs indirectly, through subsidiaries, fiduciaries, bodies or nominees. Companies that are controlled by entities that are, in turn, subject to joint control are not considered indirectly controlled.

**Associated companies:** Associated companies are companies in which another company exercises significant influence, as per Art. 2359 of the Italian Civil Code.

**Supervised institutions:** Investment firms, Italian and foreign asset management companies, electronic money institutions (Imel), financial intermediaries enrolled in the Register established by Article 106 of the 1993 Banking Law and payment institutions which are part of a banking group and have individual funds exceeding 2% of the Group's overall consolidated own funds.

**Joint venture:** A joint venture is a contractual arrangement whereby two or more parties undertake a business activity and exercise joint control.

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<sup>2</sup> Including non-corporate business entities.

**Executive directors:** The following qualify as the Issuer's Executive directors (the Corporate Governance Code - Application criteria - 2.C.1):

- i) The Directors with executive roles in the Issuer or in its subsidiaries who are of strategic importance, including the Chairmen when these have been granted individual management powers and when they play a specific role in developing corporate strategies;
- ii) The Directors vested with management duties of strategic importance within the Issuer or its subsidiaries, or in the controlling company when the office concerns the Issuer;
- iii) The Directors who are members of the Issuer's Executive Committee (Banca IFIS has not set up such a committee), when there is no C.E.O. or when participation in the Executive Committee, taking into account the frequency of meetings and the topics of the relevant resolutions, entails the systematic involvement of its members in the Issuer's usual operations.

The assignment of deputy powers or powers covering emergencies only to Directors without management powers does not, in itself, mean such Directors should be considered Executive directors, unless such powers are exercised frequently.

In line with the definition provided by the Corporate Governance Code, Bank of Italy's Circular no. 285/13, Title IV, Chapter 1, also gives the following definition of an Executive director:

- a) Directors who are members of the Executive Committee, or are mandated persons or carry out company management functions, even if only by de facto;
- b) Directors who hold executive positions in the Bank, meaning those with the task of supervising certain business management areas, and those who are frequently present in the company and who acquire information from the bank's operating structures, participating in management committees and reporting to the Board of Directors on their activity;
- c) Directors carrying out the roles in a) or b) above within any of the companies of the Group.

**Non-executive directors:** Are all those Directors that do not exhibit the characteristics referred to in paragraph 2.C.1 of the Corporate Governance Code. Specifically, they take part in decisions made by the entire body and are called upon to play an important role involving dialectics and monitoring the choices made by the executive members. The authority and professionalism of Non-executive directors must be appropriate to the exercising of this important role, crucial to sound and prudent management of the Bank: it is therefore essential that the Non-executive directors' team also possess and express adequate knowledge of the banking business, the dynamics of the economic and financial system, banking and financial regulations and, above all, methods of risk management and control.

The presence of an adequate number of Non-executive directors with well-defined roles and responsibilities, who can counterbalance the roles of Executive directors and the Bank's management in an effective manner, promotes discussion within the body to which it belongs, especially when both strategic supervision and management roles have been attributed to a single body.

The Non-executive members, not being personally involved in the operational management of the company, can provide independent and unbiased judgment on proposed resolutions.

**Independent directors:** The Corporate Governance Code - Article 3: **Independent directors - Principles**

- a) 3.P.1. An adequate number of Non-executive directors are independent, meaning they do not have, neither have they had recently, relations with the Issuer or persons linked to the Issuer that are significant enough to influence their independent judgment, even indirectly.
- b) 3.P.2. The independence of Directors is assessed by the Board of Directors after appointment and then on an annual basis. The results of these assessments are published for the market.

The Consolidated Law on Finance, Art. 147 Ter c.4 - ..., states that at least one member of the Board of Directors, or two if the Board of Directors is composed of more than seven members, must meet the independence requirements established for Statutory Auditors Art. 148 c.3 ...

The Consolidated Law on Finance, Art. 148 c.3, states that the following persons may not be elected as Auditors and, where elected, shall be disqualified from office:

- Persons who are in the conditions referred to in Article 2382 of the Italian Civil Code;

- Spouses, relatives and the like up to the fourth degree of kinship of the Directors of the company, spouses, relatives and the like up to the fourth degree of kinship of the Directors of the companies it controls, the companies it is controlled by and those subject to common control;
- Persons who are linked to the company, the companies it controls, the companies it is controlled by and those subject to common control or to Directors of the company or persons referred to in subparagraph *b*) by self-employment or employee relationships or by other relationships of an economic or professional nature that might compromise their independence.

