

**"Procedures and Policies of Controls in relation to Risk Activities and Conflicts of Interest with respect to Associated Entities"**

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# 1 Introduction

## 1.1 Purpose

This REGULATION defines the principles, roles and responsibilities intended to preserve the integrity of the decision-making processes in TRANSACTIONS with the ENTITIES set out in Appendix 1 regarding the assumption of RISK ACTIVITIES or the TRANSFER OF RESOURCES, in implementation of the SUPERVISORY PROVISIONS. That REGULATION also constitutes the “Protocol” for the purposes of regulating the corporate liability of Companies pursuant to Italian Legislative Decree no. 231/01

## 1.2 Scope of application and procedures for adoption

The provisions of the REGULATION are applied to all BANKS and GROUP Companies by way of the methods and in accordance with the specific aspects set out in the document.

The REGULATION, with the exception of the POLICIES (Chapter 5 and other corporate rules cited within it), is approved by each BANK, by resolution of the Board of Directors, based upon an in-depth due diligence of the relevant internal structures with regard to the suitability of the proposed solutions to the various profiles of the SUPERVISORY PROVISIONS and subject to the mandatory and binding opinion of the respective COMMITTEES and Boards of Auditors.

The PARENT COMPANY, in exercising the activity of management and coordination, also sends the REGULATION to GROUP companies other than the BANKS, so that the respective Boards of Directors or bodies with strategic supervisory function implement their provisions that relate to them and activate the CONTROLS aimed at avoiding possible circumventions of the rules. The CONTROLS and processes instituted at the foreign Companies must be compatible with the regulations of the Country in which they are situated.

The POLICIES, illustrated in Chapter 5 and in the other company rules cited within it, are decided by the PARENT COMPANY by the methods set out in the second sentence of this paragraph and are also applied to the other BANKS and GROUP Companies, which implement them by way of the deed of their Board of Directors or equivalent Body.

Subsequent substantial amendments or additions are, respectively, approved and implemented by the methods set out in the paragraphs above.

## 1.3 Related legislation

The cases regulated by this REGULATION are also subject, in addition to the SUPERVISORY PROVISIONS, to the following regulations concerning the issue of conflicts of interest:

- Italian Legislative Decree 1 September 1993: “Single text of laws in relation to banking and credit”, with particular reference to Articles 53 and 136;
- Article 2391 of the Italian Civil Code, in relation to the interests of directors;
- Article 2391-bis of the Italian Civil Code, in relation to transactions with related parties and the respective implementation provisions adopted by Consob (Consob Resolution 17221/2010 and Consob Communication 24 September 2010 no. 10078683);

- Italian Legislative Decree no. 231 of 8 June 2001: “Regulation of the corporate liability of legal entities” with specific reference to the offence of “failure to communicate a conflict of interest” set out in Article 2629-bis of the Italian Civil Code.

Therefore, where the presuppositions are in place for application respectively provided for by the various rules, the decision-making process of the individual TRANSACTION may simultaneously be subject to the REGULATION, the Procedure for regulating transactions with Related Parties and the internal regulations concerning the application of Article 136 of the Consolidated Banking Law and Article 2391 of the Italian Civil Code.

## **1.4 Summary of updates**

Update to the REGULATION approved by the Board of Directors of:

- Banco on 12 June 2012
- Banco on 19 December 2012
- Banco on 26 March 2013

## 2 Organisational Model

### 2.1 Terms of reference

With reference to the fields and aspects governed by the REGULATION, the “Terms of Reference” described below (in alphabetical order in Italian) are assumed.

**RELATIVES-IN-LAW**: the relatives-in-law up to the second degree of a RELATED PARTY in accordance with the definitions expressed in Appendix 1.

**INDEPENDENT DIRECTORS**: a director who is not a counterpart or ASSOCIATED ENTITY or has interests<sup>1</sup> in the TRANSACTION in accordance with Article 2391 of the Italian Civil Code, in possession at least of the requirements of independence established by the Articles of Association of the BANK for the purposes of the provisions on corporate governance.

**RISK ACTIVITIES**: the clear exposures as defined, for the purposes of the regulation in relation to risk concentration, in the SUPERVISORY PROVISIONS as well as in the Instructions for Preparing Reports on Regulatory Capital and Prudential Ratios (Circular no. 155 dated 18 December 1991 Section 5).

**BANK/BANKS**: where not otherwise specified, this means the Banks under Italian law present in the Banco Popolare banking Group.

**BANCO or PARENT COMPANY**: Banco Popolare Società Cooperativa, PARENT COMPANY of the homonymous GROUP.

**COMMITTEE**: for BANCO and for Credito Bergamasco it is constituted by the “Independent Committee” appointed by the Board of Directors and consisting of 3 Directors equipped with the requirements of independence required by the Self-Regulation Code of the Italian Stock Exchange. For Banca Aletti & C., a non-issuer of listed shares or those widely distributed among the public, but characterised by operating complexity, an appropriate COMMITTEE is constituted consisting of 3 Directors equipped with the requirements of independence required by the Articles of Association. For Banca Italease, a non-issuer of listed shares or those widely distributed among the public and characterised by less operating complexity, the exercise of the duties of the COMMITTEE is assigned to an INDEPENDENT DIRECTOR.

**DECISION-MAKING BODY**: each of the following Corporate Bodies/Structures:

- a) the Shareholders’ Meeting;
- b) the Board of Directors;
- c) the Executive Committee, where present;
- d) the Chief Executive Officer, where present;
- e) the Sole Director (only for non-banking companies);
- f) the Directors other than the Chief Executive Officer to whom management powers are attributed by the Board of Directors;

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<sup>1</sup> It is noted, for completeness, that the notion of “significant interest” set out in Appendix 2 is not relevant for the purposes of the definition of Independent Director but only for the purposes of the decision-making procedures and with regard to exemptions and derogations  
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- g) the decision-making organisational Structures, meaning as such the Representatives of General Management along with those who – as a single member or collegial board – are entitled to resolve upon TRANSACTIONS in compliance with internal corporate rules.

**DECISION-MAKING BODY OF THE PARENT COMPANY:** the decision-making bodies of the PARENT COMPANY, other than the Shareholders' Meeting, in exercising the function of deciding on the consent of the PARENT COMPANY to the implementation of the TRANSACTION resolved by the Italian non-banking Subsidiary or the foreign Member (banking or non-banking) of the GROUP. The consent of the PARENT COMPANY is decided by the DECISION-MAKING BODY identified on the basis of the REGULATION and by applying the procedures provided for by the same.

**SUPERVISORY PROVISIONS:** Chapter 5 of Title V of the New Provisions of Prudential Supervision for Banks (Circular no. 263 of 27 December 2006 as amended and supplemented), contained in the 9th update dated 12 December 2011 to Circular 263.

**EXPERTS:** the individuals external to the BANK and other GROUP Companies, qualified as independent, equipped with recognised professionalism and expertise in the matters of interest, chosen by the COMMITTEE and instructed to assist the COMMITTEE itself in the pre-resolution phase of the TRANSACTION. All in accordance with the provisions of the COMMITTEE Regulation which constitutes an integral and essential part of the REGULATION.

**COMPANY REPRESENTATIVES:** the Directors, Auditors and General Managers of the BANKS and the SUPERVISED INTERMEDIARIES of the GROUP or those who perform roles involving the exercise of functions equivalent to that of General Manager at the BANKS and SUPERVISED INTERMEDIARIES of the GROUP.

**EXPOSURE:** *the sum – in accordance with the “New provisions of prudential supervision for banks” - Title V, Chapter 1, Section I, Para. 3, “of the RISK ACTIVITIES for cash and the off-balance sheet transactions towards a customer or a group of related customers, as defined by the regulation on credit and counterpart risks (Title II, Chapter 1, 2 and 3) without the application of weighting factors set out therein. Excluded from the exposures are activities fully deducted from regulatory capital. The exposures of the trading portfolio for supervisory purposes (c.f. “New provisions of prudential supervision for banks” - Title II, Chapter 4, First Part, Section I Paragraph 3.1) are subject to the regulation set out in paragraph 3, of Section II, of Chapter 1, of Title V of the “New provisions of prudential supervision for banks”*

**BANCO POPOLARE GROUP or GROUP:** the BANCO POPOLARE BANKING GROUP.

**SIGNIFICANT INTEREST:** any interest of a financial nature relating to a TRANSACTION from which a financial benefit may derive to an ASSOCIATED ENTITY, as described in more detail in Appendix 2.

**SUPERVISED INTERMEDIARIES:** investment companies, Italian and foreign asset management Companies, electronic money institutions (Elmi), financial intermediaries enrolled on the register provided by Article 106 of the CONSOLIDATED BANKING LAW, payment institutions, which form part of the GROUP and have individual regulatory capital exceeding 2% (two per cent) of the consolidated regulatory capital of the GROUP.

**TRANSACTION:** the transaction with the ENTITIES referred to in Appendix 1 which involves the assumption of RISK ACTIVITIES or TRANSFER OF RESOURCES, irrespective of the provision of a fee, therein including merger and spin-off TRANSACTIONS.

**CONTENTIOUS TRANSACTION:** the TRANSACTION that is represented by:

- a) a judicial or out-of-court settlement agreement whose value exceeds EUR 1,000,000 (regardless of the value of the original TRANSACTION), or aimed at the settlement or prevention of a dispute on a TRANSACTION originally contracted for a value exceeding EUR 1,000,000 (regardless of the value of the agreement);
- b) a decision to move to “non-performing” concerning receivables from the ENTITIES set out in Appendix 1 in an amount exceeding EUR 1,000,000 (regardless of the value of the original TRANSACTION) or resulting from TRANSACTIONS originally contracted for an amount exceeding EUR 1,000,000;
- c) a decision to move to losses concerning receivables from the ENTITIES set out in Appendix 1 resulting from TRANSACTIONS of a current amount exceeding EUR 1,000,000 (regardless of the value of the original TRANSACTION) or resulting from TRANSACTIONS originally contracted for an amount exceeding EUR 1,000,000;

**RELATED PARTY:** the related parties of the GROUP, identified by virtue of the relationships held with a BANK or SUPERVISED INTERMEDIARY of the GROUP, as expressed in Appendix 1.

**NON-FINANCIAL RELATED PARTY:** the non-financial related parties of the GROUP identified by virtue of the relationships held with a BANK or a SUPERVISED INTERMEDIARY of the GROUP, as expressed in Appendix 1.

**CONTROLS:** the provisions of the REGULATION to be applied to the TRANSACTIONS with the ENTITIES referred to in Appendix 1 completed by Companies of the GROUP other than the BANKS.

**PERSONNEL:** the Employees or Collaborators of the GROUP companies who are not ASSOCIATED ENTITIES and who are ascribable to “most significant personnel” identified by the BANKS in accordance with the provisions of the Bank of Italy on the policies and practices of remuneration and incentives dated 30 March 2011 and any subsequent amendments, together with the entities who have relationships with the members of the aforesaid personnel corresponding to those that concern the LINKED ENTITIES with respect to the RELATED PARTY (c.f. Appendix 1).

**POLICIES:** the internal policies in relation to controls on RISK ACTIVITIES and on conflicts of interest towards ASSOCIATED ENTITIES as defined by Title V, Chapter 5, Section IV of the SUPERVISORY PROVISIONS.

**REGISTER:** GROUP register (also in electronic format) in which the ENTITIES referred to in Appendix 1 are entered along with the TRANSACTIONS, showing the TRANSACTIONS constituting RISK ACTIVITIES, the cases of accumulation of the latter, the CONTENTIOUS TRANSACTIONS and the TRANSACTIONS with PERSONNEL.

**REGULATION:** this document, prepared in implementation of the Bank of Italy instructions in relation to prudential supervision for banks (Circular no. 263 dated 27 December 2006 – 9th update dated

12 December 2011 – Title V, Chapter 5) which the BANKS and GROUP Companies have adopted/implemented in order to preserve the integrity of the decision-making processes in TRANSACTIONS with the ENTITIES referred to in Appendix 1 regarding the assumption of RISK ACTIVITIES or the TRANSFER OF RESOURCES. The document also contains the illustration of the POLICIES adopted by the PARENT COMPANY for the entire GROUP and implemented by the other BANKS and GROUP COMPANIES;

**HEAD OF PROCEDURE**: the head of the Management or Service of the BANK/Company of the GROUP responsible, by remit, for formulating the proposal relating to a TRANSACTION. Therefore, where the HEAD OF PROCEDURE coincides, based upon the internal rules, with the DECISION-MAKING BODY, the functions of HEAD OF PROCEDURE are performed by the Head of the immediately subordinate structure equally responsible for the matter.

**ENTITIES**: the set of RELATED PARTIES, LINKED ENTITIES, PERSONNEL, CLOSE RELATIVES, RELATIVES-IN-LAW and ADDITIONAL ENTITIES as defined in Appendix 1.

**ASSOCIATED ENTITIES**: the set constituted by a RELATED PARTY of the GROUP and by its LINKED ENTITIES, in compliance with the definitions expressed in Appendix 1.

**LINKED ENTITIES**: the entities linked to a RELATED PARTY of the GROUP, identified in compliance with the definitions expressed in Appendix 1.

**ADDITIONAL ENTITIES**: the entities other than the ENTITIES set out in Appendix 1 towards whom the Bank of Italy requires the provisions to be applied, based upon concretely identified conflicts of interests. The respective TRANSACTIONS will be subject to the decision-making process which will be identified by the Bank of Italy. In the absence of indications (even though the Bank of Italy has defined them), they will be subject to the provisions of the REGULATION for the ENTITIES referred to in Appendix 1.

**CLOSE FAMILY MEMBERS**: the individuals identified as CLOSE RELATIVES in the SUPERVISORY PROVISIONS and identified in compliance with the definitions expressed in Appendix 1.

**TRANSFER OF RESOURCES**: the transactions with the Entities set out in Appendix 1 of the REGULATION, which involve the transfer of resources, services or obligations – but not RISK ACTIVITIES – irrespective of the provision of a fee, therein including merger and spin-off TRANSACTIONS

**CBL**: Italian Legislative Decree no. 385 of 1 September 1993: “Single text of laws in relation to banking and credit”.

## **2.2 Roles and Responsibilities**

### **2.2.1 Parent Company**

In order to express unitary direction and governance in the assumption of RISK ACTIVITIES or in the TRANSFER OF RESOURCES towards the ENTITIES set out in Appendix 1, as part of its functions of direction, coordination and control, the PARENT COMPANY provides to all Companies of the GROUP the text of the REGULATION by way of the methods and for the purposes described in paragraph 1.2. In addition, it provides the composition of the set of ENTITIES referred to in Appendix 1, unique for the



entire GROUP, along with the guidelines, set out in Appendix 2, required to ensure the consistency of the assessments in relation to the existence or otherwise of SIGNIFICANT INTERESTS of other ASSOCIATED ENTITIES, for the purposes of the possibility of applying the derogation provided for TRANSACTIONS with or between Subsidiary Companies.

The Board of Directors of the PARENT COMPANY approves and reviews, at least on a three-yearly basis, the POLICIES and then sends them to all Subsidiary companies in the performance of the activities of management and coordination in accordance with Article 61, Paragraph 4 of the CBL and Articles 2497 et seq of the Italian Civil Code so that they may resolve upon their implementation.

The BANCO Board of Directors, as part of approving and reviewing the POLICIES, assesses, at least on a three-yearly basis, the effectiveness and efficiency of the REGULATION in relation to the objectives of integrity and impartiality of the decision-making process, with respect to the interests of the majority of shareholders and creditors, the efficient functioning of its corporate bodies and the operations of its organisational structures. In that regard, it specifically verifies the need or opportunity to proceed with a review of the REGULATION.

The respective resolutions are adopted on the basis of an in-depth due diligence by the relevant internal structures and subject to the binding and mandatory opinion of the COMMITTEE and the Board of Auditors.

The Board of Auditors oversees the compliance of the REGULATION (which also includes the POLICIES) with the principles identified in the SUPERVISORY PROVISIONS.

### **2.2.2 (Italian) banks belonging to the Group**

The Boards of Directors of the BANKS approve the REGULATION proposed by the PARENT COMPANY and assess, at least on a three-year basis, the effectiveness and efficiency of the respective provisions, in relation to the objectives of integrity and impartiality of the decision-making process, with respect to the interests of the majority of shareholders and creditors, the efficient functioning of its corporate bodies and the operations of its organisational structures. In that regard, they propose to the PARENT COMPANY the need or opportunity to proceed with a review of the REGULATION.

The respective resolutions are adopted on the basis of an in-depth due diligence by the relevant internal structures (meaning also the structures of other GROUP companies to which the BANK has entrusted the respective activity by way of outsourcing) and subject to the binding and mandatory opinion of the COMMITTEE (or the INDEPENDENT DIRECTOR) and the Board of Auditors.

The Board of Directors of each BANK resolves upon the implementation of the POLICIES adopted by the PARENT COMPANY and illustrated in chapter 5 of the REGULATION and in the company rules cited by it, in implementation of the activities of management and coordination in accordance with Article 61, Paragraph 4 of the CBL and Articles 2497 et seq of the Italian Civil Code.

The Board of Auditors of the BANKS oversees the compliance of the REGULATION with the principles identified in the SUPERVISORY PROVISIONS, along with its observance. The Board of Auditors also oversees compliance with the POLICIES adopted by the PARENT COMPANY.

### 2.2.3 Other Companies belonging to the Group

With reference to the TRANSACTIONS with the ENTITIES set out in Appendix 1, for the purpose of pursuing the full and concrete implementation of the GROUP model, the GROUP companies other than the BANKS activate the processes regulated herein, along with the CONTROLS aimed at avoiding possible circumventions of the rules as provided by the REGULATION.

The Boards of Directors (or equivalent Bodies) of the Companies belonging to the GROUP resolve upon the implementation of the contents of the POLICIES adopted by the PARENT COMPANY and illustrated in chapter 5 of the REGULATION and in the corporate rules cited by it, in implementation of the activities of management and coordination in accordance with Article 61, Paragraph 4 of the CBL and Articles 2497 et seq of the Italian Civil Code.

For the foreign Companies of the GROUP, both banking and non-banking, the provisions of this paragraph are applied in line with the regulations of the Country in which they are situated. Any situations of incompatibility are reported without delay by the aforementioned Companies to the PARENT COMPANY Secretariat.

