

# **REPORT ON THE CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF UBI BANCA Scpa**

in accordance with Art.123-*bis* of  
the Consolidated Finance Act

*(Translation from the Italian original  
which remains the definitive version)*

Website: [www.ubibanca.it](http://www.ubibanca.it)

Year: 2012

Date: 12<sup>th</sup> March 2013

## CONTENTS

## GLOSSARY

1. PROFILE OF THE ISSUER
2. INFORMATION ON THE OWNERSHIP STRUCTURE (pursuant to Art. 123 *bis*, paragraph 1 of the Consolidated Finance Act)
  - a) *Structure of the share capital (pursuant to Art.-123 bis, paragraph 1, letter a) of the Consolidated Finance Act)*
  - b) *Restrictions on transfer of securities (pursuant to Art. 123-bis, paragraph 1, letter b) of the Consolidated Finance Act)*
  - c) *Significant investments in share capital (pursuant to Art. 123-bis, paragraph 1, letter c) of the Consolidated Finance Act)*
  - d) *Securities with special rights (pursuant to Art. 123-bis, paragraph 1, letter d) of the Consolidated Finance Act)*
  - e) *Employee shareholdings: mechanism for exercising voting rights (pursuant to Art. 123-bis, paragraph 1, letter e) of the Consolidated Finance Act)*
  - f) *Restrictions on voting rights (pursuant to Art. 123-bis, paragraph 1, letter f) of the Consolidated Finance Act)*
  - g) *Shareholders' agreements (pursuant to Art. 123-bis, paragraph 1, letter g) of the Consolidated Finance Act)*
  - h) *Change of control clauses (pursuant to Art. 123-bis, paragraph 1, letter h) of the Consolidated Finance Act) and Article of Association provisions concerning public tender offers to purchase (pursuant to Art. 104, paragraph 1-ter and 104-bis, paragraph 1)*
  - i) *Powers to increase the share capital and authorisations to purchase treasury shares [pursuant to Art. 123-bis, paragraph 1, letter m) of the Consolidated Finance Act]*
  - j) *Management and co-ordination activities (pursuant to Art. 2498 et seq. of the Italian Civil Code)*
3. COMPLIANCE (pursuant to Art. 123-*bis*, paragraph 2, letter a) of the Consolidated Finance Act)
4. SUPERVISORY BOARD
  - 4.1 *Appointment and replacement (pursuant to Art. 123 bis, paragraph 1, letter l) of the Consolidated Finance Act)*
  - 4.2 *Composition and role (pursuant to Art. 123- bis, paragraph 2, letter d) of the Consolidated Finance Act)*
  - 4.3 *Chairman of the Supervisory Board*
5. INTERNAL COMMITTEES OF THE SUPERVISORY BOARD (pursuant to Art. 123-*bis*, paragraph 2, letter d) of the Consolidated Finance Act)
6. APPOINTMENTS COMMITTEE
7. REMUNERATION COMMITTEE

8. REMUNERATION AND SUCCESSION PLANNING  
*Indemnities for board members in the cases of resignation, dismissal or termination of contract following a public tender offer (pursuant to Art. 123-bis, paragraph 1, letter i) of the Consolidated Finance Act)*
9. INTERNAL CONTROL COMMITTEE
10. ACCOUNTS COMMITTEE
11. RELATED AND CONNECTED PARTIES COMMITTEE
12. MANAGEMENT BOARD
  - 12.1 *Appointment and replacement (pursuant to Art. 123-bis, paragraph 1, letter l) of the Consolidated Finance Act)*
  - 12.2 *Composition [pursuant to Art. 123-bis, paragraph 2, letter d) of the Consolidated Finance Act]*
  - 12.3 *Role of the Management Board (pursuant to Art. 123-bis, paragraph 2, letter d) of the Consolidated Finance Act)*
  - 12.4 *Executive officers*
  - 12.5 *Chairman of the Management Board*
  - 12.6 *Other executive board members*
  - 12.7 *Independent board members*
13. BOARD OF ARBITRATORS
14. GENERAL MANAGEMENT
15. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM
  - 15.1 *Chief of the Internal Audit Function*
  - 15.2 *Executive Board Member responsible for the internal control system*
  - 15.3 *Organisational model pursuant to Legislative Decree No. 231/2001*
  - 15.4 *Independent auditors*
  - 15.5 *Chief Financial Officer and Senior Officer Responsible for the preparation of the corporate accounting documents*
16. INTERESTS OF BOARD MEMBERS AND RELATED-PARTY TRANSACTIONS
17. TREATMENT OF CORPORATE INFORMATION
18. RELATIONS WITH SHAREHOLDERS
19. SHAREHOLDERS' MEETINGS (pursuant to Art. 123-bis, paragraph 2, letter c) of the Consolidated Finance Act)

ATTACHMENT A

SUMMARY TABLES

*Table 1 Information on the ownership structure*  
*Table 2 Structure of the Supervisory Board and Committees*  
*Table 3 Structure of the Management Board*

*ATTACHMENT 1: Section on the "main characteristics of the risk management and internal control systems in relation to the financial reporting process" pursuant to Art. 123 bis, paragraph 2, letter b) of the Consolidated Finance Act*

*ATTACHMENT 2: Policy on internal controls to manage risk assets and conflicts of interest with regard to associate companies.*

## Glossary

**Civil Code/C.C.:** the Italian Civil Code.

**Code/Corporate Governance Code:** the Corporate Governance Code for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, *Ania* (national insurance association), *Assogestioni* (national association of asset management companies), *Assonime* (association of joint stock companies) and *Confindustria* (Confederation of Italian Industry).

**Consob Issuers' Regulations:** the regulations issued by the Consob (Italian securities market authority) with Resolution No. 11971 of 1999 (as subsequently amended) for issuers.

**Consob Markets Regulations:** the regulations issued by the Consob (Italian securities market authority) with Resolution No. 16191 in 2007 (as subsequently amended) for markets.

**Consob related-party regulations:** the regulations issued by the Consob with Resolution No. 17221 of 12<sup>th</sup> March 2010 (as subsequently amended) concerning transactions with related parties.

**Consolidated Banking Act:** Legislative Decree No. 385/1993.

**Consolidated Finance Act:** Legislative Decree No. 58 of 24<sup>th</sup> February 1998.

**Financial year:** the financial year to which this report relates.

**Issuer:** the issuer of the shares to which this report relates.

**Regulations concerning risk assets and conflicts of interest with connected parties:** Bank of Italy Circular No. 263 of 27<sup>th</sup> December 2006 - 9<sup>th</sup> amendment of 12<sup>th</sup> December 2011.

**Report:** this report on corporate governance and ownership structure which companies are required to prepare pursuant to Art. 123 *bis* of the Consolidated Finance Act.

## 1. Profile of the Issuer

The purpose of this report is to provide shareholders and the market with an analysis of the system of corporate governance adopted by Unione di Banche Italiane Scpa (hereinafter UBI Banca), a system which takes account of the provisions and principles contained:

- in the regulations governing listed issuers set out in the Consolidated Finance Act and in the related rules to implement them adopted by the Consob (Italian securities market authority);
- in the regulations governing banks, with particular reference to specific regulations concerning co-operative 'popular' banks set out in the Consolidated Banking Act;
- in the Corporate Governance Code for listed companies of Borsa Italiana Spa.

UBI Banca is a "popular" bank incorporated in the form of a joint stock co-operative company. As such, UBI Banca is required to comply with the provisions of the Italian Civil Code concerning co-operative societies (excluding those expressly listed in Art. 150 *bis* of the Consolidated Banking Act) and also with those governing joint stock companies, to the extent that they are compatible with the laws governing co-operatives, as indicated in Art. 2519 of the Italian Civil Code. Express details of the Bank's particular characteristics as a co-operative are given in the separate company financial report of UBI Banca Scpa, an integral part of the management report, which was drawn up in compliance with Art. 2545 of the Italian Civil Code and states the criteria followed in company operations to pursue the Bank's mutual objects.

The legal nature of a "popular" co-operative bank lies in the fact that each registered shareholder of the co-operative is entitled to one vote whatever the number of shares possessed.

Conversion Law No. 221 of 17<sup>th</sup> December 2012, converting Decree Law No. 179 of 18<sup>th</sup> October 2012 "Further urgent provisions for the Country's growth" (known as *Sviluppo bis*) introduced Art. 23 *quater*, which made some significant changes to the regulatory regime for "popular" banks regulated by Art. 30 of the Consolidated Banking Act (Legislative Decree No. 385/1993).

The most important change relates to the increase in the limit on direct or indirect shareholdings (from 0.50% to 1% of share capital), without prejudice to the power conferred by the Articles of Association to set a lower proportion, in any event not less than 0.50%.

An exception to the maximum 1% limit is made for collective investment organisations, for which the regulatory limits specific to each of them apply.

UBI Banca has adopted a two tier system of management and control, which is considered better suited to the governance requirements of the Parent, UBI Banca, and at the same time as providing stronger protection for registered and unregistered shareholders, especially through the activity of the Supervisory Board, a body appointed directly by the registered shareholders and representing them.

The distinguishing features of the two tier system lie in the distinction between:

- the strategic supervision and control functions, assigned to the Supervisory Board, which combines some of powers assigned by traditional systems to Shareholders' Meetings (approval of financial statements, appointment of the members of the management body and determination of the relative fees) and to boards of statutory auditors and assumes some "senior management" responsibilities, insofar as it is called upon to take decisions on proposals submitted to it by the Management Board on the business and/or financial plans and budgets of the Bank and the Group and also on strategic operations indicated in the Articles of Association (Art. 46 of the Articles of Associations, available on the corporate website [www.ubibanca.it](http://www.ubibanca.it) in the section corporate governance – corporate documents);
- corporate management functions, assigned to the Management Board, which has exclusive authority to perform all ordinary and extraordinary operations necessary for the achievement of company's objects, in compliance with the general guidelines and strategic policies approved by the Supervisory Board (Art. 37 of the Articles of Association).

This division of functions identifies distinct features of the operational life of the Bank and assigns them to the corporate bodies just mentioned which, with their respective roles and responsibilities, give rise to a corporate governance model that is more appropriate to the structure of the Bank and the Group in the context of a single business design, characterised by continuous dialogue and inter-functional co-operation.

The Bank is listed on the *Mercato Telematico Azionario* (electronic stock exchange) organised and managed by Borsa Italiana Spa. Accordingly, UBI Banca is also required to comply with the regulations for listed issuers contained in the Consolidated Finance Act and in the regulations to implement that act issued by the Consob.

\* \* \*

UBI Banca is the Parent of the Unione di Banche Italiane Group, organised according to federal, multi-functional model, integrated with its listed 'popular' Parent, which sets strategic policies and performs functions of co-ordination and control over all the organisational units and companies in the Group.

By implementing its management and co-ordination activities in compliance with both specific regulations laid down by the Supervisory Authority and civil law, UBI Banca sets the strategic objectives of the Group, mainly through the Group budget and Business Plan. Moreover, without prejudice to the Articles of Association and operational independence of each company in the Group, UBI Banca also defines the strategic lines of development for each of them, so that the companies are requested to participate in the attainment of the objectives set by single business plan and in the benefits from the overall results of the management and co-ordination activities.

UBI Banca pursues its entrepreneurial mission while at the same time maintaining the strong sense of social responsibility that is typical of "popular" banks which are deeply rooted in their local communities. This philosophy is strengthened by the adoption of specific instruments which include the Charter of Values, Code of Ethics and the Social Report.

The chart that follows illustrates the composition of the UBI Group as at 31<sup>st</sup> December 2012:



## **2. Information on the ownership structure (pursuant to Art. 123 bis, paragraph 1 of the Consolidated Finance Act) of 12<sup>th</sup> March 2013**

### **a) Structure of the share capital (pursuant to Art. 123 bis, paragraph 1, letter a) of the Consolidated Finance Act)**

The share capital of UBI Banca Scpa is composed entirely of ordinary shares traded on the *Mercato Telematico Azionario* (electronic stock exchange) operated by Borsa Italiana Spa and as at 31<sup>st</sup> December 2012 it amounted to €2,254,367,512.5 divided into 901,747,005 shares with a nominal value of €2.50 each, and on that same date the registered shareholders numbered 83,690.

\* \* \*

In implementation of powers granted by the Shareholders' Meeting and authorised by the Supervisory Board, the Management Board made the following decisions:

- to issue notes convertible into ordinary shares of the Bank for a maximum amount of €640,000,000 to offer as an option right to those who were shareholders of the Bank on the date of the beginning of the subscription period in proportion to the number of shares possessed;
- to increase the share capital at the service of conversion of the bonds by a maximum amount of €640,000,000, inclusive of the share premium, through the issue of a maximum of 256,000,000 ordinary shares of UBI Banca, with a nominal value of €2.50 each, normal dividend entitlement and having the same characteristics as the ordinary shares of UBI Banca outstanding on the date of issue.

The issuance of the note "*UBI 2009/2013 convertible con facoltà di rimborso in azioni*" was therefore completed in July with the issue on 10th July 2009 of 50,129,088 convertible notes with a nominal value of €12.75, a maturity of four years (10th July 2013) and paying a fixed gross annual coupon of 5.75%, for a total nominal amount of €639,145,872.

The conversion ratio was four convertible notes for every 51 shares owned, which may be granted in more than one tranche through the issuance of a maximum of 255,658,348 ordinary shares with a nominal value of €2.50.

The convertible notes have been traded on the *Mercato Telematico Azionario* (electronic stock exchange) managed by Borsa Italiana since 20<sup>th</sup> July 2009.

Effective 10<sup>th</sup> January 2011, holders of the convertible note issue "*UBI 2009/2013 convertibile con facoltà di rimborso in azioni*", became entitled to convert the notes into UBI Banca ordinary shares at any time except in those instances provided for in the terms and conditions. Since no event pursuant to the terms and conditions has occurred that would result in a modification of the conversion ratio for the notes set when they were issued, it is currently one UBI ordinary share for each note, where the notes have a nominal value of €12.75 and pay a gross coupon of 5.75% per annum in annual instalments.

In 2012, following the conversion of the UBI 2009/2013 notes, the following changes in the share capital occurred:

- 4<sup>th</sup> July 2012: UBI 2009/2013 notes with a nominal value of €3,111 were converted into 246 new UBI Banca shares.

\* \* \*

In 2013, following the conversion of the UBI 2009/2013 notes, the following changes in the share capital occurred:

- 5<sup>th</sup> February 2013: UBI 2009/2013 notes with a nominal value of €204 were converted into 16 new UBI Banca shares;

At the date of this report, the share capital of UBI Banca Scpa therefore amounted to €2,254,367,552.50 divided into 901,747,021 shares with a nominal value of €2.50 each.

There are no share investment programmes for employees at UBI Banca which exclude the direct exercise of voting rights.

#### **b) Restrictions on transfer of securities (pursuant to Art. 123 bis, paragraph 1, letter b) of the Consolidated Finance Act)**

No restrictions on the transfer of shares exist, since the shares are transferable in accordance with the law (Art. 15 of the Articles of Association).

Acceptance clauses exist solely for admission to the status of registered shareholder.

Persons who intend to become registered shareholders must present a certificate of participation in the centralised management system and a written application to the Management Board containing not only details of the shares possessed but also personal particulars, domicile, citizenship and all other information and/or declarations required by law or the Articles of Association or requested in general by the Bank. For the purposes of acceptance as a registered shareholder, certificates testifying to the ownership of at least 250 shares must be presented.

Considering the provisions of the law on ‘popular’ co-operative banks, all decisions on the acceptance of applications for registered shareholder status are taken by the Management Board, in consideration of the general criteria recommended by the Supervisory Board, with exclusive regard to the objective interests of the Bank, including those of its independence and autonomy, and to observance of the spirit of its co-operative status. The decisions are then communicated to the parties concerned. For the purposes of assessing these requirements, account shall be taken, amongst other things, of any previous relations between the persons applying and Group member companies.

Since it is a “popular” bank, there is a limit on shareholdings pursuant to Art. 30 of the Consolidated Banking Act and to Art. 18 of the Articles of Association, which states that no one may hold more than the maximum limit permitted by law, which is 1% of the share capital (this limit does not apply to collective investment organisations for which limits laid down in the rules of each of them apply).

With regard to the limit on the possession of share capital set by the regulations in force, in compliance with Art. 30 of the Consolidated Banking Act, the Bank has sent communications to those concerned for violation of the limit.

In accordance with regulations in force, the time limit for the obligation to dispose of shares has been extended until 31/12/2014 for those who as at 31/12/2009 held an investment in the share capital greater than the limits set, if exceeding that limit is the result of concentration transactions between banks or between investors, while it is understood that the investment may not be increased.

#### **c) Significant investments in the share capital (pursuant to Art. 123 bis, paragraph 1, letter c) of the Consolidated Finance Act)**

On the basis of information received directly by the Group, at the date of this report the following investors possessed shareholdings greater than 2%:

- Silchester International Investors LLP (5.001%)
- BlackRock Incorporated (indirect - assets under management): (5.006%)
- Fondazione Cassa di Risparmio di Cuneo (2.230%)
- Fondazione Banca del Monte di Lombardia (2.207%)
- Norges Bank (2.177%)

#### **d) Instruments which grant special rights (pursuant to Art. 123 bis, paragraph 1, letter d) of the Consolidated Finance Act)**

No shares exist which confer special controlling rights over UBI Banca.

**e) Employee shareholdings: mechanism for exercising voting rights (pursuant to Art. 123 bis, paragraph 1, letter e) of the Consolidated Finance Act)**

No mechanisms exist for the exercise of voting rights which regard employee shareholdings.

**f) Restrictions on voting rights (pursuant to Art. 123 bis, paragraph 1, letter f) of the Consolidated Finance Act)**

The exercise of voting rights is subject above all to acquiring the status of registered shareholder which is acquired following approval for admission by the Management Board, with enrolment in the shareholders' register.

The rejection of an application to become a registered shareholder, for those who lawfully possess shares in the Bank, has the sole effect of not allowing the exercise of rights other than those of a financial nature.

Only persons who have been registered shareholders for at least 90 days from the date of entry in the shareholder register may attend the Shareholders' Meetings, exercise voting rights and be eligible for appointment to corporate bodies (Art. 25 of the Articles of Association).

In compliance with Art. 30 of the Consolidated Banking Act and Art. 26 of the Articles of Association, registered shareholders have only one vote, irrespective of the number of shares held.

Rights over capital and profits are in proportion to the shares owned (Art. 17 of the Articles of Association); nevertheless if a shareholder fails to transfer ownership of shares in excess of the limit on share ownership set by the regulations in force concerning share capital within one year of the violation being reported by the Bank, the relative ownership rights maturing up to the time of the sale of the excess shares are acquired by the Bank.

**g) Shareholders' agreements known to UBI Banca in accordance with Art. 122 of the Consolidated Finance Act (pursuant to Art. 123 bis, paragraph 1, letter g) of the Consolidated Finance Act)**

UBI Banca received a communication in relation to the constitution, on 28th May 2007, of an unofficial association named "**Associazione Banca Lombarda e Piemontese**" located in Brescia. An extract of an updated version of the main clauses of the relative Articles of Association was published in the daily newspaper "Il Giornale" on 24th January 2012.

While the members do not consider the association as qualifying as a shareholders' agreement pursuant to Art. 122 of Legislative Decree No. 58/98, they have nevertheless fulfilled public disclosure obligations as required by the law in relation to some of the clauses of their by-laws, insofar as it may be necessary, in view of the legally binding nature of the decree mentioned and the consequences of failure to comply with it.

UBI Banca also received a letter on 21st November 2011 entitled "Communication pursuant to Art. 20, paragraph 2 of Legislative Decree No. 385/93 and to Art. 122 of Legislative Decree No. 58/98" in relation to the establishment of the association named "**FuturoUBI**", located in Milan on 22nd September 2011. In that letter, the association declared that "*while it does not consider the association as qualifying as a shareholders' agreement pursuant to the above legislation, it has nevertheless fulfilled public disclosure obligations by publishing its Articles of Association on the website [www.futuroubi.it](http://www.futuroubi.it)*".

The following communications were also received:

- the constitution, on 23rd November 2007, of the association named "**Gli Amici di UBI Banca**", located in Bergamo, and report of compliance with disclosure obligations;
- the constitution on 24th January 2011 of an association named "**Tradizione in UBI Banca**", located in Cuneo.
- in a letter of 19th June 2012, the constitution of an association called "**Amici della Banca Regionale Europea e del Gruppo UBI**", located at Cuneo;

- the constitution, on 29<sup>th</sup> October 2012 of an association called “**Insieme per UBI Banca**”, located in Milan;
- in a letter of 27<sup>th</sup> February 2013 the constitution of an association called “**Associazione Soci UBI Centro-Sud**”, located in Rome;
- in a letter of 28<sup>th</sup> February 2013 the constitution of an association called “**Associazione Soci Lombardi UBI Banca**” also known as “ASSOLUBI”, located in Brescia.

The Bank has also received notifications from the “**Associazione Azionisti UBI Banca**”, located in Bergamo.

Finally, the Bank learned:

- from a press release of the constitution on 10<sup>th</sup> November 2011 of the “**Associazione dei cittadini e dipendenti soci di UBI Banca**” located in Brescia;

**h) Change of control clauses (pursuant to Art. 123-bis, paragraph 1, letter h) of the Consolidated Finance Act) and Article of Association provisions concerning public tender offers to purchase (pursuant to Art. 104, paragraph 1-ter of the Consolidated Finance Act)**

The shareholders' agreement currently in force signed by UBI Banca and the Prudential USA concerning the joint venture, UBI Pramerica SGR Spa ("SGR") grants rights to purchase to the parties (call options) if certain predetermined events occur.

