



**Internal Policies
Governing Controls of Risk
Assets and Conflicts of Interest
in Relation to Connected Parties**

Code PY023	Version 003	Date of approval 09/05/2017	Date of entry into force 15/05/2017
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1 INTRODUCTION

The Prudential Supervisory Provisions for Banks – Bank of Italy Circular No. 263/2006, ninth update of 12 December 2011 (also referred to hereinafter as the “Provisions”) set forth provisions governing *Risk assets and conflicts of interest in relation to Connected Parties* (Title V, Chapter 5), which aim to safeguard against the risk that the proximity of certain parties to the bank’s decision-making centres may compromise the objectivity and impartiality of decisions regarding the granting of loans and other transactions in relation to such parties, with possible distortions of the resource allocation process, exposure of the bank to risks subject to inadequate measurement or oversight, and potential damages for deposit holders and shareholders.

In this context, the Bank of Italy:

- a) sets prudential limits for the risk assets of a bank or banking group in relation to Connected Parties. The limits vary according to the different types of Related Parties, in proportion with the level of involvement of the relationship and the potential impact of the resulting risks on sound and prudent management. In view of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk assets carried out with entities qualifying as non-financial Related Parties;
- b) requires the formalisation of specific decision-making procedures that integrate prudential limits in order to safeguard the proper allocation of resources and adequately protect third parties from expropriative behaviour. These procedures also apply to intra-group transactions and transactions of an economic nature in addition to those that generate risk assets, and therefore are not covered by quantitative limits¹;
- c) defines specific guidelines relating to organisational arrangements and internal controls intended to identify corporate bodies' responsibilities and corporate functions' tasks with respect to the objectives of conflicts of interest prevention and management, as well as the obligations for identifying the Connected Parties and monitoring exposures over time.

¹ To that end, Banca Generali’s Board of Directors adopted the *Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance*, implemented by the Bank in accordance with Consob Regulation No. 17221/2010 and the Bank of Italy’s Provisions governing risk assets and conflicts of interest in relation with Connected Parties.

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In this context, the Bank approves and revises, at least every three years, its **internal policies governing controls of risk assets and conflicts of interest in relation to Connected Parties** (also referred to hereinafter as the “*Policies*”). Documents setting forth internal control policies are disclosed to the Shareholders’ Meeting and kept at hand for any requests from the Bank of Italy.

This document is integrated with:

- the *Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance* adopted by the Bank in accordance with CONSOB Regulation No. 17221/2010 and the Bank of Italy’s Provisions governing risk assets and conflicts of interest in relation to Connected Parties;
- the *Conflicts of Interest Policy* adopted by the Bank in accordance with the joint Bank of Italy and Consob Regulation of 29 October 2007, issued pursuant to Article 6, paragraph 2-*bis*, of the Finance Consolidation Law;
- the *Equity Investment Management Policy* adopted by the Bank in accordance with the Bank of Italy’s Provisions governing risk assets and conflicts of interest in relation to Connected Parties;
- other internal regulations and policies adopted by the Bank and in effect from time to time.

1.1 Purpose of the document and scope of application

This document (hereinafter the “*Policy*”) aims to:

- establish the risk appetite levels consistent with the strategic profile and organisational characteristics of the bank or banking group. Risk appetite is also defined in terms of a maximum amount of risk assets in relation to Connected Parties deemed acceptable with respect to Own Funds, in reference to total exposures to all Connected Parties;
- identify, in regard to transactions with Connected Parties, the sectors of activity and types of dealings of an economic nature, including those not entailing the assumption of risk assets, in relation to which conflicts of interest may arise, without prejudice to the rigorous rules governing the conflicts of interest cited above;

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- govern organisational processes made for thoroughly identifying and cataloguing Connected Parties, and identifying and quantifying the pertinent transactions throughout all phases of the relationship;
- govern control processes meant for ensuring that the risks assumed in relation to Connected Parties are properly measured and managed and verify that internal policies have been properly designed and effectively applied.

This *Policy* applies to all companies of the Banking Group.