### 2.2.4 Corporate functions

The functions of the PARENT COMPANY *Secretariat*, the BANKS and the SUPERVISED INTERMEDIARIES, by way of a Competence Centre established within it, are the organisational Structures which – by way of example – are responsible for:

- a) liaising with the COMPANY REPRESENTATIVES to acquire information relating to entities in potential conflict of interest, providing them with support in interpreting the corporate, supervisory and legal regulations;
- b) proceeding with the registration of the COMPANY REPRESENTATIVES, the respective LINKED ENTITIES and RELATIVES-IN-LAW. The Parent Company Secretariat also deals with coordinating the homologous functions of the other BANKS and SUPERVISED INTERMEDIARIES for the purposes of registration;
- c) supporting, where required, the proposing bodies for the correct implementation of the REGISTER and proceeding to supplement it for aspects that see it directly involved (opinions and resolutions of the COMMITTEE, the Board of Directors and the Executive Committee);
- d) verifying, where required, the TRANSACTIONS said to be of “lesser significance” for the purposes of calculating the accumulation of TRANSACTIONS classifiable as homogeneous or implemented in performance of a unitary plan;
- e) supporting, where required, the company structures in charge of the due diligence and proposal of the TRANSACTIONS for issues of an interpretation and application nature;
- f) contributing to ensuring the correct application of the contents of the REGULATION, also by way of periodic reporting produced for the administrative and supervisory Bodies.

The *secretariat functions* of the Companies, for clarifications on application of the REGULATION, contact the *Parent Company Secretariat function*. The latter may make use, each time, of the collaboration of the other Structures of the PARENT COMPANY and, in particular the *functions of compliance with the rules, legal and risk management*.

The roles and responsibilities of the different company functions of the PARENT COMPANY, the BANKS and the Companies belonging to the GROUP, for anything not provided by the REGULATION,

are determined in compliance with the Law, the SUPERVISORY PROVISIONS, the Consob provisions, the statutory provisions and anything provided, from time to time, in the “Structure Regulation” of the GROUP companies.

The roles and responsibilities of the individual company functions are defined with reference to the individual phases of the processes, as provided by the “Process Model” established by the REGULATION.

## **2.3 Processes model**

The process model in relation to the “assumption of risk activity and conflicts of interest towards associated entities” is divided as follows:

- a) identification, appointment and duties of the COMMITTEE;
- b) development and approval of procedures;
- c) identification and registration of ENTITIES referred to in Appendix 1;
- d) management of TRANSACTIONS;
- e) internal policies in relation to controls.

For each process, the REGULATION defines the roles, responsibilities and principles on the basis of which the responsibilities should be exercised.

The rules which regulate, from time to time, the activities to be performed by the individual organisational units, the procedures to be used and anything else required for the exercise of the activities based upon criteria of adequacy and functionality, are split into processes, in line with the model described.

### **3 Principles common to the phases of the process**

The process of the assumption of RISK ACTIVITIES and TRANSFER OF RESOURCES towards the ENTITIES set out in Appendix 1, identifies:

- a) the criteria for identifying the TRANSACTIONS (of greater or lesser significance or of small amounts);
- b) the rules regarding the phases of the due diligence, negotiations and resolution of the TRANSACTIONS, distinguishing between greater and lesser significance and clarifying, in particular, the methods of involvement of the COMMITTEE;
- c) the profiles relating to the definition of roles and duties of the different members of the GROUP;
- d) the cases of derogation and exemption, therein including criteria for verifying the existence or otherwise of SIGNIFICANT INTERESTS of other ENTITIES with reference to the TRANSACTIONS with or between subsidiary Companies or those subject to significant influence;
- e) the CONTROLS to be applied to the TRANSACTIONS concluded where they give rise to losses, moves to non-performing, judicial and out-of-court settlement agreements.

## **4 Processes**

### **4.1 Identification, appointment and duties of the Committee**

#### **4.1.1 Principles**

The SUPERVISORY PROVISIONS provide that the BANKS constitute a COMMITTEE internal to the Board of Directors, except where, in the case of BANKS with less operational complexity, they assign the exercise of the duties of the COMMITTEE to individual or multiple INDEPENDENT DIRECTORS in line with what is described in more detail in the REGULATION.

Notwithstanding the foregoing, using the powers granted by the SUPERVISORY PROVISIONS, the PARENT COMPANY has defined guidelines with reference:

- a) to listed Banks, which identify within the “Independent Committee” (appointed by the Board of Directors of the BANK and consisting of 3 Directors equipped with the requirements of independence as provided for by the Italian Stock Exchange Self-Regulation Code), the collegial body to which to attribute the duties referred to in the REGULATION;
- b) to other BANKS, which, based upon their operational complexity, appoint a COMMITTEE or assign the duties of the COMMITTEE to an INDEPENDENT DIRECTOR or to two INDEPENDENT DIRECTORS bound to exercise them jointly.

The requirements of paragraph 4.1 are not intended for foreign Companies of the GROUP (banking or non-banking).

#### **4.1.2 Roles and Responsibilities**

By virtue of the foregoing:

- a) the Board of Directors of BANCO and that of Credito Bergamasco, have attributed the duties set out in Article 53, Paragraphs 4 and 4-quater of the Consolidated Banking Law and the respective implementing provisions – both regulatory (SUPERVISORY PROVISIONS) and corporate (REGULATION) – to the “Independent Committee” consisting of 3 Directors equipped with the requirements of independence as provided for by the Italian Stock Exchange Self-Regulation Code.
- b) the Board of Directors of:
  - Banca Aletti, as a BANK not falling within those of lesser operational complexity, has appointed a COMMITTEE consisting of independent Directors, even though it is a company that does not issue listed shares or those widely distributed among the public;
  - Banca Italease, as a company which does not issue listed shares or those widely distributed among the public and a BANK of lesser operational complexity (consequently not bound – in accordance with the supervisory provisions on governance – to constitute a Committee internal to the Board of Directors) has assigned the duties of the COMMITTEE to an INDEPENDENT DIRECTOR.

Subject to specific aspects provided by the REGULATION, the functioning and organisation of the COMMITTEE are regulated – in compliance with the SUPERVISORY PROVISIONS – by the Regulation of

the COMMITTEE approved by the Boards of Directors of the aforementioned BANKS and which constitutes an integral and essential part of the REGULATION.

That Regulation also governs the use, by the COMMITTEE, of EXPERTS, the method of assessing the independence of the same and the regulation of the respective costs and expenses.

## 4.2 Development and Approval of Procedures

### 4.2.1 Principles

The REGULATION is intended to preserve the integrity of the decision-making processes in TRANSACTIONS. In particular, the REGULATION:

- a) adopts the definitions set out in the paragraph “Terms of reference” and in the Appendices cited within it;
- b) defines its own scope of application;
- c) identifies criteria for identifying the TRANSACTIONS and, in particular, those to be considered “of greatest significance”;
- d) identifies, to that end, inter alia, the criteria for registering the ENTITIES set out in Appendix 1, with the specification that the entirety of the aforementioned ENTITIES is defined in relation to the whole GROUP;
- e) identifies the rules relating to the phases of the due diligence, negotiation and resolution of the TRANSACTIONS, distinguishing between greater and lesser significance and clarifying, in particular, the methods of involvement of the INDEPENDENT DIRECTORS;
- f) identifies the cases of exclusion, derogation or exemption, including criteria for the verification of the existence or otherwise of SIGNIFICANT INTERESTS of other ENTITIES for the purposes of regulating TRANSACTIONS with or between subsidiary Companies or with Companies subject to significant influence;
- g) adopts CONTROLS suitable for ensuring the substantial and procedural correctness of the TRANSACTIONS completed by the individual members of the GROUP, when those TRANSACTIONS are examined or approved by the PARENT COMPANY;
- h) identifies the CONTROLS to be applied to the TRANSACTIONS concluded where they give rise to losses, moves to non-performing, judicial or out-of-court settlements (so-called CONTENTIOUS TRANSACTIONS);
- i) establishes CONTROLS for TRANSACTIONS with PERSONNEL;
- j) regulates the methods of registering “RELATIVES-IN-LAW” and of “processing” the TRANSACTIONS with the same.

Notwithstanding the foregoing, the REGULATION also sets out specific instructions and directives to the non-banking (Italian) and foreign members (banking and otherwise) of the GROUP, to be applied, for the latter, in line with the legislation of the Country in which they are situated.

This is subject to the compliance, in the presence of the presuppositions of application to the individual TRANSACTION, with the “Procedure for regulating transactions with related parties” approved by the Boards of Directors of Banco Popolare and Credito Bergamasco in accordance with Article 2391-bis of the Italian Civil Code, Consob Regulation no. 17221/2010 along with the other obligations provided by the legal system in relation to the interests of directors or other COMPANY REPRESENTATIVES.

The requirements of paragraph 4.2 are not intended for foreign banking or non-banking Companies of the GROUP, subject to the specific contents of the “Roles and Responsibilities” paragraph below.

## 4.2.2 Roles and Responsibilities

In defining the processes – and upon making any substantial amendments or additions to the same – the widespread involvement of the Bodies of administration and control of the BANK, the COMMITTEE and the contribution of the main functions involved is guaranteed.

Specifically:

- a) the *Organisation function* of the PARENT COMPANY assumes the role of editor of the text of the REGULATION subject to examination by the Board of Directors, the COMMITTEE and the Board of Auditors. In that role, that function makes use of the contribution of the individual company functions responsible for the relevant issues;
- b) the *relevant internal structures*, insofar as each is responsible, perform a thorough due diligence of the compliance of the solutions proposed by the *Organisation function* with the various profiles of these rules;
- c) the COMMITTEE (or the INDEPENDENT DIRECTORS for the BANKS of lesser operational complexity) and the Board of Auditors issue an analytical and reasoned opinion;
- d) the *Board of Directors of the PARENT COMPANY* approves and reviews the REGULATION at least on a three-year basis;
- e) the *Board of Directors of the BANKS* receiving the regulations, approve – by way of deed of resolution – chapters 1 to 4 of the REGULATION, and implement Chapter 5 along with the company rules cited in the same (regarding the POLICIES);
- f) the *Administrative bodies of the other Companies* of the GROUP implement the contents of the REGULATION and activate CONTROLS consistent with those identified within the same;
- g) the *Administrative bodies of all the Subsidiaries* impart appropriate instructions to the Bodies and to the relevant functions so that they may fulfil the requirements of the REGULATION. The Subsidiaries ensure that appropriate complete and updated records are kept of all TRANSACTIONS completed by them;

(the above process is followed also for the proposal, to be sent to the Shareholders' meeting, for any amendment to the Articles of Association that may be necessary in order to adjust them to the SUPERVISORY PROVISIONS).

- h) the *Investments function* of the PARENT COMPANY provides the directions required to ensure the coherence of the decisions made by the individual BANKS of the GROUP which intend to make use of the possibility of derogation provided in relation to the existence or otherwise of SIGNIFICANT INTERESTS of other ENTITIES, also by identifying specific cases indicating the presence of those interests. Those directions are formalised in Appendix 2;
- i) the *Communication function* of the PARENT COMPANY activates the procedures for the publication of the REGULATION on the BANKS' internet websites.



## 4.3 Identification and Registration of Entities

### 4.3.1 Principles

The identification and registration of the ENTITIES set out in Appendix 1 is limited to the Banks and supervised Intermediaries of the GROUP (with capital – for the latter – exceeding 2% of the consolidated regulatory capital).

The PARENT COMPANY, also making use of the functions set out in paragraph 4.3.2, registers the ENTITIES set out in Appendix 1<sup>2</sup>. The ENTITIES that can be qualified as RELATED PARTIES and PERSONNEL cooperate with the BANKS and SUPERVISED INTERMEDIARIES with which they hold relationships in order to allow for the correct and complete registration of the aforementioned ENTITIES. It is also the duty of the RELATED PARTIES and the PERSONNEL promptly to communicate any supervening circumstances of which they become aware that might involve changes to the scope of the aforementioned ENTITIES.

The overall set of ENTITIES referred to in Appendix 1 is unique for the whole GROUP.

For the foreign Banks and Intermediaries (with capital exceeding 2% of the consolidated regulatory capital) of the GROUP the provisions contained in paragraph 4.3 are applied in line with the legislation of the country in which they are situated. Any situations of incompatibility are reported without delay by the aforementioned Companies to the PARENT COMPANY Secretariat.

### 4.3.2 Roles and Responsibilities

The activities of retrieving data and information relating to the aforementioned ENTITIES is performed in application of the definitions contained in Appendix 1 which constitute the scope of ENTITIES determined by the PARENT COMPANY for the entire GROUP.

Those activities fall within the broadest registration that BANCO and the Companies of the GROUP already perform in order to identify the entities in conflict of interest.

The functions responsible for the registration process are:

- a) The *Parent Company Secretariat*: function of the PARENT COMPANY, functionally superordinate – with reference to the activities set out in the REGULATION – to the *Secretariat functions* at the BANKS and the SUPERVISED INTERMEDIARIES of the GROUP. It is responsible for the overall registration of the ENTITIES set out in Appendix 1 and the dissemination of a list thereof to all Companies of the GROUP;

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<sup>2</sup> Specifically: the RELATED PARTIES and, within the limits of ordinary diligence, the LINKED ENTITIES. As it is not a case of ASSOCIATED ENTITIES for these regulations, the PARENT COMPANY also registers

a) as CLOSE RELATIVES of a RELATED PARTY also the RELATIVES-IN-LAW up to the second degree and keeps that information available for any requests by the Bank of Italy;

b) PERSONNEL.

- b) the *Secretariat functions*: corporate secretary service of the BANKS and SUPERVISED INTERMEDIARIES of the GROUP. They report functionally, for the activities of identifying the ENTITIES referred to in Appendix 1, to the *Parent Company Secretariat*. It is instructed to liaise with the COMPANY REPRESENTATIVES of the respective BANK/SUPERVISED INTERMEDIARY to acquire the information relating to the ENTITIES referred to in Appendix 1;
- c) the *Investments function*: function of the PARENT COMPANY instructed, principally, to supplement the registration of the ENTITIES set out in Appendix 1 with the information relating to the RELATED PARTIES (financial and non-financial) and, in particular, the Investor and the companies over which the BANK or a GROUP Company is able to exert control or to influence significantly;
- d) the *Human Resources function*: function of the PARENT COMPANY instructed to identify and report to the *Parent Company Secretariat* the identification details of the “most significant” personnel and the individuals related to them (CLOSE RELATIVES, RELATIVES-IN-LAW up to the 2nd degree and companies controlled by the “most significant” personnel and by the respective CLOSE RELATIVES);
- e) the *Control of risk groups*: function of the PARENT COMPANY instructed to oversee the phenomenon of economic groups for the purposes of controlling large risks; it is instructed to examine and definitively identify the relationships from which a counterpart of the PARENT COMPANY or another group company may come to be qualified as an ENTITY.

The *Parent Company Secretariat function* and the *Secretariat functions* of the BANKS and the SUPERVISED INTERMEDIARIES of the GROUP:

- a) identify – for the purposes of registration of the RELATED PARTIES and for the areas of competence - the COMPANY REPRESENTATIVES who fall within the RELATED PARTIES;
- b) request that the aforementioned REPRESENTATIVES provide a “self-declaration” by which they certify their status as RELATED PARTY and communicate the ENTITIES referred to in Appendix 1 attributable to them. For the purposes of the self-declaration, the REPRESENTATIVES may use the form which the functions in question submit to them together with the instructions required for its correct completion, a copy of which is contained in Appendix 3;
- c) request a prompt response and draw particular attention to the obligations:
  - of cooperation set out by the SUPERVISORY PROVISIONS regarding the duty promptly to communicate any supervening circumstances of which they become aware and which might involve changes to the information provided;
  - of correctness and completeness of the information relating to the familial ties and the RELATIVES-IN-LAW;
- d) verify the formal correctness of the content of the self-declarations received, by proceeding with standard checks also by way of accessing the information services of the Registers of Companies and the Chambers of Commerce, Industry, Crafts and Agriculture. The “self-declarations” are stored in original form at their offices;
- e) connect the information received to “sets” made up of a RELATED PARTY and by the respective LINKED ENTITIES;
- f) transfers the aforementioned information to the *Control of risk groups*.

The *Investments function* of the PARENT COMPANY:

- a) identifies, for the purposes of registering the RELATED PARTIES:
  - the Investors;
  - the entities, other than the Investor, able to appoint, alone, one or more members of the body with management function or the body with strategic supervision function, also on the basis of agreements entered into in any form or statutory clauses dealing with or by virtue of the exercise of those rights or powers;
  - the companies or businesses also constituted in non-corporate form and also constituted or based abroad over which the BANK or a Company of the GROUP is able to exert control or to influence significantly.

To that end, the *Administration and Budget function* of the PARENT COMPANY provides periodically to the *Investments function* the updated list of GROUP Companies and Investors.

- b) identifies, for the purposes of registering the LINKED ENTITIES, the entities linked to the RELATED PARTIES referred to in letter a) above;
- c) connects the information acquired to “sets” consisting of a RELATED PARTY and the respective LINKED ENTITIES;
- d) transfers the aforementioned information to the Control of risk groups.

The *Human Resources function* of the PARENT COMPANY:

- a) identifies the employees and collaborators of the Companies of the GROUP who are not ASSOCIATED ENTITIES and who are ascribable to the “most significant” personnel;
- b) requests that the aforementioned personnel provide a “self-declaration” by which they communicate the entities with which they hold relationships corresponding to those which concern the LINKED ENTITIES with respect to the RELATED PARTY. For the purposes of making the self-declaration, the “most significant” personnel may use the form which the function referred to above submits to them, together with the instructions required for its correct completion;
- c) requests a prompt response from the PERSONNEL and draws particular attention to the objectives:
  - of cooperation set out by the SUPERVISORY PROVISIONS regarding the duty promptly to communicate any supervening circumstances of which they become aware and which might involve changes to the information provided;
  - of correctness and completeness of the information relating to the familial ties and the RELATIVES-IN-LAW;
- d) verifies the formal correctness of the contents of the self-declaration and stores it in original form at its offices;
- e) connects the information acquired to “sets” consisting of an entity that can be qualified as “most significant” personnel and the respective LINKED ENTITIES (jointly also the PERSONNEL);
- f) transfers the aforementioned information to the Control of risk groups.

The *Control of risk groups function*, having received the aforementioned information from the *Secretariat functions*, *Investments function* and *Human resources function*, had the duty:

- a) to identify the relationships in place between counterparts of the BANKS and the SUPERVISED INTERMEDIARIES of the GROUP along with the relationships between those counterparts and the BANKS and the SUPERVISED INTERMEDIARIES, from which a counterpart may be qualified as RELATED PARTY or LINKED ENTITY;
- b) to verify that the relationships in place between the members of the “risk groups” are not qualified in a contradictory manner compared to the criteria used to define the set of ENTITIES.

The *Control of risk groups function* uses all available sources of information, both internal and external (company archives, Central Credit Register, Central Budget Register, etc.), integrating that information and linking it so as to acquire and maintain a complete vision of the phenomena.

