Cassa di Risparmio di Cento S.p.A.

Registered office: Via Matteotti 8/B 44042 Cento (FE)
Entered in Register of Banks with no. 5099
Share capital: €67,498,955.88
Tax ID, VAT registration and Ferrara Company Register no. 01208920387 – REA no. 138272

ANNUAL CORPORATE GOVERNANCE REPORT

(drafted pursuant to Art. 123-bis of Legislative Decree 58/1998)

Approved by the Board of Directors on 11 March 2011
Available on corporate website at www.crcento.it

2010 FINANCIAL YEAR

INTRODUCTION

The risk management and internal control system for financial reporting (the "System") is a part of the general internal control and risk management system established by Cassa di Risparmio di Cento S.p.A. (the Bank).

The System addresses the internal control and risk management issues associated with financial reporting in an integrated manner. It seeks to identify, measure and control the risks associated with the financial reporting process (financial reporting risk, i.e. the risk that an error might jeopardize the true and fair representation of the Bank's performance and financial position in the financial statements and in any other financial communication issued to investors) to which the Bank is exposed. The System is therefore intended to ensure the reliability, accuracy and timeliness of financial information. This objective was pursued by the Bank with the definition of a financial reporting risk model (the "Model") consisting of a set of principles and rules designed to ensure the implementation of an appropriate administrative and accounting system, including effective administrative and accounting procedures and organizational processes.

In particular, in accordance with the System and the provisions of Art. 154-bis of the Consolidated Law on Financial Intermediation, the manager responsible for preparing the Company's financial reports (the "Financial Reporting Manager") is responsible for preparing and effectively implementing adequate administrative and accounting procedures for the preparation of the annual financial statements and for any other financial communication issued to investors.

The Financial Reporting Manager, together with the General Manager, is required to issue a specific statement certifying:

- the appropriateness and the effective adoption of the administrative and accounting procedures;
- compliance with the International Financial Reporting Standards adopted in the European Union pursuant to Regulation (EC) no. 1606 of 19 July 2002;
- the correspondence of the financial reports with the information in the books and other accounting records;
- that the financial statements provide a true and fair representation of the performance and financial position of the Company;
- that the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed;
- that the interim financial report contains a reliable analysis of the information concerning any important events that occurred during the first six months of the year and their impact on the half-year financial statements, together with a description of the main risks and uncertainties in the second half of the year and disclosures on significant transactions with related parties.

In addition, in compliance with the provisions of Law 262 of 28 December 2005 (“Law 262”), the Bank amended its articles of association with regard to the position of Financial Reporting Manager and, on 1 September 2009, the Board of Directors appointed the current Financial Reporting Manager and provided a summary description of the manager's powers and resources.

The model adopted by the Bank is based on frameworks that are generally accepted at the international level as examples of best practice by auditing firms and international auditing bodies and recommended by the main professional associations. More specifically, the reference framework adopted by the Bank is the Internal Control – Integrated Framework issued in 1992 by the Committee of Sponsoring Organisations (COSO) of the Treadway Commission, which sets out guidelines for the assessment and development of an internal control system. Within the scope of the COSO Framework, the model developed by the Bank is designed to verify the reliability of its financial reporting, namely the component of the control system regarding the collection, processing and publication of financial information.

DESCRIPTION OF THE MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM FOR FINANCIAL REPORTING

This section summarizes the main characteristics of the Model, focusing on the various phases and functions involved, their respective roles and the related reporting flows.

1) **The phases of the Model**
   a) Identification and assessment of financial reporting risks: this analysis envisages the identification of:
      i. the most significant financial statement accounts by amount and type;
      ii. the management, business and operating processes that can directly and indirectly impact the formation of these financial statement accounts and financial reporting in general.

   Within this framework, the Bank identifies the financial reporting risks to which it is exposed, mapping their materiality in terms of inherent risk, which expresses the level of risk without taking account of the mitigating effect of the associated controls.
   b) Identification and assessment of the controls used to manage the identified risks: for each process identified using the above criteria, the Bank identifies the controls used to mitigate the financial reporting risks at the company and individual process level and the information technology risks. The controls are characterized as follows:
      i. the timing of control execution: preventive or subsequent;
      ii. the manner of execution: automated, manual or semi-automated;
      iii. the nature of the controls (their structural characteristics): authorization, reconciliation, management review, etc.;
      iv. the frequency with which controls are performed;
      v. the check evidence: the documentation supporting the controls.

If any shortcomings are found during the verification of the appropriateness and effective adoption of the System, the Financial Reporting Manager takes steps to develop any necessary corrective actions and constantly monitors those actions.

Company-level controls are intended to verify the existence of organized and formalized company arrangements to contain risks and identify any shortcomings. The presence of rules, policies, service instructions and codes of conduct designed to instill ethical behavior and integrity all work to contain risk. The subsequent phase of assessment their effectiveness involves reconciling the system of rules and their actual application.

Process-level controls are intended mitigate risk through the entire system of financial reporting risk controls. Tests of controls are used to verify performance of the overall control of the various corporate processes.

Information technology controls involve the analysis of information and management flows in respect of the systems used to prepare the financial statements. As regards the applications used for business processes and closing the accounts, the analysis of the tests of controls provides for verification of the effectiveness of the main automated controls in significant processes.

This approach makes it possible to define a matrix of risks and controls for each financial statement account and process considered significant in qualitative and quantitative terms. The matrix summarizes the assessment of the risk exposure of administrative and accounting processes associated with operations and the effectiveness of risk controls.

2) The functions involved in the Model, roles and reporting flows

In accordance with the internal control and risk management system adopted by the Bank, the financial reporting risk model involves the corporate bodies, operating units and control units in an integrated effort to ensure the adequacy of the model, with each unit operating at its own level of responsibility.

The **Board of Directors**, supported by the Internal Audit unit, ensures that the Model and the System are capable of identifying, assessing and controlling all material risks through the definition of strategies and general guidelines.
In addition, in compliance with the applicable law, the Board grants the Financial Reporting Manager adequate powers and resources to perform the duties assigned to that position under Law 262.

The **Financial Reporting Manager** is responsible for implementing, maintaining and monitoring the financial reporting risk model in conformity with the strategies developed by the Board of Directors. The manager is responsible for the adequacy of the System and the effective adoption of the administrative and accounting procedures, and the appropriateness of those procedures in providing a true and fair representation of the performance and financial position of the Bank. Assisted by the reporting units, the manager is also responsible for maintaining the map of administrative/accounting processes, performing the tests of controls and developing corrective measures and actions in response to any problems.

The **Internal Audit Unit** conducts periodic audits of the adequacy and effectiveness of procedures and the system of controls. It supports the Financial Reporting Manager in assessing risks and the related controls in the Bank's administrative and accounting processes.

The **Compliance function** assesses the adequacy and effectiveness of administrative and accounting processes from the point of view of their ongoing compliance with any applicable laws and regulations.

The **Process Owners** are the heads of the individual organizational units of the Bank, appointed by senior management to manage one or more processes relevant for Law 262 purposes. They are tasked with ensuring the adequacy of the documentation associated with their duties, the effective performance of the activities and controls envisaged for the process involved and, with regard to the internal control system for financial reporting, the prompt implementation of any corrective actions.

The Bank has also developed an appropriate documentation system to ensure that all bodies and functions with specific duties in the internal control and risk management system collaborate in performing the activities assigned to them.

The Financial Reporting Manager reports periodically to the Board of Directors on the activities performed and the most significant decisions taken in the exercise of his or her functions.