1.2 Regulatory framework of reference

The following is a summary of the main regulatory texts of reference deemed relevant to the drafting of this *Policy*:

- § Italian Civil Code, Article 2391 Directors' Interests, Article 2391-*bis* Related Party Transactions;
- § Legislative Decree No. 385 of 1 September 1993 – Consolidation Law on Banking – from the following articles:
 - Article 53, paragraph 1, letters b) and d), on the basis of which the Bank of Italy, pursuant to the resolutions of the Interministerial Committee on Credit and Savings, issues provisions of a general nature governing the containment of risks in its various configurations, administrative and accounting organisation and internal controls;
 - Article 53, paragraph 4, on the basis of which the Bank of Italy, in accordance with the resolutions of the Interministerial Committee on Credit and Savings, establishes conditions and limits for the assumption by banks of risk assets in relation to parties who may directly or indirectly exercise an influence on the management of the bank, banking group or parties associated with the bank or banking group; where it finds situations of conflict of interest to exist in actual practice, it may establish specific conditions and limits for the assumption of risk assets;
 - Article 53, paragraph 4-*ter*, on the basis of which the Bank of Italy identifies the cases in which failure to satisfy the conditions envisaged in paragraph 4 entails the suspension of administrative rights associated with the equity investment;

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- Article 53, paragraph 4-*quater*, on the basis of which the Bank of Italy, in accordance with the resolutions of the Interministerial Committee on Credit and Savings, governs conflicts of interest between banks and the parties indicated in paragraph 4, with regard to other types of dealings of an economic nature;
 - Article 67, paragraph 1, letters b) and d), on the basis of which the Bank of Italy, pursuant to the resolutions of the Interministerial Committee on Credit and Savings, imposes on the parent company, through measures of a general or specific nature, provisions affecting the banking group, collectively considered, or its components, governing the containment of risks in its various configurations, administrative and accounting organisation and internal controls;
 - Article 136, which governs the procedure for approving the assumption of obligations by the Bank with officers of the Bank, as well as with the other specifically indicated categories of parties;
- § Resolution of the Interministerial Committee on Credit and Savings No. 277 of 29 July 2008, governing risk assets and other conflicts of interest of banks and banking groups in relation to Connected Parties, pursuant to Article 53, paragraphs 4, 4-*ter* and 4-*quater*, of the Consolidation Law on Banking;
- § Legislative Decree No. 58 of 24 February 1998, Article 154-*ter* Financial Reports;
- § New Prudential Supervisory Provisions for Banks – Bank of Italy Circular No. 263 27 December 2006 and subsequent updates;
- § Provisions for the Supervision of Banks – Bank of Italy Circular No. 285 of 17 December 2013 and subsequent updates;
- § Banca Generali’s Articles of Association, as in effect from time to time;
- § Banca Generali’s *Conflicts of Interest Policy*, as in effect from time to time;
- § Banca Generali’s *Internal Regulations*, as in effect from time to time;
- § Banca Generali’s *Finance Regulations*, as in effect from time to time;
- § Banca Generali’s *Lending Rules*, as in effect from time to time

1.3 Definitions

Pursuant to the Bank of Italy’s *Provisions governing risk assets and conflicts of interest in relation to Connected Parties*:

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INDEPENDENT DIRECTOR

For the purposes of this *Policy*, Independent Directors are defined as company directors recognised as independent by Banca Generali pursuant to Article 148, paragraph 3, of the Finance Consolidation Law, Article 3 of the Code and Article 37, paragraph 1, letter d), of the Regulation adopted by CONSOB Resolution No. 16191 of 29 October 2007, as amended (the Market Regulations).

RISK ASSETS

Net exposures, as defined for the purposes of rules governing the concentration of risks².

CONTROL

Pursuant to Article 23 of the Consolidation Law on Banking: the cases provided for in Article 2359, paragraphs 1 and 2, of the Italian Civil Code; control by contracts or clauses of the Articles of Association governing or resulting in the power to exercise management or coordination; cases of control in the form of dominant influence.

Situations of joint control, defined as the contractually established sharing of control of an economic activity, also qualify as control. In such cases, the controlling parties are:

- a) parties with the ability to exercise a decisive influence on the enterprise's financial or operational decisions of a strategic nature³;
- b) other parties able to condition the management of the enterprise on the basis of the equity investments they hold, arrangements entered into in any form or clauses of the Articles of Association governing or resulting in the ability to exercise control.

Control is relevant even when exercised indirectly through subsidiaries, trust companies, or intermediary entities or individuals. Companies and enterprises controlled by entities in turn subject to joint control are not considered indirectly controlled.

² Cf. Title V, Chapter 1, Section I, paragraph 3, as well as the "Instructions for Preparing Reports Concerning Capital for Regulatory Purposes and Capital Ratios" (Circular No. 155 of 18 December 1991), Section 5.