## 2 Business sectors and types of financial transactions in which conflicts of interest may occur

The main business activities of the Group are as follows:

- Factoring, which is a service that offers financial support and management of receivables primarily for Small and Medium Enterprises. In particular, the activities are carried out:
  - As far as concerns domestic business, by the **Trade Receivables BU**;
  - As for international business, by internal structures of the Parent company (BU International) and the Subsidiary, IFIS Finance;
  - As regards the outright purchase of receivables from local NHS companies and hospitals, by BU Pharma.
- Purchase and management of distressed retail loans;
- Granting loans to employees or retired employees to be repaid through the assignment of one-fifth of the salary or pension or payment delegation;
- Purchase and management of tax receivables;
- Granting of credit and/or short or medium/long-term loans, mainly to small and medium-sized enterprises with cover by the National Guarantee Fund (**MCC**), and to the pharmaceutical sector;
- On-line funding collection through the rendimax savings account and the contomax current account. Whilst not amounting to a specific corporate business line due to the type of activity and current size, it can most definitely be considered one of the Parent company's operating segments;
- Specialist financing to support company growth (BU Corporate Finance);
- Investments and disinvestments in performing non-financial companies and in shareholdings in **interposed bodies**;
- New financing for Italian companies who have just recovered, or are still recovering, from financial problems;
- Financial and operating leases.

In the context described above, for the purpose of respecting provisions concerning related parties and parties connected to them, potential conflicts of interest exist in the:

- Granting of credit to businesses;
- Investments and disinvestments in performing non-financial companies and in shareholdings in **interposed bodies**;
- New financing for Italian companies who have just recovered, or are still recovering, from financial problems;
- Purchase and management of tax receivables and financial and operating leases (even if less probable);

Potential conflicts of interest may also arise in the scope of expenditure commitments for the purchase of goods and services (purchasing cycle).

The Bank considers the other operating areas:

- On-line collection of funds;
- Specialist financing transactions;
- The purchase and management of distressed retail loans;
- The granting of loans to pharmacies;
- The granting of loans to employees or retired employees to be repaid through the assignment of one-fifth of the salary or pension or payment delegation;

as being unlikely to be subject to the onset of potential conflicts of interest. This is due to the unique type of relationship in place, on the one hand, highly standardized in the case of on-line collection, and, on the other, limited to specific customer types in the last four cases. It should also be noted that the salary/pension-backed loans involve amounts well below the minimum threshold of 250,000 Euros and are hence exempt.



### 3 Limits of prudential supervision

The assumption of risks with associated parties must be within the following limits, both with reference to consolidated regulatory capital and to individual regulatory capital.

#### Consolidated limits

On a Banking Group level, the assumption of risk in the face of associated parties must be within the following limits<sup>3</sup> for consolidated regulatory capital:

	Corporate officers	Majority stakeholders or those having significant influence	Smaller stakeholders and parties who are not stakeholders	Persons subject to control or significant influence
<b>Established limits</b>	5%	Non-financial related parties		
		5%	7,50%	15%
		Other related parties		
		7,50%	10%	20%

#### Individual limits

These apply to both the Bank and to Subsidiaries of the Banking Group. In compliance with consolidated limits, the Bank and its Subsidiaries can assume risk in the face of the same set of associated parties - regardless of the financial or non-financial nature of the related party - within the limit of 20% of regulatory capital calculated on an individual basis. For calculation of the individual limit, the Bank and its Subsidiaries consider their own risk activities in the face of associated parties identified at group level.

	Associated parties
<b>Individual limits</b>	20%

#### Exceedances

Compliance with prudential limits for risks in the face of associated parties must be ensured on an ongoing basis. If one or more limits are exceeded for reasons independent of the Bank or the Parent company's will or fault (e.g. the related party becomes such only after the business relationship has been initiated with this party), the risk activity must return within the limits as soon as possible. To this end, Banca IFIS prepares, within 45 days of the limit being exceeded, a recovery plan proposed by the C.E.O. and approved by the Board of Directors with a green light from the Board of Statutory Auditors. The repayment plan is submitted to the Bank of Italy within 20 days of approval, together with the minutes bearing the Board's resolutions. If the limits are exceeded in the case of a related party by virtue of a stake held in the Bank or the Banking group, the powers associated with the shareholding are suspended. Banca IFIS assesses the risks linked to operations with associated parties (legal, reputational or of conflict of interest), if relevant to business operations, as part of the internal capital adequacy assessment process (ICAAP), in accordance with the provisions of Title III, Chapter 1. Specifically, in cases where prudential limits are exceeded for the aforementioned reasons, in addition to the initiatives envisaged in the repayment plan, the exceedances in the process of calculating overall internal capital are also taken account of.

<sup>3</sup> Risk assets connected to transactions between companies of the Banking Group are excluded from the consolidated limits (Circ. 263 - Title V – Chapter 5, paragraph 2)

## 4 Levels of risk tolerance

Banca IFIS establishes levels of risk propensity consistent with the strategic profile and the organizational characteristics of the Bank and the Group as a whole. Risk tolerance is also defined in terms of maximum acceptable amount of risk in the face of associated parties in relation to regulatory capital, with reference to total exposures against total associated parties.

Specifically, the indicators and thresholds aimed at monitoring transactions with related parties and connected subjects, as well as the escalation process in cases where such thresholds are exceeded, are defined by the Risk Management Office within the Risk appetite framework.

## 5 Organizational processes for managing transactions with associated parties

With regard to organizational processes governing transactions with associated parties, please refer to the provisions of the relevant procedure<sup>4</sup> and the specific process documents appropriately drawn up for each of the operational areas previously mentioned.