More specifically, in the event of a “change of control” in UBI Banca (this being understood as any operation whereby i) an entity directly or indirectly purchases more than 30% of the share capital with voting rights of UBI Banca; ii) UBI Banca merges or performs another extraordinary operation with another legal entity and as a consequence UBI Banca ceases to exist or the legal entity, party to the operation, holds more than 30% of the share capital with voting rights subsequent to the operation; iii) the sale, rent, transfer or other analogous operation by which UBI Banca transfers all or a substantial part of its business to another legal entity), Prudential USA has the right to make a communication to UBI Banca which allows the latter to exercise a call option on the entire investment held by Prudential USA in the SGR.

If that option is not exercised, Prudential USA has, as an alternative, the right i) to purchase the entire interest held in the SGR by the UBI Banca Group, or an interest which allows it to hold 65% of the share capital of the SGR; ii) to give a mandate to an investment bank to sell the entire share capital of the SGR to a third party.

A “Reciprocal options agreement” currently exists between UBI Banca and F & B Insurance Holdings S.A./N.V. (“F&B”), concerning the UBI Assicurazioni S.p.A. joint venture. Under that agreement, amongst other things, F&B holds options which may be exercised if predetermined events occur including a notification of change of control of UBI Banca. In this event, if a request is made by F&B, UBI Banca may exercise an option right to purchase (call option) the interest held by F&B in UBI Assicurazioni. If UBI Banca does not exercise that right, then F&B has a call option on the interest held by UBI Banca in UBI Assicurazioni. If F&B also does not exercise its call option, then the parties shall give a mandate to a major investment bank for the joint sale of the entire share capital of UBI Assicurazioni.

The Articles of Association make no provision with regard to Art. 104, paragraph 1-ter of the Consolidated Finance Act.

**i) Powers to increase the share capital and authorisations to purchase treasury shares [pursuant to Art. 123 bis, paragraph 1, letter m) of the Consolidated Finance Act]**

No authorisations exist as at the date of this report for increases in the share capital or for the issue of convertible debt instruments.

In relation to the purchase of treasury shares, the Shareholders' Meeting held on 28<sup>th</sup> April 2012 authorised the Management Board and the Chairman, Deputy Chairman and Chief Executive Officer, individually on its behalf, to proceed with the purchase (to be carried out by the date of the Shareholders' Meeting called upon to vote in accordance with Art 2364-bis No.

4 of the Italian Civil Code on the allocation of profit for the year ended 31<sup>st</sup> December 2012) of a maximum of 500,000 treasury shares to be granted to the “top management” of the Group as part of the Group incentive schemes, for a total maximum value of €1,750,000, at a price per share of not less than the nominal value of the shares and not more than 5% higher than the official price quoted in the market session prior to each individual purchase transaction.

A total of 500,000 ordinary shares of UBI Banca were purchased on 28<sup>th</sup> February 2013 in implementation of that shareholders’ resolution.

Those shares were purchased at an average price of €3.4911 per share. The purchase transactions were performed on the regulated market in compliance with the limits set in the shareholders’ authorisation, the provisions of the law and EC Regulation 2273/2003 and admissible market practices.

Following those purchases, UBI Banca holds a total of 1,700,000 treasury shares accounting for approximately 0.19% of the share capital.

#### **j) Management and co-ordination activities (pursuant to Art. 2497 *et seq.* of the Italian Civil Code)**

The issuer is not subject to management and co-ordination activities within the meaning of Art. 2497 *et seq.* of the Italian Civil Code.

\* \* \*

As concerns possible further information:

- information required by Art. 123 *bis*, paragraph 1, letter i) of the Consolidated Banking Act is given in the section of this report on the remuneration of board members;
- information required by Art. 123 *bis*, paragraph 1, letter l) of the Consolidated Banking Act is given in the section of this report on the Supervisory Board and Shareholders' Meetings.

### **3. Compliance (pursuant to Art. 123 *bis*, paragraph 2, letter a) of the Consolidated Finance Act)**

UBI Banca has adopted the Corporate Governance Code (available on the website [www.borsaitalia.it](http://www.borsaitalia.it)), a document designed mainly for listed companies that have adopted a traditional governance model. That Code states that if a two tier or single tier system of administration and control is adopted "the preceding articles apply only insofar as they are compatible, by adapting the individual provisions to the particular system adopted, in compliance with the objectives of good corporate governance, transparent reporting and the protection of investors and the market pursued by the Corporate Governance Code and in the light of the application criteria provided by this article".

The objective of this report, which has been prepared in accordance with Art. 123 *bis* of Legislative Decree No. 58/1998, is to provide details of the manner in which the Code itself is applied in the Bank, also considering those principles subject to full compliance and those which the Bank has decided not to comply with (sometimes only partially) on a “comply or explain” basis. This is partly because the Bank must consider its status as a co-operative bank which, as such, demands strict compliance with regulations contained in the Consolidated Banking Act and with the consequent supervisory instructions issued by Bank of Italy.

\* \* \*

Neither the issuer nor its strategic subsidiaries are subject to foreign laws that influence the corporate governance structure of the issuer.

Details of corporate governance practices are given in the various sections of this report.

### **4. Supervisory Board**

#### **4.1. Appointment and replacement (pursuant to Art. 123 bis, paragraph 1, letter l) of the Consolidated Finance Act)**

The Supervisory Board is composed of 23 members elected from among the registered shareholders with voting rights, including a Chairman and a Senior Deputy Chairman, appointed by a Shareholders' Meeting in compliance with Art. 45 of the Articles of Association and two Deputy Chairmen chosen by the Supervisory Board itself from among its members.

The members of the Supervisory Board shall remain in office for three financial years and they shall retire from office on the date of the Shareholders' Meeting convened in compliance with paragraph two of Art. 2364-*bis* of the Italian Civil Code.

The members of the Supervisory Board must be in possession of the requirements of integrity and independence prescribed by the regulations in force. At least 15 members of the Supervisory Board must be in possession of the requirements of professionalism required by the legislation currently in force for persons who perform the functions of directors of banks.

In particular, at least three members of the Supervisory Board must be chosen from amongst persons enrolled in the *Registro dei Revisori Contabili* (register of external statutory auditors) who have practiced as external statutory auditors for a period of not less than three years.

Furthermore, the composition of the Supervisory Board must ensure, in compliance with the provisions of Law No. 120 of 12<sup>th</sup> July 2011, that a balance is maintained between genders for the period provided for by that law.

While mandatory regulations of the law, the Supervisory Authority or other regulations must be complied with, persons already holding the office of full statutory auditor, or who are members of other supervisory bodies in more than five listed companies and/or their parent companies or subsidiaries, cannot hold office as a member of the Supervisory Board. If the cause of incompatibility just mentioned is not eliminated within 60 days of election or of communication of the fact to the person concerned, if it occurs subsequently, the Member of the Board is automatically removed from the position.

Members of the Supervisory Board are elected by a Shareholders' Meeting on the basis of lists in accordance with the provisions of the law and the Articles of Associations.

The election of the members of the Supervisory Board shall take place on the basis of lists presented:

- a) either directly by at least 500 registered shareholders who have the right to participate and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of such right as required by legislation in force, or by one or more registered shareholders who represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 days before the date set for calling the Shareholders' Meeting as stated in the notice of convocation;
- b) by the outgoing Supervisory Board on the basis of a proposal of the Appointments Committee and with the approval of at least 17 of the Supervisory Board's members, and supported, as stated in a), above, by at least 500 registered shareholders who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of the right according to the legislation in force, and that is by one or more registered shareholders who represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 days before the date set for calling the Shareholders' Meeting and to be indicated in the notice given to call the meeting.

Each registered shareholder may participate in the presentation of one list only: if this rule is not observed, the registered shareholder's signature is not counted as valid for any list.

Each candidate may be included in one list only on pain of ineligibility.

Lists presented that fail to observe the procedures reported above are considered as not presented.

Each registered shareholder may vote for one list only.

The election of the Supervisory Board shall be performed as follows:

- a) in the case of the presentation of more than one list and without prejudice to the provisions of the following letter b), 22 members of the Supervisory Board are taken from

the list that obtains a majority of registered shareholders' votes in the order of preference stated on it;

- b) one member of the Supervisory Board is taken from the list with the second highest number of votes which is not connected within the meaning of the regulations in force with the list mentioned under letter b), and it is the name of the first person on that list. If that list has obtained at least 15% of the votes counted in the Shareholders' Meeting, in addition to the first name indicated on that list, a further two members of the Supervisory Board shall be taken from that list, and they shall be the second and third persons on that list. However, if that list has obtained at least 30% of the votes counted in the Shareholders' Meeting, in addition to the first name indicated on that list a further four members shall be taken from that list, and they shall be the second, third, fourth and fifth persons on that list. Consequently, 20 or 18 members respectively of the Supervisory Board shall be taken from the list that obtains a majority of registered shareholders' votes in the order of preference stated on it;
- c) if the minority list mentioned under letter b) should contain the names of only two candidates, the third and if necessary the fourth and fifth members of the Board, where at least 30% of the votes are obtained, shall be taken from the majority list consisting of the persons not already elected on that list in order of preference stated on it.

If, after identifying the candidates to be taken from the lists which received the majority of the votes on the basis of the order in which they are indicated on the lists to which they belong, the gender proportions required under Law No. 120 of 12<sup>th</sup> July 2011 are not complied with, then those members of the Supervisory Board taken last from the aforementioned lists whose appointment would violate the cited law are considered not elected. In this case the number of those board members indicated on the same list to which they belong shall be appointed which allows compliance with the composition requirements for the Supervisory Board in accordance with Law No. 120 of 12<sup>th</sup> July 2011 and with the Articles of Association, again proceeding in the order in which those persons are indicated on the list to which they belong. In particular, in this circumstance, the candidates to be appointed belonging to the gender that is less represented on the basis of the results of the vote shall be taken from each list in proportion to the total number of candidates elected on each list according to the results of the voting. In this event, if the minority list pursuant to letter c) has not complied with the gender proportions established by Law No. 120 of 12<sup>th</sup> July 2011, the candidates to be appointed belonging to the less represented gender will be taken from the list that obtained the greatest number of votes only.

If only one list is validly proposed and this obtained the majority required for an ordinary Shareholders' Meeting, then all 23 members of the Supervisory Board shall be taken from that list.

The Shareholders' Meeting shall proceed by a relative majority vote to appoint those members of the Supervisory Board, who for any reason whatsoever could not be elected by means of the procedures mentioned in the preceding paragraphs or if no list at all is presented, again in compliance with the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and to the Articles of Association; in the event of a tied vote the candidate more senior by age is elected.

If two or more lists obtain an equal number of votes, those lists must be revoted until they no longer receive an equal number of votes.

The positions of Chairman and Senior Deputy Chairman of the Board are reserved to the first and second members respectively on the list that obtains a majority of votes, or on the only list presented or to the members appointed as such by the Shareholders' Meeting if no list is presented at all.

If, during the course of the financial year, the Board lacks one or more members, where it is a case of replacing members elected in the majority list, the first candidate not elected on that list who guarantees compliance with the requirements for the composition of the Supervisory Board provided for by Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association shall be appointed. In the absence of such a candidate, the appointment shall be by a relative majority vote with no list obligation, since the Supervisory Board itself may present candidates, if necessary, on the basis of proposals from the Appointments Committee.

If the positions of Chairman of the Supervisory Board and/or the Senior Deputy Chairman of the Supervisory Board should become vacant, an Ordinary Shareholders' Meeting should proceed without delay to restore the membership of the Board and to appoint a Chairman

and/or a Senior Deputy Chairman not by using in this case the replacement procedure just mentioned, since the Supervisory Board may present candidates itself for this purpose on the basis of proposals made by the Appointments Committee.

However, if, board members belonging to the minority list must be replaced the following procedure is employed:

- if only one board member has been appointed from the minority list, then the first candidate not elected on the list from which the member to be replaced was drawn shall be appointed, or, in the absence of such a candidate, the first candidate on any other minority lists there may be shall be taken on the basis of the number of votes received in descending order. Should this not be possible or, if application of the above criterion means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, then the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities;
- if a further two or four board members have been elected from the minority list, on the basis of the votes cast by the registered shareholders, the relative replacements shall be taken from the list from which the member to be replaced was drawn or in the absence of such a candidate from any other minority lists there may be, identified on the basis of the number of votes received in descending order and which have received, according to the case, 15% or 30% of the votes cast by the Shareholders' Meeting. In the absence of such candidates, the board members shall be drawn from the majority list or in the absence again of such candidates, or, if application of the above criterion means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall proceed to decide by relative majority vote;
- if two or four board members belonging to the minority list have already been replaced, in accordance with the preceding clause, by drawing them from the majority list or by a relative majority vote of the Shareholders' Meeting to appoint them, as just described, the replacement of a further minority board member is by the first candidate named on any other minority lists there may be, on the basis of the descending number of votes received by these. Should this not be possible or, if application of the above criterion means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities.

The replacement candidates, identified in accordance with the provisions of this article, must confirm that they accept their appointment and also make declarations that no cause for ineligibility and incompatibility exists and that they possess the requirements prescribed by law and by these Articles of Association for the office.

A member of the Supervisory Board asked to replace a previous member remains in office until the original mandate of the replaced member expires.

#### **4.2. Composition and role (pursuant to Art. 123- bis, paragraph 2, letter d) of the Consolidated Finance Act)**

The functions of the Supervisory Board are set out in Art. 46 of the Articles of Association, according to which the Board:

- a) on the basis of proposals from the Appointments Committee, appoints and removes the members of the Management Board and its Chairman and Deputy Chairman, determines their remuneration, in compliance with Art. 22, paragraph 2, letter b), after consulting with the Remuneration Committee. It also determines, after consulting with the Remuneration Committee and in compliance with Art. 22, paragraph 2, letter b), the remuneration of the members of the Management Board vested with special functions, duties or powers or assigned to committees. Without prejudice to the provisions of Art. 32, paragraph 2, of the Articles of Association, and without effect for members of the Management Board who vacate their positions, the Supervisory Board appoints the members of the Management Board in the first meeting following its own appointment by a Shareholders' Meeting;

- b) on the basis of proposals from Management Board, sets the general plans and strategic policies of the Bank and of the Group;
- c) approves the separate financial statements and the consolidated financial statements prepared by the Management Board;
- d) authorises the Management Board to exercise the authority to increase share capital or to issue convertible bonds that may have been granted by a Shareholders' Meeting pursuant to Art. 2443 and/or to Art. 2420-*ter* of the Italian Civil Code;
- e) performs supervisory functions in compliance with Art. 149, paragraphs one and three of Legislative Decree No. 58 of 24th February 1998;
- f) initiates liability actions against members of the Management Board;
- g) submits the statement to Bank of Italy pursuant to Art. 70, paragraph 7 of Legislative Decree No. 385 of 1<sup>st</sup> September 1993;
- h) reports in writing to the Shareholders' Meeting called pursuant to Art. 2364-*bis* of the Italian Civil Code on the supervisory activity performed, on omissions and irregularities observed as well as, in any other ordinary or extraordinary Shareholders' Meeting called, on matters considered to fall within its authority;
- i) informs the Bank of Italy without delay of all events or facts it may learn of in the performance of its duties, which might constitute a management irregularity or an infringement of banking regulations;
- j) expresses a binding opinion concerning the person in charge of preparing the corporate accounts pursuant to Art. 154-*bis* of Legislative Decree No. 58 dated 24th February 1998;
- k) on the basis of proposals submitted by the Management Board, decides on business and/or financial plans and budgets for the Bank and the Group prepared by the Management Board and on the strategic operations listed here below, but nevertheless without prejudice to the responsibility of the Management Board for its actions and while the aforementioned decision of the Supervisory Board shall not be necessary for the operations considered in points (iii), (iv), (v), (vi) and (vii), where these are operations for which the main elements have already been defined in business plans already approved by the Supervisory Board itself:
  - (i) transactions on the share capital, the issuance of convertible bonds and bonds cum warrants in shares of the Bank, mergers and demergers;
  - (ii) amendments to Articles of Association;
  - (iii) operations pursuant to Art. 36, paragraph two, letter b);
  - (iv) purchases by the Bank and by its subsidiaries of controlling interests in companies and transactions involving a reduction in directly or indirectly held investments in subsidiaries;
  - (v) purchases or disposals by the Bank and its subsidiaries of companies, business en bloc, business units, spin-offs, and investments or disinvestments which involve commitments where the amount for each transaction is greater than 4% of the supervisory capital eligible for the purposes of calculating the consolidated core tier one capital or affects the core tier one ratio by more than 50 basis points as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
  - (vi) purchases or disposals by the Bank and its subsidiaries of investments in companies that are not controlled, the amount of which for each transaction is greater than 1% of the supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force, or which are significant from an institutional viewpoint or that of the sector nationally;
  - (vii) stipulation of strategically important trade, co-operation and corporate agreements, with account taken of the activities and/or volumes involved and/or of the nature of the partners and in relation to programmes and objectives contained in the Business Plan approved;
- l) expresses a non-binding opinion with a vote in favour of at least 17 of its members on the candidates proposed by the Management Board to the position of Board Member and Statutory Auditor of the subsidiary undertakings listed in Art. 36, paragraph 2, letter b) of the Articles of Association (Banca Popolare Commercio e Industria Spa, Banca Popolare di Bergamo Spa, Banca Popolare di Ancona Spa, Banca Carime Spa, Centrobanca Spa, Banco di Brescia Spa and Banca Regionale Europea Spa);

- m) sets, on the basis of proposals from the Management Board, strategic guidelines and policies for the management and control of risks, constantly verifying that they are adequate and implemented by the Management Board;
- n) on the basis of proposals from the Management Board, sets policies for the management of compliance risk and makes decisions for the creation of a regulatory compliance function;
- o) formulates its considerations concerning the basic elements of the general architecture of the internal control system; assesses, with regard to those aspects that concern it, the efficiency and adequacy of the internal control system; expresses its opinion on the appointment and removal by the Management Board of the officer responsible for the internal control function and the officer responsible for the compliance function;
- p) approves and periodically verifies the organisational administrative and accounting structure of the Bank, determined by the Management Board;
- q) approves corporate regulations concerning its functioning and, in co-operation with the Management Board, approves reporting systems between corporate bodies as well as those with the internal control system;
- r) approves remuneration policies for employees or associate workers not linked to the Bank by regular employee contracts;
- s) on the basis of a proposal by the Chairman of the Supervisory Board, drafted in compliance with Art. 47, paragraph two letter h) of the Articles of Association, sets policies and takes decisions on projects for cultural and charitable initiatives and for the image of the Bank and the Group, with special reference to the enhancement of historical and artistic heritage, while it verifies that initiatives planned coincide with the objectives set;
- t) decides on mergers and demergers pursuant to articles 2505 and 2505-*bis* of the Italian Civil Code;
- u) exercises any other powers conferred by the legislation and regulations currently in force or by these Articles of Association.

The Supervisory Board also has exclusive powers, in compliance with Art. 2436 of the Italian Civil Code, for decisions concerning:

- a) the opening and closing down of secondary offices;
- b) reducing the share capital if a registered shareholder withdraws from the Bank;
- c) amendments to the Articles of Association to comply with legislation and regulations, subject to consultation with the Management Board.

The Supervisory Board and its members shall exercise the powers set forth in Art. 151-*bis* of Legislative Decree No. 58 of 24th February 1998, pursuant to the terms and conditions provided therein.

\* \* \*

The UBI Banca Scpa Shareholders' Meeting of 24<sup>th</sup> April 2010 appointed Corrado Faissola as Chairman and Giuseppe Calvi as Senior Deputy Chairman of the Supervisory Board for 2010-2011 and 2012.

The Supervisory Board then appointed Alberto Folonari and Mario Mazzoleni as Deputy Chairmen.

The Shareholders' Meeting appointed the above members of the Supervisory Board, Chairman and Senior Deputy Chairman based on two regularly presented lists as required by Art. 45 of the Articles of Association:

List filed on 6<sup>th</sup> April 2010 by the Supervisory Board. That list had the support of 691 registered shareholders representing 24,549,355 shares accounting for 3.84% of the share capital of UBI Banca Scpa and contained the following candidates:

- 1) Corrado Faissola - Chairman
- 2) Giuseppe Calvi - Senior Deputy Chairman
- 3) Battista Albertani
- 4) Enio Fontana
- 5) Giovanni Bazoli
- 6) Carlo Garavaglia
- 7) Luigi Bellini

- 8) Alfredo Gusmini
- 9) Mario Cattaneo
- 10) Italo Lucchini
- 11) Silvia Fidanza
- 12) Mario Mazzoleni
- 13) Alberto Folonari
- 14) Toti S. Musumeci
- 15) Pietro Gussalli Beretta
- 16) Sergio Orlandi
- 17) Giuseppe Lucchini
- 18) Alessandro Pedersoli
- 19) Federico Manzoni
- 20) Giorgio Perolari
- 21) Sergio Pivato
- 22) Roberto Sestini
- 23) Paolo Ferro Luzzi

- The "1000 Miglia" list filed on 8<sup>th</sup> April 2010 by Giuseppe Zannoni. Six shareholders representing 3,197,847 shares or 0.5003% of UBI Banca Scpa's share capital were in favour of this list with the following candidates:
  - 1) Giuseppe Zannoni - Chairman
  - 2) Silvana Dall'Orto - Senior Deputy Chairman

Votes:

- 1,860 votes in favour of the list presented by the Supervisory Board;
- 279 votes in favour of the 1000 Miglia list.

Less than 15% of the votes cast at the Shareholders' Meeting were in favour of the 1000 Miglia list.

*Prof. Avv. Giovanni Bazoli* and *Avv. Alessandro Pedersoli* resigned from their positions as members of the Supervisory Board with effect from 29<sup>th</sup> March 2012. These resignations are to be interpreted in terms of the provisions of Art. 36 of Decree Law No. 201 of 6<sup>th</sup> December 2011 converted into law with Law No. 214/2011 entitled "Protection of competition and personal cross shareholdings in credit and financial markets".

The Shareholders' Meeting of UBI Banca held on 28<sup>th</sup> April 2012 appointed the following persons as members of the Supervisory Board, in place of the resigning board members:

- Prof. Enrico Minelli
- Armando Santus, Public Notary

The following votes were cast at the Shareholders' Meeting:

Enrico Minelli No. 2,711

Armando Santus No. 2,725.

