
***Policy for transactions with
counterparties operating in
the arms and materials for
armaments sector***

1	INTRODUCTION	3
2	GENERAL OPERATIONS.....	3
2.1	Forbidden armaments materials	3
3	INTERNATIONAL TRADE TRANSACTIONS	4
3.1	Forbidden countries	4
3.2	Borderline countries	4
3.3	Banking activities	5
4	IMPLEMENTATION OF THE POLICY	5
5	TRANSPARENCY	6

1 Introduction

While the existing business of some of the banks in the Group with firms operating in the armaments and armaments materials sector¹ is acknowledged and that this business plays a part in supporting the local economies served, in consideration of the Bank's ethical orientation as a 'popular' bank which respects individuals and promotes observance of human rights and of its strategy of attracting institutional investors in the SRI ("Ethical" and Socially Responsible Investments) sector to invest in the Bank's shares, and having taken account of the Italian Constitution, which repudiates war as a means of settling international disputes and of the need to maintain military forces and means in order to guarantee peace, national security and the defence of democracy (including defence against the threat of terrorism), this policy is intended to regulate the Group's transactions with counterparties who perform operations connected with the armaments and armaments materials sector:

- generally, with regard to the types of arms and armaments materials in which corporate customers operate;
- in relation to international trade transactions, with reference to the countries and parties who receive the goods involved in those transactions.

2 General operations

There is no absolute preclusion of providing financial services to firms which operate in the arms and armaments materials sectors, but business must be limited exclusively to corporate clients that are resident in countries belonging to the European Union, to NATO or to the OECD. No business may be conducted in any manner whatsoever with parties who perform illegal activities, or activities that are in contrast with the principles referred to in the introduction.

2.1 *Forbidden armaments materials*

No business may be conducted in any manner whatsoever with parties involved in the production, development, stockpiling, marketing and/or sale of:

- nuclear², biological³ and chemical⁴ arms of mass destruction
- toxic chemical or biological agents and radioactive material⁵;
- missiles able to carry arms of mass destruction⁶;
- controversial conventional arms such as cluster munitions, land mines, incendiary and laser arms⁷.

3 International trade transactions

¹ "Armaments materials are intended as materials which, because of their specifications or technical and construction characteristics, are to be considered as having been constructed mainly for military use or by armed corps or police" (Art. 2 of Law No. 185 of 9th July 1990) – Ref. For the purposes of this policy, the Wassenaar Arrangement Munition List(08) with the exclusion of the ML1.a. code; arms for sports and hunting and the relative munitions, ordinary firearms and munitions pursuant to Art. 2 of Law No. 110 of 18th April 1975 and short firearms provided they are not automatic, reproductions of antique arms and explosives other than those used for military purposes are excluded from this notion" (Art. 1 paragraph 11 of Law No. 185 of 9th July 1990) – Ref. For the purposes of this policy the Wassenaar Arrangement Munition List (08) ML1.a. code.

² Ref. Treaty on the Non Proliferation of Nuclear Weapons, Nuclear Suppliers Group, Missile Technology Control Regime (MCTR) , Hague Code of Conduct against Ballistic Missile Proliferation (HCOC).

³ Rif. Convention on the Prohibition of the Development, Production, Stockpiling of Bacteriological (Biological) and Toxine Weapons and on their Destruction (Biological Weapons Convention).

⁴ Ref. Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.

⁵ Ref. Wassenaar Arrangement Munition List (08)

⁶ Ref. Hague Code of Conduct against Ballistic Missile Proliferation (HCOC) and Missile Technology Control Regime (MCTR).

⁷ Ref. Convention on Certain Conventional Weapons, Convention on the Prohibition of the Use, Production and Transfer of Anti-Personnel Mines and on their Destruction (Ottawa Convention or Mine Ban Treaty), Convention on Cluster Munitions and Wassenaar Arrangement Munition List (08)

As concerns international trade transactions, it must be guaranteed that these comply fully with all national and international regulations. More specifically, assistance may not be provided in Italy for transactions in which armaments materials are involved which have not been authorised by the competent national authorities in accordance with Law No. 185 of 9th July 1990, "New regulations on the control of exports, imports and the transit of armaments material".

It should be considered that the law cited is one of the most severe in the world and it requires exports of armaments materials to be authorised by the foreign, defence, internal and foreign trade ministries (the authorisations are therefore dependent on the political relations between the Government in office and the countries receiving the arms) and that Italy complies with the Common Position 2008/944/CFSP of the Council of Europe (which updates and replaces the "European Union Code of Conduct on Arms Exports" adopted by the Council on 8th June 1998).

