

MEDIOCREDITO  
CENTRALE

|  
INVITALIA  
|

**Disposition n. 1190**

**Implementation and monitoring of  
prevalence targets**

**December 2019**

## **Content**

- 1. Introduction**
- 2. Framework**
- 3. Panel of indicators**
  - 3.1 Indicator AC.1: Loans to the South of Italy on total Loans (amount)**
    - 3.1.1 Control points**
  - 3.2 Indicator AC.2: Enterprises based in the South of Italy out of total enterprises (number)**
  - 3.3 Indicator AC.3: Territorial presence in the South of Italy**
  - 3.4 Indicator AC.4: Business loan files for the South of Italy**
  - 3.5 Indicator IS.1: Loans and grants destined for businesses in the South of Italy and related to the activities the Issuer carries out on behalf of the public administration**
  - 3.6 Indicator IS.2: Initiatives to provide new resources to the South of Italy**
  - 3.7 Indicator IS.3: Study, promotion and social support initiatives**
- 4. Monitoring and reporting**
- 5. Second level controls**

## 1. Introduction

The article 3 of Banca del Mezzogiorno – Mediocredito Centrale SpA by-laws states the following: “The Company carries out the banking activity, as well as any other financial activity to the extent permitted by the law, with the prevailing aim to achieve the provisions of article 2, paragraph 162, of the Law n.191, 23 December 2009 and, particularly: (i) expanding the capacity of products and services offered by the banking and financial system in Southern Italy (“Mezzogiorno”); sustaining business initiatives which are the most creditworthy, impacting upon costs of procuring the financial resources necessary for investments; (iii) channeling savings toward economic initiatives that lead to job creation in Southern Italy. In details the Bank:

- a) performs the activities defined by article 2, paragraph 169, of the Law n.191, 23 December 2009;
- b) acts as a second tier bank in Southern Italy, also towards Confidi.
- c) carries out additional activities consisting in management and disbursement of publicly facilitated financing, including contribution advances”

Therefore, the activity of BdM-MCC must pursue, in a prevailing way, the sustainment of the economy of Mezzogiorno.

The so-called “prevalence principle” (“principio della prevalenza”) is a constraint for the strategic targets, reflected in the multi-year Business Plan, and requires the adoption and the realisation of specific monitoring and pursuing instruments.

This procedure, consistently with the prevailing activities (“Attività prevalenti”) identified in the document approved in March 16, 2007 by the Board of Directors and with the credit guidelines (“Politiche creditizie”), (i) provides a panel of indicators to be used for measuring and monitoring the ability of the Bank to successfully achieve its mission; (ii) explains how the indicators are calculated; (iii) establishes control points, monitoring and reporting activity.

## 2. Framework

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CSO – Chief Staff Officer

Business Unit “Strumenti di garanzia e agevolazioni”

Business Unit “Banking”

Societario (Corporate Affairs)

Planning

Credit Evaluation

Signing office

Operation

Marketing

Compliance

ICT – Information and Communication Technology

### 3. Panel of indicators

As a way of monitoring and measuring its own activities towards the South of Italy, the Issuer has identified a series of qualitative and quantitative indicators.

#### *The Lending Activities Indicators*

- AC.1 Loans to the South of Italy on total Loans (amount)
- AC.2 Enterprises based in the South of Italy out of total enterprises (number)
- AC.3 Territorial presence in the South of Italy
- AC.4 Business loan files for the South of Italy

#### *The Actions for Development Indicators*

- IS.1 Loans and grants destined for businesses in the South of Italy and related to the activities the Issuer carries out on behalf of the public administration
- IS.2 Initiatives to provide new resources to the South of Italy
- IS.3 Study, promotion and social support initiatives

#### **3.1 Indicator AC.1: Loans to the South of Italy on total Loans (amount)**

This is the percentage ratio between existing loans eligible by the Issuer as Loans to the South of Italy relative to its total existing loans.

Loans may be eligible as “Loans to the South of Italy” where at least one of the following criteria is satisfied:

- Loans to enterprises having registered and operating office in the South of Italy, including SMEs segment, also through alternative finance supporting business development and relevant investment projects;
- Loans to enterprises based outside the South of Italy that contribute to develop entrepreneurial initiatives or to create jobs in the South of Italy;
- Loans to other financial institutions aimed to ease credit granting in the South of Italy;
- Loans and pooled loans with public funds dedicated by the bank to the development of the South of Italy
- Loans aimed to ease the business between enterprises and the Public Administration in case of tender award, through credit discount and factoring;
- Subscription of minibond issued by valuable enterprises, also belonging to ELITE programme and/or Basket Bond related notes such as Elite Basket Bond, preferably to enterprises of the South of Italy;
- Purchasing of loan portfolios to borrowers located in the South of Italy.