*Avv. Corrado Faissola*, Chairman of the Supervisory Board, passed away on 20<sup>th</sup> December 2012. In view of this, the Supervisory Board decided unanimously to postpone the re-establishment of the Supervisory Board until the Ordinary Annual General Meeting to be held by the end of April 2013, when the mandate of the Supervisory Board is due to expire. The decision was taken after a detailed assessment was made of the proper conduct of the proceedings of the Board, which are presided and co-ordinated by the Senior Deputy Chairman, who as a consequence took over the responsibilities and powers of the Chairman, and which are not compromised by the temporary reduction in the number of members. The decision was also taken in view of the short period of time available to convene a specific Shareholders Meeting.

In view of the above, the members of the Supervisory Board are currently:

Giuseppe Calvi	Senior Deputy Chairman
Alberto Folonari	Deputy Chairman
Mario Mazzoleni	Deputy Chairman

Battista Albertani	Member
Luigi Bellini	Member
Mario Cattaneo	Member
Silvia Fidanza	Member
Enio Fontana	Member
Carlo Garavaglia	Member
Alfredo Gusmini	Member
Pietro Gussalli Beretta	Member
Giuseppe Lucchini	Member
Italo Lucchini	Member
Federico Manzoni	Member
Enrico Minelli	Member
Toti S. Musumeci	Member
Sergio Orlandi	Member
Giorgio Perolari	Member
Sergio Pivato	Member
Armando Santus	Member
Roberto Sestini	Member
Giuseppe Zannoni	Member

The curricula vitae of the members of the Supervisory Board are available on the website of UBI Banca.

The current members of the Supervisory Board will conclude their mandate on the date of the 2013 Annual General Meeting, which will therefore be called upon to appoint a new Supervisory Board for the three year period 2013/2015.

\* \* \*

Special regulations govern the functioning of the Supervisory Board concerning:

- its calendar of meetings;
- its agenda for meetings and how it is convened;
- prior delivery to members of the Supervisory Board of documents relating to items on the agenda;
- minutes and records of decision-making processes;
- disclosures concerning the decisions taken;
- internal committees of the Supervisory Board.

A special section of those regulations deals with reporting systems.

The Supervisory Board must meet at least every 60 days. The location of the meetings alternates between the cities of Bergamo and Brescia and a meeting is held once a year in the city of Milan. The Supervisory Board is validly convened with the attendance of a majority of the members in office and it passes resolutions by a vote in favour of the absolute majority of the board members present. A qualified majority (vote in favour of at least 17 members) is required for amendments to the regulations of the Appointments Committee, for proposals to amend the Articles of Association, for resolutions concerning proposals pursuant to Art. 36, paragraph two, letter b) of the Articles of Association and for other matters for which the Articles of Association require a qualified majority

Notices to convene meetings shall contain a list of the items on the agenda and this is sent at least four days prior to the date set for the meeting, except in urgent circumstances, when the time limit may be reduced to one day.

In order to facilitate attendance at Board meetings the Articles of Association allow remote attendance through the use of appropriate audio/videoconference and/or teleconference connections.

During 2012 the Supervisory Board met 16 times and the average length of meetings was four hours.

We also report that the Supervisory Board has planned its meetings for 2013 up to the Annual General Meeting and arranged meetings relating to the examination of the operating and financial results for the period, with eleven meetings planned, of which four have already been held.

The Internal Control Committee has had ongoing meetings with the independent auditors, Deloitte & Touche Spa and it has reported on these to the Supervisory Board.

The Supervisory Board's report to the Shareholders' Meeting contains specific information on other mandates awarded to Deloitte & Touche and other companies in its network.

\* \* \*

Following its appointment and on an ongoing basis, in accordance with the relevant regulations in force, the Supervisory Board successfully ascertained that the requirements for integrity, professionalism and independence were met by all its members.

In this respect, considering also the particular nature of the Supervisory Board in the context of a two tier governance model, all the members of the Supervisory Board meet the independence requirements of the Corporate Governance Code.

In 2011 and 2012, the Supervisory Board of UBI Banca also carried out a self-assessment of the size, composition and functioning of the Board itself and also of its internal committees, by means of an analysis conducted in Board meetings, after asking each Board Member to fill in a special self-assessment questionnaire. The size and composition of the Board and its Committees and the professional expertise of board members were examined in relation to the size of the Group and to its related activities. More specifically the self-assessment was conducted on the following factors: the quality and completeness of skills, experience and expertise within the Board and the internal committees; sufficient number of members; the degree of effectiveness of the five internal committees; the quality of Board and internal Committee meetings; the quality and promptness of reporting and presentations to the Board; the effectiveness and efficiency of decision-making processes within the Board; the clarity, agreement and satisfaction with regard to policies, performance and risk objectives and the results achieved; a benchmarking comparison with boards of other companies and groups in which individual members may hold positions.

On conclusion of the self-assessment conducted, the Supervisory Board confirmed its findings that its size was adequate and it was of the opinion that, taken as a whole, the proceedings of Board and Committee meetings, in terms of organisation, analysis of the issues, attendance at meetings and discussion, allowed the Supervisory Board and its internal Committees to perform their functions effectively and efficiently.

At the time of the 2012 Shareholders' Meeting, for the purposes of replacing by the Shareholders' Meeting, two Supervisory Board Member swho had resigned following the entry into force of Art. 36 of Decree Law No. 201/2011, converted with amendments by Law No. 214/2011 and in compliance with Supervisory Provisions, the Supervisory Board of UBI Banca, with the co-operation of the Appointments Committee, identified the theoretical profile of the candidates to the position of member of the Supervisory Board, in the light, amongst other things, of the self-assessment process. Registered shareholders and the market were informed about the results of that analysis in a document entitled "Quantitative and qualitative composition of the Supervisory Board of UBI Banca Scpa" published on the website of the Bank on the occasion of the 2012 Shareholders' Meeting.

At the end of 2012 the Supervisory Board, working with the Appointments Committee, commenced the preparatory activities necessary for the appointment of the corporate bodies, whose terms will expire in 2013, by drawing up the document entitled "Guidelines for the appointment process of the Supervisory Board and the identification of members of the Management Board" in which the preparatory activities to be commenced in view of the appointment of the corporate bodies of UBI Banca were defined, also in compliance with the Supervisory Provisions concerning the organisation and governance of banks (cf. Instructions of the Governor of the Bank of Italy of 11<sup>th</sup> January 2012). The first stage of the process analysed the main results from a comparison of the characteristics of the corporate governance of UBI Banca with those characterising European companies included in a representative and comparable sample, which are considered European best practice for corporate governance models.

In consideration of the specialist expertise required for that survey, the Supervisory Board and the Appointments Committee were supported by the company Egon Zehnder International (hereinafter "EZI") – a leading consulting firm on corporate governance issues with its global Board Consulting practice – which had already worked with the Board and the Appointments Committee for the self-assessments conducted in 2011 and 2012, as part of which EZI had developed a model of analysis used as support in the identification of the most appropriate qualitative and quantitative profile for the Supervisory Board and the Management Board. The process will end in 2013 with the identification of the optimal qualitative and quantitative composition of the Management Board and Supervisory Board, distribution of the results of the analyses to registered shareholders, and the preparation by the Supervisory Board of the list of candidates for membership of the Supervisory Board of UBI Banca and the candidates for the positions of Chairman and Senior Deputy Chairman of the Supervisory Board to be submitted to the Shareholders' Meeting. On completion of this, and as part of the process to verify the requirements of professionalism and integrity, the newly appointed Supervisory Board will ascertain the absence of grounds for incompatibility, as well as verify that the actual composition resulting from the appointment process complies with the quantitative and qualitative composition deemed to be optimal.

### **4.3. Chairman of the Supervisory Board**

The Chairman of the Supervisory Board convenes – on his own initiative and, in the cases prescribed by law or the Articles of Association– and chairs the meetings of the Board itself, setting the agendas, taking account of the proposals formulated by the Senior Deputy Chairman and the other Deputy Chairmen and ensuring that adequate information regarding the topics contained on the agenda are provided to all the members of the Supervisory Board. The duties of the Chairman of the Supervisory Board are listed in Art. 47 of the Articles of Association.

## **5. Internal committees of the Supervisory Board (pursuant to Art. 123 bis, paragraph 2, letter d) of the Consolidated Finance Act)**

While it acknowledges the principle of collegial responsibility in performance of its duties, the Supervisory Board - in relation to its responsibilities, its composition and the characteristics of its members - decided to establish internal committees as follows:

- specific committees with proposal making, consultative and investigative functions in compliance with Bank of Italy regulations, the recommendations of the Borsa Italiana Corporate Governance Code and Supervisory Authority instructions. These committees were established to allow the Supervisory Board to work more efficiently and effectively, and they are composed - as recommended by the Corporate Governance Code - of more than three members.

- Appointments Committee	6 members
- Remuneration Committee	5 members
- Internal Control Committee	5 members
- Accounts Committee	4 members

a Related and Connected Parties Committee composed of three members, in compliance with the provisions of: (i) "Regulations for UBI Banca Scpa related-party transactions" adopted in implementation of Art. 2391-*bis* of the Italian Civil Code and Consob requirements with respect to related parties adopted with Resolution No. 17221/2010 and subsequent amendments; (ii) "Regulations for operations with parties connected to the UBI Group", adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27<sup>th</sup> December 2006 - 9<sup>th</sup> amendment of 12<sup>th</sup> December 2011, "New regulations for the prudential supervision of banks", containing measures concerning "risk assets and conflicts of interest with connected parties" (date of entry into force 31<sup>st</sup> December 2012).

The meetings of these committees are properly minuted. They may have access in the performance of their functions to the corporate functions and information required to perform their duties and they may make use of external consultants, with adequate funds provided for that purpose.

## 6. Appointments Committee

The Appointments Committee (members of which pursuant to Art. 49 of the Articles of Association include the Chairman of the Supervisory Board (\*) with the functions of Chairman and the Senior Deputy Chairman) is composed of the following members of the Supervisory Board:

- Giuseppe Calvi (Senior Deputy Chairman of the Supervisory Board))
- Alberto Folonari
- Carlo Garavaglia
- Federico Manzoni
- Mario Mazzoleni

(\*) *Avv. Corrado Faissola*, deceased on 20<sup>th</sup> December 2012

The Committee is governed by special regulations which determine its responsibilities and functioning.

In compliance with the Articles of Association, the Appointments Committee's duties include the following:

- it identifies candidates for membership of the Supervisory Board to be proposed to the Supervisory Board itself for submission to a Shareholders' Meeting;
- it identifies candidates for membership of the Management Board to be proposed to the Supervisory Board.

it performs fact finding activity for the issue of a non-binding opinion which the Supervisory Board may express in accordance with Art. 46, paragraph one, letter n) of the Articles of Association with a vote in favour of at least 17 (seventeen) of its members on the candidates proposed by the Management Board to the position of Board Member and Statutory Auditor of the subsidiaries listed in Art. 36, paragraph two, letter b) of the Articles of Association.

In 2012, the Appointments Committee performed its duties with regard to decisions concerning the composition of the Supervisory Board and Management Board, as well as the issue of a non-binding opinion by the Supervisory Board for appointments to corporate bodies of banks in the Group pursuant to Art. 36 of the Articles of Association. In particular, at the end of 2012 the Appointments Committee supported the Supervisory Board to commence the preparatory activities necessary for the appointment of the corporate bodies, whose terms will expire in 2013, by drawing up the document entitled "Guidelines for the appointment process of the Supervisory Board and the identification of members of the Management Board" in which the preparatory activities to be commenced in view of the appointment of the corporate bodies of UBI Banca were described, also in compliance with the Supervisory Provisions concerning the organisation and governance of banks (cf. Instructions of the Governor of the Bank of Italy of 11th January 2012). The first stage of the process analysed the main results from a comparison of the characteristics of the corporate governance of UBI Banca with those characterising European companies included in a representative and comparable sample, which are considered European best practice for corporate governance models. The process will end in 2013 with the identification of the optimal qualitative and quantitative composition of the Management Board and Supervisory Board, distribution of the results of the analyses to registered shareholders, and the preparation by the Supervisory Board of the list of candidates for membership of the Supervisory Board of UBI Banca and the candidates for the positions of Chairman and Senior Deputy Chairman of the Supervisory Board to be submitted to the Shareholders' Meeting. On completion of this, the Supervisory Board will appoint the new

Appointments Committee, which will have primary responsibility for submitting a proposal to the Supervisory Board for the appointment of members of the Management Board, consistent with the results of the analyses performed. The Committee will also support the new corporate bodies, as part of the process to verify the requirements of professionalism and integrity, in ascertaining the absence of grounds for incompatibility, as well as verifying that the actual composition resulting from the appointment process complies with the quantitative and qualitative composition deemed to be optimal.

In this context, the Appointments Committee has also worked with the Supervisory Board to update the regulations of the Appointments Committee, in order to implement the changes in the relevant legislative and regulatory framework, consisting mainly of the new rules on gender balance, the prohibition on interlocking directorships and the provisions issued by the Bank of Italy (Instructions of the Governor of the Bank of Italy of 11<sup>th</sup> January 2012) in “Supervisory Provisions concerning the organisation and governance of banks” of March 2008.

The Appointments Committee met seven times in 2012. The average length of meetings was greater than one hour.

Four meetings have already been held in 2013.

## 7. Remuneration Committee

Following the resignation, effective 29<sup>th</sup> March 2012, of the Board Member *Avv.* Alessandro Pedersoli (who was also Chairman of the Remuneration Committee), on 11<sup>th</sup> April 2012 the Supervisory Board appointed the Board Member *Dott.* Giorgio Perolari to the position of member of the Remuneration Committee, and the Board Member *Avv.* Giuseppe Calvi to the position of Chairman of the Remuneration Committee.

The Remuneration Committee is therefore composed of the following members of the Supervisory Board:

- Giuseppe Calvi – as Chairman
- Alberto Folonari
- Giuseppe Lucchini
- Toti S. Musumeci
- Giorgio Perolari

The Remuneration Committee is governed by special regulations which determine its responsibilities and functioning in compliance with legal, regulatory and Article of Association provisions.

The Remuneration Committee formulates the following:

- recommendations for decisions which the Supervisory Board must submit to the Shareholders’ Meeting for approval concerning the following: setting the remuneration for members of the Supervisory Board; setting policies for the remuneration of the Management Board; setting remuneration and incentive policies for the corporate bodies of Group companies and for company officers, employees and associate workers not bound to companies by employee contracts;
- opinions on decisions concerning remuneration and incentives for the purposes of verifying the compliance of these with remuneration policies set by the Supervisory Board.

The Committee performs advisory functions and makes recommendations concerning remuneration for senior management as specified by Art. 26 of the Consolidated Banking Act and the relative regulations to implement it and for the officers of the internal control functions. It also has advisory duties with regard to setting the remuneration criteria for key personnel, which in the UBI Banca Group comprises “top management” and the “highest management level of the control functions” as defined in the remuneration and incentive policies of the UBI Banca Group.

The Committee also carries out those duties assigned to it by the provisions of the Supervisory Authority with regard to the remuneration and incentive policies and practices of banks and

banking groups. The Remuneration Committee was provided with the information and gained access to corporate functions needed for the performance of its duties. The Committee is permitted to retain outside consultants to assist it in determining matters as required by the regulations.

The Remuneration Committee met seven times in 2012 (the average length of the meetings was over one hour) concentrating mainly on the following fields:

- examination of the state of compliance with new provisions and instructions issued by the Supervisory Authority;
- examination of requests relating to remuneration and the related answers to be submitted to the Supervisory Authority;
- remuneration and incentive policies for employees and associate workers not bound to companies by employee contracts: with assessment work and the submission of recommendations to the Supervisory Board for updating Group policy;
- assessment work and the submission of recommendations to the Supervisory Board to verify the consistency with Group remuneration policies of the remuneration plan recommended by the Management Board for “top management” and the “highest management level of the control functions”, on the basis of financial instruments (shares of the listed Parent, UBI Banca), decided by the Management Board and submitted for the approval of the Shareholders' Meeting;
- update of remuneration policies for the corporate bodies of subsidiaries: assessment work and the submission of recommendations to the Supervisory Board;
- assessment work and the submission of recommendations to the Supervisory Board for the approval of the Report on Remuneration to submitted for the approval of the Shareholders' Meeting;
- examination of the Control Functions' report on regulatory compliance of the Group remuneration and incentive policies;
- examination of the regulations for the incentive scheme for “top management” and the “highest management level of the control functions”: assessment work and the submission of recommendations to the Supervisory Board;
- verification of the trigger conditions and the performance objectives for the 2011 incentive scheme;
- UBI Pramerica SGR Incentive Schemes 2012: verification of compliance with the Policy;
- fact finding work and the submission of recommendations to the Supervisory Board to verify the consistency of the remuneration recommended by the Management Board for the management bodies and senior management of subsidiaries with Group remuneration policies;
- verification of the consistency of the 2012 bonus scheme with Group remuneration policies;
- measures taken in relation to personnel categorised as “top management” and the “highest management level of the control functions”: confirmations of compliance;
- verification of the performance of 2012 incentive schemes;

Two meetings have already been held in 2013.

## **8. Remuneration and Succession Planning**

**Indemnities for board members in the event of resignation, dismissal or termination of contract following a public tender offer [pursuant to Art. 123 - *bis*, paragraph 1, letter i) of the Consolidated Finance Act]**

### **Supervisory Board**

Shareholders set the remuneration of Supervisory Board members in addition to total remuneration for individuals with certain specific responsibilities, powers and functions. This amount is subsequently allocated by setting the remuneration of the Chairman, the Senior Deputy Chairman, the Deputy Chairmen and other members of the Supervisory Board with certain specific responsibilities, powers and functions pursuant to the Articles of Association

or in accordance with Supervisory Board decisions requiring, among other things, participation in committees.

### **Management Board**

In compliance with the Articles of Association, after first consulting with the Remuneration Committee, the Supervisory Board sets the remuneration of the Management Board and of its members to whom special offices, duties or powers have been assigned.

The remuneration of the members of the Management Board is not linked to the operating results achieved by the Bank.

No member of the Management Board is a participant in any incentive schemes.

As concerns the Chief Executive Officer, as the highest ranking executive officer of the Bank, a part of his remuneration is variable, determined on the basis of criteria set for all senior executives.

### **Indemnities for board members in the event of resignation, dismissal or termination of contract following a public tender offer [pursuant to Art. 123 - bis, paragraph 1, letter i) of the Consolidated Finance Act]**

The Bank is under no contractual obligation to pay sums to Management Board and Supervisory Board members in the event of dismissal without cause or termination of employment as a result of a takeover.

The Remuneration Report, as required by Art. 123 *ter* of the Consolidated Finance Act, may be consulted for details of remuneration and incentives schemes in place in the UBI Banca Group.

### **Succession planning**

In 2011 UBI Banca put a structured process in place entitled “senior leadership succession”, designed to select and assess managers within the Group for consideration by the Appointments Committee, the Supervisory Board and the Management Board as potential candidates for senior executive positions and for those of Chief Executive Officer and General Manager in particular.

The “senior leadership succession” is a periodic process to assess the managerial skills and potential of each of the managers who fill high ranking roles in the Group.

Each manager is assessed by means of individual interviews conducted by a leading specialised firm (EZI) which also took a series of 360 degree references for each manager.

Each assessment contains an analysis of the strengths, areas for improvement and comprehensive perception of each manager as well as a summary assessment of general potential and also specific potential for the selection of the best candidates for succession to the position of General Manager and/or Chief Executive Officer.

Each manager receives feedback on his/her strengths to be consolidated and areas for improvement to be developed. This feedback forms part of individual development plans designed to strengthen managerial quality at UBI Banca.

In cases of early or unexpected substitution of the General Manager and/or Chief Executive Officer, the results of the “senior leadership succession” process represent a point of reference for decisions relating to new appointments and for the assessment of potential candidates.

The results of the “senior leadership succession” process are discussed and validated by the Chairman of the Appointments Committee and the Chairman of the Supervisory Board and by the Senior Deputy Chairman of the Supervisory Board jointly with the Chairman and Deputy Chairman of the Management Board.

UBI Banca has also had a structured “management appraisal” process in place since 2009, designed to enhance the leadership development of Group managers and to enable the selection of successors in the short and medium term for the key positions and/or for managers who report directly to the Chief Executive Officer and the General Manager.

The methodology, output and procedures of the “management appraisal” process are similar to those described above for the “senior leadership succession” process and they were carried out with advisory support from a leading specialised firm (EZI).

The results of the “management appraisal” process are validated by the Chief Executive Officer and by the General Manager and they are discussed with the Chairman and Deputy Chairman

of the Management Board and with the Chairman and Senior Deputy Chairman of the Supervisory Board.

The effects arising from the Senior Leadership Succession process were applied in concrete terms when the management structure of the Group was changed in December 2011.

The succession plans are updated on a periodic basis in accordance with the procedures and methods described above.

## 9. Internal Control Committee

The Internal Control Committee is composed of the following members of the Supervisory Board, all of whom are enrolled in the Register of Auditors:

- Sergio Pivato, as the Chairman
- Luigi Bellini
- Mario Cattaneo
- Alfredo Gusmini
- Italo Lucchini

The purpose of the Committee, which is governed by special regulations which determine its duties and how its functioning, is to support the Supervisory Board by performing assessments, providing advice and submitting proposals in those areas overseen by the Board as a Supervisory Body in accordance with regulatory requirements in force at the time.