In compliance with the provisions of the REGULATION, it also pays particular attention to relationships with economic groups that make use of complex corporate structures or that do not ensure complete transparency of the proprietary organisations (for example, as they include companies located in off-shore centres or they make use of special purpose companies or legal frameworks that could hinder the reconstruction of the proprietary structure and the control lines).

The *Control of risk groups function* is entitled to ask all the cited functions of the PARENT COMPANY and the Subsidiaries for supplementary information, establishing a deadline for the response.

Once the aforementioned activities are complete, the *Control of risk groups function*:

- a) liaises with the *Parent Company Secretariat*, the *Secretariat functions* of the BANKS and the SUPERVISED INTERMEDIARIES, the *Investments function* and the *Human Resources function* where it identifies discrepancies or requires further or different information in order to fulfil its duties;
- b) communicates to the *Parent Company Secretariat* the final identification of all the ENTITIES to be registered and the qualification of their respective relationships between the ENTITIES and between the latter and the GROUP Companies and transfers to the *Parent Company Secretariat* the information received, now validated.

Once the process of retrieving the data and validating the same has been completed, the *Parent Company Secretariat* function proceeds with, or in any case arranges and oversees, the registration of the ENTITIES set out in Appendix 1 by way of updating the REGISTER.

Subject to the obligation upon the affiant to communicate promptly any alteration/addition to the information previously supplied, the *Parent Company Secretariat* function, the *Secretariat functions* of the BANKS and the SUPERVISED INTERMEDIARIES of the GROUP, the *Investments function* and the *Human Resources function* request the “self-declarations” from COMPANY REPRESENTATIVES upon first appointment or confirmation of the office/role and also at least annually:

- request that the “self-declarations” be updated;
- conduct activities to check the consistency and accuracy of the information received, also when reports are received from other structures.

The collection takes the form of sending a specific pre-completed form with the information shown by the latest “self-declaration” submitted. The relevant entity should verify its content, supplement it

with any missing information, amend it if its contents have changed or are inaccurate and, then, sign it and return it to the aforementioned functions which verify its formal accuracy.

Upon receipt of the declarations, the cited functions also ascertain that the information declared by the aforementioned entity corresponds with what may already be in the possession of the GROUP Company (for example, information relating to already existing registrations). Where discrepancies are identified, it will act as the diligent party in formally reporting what it has identified, requesting the signature of an updated self-declaration or a certification of denial/acknowledgment of the exceptions communicated.

The *Parent Company Secretariat* function and the *Secretariat functions* of the BANKS and the SUPERVISED INTERMEDIARIES of the GROUP prepare (insofar as each is responsible), for the first useful Board of Directors meeting following receipt of the self-certifications, appropriate information for the purposes of highlighting during the board meeting the forms received.

The results of the updates are sent to the Control of risk groups function which verifies the consistency of the data with respect to the provisions of the previous paragraphs and transfers them, validated, to the *Parent Company Secretariat* function for the REGISTER update.

Periodically, the *Parent Company Secretariat* function, the *Secretariat functions* of the BANKS and the SUPERVISED INTERMEDIARIES of the GROUP, the *Investments function* and the *Human Resources function* of the PARENT COMPANY obtain from the IT outsourcer (SGS BP) specific extractions from the cited REGISTER and verify for the parts under their remit the complete and correct entry of the same. In the case of anomalies, the aforementioned functions proceed – insofar as they are responsible – to rectify the same using the specific software application.

## 4.4 Transaction Management

This Chapter regulates the activities, performed by the GROUP companies in the TRANSACTIONS assuming RISK ACTIVITIES or TRANSFER OF RESOURCES with the ENTITIES set out in Appendix 1, including the case where the PARENT COMPANY (subject to the provisions of paragraph 4.4.4.b) [TRANSACTIONS “with or between Subsidiary Companies”]) examines or approves TRANSACTIONS by the individual members of the GROUP.

The provisions set out in this Chapter (notwithstanding the provisions relating to information flows to the Board of Directors and the COMMITTEE) are not applied to TRANSACTIONS with RELATIVES-IN-LAW.

### 4.4.1 Type of Transactions

For the purposes of the REGULATION, the TRANSACTIONS (other than those of “a small amount” for which reference is made to subsequent paragraph 4.4.3) are classified as follows:

- a) TRANSACTIONS of greater significance;
- b) TRANSACTIONS of lesser significance.

The aforementioned TRANSACTIONS may be classified further, based upon the decision-making process to be applied, into:

- Ordinary TRANSACTIONS;
- TRANSACTIONS with or between Subsidiary Companies;
- TRANSACTIONS subject to framework resolutions;
- TRANSACTIONS under the remit of the Shareholders’ Meeting;
- Urgent TRANSACTIONS.

The aforementioned types of TRANSACTIONS are subject to different due diligence and decision-making processes.

**TRANSACTIONS of greater significance:** these are TRANSACTIONS whose value is greater than the threshold of 5% of the regulatory capital taken from the most recently published consolidated statement of financial position. For the purposes of valuing the thresholds of the TRANSACTIONS by the structures involved in the due diligence of the same, the *Administration and Budget function* of the PARENT COMPANY is responsible for communicating (also by way of publication and update in a specific section of the Group information system) to the HEAD OF PROCEDURES and, in particular to the *Parent Company Secretariat* and to the *Secretariat functions* at the time of sending to the Bank of Italy the supervisory reports, the following values:

- consolidated regulatory capital;
- total of consolidated assets;
- total of consolidated liabilities.

Also included in TRANSACTIONS of greater significance, and thus also subject to the provisions of the REGULATION regarding that category of TRANSACTIONS, are the TRANSACTIONS concluded during the company financial year with the same ENTITY as referred to in Appendix 1, which are homogeneous between them and put into place in implementation of a single plan which, albeit possible to

qualify individually as a TRANSACTION of lesser significance, exceed, when considered together, the threshold established by the SUPERVISORY PROVISIONS and by the REGULATION for the TRANSACTIONS of lesser significance.

**TRANSACTIONS of lesser significance:** these are the TRANSACTIONS of amounts between:

- the threshold exceeding the TRANSACTIONS of a small amount (EUR 1,000,000);
- the threshold of significance of the TRANSACTIONS of greater significance.

The TRANSACTIONS of greater significance and those of lesser significance may be further attributed to one of the following cases:

**ORDINARY TRANSACTION:** the ordinary TRANSACTION may only be of lesser significance. This is a TRANSACTION falling within the ordinary operations of the BANK and concluded under conditions equivalent to those of the market or standard conditions<sup>3</sup>. TRANSACTIONS which fall within the ordinary performance of the business activity of the Company that completes the TRANSACTION or that are accessory to the operational activity or that fall within the financial activity connected to that activity are considered to be included in the ordinary operations of the BANK.

The ordinary TRANSACTIONS are subject, in compliance with the proceedings to be observed for the TRANSACTIONS of lesser significance, to the derogations and exemptions provided by the REGULATION (c.f. para. 4.4.3).

In any case, ordinary transactions also include the TRANSACTIONS of lesser significance which the company or GROUP regulations forward to the peripheral structures of the BANKS and which are implemented by way of the preparation and signature of forms or in any case by reproducing standard outlines established by the GROUP regulations or those of the BANK which completes the TRANSACTION. For those TRANSACTIONS the “obligations of motivation” are considered to be fulfilled by the provisions of this paragraph.

**TRANSACTIONS with or between Subsidiaries:** the TRANSACTIONS with or between Subsidiary Companies whose capital is not directly or indirectly held in full by the BANK (in this case they are excluded from the application of the REGULATION) along with TRANSACTIONS with companies subject to significant influence.

In order to qualify for the simplified procedure, it is necessary to identify in the TRANSACTION the absence of SIGNIFICANT INTERESTS of other ASSOCIATED ENTITIES.

In relation to TRANSACTIONS of this nature, the derogations and exemptions provided by the REGULATION are applied, with respect to the procedure to be complied with for TRANSACTIONS of greater or lesser significance (c.f. para. 4.4.3).

**TRANSACTIONS subject to framework resolutions:** framework resolutions are accepted which provide for the completion by the BANK/GROUP company that adopts that resolution, of homogeneous TRANSACTIONS attributable to the following categories provided that they are concluded with

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<sup>3</sup> TRANSACTIONS concluded at market conditions or standard conditions are deemed to be those that are: concluded under similar conditions to those normally applied to parties not constituting ENTITIES (referred to in Appendix 1) for TRANSACTIONS of a similar nature, amount and risk or based upon regulated rates or prices imposed or applied to entities with which the BANK is obliged by law to contract at a certain fee.

ENTITIES other than the COMPANY REPRESENTATIVES, the “most significant” personnel and the individuals who are CLOSE RELATIVES or RELATIVES-IN-LAW of the aforementioned REPRESENTATIVES and “most significant” personnel:

- a) TRANSACTIONS of granting credit which are not attributable to (i) agricultural credit, public works, land, fishing and on pledge, along with (ii) TRANSACTIONS related to insolvency proceedings (for example: TRANSACTIONS connected to the plans pursuant to Article 67, Paragraph 3, Letter d) of the Bankruptcy Law; Composition pursuant to Articles 124 et seq of the Bankruptcy Law; Arrangement with creditors pursuant to Articles 160 et seq of the Bankruptcy Law; Debt restructuring agreements pursuant to Article 182-bis of the Bankruptcy Law);
- b) TRANSACTIONS of direct deposit in one of the following forms: (i) savings deposits, (ii) current account, including correspondence, (iii) interest-bearing bonds, (iv) deposit certificates, (v) repurchase agreements, (vi) debenture loans;
- c) TRANSACTIONS of placement of own and third parties’ financial products and/or services.

TRANSACTIONS involving the acquisition of goods and performances of services (by way of example and without limitation) may also be subject to framework resolutions, more precisely:

- contracts of purchase/sale/exchange/rental of moveable property to be used in the activities of GROUP companies;
- contracts for the administration of property intended to be used by the GROUP companies;
- contracts for the completion of works or services to be used by the GROUP companies;
- contracts of lease, use, free loan or leasing of immovable and moveable property intended to be used by the GROUP companies or the Employees, Collaborators or Shareholders of the same;
- contracts dealing with the granting or acquisition of rights of access to a software product or the execution or distribution of the same;
- advertising contracts;
- sponsorship contracts;
- contracts of donation, even in solemn form, of moveable property, with the exception of indirect donations.

Framework resolutions may not cover a period of time greater than one year and should identify all foreseeable information relating to the TRANSACTIONS to which they refer. In particular, they should identify:

- an indication of the ENTITY set out in Appendix 1 and the composition of the respective “set”;
- types of TRANSACTIONS showing the criterion used to define the type itself. When the TRANSACTION involves the assumption of RISK ACTIVITIES, the types provided for by the internal regulations of the respective activity should be used (for example: types provided by the Credit Line Regulations, Finance Regulations, etc.);
- for each type, the maximum limit of RISK ACTIVITIES that may be assumed or in any case the value of the transactions being authorised;
- criteria relating to the economic terms of the TRANSACTION;
- where possible, limits relating to the economic terms;
- indication of the bodies or structures or identification criteria of the bodies or structures responsible for resolving upon the individual TRANSACTIONS.

Where a TRANSACTION, albeit abstractly attributable to one of the types involved, does not fully satisfy the other conditions intended to identify in accordance with criteria of specificity, homogeneity



and certainty, the categories of TRANSACTIONS authorised by the “framework resolution”, the TRANSACTION may not be carried out in implementation of the latter. That TRANSACTION is therefore subject to the rules established generally for each TRANSACTION with the ENTITIES set out in Appendix 1.

For the purposes of distinguishing between the applicable procedures (TRANSACTIONS of greater or lesser significance), the BANKS take account of the foreseeable maximum amount of the TRANSACTIONS subject to the resolution, considered as a whole. The individual TRANSACTIONS carried out in respect of those framework resolutions are not subject to the rules provided in the previous paragraphs.

The following TRANSACTIONS remain, by frequency of occurrence, but are equally subject to the REGULATION where the presuppositions are in place:

**TRANSACTIONS under the remit of the Shareholders’ Meeting:** these include TRANSACTIONS which must be resolved upon by the Shareholders’ Meeting on the basis of legal provisions (legislation and regulatory) or the Articles of Association of the BANK. The same are subject to the provisions of the REGULATION regarding that category of TRANSACTIONS, except in cases of derogation and exemption set out by that REGULATION. Those provisions also apply to TRANSACTIONS upon which the Shareholders’ Meeting is asked to resolve following the negative opinion expressed by the INDEPENDENT DIRECTORS, in accordance with the regulation issued by Consob pursuant to Article 2391-bis of the Italian Civil Code, if and when the respective REGULATION in accordance with the aforementioned article so allows.

**Urgent TRANSACTIONS:** these are TRANSACTIONS to be carried out in the case of urgency and are susceptible to resolution by a delegated Body/individual, in accordance with the Articles of Association of the BANK. Urgent TRANSACTIONS are subject, with respect to the procedure to be observed for the TRANSACTIONS of greater or lesser significance, to the derogations and exemptions provided by the REGULATION, so far as this is permitted by the Articles of Association (c.f. para. 4.4.3).

#### **4.4.2 Exclusions**

The following shall not be considered TRANSACTIONS with the ENTITIES set out in Appendix 1:

- a) those made between members of the GROUP when there is a relationship of totalitarian control between them, even jointly;
- b) the fees paid to COMPANY REPRESENTATIVES, if compliant with the supervisory provisions in relation to incentive and remuneration systems of the BANKS;
- c) intragroup transfer transactions of funds or “collateral” implemented as part of the liquidity risk management system at consolidated level;
- d) transactions to be implemented on the basis of instructions for stability purposes imparted by the Bank of Italy, or based upon provisions issued by the PARENT COMPANY to implement instructions imparted by the Bank of Italy in the interests of the stability of the GROUP.

Excluded from the application of the limits on the RISK ACTIVITIES (set out in the table contained in paragraph 4.4.4.a) below are TRANSACTIONS with GROUP COMPANIES<sup>4</sup>.

Therefore, even when the cited RISK ACTIVITIES are excluded from application of the aforementioned limits, the TRANSACTIONS to which they relate should be investigated and resolved upon in compliance with the REGULATION.

### 4.4.3 Exemptions and Derogations

The following cases are identified to which the provisions of the REGULATION are not applied, in whole or in part:

**TRANSACTIONS of a small amount:** TRANSACTIONS whose value does not exceed EUR 1,000,000 (one million)<sup>5</sup> are excluded from application of the REGULATION. The cases of TRANSACTIONS of a small amount do not include CONTENTIOUS TRANSACTIONS and TRANSACTIONS of PERSONNEL to which the specific provisions of the REGULATION are therefore applied.

**Ordinary Transactions:** only the provisions which relate to the resolution and information flows are applied. Specifically:

- the resolution should contain elements that prove the “ordinary” nature of the TRANSACTION;
- there is provision for information flows of the TRANSACTIONS registered, at least of an aggregate nature, appropriate to allow, at least on an annual basis, for appropriate monitoring of the TRANSACTIONS, also by the COMMITTEE, for the purposes of any corrective actions.

**TRANSACTIONS that fall within the scope of application of the regulations on the obligations of banking representatives pursuant to Art. 136 Consolidated Banking Law:** only some of the provisions are applied to:

- the pre-resolution phase: provide to the members of the COMMITTEE, with appropriate prior notice, complete and sufficient information on the different profiles of the TRANSACTION subject to the resolution (counterpart, type of TRANSACTION, terms, benefit for the company, impact on the interests of the entities involved etc.). The COMMITTEE is not asked to issue an opinion;
- the resolution phase: the resolution should provide adequate justification in relation to the opportunity and economic benefit of the TRANSACTION along with the reasons for any deviations, in terms of economic-contractual conditions and other characteristic profiles of the TRANSACTION, compared to standard or market conditions.

**TRANSACTIONS with or between Subsidiary Companies** and for those with companies subject to significant influence in which there are no SIGNIFICANT INTERESTS of other ASSOCIATED ENTITIES, only the provision of information flows is applied to the BANK which benefits from the exemption, at

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<sup>4</sup> [C.f. SUPERVISORY PROVISIONS – Title V – Chapters 5 – Section II – Para. 2. See also: “Instructions for compilation of the reports on regulatory capital and prudential ratios” – Circular no. 155 dated 18 December 1991 - Section 5: “*To all exposures between Companies belonging to the same banking group – therein including, for the purposes of these regulations, investments and other elements that can be calculated in the regulatory capital – a weighting factor equal to 0% is applied.*”]

<sup>5</sup> [C.f. SUPERVISORY PROVISIONS – Title V – Chapters 5 – Section III – Para. 3.7.1]  
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least of an aggregate nature, appropriate to allow, at least on an annual basis, for appropriate monitoring of the TRANSACTION, also by the COMMITTEE, for the purposes of any corrective actions.

**Urgent TRANSACTIONS:** (where permitted by the Articles of Association of the BANKS) they are excluded from application of the resolution procedures set out in the REGULATION, on the condition that the urgent nature is specifically proven in the resolution based upon objective circumstances and not exclusively attributable to the decisions of the DECISION-MAKING BODY.

In the case of transactions that fall within the decision-making powers - also not exclusive - of the Board of Directors or the decision-making powers of the Executive Committee, the Board of Directors or, respectively the Executive Committee, and in any case the Board of Statutory Auditors, must be informed of the reasons for the urgency before the transaction is carried out. If one or more of the bodies receiving the prior disclosure or the COMMITTEE made up of INDEPENDENT DIRECTORS do not believe that the transaction is urgent in nature, they must promptly notify the other bodies and, as soon as possible, the shareholders' meeting. If the urgent transaction is under the responsibility of DECISION-MAKING BODIES other than the Board of Directors or the Executive Committee, it will be subject to the periodic information obligations established for ordinary transactions.

Urgent TRANSACTIONS should also be registered.

