Annex 1

Definitions relevant to Consob and Bank of Italy regulations

Poste Italiane

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Reference documents

Code	Title
LG_CGG_OPCSC_01	Guideline on Management of Transactions with Related and Connected Parties

1 Object of the document

For the purposes of the definitions set out in paragraph 2 of the Guideline, below are extracts from the legislation and international accounting standards relevant to the Consob and Bank of Italy Regulations.

Definitions relevant to the Consob Regulation

Related parties

[IAS 24]

9. A related party is a person or entity that is related to the reporting entity.

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- (vi) The entity is controlled or jointly controlled by a person identified in *(a)*;
- (vii) A person identified in *(a)(i)* has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
- (viii) The entity, or any member of a group to which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

12. In the definition of related party, an associate includes the subsidiaries of the associate and a joint venture includes the subsidiaries of the joint venture. Therefore, for example, a subsidiary of an associate and the investor having significant influence over the associate are related to each other.

Related party transactions

[IAS 24]

9. A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged [1].

[1] In this regard, the Consob Regulation specifies that such transactions include:

- merger transactions, division by incorporation or non-proportional divisions in the strictest sense, where carried out with related parties;
- decisions relating to the allocation of remuneration and economic benefits, in any form, to members of management and control bodies and to key management personnel.

Control

[IFRS 10]

5. An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

6. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

7. Thus, an investor controls an investee if and only if the investor has all the following:

(a) power over the investee (see paragraphs 10–14) [2];

(b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16)[3]; and;

(c) the ability to use its power over the investee to affect the amount of the investor's returns (see paragraphs 17 and 18) [4].

Joint control

[IAS 28]

3. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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[2] ***Power***
10. An investor has power over an investee entity when it holds valid rights that give it the current ability to direct the *significant activities*, i.e. the activities that significantly affect the returns of the investee entity.
11. Power derives from rights. In some cases ascertaining power is straightforward, as in the case where power over an investee entity is obtained directly and solely through the voting rights conferred by equity instruments such as shares, and can be determined considering the voting rights deriving from these equity instruments. In other cases, the test will be more complex and more factors need to be considered, for example where the power results from one or more contractual arrangements.
12. An investor with the present ability to direct the significant activities has power even if the rights to direct these activities have not yet been exercised. The fact that the investor is directing the significant activities may help to establish whether it has power, but such evidence is not in itself conclusive for establishing whether an investor has power over an investee entity.
13. If two or more investors each have valid rights that give them a unilateral ability to conduct different significant activities, power over the investee entity is exercised by the investor who has the current ability to direct the activities that most significantly affect the returns of the investee.
14. An investor may have power over an investee entity even if other entities have valid rights that give them the present ability to participate in the direction of the significant activities, for example, when another entity has *significant influence*. However, an investor holding only protection rights has no power over an investee entity (...) and, consequently, does not control it.

[3] ***Returns***
15. An investor is exposed to or entitled to variable returns arising from its relationship with the investee entity when the returns from that relationship are likely to vary in relation to the economic performance of the investee entity. The investor's returns may be only positive, only negative or, overall, positive and negative.
16. Although a single investor may control an investee entity, several parties may share in the returns. For example, holders of non-controlling interests may share in the profits or dividends of an investee entity.

[4] ***Correlation between power and returns***
17. An investor controls an investee entity if, in addition to having power over the investee entity and exposure to or the right to variable returns from its relationship with the investee entity, the investor also has the ability to exercise its power to affect the returns from that relationship.
18. Therefore, an investor who has the right to make decisions must determine whether it is acting on its own account (so-called principal) or as an agent on behalf of a third party (so-called agent). An investor acting as an agent, (...), does not control an investee entity when exercising its delegated right to make decisions.

Joint Venture

[IAS 28]

3. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

[IFRS 11]

4. A joint arrangement is an arrangement of which two or more parties have joint control.

5. A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement (see paragraphs B2–B4);

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13).

7. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

8. An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities).

9. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.

10. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement..

11. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This IFRS distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

12. An entity will need to apply judgement when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs B5–B11).

13. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

Associated company

[IAS 28]

3. An associate is an entity over which the investor has significant influence.

Significant influence

[IAS 28]

3. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

5. If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

6. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

(a) representation on the board of directors or equivalent governing body of the investee;

(b) participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) material transactions between the entity and its investee;

(d) interchange of managerial personnel; or

(e) provision of essential technical information.

7. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (ie potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

8. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.

9. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual arrangement.

Key Management Personnel

[IAS 24]

9. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Close relatives

[IAS 24]

9. Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

Identification of transactions of major significance

[Annex 3, Consob Regulation]

1. Internal procedures set out quantitative criteria for the identification of the "transactions of greater importance" so as to include at least the categories of transactions listed below.

1.1. Transactions in which, at least one of the following relevance indexes, applicable depending on the specific operation, is greater than the 5% threshold:

a) <u>Equivalent-value relevance ratio</u>: the ratio between the equivalent transaction and the net equity drawn from the latest published balance sheet (consolidated, if so prepared) by the company or, for listed companies, if greater, the capitalization of the acquired firm at the end of the last trading day included in the period covered by the latest accounting periodical published document or semi-annual financial report or additonal periodic financial information, if drafted). For banks, is the ratio between the equivalent of the operation and regulatory capital drawn from the latest published balance sheet (consolidated, if so prepared).

Should the economic conditions of the transaction not be determined, the equivalent operation shall be:

(i) for the cash component, the amount paid to or from the contract;

(ii) for the component in financial instruments, the fair value determined at the date of the transaction, in accordance with international accounting standards adopted by Regulation (EC) No. 1606/2002;

(iii) for funding transactions or grant of guarantees, the maximum amount payable.

If the economic conditions of the operation depends, in whole or in part, of magnitudes not yet known, the equivalent operation is the maximum admissible or payable value under the Agreement.

b) Asset relevance ratio: the ratio between the total assets of the entity in the transaction and the total assets of the company. Data to be used shall. be obtained from the most recently published balance sheet (consolidated, if so prepared) by the company; whenever possible, similar data should be used for determining the total assets of the entity involved in the transaction.

For transactions involving the acquisition and sale of shares in companies that have an impact on the area of consolidation, the value of the numerator is the total assets of the investee, regardless of the percentage of capital being available.

For transactions of acquisition and divestment of holdings in companies that have no effect on the consolidation perimeter, the value of the numerator is:

(i) in the case of acquisitions, the counter operation plus the liabilities of the company acquired eventually assumed by the purchaser;

(ii) in case of supplies, the consideration of the divested business.

For transactions of acquisition and disposal of other assets (other than the purchase of a stake), the value of the numerator is:

(i) in case of acquisitions, the greater of the consideration and the carrying amount that will be attributed to the asset;

(ii) in case of supplies, the book value of the assets.

c) Liabilities relevance ratio: Description of characteristics, rules, terms and conditions of the transaction. Data to be used must be derived from the most recently published balance sheet (consolidated, if so prepared) by the company; whenever possible, similar data should be used for determining the total liabilities of the company or company branch acquired.

1.2. Transactions with the parent company listed or subjects that are related to the latter in turn related to companies where at least one indicator of significance in subsection 1.1. higher than the threshold of 2.5%.

1.3. Companies evaluate whether to identify thresholds of significance lower than that mentioned in subsections 1.1 and 1.2 for transactions that could affect the issuer's management independence (e.g, disposal of intangible assets such as trademarks or patents).

1.4. In the case of overlapping of multiple transactions pursuant to Article 5, subsection 2, companies shall determine in the first place, the relevance of each individual transaction on the basis of the ratio or ratios, as prescribed in subsection 1.1, thereto applicable. To verify whether the thresholds specified in subsections 1.1, 1.2 and 1.3 are exceeded, the results for each indicator are added together.