The Committee's duties also include supporting the Supervisory Board with its supervisory functions pursuant to Art. 149, paragraphs one and three, of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, having regard to the internal control system and other activities related to the functions of the Supervisory Body and the following activities in particular:

Internal control system:

- assessment of the efficiency and adequacy of the internal control system as a whole;
- assessment of the basic elements of the general architecture of the internal control system (powers, responsibilities, resources, information, and management of conflicts of interest);
- supervision of the adequacy of the system for managing and monitoring risk and of the compliance of the Internal Capital Adequacy Assessment Process (ICAAP) with the regulatory requirements;
- non-binding opinion regarding the appointment and removal of the officer responsible for the internal control function and the officer responsible for the compliance function (pursuant to Art. 46 letter Q of the Articles of Association), by submitting its own assessment of the identified candidates to the Supervisory Board;
- approval of the activities plan of the corporate control functions and examination of their reports on the activities carried out;
- verification of the proper performance of strategic control and management activities by the Parent in relation to Group member companies.

Other activities in support of the Supervisory Board oversight activities:

- assessment of the adequacy of the organisational and accounting structures of the Bank;
- communication to the Bank of Italy of events or facts which might constitute a management irregularity or an infringement of banking regulations pursuant to Art. 52 of the Consolidated Banking Act. Should the Committee become aware of circumstances that may be relevant pursuant to Art. 52 of the Consolidated Banking Act in the course of its activities, it shall inform the Supervisory Board of this immediately;
- reporting of management irregularities and violations of the regulations governing the provision of investment services;
- assessment of proposals from external auditing companies applying for appointment;
- opinion regarding the appointment and removal of the person in charge of preparing the financial reporting documents pursuant to Art. 154-*bis* of Legislative Decree No. 58 dated 24<sup>th</sup> February 1998, (and pursuant to Art. 46 letter Q of the Articles of Association), by

- submitting its own assessment of the identified candidates to the Supervisory Board;
- preparation of the report on supervisory activity performed, on omissions and on irregularities observed on the occasion of the Shareholders' Meeting called pursuant to Art. 2364-*bis* of the Italian Civil Code as well as for any other ordinary or extraordinary Shareholders' Meeting called.

The Committee performs its internal control and audit functions in accordance with Art. 19 of Legislative Decree No. 39 of 27<sup>th</sup> January 2010, specifically including the following:

- financial reporting processes;
- effectiveness of the system of internal control, internal audit and risk management;
- the external statutory audit of separate and consolidated accounts;
- the independence of the auditor, particularly with respect to the provision of non-audit services, assessing its professionalism and experience in order to ascertain its adequacy in relation to the size and operational complexity of the Bank.

The Committee normally performs its duties using the information provided to the Supervisory Board in compliance with the relevant regulations and any additional information provided by the Chief Audit Executive, the Chief Risk Officer, the Compliance Officer, the Money Laundering and Financing of Terrorism Risks Officer, the Senior Officer Responsible for the preparation of corporate accounting documents and the external statutory auditor, as well as the results of the activities performed by the Supervisory Body pursuant to Legislative Decree No. 231/2001. In particular, for matters relating to accounting issues the Committee makes use of the investigations carried out by the Accounts Committee, and the presence of a member of the Accounts Committee in the Internal Control Committee, together with the joint presence of all the members of both committees in the Supervisory Board ensure that they are co-ordinated adequately. There are also appropriate forms of liaison between the Internal Control Committee and the entity responsible for auditing the accounts.

The Committee, by making use of the services of the appropriate organisational units of the Bank, can proceed to inspections and controls at any time and exchange information with the control bodies of the companies of the Group with regard to the management and control systems and to corporate activity. In accordance with Art. 43 of the Articles of Association, the Committee requests intervention by the Internal Audit Function in response to extraordinary requests for inspections and/or investigations made by the Chief Executive Officer. In order to carry out its activities, the Committee may identify and use external consultants, at the Bank's expense.

The Committee works in close liaison with the corresponding bodies of the subsidiaries. At least one member of the Internal Control Committee attends meetings of the Management Board on a rotating basis in compliance with regulations in force.

The Internal Control Committee met 25 times in 2012 (the average length of each meeting was approximately three hours) and all the meetings were properly minuted.

Each member was present at the following number of meetings: Prof. S. Pivato, 25 meetings; *Avv.* L. Bellini, 22 meetings; Prof. M. Cattaneo, 24 meetings; *Dott.* A. Gusmini, 24 meetings; *Dott.* I. Lucchini, 21 meetings. In relation to the matters discussed under specific items on the agenda, and at the request of the Chairman of the Committee, representatives of UBI Banca and other Group companies, as well as outside professionals attending as consultants and representatives of the independent auditors have attended meetings as needed. The Chief Risk Officer, the Chief Audit Executive and the Officer Responsible for the Parent and Process Area also attended the meetings of the Committee on a regular basis.

The Committee submits special semi-annual reports on the activities performed to the Supervisory Board. The Chairman of the Committee also notifies the Supervisory Board from time to time of areas that have been observed requiring improvement or attention, requesting the adoption of appropriate measures to strengthen internal controls and assessing their effectiveness over time, as well as reporting on activities performed in relation to specific matters that the Supervisory Board has asked the Committee to examine in greater detail, providing relevant information to support the work of the Supervisory Board.

In 2012 the Internal Control Committee concentrated mainly on the following activities:

- on the most important issues concerning the internal control system of the Bank and the legislative framework, as follows:
  - the main legislative and regulatory changes in areas relevant to the general architecture of the internal control system of the Group internal control system, including those introduced by the Stability Law of 12<sup>th</sup> November 2011 concerning supervisory bodies pursuant to Legislative Decree No. 231/2001, the new Corporate Governance Code issued by the Corporate Governance Committee of Borsa Italiana Spa in December 2011, the instructions issued by the Bank of Italy on 11<sup>th</sup> January 2012, concerning the application of the supervisory measures concerning the organisation and corporate governance of banks as well as the consultation document on “New regulations for the prudential supervision of banks. System of internal controls, information systems and operational continuity”, published by the Bank of Italy in September;
  - the process by which the UBI Banca Code of Conduct was issued and the progressive implementation of the document by the subsidiaries of the Group;
  - the reorganisation plan concerning “Actions for the optimisation and functioning of the Group”, focusing in particular on aspects relating to risk control, organisational simplification measures and the proposed revision of the governance systems of Group member companies, as well as the new organisational structure of the Parent, with particular reference to the extraordinary operations in which the Bank has been involved during the period;
  - matters relating to the system of powers, the definition and attribution of responsibilities and the management of resources, such as amending signatory powers as a consequence of changes to the organisation structure of UBI Banca, the remuneration and incentive schemes, and changes in staff costs;
  - the provision of information, with particular regard to the tool called “Integrated reporting on risks and mitigation action”, the issue of a specific regulation at Group level intended to define reporting systems to and from the Board Member acting as Audit Contact and the reporting systems between the Boards of Statutory Auditors and the related corporate control functions;
  - the management of conflicts of interest and more specifically the procedures used by the Bank to address the issue of interlocking directorships, introduced by Art. 36 of Law No. 214/2011, as well as the process for updating and approving the policy relating to limits on the accumulation of positions;
  - the activities of the Supervisory Bodies of the Group member companies, including specific meetings, with a particular focus on the areas affected by the Basel II regulations;
  - assessment of the adequacy of the organisational and accounting structures of the Bank, with a particular focus on monitoring relevant current project initiatives;
  - in relation to anti-money laundering, with a particular focus on updating the “Group organisational regulations against money laundering and finance for terrorism”, consistent with the actions taken by the units of the Bank for the purpose of defining a new organisational Model for the Group, monitoring the responses of the Bank to specific requests for clarifications and information made in this regard by the Bank of Italy as well as examining proposals for changing the frequency of customer monitoring;
  - changes in the Internal Audit, in terms of the structure, staff numbers and operational tools of the function - particularly the aspects relating to the setting up of a system for the automatic assignment of ratings to Italian branches, in support of the remote monitoring activities performed by the Internal Audit Function - as well as the Internal Audit’s interactions with other organisational units;
  - assessment of the adequacy of the internal control system as a whole;
  - the work of the UBI Banca Supervisory Body pursuant to Legislative Decree No. 231/01;
  - the elements characterising the complaints management process;
- supervision of the adequacy of the system for managing and monitoring risk and of the compliance of the Internal Capital Adequacy Assessment Process (ICAAP) with the regulatory requirements, in particular monitoring the activities carried out to obtain

authorisation for the use of advanced methods and preparations for their extension to Group member companies;

- on the evaluation of the activities plan of the corporate control functions and of their regular reports on the activities carried out (Internal Audit, Corporate Anti-Money laundering Officer, Compliance and Supervisory Body);
- on policy setting and co-ordination activities performed by the Parent, where particular attention was paid to events involving subsidiaries with reference to existing processes in relations between them and the Bank, in order to examine the proper performance of strategic control and management activities by the Parent;
- on the provision of investment services, with regard to provisions introduced by the MiFID Directive and the management of the securities portfolio;
- on areas relating to covered bonds, including the analysis of the results of internal audits carried out by the Internal Audit Function on the 2012 Programme, the securitisations, and transactions with related parties - relevant intragroup and atypical transactions;
- on aspects affected by legislation concerning external statutory audits of annual separate and consolidated financial statements, including specific meetings with the “Senior Officer Responsible for the Preparation of Corporate Accounting documents” and with members of independent auditors;
- on periodic reporting and specific reporting on the results of analyses conducted by the Internal Audit Function;
- on relations with Supervisory Authorities, with specific regard to requests for self-analysis concerning specific operations and inspections carried out at the Bank and its subsidiaries, including the inspection made in UBI Leasing;
- on an examination of the underlying causes of the main damaging events in the Group.

As concerns our activities in 2013 we report that the Internal Control Committee has set the dates of its meetings up to the date of the Shareholders’ Meeting, more specifically planning to hold eight meetings, six of which have already been held at 12<sup>th</sup> March 2013.

## 10. Accounts Committee

The Accounts Committee is composed of the following members of the Supervisory Board:

- Carlo Garavaglia, as Chairman
- Mario Cattaneo
- Silvia Fidanza (from 11<sup>th</sup> April 2012)
- Federico Manzoni (until 10<sup>th</sup> April 2012)
- Sergio Orlandi

The purpose of the Committee is to support the Supervisory Board by performing assessments, providing advice and submitting proposals, in accordance with regulatory requirements, as may be in force from time to time, regarding the approval of financial statements and periodic reports. It expresses opinions designed to allow the Board itself to make decisions in a knowledgeable and informed manner.

The Committee is, in that particular respect, required to provide the Supervisory Board with a factual and analytical understanding of such statements and reports. This is done through fact finding activities performed on the accounts prior to the preparation of annual separate and consolidated financial statements or half year and quarterly reports. The Committee then oversees the preparation of accounting documentation through the examination of figures and other relevant information as and when they become available. In order to do this the Committee:

- discusses accounting issues common to all Group member companies;
- examines accounting issues relating to individual Group member companies;

- acquires detailed knowledge of issues concerning the measurement of items in the accounts;
- acquires detailed knowledge of issues concerning the presentation of accounts;
- studies issues concerning supervisory regulations for banks, acquiring knowledge of technical and discretionary aspects.

The Supervisory Board may also ask the Committee to study specific issues within the scope of its responsibilities.

The Committee normally performs its duties using the information provided to the Supervisory Board in compliance with the relevant regulations and any additional information provided by the Senior Officer Responsible for the preparation of corporate accounting documents.

The Accounts Committee met ten times in 2012. The average length of each meeting was approximately two and a half hours.

The Accounts Committee focused on an examination of matters concerning the separate and consolidated financial statements of the Parent, the half year financial report and the quarterly reports at the end of March and September. In this context, the Committee acquired detailed information, overseeing the preparation of the aforementioned documents on the basis of information provided by the Officer Responsible for the Preparation of Corporate Accounting Documents, with a focus mainly on technical aspects of the accounts for which it was considered that the involvement of the Committee itself was appropriate. Particular attention was paid to the following:

- the process and method used for impairment loss on intangible assets, in particular on goodwill and investments;
- the state of the Group's tax litigation and the examination of the legal opinions provided on the most significant cases;
- all the existing financial instruments, the composition and evaluation of the portfolio of securities owned, including financial derivative instruments;
- economic impacts and the accounting methods consequent to the framework trade union agreement of November 2012 in the context of the Group "Optimisation Plan", as well as the main effects in the accounts of the other cost containment measures implemented during the year;
- the "Business Process Re-engineering Project", the updating of the Group regulations on monitoring the chart of accounts, inventory stocktaking and changes in suspense accounts for the main product companies;
- the ALM strategy and consequent impacts concerning the partial cancellation of hedges in hedge accounting;
- the accounting treatment of deferred taxation and the regulatory developments in this regard, with particular reference to examination of the recoverability of deferred tax assets;
- the loan loss rate, the situation for deteriorated loans and receivables and the trends of the related coverage rates, with a particular focus on significant positions and on impairment losses on loans, calculated either individually or collectively;
- the accounting effects of company integration and IT migration processes and the relative consequences in the financial statements, characterising in particular the Group member companies that are subject to a performance review of the consumer credit business;
- the accounting effects of the introduction of new regulations and tax legislation;
- verification of the contingent assets as defined by IAS 37, also on the basis of updates to regulations and supervision;
- updates to the Group Accounting and Reporting Manual and the newsletters issued on the main changes relating to accounting;
- the state of progress on activities relating to the "Basel II" project.

Three meetings have been held in 2013.

## 11. Related and Connected Parties Committee

The Related and Connected Parties Committee is required to perform the tasks allocated to it: (i) "Regulations for UBI Banca Scpa related-party transactions" adopted in implementation of Art. 2391-*bis* of the Italian Civil Code and Consob requirements with respect to related parties adopted with Resolution No. 17221/2010 and subsequent amendments; (ii) "Regulations for operations with parties connected to the UBI Group", adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27<sup>th</sup> December 2006 - 9<sup>th</sup> amendment of 12<sup>th</sup> December 2011, "New regulations for the prudential supervision of banks", containing measures concerning "risk assets and conflicts of interest with connected parties". The way in which the Committee functions are governed by the regulations mentioned above, is available on the website ([www.ubibanca.it](http://www.ubibanca.it)).

More specifically the Committee is required to formulate a justified opinion on the existence of an advantage for UBI Banca in performing transactions with related and connected parties and on the advantages and substantive fairness of the relative conditions.

That Committee is composed of the following Supervisory Board members:

- Federico Manzoni, as Chairman
- Silvia Fidanza
- Sergio Orlandi.

The Committee met seven times in 2012 (the average length of the meetings was over one hour) concentrating mainly on the following fields:

- opinions on the existence of an advantage for UBI Banca in the designations made by the members of the Management Board for positions on the boards of directors of subsidiaries and subsequent payment of the relative directors' fees;
- opinions on the existence of an advantage for UBI Banca in entering into contracts with related parties, and on the advantages and fairness of the relative conditions;
- opinions and assessments in relation to the new supervisory regulations concerning risk activities with connected parties;
- acknowledgement of the periodic receipt of the list of all the related-party transactions performed, including those not subject to a prior opinion from the Related and Connected Parties Committee.

One meeting has already been held in 2013.

## 12. Management Board

### 12.1. Appointment and replacement (pursuant to Art. 123 *bis*, paragraph 1, letter l) of the Consolidated Finance Act)

The Management Board is composed of between a minimum of seven and a maximum of eleven members including a Chairman, a Deputy Chairman and a Chief Executive Officer.

The members of the Management Board are appointed from among registered shareholders with voting rights by the Supervisory Board, on the basis of a proposal by the Appointments Committee, after their number has first been set, according to a criterion which, in compliance with Law No. 120 of 12<sup>th</sup> July 2011, ensures a balance between genders for the period provided for by that law.

The members of the Management Board shall remain in office for three financial years. Their term of office shall expire on the date of the Supervisory Board meeting convened to approve the financial statements relating to their last year in office. They remain in office in any event until a new Management Board is appointed in accordance with Art. 46, letter a) of the Articles of Association and they may be re-appointed.

The members of the Supervisory Board cannot be appointed as members of the Management Board as long as they continue to hold that office.

If the positions of one or more members of the Management Board become vacant, the Supervisory Board replaces them without delay, again on the basis of a proposal submitted by the Appointments Committee in compliance with the proportions established by Law No. 120 of 12<sup>th</sup> July 2011 for the purposes of ensuring balance between genders. The term of office of members appointed in this manner shall expire at the same time as that of those in office when they were appointed.

If for any reason the positions of the majority of the members originally appointed by the Supervisory Board become vacant, then the entire Management Board shall be considered as removed from office from the date of the appointment of new members. The latter shall remain in office for the remaining term of office that the original Board would have served.

At least one member of the Management Board must possess the requisites of independence set forth in Art. 148, paragraph 3 of Legislative Decree No. 58 of 24<sup>th</sup> February 1998.

Furthermore, at least the majority of the members must have a total of at least three years experience in management and/or professional activities in financial and/or banking and/or insurance companies in Italy or abroad.

In compliance with instructions issued by the Bank of Italy on the organisation and corporate governance of banks, the Management Board consists mainly of executive members, consistent with the function of strategic supervision assigned to the Supervisory Board (see the details provided in summary table No. 3).

The members of the Management Board are in fact actively involved in the management of the Bank in compliance with policies approved by the Supervisory Board and submitted to it by the Management Board itself, which as specifically required by the Articles of Association performs its main activities exclusively on a collegial basis with no powers to delegate authority.

In addition to the Chief Executive Officer, the Articles of Association (Art. 39) also assign powers and functions to the Chairman and the Deputy Chairman which underline their involvement in the management of the Bank.

The management commitments and responsibilities of the executive board members apply not only to the sphere of the Management Board, but also at Group level by appointments to positions in the governing bodies of the main subsidiaries of UBI Banca, which actively helps to ensure that the various member companies of the Group comply with instructions issued by the Parent in the exercise of its management and co-ordination activities.

## **12.2. Composition (pursuant to Art. 123 bis, paragraph 2, letter d) of the Consolidated Finance Act)**

The Management Board was appointed on 27<sup>th</sup> April 2010 by the Supervisory Board, which established the number of members as ten, unanimously appointed the members and also appointed Emilio Zanetti as the Chairman and Flavio Pizzini as the Deputy Chairman, designating Victor Massiah as Chief Executive Officer, who was then appointed by the Management Board on 28<sup>th</sup> April 2010.

The Supervisory Board approved a resolution at its meeting on 30<sup>th</sup> June 2010 to increase the number of members of the Management Board from 10 to 11 and appointed Gian Luigi Gola as the eleventh member.

Giuseppe Camadini, a member of the Management Board, passed away on 25<sup>th</sup> July 2012. In this respect, the Supervisory Board, on the basis of a proposal from the Appointments Committee, decided unanimously to postpone the replacement of public notary *Dott.* Giuseppe Camadini, referring the decision to the new Supervisory Board to be appointed on the occasion of the 2013 Shareholders' Meeting, as long as this was not prejudicial to the proper functioning of the Supervisory Board. In relation to the above, the Supervisory Board finds that, partly by means of the attendance of meetings of the Management Board by members of the Internal Control Committee on a rotating basis, management activity is proceeding as usual, without malfunctions, and intends to intervene immediately if shortcomings or

deadlocks requiring the intervention of the Supervisory Board occur in relation to the replacement of *Dott. Camadini*.

In view of the above, the Management Board is currently composed of the following members:

Emilio Zanetti	Chairman
Flavio Pizzini	Deputy Chairman
Victor Massiah	Chief Executive Officer
Giampiero Auletta Armenise	Member
Mario Cera	Member
Giorgio Frigeri	Member
Gian Luigi Gola	Member
Guido Lupini	Member
Andrea Moltrasio	Member
Franco Polotti	Member

The curricula vitae of the members of the Management Board are available on the website of UBI Banca, while attachment A) lists the positions held by all the board members in companies listed in regulated markets, including foreign markets, and in financial, banking, insurance or large companies.

The members of the Management Board remain in office for three years, expiring on the date of the Supervisory Board meeting convened to approve the financial statements for 2012. They remain in office in any event until a new Management Board is appointed in accordance with Art. 46, letter a) of the Articles of Association and they may be re-appointed.

It has been verified that the members of the Management Board are in possession of the current legal requirements to hold their positions.

As a general rule and with the exception of resolutions that must be passed by a qualified majority, the attendance of more than half the members in office is required for meetings of the Management Board to be valid.

The provisions of the "Internal regulations on the limits to the accumulation of positions by company personnel" adopted by the Parent in June 2009, subsequently modified by decisions taken by the Supervisory Board on 18<sup>th</sup> July 2012, and implemented by the banks in the Group, apply to the Management Board.

These regulations apply to members of the Management Board and the Supervisory Board of the Parent, to the board members and statutory auditors of the banks in the Group, without prejudice to compliance with mandatory legislation and regulations and the provisions of the Supervisory Authority, including regulations concerning the limits on the accumulation of positions by members of the supervisory bodies of listed issuers and companies with publicly distributed financial instruments, which the Group's regulations extend to cover all the statutory auditors of all the banks in the Group.

Those regulations state that not only are board members not permitted to accept more than five appointments in issuer companies that are not Group members, but also they may not accept other appointments as board members in companies in the Group and external to it, above a maximum limit of a total of six points, resulting from the application of a system of calculation that assigns weights to different types of position dependent on the class of company.

With regard to groups of companies, for persons belonging to subsidiaries who also perform the same function in the Parent, the regulations allow a reduction by fifty percent of the weighting for the position occupied in the subsidiary company, in consideration of the synergies resulting from a knowledge of the facts and conditions that concern the entire Group

to which they belong and which therefore reduce, other conditions remaining the same, the commitment involved compared to that required for activities performed in other similar, but independent companies. Similarly, the regulations allow a reduction of thirty percent in the weighting for positions occupied by members of the Management Board of UBI Banca in companies in which the UBI Group holds a strategic investment, or in associates. There are also specific rules for the directors and statutory auditors designated by authorities and partners of the Group by virtue of shareholders' agreements and those who hold posts in the Parent company and subsidiaries of a group other than the UBI Group, for which positions held in the subsidiaries of the said outside group are exempt.

At the date of this report, an analysis of the accumulation of positions held by members of the Management Board of UBI Banca found a general situation compliant with the contents of the regulations.