#### **4.4.4 Roles and Responsibilities**

The completion of the TRANSACTIONS sees the involvement of various organisational roles/structures and corporate Bodies, as follows:

- a) *the investigator*: this is the person assigned by the HEAD OF THE PROCEDURE to activate the procedures preliminary to the decision-making process. He/she verifies the characteristics and type of TRANSACTION and the counterpart and activates the procedure preliminary to the preparation of information for the persons, structures and Bodies taking part in the decision-making process. The preparation of this information is formalised by the investigator completing the REGISTER insofar as is under his/her remit;
- b) *The HEAD OF THE PROCEDURE*: he/she arranges and coordinates the due diligence activities and sends with appropriate prior notice the proposal, together with any reports issued during the negotiations, to the Members of the COMMITTEE and to the DECISION-MAKING BODY. The preparation of the proposal is formalised – inter alia – by completing the REGISTER insofar as is under his/her remit. Where the Board of Directors is asked to resolve upon the TRANSACTIONS, or it is asked to approve the proposal to be submitted to the Shareholders' Meeting of the BANK, the proposal should be provided with appropriate prior notice and, in any case, in compliance with the timescales provided for compliance with the provisions contained in the regulations – in force each time – in relation to information flows and functioning of the aforementioned Body;
- c) *the Secretariat function*: the structure of the BANK which, based upon the Structure Regulation, performs the activity of administrative secretariat for the corporate Bodies. It provides, where requested, support to the proposing functions for the correct and comprehensive entry of the TRANSACTIONS (highlighting the TRANSACTIONS constituting RISK ACTIVITIES and cases of accumulation of the same, the CONTENTIOUS TRANSACTIONS and TRANSACTIONS with PER-

SONNEL) in the REGISTER and proceeds to supplement it with the aspects which see it directly involved (opinions and resolutions of the COMMITTEE, Board of Directors and Executive Committee).

d) *the COMMITTEE* which, with reference:

d.1) to TRANSACTIONS of greater significance (which are not those “with or between Subsidiaries” or those subject to the special regulations “referred to in Article 136 CONSOLIDATED BANKING LAW”), expresses to the Board of Directors a reasoned favourable opinion on the interests of the BANK in completing the TRANSACTION along with the benefit and substantial correctness of the respective conditions.

In order to be considered favourable, the opinion should show full agreement to the TRANSACTION.

Where the COMMITTEE expresses a negative opinion or an opinion conditioned upon remarks, the Board of Directors shall request a prior opinion also from the Board of Auditors to which it must provide appropriate information (in timescales and contents) on the TRANSACTION. In the event of a negative opinion of the COMMITTEE and/or the Board of Auditors and the Board of Directors intends to implement the TRANSACTION, it must provide in the resolution an analytical justification of the reasons for which it is in any case completed and a specific reply to the remarks made by the COMMITTEE or by the Board of Auditors.

Where the COMMITTEE expresses an opinion conditioned upon compliance with one or more instructions, the Board of Directors may approve the TRANSACTION provided that it effectively incorporates those instructions, it being understood, in that case, that, for the purposes of the REGULATION, it shall not be necessary for the COMMITTEE to issue another opinion. In the information on implementation of the TRANSACTION, to be provided to the Board of Directors and the Board of Auditors, evidence is shown of proper compliance with any conditions included in the issue of the opinion in question.

In the case of TRANSACTIONS of greater significance – in addition to the foregoing - the COMMITTEE should be involved in the negotiation phase and in that of the due diligence at least by way of receipt of a comprehensive and timely information flow from its Members. Further provisions relating to the involvement of the COMMITTEE in the negotiations are dictated by the Committee Regulation which constitutes an integral and substantial part of the REGULATION.

d.2) to TRANSACTIONS of lesser significance (which are not “ordinary”, “with or between Subsidiaries” or those subject to the special regulations “referred to in Article 136 of the CONSOLIDATED BANKING LAW”), expresses to the DECISION-MAKING BODY a reasoned, non-binding opinion on the interests of the BANK in completing the TRANSACTION along with the benefit and essential correctness of the respective conditions. The opinion is equipped with any opinions proffered by the independent EXPERTS. The aforementioned opinions, i.e. that of the COMMITTEE and those from any EXPERTS, must be sent, without delay, to the DECISION-MAKING BODY;

e) *the Members of the COMMITTEE* who, with reference to the TRANSACTIONS subject to the special regulations in relation to the obligations of COMPANY REPRESENTATIVES set out in Article 136 of the CONSOLIDATED BANKING LAW, receive with appropriate prior notice, complete and adequate information on the various profiles of the TRANSACTION subject to the decision

(counterpart, type of TRANSACTION, conditions, benefit for the Company, impact on the interests of the parties involved, etc.);

f) *the DECISION-MAKING BODIES:*

f.1) the Shareholders' Meeting of the BANK resolves upon the TRANSACTIONS reserved to it by law, by the regulations, by the Articles of Association and by the REGULATION, irrespective of the significance of the TRANSACTION.

For the TRANSACTIONS under the remit of the Shareholders' Meeting of the BANK, the respective decision proposals to be submitted to the Shareholders are approved by the Board of Directors applying the provisions set out for the TRANSACTIONS of greater and/or lesser significance, with the specification that the TRANSACTIONS of greater significance may be submitted by the Board of Directors to the Shareholders' Meeting of the BANK despite the contrary opinion of the COMMITTEE with the provisions set out in the paragraphs below consequently being applied to the Shareholders' Meeting.

The resolution of the Shareholders' Meeting of the BANK is adopted in the terms, with the methods and in compliance with the constitutional and decision-making quorums required by legal (both legislation and regulations) and statutory provisions in force each time including those relating to the regulation of conflict of interest for Shareholders.

Proposals relating to TRANSACTIONS of greater significance under the remit of the Shareholders' Meeting of the BANK may be submitted to the latter without the opinion of the Board of Auditors, even where a negative opinion has been issued by the COMMITTEE, subject to the power of the Board itself to refer to the Shareholders' Meeting when this is required or permitted by regulatory sources other than the REGULATION. That derogation is also applied to TRANSACTIONS on which the Shareholders' Meeting is asked to resolve following a negative opinion expressed by the COMMITTEE in accordance with the regulation issued by Consob pursuant to Article 2391-bis of the Italian Civil Code.

The minutes of the resolutions should formalise, clearly and comprehensively, the reasons upon which the decision is based, with regard to the interests in completing the TRANSACTION, along with the benefit and essential correctness of the conditions of the same.

f.2) *the Board of Directors* resolves:

- upon TRANSACTIONS that, irrespective of their significance, are reserved to it by law, by the Articles of Association, by the Procedure adopted in accordance with Article 2391-bis of the Italian Civil Code or by the REGULATION;
- upon TRANSACTIONS of greater significance other than those set out in the previous paragraph;
- upon proposals to be submitted to the Shareholders' Meeting concerning TRANSACTIONS reserved to it.

The Board of Directors also resolves upon TRANSACTIONS of lesser significance which, by subject or value or in any case for legal, regulatory, statutory or corporate reasons other than the regulation of "transactions with related parties", are not delegated to other DECISION-MAKING BODIES, in accordance with the following paragraph.

The Board of Directors of Credito Bergamasco resolves – exclusively – upon TRANSACTIONS of lesser significance that are not subject to derogations and/or exemptions (for example: "ordinary" TRANSACTIONS).

The minutes of the resolutions should formalise, clearly and comprehensively, the reasons upon which the decision is based, with regard to the interests in completing the TRANSACTION, along with the benefit and essential correctness of the conditions of the same.

- f.3) the Executive Committee, the Chief Executive Officer, the Directors other than the Chief Executive Officer to which management powers are granted by the Board of Directors and the decision-making Organisational structures, meaning, as such, the representatives of General Management along with those who – in single-member or collegial form – are responsible for resolving upon TRANSACTIONS in compliance with the company’s internal rules, resolve upon TRANSACTIONS of lesser significance in accordance with the limits and powers granted by the Board of Directors.

#### **4.4.4.a Due diligence phase and any negotiations**

The TRANSACTIONS require an additional due diligence phase parallel to the ordinary phase in order to identify the decision-making process in line with the provisions of the REGULATION.

The TRANSACTIONS that fall within the process developed in this Chapter are those of an amount exceeding EUR 1,000,000 (one million) or CONTENTIOUS TRANSACTIONS and/or those involving PERSONNEL.

The *Investigator*:

- a) preliminarily verifies, as soon as possible, based upon the concrete characteristics and type of TRANSACTION:
- if the same falls within the cases of “total exclusion” from the REGULATION as it does not exceed EUR 1,000,000 (one million). In that case, the TRANSACTION follows the due diligence and decision-making process required for transactions implemented by entities other than the ENTITIES set out in Appendix 1;
  - if the counterpart falls within the ENTITIES identified in the REGISTER. That check may be performed by accessing the “General Register” host application or the “Supplementary Register” web application. In this database, it is possible, inter alia, also to check the “status” of the same (for example: RELATED PARTY BI – FINANCIAL/NON-FINANCIAL – COMPANY REPRESENTATIVE or LINKED ENTITY – RELATIVE-IN-LAW, PERSONNEL, etc.).

Where it is found that the counterpart to the TRANSACTION is not one of the entities referred to in Appendix 1, the preliminary decision-making process normally followed for the case of TRANSACTION is followed.

Where the counterpart falls within the ENTITIES SET out in Appendix 1, the process will be the following:

- b) makes the Counterpart aware of his duties and notifies him of the possible profiles of responsibility (for example: pursuant to Article 137 of the Consolidated Banking Law), through the specific approval of clauses contained in the forms prepared;
- c) identifies to which type – among the following – the TRANSACTION belongs: TRANSACTIONS of greater significance or TRANSACTIONS of lesser significance. In the case of TRANSACTIONS of greater significance, where the due diligence cannot be completed due to the existence of negotiations, the investigator sends to the HEAD OF THE PROCEDURE, for onward transmission

to the Members of the COMMITTEE, a written communication containing at least the results of the checks set out in the previous paragraphs, specifying that the communication constitutes only the start of the information flow required by the REGULATION for the negotiation phase.

The TRANSACTIONS of greater significance and those of lesser significance, as stated, may be further classified into additional sub-types. For some TRANSACTIONS the sub-types may be multiple (for example, a “TRANSACTION subject to framework resolution” may also be a “TRANSACTION pursuant to Article 136 of the CONSOLIDATED BANKING LAW”, etc.).

The classification thus combined determines the procedural process that should be followed for the correct resolution on the TRANSACTION. The investigator also verifies if the TRANSACTION may fall within the cases of exclusion, exemption or derogation from the procedures provided by the REGULATION and in that case to adopt the following processes.

- d) verifies, in the presence of a TRANSACTION that involves the assumption of RISK ACTIVITIES, compliance with the quantitative limits imposed by the SUPERVISORY PROVISIONS, in relation both to the consolidated regulatory capital and to the individual regulatory capital of the individual BANK, along with compliance with the levels of propensity to risk established by the PARENT COMPANY as part of the POLICIES.

In relation to the **consolidated** regulatory capital, the assumption of RISK ACTIVITIES towards ASSOCIATED ENTITIES must be contained within the limits set out below:

NON-FINANCIAL RELATED PARTY, and respective LINKED ENTITIES		Other RELATED PARTIES and respective LINKED ENTITIES	
5%	COMPANY REPRESENTATIVE	5%	COMPANY REPRESENTATIVE
	Controlling investor or able to exercise significant influence	7.50%	Controlling investor or able to exercise significant influence
7.50%	Investor other than that above	10%	Investor other than that above
	Entity, other than the investor, able, alone, to appoint one or more members of the corporate bodies		Entity, other than the investor, able, alone, to appoint one or more members of the corporate bodies
15%	Other cases	20%	Other cases

In relation to **individual** regulatory capital, it is noted that, in compliance with the consolidated limits, the BANK may accept RISK ACTIVITIES towards the same set of ENTITIES within the limit of 20% of the individual regulatory capital.

The levels of propensity to risk are expressed in the Group Risk Regulation.

Excluded from the limits set out in the table and in the paragraph below it are RISK ACTIVITIES connected to TRANSACTIONS between GROUP companies.

Conversely, included in the aforementioned limits are TRANSACTIONS of a small amount albeit that they are excluded from the decision-making process.

The check regarding compliance with the aforementioned limits (quantitative limits imposed by the SUPERVISORY PROVISIONS and levels of propensity to risk established by the PARENT COMPANY) is performed by accessing a specific function of the “Supplementary Register” web application.

In order to ensure compliance with the prudential limits and the levels of propensity to risk, the following are instituted:

- (i) line controls (or 1st level controls) at “*first instance*” inherent in the computer procedures used by the structure responsible for the due diligence of the TRANSACTION and based upon a criterion of “maximum prudence”;
- (ii) line controls (or 1st level) of “*second instance*”, entrusted to the *ordinary credit functions* or *problem and impaired loan*, of the BANK specifically instructed to simulate the effects of the TRANSACTIONS and to provide clearance to the DECISION-MAKING BODY regarding compliance with the risk limits set out by the SUPERVISORY PROVISIONS and the levels of propensity to risk defined by the PARENT COMPANY. Those *functions* operate using the calculation methods set out in Section II, Paragraph 2 of the SUPERVISORY PROVISIONS and they verify, in line with those methods, the reliability of any prospective doubts that might be reported by the “first instance” line controls.

Those functions also verify the existence of the conditions in which the acceptance of new risk activities (in implementation of the provisions of the Group Risk Regulation) must be accompanied by adequate techniques of attenuating the risks to be provided by entities independent from the ASSOCIATED ENTITIES and whose value is not positively related to the credit quality of the borrower.

In order to activate the line controls (or 1st level) of “*second instance*”, the *Investigator* is required to suspend the activity and to request the definitive verification of the cited functions, which – where they believe the aforementioned doubts to be grounded – establish and communicate the conditions to which the continuation of the TRANSACTION process is subject and where, on the other hand, the groundlessness of that doubt is identified, they issue written clearance to the *Investigator*. The determinations of the “*second instance*” line control are communicated to the *Risk management function* as well as to the HEAD OF THE PROCEDURE, to the COMMITTEE (where required by the decision-making process) and to the DECISION-MAKING BODY.

Having defined the type and verified (in the case of a TRANSACTION that involves the acceptance of RISK ACTIVITIES) compliance with the quantitative limits imposed by the supervisory provisions, the *investigator* completes the case file with the information relating to the specific aspects of the TRANSACTION. In particular, in addition to the subject and value, he should identify in summary, but comprehensively:

- a) the characteristics of the TRANSACTION;
- b) the methods of implementing the same;
- c) the temporal and economic conditions scheduled for completion of the TRANSACTION (for TRANSACTIONS implemented continuously and periodically, where the total value of the same is not determined, the investigator proceeds to make an estimate of the uni-



tary value of the performances based upon the duration of the contract or, where it is open-ended, on an annual basis).

To supplement the foregoing, the due diligence should highlight the motivations regarding the interest of the Company in completing the TRANSACTION along with the benefit and essential correctness of the respective conditions.

With reference to the latter, the investigator should illustrate the methods of determination and assessments of congruity with respect to market values. If the conditions are defined as equivalent to those of the market or standard conditions, the investigator should provide:

- objective evidence;
- the assessment process followed;
- the underlying interests and motivations.

TRANSACTIONS concluded at market conditions or standard conditions are deemed to be those that are:

- concluded at conditions similar to those normally applied towards non-associated entities for TRANSACTIONS of similar nature, amount and risk, or
- based on regulated rates or imposed prices, or
- applied to entities with which the BANK is obligated by law to contract at a certain fee, subject to the conditions set out in paragraph 4.4.1. being complied with.

- e) The *Investigator* provides a written communication to the HEAD OF THE PROCEDURE, for onward transmission to the Members of the COMMITTEE, regarding the development of the negotiations, in relation to the gradual definition of the elements of the TRANSACTION which must be subject to negotiation during the course of the due diligence.

#### **4.4.4.b Decision-making process for the Banks**

The case file thus completed, its decision-making process commences which involves it being sent:

- a) to the COMMITTEE (if required);
- b) to the DECISION-MAKING BODY.

For TRANSACTIONS of greater and lesser significance, there is provision for the COMMITTEE – prior to approval of the TRANSACTION – to express a reasoned opinion on the interests of the BANK in completing the same along with the benefit and essential correctness of the respective conditions.

However, for TRANSACTIONS (of greater or lesser significance) “pursuant to Article 136 of the Consolidated Banking Law”, there is provision for the COMMITTEE not to express opinions, but that its Members are provided – with appropriate prior notice compared to the decision - with complete and adequate information on that TRANSACTION.

A similar procedure is in place for CONTENTIOUS TRANSACTIONS (even of a small amount) whose value, at the time of the decision-making stages, does not exceed EUR 1,000,000.00.

For other types of TRANSACTIONS, by way of example, those “with or between Subsidiaries”, the COMMITTEE does not have to issue opinions and is not the recipient of information flows preliminary to the decision.

By virtue of the foregoing, the *Investigator* – upon concluding his activities – must specify the process of the case that involves:

- sending it to the COMMITTEE for the issue of the opinion, with specification, in the case of TRANSACTIONS of greater significance subject to negotiations, of the conclusion of the same;
- sending it to the Members of the COMMITTEE as prior or subsequent information to the decision;
- not sending it to the COMMITTEE. In this case, he must specify the reason.

The procedure to be followed differs, as stated, based upon the type of TRANSACTION. Without prejudice to the provisions of the REGULATION, the cases of the most frequent TRANSACTIONS and their process is summarised in the tables at the foot of this paragraph.

The forwarding – where required – is done under the signature of the HEAD OF THE PROCEDURE. It follows that the *Investigator* – upon the conclusion of the activities under his remit – sends the case file to his hierarchical Manager who, having checked its completeness, transfers it to the aforementioned HEAD OF THE PROCEDURE.

The HEAD OF THE PROCEDURE – where required – sends with appropriate prior notice to the Members of the COMMITTEE, by way of the secretariat function, as well as to the DECISION-MAKING BODY, the information on the TRANSACTION prepared during the course of the due diligence, together with any reports issued during the negotiations. Similarly, he must proceed to send any supplementary information.

The members of the COMMITTEE, having received from the HEAD OF THE PROCEDURE – where required - adequate written information, accompanied by the respective necessary supporting documentation, implement the provisions of the Regulation of the COMMITTEE and, if required, the COMMITTEE issues to the DECISION-MAKING BODY its opinion on the TRANSACTION in useful time for an appropriate analysis.

In the case of a negative opinion or an opinion conditional to remarks on a TRANSACTION of greater significance by the COMMITTEE, the DECISION-MAKING BODY should also request a prior opinion from the Board of Auditors to which the HEAD OF THE PROCEDURE must provide appropriate information – in timescales and content – on the TRANSACTION.

The opinion provided by the Board of Auditors is subject to the same provisions applied to the opinion of the COMMITTEE (opinion motivated on the interests of the Company in completing the TRANSACTION along with the benefit and essential correctness of the respective conditions).

The DECISION-MAKING BODY that has already received from the HEAD OF THE PROCEDURE appropriate written information, accompanied by the respective necessary supporting documentation, receives from the COMMITTEE – where required (TRANSACTIONS of greater and lesser significance other than “ordinary” TRANSACTIONS, or Transactions “with or between Subsidiaries” and “pursuant to Article 136 of the CONSOLIDATED BANKING LAW”) - the opinion on the TRANSACTION, accompanied by any opinions provided by the EXPERTS.

