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# Environmental policy

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10<sup>th</sup> December 2008

## 1. INTRODUCTION

The UBI Banca Group recognises that in the pursuit of its mission to create value for all its stakeholders (personnel, registered and non registered shareholders, customers and suppliers, public administrations and the community) and in the fulfilment of its role as a bank in the community it cannot ignore the issue of sustainability including the environmental sustainability of its activities in the long term or in other words the capacity to “satisfy the needs of the present without compromising the ability of future generations to satisfy their needs” (WCED,1987)<sup>1</sup>. More specifically, the climate changes in progress require action to reduce them and adapt to them which involve all protagonists in society and they present banks with the challenge of both new business opportunities and risks.

The issue of sustainability is closely connected with reputational risk and the containment and reduction of this risk depends mainly on organisational measures. In this context the main areas were identified in which events that might affect the relationships of trust established with customers could be triggered with negative impacts on the bank’s image perceived by other stakeholders. One of these areas was that of the “*Social activities of the Group*” and its environmental behaviour in the communities in which it operates is of particular importance here.

The existing policy identifies the means by which the UBI Banca Group expresses its commitment to managing its own long term environmental responsibilities both towards the communities in which it operates and towards future generations. In addition to its full and substantial compliance with environmental regulations, the Group intends to contribute to sustainable economic performance and to the achievement of the objectives set out in the Kyoto protocol:

- by offering its customers innovative and effective solutions to develop action to improve and protect the environment and by considering environmental factors in the assessment of risks;
- by applying the best available environmental standards (both technological and organisational and behavioural) in the management of its own activities, based on a proper cost/benefit ratio;
- by promoting awareness of environmental responsibility in all its stakeholders and by taking part in initiatives and projects for environmental protection and awareness, energy savings and action to fight climate change.

The Group therefore intends to take concrete action to implement the principles it has signed up to in the Global Compact<sup>2</sup>:

- principle No. 7: “to use a preventative approach to environmental challenges”;
- principle No. 8: “to promote initiatives for greater environmental responsibility”
- principle No. 9: “to encourage the development and diffusion of environmentally friendly technologies”

## 2. Definitions

### Environmental impact

An environmental impact is defined as “any modification of the environment, positive or negative, resulting either fully or in part from the activities, products or services of an organisation”. (Regulation No. 761/2001 EMAS<sup>3</sup> – Art. 2.g). Direct impacts are those generated directly by the production, distribution or administrative processes of an enterprise through the consumption of resources, the production of waste and the emission of harmful substances. Indirect impacts on the other hand are those associated with activities, products and services over which a company “may not have total operational control” (Regulation No. 761/2001 EMAS – Annex VI Par. 6.3), i.e. generated by behaviour performed by third parties with whom the enterprise conducts business such as customers or suppliers.

<sup>1</sup> World Commission for Environment and Development: a commission established in 1983 to address growing concerns over the accelerating deterioration of the environment and natural resources and over the consequences of this deterioration for economic and social development. The report produced by the commission in 1987 (known as the Brundtland Report) introduced the concept of sustainable development for the first time.

<sup>2</sup> An initiative launched by the former Secretary General of the United Nations, Kofi Annan, to promote and achieve concrete implementation of 10 universal principles in the field of human rights, protection of labour, the environment and the fight against corruption. UBI Banca has signed up to the initiative and declared its support for it.

<sup>3</sup> A regulation of the European Parliament and Council of 19<sup>th</sup> March on voluntary membership of organisations to the Eco-Management and Audit Scheme (EMAS).

### **Environmental risk**

Environmental risk is a phenomenon connected with the massive use of scientific knowledge through the application of complex technologies (chemical, thermonuclear, electromagnetic, etc.) capable of generating negative impacts on the natural environment. These risks must be minimised to protect the vital sustainability of the environment and its natural components (air, water, soil, flora, fauna, etc.). For the purposes of this policy not only are risks connected with directly managed impacts considered (e.g. emission levels, methods of treating waste), but also those resulting from indirect impacts (e.g. financing activities/projects with a high environmental impact). Particular attention must be paid with regard to direct impacts to the risk of non compliance with environmental regulations.