Following its appointment and on an ongoing basis, in accordance with the relevant regulations in force, the Management Board successfully ascertained that the requirements for integrity, professionalism and independence were met by all its members.

As in 2011, the Management Board carried out a self-assessment process relating to its size, composition and functioning again in 2012, with the assistance of an external firm, EZI; the self-assessment of the Management Board was specifically addressed in the Board meeting of 13<sup>th</sup> March 2012. The Management Board's self-assessment was conducted with particular reference to the following factors: *(i)* the quality and completeness of skills, experience and expertise within the Board; *(ii)* sufficient number of board members; *(iii)* the quality of Board meetings; *(iv)* the quality and promptness of reporting and presentations to the Board; *(v)* the effectiveness and efficiency of decision-making processes within the Board; *(vi)* the clarity, agreement and satisfaction with regard to policies, performance and risk objectives and the results achieved. On completion of the self-assessment process, the Board was unanimous in its findings that its size and procedures were satisfactory and was, furthermore, of the opinion that, taken as a whole, the organisation, knowledge of issues, and attendance of board members at meetings and deliberations were sufficient to assure the effective and efficient management of the Bank and the Group.

At the end of 2012 the Supervisory Board, working with the Appointments Committee, commenced the preparatory activities necessary for the appointment of the corporate bodies, whose terms will expire in 2013, by drawing up the document entitled "Guidelines for the appointment process of the Supervisory Board and the identification of members of the Management Board" in which the preparatory activities to be commenced in view of the appointment of the corporate bodies of UBI Banca were defined, also in compliance with the Supervisory Provisions concerning the organisation and governance of banks (cf. Instructions of the Governor of the Bank of Italy of 11<sup>th</sup> January 2012). The first stage of the process analysed the main results from a comparison of the characteristics of the corporate governance of UBI Banca with those characterising European companies included in a representative and comparable sample, which are considered European best practice for corporate governance models.

In consideration of the specialist expertise required for that survey, the Supervisory Board and the Appointments Committee were supported by EZI – a leading consulting firm on corporate governance issues with its global Board Consulting practice – which had already worked with the Board and the Appointments Committee for the self-assessments conducted in 2011 and 2012, as part of which EZI had developed a model of analysis used as support in the identification of the most appropriate qualitative and quantitative profile for the Supervisory Board and the Management Board. The process will end in 2013 with the identification of the optimal qualitative and quantitative composition of the Management Board and Supervisory Board and the distribution of the results of the analyses to registered shareholders. On completion of this, the newly appointed Management Board shall ascertain, as part of the process to verify the requirements of professionalism and integrity, the absence of grounds for incompatibility, as well as verifying that the actual composition resulting from the appointment process complies with the quantitative and qualitative composition deemed to be optimal.

### **12.3. Role of the Management Board (pursuant to Art. 123 bis, paragraph 2, letter d) of the Consolidated Finance Act)**

The Management Board meets at least once a month and also at any time the Chairman considers it appropriate or when a request is made by five members. Meetings are held alternating between the city of Bergamo and the city of Brescia and once a year in the city of Milan.

The Management Board met 27 times in 2012 and the average length of meetings was approximately five hours.

In order to facilitate attendance at Board meetings, Art. 34 of the Articles of Association allows remote attendance through the use of appropriate audio/videoconference and/or teleconference connections.

Resolutions of the Management Board are passed by open vote, with the vote in favour of the majority of the members present.

In compliance with Borsa Italiana regulations, in January UBI Banca announced its calendar of corporate events for 2013 to the market (and published it on its website), with the dates of Board meetings for the approval of operating and financial results.

In this regard we report that the Management Board has planned its meetings up to April 2013 and the following meetings for the approval of the operating and financial results for the period on 31<sup>st</sup> March 2013, 30<sup>th</sup> June 2013 and 30<sup>th</sup> September 2013, with twelve meetings planned, of which six have already been held.

At least one member of the Internal Control Committee attends meetings of the Management Board on a rotating basis in compliance with regulations in force.

The Chairman, after consulting with the Chief Executive Officer or on his request, may invite senior managers of the Group and/or external consultants to meetings to report on specific matters, or officers of Group member companies to report on matters in subsidiaries.

The functions of the Management Board are given in Art. 37 of the Articles of Association, according to which the Management Board is responsible for managing the Bank in compliance with the general guidelines and strategic policies approved by the Supervisory Board, with account taken of the proposals made by the Management Board itself. To achieve this, it performs all the operations necessary, useful or in any case advisable to implement the company objects, whether of an ordinary or extraordinary nature.

In addition to those matters that cannot be delegated by law and to those pursuant to the last paragraph of Art. 36, the Management Board has exclusive responsibility for the following:

- a) setting the strategic policies and plans of the Bank and the Group, on the basis of proposals from the Chief Executive Officer, to be submitted to Supervisory Board for approval;
- b) granting and revoking the powers of the Chief Executive Officer. The selection of the member of the Management Board to whom powers are granted must be performed on the basis of a non-binding proposal from the Supervisory Board, decided in turn, subject to a proposal by the Appointments Committee. If this proposal has not been made by the Appointments Committee with the quorum required by the relative regulations, the proposal submitted by the Supervisory Board to the Management Board shall be decided with the vote in favour of at least 17 members of the Supervisory Board. Revocation of the powers is decided by the Management Board with the vote in favour of at least eight members of the Management Board (or of all the members minus one, if the Management Board consists of seven or eight members), after consultation with the Supervisory Board;
- c) formulating, on the basis of proposals from the Chief Executive Officer, of the business and/or financial plans and the budgets of the Bank and the Group to be submitted to the Supervisory Board for approval pursuant to Art. 2409-*terdecies* of the Italian Civil Code;
- d) managing of risk and internal controls, with exception made for the responsibilities and powers of the Supervisory Board pursuant to Art. 46 of the Articles of Association;
- e) conferring, modifying or revoking authorisations and powers and assigning specific functions or authorisations to one or more board members;

- f) appointing and removing the General Manager and other members of General Management, defining their functions and responsibilities and also the appointment of the senior management of the Group;
- g) designating members of the Board of Directors and of the Board of Statutory Auditors of the companies belonging to the Group, without prejudice to the provisions of the preceding Art. 36, paragraph two, letter e) of the Articles of Association;
- h) formulating proposals concerning the acquisition or disposal of controlling investments in companies and the acquisition or disposal of non-controlling investments where the amount is greater than 0.01% of the supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
- i) opening and closing down of branches and representative offices;
- j) determining the organisational, administrative and accounting structure of the Bank, to be submitted to the Supervisory Board for approval, and, without prejudice to the exclusive powers of the Supervisory Board pursuant to Art. 49 of the Articles of Association, setting up committees or commissions with advisory, investigative, controlling or coordinating functions, without prejudice to Art. 42, paragraph two of the Articles of Association;
- k) approving and amending of the regulations of the Bank and the Group, with exception made for the responsibilities and powers of the Supervisory Board pursuant to Art. 46, paragraph I, letter s) of the Articles of Association;
- l) determining the criteria for the co-ordination and management of Group member companies and also the criteria for implementing instructions issued by the Bank of Italy;
- m) subject to the mandatory opinion of the Supervisory Board, appointing and removing the Senior Officer Responsible for the corporate accounting documents, pursuant to Art. 154-*bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, and determining the relative remuneration;
- n) appointing and removing, subject to the opinion of the Supervisory Board, the Senior Officer Responsible for the internal control function, the Senior Officer Responsible for the compliance function and those officers responsible for functions whose appointment is the sole responsibility by law and regulations in force of the Management Board;
- o) preparing separate financial statements and consolidated financial statements for approval;
- p) the exercising powers to increase the share capital granted pursuant to Art. 2443 of the Italian Civil Code and also issuing convertible bonds pursuant to Art. 2420-*ter* of the Italian Civil Code, subject to authorisation by the Supervisory Board;
- q) implementing the obligations of the Management Board pursuant to articles 2446 and 2447 of the Italian Civil Code;
- r) formulating merger or demerger plans;
- s) formulating proposals for transactions pursuant to Art. 46, paragraph I, letter m) of the Articles of Association to submit to the Supervisory Board for approval;
- t) defining criteria to identify related-party transactions for which responsibility will lie with the Board itself.

Special regulations govern the functioning of the Management Board concerning:

- the general organisation of the work of the Management Board;
- the preparation of agendas for meetings;
- procedures, timing and contents of documentation to be sent to members of the Management Board before Board meetings, in order to allow members to act in an informed manner;
- performance of meetings;
- minutes and records of decision-making processes;
- reporting on the decisions taken.

A special section of those regulations deals with reporting systems.

In compliance with the Articles of Association, after first consulting with the Remuneration Committee, the Supervisory Board sets the remuneration of the Management Board and of its members to whom special offices, duties or powers have been assigned.

The relative amounts are reported in detail in the Remuneration Report prepared in accordance with Art. 123 *ter* of the Consolidated Finance Act, which may be consulted.

## 12.4. Executive officers

### *Chief Executive Officer*

The Management Board, in compliance with the Articles of Association, has conferred the following powers on the Chief Executive Officer:

- to supervise the management of the Bank and of the Group;
- to supervise the strategic co-ordination and the operational control of the Bank and the Group;
- to supervise the implementation of the organisational, administrative and accounting structure decided by the Management Board and approved by the Supervisory Board;
- to determine working directives for the General Management;
- to oversee the integration of the Group;
- to submit proposals to the Management Board for the formulation of the general programmes and strategic policies of the Bank and the Group and to draw up the business and/or financial plans and budgets of the Bank and the Group to be submitted for the approval of the Supervisory Board and to supervise implementation through the general management;
- to propose budgetary policy and policies on the optimisation of the use and enhancement of human resources and to submit financial statements and periodic financial reports to the Management Board for approval;
- to propose appointments to the senior operational and executive management of the Group to the Management Board, in agreement with the Chairman and Deputy Chairman of the Management Board and after consultation with the General Manager;
- to promote integrated risk management;
- to make extraordinary requests for inspections and investigations to the internal control function through the Internal Control Committee.

In accordance with the Articles of Association, the Chief Executive Officer reports quarterly to the Management Board on foreseeable developments and on the most important transactions performed by the Bank and its subsidiaries. The Chief Executive Officer reports monthly to the Management Board on the results of the Bank and the main subsidiaries of the Group as a whole.

Furthermore, on 28<sup>th</sup> April 2010, the Management Board assigned duties to the Chief Executive Officer pursuant to Art. 43 *bis* of the Articles of Association with the support of the General Manager in connection with the overall design of internal control systems.

## 12.5. Chairman of the Management Board

The duties of the Chairman of the Management Board are listed in Art. 39 of the Articles of Association. More specifically the Chairman of the Management Board, who acts as the Bank's legally authorised representative and authorised signatory, performs the tasks that are typically carried out by the Chairman of a company's management body, which he performs by liaising with the other Article of Association regulated bodies where appropriate.

## 12.6. Other Executive Board Members

In compliance with instructions issued by the Bank of Italy on the organisation and corporate governance of banks, the Management Board consists mainly of executive members, consistent with the function of strategic supervision assigned to the Supervisory Board (see the details provided in summary table No. 3).

The members of the Management Board are in fact actively involved in the management of the Bank in compliance with policies approved by the Supervisory Board and submitted to it by the Management Board itself, which as specifically required by the Articles of Association performs its main activities exclusively on a collegial basis with no powers to delegate authority.

In addition to the Chief Executive Officer, the Articles of Association (Art. 39) also assign powers and functions to the Chairman and the Deputy Chairman which underline their

involvement in the management of the Bank.

The management commitments and responsibilities of the executive board members apply not only to the sphere of the Management Board, but also at Group level by appointments to positions in the governing bodies of the main subsidiaries of UBI Banca, which actively helps to ensure that the various member companies of the Group comply with instructions issued by the Parent in the exercise of its management and co-ordination activities.

## 12.7 Independent Board Members

In accordance with the Articles of Association, at least one member of the Management Board must possess the requirements of independence pursuant to Art. 148, paragraph 3 of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, in compliance with Art. 147 *quater* of the Consolidated Finance Act.

*Dott.* Gian Luigi Gola was identified as the independent member of the Management Board, pursuant to the legislation just mentioned.

The members of the Management Board are not required to meet the requisites of independence in the Corporate Governance Code, due, amongst other things, to the decision made by UBI Banca to form internal committees within the Supervisory Board as provided for by that Code for which those requisites are necessary.

## 13. The Board of Arbitrators

Appeal may be made to the Board of Arbitrators to settle any disputes that may arise between the Bank and/or registered shareholders over the interpretation or application of the Articles of Association and over any other resolutions or decisions taken by the governing bodies of the Bank concerning its business. It decides as a friendly arbiter by absolute majority vote. Without prejudice to the legislation and regulations currently in force, application to the Board of Arbitrators is not compulsory. Its decisions are not binding on the parties and do not constitute a hindrance to taking disputes before the courts or any other authority with jurisdiction for settlement. The Board of Arbitrators regulates its own proceedings as it deems appropriate without being bound by procedural formalities. The Management Board and the General Manager or an employee designated by him shall be required to provide the arbitrators with all the information that they may request concerning disputes to be settled.

The Board of Arbitrators consists of a Chairman, two full members and two alternate members, elected by a Shareholders' Meeting from amongst the registered shareholders of the Bank or others.

The Board of Arbitrators, appointed by the Shareholders' Meeting of 28<sup>th</sup> April 2012 for the three year period 2012/2014, is composed as follows:

<i>Avv.</i> Giampiero Donati	Chairman
<i>Avv.</i> Mario Caffi	Full arbitrator
<i>Avv.</i> Giuseppe Onofri	Full arbitrator
<i>Avv.</i> Attilio Rota	Alternate
<i>Avv.</i> Pierluigi Tirale	Alternate

The arbitrators provide their services free of charge, except for the reimbursement of expenses.

Grounds must be given for their removal.

If a full arbitrator vacates his position during his three year period of office, he is replaced by the most senior alternate member by age. If the Chairman of the arbitrators vacates his position, the chairmanship is taken by the most senior full arbitrator by age for the remainder of the three year period.

## 14. General Management

The Management Board, in compliance with the Articles of Association, has appointed *Dott.* Francesco Iorio to the position of General Manager with the following functions and responsibilities:

- chief operating officer;
- chief of personnel;
- ensuring, as a rule (unless otherwise specified by the competent management bodies), that the resolutions of the Management Board and of the Chief Executive Officer are implemented;
- managing day-to-day business in compliance with the policies set by management bodies;
- attending, with an advisory vote, the meetings of the Management Board;
- supervising the strategic co-ordination of the Bank and the Group.

The Management Board appointed *Dott.* Elvio Sonnino as Senior Deputy General Manager and four Deputy General Managers who have been assigned various responsibilities in the Group:

- Rossella Leidi
- Giovanni Lupinacci
- Ettore Giuseppe Medda
- Pierangelo Rigamonti.

## 15. Internal Control and Risk Management System

### Internal controls

The system of internal control is a set of rules, procedures and organisational units designed to enable the business of the Bank to be performed in a healthy and proper manner consistent with its objectives by means of an appropriate process of identifying, measuring, managing and monitoring the principal risks. As such it constitutes an essential part of the corporate governance system of UBI Banca and the companies of the Group.

UBI Banca has adopted an internal control system which, in compliance with the principles of the Corporate Governance Code, instructions issued by the Supervisory Authority and the Articles of Association of the Bank, assigns functions and responsibilities to the various officers who, in constant consultation with each other and supported also by regular reporting, contribute to the efficiency and effectiveness of the system of control itself.

The process of assessing the internal control system and verifying its adequacy and effective functioning form part of the responsibilities of the corporate bodies which fulfil strategic supervision, control and management functions. In order to accomplish this, the Supervisory Board makes use of the Internal Control Committee which it forms directly by itself (the composition, powers and functioning of the Internal Control Committee have already been examined in this report in the section specifically on that Committee).

In accordance with Art. 43-*bis* of the Articles of Association, the Management Board has assigned duties to the Chief Executive Officer, exclusively in support of the Management Board, with organisational, proposal-making and reporting functions on internal control matters, to be performed in close co-operation with the General Manager, in observance of the responsibilities of the Supervisory Board on those matters and decisions made by it.

### Principles for the organisation of the internal control system of the UBI Group

The corporate bodies responsible have approved a document containing the "Principles for the organisation of the internal control system of the UBI Group", designed to favour the most appropriate organisation of the internal control system of the Bank and the Group. These

principles are designed for application on a permanent basis to all Group member companies and constitute a point of reference for the definition and implementation of all the components of the system of internal control.

The main contents of the principles can be summarised as follows:

- efficiency avoiding overlap and/or gaps in control mechanisms with a systemic vision of governance and control designed to achieve highly effective risk management;
- consistency in the organisation processes of the Bank and the Group which, based on the Group's mission, identifies values, defines objectives and pinpoints risks which hinder their achievement and implements appropriate responses;
- compliance with legislation and regulations, even before they become compulsory, as a distinguishing feature and key factor of success for enhancing customer relations and, lastly, creating value for all stakeholders.

The senior management of the Bank has also formulated specific risk management policies that apply to the Group operations.

The responsibilities for internal controls of various roles in the Bank are identified within the context of those policies, as follows:

- line controls (first level), the responsibility of the managers of organisational or process units, are integrated in the processes to which they belong or relate and are designed to ensure the proper performance of the activities relating to their mission at different hierarchical levels;
- risk controls (second level), the responsibility of specialist units (in particular: Risk Management, Compliance, Anti-Money Laundering and Financing of Terrorism, Senior Officer Responsible and Operational Control), whose objectives are to assist in the definition of risk measurement and assessment methods, to verify compliance with limits assigned to different operating functions and to verify that the operations of single production areas are consistent with the risk-return objectives set for them;
- internal audit (third level), performed by the Internal Audit Function;

in addition to the strategic supervision performed by the Supervisory Board.

The first two types of control (first and second level), not only satisfy the requirements for reporting to the Supervisory Body, but are also closely related on a practical level to the daily exercise of their responsibilities in relation to internal controls by the management body and the general management.

More specifically, those responsible for second level controls are required to continuously identify, prevent and measure risk situations by adopting appropriate valuation models and to assist in the formulation of risk assumption and management policies with regard, amongst other things, to the maximum limits on exposure to them. Adequate reporting is provided to the Supervisory Board, the Management Board and the General Management on current and future exposure to operating risks which also includes a special *tableau de bord* useful, amongst other things, for monitoring and assessing the system of internal controls.

Furthermore, the Supervisory Board, the Management Board and Senior Management also benefit from an integrated overall outline of risks considered significant, identified by the control functions responsible for monitoring them and furnished using a tool developed in 2012 by the units under the Chief Risk Officer.

The organisational structure as at 31<sup>st</sup> December 2012 includes a Chief Risk Officer, bringing together in one unit the Risk Management, Compliance, Anti-Money Laundering and Financing of Terrorism and Risk Governance Service. The customer care staff and Group rating units also report directly to the Chief Risk Officer.

The same organisational structure includes a Chief Financial Officer, with the role of Senior Officer Responsible, to whom the functions responsible for strategic planning, management controls and accounting controls and standards pursuant to Law No. 262 report.

The roles mentioned are assigned the following functions with respect to the General Regulations of the Bank:

- Chief Risk Officer: Responsible for implementation of governance policies and the risk management system, performing the control function and providing the corporate bodies with an overview of the various risks (credit, market, operational, liquidity, reputational, compliance etc.). He ensures the measurement and control of the exposure of the Group to different types of risk. In this respect he ensures the supervision and implementation of

activities concerning risk management, partly by means of activities carried out by its own units. He contributes to the development and the diffusion of a control culture within the Group and oversees the detection and monitoring of potential failure to comply with legislation and regulations. He supports the Management Board and Senior Management in the creation and maintenance of an effective and efficient internal control system and the formulation of risk and limits management policy proposals, more specifically he supports the Chief Executive Officer, who is responsible for promoting integrated risk control, among other things by providing regular reports and communications. He provides independent information to the corporate body responsible for strategic supervision, partly through regular attendance of the Internal Control Committee, by sending reports and intervening directly. He performs these activities together with the Chief Audit Executive of the Parent working on the assessment of the adequacy of the internal control system. He supervises the internal validation process, oversees the Group rating process, the evaluation of its capital adequacy, the containment of risk and public disclosures. Coordinates the units involved in the complex process of data entry and data quality. The Chief Risk Officer, under the overall supervision of senior management and within the areas for which he has specific responsibility, performs the co-ordination function for Group member companies;

- Chief Financial Officer: supervises Group planning and budget setting cycles and the development and management of the system of strategic departmental reporting. He oversees Capital Management and Capital Allocation activities by proposing operations to strengthen and allocate capital to senior management. He monitors macroeconomic developments with particular reference to key variables which have a direct or indirect impact on the operating and capital objectives of the Group. He oversees strategic and operational asset and liability management. He oversees the financial risk related to the interest rate of the banking book of the Group. He proposes formulas for the Group's liquidity strategy and lending policies. He formulates and diffuses guidelines, principles, methodologies and regulatory interpretations on accounting and financial reporting matters within the Group. In his role as Financial Reporting Officer he guarantees adequate levels of control and directs activities for compliance with Law No. 262/2005. He ensures supervision of accounting, tax, financial reporting and regulatory activities on a separate company (Bank and operating companies) and consolidated basis. He ensures supervision of processes to close accounts and perform periodic measurement for the preparation of the separate company and consolidated interim and annual financial statements, reporting Group and operating company results to senior management on a regular basis. He ensures the adequacy of the management control system and the use of uniform methods within the operating companies, in this way guaranteeing that proper management reports are provided for senior management, to the competent functions of the Parent, to the departments of the network banks and to the other operating companies, with respect to the areas of their competence. He reports on data for the Incentive and Bonus Scheme in relation to the capital and earnings elements. He oversees the implementation of policies, management tools and activities relating to corporate social responsibility for the Bank and the Group. He prepares the compulsory periodic separate Parent and consolidated financial reports, in compliance with current legislation.
- reports in compliance with the legislation and regulations in force. The Chief Financial Officer, under the overall supervision of senior management and within the fields for which he has specific responsibility, performs the co-ordination function for Group member companies.