The minutes of the resolutions should formalise, clearly and comprehensively, the reasons upon which the decision is based, with regard to the interests in completing the TRANSACTION, along with the benefit and essential correctness of the conditions of the same.

The outcome of the resolution and respective motivation should be recorded in the REGISTER and communicated to the HEAD OF THE PROCEDURE by the secretariat function of the DECISION-MAKING BODY.

### **Transactions under the remit of the Shareholders' Meeting**

For TRANSACTIONS under the remit of the Shareholders' meeting, the respective resolution proposals to be submitted to the shareholders are approved by the Board of Directors applying the foregoing provisions, with the specification that:

- where the PARENT COMPANY directly holds the majority of capital in the Company, the Board of Directors approves the proposal and convenes the Shareholders' Meeting providing notice to the PARENT COMPANY of that resolution to the Administrative Body, immediately after its adoption;
- in other cases, the proposal to be submitted to the Shareholders' Meeting must be examined in advance by the PARENT COMPANY as provided in the paragraphs above.

### **Transactions with or between Subsidiaries**

In relation to the management, by the BANKS, of TRANSACTIONS with or between Subsidiaries, and on the premise that the PARENT COMPANY is itself a BANK, it is established that:

- A) the following may benefit from the exemption in place for TRANSACTIONS "with or between Subsidiaries", irrespective of the fact that the TRANSACTION has been or must be approved by the PARENT COMPANY:
  - a) the resolution by the BANK that intends to complete and must therefore approve a TRANSACTION with a BANK subject to its control or significant influence;
  - b) the resolution of a BANK that intends to complete and must therefore approve a TRANSACTION with a GROUP Company subject to its control or significant influence and which is different from the BANKS;
  - c) the resolution of a BANK that intends to complete and must therefore approve a TRANSACTION with a Company not belonging to the GROUP and which is subject to its control or significant influence;
  - d) the resolution of a BANK (other than the PARENT COMPANY) which must not complete but which, by virtue of regulatory sources other than the REGULATION, must in any case approve a TRANSACTION between its own Subsidiaries (banking or non-banking, belonging to the GROUP or external to it);
- B) the resolution of a BANK that intends to complete and must therefore approve a TRANSACTION with its Parent Company, irrespective of the fact that the TRANSACTION is or must be approved by the PARENT COMPANY or that the Parent Company coincides with the PARENT COMPANY, may not benefit from the exemption provided for TRANSACTIONS "with or between Subsidiaries".
- C) the following may NOT, moreover, benefit from the exemption provided for TRANSACTIONS "with or between Subsidiaries":

- a) the resolution of a BANK that intends to complete and must therefore approve a TRANSACTION with a BANK subject only to common control;
- b) the resolution of a BANK that intends to complete and must therefore approve a TRANSACTION with a GROUP company subject only to common control;
- c) the resolution of a BANK that intends to complete and must therefore approve a TRANSACTION with a Company external to the GROUP subject only to common control.

In the cases set out in letter C) above, the TRANSACTION must in any case be approved by the PARENT COMPANY, whose resolution:

- (i) is adopted in compliance with the REGULATION but may benefit from the exemption for TRANSACTIONS “with or between Subsidiaries”;
- (ii) is adopted in exercise of the powers of management and coordination set out in article 61 of the CONSOLIDATED BANKING LAW or Articles 2497 et seq of the Italian Civil Code;
- (iii) may be subsequent to the resolutions of other Companies of the GROUP, where the latter insert in their own resolutions a clause that makes their effectiveness subject to the resolutions of the PARENT COMPANY.

Therefore, recapping the cases covered in letters A), B) and C) above, the resolution of the PARENT COMPANY:

- (a) is not required by the REGULATION<sup>6</sup> when it relates to a TRANSACTION between another BANK and its Subsidiary or a company subject to significant influence;
- (b) is adopted in compliance with the REGULATION and may benefit from the exemption provided for TRANSACTIONS “with or between Subsidiaries”, when the PARENT COMPANY must not only approve but also complete the TRANSACTION with a Subsidiary (banking or non-banking, belonging to the GROUP or external to it);
- (c) is adopted in compliance with the REGULATION and may benefit from the exemption provided for TRANSACTIONS “with or between Subsidiaries”, when the PARENT COMPANY must resolve but not complete TRANSACTIONS between a BANK and a company (banking or non-banking, belonging to the GROUP or external to it) which, with respect to the BANK, is only subject to common control by the PARENT COMPANY.

It is, in any case, necessary for:

- the *Investigator* to verify whether the TRANSACTION belongs to the category of TRANSACTIONS “with or between Subsidiaries”;
- The DECISION-MAKING BODIES of the BANK and the PARENT COMPANY (for the latter, when the resolutions must be adopted in compliance with the REGULATION) to record in the respective resolutions evidence that proves the absence of SIGNIFICANT INTERESTS of other ASSOCIATED ENTITIES with reference to each specific TRANSACTION.

## **Resolutions on Contentious Transactions**

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<sup>6</sup> Subject in any case to the requirements of other regulatory sources.  
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CONTENTIOUS TRANSACTIONS do not benefit from the exemptions and derogations provided for TRANSACTIONS of “small amounts”, “ordinary” TRANSACTIONS and those “with or between Subsidiaries”.

The responsibility for making the decision is regulated as follows:

- CONTENTIOUS TRANSACTIONS whose current value does not exceed EUR 1,000,000, are resolved by the relevant Body or organisational Structure based upon the current system of delegations and powers, but each resolution must be communicated to the Members of the COMMITTEE immediately after its adoption;
- CONTENTIOUS TRANSACTIONS whose current value exceeds EUR 1,000,000 are resolved upon by applying the provision of the REGULATION regarding TRANSACTIONS with the ENTITIES set out in Appendix 1, notwithstanding that they do not benefit from exemptions and derogations.

### **Resolution on Transactions of Personnel<sup>7</sup>**

Without prejudice to the obligation of the employee or collaborator to give notice to his hierarchical superior of any interest that, on his own behalf or that of third parties, he has in a certain TRANSACTION under the remit of the structure to which he belongs, specifying the nature, terms, origin and scope of the interest and also without prejudice to the obligation to refrain from contributing to instructing or approving, or implementing that TRANSACTION<sup>8</sup>, the TRANSACTIONS relating to PERSONNEL are subject to the following provisions:

- TRANSACTIONS whose value does not exceed EUR 1,000,000, are resolved upon by the Body or by the organisational Structure hierarchically immediately superordinate to that responsible for personnel who do not fall within the definition set out in Paragraph 2.1 based upon the current system of delegations and powers (resolutions that fall within the remit – based upon the aforementioned system of delegations and powers – of the Board of Directors are not subject to the provision in question). Each resolution must be communicated to the Members of the COMMITTEE immediately after its adoption;
- TRANSACTIONS whose value exceeds EUR 1,000,000 are resolved upon by applying the provisions of the REGULATION regarding TRANSACTIONS with the ENTITIES set out in Appendix 1, disregarding, however, the provisions relating to exemptions and derogations.

The documentation relating to the due diligence of the TRANSACTION must make mention of the declaration of the Employee or Collaborator referred to in the first sentence of this paragraph.

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<sup>7</sup> the definition of TRANSACTIONS of PERSONNEL does not include the signature or variation of the employment contract where this is formalised as part of the “remuneration policies” adopted by the BANKS of the GROUP

<sup>8</sup> This is without prejudice to the compliance required of all employees and collaborators of BANCO not belonging to the most significant personnel in matters of conflict of interest (c.f. Banco Popolare Code of Ethics, Internal Self-Regulation Code of Intermediaries of Banco Popolare)

Excluded from the application of those rules are resolutions relating to the conclusion or amendment of contracts of employment, collaboration not constituting subordinate employment, remuneration and fees based upon the exercise of functions of administration or control.

#### Summary Table of decision-making/informative process (BANKS)

TRANSACTION Type	COMMITTEE (or its Members)	Board of Statutory Auditors	DECISION-MAKING BODY
TRANSACTION of <b>greater significance</b>	It must be involved in the negotiation phase and in the due diligence at least by way of receipt of a complete and prompt information flow It expresses to the Board of Directors a reasoned favourable opinion on the interests of the BANK in completing the TRANSACTION.	It issues a prior opinion to the Board of Directors where the latter has received from the COMMITTEE a negative opinion or opinion conditioned upon remarks made	It is always the Board of Directors
TRANSACTIONS of <b>lesser significance</b>	It expresses to the DECISION-MAKING BODY a reasoned non-binding opinion on the interests of the BANK in completing the TRANSACTION		In accordance with the current system of delegations and powers or the regulation pursuant to Article 2391-bis of the Italian Civil Code
TRANSACTIONS <b>pursuant to Article 136 CBL</b>	It must receive, with appropriate prior notice, complete and adequate information on the different profiles of the TRANSACTION subject to the decision	It votes in accordance with Article 136 CBL	It is the Board of Directors and exceptionally the Executive Committee (where present). For BANKS other than BANCO the decisions are subject to consent from the PARENT COMPANY where the prior consent issued by the latter is not in place
<b>ORDINARY</b> Transactions	It must receive information flows of the TRANSACTIONS registered, of an aggregate nature, appropriate to allow, on an annual basis, for monitoring of the TRANSACTIONS		In accordance with the current system of delegations and powers
TRANSACTIONS <b>with or between Subsidiaries</b> or subject to significant influence	It must receive information flows, of an aggregate nature, appropriate to allow, on an annual basis, for monitoring of the TRANSACTIONS		In the case of transactions between Subsidiaries, the decision of the BANK that completes the TRANSACTION must subject the same to the enforcement of the resolution by the PARENT COMPANY
CONTENTIOUS TRANSACTIONS (of a small amount)	Any decision must be communicated immediately after its adoption		They are resolved by the Body or organisational structure responsible on the basis of the current system of delegations and powers
TRANSACTIONS of PERSONNEL (of small amounts)	Any decision must be communicated immediately after its adoption		They are resolved by the Body or organisational Structure hierarchically and immediately superordinate to that responsible based upon the current system of delegations and powers

#### 4.4.4.c Controls for other Group Companies

GROUP companies other than the BANKS proceed with the due diligence in compliance with paragraph 4.4.4.a.

Once the preliminary stage is complete, the case begins its decision-making process, which involves two separate decision-making processes depending upon whether or not, in application of the rules provided for BANKS by the REGULATION, the TRANSACTION is ascribable to those for which the mandatory opinion of the COMMITTEE is required.

Specifically:

- a) the resolution of the Company other than a BANK is adopted in accordance with the existing system of delegations and powers, irrespective of the significance of the TRANSACTION, in the case where the latter must be completed with a BANK (which abides by the decision-making processes provided by the REGULATION including the instructions which require the resolution of the PARENT COMPANY for TRANSACTIONS with or between Subsidiaries – c.f. para. 4.4.4.b)
- b) irrespective of the significance of the TRANSACTION, where the latter must be completed with a Company other than the BANKS but belonging to the GROUP or in any case with a Company subject to the control or significant influence of the PARENT COMPANY, the decision of the DECISION-MAKING BODY must contain a clause that expressly suspends its enforcement until an approval decision by the PARENT COMPANY has been received and to be sent, therefore, to the relevant DECISION-MAKING BODY OF THE PARENT COMPANY by issue or value in accordance with the REGULATION, as well as to the Members of the COMMITTEE of the PARENT COMPANY (where in place) the TRANSACTION may not be performed until the favourable resolution of the PARENT COMPANY has been received, which the latter adopts in compliance with the provisions of the REGULATION that would be applicable where the TRANSACTION was to be concluded by the PARENT COMPANY itself;
- c) the TRANSACTIONS of greater significance, irrespective of the type of ENTITY with which they are made, must in any case be decided by the relevant DECISION-MAKING BODY OF THE PARENT COMPANY based upon the REGULATION. The provisions of paragraph b) are respected;
- d) in other cases, the following provisions are respected:
  - (i) where, due to the occurrence (verified in the due diligence) of cases of exemptions or derogations or for another reason, the TRANSACTION is ascribable to those not subject to the opinion of the COMMITTEE, the decision-making process is completed at the non-banking Company, subject to the obligations of information set out below at paragraph 4.4.4.d);
  - (ii) where the TRANSACTION, based upon the results of the due diligence, falls within one of the types for which the provisions dictated by the REGULATION for the BANKS require the opinion of the COMMITTEE, the provisions of paragraph b) are complied with.

By virtue of the foregoing, the HEAD OF THE PROCEDURE sends, with appropriate prior notice, to the DECISION-MAKING BODY and to the Board of Auditors (or to the Sole Auditor), information on the TRANSACTION prepared during the due diligence process, together with any reports issued during the course of the negotiations.

Where the Board of Directors is asked to resolve upon the TRANSACTIONS or where the Board is asked to approve the proposal to be submitted to the Shareholders' Meeting, the information referred to in the previous paragraph must be provided with appropriate prior notice and, in any case, in compliance with the timescales imposed for fulfilling the provisions contained in the regulations –

in force each time – in relation to information flows and the functioning of the aforementioned corporate Body.

Any additional information must be submitted both to the DECISION-MAKING BODY and to the Board of Auditors (or the Sole Auditor).

Where the Company has legitimately omitted to institute the Supervisory Body, the aforementioned communications are made to the DECISION-MAKING BODY and to the Board of Directors or Sole Director, where the same do not coincide with the DECISION-MAKING BODY.

The DECISION-MAKING BODY and the Board of Auditors (or Sole Auditor) receive from the HEAD OF THE PROCEDURE, relating to completion of the TRANSACTION, appropriate written information, accompanied by the respective necessary supporting documentation.

The aforementioned documentation must be received by the DECISION-MAKING BODY with appropriate prior notice, except in the case of specific reasons or justified urgency.

The DECISION-MAKING BODY approves the TRANSACTION and, where appropriate (c.f. second paragraph of point 4.4.4.c), expressly subjects its enforcement to the similar decision by the relevant DECISION-MAKING BODY OF THE PARENT COMPANY.

The resolutions must formalise, clearly and comprehensively, the reasons upon which the resolution is based, with regard to the interest in completing the TRANSACTION, along with the benefit and essential correctness of the conditions of the same.

The report is sent to the secretariat of the DECISION-MAKING BODY OF THE PARENT COMPANY and to the Members of the COMMITTEE of the PARENT COMPANY. The bodies of the PARENT COMPANY examine the TRANSACTION, applying the PARENT COMPANY procedure.

The resolution of the PARENT COMPANY is communicated to the chairman of the Board of Directors of the Subsidiary and the HEAD OF THE PROCEDURE.

Where the TRANSACTION has already been examined by the PARENT COMPANY in the exercise of its powers of management and coordination provided by Article 61 CBL or by Articles 2497 et seq of the Italian Civil Code, the resolution of the Company referred to in this paragraph does not contain any condition precedent and may be implemented without further resolutions by the PARENT COMPANY.

In the case of TRANSACTIONS with PERSONNEL, the obligation of the employee or collaborator to give notice to his hierarchical superior of any interest that, for himself or third parties, he has in a certain TRANSACTION under the remit of the structure to which he belongs also applies to the Companies referred to in this paragraph, specifying the nature, terms, origin and scope of the interest and also subject to the obligation to refrain from contributing to establishing or resolving, or implementing that TRANSACTION.

The provisions of this paragraph apply to foreign Companies (banking or non-banking) of the GROUP in line with the regulations in the country in which they are situated.

### **Summary table of decision-making/information process (other GROUP companies other than BANKS)**



TRANSACTION Type	COMMITTEE	Board of Statutory Auditors	DECISION-MAKING BODY
TRANSACTIONS with BANKS and TRANSACTIONS of lesser significance not ascribable (in accordance with the procedures adopted by the BANKS) to those to be submitted for the opinion of the COMMITTEE			The decision-making process is completed within the Company
In cases other than those set out in the line above and thus TRANSACTIONS of greater significance, TRANSACTIONS with companies controlled by the PARENT COMPANY other than BANKS; TRANSACTIONS of lesser significance with other ENTITIES and for which the provisions of the BANKS require the opinion of the COMMITTEE			<p>The decision of the DECISION-MAKING BODY must contain a clause that expressly subjects its implementation to the approval decision of the PARENT COMPANY and is therefore sent to:</p> <ul style="list-style-type: none"> <li>- the relevant DECISION-MAKING BODY of the PARENT COMPANY by issue or value in accordance with the REGULATION;</li> <li>- to the members of the COMMITTEE of the PARENT COMPANY,</li> </ul> <p>and may not be completed until the favourable resolution of the PARENT COMPANY has been received</p>

#### 4.4.4.d Information Flows

The HEADS OF THE PROCEDURES of the BANKS must produce – with the frequency set out below and by way of the respective *Secretariat functions* – information flows towards the Members of the COMMITTEE, the Board of Directors and the Shareholders' Meeting of the BANK itself.

The HEADS OF THE PROCEDURES of the BANKS other than the PARENT COMPANY and the other GROUP companies, must produce – with the frequency set out below and by way of the *Parent Company Secretariat* – information flows towards the Members of the COMMITTEE and the Board of Directors of the PARENT COMPANY.

Specifically:

Recipient	Type of flow	Frequency
COMMITTEE	CONTENTIOUS TRANSACTIONS and Transactions of PERSONNEL of a current amount not exceeding EUR 1,000.000 (one million)	as soon as resolved
COMMITTEE	ORDINARY TRANSACTIONS: information flows of aggregate nature appropriate to allow for adequate monitoring of the TRANSACTIONS, for the purposes of any corrective actions	at least annually
COMMITTEE	TRANSACTIONS "with or between Subsidiaries" and those with Companies subject to significant influence in which there are no significant interests of other ASSOCIATED ENTITIES: information flows of aggregate nature appropriate to allow for adequate monitoring of the TRANSACTIONS, for the purposes of any corrective actions	at least annually
COMMITTEE	TRANSACTIONS concluded and their main characteristics: information appropriate to allow for adequate monitoring of the Transactions with respect both to the limits of RISK ACTIVITIES	at least quarterly

Recipient	Type of flow	Frequency
	and to compliance with the decision-making procedures	
COMMITTEE	URGENT TRANSACTIONS (subordinately to the provisions of the Articles of Association)	Before adoption of the resolution or as soon as resolved
Board of Directors	URGENT TRANSACTIONS (subordinately to the provisions of the Articles of Association)	Before adoption of the resolution or as soon as resolved
Board of Directors	TRANSACTIONS concluded and their main characteristics: information appropriate to allow for adequate monitoring of the Transactions with respect both to the limits of RISK ACTIVITIES and to compliance with the decision-making procedures	at least quarterly
Board of Directors	TRANSACTIONS upon which the COMMITTEE has expressed a contrary or conditioned opinion	as soon as resolved
Board of Directors	Complete information on implementation of the framework resolutions.	at least quarterly
Board of Directors	TRANSACTIONS "with or between Subsidiaries" and those with Companies subject to significant influence in which there are no significant interests of other ASSOCIATED ENTITIES: information flows of aggregate nature appropriate to allow for adequate monitoring of the TRANSACTIONS, for the purposes of any corrective actions	at least annually
Shareholders' Meeting	TRANSACTIONS of greater significance concluded with a negative or conditioned opinion of the INDEPENDENT DIRECTORS or supervisory body	at least annually

Those information flows are also respected for TRANSACTIONS with ADDITIONAL ENTITIES.