2. Where a transaction or several transactions that are accumulated under article 5, subsection 2, are identified as "most relevant" according to the indices established in subsection 1 and this result is manifestly unreasonable in view of special circumstances, Consob may indicate, at the request of the company, alternative arrangements to be followed in determining these indices. To this end, the company announced to Consob the essential characteristics of the transaction and the special circumstances upon which the request prior to the conclusion of the negotiations was based.

Definitions relevant to the Bank of Italy Regulations

The following is an excerpt from the definitions set out in Part Three, Chapter 11, Section I and - as regards the calculation methods for identifying "transactions of major significance" - Annex B, of Bank of Italy Circular 285/2013.

Related parties

The following persons, by virtue of their relationship with:

1. the corporate representative;
2. the participant;
3. the person, other than the participant, capable of appointing, alone, one or more members of the body with management functions or of the body with strategic supervisory functions, including on the basis of agreements in any form signed or clauses in the articles of association having as their subject or effect the exercise of such rights or powers;
4. a company or firm, including a non-corporate entity, over which the bank or a banking group company is able to exercise control or significant influence.

Connected parties

1. Companies and enterprises, including those set up in a non-corporate form, controlled by a related party;
2. subjects controlling a related party among those listed in numbers 2 and 3 of the relevant definition, or subjects, directly or indirectly, jointly controlled with the same related party;
3. close family members of a related party and companies or firms controlled by the latter.

Related subjects

The set consisting of a related party (as defined above) and all subjects related to it (as defined above).

Control

Pursuant to Article 23 of the Consolidated Law on Banking: the cases provided for in Article 2359, paragraphs 1 and 2, of the Italian Civil Code; control by contracts or clauses in the articles of association having as their subject or effect the power to exercise management and coordination; cases of control in the form of a dominant influence.

Also situations of joint control, understood as the sharing, established contractually, of control of an economic activity, are identified as control. In that case, the following are considered parent companies:

a. subjects that are in a position to exercise decisive influence over the financial and operational decisions of a strategic nature of the company[5];

b. other entities able to shape the management of the company based on the equity investments held, any form of agreements stipulated, statutory clauses, regarding or as a result of the possibility of exercising control.

Control is also verified when it is exercised indirectly, via subsidiaries, trust companies or third parties. Companies and enterprises controlled by entities who are, in turn, subject to joint control, are not considered indirectly controlled.

[5] This situation arises, for example, in the presence of two or more subjects each having the possibility of preventing the adoption of financial and operational decisions of a strategic nature by the subsidiary, through the exercise of a right of veto or as a result of quorums for decisions of the corporate bodies.

Significant influence

Significant influence is the power to participate in determining the financial and operating policies of an investee, without having control of it.

Significant influence is presumed to exist in the event of the direct or indirect ownership of 20% or more of the share capital or the voting rights at the ordinary Shareholders' Meeting or in another equivalent body of the investee, or 10% in the case of companies with shares listed on regulated markets.

In the event of ownership of a stake below said thresholds, specific in-depth analyses must be conducted to ascertain the existence of a significant influence, at least on verification of the following circumstances:

(i) being represented in the body with management function or the body with the function of strategic supervision of the investee; the sole fact of designating the member to represent the minority according to the provisions of the regulation of issuers of shares listed on regulated markets does not, in itself, constitute an indicator of a significant influence;

(ii) participating in the strategic decisions of a company, in particular, given that it holds crucial voting rights in the decisions of the Shareholders' Meeting regarding the financial statements, allocation of profits, distribution of reserves, without this representing a situation of joint control [6];

(iii) the existence of relevant transactions - meaning "transactions of greater importance" as defined in this document-, the exchange of management personnel, the supply of essential technical information.

A significant influence is also verified when it is exercised indirectly, via subsidiaries, trust companies or third parties. Companies invested in by entities who are, in turn, subject to joint control, are not considered indirectly subject to a significant influence.

Company representatives

Company representatives are subjects that carry out functions of administration, management and control at a bank, a parent financial company or a supervised intermediary. The definition includes directors and statutory auditors in the traditional administration system. The definition includes the general manager and the person who fulfils roles involving the exercise of functions equivalent to that of the general manager. In particular, at BancoPosta, the person similar to the general manager is the Manager of BancoPosta. Persons who do not hold the aforementioned functions at the moment of approval of the transaction do not fall under said definition.