For calculation purposes, each eligible loan is weighted according to a weighting factor<sup>1</sup>, as shown in the table<sup>2</sup> below:

Type of loans		Weighting factor						ID	
		100	90	75	50	25	0		
Borrower has its registered office located in the South of Italy		X						PRE	
Borrower is non-resident in the South but financing is dedicated to:									
	Financing is dedicated to Investments done in the South of Italy	X						IN	
	Financing is related to projects (orders, construction sites, services) located in the South	X						LA	
	Acquisition of company or business branches located in the South	X						ACQ	
	The borrower (company / group) has one unique operational office located in the South	X						GE	
	The borrower (company / group) has an operating office located in the South representing:								
	- at least 75% of its total value of production or total number of employees			X					GE90
	- between 50% and 74% of its total value of production or total number of employees				X				GE75
	- between 25% and 49% of its total value of production or total number of employees					X			GE50
	- between 10% and 24% of its total value of production or total number of employees						X		GE25
- other							X		

The indicator is quarterly monitored by Planning.

### 3.1.1. Control points

In the credit granting process the following control points detect the eligible loans.

#### *Origination*

The information required to categorize an operation as “to the South of Italy” are contained in the loan request form.

In case the requestor has its office outside Mezzogiorno, the responsible origination office requests further documentation<sup>3</sup> supporting the respect of eligibility criteria.

#### *Credit evaluation*

The office responsible for credit evaluation<sup>4</sup> verifies, also on the basis of documentation provided by the client, whether the operation respects the eligibility criteria.

In case the requestor has its office outside Mezzogiorno, the office verifies the presence of one or more of the other eligibility criteria as part of creditworthiness evaluation.

The responsible office<sup>5</sup> provides the evidence of controls and the outcome in the loan resolution proposal.

#### *Resolution*

The deliberative organ, inside the resolution, categorises the operation as eligible/non eligible and, in case the requestor has its office outside Mezzogiorno, specifies the eligibility criteria and the weighting factors to be applied (cfr. Par. 3.1).

#### *Signing*

<sup>1</sup> In case of multiple weighting factors, they must be considered as alternative.

<sup>2</sup> The table also shows the ID codes used in the internal IT system “Anagrafe CEDACRI”.

<sup>3</sup> Eg. Financial statements details, notes to the financial statements, other internal documentation of the client. Secondly, a self declaration can be requested.

<sup>4</sup> Please make reference to the related internal procedure.

<sup>5</sup> Please make reference to the related internal procedure.

The office responsible for signing, for the requestor having its office outside Mezzogiorno and if the operation is categorised as “eligible”:

- includes in the loan agreement the eligibility criteria evaluated in the resolution phase;
- for the loan agreement related to (i) specific investments, (ii) works, (iii) development of specific business initiatives, (iv) acquisitions or (v) other m&a operations, includes in the agreement specific information duties for the client related to the permanence of eligibility criteria represented<sup>6</sup>, in terms of:
  - progress of investment/work/business initiative (through progress reports) in Mezzogiorno;
  - evidence of closing of acquisition/m&a in Mezzogiorno.
- checks the consistency between the weighting class and the “Provincia di destinazione del finanziamento” (loan destination province) in the IT procedure for periodic supervisory reporting to the Bank of Italy (the loan destination province must be the province that mostly benefits of the loan).

After signing, by input of Signing office, Operation office inserts in the IT procedure the information required to categorise the operation as “eligible”<sup>7</sup>.

#### *Monitoring of work/operation in progress*

The Signing office periodically<sup>8</sup> acquires from requestors having its office outside Mezzogiorno the information<sup>9</sup> required for monitoring purposes, in compliance with the loan agreement.

### **3.2 Indicator AC.2: Enterprises based in the South of Italy out of total enterprises (number)**

It is the percentage ratio between the number of Business customers<sup>10</sup> based in the South of Italy out of total business customers. This indicator monitors the prevalence of business customers with registered offices in the South of Italy.

This indicator is quarterly monitored by Marketing office.

### **3.3 Indicator AC.3: Territorial presence in the South of Italy**

It is the percentage ratio between the Issuer’s offices located in the South of Italy, compared with its total offices. It is used for monitoring the consistency between the Bank’s commercial policy with its by-laws mission.

This indicator is quarterly monitored by Chief Staff Office.

### **3.4 Indicator AC.4: Business loan files for the South of Italy**

It is the percentage ratio between between loan applications the Issuer has received and which are classifiable as Loans to the South of Italy<sup>11</sup> and the total number of applications received from businesses during the same period.

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<sup>6</sup> For loans related to the progress of work using criteria/instruments already in use for recurring controls.

<sup>7</sup> Regarding the enterprises having the registered office outside the South of Italy, Operation office inserts in the IT system Cedacri the ID code related to the weighting class of the resolution (ref. previous table)

<sup>8</sup> Monitoring must be performed until the consistency between the use of proceeds and the scope of the loan has been verified.

<sup>9</sup> Eg. Purchase and delivery documentation in case of fixed assets, building documentation in case of real estate.

<sup>10</sup> Business customer means an enterprise having an active loan with the bank, regardless the categorisation of the loan itself.