³ For example, this situation applies when there are two or more parties, each of which may prevent the adoption by the controlled enterprise of financial and operational decisions of a strategic nature by exercising a veto right or due to the effect of quorums for decisions by company bodies.

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CORPORATE GOVERNANCE PROVISIONS

Bank of Italy's Circular No. 285 of 17 December 2013, Part I, Title IV, "Corporate Governance, Internal Controls, Risk Management".

CONSOB PROVISIONS

The CONSOB implementing provisions for Article 2391-*bis* of the Italian Civil Code governing Related Party Transactions of companies that make use of the risk capital market.

COMPANY OFFICERS

Persons who perform functions of administration, management and control within a bank, parent finance company or supervised intermediary. In particular, the definition includes directors and statutory auditors in the traditional management and control system, the members of the supervisory board and management board in the dualistic system and directors and members of the management control committee in the monistic system. The definition includes the general manager and persons who fulfil duties that entail the performance of functions equivalent to those of the general manager.

COLLECTIVE GUARANTEE

The mutual provision by a collective guarantee bank of guarantees on behalf of its shareholders, aimed at favouring their financing by banks and other financial intermediaries.

SUPERVISED INTERMEDIARIES

Investment companies, Italian and international asset management companies, electronic money institutions, financial intermediaries recorded in the roll provided for in Article 106 of the Consolidation Law on Banking and payment institutions that are part of a banking group and have individual Own Funds in excess of 2% (two percent) of the consolidated Own Funds of the group to which they belong.

SIGNIFICANT INFLUENCE

The power to shape and inform the financial and operating policies of an investee company, without having control thereof.

Significant influence is presumed in cases of possession of a direct or indirect equity investment equal to or greater than 20% (percent) of capital or voting rights in the ordinary general meeting or other equivalent body of the investee, or equal to or greater than 10% (percent) in cases of companies with shares listed on regulated markets.

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In cases of possession of equity investments below the above thresholds, specific inquiries must be conducted in order to determine whether significant influence exists, referring, at minimum, to the following indicators and taking account of all other relevant circumstances:

- (i) representation within the body of the investee charged with the management function or with the strategic supervision function; the mere fact of selecting the component representing the minority pursuant to the rules governing issuers of shares listed on regulated markets does not, in and of itself, constitute an indicator of significant influence;
- (ii) participation in an enterprise's decisions of a strategic nature, particularly to the extent decisive voting rights are held in the decisions of the general meeting relating to financial reporting, the allocation of profits and the distribution of reserves, without qualifying as a situation of joint control⁴;
- (iii) the existence of significant transactions — understood to be the “highly significant transactions” defined in this Section — the exchange of management personnel or the provision of essential technical information.

Significant influence is relevant even when exercised indirectly through subsidiaries, trust companies or intermediary entities or individuals. Companies in which interests are held by entities in turn subject to joint control are not considered indirectly subject to significant influence.

CONNECTED PARTY TRANSACTION

A transaction with a Connected Party that entails the assumption of risk assets or the transfer of resources, services or obligations, regardless of whether consideration is provided for, including mergers and de-mergers.

The following are not considered transactions with Connected Parties:

- (i) transactions between members of a banking group, when they are bound by a relationship of full control, including on a joint basis;
- (ii) compensation paid to Company Officers, where compliant with supervisory provisions governing the incentive and remuneration systems of banks;

⁴ For example, this situation occurs when ownership of a company is divided amongst multiple shareholders (not bound to one another by joint control arrangements), with the result that the vote of crucial shareholders, individually possessing interests that do not meet the requirements for significant influence, may prove decisive to the formation of majorities within the general meeting concerning the subjects specified above.

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- (iii) intra-group transfers of funds or collateral undertaken in the context of the liquidity risk management system at the consolidated level⁵;
- (iv) transactions to be undertaken on the basis of instructions for stability purposes imposed by the Bank of Italy, or on the basis of instructions issued by the parent company for the execution of instructions imposed by the Bank of Italy in the interest of the group's stability.

TRANSACTION OF GREATER IMPORTANCE

A transaction with a Connected Party the value of which exceeds 5% (percent) of Own Funds (at a consolidated level, in the case of groups), calculated according to the indications presented in the Annex, under the item "Value significance index." The threshold for acquisitions, mergers and de-mergers, also 5% (percent), is to be calculated according to the methods indicated in the Annex under the item "Asset significance index".

The bank may identify other transactions to be considered highly significant on the basis of qualitative or quantitative indicators.