### **Reputation risk**

Reputation risk can be defined as the risk of incurring losses resulting from a negative perception of the image of the bank by customers, counterparties, shareholders of the bank, investors, the supervisory authority or other stakeholders. Negative perceptions of this type may be generated by events attributable to other classes of risk, including non compliance risk and operational risk.

## **3. Scope of application**

This policy applies to the Parent Bank and all of its subsidiaries and it covers the activities of the Group in Italy and abroad, with regard to direct and indirect environmental impacts.

The application of Group standards – which are based on the most rigorous environmental regulations in force in Italy – to operations located in other countries, will be assessed by the governing body of the relative international entity, with the support of the Corporate Social Responsibility Staff of UBI Banca, on the basis of:

- the existence of stricter local standards or the inapplicability of Group standards;
- its economic sustainability in the specific context.

Regulatory standards nevertheless constitute the minimum benchmark for the environmental performance of the Group, which is committed to voluntarily pursuing higher standards of performance whenever possible.

## **4. Management of direct impacts**

The UBI Banca Group is committed to the progressive reduction of direct environmental impacts, by adopting a system of environmental management, based on the following principal guidelines:

- the rational use of resources and the elimination of waste by
  - improving the energy efficiency of buildings, by defining Group standards which require the use of high performance building technologies for renovations and new buildings;
  - constant monitoring of energy consumption in relation to optimising climatisation and illumination inside buildings and to the use of IT systems;
  - the use of low consumption lighting systems, monitors and other electric and electronic equipment;
  - containing the use of paper, with the optimisation of printing processes (e.g. both sides of sheets) and greater use of electronic document management;
  - the reduction of water consumption;
- the use of renewable and/or low emissions energy, by
  - the use of district heating systems, where available, and the progressive replacement of heating systems which use high emission fuels, where still present;

- the use of electricity generated from renewable sources;
- the reduction and disposal of waste with
  - the extension of waste recycling to include all types of waste produced;
  - maximisation of the percentage of waste sent for recycling/reuse;
  - constant verification that waste not recycled or reused is disposed of properly;
- the use of products and services with low environmental impact with
  - the use of ecologically cultivated and/or recycled paper, treated with eco-compatible processes;
  - the use of reusable toner cartridges;
  - the purchase (where possible and with equivalent functionality) of equipment, working instruments and consumer goods with a low environmental impact throughout their life cycle, including the possibility for recycling or reuse at the end of their useful life;
  - resort, where possible, to the purchase of local products and services in order to minimise the environmental impact of transport and travel;
- sustainable mobility by
  - advocating the use of collective transport systems and/or with low environmental impact in travel to-and-from work and for business;
  - the progressive inclusion in company car fleets of vehicles with low or zero emission power units;
  - the reduction of travel for business by encouraging greater use of virtual communication tools;
- preparation for emergencies with prevention and protection measures designed to respond to accident and emergency situations and to reduce the environmental impact that may result.

The Group is committed in each of these areas to identifying the most significant performance indicators, to setting achievable objectives and to monitoring the results achieved, by adopting adequate organisational, technical and operating solutions – with particular attention paid to the functionality and reliability of data acquisition systems – and by developing appropriate auditing procedures. The Group also intends to work in the future to obtain quality standard certifications (e.g. ISO 14001 environmental certification/EMAS registration).

With regard to climate change in particular, the Group intends to implement a “carbon neutrality” programme with action to progressively reduce greenhouse gas emission, both direct (e.g. heating systems and travel) and indirect (e.g. electricity purchased) and compensation of residual emissions.