In this context, in the first quarter of 2012, changes were made to the organisational structure of UBI Banca were made, all with the intention of its simplification. These involved the replacement of the units assigned the rank of "Macro Area" with the identification of specific organisational roles and the discontinuation at the same time of that organisational rank.

The following changes were made:

- the role of "Chief Audit Executive" was created to replace the "Parent and Group Audit" Macro Area to which all those units previously under that area now report;
- all those units under the "Risk Control" Macro Area now report to the "Chief Risk Officer";

- the role of “Chief Financial Officer” was created on the staff of the Chief Executive Officer. All those units previously under the Administration and Management Control Macro Area and those units which reported to the “Strategic Development and Planning” Macro Area, except for the “Strategic Development” Area, report to the new role;
- the role of “Chief Strategy Officer” was also created to replace the “Strategic Development and Planning” Macro Area with the allocation to its staff of the “ALM” Area which was previously under the “Finance” Macro Area and the “Corporate Social Responsibility” Function now reports directly to the “Chief Financial Officer”.

The purpose of the Internal Audit Function (third level) is to make an independent assessment of the organisation and functioning of the system of internal control or parts of it to support the Management and Supervisory bodies. The mission of that function can be summarised very briefly as the systematic monitoring of the adequacy of risk controls at Group level, to assess the functioning of the Group internal control system and to help to improve it (in terms of effectiveness and efficiency).

The “principal characteristics of the risk and internal control management systems in relation to financial reporting” pursuant to Art. 123 *bis* paragraph 2, letter b) of the Consolidated Finance Act are illustrated in attachment 1 to this report.

### **15.1 Chief Audit Executive**

The Internal Audit Function is headed by the Chief Audit Executive, who reports to the Supervisory Board and has direct access to all the information required for his work and has no responsibility for any operational area.

In compliance with Bank of Italy supervisory provisions concerning the organisation and corporate governance of Banks, the Articles of Association assign responsibility to the Management Board for the appointment, subject to consultation with the Supervisory Board, of the Chief of the Internal Audit Function. *Sig.* Angelo Arrigo has been appointed to this position.

In implementation of Bank of Italy supervisory provisions concerning the remuneration and incentive policies and practices of banks and banking groups, the Remuneration Committee, an internal committee of the Supervisory Board, has performed consultative and proposal making functions on the remuneration of the chief of the internal audit function and directly oversees the proper application of the rules on remuneration for that role. In compliance with supervisory regulations and the Articles of Association, the Supervisory Board also verifies that the Chief Audit Executive has adequate resources to fulfil his duties.

The Internal Audit Function conducts auditing activities on UBI Banca and on subsidiaries which have delegated internal auditing to it and more generally to all the companies in the Group as the Parent. In relation to this area the Internal Audit oversees, both on a continuous basis and in relation to specific needs and in observance of international standards, the functioning and the adequacy of the internal control and risk management system, by carrying out an annual audit plan submitted to the Management and Supervisory bodies of the aforementioned subsidiaries, and cumulatively by the Management and Control bodies of the Parent. The document formulating the proposal for this plan defines guidelines for the Internal Audit, on the basis of which, consistent with the reference scenario, the plan for the activities that UBI Banca’s Internal Audit Function intends to perform. This plan was drawn up in compliance with the provisions contained in the operating manual of the Function in which the requirements, criteria, structures and procedures for drawing up the Activity Plan are set out. For their information and in order to receive any comments, the proposal for activities to be performed during the year was submitted to the general managements of the subsidiaries in December 2011. The procedure also provides for its subsequent submission to the Management and Supervisory bodies of the Parent following collation of all the proposed activities. To perform the activities provided for in this plan the Internal Audit Function makes use of internal resources and also of outside consultants for work of an extraordinary nature, whose work is guaranteed for 2012 by the provision of a specific budget.

In 2012, in compliance with the policies set and the relative regulations, the Internal Audit Function audited the proper functioning of risks and changes in them and it assessed the general functioning of the Group internal control system reporting to corporate bodies and to

senior management on potential improvements that could be made to risk management policies and to measurement instruments and procedures.

More specifically, in consideration of the need to support the Supervisory Board in the performance of its duties under legislation and regulations, and also to assist the Management Board, it focused particularly, in relation to their importance, on organisational units and processes affected by the impact of regulations concerning risk management (business, operational and compliance risk) and it also gave advisory support to project activities in progress with an impact on the internal control system.

It also used specific system analyses to verify the reliability of IT systems, including those used for bookkeeping.

Finally, in relation to the specific duties assigned to the Internal Audit Function by Circular No. 263/06 and subsequent updates on supervisory regulations, in 2012 the Internal Audit Function completed the audits required by the regulations for the filing of applications with the Bank of Italy for the adoption of advanced approaches for the measurement of credit and operational risk, monitored the actions required by the Supervisory Authority when the authorisation was issued, and commenced activities associated with the plan to extend the same authorisation.

In addition to the specific report submitted to the Audit Contact and the General Management following the conclusion of the analysis, the results of auditing activities have been the object of regular reports to the Boards of Directors and Boards of Statutory Auditors of the Subsidiaries, presented on a cumulative basis to the Internal Control Committee and the Management and Supervisory Boards of the Parent. This brief report also provides an outline of the principle situations identified by the auditing activities and the state of progress of the actions taken to remedy them. In the event of particularly significant circumstances it has immediately provided appropriate information to the Management and Supervisory bodies and to the executive Board Member responsible for the internal control system

## **15.2. Executive Board Member responsible for the internal control system**

On 28<sup>th</sup> April 2010, the Chief Executive Officer was assigned duties pursuant to Art. 43 *bis* of the Articles of Association, with the support of the General Manager, with regard to the overall design architecture of internal control systems.

As part of his duties, he initiated the approval by the competent bodies of the "Principles for the organisation of the internal control system of the UBI Group", as described in the initial part of this section.

## **15.3 Organisational Model pursuant to Legislative Decree No. 231/2001**

UBI Banca has adopted its own "Model of organisation, management and control" (hereinafter the "Model"), which complies with Legislative Decree No. 231/2001 and the relative legislation and regulations that apply and is based on principals that are already rooted in its governance culture and on the recommendations contained in the Italian Banking Association Guidelines.

The Model is presented in the "Document describing the organisational, management and control Model of UBI Banca S.C.p.A." approved by the Management Board and Supervisory Board of UBI Banca. It is divided into two parts which contain the following:

- in the general part a description of:
  - the legislative framework;
  - the reality of the company (system of governance and organisational structure of UBI Banca);
  - the structure of the Model and the methodology chosen to define and update it;
  - identification and appointment of the Supervisory Body of UBI Banca, with specification of the relative powers, tasks and reporting systems;
  - the functioning of the disciplinary system and the relative penalties;
  - the training and communication plan to be adopted to ensure that people have a knowledge of the measures and regulations of the Model;

- criteria for updating the Model;
- in the special part, a description of:
  - the types of crime (and administrative violations) relevant for the purposes of the administrative liability of entities which the Bank had decided to take into consideration in view of the nature of its business;
  - sensitive processes/activities and the relative control procedures.

The types of violations (crimes and administrative violations) covered by the special part of the UBI Banca Model are as follows:

- crimes against public administrations;
- crimes consisting of forgery of coins, public credit notes, duty stamps, identification instruments and distinctive signs;
- corporate crimes;
- crimes of terrorism and subversion of democratic law;
- crimes against the person of individuals;
- the crime of market manipulation and those covered by “market abuse” regulations;
- transnational crimes;
- crimes relating to health and safety at the workplace;
- crimes consisting of the receipt, laundering and use of money, goods or benefits of illicit origin;
- computer crimes and illicit processing of data;
- crimes relating to criminal organisation;
- crimes against industry and commerce;
- crimes concerning the violation of copyright;
- environmental crimes.

In compliance with Art. 6, paragraph 1, letter b) of Legislative Decree No. 231/2001 and in view of the recommendations of the most representative business associations, representing banks, and of the Italian Banking Association above all, UBI Banca has formed its Supervisory Body as a collegial body composed of the following:

- two members of the Management Board;
- the Chief of the Legal Affairs and Litigation Area;
- the Chief of the Compliance Area;
- an external professional, with the necessary specific expertise.

The Supervisory Body reports to the corporate bodies on the adoption and effective implementation of the Model, on the oversight of the functioning of that Model and on supervision of updates to the Model. It employs two separate lines of reporting to achieve this. The first is on a continuous basis directly to the Chief Executive Officer and the General Manager and the second consists of periodic reporting to the Management Board and the Supervisory Board.

UBI Banca, as the Parent, informs subsidiaries of the policies it has set in relation to the prevention of crimes pursuant to Legislative Decree No. 231/2001 and recommends general criteria which subsidiaries may follow. In this context, in 2012 UBI Banca carried out an update of the Model, making it possible to take account of the introduction of new types of crime, and changes to external and self-governance regulations. The Parent also supported the revision of the organisational models of Group companies by sending an updated version of the Model as a guideline for updating and customisation.

An extract of the UBI Banca Model entitled "Summary of the document describing the organisational, management and control Model of UBI Banca S.C.p.a." is available on the website of the Bank.

## **15.4 Independent auditors**

The appointment of the independent auditor for the separate company and consolidated

financial statements for BPU was performed on 10<sup>th</sup> May 2003, for a period of three financial years (from 2003 until 2005 inclusive) with the engagement of KPMG Spa, with registered head office at 25, Via Vittor Pisanim Milan 20124. Subsequently a Shareholders' Meeting of 22<sup>nd</sup> April 2006 extended the appointment of KPMG Spa for a further period of three years (from 2006 until 2008 inclusive).

KPMG Spa is enrolled with the Milan Company Registrar under No. 00709600159, Milan 'R.E.A. No' (Administrative and Economic Reg. No.) 512867 and is a member of ASSIREVI (Italian association of auditors).

On 5<sup>th</sup> May 2007 an ordinary Shareholders' Meeting of UBI Banca passed a resolution, in accordance with Art. 8, paragraph 7 of Legislative Decree No. 303/2006, to extend the appointment of the auditors KPMG Spa for auditing the annual accounts and limited audits of the interim reports for the separate company and the consolidated accounts for the period 2007-2011.

On 30<sup>th</sup> April 2011, on the basis of a justified proposal submitted by the Supervisory Board, and having received a favourable opinion from the Internal Control and Audit Committee, a Shareholders' Meeting appointed the independent auditors DELOITTE & TOUCHE Spa, with registered address at 25 Via Tortona, Milan. They have been engaged to perform the statutory audits of the separate company financial statements of UBI Banca and the consolidated financial statements of the UBI Banca Group, to verify that the corporate accounts are properly kept and that operating events are accurately recorded in those accounts, and also to perform a limited audit of the condensed interim consolidated financial statements of the UBI Banca Group for the years running from 2012 until 2020, setting the fees and the criteria for adjusting them during the period of the appointment.

The engagement of KPMG, having now run for a total of nine financial years, can no longer be renewed pursuant to Art. 17, paragraph 1 of Legislative Decree No. 39 of 27<sup>th</sup> January 2010.

Deloitte & Touche S.p.A. is enrolled with the Milan Company Registrar under No. 03049560166, Milan 'R.E.A. No' (Administrative and Economic Reg. No.) 1720239 and is a member of ASSIREVI (Italian association of auditors).

## **15.5 Chief Financial Officer and Senior Officer Responsible for the preparation of the corporate accounting documents**

The Management Board has appointed *Dott.ssa* Elisabetta Stegher, with the favourable opinion of the Supervisory Board, as Chief Financial Officer and Senior Officer Responsible for the preparation of corporate accounting documents pursuant to Art. 154-*bis* of the Consolidated Finance Act, in possession of the requirements of professionalism required by Articles of Association. In addition to the requirements of integrity prescribed by the current regulations in force for persons performing administrative and management functions, the Senior Officer Responsible for preparing financial reporting documents must also possess requirements of professionalism with specific administrative and accounting expertise in the banking, finance, investment or insurance fields.

The following responsibilities have been conferred on that senior officer;

- to certify that market disclosures together with the related financial reports, including interim reports, are reliably based on the records contained in corporate documents and accounting records;
- to put adequate administrative and accounting procedures in place for the preparation of financial reports and all other financial disclosures;
- to certify – jointly with the Chief Executive Officer, by means of a specific report, attached to the separate financial statements, to the consolidated financial statements and to interim reports – the adequacy and effective application in the relative period of the procedures just mentioned and that the disclosures correspond to the records contained in the corporate accounting documents and records and provide a true and fair view of the capital, operating and financial position of UBI Banca and the Group.

The Senior Officer Responsible is also required to make special reports to the Chief Executive Officer, the Management Board, the Supervisory Board and the Internal Control Committee. The reports must allow these bodies and officers to assess the adequacy and effective application of the administrative and accounting procedures of the Group and to verify that the powers and means conferred on this officer are appropriate.

Furthermore, for the purposes of concrete implementation of the aforementioned legislation, the Senior Officer Responsible must:

- be able to gain direct access to all the information needed to produce accounting data. The officer may access all sources of corporate information without the need for authorisation;
- be able to rely on internal channels of communication which ensure accurate and proper access to intercompany information;
- be able to form her own office and organisational structure independently, both with regard to personnel and technical means (tangible resources, hardware, software, etc.);
- design administrative and accounting procedures of the Bank autonomously, being able also to benefit from the co-operation of all the offices involved in the supply of significant information;
- have powers to make proposals and evaluations and exercise veto on all “sensitive” procedures within the Bank;
- be able to participate in Board meetings in which matters concerning the functions of the officer are discussed;
- be able to employ external consultants, where particular requirements of the Bank make this necessary;
- to be able to establish reporting systems with other roles responsible for the control of financial reporting, which ensure constant mapping of risk and processes and adequate monitoring of the proper functioning of procedures (independent auditors, General Manager, Internal Control Officer, risk managers, compliance officers, etc.).

With regard to the centralisation at the Parent of the management of administrative and accounting procedures pursuant to the provisions introduced by Law No. 262/2005, a System of Administrative and Financial Governance has been created for the network banks and some other subsidiaries of UBI Banca which, amongst other things, regulates internal controls for financial reports produced for listed issuers.

This “system” provides proper management of the various risks connected with financial reporting and it also confers adequate powers and means on the Senior Officer Responsible through a hierarchical system of certifications.

The same certification obligation applies to the executive officers and directors of the Group companies subject to line-by-line consolidation.

The certifications by subsidiaries are brought to the attention of the boards of directors when they approve financial statements and they are then sent to the Parent before the Management Board meeting that approves the draft separate Parent and consolidated financial statements.

The hierarchical system of certification is further strengthened by specific certification issued for Group companies by an external independent consultant.

The System of Administrative and Financial Governance of UBI Group also includes a specific specialist unit in staff units under the Senior Officer Responsible, for the overall co-ordination of Group activities, and the definition and performance of assessments in support of certifications.

As listed issuers with Italy as their member state of origin, IW Bank and Centrobanca Spa have also appointed a Senior Officer Responsible for preparing company accounting documents under Art. 154 *bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998.

## 16. Interests of Board Members and related-party transactions

Transactions with representatives of the bank, with representatives of Group member companies and with companies controlled by them – all of whom may qualify as related parties – are conducted under normal market conditions and the provisions of Art. 136 of Legislative Decree No. 385/1993 (Consolidated Banking Act), where applicable, are carefully complied with.

Special IT procedures have been introduced in this respect which, on the basis of declarations issued by representatives of companies, make it possible to identify in advance the potential assumption of a direct or indirect obligation of a representative and consequently subject the transaction to the procedures required by the aforementioned Art. 136 of the Consolidated Banking Act.

The Bank pays particular attention when performing transactions with related parties to ensure they are carried out properly both in form and substance.

Consob Resolution No. 17221 of 12<sup>th</sup> March 2010, subsequently amended by Resolution No. 17389 of 23<sup>rd</sup> June 2010, has approved regulations in this connection (Consob Regulations). The new requirements regulate procedures for the approval of transactions entered into by listed companies and issuers with a broad shareholder base with parties that could create a conflict of interest. Such parties include major and controlling, members of administrative and controlling bodies and senior management and their immediate family members.

The key points of the new requirements are:

- a) to strengthen the role of independent board members at all stages of the decision-making process concerning related-party transactions;
- b) a regime of transparency;
- c) to introduce detailed corporate governance regulations containing rules designed to ensure substantial and procedural integrity in related-party transactions (a special regime for companies which adopt a two tier system of governance).

The regulations in question apply, within the context of the UBI Banca Group, to UBI Banca as an issuer of listed shares.

As a result of the above, the competent bodies of the Bank have approved a set of regulations concerning related-party transactions, available on the corporate website, within the set time limits. Internal processes have also been developed to assure compliance with the new rules.

In implementation of Art. 53, paragraphs 4 *et seq.* of the Consolidated Banking Act and Inter-Ministerial Credit Committee Resolution No. 277 of 29<sup>th</sup> July 2008, on 12/12/2011 the Bank of Italy issued new regulatory measures regarding risk assets and conflicts of interest concerning parties connected to banks or banking groups. (including, amongst others, officers of UBI Banca and all the banks in the UBI Banking Group, the officers of UBI Leasing, and parties connected to those officers according to the definition given in the rules).

The main purpose of the regulations is to contain the risk that the closeness of some “connected parties” to the decision-making centres of the Bank might compromise the objectivity and impartiality of decisions concerning the grant of loans to, or other transactions that in any way relate to, those parties; to oversee these risks, UBI Group, in compliance with Bank of Italy provisions:

- monitors and ensures compliance with the specific prudential limits set by the supervisory regulations concerning risk assets undertaken towards connected parties by the Parent and Subsidiaries; in this regard a specific “Policy concerning internal controls on risk assets and conflicts of interest with related parties” has been approved, according to the procedures set out in the Bank of Italy provisions referred to above, and is attached to this Report (Attachment 2).
- employs special decision-making procedures that guarantee the integrity of decision-making processes in connected-party transactions, preventing any abuses that may be intrinsic to transactions with the said parties where there is a potential conflict of interest; these procedures have been implemented by special regulations, applicable to all the Group member companies and available on the website of the Bank.

Generally, in a similar manner to the provisions laid down for the Management Board by Art. 2391 of the Italian Civil Code, the Articles of Association also require the members of the Supervisory Board to report all interests which, either directly or through third parties, they may have in a determined transaction, stating the nature, terms, origin and extent. The relative resolution of the Supervisory Board must give adequate reasons, explaining the interest of the Bank in the transaction, without prejudice to other provisions of the law or regulations which may apply.

In relation to the legislation in force which implements the EC MiFID Directive No. 2004/39/EC, an internal “policy for the management of personal transactions” has been adopted which provides detailed regulation of obligations concerning personal transactions in financial instruments performed by significant parties, as identified in the legislation mentioned.

## **17. Treatment of corporate information**

In order to avoid the risk of improper disclosure of reserved information, the Management Board has approved procedures for managing privileged information to be disclosed to the public and for managing the register of persons with access to privileged information. A procedure has been developed for that purpose, to draw up security measures to be adopted, designed to guarantee maximum confidentiality of information and to define the procedures for handling and disclosing privileged information.

More specifically, these procedures govern how privileged information that relates directly to the Bank or its subsidiaries is disclosed to the public and at the same time it issues instructions to subsidiaries for them to promptly provide the Bank with the information required to fulfil disclosure obligations required by law.

In compliance with Art. 115-*bis* of the Consolidated Finance Act, the Bank has set up a register of persons who, on a permanent or occasional basis, have access to privileged information directly concerning UBI Banca.

This register is managed in the name of and on behalf of the Group member companies that have delegated the responsibility for keeping and maintaining their register to the Parent.

If, due to working or professional activities or the functions they perform, UBI Banca and/or a Group member company becomes aware of information concerning an external listed issuer, classified by the same as privileged, in accordance with applicable regulations, UBI Banca and/or the Group member companies will be listed in the register provided by that external listed issuer.

Whether or not UBI Banca and/or the other Group member companies are listed in the register of the external listed issuer, they will also be listed in the register held by UBI Banca.

## **18. Relations with shareholders**

UBI Banca plays particular attention to the continuous management of relations with shareholders, institutional investors and members of the national and international financial community and it guarantees systematic disclosure of reliable, exhaustive and timely information on the Group's activities, results and strategies.

An investor relations staff and a Management Board and Registered Shareholder Support Area are provided for this purpose. Information of significant importance to shareholders is also provided in special sections of the corporate website of the Bank ([www.ubibanca.it](http://www.ubibanca.it)).

The Management Board and Registered Shareholder Support Area oversees all aspects of the Bank's relations with shareholders, assesses applications to become registered shareholders, maintains the shareholders' register, in compliance with all company requirements, and also coordinates preparations for the Bank's Shareholders' Meetings and all related activities.

The Bank has created the “UBI Club” for shareholders, which is a series of banking

concessions and insurance cover - a current account at particularly attractive conditions and discounts on other products and services such as custody accounts, Qui UBI internet banking, safe deposit boxes and payment systems.

The insurance cover is free of charge for registered shareholders and their families and consists of a family civil liability policy with a maximum liability limit of €100,000, an accident life or permanent invalidity policy for invalidity equal to or greater than 66%, a policy that pays a daily indemnity in case of hospitalisation caused by an accident and a safe withdrawal policy. The banking concessions are only for shareholders with current accounts at one of the banks in the UBI Group, whereas insurance cover is for all shareholders.

During the course of 2012 in the context of the programme to offer and list bond issues, such issues were restricted to shareholders at attractive rates with the objective of conferring a benefit for the status of shareholder.

The investor relations staff is responsible for managing relations with the financial community (institutional investors and financial analysts), in accordance with policies set by the senior management of the Bank.