In the case of a uniform set of transactions or transactions undertaken as part of a single plan in the course of the year with the same Connected Party, the bank combines their values for the purposes of calculating the significance threshold.

TRANSACTION OF LESSER IMPORTANCE

A transaction with a Connected Party that is not a transaction of greater importance.

ORDINARY TRANSACTION

A transaction of lesser importance with a Connected Party in the context of the bank's ordinary operations, undertaken at market or standard conditions. The bank takes account of at least the following factors when defining transactions of this kind: attributability to ordinary activity, the objectivity of conditions, simplicity of the economic and contractual scheme, limited quantitative relevance and type of counterparty.

INVESTOR

A party required to apply for the authorisations set forth in Articles 19 *et seq.* of the Consolidation Law on Banking.

⁵ Cf. Circular No. 285/2013, Part I, Title IV, Chapter 6, Section III.

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RELATED PARTY

One of the parties indicated below, by virtue of dealings with a single bank, bank or supervised intermediary belonging to a group or parent finance company:

1. company officers;
2. investors;
3. parties, other than investors, with the power to designate, on an autonomous basis, one or more members of the management or strategic supervision body, including by virtue of arrangements entered into in any form or clauses of Articles of Association governing or resulting in the exercise of such rights or powers;
4. companies or enterprises, including non-corporate entities, over which the bank or banking group company may exercise control or a significant influence.

NON-FINANCIAL RELATED PARTY

A Related Party that, directly or through subsidiaries, primarily engages in non-financial business activity, as defined in the context of the rules governing the equity investments that may be held by banks or banking groups⁶. A Non-Financial Related Party is an organisation other than a bank, an ELMI, an insurance, financial or operating enterprise. The notion also includes Investors and one of the Related Parties set forth in points 3 and 4 of the associated definition that is a holding company qualifying as a non-financial enterprise pursuant to the above rules governing eligible equity investments.

OWN FUNDS

The sum of Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, as defined in Part II, Titles I and II, of CRR.

CONNECTED ENTITIES

1. Companies and enterprises, including those in non-corporate form, controlled by a Related Party;
2. parties that control a Related Party of the type identified in points 2 and 3 of the associated definition, or parties directly or indirectly subject to joint control with such a Related Party;
3. the close family members of a Related Party and the companies or enterprises controlled by such persons.

⁶ Cf. Part III, Chapter 1, of Circular No. 285 of 17 December 2013.

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CONNECTED PARTIES

The combination of a Related Party and all parties connected to that Related Party. For application at an individual level, individual banks belonging to a banking group refer to the same scope of Connected Parties determined by the parent company for the entire banking group.

Relatives up to the second degree⁷ and spouses and cohabiting partners of a Related Party, as well as the children of a Related Party.

⁷ In cases of Connected Parties of an international bank or international supervised intermediary belonging to a banking group, if there are demonstrated difficulties in obtaining information, the parent company may exclude relatives of the second degree from the notion of “close family members” and thus limit itself to considering relatives of the first degree. In this case, it shall inform the Bank of Italy thereof.

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2 ROLES AND RESPONSIBILITIES OF COMPANY BODIES AND ORGANISATIONAL STRUCTURES

Broad involvement of the bank’s administration and control bodies and Independent Directors, as well as contributions by the major functions concerned, is ensured when setting internal policies governing controls of risk assets and conflicts of interest in relation to Connected Parties, as well as in conjunction with any substantial amendments or additions to such policies.

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3 BANK'S SECTORS OF ACTIVITY AND CONFLICTS OF INTEREST

The Provisions require the identification of the sectors of activity and types of dealings of an economic nature, including those that do not entail the assumption of risk assets, in relation to which conflicts of interest may arise, on the basis of the operating characteristics and strategies of the bank and group.

In the interest of compliance with the foregoing rules, the Bank has identified and constantly updates its areas of operation, namely the types of transactions that entail the assumption or risk assets or the transfer of resources, services or obligations, regardless of whether consideration is provided for, specifying those in relation to which conflicts of interest may arise.

In this context, the Bank considers, for example, conflicts of interest relating to lending and fund-raising, investment in financial and non-financial assets and advisory and assistance services rendered to customers and other counterparties. Reference should also be made to the specific indications concerning conflicts of interest between lending and equity investment activity set forth in the rules governing equity investments that may be held by banks⁸, as well as those governing conflicts of interest in the provision of investment and ancillary services⁹ set forth in the Bank of Italy/CONSOB Joint Regulation in implementation of Article 6, paragraph 2-*bis*, of the Finance Consolidation Law.