## 5. Management of indirect impacts

The UBI Banca Group is committed to adopting a precautionary approach to important environmental issues with the objective of containing risks attaching to commercial transactions and benefitting from new business opportunities in all strategic areas of operations. Therefore, each time an opportunity arises, the Group intends to encourage its customers to manage their activities in a sustainable manner and to provide them with appropriate banking, financial and risk management products and services. To achieve this, the Group intends to further develop its range of products and services as follows:

- lines of finance to businesses to improve their production processes (e.g. the energy efficiency of plant), for eco-compatible buildings and the reconversion of production (e.g. agricultural crops with a lower environmental impact) and to obtain environmental certifications;
- advisory and intermediation services to facilitate access by individuals and businesses to public finance for environmental investments;
- loans for the purchase of more eco-compatible homes, to improve the energy efficiency of homes (e.g. bio-building, insulation) and for the reconversion of vehicles (e.g. to methane or LNG);
- investment instruments with high levels of environmental responsibility (e.g. funds which invest in businesses with high environmental performance).

- insurance products specifically for environmental technology sectors (e.g. insurance for photovoltaic systems);
- financial services to support public and private sector programmes for environmental protection, conservation and/or redevelopment (e.g. hydro-geological land reclamation, improved management of water resources).

The Group is committed in its insurance and lending activities to monitoring its exposure to environmental risk and to offering attractive conditions to customers which reward them for high environmental performance and/or low environmental risk by:

- integrating credit policies and credit rating procedures with environmental criteria;
- identifying and assessing environmental risk in geographical areas and in policyholders in the determination of premiums and guarantees.

The selection of investment opportunities (e.g. in private equity operations), with regard above all to companies operating in “sensitive” areas”, must include an assessment of their compliance with national environmental standards and regulations. In order to make a concrete contribution to the fight against climate change, particular attention must be paid to opportunities for investments in companies that develop environmental friendly technologies (e.g. alternative energy sources, clean technologies) and/or technologies less dependent on fossil fuels and with lower emission levels. In project finance activities the measurement, assessment and management of environmental risk for projects to be financed must be performed according to criteria proposed by equator principles<sup>4</sup>, where applicable.

The Group will in any case abstain from any involvement in industrial activities performed in particularly sensitive areas (e.g. critical natural habitats), in mining or forest clearance activities in places declared as world heritage sites, or nevertheless at risk from the viewpoint of biodiversity, and in projects which contravene important environmental regulations or agreements. It encourages the development of programmes to reduce emissions by customers who are major emitters of greenhouse gases and the development of innovative generation sectors (e.g. photovoltaic).

The Group is committed in its relations with suppliers to including information on environmental performance, on the adoption of environmental management systems and on the possession of environmental certifications in its selection criteria. The Group is committed to requesting that its strategic or particularly important suppliers accept and promote the Group’s environmental policies in their sphere of influence.

## 6. Diffusion of greater environmental awareness

In addition to monitoring the direct and indirect impacts of its own commercial operations, the Group is committed to promoting the responsible involvement of its own personnel by means of:

- training and internal communication programmes for all person who at any level and in any manner may affect environmental aspects of operations;
- support for environmental voluntary work whether of a personal or institutional nature.

The Group is committed with regard to all its stakeholders and the community in general to promoting greater environmental awareness by means of:

- support – with donations, sponsorships and cause related marketing campaigns – for initiatives to protect and restore the environmental heritage, for training and communication on environmental issues and for the development of increasingly more effective regulations and standards of conduct for individuals and organisations;
- participation in the initiatives of national or international bodies and organisations which help businesses to act in an increasingly more sustainable and socially responsible manner.

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<sup>4</sup> A set of social and environmental criteria to be considered in the assessment of investment projects taken from the environmental standards of the World Bank and the social standards of the International Finance Corporation, launched in 2003 by a group of international banks led by Citigroup, ABN Amro, Barclays and WestLB.

## 7. Implementation and control

This policy has been approved by the Supervisory Board of UBI Banca on the proposal of the Management Board. It has been communicated to all Group member companies and brought to the knowledge of all stakeholders through various communication channels including the Group website and the Group corporate social responsibility report, the branch network, the Group intranet and the Group house organ YoUBI.

