

Report of the Board of Directors to the General Shareholders' Meeting

Report on internal policies governing controls of activities at risk and conflicts of interest involving connected parties

Shareholders,

The Prudential Supervisory Provisions for Banks, and, in particular, Bank of Italy Circular No. 263/2006, as amended by the 9th update of 12 December 2011, introduced new industry-wide regulations governing risk-taking and conflicts of interest in respect of Connected Parties (Title V, Chapter 5, of the said Circular). The provisions in question are aimed at containing the risk that the closeness of certain persons to the bank's decision-making centres could compromise the objectivity and impartiality of decisions pertaining to the approval of loans and other transactions involving the said persons, and potentially give rise to distortions in the resource-allocation process, expose the bank to risks that are not adequately measured or contained, and/or result in harm and losses to depositors and shareholders.

In pursuit of this objective, the aforesaid regulatory provisions include within the scope of the term "related parties", first and foremost, the company top management, main shareholders and other persons in a position to influence bank management, in light of their seniority or authority, or otherwise, the delegated powers vested in them, whether to be exercised individually or jointly with others. The regulatory provisions specify that conflicts of interest might emerge even in course of business and other dealings with subsidiaries or entities over which the bank exercises considerable influence, or in respect of which the bank is significantly exposed pursuant to loans, and/or as a result of participating interests held in the same.

Under the aforesaid provisions, any related party and any and all persons thereto connected fall within the scope of the definition of the term "connected parties", all of which are subject to quantitative restrictions and procedural rules imposed under the said regulatory framework. The quantitative restrictions consist in the imposition of prudential limits on the amount of risk a bank or banking group may assume in respect of the said parties, it being understood that the related ceilings are differentiated on the basis of the type of related party in question, with a view to ensuring proportionality with the closeness of the ties and the repercussions of associated risks in terms of sound and prudent

business management. In light of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk activities carried out with related parties qualifying as non-financial entities. The regulatory framework is completed by supplementing prudential restrictions with procedural requirements entailing specific decision-making steps designed to ensure the proper allocation of resources and adequately protect third parties against undue harm and losses. Moreover, specific guidelines relating to organisational arrangements and internal controls enable the identification of corporate bodies' responsibilities and corporate functions tasks with respect to the objectives of conflicts of interest prevention and management, as well as the obligations for identifying the Connected Parties and monitoring exposures over time.

Towards this end, each bank is, first and foremost, required to clearly identify the procedures applicable to transactions with connected parties. It is expressly pointed out that, in compliance with the above-mentioned requirement, on 23 June last, Banca Generali's Board of Directors, having heard the favourable opinions issued by both the Audit and Risks Committee, and the Board of Statutory Auditors, approved a specific "Related Party and Connected Party Transaction Procedure".

Furthermore, again in order to ensure compliance with the aforesaid regulatory framework, all banks (and the parent companies of banking groups) are bound to approve internal policies regulating the checks to be carried out on risk-taking and conflicts of interest in respect of connected parties. It is pointed out that, in compliance with the above-mentioned requirement, on 18 December last, Banca Generali's Board of Directors, having heard the favourable opinions issued by both the Audit and Risks Committee, and the Board of Statutory Auditors, approved specific "Internal policies regarding controls on risk activities and conflicts of interest in respect of Connected Parties".

Under the regulatory framework in question, the aforesaid document must be forwarded to the General Shareholders' Meeting, and made available to the Bank of Italy, upon request.

You are accordingly provided a copy of the text of the "Internal policies regarding controls on risk activities and conflicts of interest in respect of Connected Parties " (Annex A) and reminded that the said document, *inter alia*:

(i) requires risk-appetite levels to be maintained in line with the strategic profile and organisational features of the bank or banking group, it being understood that the appetite for risk is also defined in terms of the maximum risk exposure towards connected parties,

that may be considered acceptable in light of regulatory capital requirements, taking due account of the cumulative risk assumed in respect of the sum total of connected parties;

(ii) without prejudice to Banca Generali's existing rules and regulations with regard to conflicts of interests, sets forth specific provisions governing business dealings with connected parties, and the sectors of operations and types of economic relationships involved, which whilst not necessarily entailing risk-taking, could give rise to conflicts of interest;

(iii) regulates organisational processes designed to identify and individually list all connected parties, duly recording and quantifying any and all transactions effected with the same, at all stages of the relationship;

(iv) requires the implementation of checks and monitoring procedures designed to ensure that risks are properly assessed and managed throughout the course of dealings with connected parties, and that internal policies are appropriately designed and effectively enforced.

An outline draft of the resolution that the General Shareholders' Meeting is invited to pass by way of approval of the aforesaid report is provided below:

"The Shareholders' Meeting of Banca Generali S.p.A., held in ordinary session, at the offices of Assicurazioni Generali S.p.A. in Trieste, at Via Trento 8,

- having regard to the provisions of Title V, Chapter V, of the Bank of Italy Circular No. 263/2006, as amended by the 9th update of 12 December 2011;

- having regard to the "internal policies regarding controls on risk activities and conflicts of interest in respect of Connected Parties" approved by the Board of Directors on 18 December 2012;

- having regard to the Board of Directors' Report;

acknowledges

the adoption by the Board of Directors, of the "Internal policies regarding controls on risk activities and conflicts of interest in respect of Connected Parties", in accordance with the provisions of Title V, Chapter V, of the Bank of Italy Circular No. 263/2006, as amended by the 9th update of 12 December 2011."

Milan, 18 December 2012

THE BOARD OF DIRECTORS