Activity aimed at identifying the Bank's sectors of operation involves all of the banking group's organisational departments and companies involved in the process of managing transactions with Connected Parties with the aim of consolidating and disseminating the content thereof.

The following areas of operation that may give rise to conflicts of interest have been identified in relation to the activity undertaken in the segment and the strategies of the bank and group:

⁸ Equity Investment Management Policy.

⁹ Conflicts of Interests Management Policy – internal policy aimed at identifying, preventing, containing and managing conflicts of interest in the rendering of investment and/or ancillary services.

AREAS OF OPERATION	Agreements/Contracts to purchase goods and/or services	Loan assets	Proprietary finance	Treasury management	Shareholding management	Real estate transactions	Direct net inflows	Banking and payment services	Customer investment services
Agreements/Contracts to purchase goods and/or services		X	X		X				X
Loan assets	X				X	X	X		X
Proprietary finance	X				X				X
Treasury management									
Shareholding management	X	X	X				X		X
Real estate transactions		X							
Direct net inflows		X			X				X
Banking and payment services									
Customer investment services	X		X		X		X		

Organisational structures and internal control systems must ensure that potential conflicts of interest are prevented and managed and that established prudential limits are constantly observed.

For a specific analysis of individual types of conflicts and the management measures adopted by the Bank, refer to the *Conflicts of Interest Policy* applicable to investment services.

In its internal regulations, the Bank has included measures identifying at the group level those sectors of activity and types of dealings of an economic nature in relation to which conflicts of interest may arise and, in this regard, it has established safeguards involving organisational separation suited to preventing situations of conflict of interest, as well as rules of conduct appropriate to the proper handling of such situations.

For the purposes of these rules, the Bank, partly with the aim of mitigating the risk that conflicts of interest may arise, defines and updates the parameters for identifying ordinary transactions, i.e., transactions that fall within the bank's ordinary operations and have been undertaken at market or standard conditions (rates, fees, expenses, etc.).

In order to mitigate conflicts of interest, the Bank establishes, updates and disseminates parameters for identifying ordinary transactions with which the structure proposing the transaction is to comply in dealings with Connected Parties. The structures identified as responsible for updating the parameters for identifying ordinary transactions are required to ensure that the parameters cited above are constantly updated.

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4 RISK ASSETS IN RELATION TO CONNECTED PARTIES

4.1 Limits on risk assets in relation to Connected Parties

In assuming risk assets in relation to Connected Parties, the Bank is required to observe the following limits relating to consolidated Own Funds.

➤ ***Limits imposed by the Provisions:***

- in relation to a non-financial Related Party and relative Connected Entities:
 - a) 5% (percent) in the case of a Related Party that is:
 - a company officer; or
 - a controlling investor or investor capable of exercising a significant influence;
 - b) 7.5% (percent) in the case of a Related Party that is:
 - an investor other than the type defined in point a); or
 - a party other than an investor with the power of designating one or more members of company bodies on an autonomous basis;
 - c) 15% (percent) in the other cases;
- in relation to another Related Party and relative Connected Entities:
 - d) 5% (percent) in the case of a Related Party who is a company officer;
 - e) 7.5% (percent) in the case of a Related Party that is a controlling investor or an investor capable of exercising a significant influence;
 - f) 10% (percent) in the case of a Related Party that is:
 - an investor other than the type defined in point e); or
 - a party other than an investor with the power of designating one or more members of company bodies on an autonomous basis;
 - g) 20% (percent) in the other cases.

In accordance with consolidated limits, a bank belonging to the Banking Group may assume risk assets in relation to a single set of Connected Parties, regardless of whether the Related Party is financial or non-financial in nature, up to the limit of 20% (percent) of individual Own Funds.

➤ **Limits set by the Bank.**

The Board of Directors, in consultation with the Board of Statutory Auditors, establishes and periodically reviews the risk appetite levels consistent with the Banking Group's strategic profile and characteristics.

Risk appetite is also defined in terms of a maximum amount of risk assets in relation to Connected Parties deemed acceptable with respect to Own Funds, in reference to total exposures to all Connected Parties.

On the basis of this regulatory approach, the Bank has identified its risk appetite for risk assets in relation to Connected Parties, in terms of maximum amount and on a differentiated basis depending on the type of entity.