The information sent to the Shareholders' Meeting, to Members of the COMMITTEE or to the Board of Directors or Sole Director of a Subsidiary is sent with the same frequency to the Board of Directors of the PARENT COMPANY.

For foreign Companies (banking and non-banking) of the GROUP the provisions of this paragraph are applied in line with the regulations in the country in which they are situated.

## 5 Internal policies in relation to controls

In the performance of every activity, BANCO, also in its capacity as PARENT COMPANY, works to minimise actual, or even just potential, situations of conflict of interest.

Cases of “conflict of interest”, in addition to those defined by Law, are understood to include the case where a Representative, Employee or Collaborator is the bearer, in a certain situation/TRANSACTION, of an interest that differs from that of the company and its shareholders.

Without prejudice to what is prescribed further by external regulations and by the other GROUP regulations, situations of conflict of interest should always be identified and adequately managed, and – where required by Law – adequately manifested with the aim of avoiding prejudices for Customers and counterparts in general. Notwithstanding, in particular, the provisions of Article 2391 of the Italian Civil Code, where the presence of a non-corporate interest for one of the individuals identified above may involve prejudice to third parties or to the company, he/she is required to refrain from that activity.

The POLICIES are resolved upon by the PARENT COMPANY and incorporated by the other BANKS and GROUP companies.

### 5.1 Development and approval

#### 5.1.1 Principles

The SUPERVISORY PROVISIONS provide that the PARENT COMPANY defines, approves and reviews, at least on a three-yearly basis, the POLICIES establishing, at GROUP LEVEL:

- quantitative levels of propensity to risk;
- roles and duties of the different members of the GROUP, intended to enable the PARENT COMPANY to ensure constant compliance with the limits of the RISK ACTIVITIES and levels of propensity to risk
- Processes of control aimed at ensuring the correct measurement and management of risks assumed and verifying the correct development and effective application of the POLICIES.

Due to the importance they assume, the POLICIES, both in the parts illustrated in the REGULATION and in those contained in the Group Risk Regulation and in the other corporate regulations cited in this chapter, must be subject to a specific process of development and approval so as to ensure the validity of the chosen solutions. In that regard, the fulfilments required for the procedures set out above at paragraph 4.2 (Development and approval of procedures) are respected.

The POLICIES, independently from the company document that illustrates them, are communicated to the Shareholders' Meeting and the respective documents are kept available for any Bank of Italy requests. The REGULATION is still published on the internet websites of the BANKS, in accordance with paragraph 4.2.2.

In particular, the POLICIES:

1. identify, in relation to the operational characteristics and strategies of the BANK and the GROUP, **the sectors of activity and types of relationships of an economic nature**, even differing from those involving the assumption of RISK ACTIVITIES, in relation to which conflicts of interest may arise (*c.f. para. 5.2*);
2. establish, also by way of reference to other corporate sources such as the Group Risk Regulations, provided that they are adopted with similar procedures to those of the POLICIES, **levels of propensity to risk** consistent with the strategic profile and organisational characteristics of the BANK or GROUP (*c.f. para. 5.3*);
3. establish and regulate organisational processes aimed at comprehensively **identifying and registering** the ENTITIES set out in Appendix 1 and identifying and quantifying the respective transactions at every stage of the relationship (*c.f. para. 5.4*);
4. establish and regulate **processes of control** aimed at ensuring the correct measurement and management of risks assumed towards the aforementioned ENTITIES and at verifying the correct development and actual application of the POLICIES (*c.f. para. 5.5 and 5.6*).

### 5.1.2 Roles and Responsibilities

The roles that intervene in the phases of development, approval, verification and review of the POLICIES, are:

- a) the *Organisation function* of the PARENT COMPANY which coordinates the production of the document to be submitted for the approval of the Board of Directors of the PARENT COMPANY. In that role, that function makes use of the contribution of the individual *relevant corporate functions* for the respective issues which perform an in-depth due diligence on the appropriateness of the solutions proposed by the organisation functions to the various profiles of this regulation;
- b) the *Compliance with standards function* of the PARENT COMPANY which, as part of the regulatory standards in relation to the regulatory process, assumes the role of validator of the REGULATION<sup>9</sup>;
- c) the *Risk management function* of the PARENT COMPANY, which drafts a report for the COMMITTEE, the Board of Auditors and the Board of Directors dedicated specifically to the system of limits and levels of propensity to risk, as regulated in the POLICIES and in the Group Risk Regulation or in the other sources of corporate regulations to which the POLICIES refer;
- d) the *Internal audit function* of the PARENT COMPANY, which drafts a report on the proposal submitted to the COMMITTEE, to the Board of Auditors and to the Board of Directors with specific reference to the suitability of the organisational and audit structure, as defined in the POLICIES and in the other sources of corporate regulations cited by them to ensure the control of risks resulting from transactions with ASSOCIATED ENTITIES and other conflicts of interest;
- e) the COMMITTEE and the Board of Auditors of the PARENT COMPANY which issue to the Board of Directors an analytical and reasoned opinion;

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<sup>9</sup> C.f. Regulation in relation to Regulatory Process – para. 4.3.2 “Roles and Responsibilities”  
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- f) the *Board of Directors* of the PARENT COMPANY which:
- approves, with the frequency required by the Group Risk Regulation<sup>10</sup>, on the proposal of the *Chief Risk Officer* (formulated following an in-depth due diligence on the appropriateness of the solutions proposed to profiles identified by the SUPERVISORY PROVISIONS, subject to examination by the Internal Control and Risks Committee and on the analytical, reasoned and binding opinion of the Board of Auditors and the COMMITTEE), the system of levels of propensity to risk towards the ASSOCIATED ENTITIES. At least on an annual basis, applying the decision-making process defined above, it also approves the adequacy of the overall structure of limits;
  - approves and reviews at least on a three-yearly basis and with the methods set out in the previous paragraph, the POLICIES. The documents containing those policies are kept available for any Bank of Italy requests, as well as communicated to the Shareholders' Meeting.
- g) the *Shareholders' Meeting of the PARENT COMPANY* which is informed of the POLICIES adopted;
- h) the *Administrative bodies* of the BANKS and GROUP companies which implement the contents of the POLICIES.

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<sup>10</sup> "The Group Risks Regulation is updated usually on an annual basis. At least on a six-monthly basis and in accordance with requirements, the adequacy of the structure of limits and maximum ceilings is assessed as part of the Group Risks Committee" (c.f. Section 12 Regulation)

## 5.2. Sectors of activity and types of relationships of an economic nature

### 5.2.1 Principles

The following sectors of activity and types of relationships of an economic nature are identified even if not involving the assumption of RISK ACTIVITIES, in relation to which conflicts of interest might arise:

- (a) **Loans as Lender:** These include, in the phase of provision and review of credit facilities, the following types of transactions:
- Cash loans (e.g. mortgages, opening of bank credit, bank advance, credit card with established risk, consumer credit);
  - Credit commitments (e.g. guarantees and credit commitments, bank guarantees, endorsements);
  - Finance leases;
  - Repurchase agreements.

In addition, included in the phase of non-performing credit management are transactions such as the move to non-performing, move to loss and in court and out-of-court settlement agreements.

- (b) **Collection**<sup>11</sup>: these include, by way of example, the following types of operations:
- collection of deposits or other funds with obligation of return (bonds, deposit certificates, interest-bearing delivery orders, repurchase agreement liabilities, deposits also in current account form);
  - services ancillary to the forms of collection set out in the point above.

**Note:** conflicts of interest are not identified when they are rendered at standard conditions in use for customers and employees (the standard in place for employees is only applied when the Entity is an employee).

- (c) **Payment services**<sup>12</sup>: the following types of services/transactions, by way of example, are included:
- services that allow for the **deposit** and **withdrawal** of cash on a payment account along with all transactions required for the management of a payment account;
  - **execution of payment orders**, including fund transfers, on a payment account with the user's payment services provider or another payment services provider:
    - execution of direct debits, including one-off direct debits;
    - execution of payment transactions by payment card or similar methods;
    - execution of bank transfers, including permanent orders;
  - **execution of payment transactions when the funds form part of a credit line granted to a user of payment services:**

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<sup>11</sup> The cases identified are taken from the Supervisory Instructions for the Banks (Circular 229) issued by the Bank of Italy, Title II, Chapter 3, Section II in relation to criteria of application of Art. 136 CBL)

<sup>12</sup> The cases identified are taken from the Supervisory Provisions of the Bank of Italy in relation to transparency of transactions and banking and financial services - Section VI, Paragraph 2 (June 2012)

- execution of direct debits, including one-off direct debits;
- execution of payment transactions by payment card or similar methods;
- execution of bank transfers, including permanent orders;
- **issue and/or acquisition of payment instruments;**
- **cash remittance;**
- execution of payment transactions where the consent of the payer to carry out the payment transaction is provided by way of a digital or electronic telecommunication device and the payment is made to the operator of the system or telecommunications or digital or electronic network which acts exclusively as intermediary between the user of the payment services and the provider of goods or services;
- **issue of electronic money** as defined by Article 1, Letter h-ter) of the Consolidated Law.

**Note:** conflicts of interest are not identified when they are rendered at standard conditions in use for customers and employees (the standard in place for employees is only applied when the ENTITY is an employee).

- (d) **Transactions on financial instruments on own portfolios / passive financial transactions**<sup>13</sup>: these include, by way of example, the following types of transactions:
- negotiation on own account of trading portfolio;
  - treasury and funding management on own account (Asset & Liability Management, etc.);
  - securitisations on own account;
  - opening of loans (or other forms that establish a liability).
- (e) **Extraordinary transactions**: these include, by way of example, merger and spin-off transactions along with transactions of acquisition or sale of investments or legal relationships in block form.
- (f) **Investment services**<sup>14</sup>: these include, by way of example, the following types of transactions with retail, corporate and professional customers:
- receipt/transmission and execution of orders for retail, private and SME customers;
  - consultancy activity;
  - bought deal;
  - securities and fund management;
  - placement of financial instruments/insurance products (bancassurance, funds, securities management, fund management, equity, bonds, derivatives, etc.);
  - accessory services (for example: safe custody and administration of securities).

**Note:** the performance of services gives rise to conflicts of interest if a member (banking or non-banking) of the Group or an ENTITY referred to in Appendix 1: (i) may achieve a financial benefit or avoid a financial loss, to the detriment of the customer or (ii) they are bearers of an interest in the result of the service provided to the customer, distinct from that of the

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<sup>13</sup> The cases identified are taken from Circular 263/06, Title II, Chapter V, Appendix A – Outline of connection between business lines and corporate activities

<sup>14</sup> The cases identified are taken from Circular 263/06, Title II, Chapter V, Appendix A – Outline of connection between business lines and corporate activities

customer itself; (iii) they have an interest in favouring the interests of customers other than the customer to whom the service is provided; (iv) they perform the same activity as the customer (v) they receive or may receive from a person other than the customer, in relation to the service provided to the latter, an incentive, in the form of cash, goods or services, other than the fees or commissions normally received for that service.

- (g) **Purchasing cycle:** this includes, by way of example, the acquisition and management of payment of goods and services (e.g. contracts, administrations, contracts of intellectual work, acquisitions, supplies, consultancy, advisory mandates).
- (h) **Corporate Finance**<sup>15</sup>: these include, by way of example, the following types of transaction:
- Activities in equity investments;
  - Investment Banking in equity and debt capital (IPO, privatisations, syndications, secondary private placements, subscriptions, etc.);
  - Valuations of companies;
  - Securitisations on behalf of third parties;
  - Increases of capital (only as lead manager);
  - Services of consultancy and research (capital structure, business strategy, undertakings, restructuring, etc.).
- (i) **Real estate transactions:** these include, by way of example, deeds of disposition of real rights on property not connected to credit transactions and property leases (as lessor and lessee).
- (j) **Transactions on Intangible Assets:** these include, by way of example, trademark and patent management.
- (k) **Agreements of a commercial nature:** these include, by way of example, agreements for the distribution of products and services and other agreements.
- (l) **Marketing operations:** these include, by way of example, sponsorships and, in general, contracts relating to the use of distinctive marks, the sale and purchase of commercial/advertising spaces and other marketing/publishing initiatives.
- (m) **Donations:** these include, by way of example, donations and non-donative donations not attributable to the implementation of Art. 5<sup>16</sup> of the corporate Articles of Association of BANCO or similar provisions of the Articles of Association of the Subsidiaries.

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<sup>15</sup> The cases identified are taken from Circular 263/06, Title II, Chapter V, Appendix A – Outline of connection between business lines and corporate activities

<sup>16</sup> Article 5, Paragraph 2.c of the Banco Popolare Articles of Association “...the annual Ordinary Shareholders’ Meeting of Banco Popolare may provide, for the purposes of assistance, charity and public interest, a share of the net profit shown by the approved Financial Statements”



- (n) **Custody and related services**<sup>17</sup>: these include, by way of example, the following types of transactions:
- custodian bank;
  - management of cash and real guarantees (e.g. pledge notes and warrants);
  - fiduciary activity/Trust Company.

The GROUP regulatory system establishes controls of organisational separation with a view to preventing situations of conflict of interest as well as rules of conduct appropriate for managing those situations, dealing in particular with Regulations intended to implement the different relevant rules, with particular regard to equity management, provision of investment services, relationships between the PARENT COMPANY and the subsidiaries and the management of potential conflicts of interest in addition to those concerning the ENTITIES referred to in Appendix 1<sup>18</sup>.

The provisions relating to the management of transactions contained in this document (see para 4.4 et seq) establish that the organisational structures in charge of dealing with the TRANSACTIONS forming part of the aforementioned types of activities are obliged to verify, from the due diligence phase, if an ENTITY is part of the TRANSACTION, in the sense that this is a case, where implemented, of TRANSFER OF RESOURCES, services or obligations between a member of the GROUP and an ENTITY referred to in Appendix 1, and if any RISK ACTIVITIES potentially deriving from the same comply with the supervisory limits.

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<sup>17</sup> The cases identified are taken from Circular 263/06, Title II, Chapter V, Appendix A – Outline of connection between business lines and corporate activities

<sup>18</sup> In that regard, considering the state of existing internal regulations at the date of this document, by way of example, sources relating to the following are mentioned: the organisational structure of the BANK, the Group risks, the regulation of transactions with related parties of Banco Popolare and Credito Bergamasco, regulations in relation to investments in non-Finance companies and those concerning investments in Financial, insurance and instrumental companies, autonomy limits for the granting of ordinary credit and rights for the management of problem and impaired loan, planning and control of risks and capital, criteria and market parameters for the accounts valuation of financial instruments, personal transactions in Financial Instruments, real estate, management of operational risks, adoption by the Group of the Self-Regulation Code of Intermediaries, management of Conflicts of Interest, identification and management of Banco Popolare Group incentives, rules of conduct of personnel and collaborators, acquisitions, operational governance

## 5.3 Levels of propensity to risk

### 5.3.1 Principles

The GROUP is required to respect the “Limits (consolidated and individual) on RISK ACTIVITIES” established by the Bank of Italy in Section II of the SUPERVISORY PROVISIONS and described in paragraph 4.4.4.a of the REGULATION.

In addition, the PARENT COMPANY is required to establish, as part of the POLICIES, “Levels of propensity to risk” consistent with the strategic profile and the organisational characteristics of the GROUP.

The GROUP’S propensity to risk, both overall and in reference to the scope of ASSOCIATED ENTITIES, is established in the Group Risks Regulation, resolved upon by the Board of Directors on the proposal of Risk Management.

The Banco Popolare Group oversees the risk with regard to ASSOCIATED ENTITIES by establishing limits to ensure both the control of the overall risk and specific risks such as those connected to exposures towards ASSOCIATED ENTITIES.

In particular, the internal regulations govern the determination, implementation, monitoring and control of a system of internal limits of EXPOSURE towards ASSOCIATED ENTITIES, approved by the Board of Directors and constituted by:

- overall limit,
- limits relating to the individual BANKS
- limits of any other aggregates established at the time of defining the aforementioned system of internal limits, as part of the Group Risks Regulation.

The aforementioned system of risks is therefore subject to six-monthly verification in accordance with the methods provided for by the Group Risks Regulation.

The EXPOSURE towards ASSOCIATED ENTITIES is defined on the basis of the RISK ACTIVITIES involving those entities and their relationships with the GROUP.

The overall EXPOSURE towards ASSOCIATED ENTITIES is defined as the sum of exposures relating to groupings identified in line with the provisions and the REGULATION.

The levels resulting from propensity to risk are calculated in terms of maximum ratio between the aforementioned exposures and the regulatory capital of the GROUP or individual Company.

The limits are defined by considering at least the composition by type of risk (credit, counterpart, debt instruments and capital of the banking or trading portfolios), along with the incidence of EXPOSURE towards ASSOCIATED ENTITIES on the overall EXPOSURE of the GROUP (or individual BANK), both in overall terms and at the level of individual type of risk.

The internal regulations, generally and taking account of the amount of RISK ACTIVITIES in ratio with the regulatory capital, the frequency of the TRANSACTIONS and the nature of the link with the RELATED PARTY, also identify cases where the assumption of new RISK ACTIVITIES should be assisted

by mitigation techniques provided by a party independent from the ASSOCIATED ENTITIES and characterised by a value not positively correlated with the credit quality of the borrower.

The internal regulations cited above constitute an integral and essential part of the POLICIES.

## 5.4 Identification of Associated Entities and respective Transactions

### 5.4.1 Principles

The REGULATION provides (c.f. para. 2.1) for the institution of a GROUP REGISTER (also in electronic format) in which the ENTITIES are registered along with the TRANSACTIONS, highlighting TRANSACTIONS constituting RISK ACTIVITIES, cases of accumulation of the latter, CONTENTIOUS TRANSACTIONS and TRANSACTIONS with PERSONNEL. The set of ENTITIES referred to in Appendix 1 is unique for the entire GROUP (c.f. para. 4.3.1).

