

Consolidated Credit Procedure

ABSTRACT

1. PURPOSE AND SCOPE OF APPLICATION

The purpose of this document is to determine and govern the activities and processes regarding credit activity in the Growth Credit Division, the Distressed Credit Division and the Bank's key businesses.

This procedure is adopted in compliance with the principles of transparency, objectivity and traceability of the activities set forth in Legislative Decree no. 231/2001 (as amended) and contained in the Organisation, Management and Control Model adopted by the Bank.

The guidelines described in this document are applicable to all the entities of the illimity Banking Group that are under the management and coordination of the Parent Company illimity Bank S.p.A., to the extent relevant to those entities and on the basis of the nature of the activity performed by the individual subsidiary.

2. SUSTAINABILITY ASSESSMENT

When assessing the investment opportunities¹ identified by the various Business Structures of the Growth Credit and Distressed Credit Divisions, a check must be performed for consistency with the strategic guidelines for sustainability formalised in the Group's Strategic Plan.

Among the items the Bank takes into consideration, the following are noted in addition to assessments of credit strategies and the creditworthiness of the counterparty:

- the characteristics of the economic sector to which the company belongs and the consistency of its current and prospective technological profiles with respect to the transition towards a "low carbon economy" regime;
- the existence and valorisation of items connected with developments in the circular economy;
- the ESG (Environment, Social, Governance) rating issued by external, independent parties;
- ISO certifications (e.g. certifying the adoption of an environmental and social management system);
- any other key information that may be obtained from the counterparty's Non-Financial Report, if available;
- the potential reputational impact of the profiles just identified.

Suppliers are required to provide ESG ratings at the preliminary stage for every investment opportunity relating to live positions (performing loans and going concern UTP loans for which the Turnaround and Special Situations RE and Energy Distressed Credit business lines are responsible), where possible on the basis of the status of negotiations and existing relationships with the debtor. In the case of low or very low ratings regarding ESG as a whole or one or more of its individual components (Environment, Social, Governance), the feasibility of the operation is subject to the submission of an action plan, drawn up and agreed with the borrower and designed to implement the measures needed to adequately address the weaknesses encountered over a reasonable timescale. In this case a process is activated to monitor the action plan and prepare a report on its implementation and the relative repercussions on future revisions of the ESG ratings, this to be presented to the corporate bodies on at least a six-monthly basis.

The extent of the detail and depth of the process for collecting and analysing these items of information depends on the size of the operation, also with respect to the ESG profiles that are affected the most.

¹ Excluding the purchase of portfolios.

The results of the analyses and the relative supporting documentation are sent to the CLO Structure and become an integral part of the set of preliminary information prepared to support the assessments made by the Bank's decision-making bodies.

3. EXCLUDED SECTORS

The Bank operates in full compliance with the legality principle and accordingly to the best of its knowledge and belief does not finance or make investments in counterparties that are directly or indirectly involved in activities that do not comply with the laws of the Republic of Italy or the European Union.

In addition, given the United Nations principles on the approach to doing business and human rights and consistent with the Bank's strategic orientations and guidelines as expressed in its credit strategies, excluding portfolios and individual positions managed from a gone concern standpoint, the Business Growth Credit and Distressed Credit Structures do not lend to the following kinds of counterparty:

- political parties;
- companies producing or selling:
 - o weapons of war and/or "controversial" weapons, meaning those that can wound in an indiscriminate and disproportionate manner and/or their essential components or technologies and the services dedicated to them, which fall within the scope of current international conventions and treaties (e.g. the Ottawa Convention on anti-personnel mines, the Oslo Convention on cluster munitions, the Convention on biological weapons and toxins, the Convention on Chemical Weapons, the Treaty on the Non-Proliferation of Nuclear Weapons, the UN Arms Trade Treaty);
 - o equipment and other items whose exportation is prohibited pursuant to current European Union legislation (Council Regulation (EC) No 1236/2005 as amended²);
 - o common firearms;
 - o defence and security equipment intended for non-government entities outside the OECD countries and/or private or state counterparties involved in embargo violations (UN, EU, US, etc.);
- companies working in the production and/or sale of tobacco;
- those with activities associated with gambling, betting and similar;
- those with activities associated with the production and distribution of pornographic material;
- those with activities significantly deteriorating the environment or natural resources, such as:
 - o power stations fired by coal and/or fuel oil and the respective sector;
 - o gas and oil from non-conventional sources (e.g. shale gas and tight oil from fracking) and the respective sector;
 - o the production and/or sale of asbestos fibre and/or products containing PCBs (polychlorinated biphenyls);
 - o the production, sale and/or use of drift nets for fishing ("trawling") (passive barrier nets);
 - o the production of palm oil in the absence of Roundtable on Sustainable Palm Oil (RSPO) certification or compliance with the sector practices fostered by the RSPO.

Loans may be made to counterparties operating in sectors with significant environmental impact in cases where the Bank's support is directed at the conversion of production to green models and/or the improvement of the sustainability profiles of such activities.

² Commission Implementing Regulation (EU) No 775/2014 amending Council Regulation (EC) No 1236/2005.

Detailed checks must be carried out at the preliminary stage in the case of counterparties potentially belonging to these sectors, also by making reference to external lists, if available, with particular emphasis to be placed on the purposes of the Bank's lending and taking into consideration the relative weight of the excluded activity compared to the overall operations of the entity (company or group) to be financed.

Any exceptions to the above must be adequately motivated and detailed, with the Board of Directors holding any decision-making powers.

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