<sup>11</sup> The request is considered eligible on the basis of the registered office of the requestor or the aim of the operation to be realized.

This indicator, that as an absolute numbers shows the current organizational structure and the commercial and credit policies of the Bank, measures the ability of the bank to attract the loan requests classifiable as “loan to the South of Italy” gives evidence of the operative effort dedicated to collection, evaluation and approval of the loan requests.

This indicator is quarterly monitored by Marketing Office.

### **3.5 Indicator IS.1: Loans and grants destined for businesses in the South of Italy and related to the activities the Issuer carries out on behalf of the public administration**

This measures the aggregate amount of lending made available to businesses in the South of Italy, that relate to the Issuer’s activities as manager of public subsidy schemes on behalf of Public Administrations. In this framework the Bank, acting under the applicable laws and directives of the public responsible entities, provides as well a significant contribution to the development of South of Italy through the management of public subsidies. The indicator takes into account the managed subsidies and represents:

- (i) for the Guarantee Fund, the loan “activated”<sup>12</sup> (at the monitoring date),
- (ii) for the Fondo Crescita Sostenibile, the value of the subsidized loans and contributions under management, where the project is located exclusively or mostly in the South of Italy<sup>13</sup>. In details, it takes into account:
  - The resources allocated by MiSE exclusively in favour of Southern Italy areas only in case the management of requests has not been started;
  - The amount of financing and contributions related to requests, in any phase of management (ex ante, in itinere, ex post)<sup>14</sup>, as long as management request has been initiated;
- (iii) for the other subsidized schemes the value of the loans and contributions under management<sup>15</sup>.

This indicator is half-yearly monitored by the Business Unit “Strumenti di garanzia e agevolazioni”.

### **3.6 Indicator IS.2: Initiatives to provide new resources to the South of Italy**

This measures (i) the resources assigned<sup>16</sup> to companies by third parties (such as the Regions – Basket bond<sup>17</sup>, the European Investment Fund (EIF) or the Cassa Depositi e Prestiti (CDP)) which are co-financed by the Issuer, and (ii) lending initiatives aimed at providing new resources to companies and public administrations in the South of Italy.

This indicator is half-yearly monitored by the Business Unit “Strumenti di garanzia e agevolazioni”.

### **3.7 Indicator IS.3: Study, promotion and social support initiatives**

This measures the resources used to support (i) young people’s business initiatives, research and innovation and cultural and economic progress, (ii) social initiatives in the South of Italy, (iii) the performance of studies aimed at supporting economic, social and employment growth in the South of Italy, and (iv) the implementation of subsidies in favour of companies and public administrations in the South of Italy. The indicator is calculated on an annual basis.

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<sup>12</sup> It is considered the outstanding amount of the loan admitted to the public guarantee at the monitoring date.

<sup>13</sup> In case the enterprise declares a number of operating locations, it is considered prevailing location the first region indicated in the application for the realisation of the project; if such location is located in the South of Italy, the value is fully considered.

<sup>14</sup> Excluding applications rejected, expired or revoked.

<sup>15</sup> It is taken into account the stock of subsidized loans and contributions currently under management in the context of national schemes.

<sup>16</sup> Resources the Bank is entitled to manage until the expiring of the related agreement.

<sup>17</sup> It is taken into account a) collateral provided by public entities, b) notional amount of the bonds when subscribed by investors (other than the Bank).

The indicator is monitored half-yearly by the Planning office, supported by the Business Unit “Strumenti di garanzia e agevolazioni”, “Societario” and CSO.

#### **4. Monitoring and reporting**

The responsible offices, along with CEO, continuously monitor business development in consistency with by-laws objectives.

The level of fulfillment of such objectives is verified through periodic monitoring of indicators.

The aim of monitoring is to make Corporate Bodies and Functions aware about the level of pursuit of by-laws objectives and about possible adjustments to indicators, so that it is possible to evaluate adjustments to current activity and impact over bank’s strategy.

Monitoring is performed as follow.

#### **AC indicators**

##### Quarterly:

- Planning, Marketing, CSO:
  - > calculate the indicators supported by ICT and the other functions involved
  - > send dedicated information to Planning
- Planning:
  - > prepares the quarterly reporting of AC indicators
  - > informs CEO and the other functions involved
- The involved Functions evaluate possible adjustment to commercial development initiatives.

#### **AC/IS indicators**

##### Half-yearly:

- Planning, Marketing, CSO, Strumenti di garanzia:
  - > calculate the indicators supported by ICT and the other functions involved
  - > send dedicated information to Planning
- Planning:
  - > prepares the half-yearly reporting of indicators
  - > informs CEO and the Business Monitoring Committee of the outcomes
  - > send to Compliance the monitoring outcomes.
- the CEO submit the monitoring outcomes to the Board of Directors and to the Board of Statutory Auditors.

#### **5. Second level controls**

Periodically, Compliance verifies the Model indicators and the phases of the process of realizing and monitoring prevalence using a risk based approach.