The REGISTER is kept by the PARENT COMPANY; it is unique for the whole GROUP and is made accessible to all functions of the GROUP Companies potentially interested in dealing with the TRANSACTIONS

### 5.4.2 Roles and responsibilities

The REGULATION, as more widely explained in paragraph 4.3 to which reference is made for further details, outlines the process for registering the ENTITIES, identifying the functions and respective duties. Specifically:

- (a) the Parent Company Secretariat: as the body responsible for the overall registration of the ENTITIES referred to in Appendix 1, with particular regard to the REPRESENTATIVES and respective LINKED ENTITIES and RELATIVES-IN-LAW, and the dissemination of their list to all GROUP Companies;
- (b) the Secretariat functions of the BANKS and SUPERVISED INTERMEDIARIES of the GROUP, as responsible (under the coordination of the *Parent Company Secretariat*) for liaising with the COMPANY REPRESENTATIVES aimed at registering the ENTITIES referred to in Appendix 1;
- (c) the Investments function of the PARENT COMPANY, instructed, principally, to supplement the registration of the ENTITIES referred to in Appendix 1 with information relating to the RELATED PARTIES (financial and non-financial) and, in particular, the Investor and companies over which the BANK or a GROUP Company is able to exercise control or significant influence;
- (d) the Human resources function of the PARENT COMPANY instructed to register (under the coordination of the Parent Company Secretariat) the “most significant” personnel and the entities connected to them;
- (e) the Control of risk groups of the PARENT COMPANY instructed, in particular, to perform the final identification of the relationships from which the qualification of a counterpart as an ENTITY derives and the verification that the relationships between members of the “risk groups” are not qualified in a contradictory manner compared to the criteria used to define the set of ENTITIES.

The REGULATION (c.f. para. 4.4.4 a) also provides that, in proceeding with the due diligence of the TRANSACTION, the *Investigator*, should, inter alia, verify as a preliminary matter and as soon as possible based upon the concrete characteristics and type of TRANSACTION, whether or not the counterpart falls within the ENTITIES identified in the REGISTER and, where the counterpart falls within the ENTITIES referred to in Appendix 1, to make it aware of its duties, informing it of the possible profiles of responsibility (for example: pursuant to Article 137 of the CBL), by way of specific approval of clauses contained in the forms prepared.

Using the values allowed by the computer procedures adopted by the GROUP, the operator who is proceeding to open a new relationship or to renew a credit facility or to review the contracts, obtains from the Counterpart (notifying it in relation to possible profiles of responsibility) the information required to verify any qualification of the same as an ENTITY in accordance with Appendix 1 of the REGULATION. Where, from the information, it emerges that the Counterpart may be ascribed among the ENTITIES and the operator ascertains its lack of registration in the REGISTER, he informs without delay the *Parent Company Secretariat* so that it may make the necessary verifications regarding the completeness of the REGISTER.

There is also provision for disclosure to be made to customers of the BANKS of the GROUP regarding the entry into force of the SUPERVISORY PROVISIONS using the so-called “periodical communications”.

## 5.5 Processes of Control

### 5.5.1 Principles

The internal control model established by the PARENT COMPANY on operations with ASSOCIATED ENTITIES is constituted by the set of rules, procedures and organisational structures that aim to ensure the compliance of the TRANSACTIONS with the supervisory regulations and the internal GROUP provisions along with the effectiveness and efficiency of the business processes.

The Board of Directors and Chief Executive Officer of the PARENT COMPANY, making use of the various relevant corporate structures, oversee the implementation of controls and the organisational structures aimed at preventing and managing potential situations of conflict of interest in relation to ASSOCIATED ENTITIES and ensuring at GROUP level constant control of risks and proper and prudent management.

To that end, following what has been implemented by the GROUP and, more specifically:

- (a) definition of measures of guidance and coordination of Subsidiary Companies;
- (b) definition of roles and responsibilities of the entities involved;
- (c) implementation of organisational procedures and information systems:
  - which regulate the process of identification, registration and update of the scope of ASSOCIATED ENTITIES of the GROUP and the relationships with the same,
  - appropriate to register the transactions with ASSOCIATED ENTITIES and to monitor the total amount of the related RISK ACTIVITIES,
  - which regulate the process of the due diligence and resolution on TRANSACTIONS,
  - which ensure supervisory reports are made to the Bank of Italy, at a consolidated and individual level,
- (d) preparation of appropriate information flows to the Corporate Bodies, to the Supervisory Authority and in between the functions;
- (e) activation of specific training plans,

BANCO, in line with the regulations of law and supervisory rules and in accordance with the indications of the Code of Self-Regulation for Listed Companies, has equipped itself with an internal control system appropriate for identifying, measuring and verifying, on a constant basis, the risks typical of the company activity.

It is divided into:

- *line controls (or first level)*, aimed at ensuring the correct execution of the transactions. They are performed by the production structures themselves (for example, controls of a hierarchical nature) or incorporated in the procedures (for example: verification, during the due diligence of the TRANSACTIONS with ASSOCIATED ENTITIES, of compliance with the limits established by the regulations and by the maximum limits of EXPOSURE of the Group determined by the Corporate Bodies)
- *risk management controls (or second level)*, which have the objective of contributing to the definition of methodologies of measuring the risk, verifying compliance with the limits assigned to the various operational functions and checking the consistency of the operations of

the individual production areas with the assigned risk-return objectives. They are entrusted to structures other than the production structures. In the specific case, they are performed by the *Risk management function*;

- *compliance controls (or second level)*, constituted by policies and procedures capable of identifying, assessing, controlling and managing the risk resulting from lack of compliance with laws, measures of the supervisory authority and rules of self-regulation. In the specific case they are implemented by the *Compliance with rules function*;
- *internal audit activities (or third level)*, aimed at identifying anomalous trends, breaches of procedures and regulations, along with assessing the functioning of the overall system of internal controls (with specific reference to risks underlying the TRANSACTIONS with ASSOCIATED ENTITIES). It is conducted continuously, periodically or by exceptions, by the *internal audit function*.

## 5.5.2 Roles and responsibilities

The organisational measures and internal controls adopted by the PARENT COMPANY ensure constant compliance with the prudential limits and the decision-making procedures established by this REGULATION. Specifically:

- (a) the COMMITTEE of the PARENT COMPANY performs a role of assessment, support and proposal in relation to the organisation and performance of internal controls on the overall activity of assumption and management of risks towards ASSOCIATED ENTITIES as well as for the general verification of the consistency of the activities with the strategic and managerial guidelines;
- (b) the Controls and Risk Committee of the PARENT COMPANY, subject to the responsibilities under the remit of the Board of Directors and Board of Auditors in relation to the adequacy and efficiency of the systems of internal controls, continuously verifies the effectiveness and functionality of the procedures and operating systems in support of the correct application of the REGULATION. To that end, it also uses the periodic reports of the relevant functions of second and third level control and appropriate informative links with the COMMITTEE,
- (c) the Chief Risk Officer, making use of the *Risk management function* of the PARENT COMPANY,
  - handles the measurement of risks – also including market risks – underlying the relationships with Associated Entities of the Group;
  - ensures that the process of managing the prudential limits is effective and consistent with the relevant regulations;
  - verifies compliance with the assigned limits and checks the consistency of the operations with the levels of propensity to risk defined in the POLICIES
  - periodically provides to the corporate bodies information flows regarding the overall EXPOSURE of the BANK or GROUP to risks resulting from transactions with ENTITIES set out in Appendix 1 and from other conflicts of interest,
- (d) The Compliance with rules function of the PARENT COMPANY, verifies the existence and reliability, on a continuous basis, of appropriate procedures and systems to ensure compliance with all regulatory obligations and those established by internal rules and in the area of peri-

odical reporting to the Corporate Bodies; it reports on the activities performed, the criticalities noted and the remedies identified;

- (e) the Internal audit function of the PARENT COMPANY verifies compliance with the POLICIES and implementation provisions of the latter, and reports any anomalies promptly to the body with the function of control and to the senior bodies of the BANK, and reports periodically to the Corporate Bodies – in concert with the *Risk management function* of the PARENT COMPANY – regarding the overall EXPOSURE of the BANK or GROUP to risks resulting from transactions with ASSOCIATED ENTITIES and from other conflicts of interest including those with Entities other than ASSOCIATED ENTITIES. Where necessary, it suggests a revision of the POLICIES and the organisational and audit structures deemed appropriate to strengthen control of those risks;
- (f) the Administration and Budget function ensures compliance with the fulfilments in relation to supervisory reporting at consolidated and individual level and, in the *function of Officer in Charge*, it oversees the government of the rules in relation to periodic financial reporting;
- (g) the operational functions:
- ensure, in the relevant cases, the adoption of decision-making procedures established by the REGULATION;
  - in the case of assumption of RISK ACTIVITIES towards ASSOCIATED ENTITIES, continuously and preventively verify by way of the forms of first and second instance line controls (c.f. para. 4.4.4.a) compliance with the prudential limits established by the regulations and the maximum limits of EXPOSURE of the GROUP determined by the Corporate Bodies. In particular, from the very due diligence phase, the GROUP structures in charge of managing the TRANSACTIONS falling within the types of activity set out in paragraph 5.2.1, verify if the RISK ACTIVITIES potentially resulting from the same comply with the consolidated and individual prudential limits. To that end, the GROUP has adopted information systems that allow it to verify, prior to the resolution on the TRANSACTION, the coherence of the same with the limits dictated by the supervisory regulations and internal provisions.
  - collaborate in defining the Rescheduling Plan in the event of exceeding the prudential limits or the internal limits established by the Strategic Supervision Body and they oversee their reactive implementation,
- (h) the Organisation function of the PARENT COMPANY and IT function of the GROUP, ensure the planning, preparation and adjustment over time of the organisational structures and procedures along with the information systems that regulate the issue of ASSOCIATED ENTITIES. In that role, those functions make use of the contribution of the individual company structures relevant in terms of the particular issue:
- (i) the Risk management function of the PARENT COMPANY, as part of its monitoring activity of the evolution of business risks:
- periodically verifies the progress of the RISK ACTIVITIES towards ASSOCIATED ENTITIES and compliance with the set limits, and it reports, at least on a quarterly basis, to the Body with the function of strategic supervision of the PARENT COMPANY and the individual GROUP companies, the Internal Control and Risks Committee and the COMMIT-



TEE on the progress of the RISK ACTIVITIES towards the ASSOCIATED ENTITIES and on compliance with the respective prudential limits,

- oversees the cases where, for causes independent from the will or fault of the PARENT COMPANY or Subsidiary Companies, one or more limits provided by the SUPERVISORY PROVISIONS are in any case exceeded and the RISK ACTIVITIES must be brought back within those limits as soon as possible<sup>19</sup>. Therefore – where it ascertains the non-compliance of one of the prudential limits and having liaised, where deemed opportune, with the relevant operational structures based upon the type of TRANSACTIONS that have determined the exceeding of the limit – it formulates and sends without delay a written information notice to the COMMITTEE, represented by the Chairman, regarding the reason that led to the exceeding of the limit. That information notice is sent to the *Investments function* of the PARENT COMPANY along with the individual invested Group companies, where the exceeding of the limit relates to a RELATED PARTY, by virtue of the investments held in a company of the GROUP, so as to encourage registration of the suspension of administrative rights connected to the investment, by virtue of exceeding one or more limits to the RISK ACTIVITIES<sup>20</sup>
  - demands from the relevant operational structure, at the same time as sending the information notice referred to in the previous paragraph, the preparation, as quickly as possible, and in any case within 10 days, of a proposal hypothesis of an appropriate “rescheduling plan” to be submitted to the Executive Committee, responsible for resolving upon the proposal relating to the same;
  - takes account of the excesses compared to the prudential limits in the ICAAP process, as recalled in more detail herein. As part of the internal assessment process of capital adequacy (ICAAP) the PARENT COMPANY assesses the risks related to the operations with ASSOCIATED ENTITIES (of a legal and reputational nature or conflict of interest), if relevant for business operations, in accordance with the provisions of Title III Chapter 1 of the New Prudential Supervision Provisions for Banks. In the case of exceeding the prudential limits for reasons not connected to the will or fault of the BANK, in addition to the initiatives planned in the Rescheduling Plan cited above, the PARENT COMPANY takes account of the excesses in the process of determining the overall internal capital.
- (j) the Secretariat function of the PARENT COMPANY, sends:
- to the Board of Auditors and to the Chairman of the Board of Directors, the “rescheduling plan” proposal decided by the Executive Committee referred to in the third subparagraph of previous point (i) and submits it to the Board itself, at the first possible meeting, for its resolution subject to opinion from the Board of Auditors. In any case, the resolution of opinion by the Board of Auditors and the resolution of the “rescheduling plan” by the Board of Directors must occur within 45 days of exceeding the limit;
  - to the Bank of Italy, within 20 days from the resolution – together with the “rescheduling plan” – the determinations of the Executive Committee and the Board of Directors,

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<sup>19</sup> c.f. SUPERVISORY PROVISIONS, Section II para. 3

<sup>20</sup> c.f. SUPERVISORY PROVISIONS - Section III – Paragraphs 1 and 3.

together with the resolution of the Board of Auditors, where the opinion of the same is not recorded in the minutes of the meeting of the Board of Directors.

The REGULATION also requires that:

- even Companies of the GROUP other than the BANKS comply with the same provisions in the due diligence phase (c.f. para. 4.4.4.c);
- the PARENT COMPANY should examine in advance or subsequently approve the resolutions of Companies other than the BANKS, in the case of TRANSACTIONS of greater significance or when the TRANSACTION should, in any case, based upon the rules in force for BANKS of the GROUP, receive the opinion of the COMMITTEE;
- the BANKS and other GROUP companies proceed with sending information flows in line with the frequency, methods and content identified in paragraph 4.4.4.d) above.

In addition, for the purposes of propitiating control over: (i) full application of the controls established expressly by the SUPERVISORY PROVISIONS for TRANSACTIONS with ASSOCIATED ENTITIES and with PERSONNEL and (ii) reliability and completeness of the information relating to TRANSACTIONS with RELATIVES-IN-LAW within the second degree of RELATED PARTIES, there is a requirement to register:

- REPRESENTATIVES of foreign Banks and Intermediaries (with capital exceeding 2% of the consolidated regulatory capital) of the GROUP, and the companies controlled by them, along with: (i) relatives up to the 2nd degree, the spouse or co-habiting partner, children of the latter and companies controlled by them; (ii) the RELATIVES-IN-LAW, with the sole limit of compatibility with the applicable national legal system;

and in addition to what is expressly provided for within those PROVISIONS,

- the spouse or cohabiting partner, the relatives up to the 2nd degree of PERSONNEL and the companies controlled by them, along with the RELATIVES-IN-LAW.

## 5. 6. Employees and company collaborators

### 5.6.1 Principles

Without prejudice to the rules defined for ASSOCIATED ENTITIES, the opportunity of controlling, in more general terms, the risk of personal conflicts of interest, which might compromise the correctness of TRANSACTIONS implemented by the BANKS and GROUP companies, even when those interests relate to a broader group of REPRESENTATIVES, Employees and company Collaborators not falling within the definition of ASSOCIATED ENTITIES, has propitiated the application to REPRESENTATIVES, to all Personnel and to Collaborators of the Companies of the GROUP of some essential rules of “transparency and abstention” in the management of any business activity that might give rise to situations of conflict of interest.

By virtue of the foregoing and in line with the SUPERVISORY REGULATIONS, which require the supervision of TRANSACTIONS in which those types of entities might have, even indirectly, a personal and other interest, the REGULATION provides for the registration of Employees or Collaborators not constituting ASSOCIATED ENTITIES along with the companies attributable to them, the registration of the respective TRANSACTIONS and the compliance with specific decision-making procedures. Specifically:

- (a) the notion of PERSONNEL is defined as the set of Employees and Collaborators of GROUP Companies who are not ASSOCIATED ENTITIES and who are ascribable to the “*most significant personnel*” identified by the BANKS in accordance with the Bank of Italy provisions on policies and practices of remuneration and incentives dated 30 March 2011 as amended, together with entities who have, with the members of the aforementioned personnel, relationships corresponding to those that concern the LINKED ENTITIES with respect to the RELATED PARTY (c.f. para. 2.1); the REGULATION, therefore, limits the group of Employees and Collaborators relevant for the purposes of the rule in question to the scope of so-called “most significant personnel”, and thus to the minimum subjective scope permitted by the SUPERVISORY PROVISIONS; at the same time, since the SUPERVISORY PROVISIONS require control over TRANSACTIONS in which the Employees or Collaborators may have “*directly or indirectly a personal or other interest*”, it extends the controls also to persons or companies that have particular links with the PERSONNEL, in analogy with the requirements of SUPERVISORY PROVISIONS for RELATED PARTIES;
- (b) the types of members of PERSONNEL, as identified above, are analytically illustrated in Appendix 1 of the REGULATION and include, in addition to “most significant personnel”, also the CLOSE RELATIVES of the latter (relatives within the 2nd degree, spouse, cohabiting partner and children of the spouse or cohabiting partner), the RELATIVES-IN-LAW within the 2nd degree of the most significant personnel along with the companies controlled by the most significant personnel and by the CLOSE RELATIVES;
- (c) the notion of ENTITIES also includes members of PERSONNEL, given that that notion identifies the set of RELATED PARTIES, the LINKED ENTITIES, the PERSONNEL, the CLOSE RELATIVES, the RELATIVES-IN-LAW and the ADDITIONAL ENTITIES; therefore, unless otherwise specified, the requirements of the REGULATION concerning ENTITIES are also applied to PERSONNEL;
- (d) it is specifically provided that the REGISTER in which the ENTITIES and TRANSACTIONS are registered with evidence of the TRANSACTIONS constituting RISK ACTIVITIES and cases of accumulation of the latter, also includes the registration of TRANSACTIONS with PERSONNEL (c.f. para. 2.1);

- (e) the REGULATION is also required to establish the Controls for TRANSACTIONS with PERSONNEL (c.f. para. 4.2.1. – Principles);

## 5.6.2. Roles and responsibilities

In reference to the foregoing:

- (a) the *Human resources function* of the PARENT COMPANY is instructed to:
- identify the Employees and Collaborators of the Companies of the GROUP who are not ASSOCIATED ENTITIES and who are ascribable to “most significant” personnel and to report to the *Parent Company Secretariat* the respective identification details and those of entities connected to them (CLOSE RELATIVES, Relatives-in-Law up to the 2nd degree and companies controlled by “most significant” personnel and by their respective CLOSE RELATIVES);
  - register the PERSONNEL who collaborate with the BANKS and with the SUPERVISED INTERMEDIARIES with which they hold relationships for the purpose of ensuring complete and correct registration;

The REGULATION (c.f. para 4.4.4.b) specifically regulates the decision-making phase of TRANSACTIONS of PERSONNEL with any of the BANKS of the GROUP, it being established that:

- (b) the Employee or Collaborator is required to provide notice to his/her hierarchical superior of every interest that, on his/her own behalf or that of third parties, he/she has in a certain TRANSACTION under the remit of the structure to which he/she belongs, specifying the nature, terms, origin and scope of the interest and also subject to the obligation to refrain from instructing or approving, or implementing the TRANSACTION itself;
- (c) TRANSACTIONS whose value does not exceed EUR 1,000,000 are resolved upon by the Body or Structure hierarchically immediately superordinate to that relevant for personnel who do not fall within the definition of PERSONNEL based upon the existing system of delegations and powers (decisions that fall under the remit – based upon the aforementioned system of delegations and powers – of the Board of Directors are not subject to the regulation in question); each resolution should be communicated to the members of the COMMITTEE immediately after its adoption;
- (d) TRANSACTIONS whose value exceeds EUR 1,000,000 are resolved by applying the provisions of the REGULATION regarding general TRANSACTIONS with ASSOCIATED ENTITIES but disregarding, however, the provisions relating to exemptions and derogations.