LIMITS	CATEGORY	INDIVIDUAL LIMITS ESTABLISHED BY PROVISIONS (% ON CONSOLIDATED OWN FUNDS)		LIMITS SET BY BANCA GENERALI TO ALL PARTIES (% ON CONSOLIDATED OWN FUNDS)
		Financial Related Party and Connected Entities	Non-financial Related Party and Connected Entities	Limit on risk assets by category of Related Parties and Connected Entities
CONSOLIDATED LIMITS	Company Officer	5%	5%	20%
	Controlling investor or investor capable of exercising a significant influence	7,5%	5%	25%
	Other investors or a party, other than an investor, with the power of designating one or more members of company bodies on an autonomous basis	10%	7,5%	15%
	Parties subject to significant control or influence	20%	15%	20%
INDIVIDUAL LIMITS	20% Individual OWN FUNDS			
MAXIMUM LIMIT ON CONSOLIDATED OWN FUNDS IN RELATION TO ALL RELATED PARTIES AND CONNECTED ENTITIES				40%

The limits set by the Bank shall apply to all Connected Parties belonging to the same category, without prejudice to the limits established by the Provisions; for instance, an individual limit of 7.5% of Consolidated Own Funds shall be applied to a Financial Party.

In further detail, the Bank has established:

- (i) the *maximum limit in relation to all Related Parties and Connected Entities*, which represents the maximum amount of risk assets in relation to Connected Parties

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deemed acceptable with respect to consolidated Own Funds, in reference to total exposures to all Connected Parties;

- (ii) the *limit on risk assets by type of Related Party and Connected Entities*, which represents the maximum amount of risk assets in relation to all Connected Parties deemed acceptable with respect to consolidated Own Funds, in reference to total exposures defined in a differentiated manner according to the type of party (for example, the maximum limit deemed acceptable in relation to all Company Officers and Connected Entities is 20% of consolidated Own Funds, without prejudice to observance of the other limits).

In further detail, limits (i) and (ii) are confirmed and/or revised every three year, when this Policy is reviewed, or whenever deemed necessary by the Board of Directors, following a review by the Audit and Risks Committee, considering the trend in such risk assets as a percentage of Own Funds over type and the breakdown by risk type.

If the limits established by the Provisions and/or additional limits set by the Bank are exceeded, the amount in excess of the prudential limit must nonetheless be restored to within the limits according to the following scheme:

- overrun of prudential limits of up to 2% of Own Funds, term of recovery of twelve months;
- overrun of prudential limits of 2% to 5% of Own Funds, term of recovery of eight months;
- overrun of prudential limits of over 5% of Own Funds, term of recovery of four months.

If a maximum limit on risk assets in relation to Connected Parties below the prudential limits envisaged by the Provisions has not been set, monitoring activity is conducted in reference to those limits.

4.2 Monitoring and reporting of limits on risk assets

Observance of prudential limits on risk assets in relation to Connected Parties is ensured on an ongoing basis through the monitoring of risk assets in relation to Connected Parties.

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The Risk Management function, which is informed of the scope of Connected Parties, conducts ongoing reviews that the limits — both those imposed by the Provisions and set by the Bank — are observed in the assumption of risk assets in relation to Connected Parties, while also taking account of the updated value of any risk mitigation techniques supporting the transactions. The Risk Management function also verifies that limits have been observed in cases of new reports of transactions from the department proposing the transaction.

The Risk Management function informs the Board of Directors and Board of Statutory Auditors, through the Chief Executive Officer, of the overrun of one or more limits due to causes beyond the control and not attributable to the negligence of the Bank.

The Risk Management function provides the Board of Directors, Audit and Risks Committee and Board of Statutory Auditors with complete information on at least a quarterly basis in order to allow Company Bodies to ensure constant observance of prudential limits — both those imposed by the Provisions and those approved by the Board of Directors — on risk assets in relation to Connected Parties.

If, due to causes beyond the control and not attributable to the negligence of the Bank (e.g., a party becomes a Related Party after dealings are initiated or Own Funds decrease so as to entail an overrun of one of the limits set forth above), one or more limits are exceeded, risk assets must be brought within the limits in the shortest possible amount of time, as envisaged in paragraph 4.1. To that end, within **45 days** of when the limit is exceeded, the Bank drafts a recovery plan, approved by the Board of Directors upon the proposal of the Chief Executive Officer, in consultation with the Board of Statutory Auditors.

The recovery plan is submitted to the Bank of Italy within **20 days** of approval, along with minutes containing the resolutions of company bodies.