Following the adoption by the Council of Europe by the common position mentioned, transactions authorised by competent national authorities must observe eight fundamental criteria which regard the following:

- the existence of sanctions adopted by the United Nations Security Council or by the European Union (e.g. embargos);
- respect for human rights and international humanitarian law;
- the internal situation of countries in terms of the existence of tensions or armed conflicts;
- the maintenance of peace, security and regional stability (e.g. the existence or probability of an armed conflict with other countries or the probability of the use of armaments materials purchased for purposes other than legitimate reasons of national security or defence);
- the national security of member states of the European Union and friendly and allied countries;
- the behaviour of the buyer country with regard to the international community, and in particular its position on terrorism, the nature of its alliances and respect for international law;
- the risk that technology or equipment purchased inside a country will be diverted or re-exported under non admissible conditions (e.g. triangulations);
- the compatibility of exports with the sustainable development of the buyer country.

Since national authorities have the right to authorise single transactions on the basis of assessments conducted on a case by case basis even with countries considered at risk with respect to some of the criteria of the common position, UBI Banca, in consideration, amongst other things, of its commitments assumed by adhering to the principles of the Global Compact with regard to respect for human rights⁸, intends to make sure that it is not in any case involved in transactions involving countries which:

- are subject to international embargo sanctions;
- are active parties in armed conflicts as aggressors;
- perform or tolerate systematic or serious violations of human rights;
- have a low human development index and levels of military expenditure which are incompatible with prospective sustainable development.

3.1 *Forbidden countries*

Any business with countries subject to international embargo sanctions is absolutely forbidden with no exceptions.

3.2 *Borderline countries*

With regard to the last three cases reported above (armed conflict, violations of human rights, human development index and military expenditure), the Bank identifies a list of borderline countries by applying criteria that are as objective as possible, on the basis of information released by the United Nations (i.e. the UNDP – United Nations Development Programme) and by internationally accredited non government

⁸ Principles of the Global Compact in the human rights field:

1. to support and respect human rights in our sphere of influence;
2. to ensure that we are not, even indirectly, a party to human rights abuses.

organisations such as Amnesty International, Human Rights Watch and the Stockholm International Peace Research Institute (SIPRI).

For countries on the list of borderline countries:

- transactions involving armaments materials may only be authorised if they are strictly and clearly related to humanitarian activities (e.g. demining operations, assistance and protection for refugees, means destined to rescue organisations) or to specific intergovernmental agreements (e.g. to fight international terrorism, for national security or to control clandestine emigration) or to initiatives by international bodies and institutions in which Italy plays an active part or is a member (e.g. the UN and EU), which involve the use of multilateral force to restore or strengthen peace and/or rebuild a country's institutions;
- transactions involving small calibre non automatic light arms⁹ (with the exception of replicas of antique arms and arms for use in sports and hunting which are excluded from the scope of this policy) may only be authorised if they are with institutional counterparties.

3.3 Banking activities

The Group must also abstain from providing assistance for transactions in which the intermediation costs are very large in relation to the value of the goods or services involved in the transaction in order to prevent possible involvement in mere brokerage transactions and in possible corruption.

4 Implementation of the policy

The initiation of business with counterparties operating in the arms and weapons systems sector must be authorised by the General Management of the Bank or Group Member company concerned, For that purpose corporate customers are required to make a declaration to the bank or Group member company with which they conduct or intend to conduct business stating the type of arms and/or armaments materials involved in their operations according to the following cases:

- armaments materials forbidden by Group policy as defined by Art. 2.1 of this policy (nuclear, biological and chemical arms of mass destruction; missiles able to carry arms of mass destruction; controversial conventional arms such as cluster munitions, land mines, incendiary and laser arms);
- armaments materials other than those indicated in the preceding point;
- non automatic, small calibre light arms other than replicas of antique arms and sports and hunting arms.

The following are similarly subject to authorisation:

- international trade transactions involving weapons systems for which adequate grounds must exist, if they are destined to borderline countries;
- international trade transactions involving non automatic, small calibre light arms other than replicas of antique arms and sports and hunting arms, if destined to borderline countries.

Customers are required to provide appropriate information for each transaction, including a declaration contained on accounting documents, designed to establish whether it is outside the scope of the policy (replicas of antique arms, sporting and hunting arms) or may be exempt from authorisation (non automatic, small calibre light arms). In the absence of indications, it is presumed that a transaction is subject to the policy.

Any exceptions to this policy must be made at Parent Bank level and adequate reasons must be given.

The Corporate Social Responsibility Staff unit of UBI Banca publishes and periodically updates a list of forbidden and borderline countries, receives periodic reports on transactions from Group banks and companies and performs disclosure functions required under article 5.

Training and communication initiatives will be organised at Group level with particular regard to staff working in the corporate commercial units of the network banks, in order to ensure that there is full understanding of the contents and of the ethical and economic motivations of this policy.

⁹ Ref. Wassenaar Arrangement Munition List (08) – item ML1.

5 Transparency

In order to ensure the maximum transparency with regard to all stakeholders, a schedule of the transactions performed, either in compliance with or as an exception to this policy, will be published annually by country of destination and by type of material on the Group's website and in its Corporate Social Responsibility Report. A report will also be furnished of the transactions not performed because they were considered in conflict with this policy.