Close relatives

Close relatives are, second-degree relatives[7] and the spouse or co-habiting common-law husband/wife or a related party, as well as the children of the latter.

Transaction with related parties

A transaction with related parties that involves the assumption of risk assets, the transfer of resources, services or obligations, irrespective of whether a consideration is involved, including mergers and demergers.

The following are not considered transactions with related parties:

(i) [those made between members of a banking group when there is a relationship of full or joint control between them;]

(ii) the fees paid to company members, if compliant with the supervisory provisions regarding bank incentive and remuneration systems;

[6] Such a situation arises, for example, when the shareholdings of the company are divided among several shareholders (not linked to each other by joint control agreements) in such a way that the vote of certain shareholders, who individually hold shares lower than the presumptions of significant influence, may be decisive for the formation of majorities at the shareholders' meeting on the matters indicated above.

[7] In the case of persons related to a foreign bank or a foreign supervised intermediary that is part of a banking group, where there are demonstrable difficulties in obtaining information, the parent company may exclude second-degree relatives from the notion of "close family members" and consider only first-degree relatives, in which case it shall notify the Bank of Italy.

(iii) [intra-group transfer of funds or collateral transactions entered into under the consolidated liquidity risk management framework;]

(iv) transactions to be carried out on the basis of instructions for stability purposes issued by the European Central Bank or the Bank of Italy, or on the basis of instructions issued by the parent company for the execution of instructions issued by the European Central Bank or the Bank of Italy in the interest of group stability.

Transactions of Greater Importance

Transactions with related parties whose value in relation to own funds (consolidated, in the case of groups) exceeds the 5% threshold calculated as set out in the Annex under the heading "Significance Ratio". For acquisitions, mergers and demergers, the threshold, again 5%, is to be calculated in accordance with the procedures set out in the Annex under "Asset significance ratio" (see Annex B).

The bank may identify other transactions to be considered of major significance based on qualitative or quantitative indicators.

In the case of transactions that are homogeneous or carried out in execution of a single plan with the same related subjects, during the financial year, the bank aggregates their value for the purpose of calculating the significance threshold.

Calculation methodologies for the identification of "transaction of major significance"

[Annex B]

a. "Value significance ratio": is the ratio of the value of the transaction to the own funds taken from the most recently published balance sheet (consolidated, if prepared).

If the economic conditions of the transaction are determined, the countervalue of the transaction is:

(i) for cash components, the amount paid to/by the contractual counterparty;

(ii) for components consisting of financial instruments, the value determined, at the date of the transaction, in accordance with the applicable accounting rules;

(iii) for financing or guarantee operations, the maximum amount that can be disbursed. If the economic conditions of the transaction depend wholly or partly on quantities not yet known, the countervalue of the transaction is the maximum value receivable or payable under the agreement[8].

b. Asset significance ratio: this is the ratio of the total assets of the entity which is the subject of the transaction to the total assets of the bank[9]. The data to be used should be taken from the bank's most recently published balance sheet (consolidated, if any); where possible, similar data should be used to determine the total assets of the entity involved in the transaction.

For acquisitions and disposals of equity investments in companies that affect the consolidation scope, the value of the numerator is the total assets of the investee, irrespective of the percentage of capital involved.

For acquisitions and transfers of equity investments in companies that do not impact the scope of consolidation, the value of the numerator is:

(i) in the case of acquisitions, the value of the transaction plus the liabilities of the company acquired assumed, if needs be, by the purchaser;

(ii) in the case of transfers, the consideration of the asset transferred.

For acquisitions and transfers of other assets (other than the acquisition of an equity investment) the value of the numerator is:

(i) in the case of acquisitions, the higher of the consideration and the book value which will be attributed to the asset;

(ii) in the case of transfers, the book value of the asset.

[8] It should be noted that in the case of multi-year services remunerated with commissions/fees, the countervalue is their present value.
[9] Off-balance sheet items must be included in the assets.