As part of its institutional duties the investor relations officers are responsible for providing clear, prompt and full information, using methods which include press releases, presentations and the use of the investor relations section of the Bank's website. 103 press releases were issued in 2012.

## **19. Shareholders' meetings (pursuant to Art. 123 bis, paragraph 2, letter c) of the Consolidated Finance Act)**

Shareholders' Meetings are either ordinary or extraordinary.

An ordinary Shareholders' Meeting:

- a) appoints and removes members of the Supervisory Board and sets the remuneration (also establishing amounts for attendance tokens) of the members of the Supervisory Board, as well as an additional total sum for the remuneration for those assigned particular offices, powers or functions, which is allocated in accordance with Art. 44 of the Articles of Association. It elects the Chairman and the Senior Deputy Chairman of the Supervisory Board according to the procedures set out in Art. 45 of the Articles of Association. Proper grounds must be given for the removal of members of the Supervisory Board;
- b) approves remuneration policies for members of the Management Board and remuneration and/or incentive schemes based on financial instruments;
- c) decides on the liability of the members of the Supervisory Board and, pursuant to Art. 2393 and Art. 2409-*decies* of the Italian Civil Code, on the liability of the members of the Management Board, without prejudice to the concurrent liability of the Supervisory Board;
- d) decides on the distribution of profits, subject to the presentation of the financial statements and of the consolidated financial statements approved pursuant to Art. 2409-*terdecies* of the Italian Civil Code;
- e) appoints and dismisses the external statutory auditors responsible for auditing the accounts;
- f) approves the separate financial statements if the Supervisory Board fails to approve them or if this is requested by at least two thirds of the members of the Supervisory Board;
- g) decides on the other matters that fall within its competence either by law or by the Articles of Association.

An extraordinary Shareholders' Meeting makes amendments to the Articles of Association, decides the appointment, removal, replacement and powers of receivers and all other matters for which it is responsible by law.

Moreover, in accordance with Art. 28, paragraph three of the Articles of Association, "Without prejudice to any other mandatory provision of the law, for the approval of resolutions concerning a change of the company objects, the elimination or closedown of the operational headquarters at Brescia and Bergamo, as provided for and identified in Art. three, the early dissolution of the company, determined by events provided for by law, excluding the case

pursuant to number six of Art. 2484 of the Italian Civil Code, the repeal or the amendment of articles 23 and 36 of the Articles of Association and/or the introduction of any other provision incompatible with those articles, such as the approval of the amendment or repeal of this clause and/or of the quorum for resolutions provided in it, the vote in favour of at least one twentieth of all the registered shareholders with voting rights is required, even in a second call of a Shareholders' Meeting.

Again without prejudice to any other mandatory legal provisions, the vote in favour of at least one twentieth of all the registered shareholders with voting rights, who also represent at least 20% of the share capital subscribed and paid up on the ninetieth day prior to that of the Shareholder's Meeting is required, even in a second call of a Shareholders' Meeting, for the approval of resolutions concerning the repeal or amendment of Art. 45, paragraph six, Art. 48, paragraph six and Art. 49, paragraphs six, seven and eight of these Articles of Association and also of this clause itself and the quorum for passing resolutions contained in it.

For resolutions to be passed upon request of the Banking Supervisory Authority in relation to amendments to legal regulations, both ordinary and extraordinary Shareholders' Meetings shall pass resolutions by an absolute majority vote. In these cases, the provisions of Art. 48, paragraph five apply for resolutions for which the Supervisory Board is responsible.

Shareholders' meetings are held in all the cases provided for by law and by the Articles of Association and they are convened by the Management Board, or, pursuant to Art. 151-*bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, by the Supervisory Board or by at least two of its members, without prejudice to the other powers to convene provided by law.

Ordinary Shareholders' Meetings are convened in any event at least once a year within 120 days of the end of each financial year to pass resolutions on matters for which it holds responsibility by law or in accordance with the Articles of Association.

Ordinary and Extraordinary Shareholders' Meetings may be convened by registered shareholders and shall be held without delay following the presentation of the request, giving the grounds and the agenda; the request must be signed by at least one twentieth of the registered shareholders in possession of voting rights on the date of the request.

In compliance with the procedures and the time limits set by law, a number of registered shareholders equal to not less than one fortieth of those entitled on the date of request, may make an application in writing for additions to be made to the agenda to be dealt with in the meeting, as it results from the notice convening the Shareholders' Meeting. The signatures of the registered shareholders must be authenticated in accordance with the law either by employees of the Bank or of its subsidiaries authorised to do so. The legitimacy of the right is given by the validity of the documentation testifying to the possession of the shares on the date on which the application is presented.

Only persons who have been registered shareholders for at least 90 days from the date of entry in the shareholders' register may attend the meetings, exercise voting rights and be eligible for appointment to corporate bodies.

A registered shareholder is entitled to only one vote no matter how many shares are possessed. A registered shareholder is entitled to be represented by issuing a written proxy to another registered shareholder having the right to attend the Shareholders' Meeting. Proxies may not be granted to any members of the management or control bodies, or to employees of the Bank, or to any controlled companies or to any member of the management or control bodies, or employees of the aforesaid controlled companies, or to the firm of statutory auditors appointed or to the person responsible for the statutory audit of the Bank, or to parties to whom one of the other conditions of incompatibility apply according to the law.

Without prejudice to the provisions of paragraph 2, of Art. 2372 of the Italian Civil Code, proxy authorisations can be issued for individual Shareholders' Meetings only, with effect also for subsequent sessions, and may not be issued with the name of the representative left blank. No registered shareholder may act as proxy for more than three other registered shareholders. Voting by mail is not permitted.

Members of the Management Board and similarly members of the Supervisory Board may not vote on resolutions concerning their areas of responsibility. The right to vote in the case of a pledge or usufruct on shares may be exercised by registered shareholders only.

As concerns proceedings in Shareholders' Meetings, the Bank has adopted regulations for

Shareholders' Meetings, designed to govern the ordered and efficient functioning of meetings and to ensure that each registered shareholder has the right to speak on the items on the agenda.

These regulations have also been published on the Bank's website in the corporate governance section and in the shareholders' section.

Market uncertainties and volatility affected stock market prices throughout 2012. The UBI Banca share ended the trading day on 28<sup>th</sup> December 2012 at €3.504. The minimum and maximum prices for the year were €1.821 and €4.116 respectively.

The stock market capitalisation of UBI Banca on 30<sup>th</sup> December 2012 (based on the official price) was €3.1 billion compared to €2.8 billion at the end of 2011, which placed UBI Banca in fourth position among Italian banking groups and in first position among "popular" banks.

At European level, the UBI Banca Group lies among the top forty in the classification drawn up by the Italian Banking Association in its European Banking Report, which considers the countries of the European Monetary Union plus Switzerland.

## Attachment A

Positions held by the members of the Management Board of UBI Banca Scpa in other companies listed in regulated markets including foreign markets (\*), in financial, banking, insurance or large companies.

(\*\*) Companies belonging to the UBI Banca Group

NAME	POSITION HELD IN THE ISSUER	POSITIONS HELD IN OTHER LISTED COMPANIES OR IN BANKING, FINANCIAL, INSURANCE OR LARGE COMPANIES
<b>Emilio Zanetti</b>	Chairman	<u>Chairman of the Board of Directors:</u> - Banca Popolare di Bergamo Spa (**) <u>Deputy Chairman of the Board of Directors:</u> - Società per l'Aeroporto Civile di Bergamo – Orio al Serio Spa <u>Board Member:</u> - Italcementi Fabbriche Riunite Cemento Spa (*)
<b>Flavio Pizzini</b>	<u>Deputy Chairman</u>	<u>Chairman of the Board of Directors:</u> - UBI Banca International Sa (**) <u>Deputy Chairman of the Board of Directors:</u> - UBI Sistemi e Servizi Scpa (**) <u>Board Member:</u> - Banco di Brescia Spa (**) <u>Full Statutory Auditor:</u> - Mittel Spa (*)
<b>Victor Massiah</b>	Chief Executive Officer	<u>Board Member:</u> - Banca Popolare di Bergamo Spa (**) - Banco di Brescia Spa (**) - Centrobanca Spa (**)
<b>Giampiero Auletta Armenise</b>	Board Member	<u>Chairman of the Board of Directors:</u> - Rothschild Spa Italia <u>Senior Deputy Chairman of the Board of Directors:</u> - Banca Carime Spa (**) <u>Deputy Chairman of the Board of Directors:</u> - Banca Popolare Commercio e Industria Spa (**) <u>Board Member:</u> - Banca Popolare di Ancona Spa (**)
<b>Mario Cera</b>	Board Member	<u>Chairman of the Board of Directors:</u> - IW Bank Spa (**) - Banca Popolare Commercio Industria Spa (**)
<b>Giorgio Frigeri</b>	Board Member	<u>Chairman of the Board of Directors:</u> - UBI Pramerica SGR Spa (**) - Centrobanca Sviluppo e Impresa SGR Spa (**) - The Sailor Fund - Sicav <u>Deputy Chairman of the Board of Directors:</u> - Centrobanca Spa (**) <u>Board Member:</u> - UBI Sistemi e Servizi Scpa (**)
<b>Gian Luigi Gola</b>	Board Member	<u>Chairman of the Board of Statutory Auditors:</u> - F2i Reti Italia Srl <u>Board Member:</u> - Newspaper Milano Srl <u>Chairman of the Supervisory Committee:</u> - Ial Cisl Piedmont in extraordinary administration <u>Full Statutory Auditor:</u> - Sigit Spa
<b>Guido Lupini</b>	Board Member	<u>Deputy Chairman of the Board of Directors:</u> - Banca Popolare di Bergamo Spa (**)
<b>Andrea Moltrasio</b>	Board Member	<u>Chairman of the Board of Directors:</u> - Centrobanca Spa (**) - Clinica Castelli Spa - Icro Didonè Spa <u>Chief Executive Officer</u> - Icro Coatings Spa
<b>Franco Polotti</b>	Board Member	<u>Chairman of the Board of Directors:</u> - O.R.I Martin Acciaieria e Ferriera di Brescia Spa - Banco di Brescia Spa (**) <u>Deputy Chairman of the Board of Directors and Executive Director:</u> - Mar.Bea Srl <u>Executive Director:</u> - Trafilati Martin Spa

## SUMMARY TABLES

**TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE (as at 31/12/2012)**

STRUCTURE OF THE SHARE CAPITAL				
	NUMBER OF SHARES	PERCENTAGE OF SHARE CAPITAL	LISTED (indicate markets )/UNLISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	901,747,005	100%	MILAN – MERCATO TELEMATICO AZIONARIO (electronic stock exchange)	
SHARES WITH LIMITED VOTING RIGHTS				
SHARES WITH NO VOTING RIGHTS				

OTHER FINANCIAL INSTRUMENTS (conferring the right to subscribe new share issues)				
	LISTED (indicate markets )/UNLISTED	NO. OF INSTRUMENTS OUTSTANDING	TYPE OF SHARES AT THE SERVICE OF THE CONVERSION/ EXERCISE	NO. OF SHARES AT THE SERVICE OF THE CONVERSION/ EXERCISE
CONVERTIBLE BONDS	MILAN - MERCATO TELEMATICO AZIONARIO (electronic stock exchange)	50,128,240	ORDINARY	MAXIMUM 255,658,348

DECLARER	DIRECT SHARE-HOLDER	PERCENTAGE OF ORDINARY SHARE CAPITAL	PERCENTAGE OF VOTING SHARE CAPITAL	
SILCHESTER INTERNATIONAL INVESTOR LLP	YES	5.001%	5.001%	
BLACKROCK INCORPORATED (indirect - assets under management)	NO	2.854%	2.854%	
FONDAZIONE CASSA DI RISPARMIO DI CUNEO	YES	2.230 %	2.230 %	
FONDAZIONE BANCA DEL MONTE DI LOMBARDIA	YES	2.207 %	2.207 %	
NORGES BANK	YES	2.177%	2. 177%	

**TABLE 2: SUPERVISORY BOARD AND COMMITTEES**

Supervisory Board									Appoint-ments Committee		Remuner-ation Committee		Internal Control Committee		Accounts committee		Related and Connected Parties Committee	
Position	Members	In office since	In office until	List (M/m) §	Indep-endent	Supervisory Board ****	Manage-ment Board ****	No. of positions **	***	****	***	****	***	****	***	****	***	****
<b>Senior Deputy Chairman</b>	GIUSEPPE CALVI	1/4/2007	AGM 2013	M	X	100		NA	X	100	X	100						
<b>Deputy Chairman</b>	ALBERTO FOLONARI (appointed DC on 10/5/07)	5/5/2007	AGM 2013	M	X	100		NA	X	100	X	100						
<b>Deputy Chairman</b>	MARIO MAZZOLENI	1/4/2007	AGM 2013	M	X	100		NA	X	100								
<b>Board Member</b>	BATTISTA ALBERTANI	10/5/2008	AGM 2013	M	X	94		NA										
<b>Board Member</b>	LUIGI BELLINI*	1/4/2007	AGM 2013	M	X	87	15 (°)	NA					X	88				
<b>Board Member</b>	MARIO CATTANEO*	1/4/2007	AGM 2013	M	X	100	19(°)	NA					X	96	X	90		
<b>Board Member</b>	SILVIA FIDANZA	24/4/2010	AGM 2013	M	X	94		NA							X (from 11/4/12)	100	X	100
<b>Board Member</b>	ENIO FONTANA	1/4/2007	AGM 2013	M	X	69		NA										
<b>Board Member</b>	CARLO GARAVAGLIA*	1/4/2007	AGM 2013	M	X	94		NA	X	100					X	100		
<b>Board Member</b>	ALFREDO GUSMINI	24/4/2010	AGM 2013	M	X	100	33(°)	NA					X	96				
<b>Board Member</b>	PIETRO GUSSALLI BERETTA	1/4/2007	AGM 2013	M	X	69		NA										
<b>Board Member</b>	GIUSEPPE LUCCHINI	1/4/2007	AGM 2013	M	X	69		NA			X	71						
<b>Board Member</b>	ITALO LUCCHINI*	1/4/2007	AGM 2013	M	X	94	19 (°)	NA					X	84				

**continued TABLE 2: SUPERVISORY BOARD AND COMMITTEES**

Supervisory Board										Appointments Committee		Remuneration Committee		Internal Control Committee		Accounts Committee		Related and Connected Parties Committee	
Position	Members	In office since	In office until	List (M/m) §	independent	Supervisory Board ***	Management Board ****		No. of positions **	***	****	***	****	***	****	***	****	***	****
<b>Board Member</b>	FEDERICO MANZONI*	1/4/2007	AGM 2013	M	X	100			NA	X (since 11/4/12)	100	Sec.	100			X (until 10/4/12)	100	X	100
<b>Board Member</b>	ENRICO MINELLI	28/04/2012	AGM 2013		X	100													
<b>Board Member</b>	TOTI S. MUSUMECI	1/4/2007	AGM 2013	M	X	100			NA			X	100						
<b>Board Member</b>	SERGIO ORLANDI	1/4/2007	AGM 2013	M	X	81			NA							X	70	X	100
									NA										
<b>Board Member</b>	GIORGIO PEROLARI	1/4/2007	AGM 2013	M	X	94			NA			X (from 11/4/12)	100						
<b>Board Member</b>	SERGIO PIVATO*	1/4/2007	AGM 2013	M	X	94	19(°)		5.					X	100				
<b>Board Member</b>	ARMANDO SANTUS	28/04/2012	AGM 2013		X	91													
<b>Board Member</b>	ROBERTO SESTINI	1/4/2007	AGM 2013	M	X	62			NA										
<b>Board Member</b>	GIUSEPPE ZANNONI	24/4/2010	AGM 2013	m	X	81			NA										
<b>SUPERVISORY BOARD MEMBERS RETIRED IN 2012</b>																			
<b>Chairman</b>	CORRADO FAISSOLA	10/5/2008	20/12/2012	M	X	69			NA	X	71								
<b>Board Member</b>	GIOVANNI BAZOLI	5/5/2007	29/03/2012	M	X	100			2	X	100								

<b>Board Member</b>	ALESANDRO PEDERSOLI	1/4/2007	29/03/2012	M	X	100			NA			X	100						
<p><b>Quorum required for the presentation of lists by registered shareholders for the last appointments at the Shareholders' Meeting of 24/4/2010 called upon to appoint the Supervisory Board:</b> at least 500 registered shareholders who have the right to participate and to vote or one or more registered shareholders who represent at least 0.50% of the share capital.</p> <p><b>Quorum currently required for the presentation of lists by registered shareholders:</b> 500 registered holders of voting shares with the right to participate in and vote at meetings or a number of registered shareholders who represent at least 0.50% of the share capital.</p>																			
<b>Number of meetings held during 2012</b>		Supervisory Board:16				Appointments Committee: 7		Remuneration Committee: 7		Internal Control Committee: 25		Accounts Committee: 10		Related and Connected Parties Committee: 7					

(°) as a member of the Internal Control Committee.

(§) M/m, where “M” indicates a member elected from the majority list and “m” from a minority list.

\* Enrolled in the Register of Statutory Accounting Auditors

\*\* Number of appointments as management or supervisory/auditor Board Member held by the person pursuant to Art. 148-*bis* of the Consolidated Finance Act (inclusive of the position at UBI Banca S.C.p.a.).

The full list of appointments, as required by Art. 144 *quinquiesdecies* of Consob's Issuers' Regulations, has been published by the Consob and made available on its website: [www.consob.it](http://www.consob.it).

\*\*\* An “X” in this column indicates that the member of the Supervisory Board is a member of the Committee.

\*\*\*\* This column contains the percentage attendance of board members at the meetings.

**TABLE 3 MANAGEMENT BOARD**

Position	Members	In office since	In office until	Independent (in accordance with Art. 147 <i>quater</i> of the Consolidated Finance Act) (**)	Executive	Percentage of attendance at meetings of the Management Board	Number of other positions (***)
<b>Chairman</b>	EMILIO ZANETTI	2/4/2007	(*)		X	100	3
<b>Deputy Chairman</b>	FLAVIO PIZZINI (appointed Deputy Chairman on 10/05/2008)	2/4/2007	(*)		X	100	4
<b>Chief Executive Officer</b>	VICTOR MASSIAH (appointed Chief Executive Officer on 27/11/2008 with effect From 1/12/2008)	27/11/2008	(*)		X	100	3
<b>Board Member</b>	GIAMPIERO AULETTA ARMENISE	2/4/2007	(*)		X	100	4
<b>Board Member</b>	MARIO CERA	2/4/2007	(*)		X	100	2
<b>Board Member</b>	GIORGIO FRIGERI	2/4/2007	(*)		X	100	5
<b>Board Member</b>	GIAN LUIGI GOLA	30/06/2010	(*)	X		100	4
<b>Board Member</b>	GUIDO LUPINI	27/04/2010	(*)		X	100	1
<b>Board Member</b>	ANDREA MOLTRASIO	27/04/2010	(*)		X	100	4
<b>Board Member</b>	FRANCO POLOTTI	10/05/2008	(*)		X	100	4
<b>MANAGEMENT BOARD MEMBERS RETIRED IN 2012</b>							
<b>Board Member</b>	GIUSEPPE CAMADINI	2/4/2007	25/07/2012		X	56	NA

Number of meetings held during 2012: 27 meetings

\* The members of the Management Board remain in office for three years (2010/2012). Their term of office expires on the date of the Supervisory Board meeting convened to approve the financial statements for their last year in office. They remain in office in any event until a new Management Board is appointed in accordance with Art. 46, letter a) of the Articles of Association and they may be re-appointed.

\*\* The members of the Management Board are not required to meet the requisites of independence in the Corporate Governance Code, due, amongst other things, to the decision made by UBI Banca to form internal committees within the Supervisory Board provided for by that Code for which those requisites are required.

\*\*\* Number of positions as management or supervisory/auditor Board Member held in other companies listed on regulated markets including foreign markets, in financial, banking or insurance companies or companies of significant dimensions. This report contains full details of the appointments (Attachment A).

## Attachment 1

Principal characteristics of the risk and internal control management system in relation to the financial reporting process.

### 1) Introduction

The existing risk and internal control management system in relation to the financial reporting process consists of a set of corporate rules and procedures adopted by various operational units, designed to ensure the reliability, accuracy and promptness of financial reporting.

In this respect the provisions of Law No. 262 of 28<sup>th</sup> December 2005 (and subsequent amendments) “Measures for the protection of savings and to regulate financial markets”, inserted Art. 154 *bis* into the Consolidated Finance Act which introduced the role of the Senior Officer Responsible for the preparation of corporate accounting documents (hereinafter the “Senior Officer Responsible), who is held responsible for the preparation of corporate accounting documents, into the corporate organisation of listed companies in Italy.

One of the objectives proposed by the reform is to strengthen the system of internal controls in relation to the financial reports produced by listed issuers. To achieve this the UBI Banca Group has responded to the new legislation with a series of projects designed, amongst other things, to identify and concretely adopt an organisational and methodological system (administrative and financial model of governance), in a context of integrated compliance, that makes it possible to continuously regulate activities concerning the adequacy and effective application of the supervision of financial reporting risk and consequently to be able to make an accurate assessment of the internal control system in question.

The Model developed was approved by the Management Board and the Supervisory Board on 15<sup>th</sup> January 2008 and 6<sup>th</sup> February 2008 respectively and then officially implemented in a specific set of regulations, issued with Group Communication No. 166 of 8<sup>th</sup> August 2008. This Group Communication also includes the “Methodological manual for compliance risk assessment pursuant to Law No. 262/05” that was updated and then approved by the Management Board on 17<sup>th</sup> December 2012 and circulated in Group Circular 44 of 25<sup>th</sup> January 2013, with the aim of increasing the focus of the Senior Officer Responsible on the most critical areas by planning monitoring activities on the basis of the degree of risk assigned to the various relevant processes pursuant to Law No. 262/05 (the risk driven process).