If the overrun of limits pertains to a Related Party by virtue of the equity investment held in the bank or a banking group company, the administrative rights associated with the equity investment are suspended.

The Bank assesses the risks associated with transactions with Connected Parties (risks of a legal or reputational nature or relating to conflicts of interest), if relevant to company operations, in the context of the internal capital adequacy assessment process (ICAAP), pursuant to Bank of Italy's Circular No. 285 of 17 December 2013. In particular, in cases in which prudential limits are exceeded for the foregoing reasons, the Bank takes account of the excesses in the process of determining total internal capital, in supplementation of the initiatives envisaged in the recovery plan.

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4.3 Risk asset calculation methods

For the purposes of these rules, risk assets are weighted according to factors that take account of the risk level associated with the nature of the counterparty and any forms of credit protection.

The weighting factors and conditions of admissibility of risk mitigation techniques established in the context of risk concentration rules are applied¹⁰. Risk assets do not include equity investments and other assets deducted from Own Funds. Limits do not include temporary exposures related to the provision of fund transfer services and offsetting, settlement and financial instrument custody services, in the cases and under the conditions provided for in the rules on Great Exposures.

If there are multiple relationships entailing the application of different prudential limits between the Bank or Banking Group and a Related party, the lowest limit applies.

The limits set forth in the foregoing paragraph do not include risk assets associated with transactions between companies belonging to a single banking group, or, in the case of Italian banks subject to consolidated supervision in another EU Member State, between the bank concerned and the parent company in the EU, banks and other supervised intermediaries controlled by the parent company.

¹⁰ Cf. CRR, Part IV; Circular No. 285, Part II, Chapter 10.

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5 ORGANISATIONAL PROCESSES AND INFORMATION SYSTEMS

5.1 Procedures for identifying Connected Parties

Proper management of transactions with Connected Parties, in terms of decision-making procedures and monitoring of limits, is also founded upon full, timely identification of the scope of Connected Parties.

Such scope is determined and updated by the **Shareholders and Relevant Parties Relations and Management Unit** (hereinafter also the “**Responsible Function**,” which reports to the Corporate Affairs Service), aggregating the Connected Parties of the Bank and of each supervised intermediary belonging to the Banking Group.

To that end, the Corporate Affairs Service requests that Company Officers provide all elements useful to keeping the scope of Connected Entities up to date, and in particular data governing close family members and investment dealings, in relation to which appropriate confidentiality measures are adopted. With annual frequency, the Corporate Affairs Service also requests that Company Officers confirm/update information previously entered into the software application and monitors the responses. The Responsible Function reviews the consistency and completeness of the information received from Company Officers and requests any clarification and/or confirmation, directly or through the responsible departments.

A similar request is addressed by the competent departments of the relevant supervised intermediaries within the Banking Group to their officers and shareholders included within the scope of the Group’s Connected Parties. This information is sent to the Bank, which establishes the scope of Connected Parties for the entire Banking Group.

In managing its own ordinary or extraordinary activities, each organisational unit that proposes a transaction is required to conduct a timely, preliminary review whether the transactions it is evaluating qualify as transactions with Connected Parties. To that end, the Bank has adopted appropriate operating procedures and information systems that facilitate the ability to determine during the review phase whether the counterparties to a transaction may be identified as Connected Parties¹¹.

¹¹ The same procedures and information systems allow for the management of transactions with Related Parties falling within the scope of application of CONSOB Regulation No. 17221/2010 and Company Officers within the scope of application of Article 136 of the Consolidation Law on Banking. The same procedures

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5.2 Organisational procedures and information systems

The **Board of Directors** ensures and verifies the implementation of these Policies by drawing on a variety of competent company departments.

The **General Counsel Department** (specifically, the Corporate Affairs Service), in concert with the competent functions of the Processes and System Coordination Department, oversees the preparation of organisational procedures and information systems that govern the process of evaluating and approving transactions with Connected Parties and disclosure to company bodies and the market. To that end, it cooperates with the Processes and System Coordination Department, Administration Department and Risk Capital Adequacy Department, to the extent of the competence of each.

During the transaction evaluation process, the **Risk Capital Adequacy Department** verifies whether the proposed risk asset falls within the limits established by regulations and the group's maximum exposure as determined by the Board of Directors and also ensures that such limits are constantly observed. The Risk Capital Adequacy Department structure conducts ongoing reviews that the limits on risk assets in relation to Connected Parties are observed, while also taking account of the updated value of any risk mitigation techniques supporting the transactions.