In addition, independently from what is reported in the REGULATION and more specifically by this paragraph for Employees and Collaborators belonging to PERSONNEL, in line with the provisions of the Code of Ethics of the GROUP and the Rules of Conduct for Group Personnel, and subject in any case to the procedural instructions set out in para. 4.4.4.a of the REGULATION, it is established that:

- (e) Employees who are also Representatives of GROUP Companies prevent, insofar as is possible, situations characterised by a conflict (even only potential) between their interests and the interests of the Company and/or the GROUP, being in any case obliged to provide notification, in the forms of law and complying with any internal regulations applicable in that regard within each Company, of any interest that, on their own behalf or that of third parties, they have in

certain TRANSACTIONS of the Company and/or the Group even in committees or commissions instituted within the Body;

- (f) Employees and Collaborators of the company operating in any area of the GROUP avoid all situations and all activities that place them in situations of conflict of interests, even only potential, on their own behalf or that of third parties, refraining – where the conflict of interest exists – from participating in the TRANSACTION to which the conflict relates, providing communication thereof to his/her hierarchical Manager;
- (g) Employees or Collaborators of the company who cover the role of investigation, proposal, decision-making or control in a certain TRANSACTION, or the hierarchical Managers of those individuals, who have in the TRANSACTION itself, as far as they are aware, a personal interest – direct or indirect – even only competing and not in conflict with that of the company, declare the onset of the personal interest situation to their hierarchical Manager (or, in the case of collaborators, to their company contact), who assesses its significance and the risk of potential conflict and, where necessary, provides for it to be attributed to other resources or proceeds to deal with it directly.

Finally:

- (h) there is provision for the exclusion of the TRANSACTIONS of PERSONNEL from the case of TRANSACTIONS of a small amount, with the consequence that the specific provisions dedicated to them within the REGULATION are applied to TRANSACTIONS of PERSONNEL;
- (i) the application to the TRANSACTIONS of PERSONNEL of the provisions of the REGULATION concerning the due diligence phase and negotiations is expressly covered (c.f. para.. 4.4.4.a).

## Appendix 1: Subjective Scope of Application

### ENTITIES

falling within the regulations that govern the “risk activities and conflicts of interest towards associated entities” (referred to in Title V, Chapter 5 of the “New Provisions of Prudential Supervision of the Bank of Italy”).

#### A) **ASSOCIATED ENTITIES**

##### 1. Related Party (Non-financial<sup>21</sup> or Other)

- 1.1. COMPANY REPRESENTATIVE of the BANK/SUPERVISED INTERMEDIARY
- 1.2. Investor<sup>22</sup>
- 1.3. Entity other than the Investor able to appoint Directors of the BANK/SUPERVISED INTERMEDIARY
- 1.4. Subsidiary company (in totalitarian manner) by a Company of the banking Group
- 1.5. Subsidiary company<sup>23</sup> (in a non-totalitarian manner) by a Company of the banking Group

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<sup>21</sup> Non-financial related party. A related party that exercises prevalently, directly or by way of subsidiary companies, non-financial business activities as defined under the regulations of investments held by banks and banking groups (Title V, Chapter 4: New provisions of prudential supervision for banks). A non-financial related party is present when activities other than banking, finance and insurance exceed 50% of the total of overall activities. The notion also includes the investor and one of the related parties referred to in numbers 1.3), 1.4), 1.5), and 1.6) of the respective definition which is a holding company that can be qualified as a non-financial business in accordance with the cited regulation of possible shareholdings (C.f. “non-financial Related Party” definition Title V, Chapter 5, New provisions of prudential supervision for banks)

<sup>22</sup> Investor: the entity obliged to request the authorisations referred to in Articles 19 et seq of the CBL, acknowledging that, at the date of issue of this REGULATION:

- (i) Article 19 CBL is also applied to the financial intermediaries referred to in Article 106 CBL;
- (ii) in accordance with Article 19, Paragraphs 1 and 2 of the CBL, the acquisition under any guise in a Bank of investments that involve control or the possibility of exercising a significant influence over the Bank itself or that attribute a share of the voting rights or capital at least amounting to 10% is subject to the prior authorisation of the Bank of Italy, taking account of the stocks of shares already owned along with the acquisition of control of a company that holds the aforementioned investments;
- (iii) in accordance with Article 19, Paragraph 2 CBL, changes to investments when the share of voting rights or capital reaches or exceeds 20 per cent, 30 per cent or 50 per cent are also subject to the prior authorisation of the Bank of Italy and, in any case, when the changes involve control over the Bank itself;
- (iv) in accordance with Article 19, Paragraph 8-bis CBL, the acquisition, direct or indirect, of control resulting from a contract with the Bank or from a clause of the articles of association is subject to the prior authorisation of the Bank of Italy;
- (v) in accordance with Article 22 CBL, for the purposes of applying Articles 19 et seq, also covered are the investments acquired or in any case owned by way of subsidiary companies, fiduciary companies or by intermediary individuals and the acquisition of investments by a number of entities that, based upon agreements concluded in any form, intend to exercise in concert the respective rights, when those investments, considered on a cumulative basis, reach or exceed the aforementioned thresholds, are also considered.

For the purposes of this REGULATION, investors are those who, at the date of entry into force of the same, already hold investments whose acquisition would be subject to prior authorisation of the Bank of Italy,

<sup>23</sup> Control in accordance with Article 23 CBL: the cases provided by Article 2359, First and Second Paragraph of the Italian Civil Code; control by contracts or by statutory clauses dealing with or by virtue of the power to exercise the activity of management and coordination; cases of control in the form of dominating influence. Also identified as control are situations of joint control, meaning the contractually-established sharing of control over an economic activity. In that case, controlling entities are considered to be: a) entities that have the possibility of exercising a determining influence over financial and operations decisions of a strategic nature of the business; b) the other entities able to affect the management of the business based upon the investments held, on agreements in whatever form entered into, on statutory clauses, dealing with and by virtue of the possibility of exercising control. Control is also present when it is exercised indirectly, by way of subsidiary companies, fiduciary companies, organisations or intermediary individuals. Companies and businesses controlled by entities in turn subject to joint control are not considered to be indirectly controlled.

- 1.6. Companies subject to significant influence<sup>24</sup> of a Company of the banking Group
- 1.7. enterprise incorporated in non-corporate form over which a Company of the Group exercises significant influence control.

## 2. LINKED ENTITIES

- 2.1. Companies and businesses controlled by a RELATED PARTY (c.f. point 1)
- 2.2. Parent companies or those subject to common control with respect to the RELATED PARTIES set out solely in point 1.2) and 1.3)
- 2.3. CLOSE RELATIVES of the COMPANY REPRESENTATIVE:
  - 2.3.1. Spouse
  - 2.3.2. Cohabiting partner
  - 2.3.3. Children of spouse or cohabiting partner
  - 2.3.4. Parents
  - 2.3.5. Children
  - 2.3.6. Sisters/brothers
  - 2.3.7. Grandparents
  - 2.3.8. Grandchildren (in straight line)
- 2.4. Companies and businesses controlled by CLOSE RELATIVES of the COMPANY REPRESENTATIVE

## B) OTHER ENTITIES

3. RELATIVES-IN-LAW up to the 2nd degree of the COMPANY REPRESENTATIVE
  - 3.1. Parents of the spouse
  - 3.2. Sisters/brothers of the spouse
  - 3.3. Grandparents of the spouse
  - 3.4. Grandchildren (in straight line) of the spouse
4. PERSONNEL
  - 4.1. "Most important personnel"<sup>25</sup>

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<sup>24</sup> Significant influence. The power to participate in the determination of financial and operational policies of an invested company, without having *control* over it. The *significant influence* is deemed to be in place in the case of possession of an investment, direct or indirect, equal to or greater than 20 per cent of the share capital or voting rights in the ordinary shareholders' meeting or in another equivalent body of the invested company, or 10 per cent in the case of companies with shares traded on regulated markets. In the case of ownership less than the aforementioned threshold, specific investigations must be conducted to ascertain the existence of *significant influence* at least using the following indicators and taking account of any other relevant circumstance: (i) being represented in the body with function of management or in the body with function of strategic supervision of the invested company; the sole fact of expressing the component in representation of the minority in accordance with the provisions of the regulations of issuers of shares traded on regulated markets does not constitute in itself an indicator of *significant influence*; (ii) participating in decisions of a strategic nature of a company, in particular where voting rights are available that are determining of the decisions in the shareholders' meeting in relation to financial statements, allocation of profits, distribution of reserves, without a situation of joint *control* being in place; (iii) the existence of significant transactions – meaning as such the "*TRANSACTIONS of greater significance*", the exchange of managerial PERSONNEL, the provision of essential technical information. The *significant influence* is also in place when exercised indirectly by way of subsidiary companies, fiduciary companies, organisations or intermediary individuals. Companies invested in by entities in turn subject to joint *control* are not considered to be indirectly subject to *significant influence*.

<sup>25</sup> Personnel: the employees and collaborators of the Group companies who are not ASSOCIATED ENTITIES and who are ascribable to "most significant personnel" identified by BANCO POPOLARE in accordance with the provisions on policies and practices of remuneration and incentives dated 30 March 2011 as amended, together with the entities that have, with members of PERSONNEL, relationships corresponding to those that concern the LINKED ENTITIES with respect to the RELATED PARTY.

- 4.2. CLOSE RELATIVES of the “most significant” Personnel
  - 4.2.1. Spouse
  - 4.2.2. Cohabiting partner
  - 4.2.3. Children of spouse or cohabiting partner
  - 4.2.4. Parents
  - 4.2.5. Children
  - 4.2.6. Sisters/brothers
  - 4.2.7. Grandparents
  - 4.2.8. Grandchildren (in straight line)
- 4.3. RELATIVES-IN-LAW up to 2nd degree
  - 4.3.1. Parents of the spouse
  - 4.3.2. Sisters/brothers of the spouse
  - 4.3.3. Grandparents of the spouse
  - 4.3.4. Grandchildren of the spouse
- 4.4. Companies controlled by “most significant” Personnel (c.f. 4.1) and by the respective CLOSE RELATIVES (c.f. 4.2)
- 5. **ADDITIONAL ENTITIES:** entities other than those above in relation to which the Bank of Italy requires the provisions to be applied, based upon concretely identified conflicts of interest.

The provisions of this Appendix are applied to foreign banks and intermediaries (with capital exceeding 2% of the consolidated regulatory capital) in line with the regulations of the country in which they are situated.



## Appendix 2: Notion of “significant interests”

Any interest of a capital nature, as assessed by BANCO, in relation to a TRANSACTION from which a benefit of a capital nature might derive to an ENTITY as set out in Appendix 1 by virtue of a TRANSACTION concluded with or between Subsidiaries or with Companies subject to significant influence and which, in the absence of that benefit, would not have been concluded or would have been concluded under different terms and which, as such, is appropriate to prevent the application of the special exemption provided by the REGULATION in relation to TRANSACTIONS “with or between Subsidiaries”. It is noted, in any case, that the mere sharing of one of more representatives between the BANK and subsidiary Companies (and, moreover, with Companies subject to significant influence) does not give rise, in itself, to the onset of SIGNIFICANT INTERESTS suitable to exclude the right of exemption.

SIGNIFICANT INTERESTS may, for example, exist where, in addition to mere sharing of one or more directors or other executives with strategic responsibilities, those entities benefit from incentive plans based upon financial instruments (or in any case variable remuneration) depending upon results achieved by the subsidiary or associated Companies with which the TRANSACTION is performed. The assessment of significance is performed in light of the weight of the remuneration depending upon the performance of the subsidiary (therein including the aforementioned incentive plans) compared to the total remuneration of the director or executive with strategic responsibilities.

The assessment of significance is also left to the Companies in the case where the subsidiary or associated company is invested by the entity that controls the Company. In that case, the investment held in the RELATED PARTY by the entity that exercises control or significant influence over the Company gives rise to a significant interest if the actual weight of that investment exceeds the actual weight of the investment held by the same entity in the issuer. In order to assess that effective weight, direct shareholdings are completely weighted, while indirect shareholdings are weighted in accordance with the percentage of the share capital held in the subsidiary through which the investment in the RELATED PARTY is held<sup>26</sup>. Where the investment in the RELATED PARTY is accompanied by other economic interests, those interests are considered together with those resulting from the investment calculated according to its actual weight.

On the other hand, the simple holding of an investment, in the subsidiary or associated Company, by other Companies controlled by the listed Company or connected to it does not represent, in itself, a significant interest<sup>27</sup>.

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<sup>26</sup> Merely for the purposes of illustration, the following examples of assessment of the criterion of significance are considered:

- (i) Company A controls with 50% of the capital represented by shares with voting rights Company B (listed), which in turn controls with the same percentage Company C, not listed. In addition, A directly holds the remaining 50% of C. In the TRANSACTION between Company B and Company C, Company A holds a significant interest in C since the actual weight of the investment in the latter Company amounts to  $50\%+(50*50\%)=75\%$ , while the weight of investment in B amounts to 50%: there is therefore an incentive for the net transfer of resources from B to C.
- (ii) Company A controls with 30% of the capital represented by shares with voting rights Company B (listed), which in turn controls with 50% of the capital represented by shares with voting rights Company C, not listed. In addition, A directly holds 10% of C. In the TRANSACTION between Company B and Company C, Company A does not hold a significant interest in C since the actual weight of the investment in the latter Company amounts to  $10\%+(30*50\%)=25\%$ , while the weight of the investment in B amounts to 30%: therefore, in the absence of other SIGNIFICANT INTERESTS, there is no incentive for the net transfer of resources from B to C.

<sup>27</sup> Consider, for example, the following circumstance: Company A (listed) controls Company B (not listed) holding 51% of the capital represented by shares with voting rights. Company C (not listed), over which A exercises control or significant influence, holds the remaining 49% of capital in B. In the TRANSACTION between A and B, the investment held by C in B does not constitute a significant interest for the purposes of Art. 14, Paragraph 2 of the Regulation.

## Appendix 3: “Self-certification” facsimile

Place and Date

Corporate Secretariat  
 BANK/SUPERVISED INTERMEDIARY  
 Address  
POSTCODE CITY

### RE: “Risk Activities and Conflicts of Interest in relation to Associated Entities”

PERSONAL DETAILS OF COMPANY REPRESENTATIVE				
<i>The Undersigned</i>	SURNAME AND NAME			
RESIDENCE (POSTCODE, CITY, PROVINCE, ADDRESS)				TAX CODE
CITY, PROVINCE AND DATE OF BIRTH		SEX	NATIONALITY	
IN THE CAPACITY OF:			RELATED PARTY: NON-FINANCIAL/OTHER	<input type="checkbox"/> NF <input type="checkbox"/> O

by this deed, for the purposes of the regulations in force in relation to “Risk Activities and Conflicts of Interest in relation to Associated Entities” referred to in Chapter 5 of Title V of the New Provisions of Prudential Supervision for Banks of the Bank of Italy contained in the 9th update dated 12 December 2011 to Circular 263,

### DECLARES

#### I. to control (directly, indirectly, jointly or by dominating influence) the following companies:

COMPANY/ENTITY	D-I-J-DI (1)	% (2)	VAT No./TAX CODE

(1) D=Direct Control – I=Indirect control – J=Joint control - DI= Dominating influence

(2)= percentage of control

### ALSO DECLARES

that **his/her close relatives** (relatives up to the second degree and spouse or cohabiting partner, along with the children of the latter, *parents, children, sisters/brothers, grandparents and grandchildren in straight line*) **are:**

SURNAME AND NAME	RELATIONSHIP DEGREE	TAX CODE	PLACE AND DATE OF BIRTH	SEX

and that **the same control** (directly, indirectly, jointly or by dominating influence) the following companies:

COMPANY/ENTITY	D-I-J-DI (1)	% (2)	VAT No./TAX CODE	RELEVANT CLOSE RELATIVE

(1) D=Direct Control – I=Indirect control – J=Joint control - DI= Dominating influence

(2)= percentage of control

**II. that his/her relatives-in-law up to the 2nd degree (parents of the spouse, sisters/brothers of the spouse, grandparents and grandchildren in straight line of the spouse) are:**

SURNAME AND NAME	DEGREE OF RELATIONSHIP	TAX CODE	PLACE AND DATE OF BIRTH	SEX

**The undersigned declares to be aware of the civil and criminal liability that he/she may incur in the event of untrue declarations and that he/she cannot be certain of the omitted information.**

**He/she also declares to have read the information notice in accordance with Article 13 of Italian Legislative Decree no. 196/03 (Code in relation to personal data protection)**

**Finally, he/she undertakes promptly to communicate any change in relation to what is hereby declared.**

Date

Signature

INFORMATION NOTICE IN RELATION TO ARTICLE 13 OF ITALIAN LEGISLATIVE DECREE NO. 196/2003 "CODE IN RELATION TO PERSONAL DATA PROTECTION"

It is communicated that the processing of personal data provided by you shall occur in compliance with the provisions of Italian Legislative Decree no. 196/2003.

The data is required to fulfil the regulatory provisions in relation to "RISK ACTIVITIES and conflicts of interest of the BANKS and banking groups with respect to associated entities", for the correct and comprehensive registration of the latter and in particular to identify the LINKED ENTITIES and RELATIVES-IN-LAW as well as to ensure control over full compliance with those provisions.

The data will be processed exclusively for the aforementioned purposes also by way of computer processes and it shall not be disclosed externally.

You may exercise the rights set out in the cited Italian Legislative Decree which provides, inter alia, the right of access to the personal data, the right to rectify, update, complete or delete erroneous or incomplete data, along with the right to object to its processing for legitimate reasons to the processing controller.

The processing Controller is the BANK/SUPERVISED INTERMEDIARY.