The implementation of the policy takes concrete form by: determining priorities and the consequent inclusion of objectives and specific improvement projects in the Group business plan; the responsabilisation of individual organisational units of the Parent Bank and of all the Group member companies (each according to its responsibilities); the preparation of appropriate monitoring and control instruments; periodical reporting of commitments made and the results achieved; consultation with stakeholders.

The Corporate Social Responsibility Staff of UBI Banca co-ordinates and monitors the implementation of the policy in co-operation with the following principal corporate functions which are assigned specific policy responsibilities:

- the Group Mobility Manager, for activities concerning the reduction of environmental impacts in from-and-to work and business travel;
- The Group Energy Manager, for activities connected with selecting energy sources, energy savings and waste reduction;
- the Cost Management Area of UBI Banca and the Purchasing Department of UBI Sistemi e Servizi, for procurement activities and supply chain management;
- the Commercial Macro Area and the Credit Area of the Parent Bank for setting commercial and credit policies, for the range of customer products and services and for environmental marketing activities;
- the Risk Capital & Policies Area and the Risk Management Area of the Parent Bank for aspects connected with reputation risk management and with the consideration of environmental aspects in credit rating models;
- the Training and Internal Communication service of the Parent Bank for personnel training and education activities;
- the Compliance Staff of the Parent Bank and the Auditing Area of the Parent Bank and Group to ensure that the policy is applied and properly interpreted in Group operations and regulations for the purposes of concrete implementation and for verification of the adequacy of the monitoring and control system;
- liaison officers identified by product companies for particular aspects of their respective areas of activity (asset management, insurance, etc.).

More specifically, the Corporate Social Responsibility Staff:

- assists the relative corporate functions in identifying priorities, setting objectives and defining improvement projects for inclusion in the Group Business Plan;
- draws up and manages a system for periodic measurement and reporting of Group environmental performance for senior management;
- is responsible for public reporting and consultation with stakeholders;
- prepares proposals for policy updates in order to promptly adapt it to emerging environmental issues, to maintain the consistency of policies with the growth of the Group and to ensure that policies remain comprehensible and applicable over time.

All the Group and corporate organisational units are responsible for first level controls for the achievement of policy objectives, each in relation to their own areas of responsibility. More specifically managers are required to take an active role in ensuring that individual conduct in their own units is oriented towards improved use of resources and the reduction of waste. The Group is committed to promoting personnel involvement by inviting proposals from them to improve the environmental performance of their own organisational units and of the Group in general.

The Auditing Area of the Parent Bank and Group formulates and implements procedures to verify the application of policies which include, where it is considered necessary, resort to audits by independent third parties.

## 8. Public reporting and consultation with stakeholders;

UBI Banca recognises that public reporting of its own environmental practices may help to create greater awareness among stakeholders and a greater commitment on the part of management in the pursuit of policy objectives.

Consequently, UBI Banca is committed to periodic reporting on the commitments it has assumed, the improvement programmes started and the results achieved on its website and in its annual Corporate Social Responsibility Report in compliance with the Global Reporting Initiative<sup>5</sup> international standard.

The Group recognises the importance of co-operation with stakeholders for continuous improvement of its own environmental performance. To achieve this, it promotes systematic consultation as part of its annual corporate social responsibility reporting for the assessment of the results achieved, for the identification of new objectives and action priorities and for the identification of possible new important issues for policy updates.

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<sup>5</sup> A non profit foundation with headquarters in Amsterdam which was formed from a project started in 1997 by CERES of Boston (a coalition of investors, environmental organisations and public interest groups which came together to promote corporate social responsibility). Its mission is to produce global standards for sustainability reporting (economic, social and environmental). To date more than 1,500 businesses, including the leading world brand names, have declared that they adopt GRI reporting standards which have become international standard practice.