The **Administration Department** oversees the preparation of organisational procedures and information systems that ensure that Bank of Italy receives supervisory reports, at the consolidated and individual level, concerning Connected Parties within the terms prescribed by the Bank of Italy Provisions and the associated implementing regulations.

The competent functions of the **Processes and System Organisation Department**, in some cases upon the request of the organisational units concerned, guarantee the planning, implementation and management of the technological infrastructure and IT services integrated with company processes, as well as the dissemination of corporate processes to the departments of the Bank and Banking Group, so as to allow them to achieve concrete implementation of the requirements established by applicable legislation.

also include, in a distinct manner, entities qualifying as related parties pursuant to accounting standard IAS 24.

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All functions of the Bank and Banking Group companies use specific information technology tools in order to: (i) verify whether a counterparty falls within the scope of Connected Parties before a transaction is finalised; (ii) record information concerning the transaction to permit the competent departments to oversee any evaluation and approval procedures; and (iii) contribute, to the extent of their competence, to defining and updating the Bank's areas of operations and conditions for identifying ordinary transactions and transactions at market or standard conditions¹².

The information systems adopted, extended to all of the Bank's departments and all branches of the Banking Group, allow Connected Parties to be identified when dealings are established, all group companies to be provided up-to-date information concerning the group's Connected Parties, a record to be kept of the pertinent movements and the performance and total amount of the related risk assets to be monitored, while also taking account of the up-to-date value of any risk mitigation techniques supporting the transactions. The information systems ensure that the Bank, as Parent Company, is constantly able to verify observance of the consolidated limit on risk assets in relation to Connected Parties. The information tools adopted permit multi-normative management of the process of managing transaction with Related Parties, Connected Parties and Company Officers in accordance with the Bank of Italy Provisions, CONSOB Regulation No. 17221/2010 and Article 136 of the Consolidation Law on Banking.

The main functions of information tools are as follows:

- surveying of Relevant Parties so as to permit the management of their personal data;
- identification of the Bank's areas of operation, that is to say, transactions that fall within the scope of application of the various laws and regulations;
- identification, registration and monitoring of transactions with surveyed Relevant Parties and monitoring of relative cumulative sums and amounts;
- governance of transactions so as to permit the identification of transactions that require a preliminary approval procedure and support for the computerised transaction governance process;
- internal and external reporting, generation of periodic customisable reports.

¹² For the details of the operating process for the management of transactions with Connected Parties, please refer to the specific internal circular in force from time to time.

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6 CONTROL STRUCTURES

The organisational structures and internal control system ensure observance of prudential limits and approval procedures and pursue the aim of preventing and properly managing potential conflicts of interest pertaining to all dealings with Connected Parties.

In detail, the Bank establishes and oversees control processes aimed at ensuring that the risks assumed in relation to Connected Parties are properly measured and managed and verifying that the Policies have been properly designed and effectively applied. Towards this end:

- the Risk Management function is responsible for measuring risks — including market risks — underlying dealings with Connected Parties, verifies observance of the limits assigned to the various departments and operating units and checks the transactions undertaken by each for consistency with the various risk appetite levels set out in the *Policies*;
- the Compliance function verifies the existence and reliability, on an ongoing basis, of procedures and systems suited to ensuring observance of all regulatory obligations, as well as those established by internal rules and procedures;
- the Internal Audit function verifies compliance with the *Policies*, reports any anomalies in a timely manner to the Board of Statutory Auditors, Audit and Risks Committee and the Bank's top corporate bodies and reports periodically to company bodies concerning the total exposure of the Bank or banking group to risks arising from transactions with Connected Parties or from other conflicts of interest; where appropriate, it suggests revisions of internal policies and the organisational and control structures deemed suited to enhancing oversight of such risks;
- the Audit and Risk Committee plays a role of evaluation, support and proposition in the area of the organisation and performance of internal controls on the overall activity of assuming and managing risks in relation to Connected Parties, as well as a general review of the consistency of activity with strategic and managerial guidelines.

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7 SUPERVISORY REPORTING

Risk assets (and transactions) in relation to Connected Parties are reported to the Bank of Italy on an individual and consolidated basis, with quarterly frequency according to specific supervisory instructions.

As defined in the model of responsibilities outlined in this *Policy*, the preparation and submission to the Bank of Italy of reporting streams, at both the individual and consolidated level, is the responsibility of the **Supervisory Reporting O.U.** (which reports to the Administration, Financial Reporting & Tax Service and is part of the Administration Department).