It is also reiterated that:

- In order to support the control activities in question carried out by the Risk Management and Control Committee, the Board of Statutory Auditors and the Organizational Control Units (both 2nd and 3rd level), the organisational unit responsible, on a quarterly basis, produces and distributes to the members of these bodies a management report from which the transactions that the Bank and its Subsidiaries have carried out with associated parties during the reporting period can be deduced;
- In principle, initial responsibility for checking whether the subject involved in a proposed transaction is or is not an associated party lies with the organizational unit the transaction originates from. The Bank, depending on the business process in question, has also adopted further controls, including IT ones, allowing verification of whether the counterparty of a transaction is connected or not;
- The amount against which to determine the significance of a transaction for the purchase of goods and services is determined by accumulating the amount of this transaction with all other purchases already made from the same connected supplier as from 1 January each year. The decision to grant or review credit, however, is always taken considering the Bank's outstanding debt with the associated party.

With regard to IT aspects, the different management systems adopted for the specific business areas in which the Bank operates foresee special dedicated features for the recognition of associated parties (please see Annex 4 of the Procedure for the management of transactions with associated parties).

The list of these counterparties is updated by the Corporate Affairs Office which, in the case of any variations, promptly informs the Registry Office of such changes so that the necessary adjustments may be made.

## 6 Principles regarding exemptions

In compliance with current regulatory provisions<sup>5</sup> and as better specified in the aforementioned procedure, the Bank makes use of specific exemptions (general or partial) in the following cases:

- Transactions carried out with or between Subsidiaries;
- Transactions relating to the remuneration of Corporate officers and Strategic managers;
- Transactions to be carried out on the basis of instructions issued by the Supervisory Authority;
- Ordinary operations;
- Transactions involving insignificant sums.

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<sup>4</sup> Procedure governing management of transactions with associated parties;

<sup>5</sup> The procedural application of stated exemptions is laid out in the Procedure governing management of transactions with associated parties.

## **7 Control processes for transactions with associated parties**

### Risk Management

The Risk Management Office takes care of measuring the underlying risks in relationships with associated parties, checking that the limits assigned to the various business units of the Group are being respected, verifying their consistency against the relative levels of risk tolerance defined in the Risk appetite framework. Specifically, the control process is embodied in the following Risk Management Office activities:

- Risk identification: identification of the main risks that are potentially connected to transactions with associated parties;
- Measurement of the risks identified: Measurement and analysis of the risks identified;
- Monitoring: Verification of compliance with the limits of both risk tolerance and prudential supervision, as defined under Risk policies;
- Attenuation: in cases where the limits of risk tolerance and/or prudential supervision have been exceeded, the Risk Management Office intervenes as defined within Risk policies;
- Reporting: there is a section dedicated to transactions with related and connected parties in the Dashboard report through which the Risk Management Office reports to corporate bodies on monitoring activities.

### Compliance

The Compliance Office checks if systems and procedures are in place and are reliable enough to ensure compliance with all regulatory requirements and those established by internal rules, as defined annually in the Compliance Plan. In particular, the control process is embodied in the following Compliance Office activities:

- System assessment: Assessment of conformity of internal regulations with the relative legislation;
- Operating checks: Verification that legal requirements (external and internal) are effectively and properly fulfilled in transactions with associated parties;
- Ongoing controls: During the system assessment and operating checks, the Compliance Office indicates the presence of any gaps, specifying the need for necessary corrective action. It also identifies the higher risk areas, defining specific controls to be implemented in an ongoing manner.

### Internal Audit

The Internal Auditing Office monitors compliance with internal policies, promptly reporting any anomalies to the Statutory Auditors' Board and the Board of Directors, and reports periodically to governing bodies on the Bank and the Group's total exposure to risks arising from transactions with associated parties and other conflicts of interest. Where appropriate, this office proposes the revisions to internal policies and organizational and control structures that it deems appropriate in order to improve control of such risks.

### Independent directors

The Parent company's Independent directors have the role of carrying out assessments, lending support and making proposals in terms of organization and performance of internal controls on overall assumption and management of risks in associated party transactions, as well as generally checking overall consistency of these transactions with strategic and management guidelines.

As far as concern transactions with associated parties, the Risk Management and Control Committee (only its Independent directors) performs the functions attributed to it by the Board of Directors as required by the Regulations of this Committee and as regulated under the Procedure governing management of transactions with associated parties in force.

### Board of Statutory Auditors

The Board of Statutory Auditors oversees compliance with the law and Articles of Incorporation, adherence to the standards of sound and prudent management and suitability of the organizational structure. It also performs the tasks that the law and the Articles of Incorporation entrust to it, verifying correctness of accounting procedures and assessing the degree of efficiency and suitability of the Internal Control System.

In this context, the Board of Statutory Auditors:

- Expresses its opinion on the Procedure governing management of transactions with associated parties, on policies and their amendments prior to their adoption by the Board of Directors;
- Monitors compliance with the Procedure for the management of transactions with associated parties and reports on this to the Bank's Shareholders' Meeting in its report as per Article 153 of the Consolidated Law on Finance.