That methodology adopted is based on the main reference frameworks recognised nationally and internationally for the development of adequate systems of internal controls for financial reporting, the COSO Framework<sup>1</sup> and the COBIT Framework<sup>2</sup>, and it involves different areas described in detail in the section that follows.

### 2) Description of the main characteristics of risk and internal control management system in relation to financial reporting processes.

The system of controls for financial reporting is based on three fundamental pillars:

- the existence of an adequate internal control system at company level designed to reduce the risk of errors and improper conduct for the purposes of accounting and financial reporting, by verifying on an ongoing basis that adequate systems of governance and standards of conduct and adequate risk management processes are in place and that there are effective organisational structures, clear reporting systems and adequate IT and

---

<sup>1</sup> COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a private voluntary organisation for the improvement of the quality of financial reporting through the use of ethical principles in business, internal control and an adequate system of corporate governance

<sup>2</sup> Il COBIT (Control Objectives for IT and related technology Framework) was drawn up by the IT Governance Institute, a United States body which has the objective of defining and improving corporate standards in the IT sector. More specifically, the UBI Group has adopted the Framework IT Control Objectives for Sarbanes Oxley, defined specifically to control financial information.

communication systems. Verification at company level is performed by using a special tool known as “CLC Assessment”, which is based on the qualitative assessment of a series of risk factors considered essential for the soundness and reliability of an administrative and financial governance system;

- the development and maintenance of adequate processes to control the production of accounts and financial reports and subsequent verification over time that they are adequate and actually applied. This includes administrative and accounting procedures that guarantee reasonable certainty of the reliability of financial reporting, whether it relates to financial reporting processes in the strict sense of the term or to business and support processes considered nevertheless significant for the purposes of financial reporting;
- the development of controls on the management of technological infrastructures and software applications which regard financial and administrative processes and subsequent verification over time that they are adequate and actually applied.

a) **Stages of the risk and internal control management system in relation to financial reporting processes**

With regard to the development and maintenance of adequate processes of control over the production of accounts and financial reports and the development of controls over the management of technological infrastructures, the framework adopted involves the following stages of analysis and investigation:

- identification of the relevant scope of application consisting of the companies in the UBI Banca Group, the accounts and processes considered significant on the basis of both quantitative parameters, in relation to operating and capital amounts in the financial statements, and qualitative parameters, in relation to the complexity of the business and the type or implicit risks;
- definition of the area of investigation of the reference year by planning annual assessment activities, planned on a six-monthly basis, in application of the risk driven Model referred to above, involving the assignment of a risk ranking to processes. On the basis of that Model, differentiated analysis approaches are defined, while always ensuring an appropriate level of supervision of the most significant processes, partly on the basis of qualitative elements inferred from: anomalies found in previous analyses, level of stability of the processes, and the analysis of anomalies found by other monitoring functions and of information acquired through interviews of the Chief Risk Officer, Chief Audit Executive e Chief Operating Officer held for this purpose;
- definition of the regular frequency of assessment processes, on the basis of the degree of risk assigned to the process, giving priority to processes that are considered to be at high risk but in any event ensuring, over the three year period, that all significant process are assessed, even if they are considered to be at low risk;
- documentation of the processes and the relative risks and controls. This activity is designed to assess and document the processes identified as significant for the purposes of Law No. 262/2005 and also the risks connected with financial reporting and the relative controls set in place to oversee them. The production of these documents constitutes a preliminary condition for the subsequent verification of the adequacy of the internal control system. Monitoring the risks of the violation of financial reporting procedures, intrinsic to the life cycle of financial data, is dependent on observance of “financial assertions” which international standards define as the requirements which each item in the financial statements must meet for compliance with legal obligations. “Financial assertions” therefore perform the function of an operational tool which guides the identification and assessment of the controls to perform, the absence or ineffectiveness of which can prejudice the achievement of veracity and accuracy in the representation of the capital, operating and financial position of the Group;
- risk measurement and the adequacy of the controls. The objective of that activity, termed “risk and control assessment”, is to verify the adequacy of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. This activity consists of the following steps:
  - valuation of the key controls for mitigation of financial reporting risks, identified and defined at the “risk and control assessment” stage. This activity, known as “test of design”, is intended to define the requirements of the key controls for

- mitigation of the risks of failure to comply with "financial assertions". This activity may bring to light concerns requiring the preparation of appropriate corrective action plans;
- verification of the effective and continuous application of controls. This stage, which consists of "effectiveness tests", is designed to assess the effective application, in the accounting period, of administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. In this stage, verification is performed of the implementation of the controls provided for by the system of documentation put in place during the stage when processes and procedures were formulated and introduced. This activity may bring to light concerns requiring the preparation of appropriate corrective action plans;
  - definition and monitoring of corrective action to be undertaken as a result of the verifications performed. The methodology involves the initiation, on the basis of the corrective action plans just mentioned, of a structured course of action which by means of specific monitoring action, leads to effective reinforcement of controls by the involvement and empowerment of the relative process owners and the consequent modification of the related internal system of regulations;
  - assessment, on completion of the stages described above, of the degree of adequacy of the internal control system put in place for the production of financial reports. Final assessment is officially performed with a specific report that is submitted to the General Management and the Management Board.

#### b) Roles and functions involved

The operational stages described above are conducted by the specialist structure within the Parent, in staff units under the Senior Officer Responsible, and also with the support of various other corporate roles involved for various reasons in compliance with the specific requirements of Law No. 262/05.

The following are involved:

- with regard to the Chief Operating Officer through the units reporting to him. The Organisation Area of UBI and of UBI Sistemi e Servizi is involved in the organisation and maintenance of document systems, designed to meet the requirements of assessing the adequacy and effectiveness of procedures that impact financial reporting;
- with regard to the other internal control functions (relating in particular to the Chief Audit Executive e Chief Risk Officer), in order to create organisational synergies and consistency in assessment across the various units concerned.

Furthermore, the administrative and financial governance model also employs a hierarchical certification system whereby the Executive Officers of individual companies and outsourcers of the UBI Banca Group, and the General Manager and first line staff of UBI Banca, provide the Chief Executive Officer and the Senior Officer Responsible of the Parent with internal certifications.

Before certifications pursuant to Art. 154 *bis* of Legislative Decree No. 58/98 on the annual separate company and consolidated financial statements and on the condensed interim financial statements are issued, following the verification procedures performed during the year, a special report is prepared by the staff that report directly to the Senior Officer Responsible containing, amongst other things, a summary opinion on the soundness and effectiveness of the administrative and accounting internal control system, which is submitted to the General Manager for a prior opinion.

This report, approved by the Senior Officer Responsible for preparing company accounting documents and the Chief Executive Officer, is submitted to the attention of the Management Board on a six-monthly basis.

**ATTACHMENT 2**

**Policy on internal controls on risk assets and conflicts of interest with regard to connected parties**

- 1 [Introduction](#).....63
- 2 [Identification of sectors of activity and types of economic relationships](#) ..... 65
  - [Criteria for the identification of sectors of activity and types of economic relationships](#) ..... 65
  - [Mechanisms for the identification of sectors of activity and types of economic relationships](#) ..... 65
  - [Significant Persons](#)..... 66
- 3 [Risk appetite](#)..... 67
  - [Consolidated and individual quantitative limits](#) ..... 67
  - [Qualitative controls](#)..... 68
  - [Significant Persons](#)..... 69
- 4 [Guidelines for the establishment and governance of organisational processes to identify and collect information on connected parties and to identify and quantify transactions with them at all stages of the relationship](#)..... 69
  - [Introduction](#)..... 69
  - [Organisational roles](#)..... 69
  - [IT systems and procedures](#)..... 69
  - [Significant Persons](#)..... 70
- 5 [Guidelines for the establishment and governance of control processes for the correct measurement and management of risks assumed, and monitoring the design and implementation of internal policies;](#) ..... 70
- 6 [Powers and competences](#)..... 71

## 1. Introduction

### *External regulatory environment*

The Bank of Italy recently published guidelines on “Risk assets and conflicts of interest with regard to connected parties”<sup>1</sup> which require authorised banks in Italy to adopt appropriate organisational structures and internal control systems to monitor risk assets and conflicts of interest regarding connected parties.

Connected counterparty risk arises from the fact that “the closeness of persons to the decision-making centres of a bank might compromise the objectivity and impartiality of decisions concerning the grant of loans to, and other transactions with, those persons, which may result in possible distortions in the resource allocation process, the exposure of the bank to inadequately measured or monitored risks, and potential harm to depositors and shareholders”<sup>2</sup>.

Supervisory regulations identify two types of controls against such risk:

- limits on regulatory capital designed to contain risk asset<sup>3</sup> exposures to connected parties, differentiated according to their specific type<sup>4</sup>;
- procedures that ensure the integrity of decision-making processes in transactions with connected parties, safeguarding resource allocation and protecting third parties from expropriation practices<sup>5</sup>.

In this context, connected parties are defined in general terms as:

- related parties;
- parties associated with them<sup>6</sup>.

Finally, in order to take account of potential risks of conflicts of interest caused by counterparties that do not, strictly speaking, fall under the definition of connected parties but whose work could in any case have a significant impact on the bank’s risk appetite (e.g. “significant personnel”<sup>7</sup>), the regulations require all banking groups to adopt – in line with provisions on connected counterparties – appropriate processes to manage transactions in which such parties could have a direct or indirect interest, personally or otherwise.

Specifically, internal procedures must require the relevant personnel to declare their interests in individual transactions and for the management of such relationships to be assigned to a hierarchically superior level.

### *Internal regulatory environment*

In order to implement the regulations on controls<sup>8</sup>, the UBI Group has adopted the “*Policy on internal controls on risk assets and conflicts of interest with regard to connected parties*”. This sets out the guidelines and rules for the adoption – by the Group as a whole and the individual banks and companies within it – of adequate organisational structures, internal control systems and specific policies to monitor these risks in the two areas defined above (prudential limits and decision-making processes).

The purpose of the guidelines and rules is to give the UBI Group effective control mechanisms and to identify the responsibilities of company bodies, the duties of the corporate functions and reporting regarding the prevention, correct management, mitigation and monitoring of potential conflicts of interest resulting from all relationships with connected parties, with a particular focus on recording them and monitoring changes in exposures to and transactions with them.

---

<sup>1</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5.

<sup>2</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 – Section I.

<sup>3</sup> Risk assets are considered net exposures as defined for the purposes of the regulations on concentration of risk (see Title V, Chapter 1, Section I, para. 3) and the “Instructions for compiling regulatory capital reports and capital ratios” (Circular No 155 of 18<sup>th</sup> December 1991), Section 5.

<sup>4</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 – Section II Limits on risk assets.

<sup>5</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 – Section III Decision-making procedures.

<sup>6</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 – Section I Paragraph 3.

<sup>7</sup> See para. 3.2 of the “Provisions on remuneration policies and practices in banks and banking groups” of 30<sup>th</sup> March 2011.

<sup>8</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 – Section IV.

Regarding the definition of “connected parties”, UBI Group’s *“Regulations for transactions with UBI Group connected parties”* sets out, in detail, the scope of what is meant by related parties and parties associated with them.

Finally, in order to take account of potential risks of conflicts of interest caused by counterparties that do not, in strict terms, fall under the definition of connected parties but whose work could in any case have a significant impact on the bank’s risk appetite (e.g. “significant personnel”<sup>9</sup>), the UBI Group adopts – in line with provisions on connected counterparties – appropriate processes to manage transactions in which such parties could have a direct or indirect interest, personally or otherwise. Specifically, internal procedures must require the personnel concerned to declare their interests in individual transactions and for the management of such relationships to be assigned to a hierarchically superior level.

The definition of “significant personnel” encompasses the people defined as “Top management” in the *“UBI Group remuneration and incentive policies”* document, as approved by the Supervisory Board.

Hereafter in the policy, these people are termed “Significant Persons”.

The actual practical implementation of the legislation and regulations, and of the guidelines set forth in the policy, must be adapted to the characteristics and strategies of the Group as a whole and of each bank and company within the Group, in accordance with the principle of proportionality, while ensuring precise compliance with the supervisory regulations.

In this context, the Parent approves and reviews internal policies on controls on risk assets and conflicts of interest with regard to connected parties at least once every three years. The relative decisions are adopted following the procedures set forth in legislation and regulations<sup>10</sup> and the various documents setting out internal control policies are communicated to shareholders via a specific report and kept available in case requested by the Bank of Italy.

The governing bodies of Group entities must be aware of the risk appetite and the risk management policies set by the senior management of the Parent. To this end, they must implement the contents of internal policies, company regulations and, in general, legislation and regulations, and they must contribute to its implementation, each according to their responsibilities, consistent with the reality of their companies and with the risk management strategies and policies decided by the senior management of the Parent.

### *Content and structure of the policy*

In accordance with the regulations on internal controls on risk assets and conflicts of interest with regard to connected parties, the policy comprises the following chapters<sup>11</sup>:

- *Identification of sectors of activity and types of economic relationships*, which, in line with the Group’s operating characteristics and strategies, sets out the rules and guidelines for identifying the sectors of activity and types of economic relationships where conflicts of interest could arise;
- *Risk appetite*, which establishes the maximum total acceptable risk asset exposure to all connected parties and the related organisational structures to effectively monitor compliance – *ex ante* and *ex post* – with this limit.
- *Guidelines for the establishment and governance of organisational processes to identify and collect information on connected parties and to identify and quantify transactions with them at all stages of the relationship*, which sets out specific and separate rules and guidelines for organisational roles and IT systems;

<sup>9</sup> See para. 3.2 of the “Provisions on remuneration and incentive policies and practices in banks and banking groups” of 30<sup>th</sup> March 2011.

<sup>10</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 – Section III paragraph 2.2. “The bank’s management board, supervisory board and independent directors must be closely involved in drafting, amending and substantially adding to the procedures, and the main corporate functions affected must also have an input. Specifically:

- procedures are set by the body responsible for strategic supervision;
- the independent directors and the supervisory board provide a detailed and reasoned opinion on the overall suitability of the procedures to meet the objectives of the current policy; the opinions of the independent directors and supervisory board are binding for the decision of the body responsible for strategic supervision;
- the relevant internal units perform a thorough investigation, each in their own areas of responsibility, to check that the proposed solutions meet the various requirements of this policy.

The procedure described above is also followed for proposals, to be submitted to the shareholders’ meeting, to amend the articles of association if it is necessary to alter these provisions.”

<sup>11</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 Section IV.

- *Guidelines for the establishment and governance of organisational control processes for the correct measurement and management of risks assumed, and monitoring the design and implementation of internal policies;*
- *Powers and responsibilities*, which sets out the principles that the Management Board must follow when enforcing the risk assumption limits defined in this policy.

## 2. Identification of sectors of activity and types of economic relationships

### *Criteria for the identification of sectors of activity and types of economic relationships*

With reference to the sectors of activity and types of economic relationships, transactions with connected parties can cover any transaction involving the assumption of risk asset exposures<sup>12</sup>, transfers of resources, services or obligations, regardless of whether or not consideration is due in return.

The Group has a “Regulation on transactions with UBI Group connected parties” which sets out in detail:

- the definition of connected-party transactions;
- the distinctions between connected parties according to their greater or lesser significance and the size of the amount, and the identification of the quantitative and qualitative parameters used to classify the various types of transactions (e.g. quantitative indicators include the relevance indicator of the amount of the transaction<sup>13</sup> and the regulatory capital, and the relevance indicator of the asset; qualitative indicators include organisational rules that determine which bodies take decisions over specific transactions);
- exclusions<sup>14</sup>.

### *Mechanisms for the identification of sectors of activity and types of economic relationships*

Under the criteria set out in the preceding paragraph, the notion of transactions with connected parties could potentially cover all transactions and all kinds of economic relationships pertaining to sectors of activity – including those that do not imply risk asset exposures – that could give rise to conflicts of interest and can be carried out both by the Parent and by the individual banks and companies in the Group.

In this sense, given the variety and high number of transactions that fall within the scope of connected-party transactions, in order to monitor this risk thoroughly the Group must adopt<sup>15</sup> procedures, processes, mechanisms and internal policies to ensure that any operator who enters into contact with a potential connected party – following a request to carry out any kind of transaction and prior to its execution – checks whether the counterparty is designated as a connected party in the Group database and, if the counterparty is a connected party, check whether the transaction is covered by one of the exclusions.

The guidelines for the identification process are set out in paragraph 4.

<sup>12</sup> Risk asset are considered net exposures as defined for the purposes of the regulations on concentration of risk, as described in Title V, Chapter 1, Section I, para. 3 of the Supervisory Regulations and the “Instructions for compiling regulatory capital reports and capital ratios” (Circular No 155 of 18<sup>th</sup> December 1991), Section 5.

<sup>13</sup> For the relevance indicator of the amount, the amount may be the sum paid to/from the counterparty if cash was used, the fair value if financial instruments were used, or the maximum amount disburseable in the case of loans. Qualitative/organisational rules set by the Supervisory Board on the basis of the provisions of the articles of association or other legislation and regulations (the Civil Code, the supervisory code ...) are deemed to be more significant.

<sup>14</sup> In accordance with supervisory regulations (see Title V – Chapter 5 – Section I – Paragraph 3) the following are not considered to be connected-party transactions:

- transactions between members of a banking group if they are connected by a relationship of total control, including jointly;
- fees paid to the corporate officers, providing these are in line with the supervisory provisions on incentive and remuneration systems in banks;
- intra-group transfers of funds or of collateral carried out as part of the system to manage consolidated liquidity risk, including transactions relating to covered bonds, securitisations and similar transactions;
- transactions to be performed on the basis of instructions for the purposes of stability issued by the Bank of Italy, or on the basis of instructions issued by the Parent of the Group to carry out instructions issued by the Bank of Italy in the interests of the stability of the Group;

<sup>15</sup> This activity also covers updating existing procedures, processes and mechanisms that widen the definition of connected parties (e.g. significant personnel).

In order to more accurately identify the areas where the guidelines are to be implemented in practice, the transactions that could generate conflicts of interest in relation to the Group's operations and strategies can be split into ordinary banking activities (in the narrow sense) and extraordinary transactions (in the broad sense).

The ordinary operations defined as UBI Group banking activities (in the narrow sense) include, for example:

- granting credit<sup>16</sup>;
- funding activities;
- investment and ancillary services for financial and non-financial assets<sup>17</sup>;
- advisory services and assistance for customers and other counterparties;
- collection, payment and fund transfer services;
- opening typical banking relationships (e.g. current accounts) and applying and changing their economic conditions;
- operations relating to remuneration and incentives systems;
- ordinary activities relating to managing the acquisition and disposal of goods and services.

The extraordinary operations defined as UBI Group banking activities (in the broad sense) include, for example:

- extraordinary activities relating to managing acquisitions and disposals of goods and services, including the purchase, sale and leasing of real property.
- extraordinary transactions (e.g. buying equities, corporate transactions such as mergers, demergers by acquisition or demergers in the strict non-proportional sense, increases in share capital, etc.).

While this list is merely for illustrative purposes and cannot be considered an exhaustive illustration of the preceding paragraph, the internal regulations governing each of the areas indicated must be supplemented and amended in order to transpose the provisions of the supervisory regulations and the criteria and guidelines set out in this policy and the regulation on transactions with connected parties.

In particular, the processes, procedures and IT systems that govern management of individual transactions/relationships with connected parties at all stages of the relationship (e.g. initial decision, management, monitoring) must be identified and made official in the internal regulations on the subject.

### *Significant Persons*

The guidelines, systems and rules set out in this section must also be properly applied following the minimum standards set forth in supervisory documents<sup>18</sup> on significant persons, as defined in the introduction.

---

<sup>16</sup> See the specific instructions on conflicts of interest between granting credit and investing in equities, as set out in the regulation on what shares banks may hold.

<sup>17</sup> See the specific instructions on conflicts of interest in investment and ancillary services, as set out in the joint Bank of Italy-Consob regulation implementing article 6, paragraph 2-*bis* of the Consolidated Finance Act.

<sup>18</sup> The legislation and regulations require that banks and banking groups' own rules must at least require personnel to declare their interests in operations and for the management of such relationships (e.g. granting credit, entering credit litigation) to be assigned to a hierarchically superior level.

### 3. Risk appetite

#### *Consolidated and individual quantitative limits*

The UBI Group and each bank in the Group intend to comply with the prudential limits on risk asset exposures to connected parties set forth in supervisory regulations. To that end, they have adopted mechanisms designed to ensure ongoing compliance with said limits. The consolidated limits are reported in the table below.

#### **Prudential limits on risk asset exposures to connected parties**

(Limits related to the consolidated Supervisory Capital)

Corporate members	Controlling participants or able to exercise significant influence	Other participants and subjects different from participants	Subjects under control or significant influence
5%	Non financial correlated parties		
	5%	7.50%	15%
	Other correlated parties		
	7.50%	10%	20%

At the individual level, each bank belonging to the UBI Group may have risk asset exposures to connected parties totalling less than 20% of its own regulatory capital, regardless of the financial or non-financial nature of the connected party.

In order to calculate the individual limit, banks belonging to a banking group consider their risk asset exposures to all connected parties across the group.

#### *Risk appetite – maximum limit of all exposures to all connected parties*

In accordance with the supervisory regulations, UBI Group establishes its risk appetite on an annual basis, which is made official via a specific internal regulation applying to the units responsible.

The following terms are defined in accordance with the provisions of the document "Risk appetite and the creation of value in the UBI Banca Group: interpretation and governance":

- limit: the maximum/minimum value of a quantifiable risk indicator, which is established by the Supervisory Board and binding on the actions of the Management Board. Generally speaking, if the policy does not provide any further specific rules, in the event that this limit is exceeded then the Supervisory Board must be promptly informed and an automatic ban enforced on assuming new risk positions or increasing existing risk positions; the Management Board may only take corrective action with the prior approval of the Supervisory Board or, in urgent cases, of its Chairman;
- early warning threshold: the maximum/minimum value of a quantifiable risk indicator, which is established by the Supervisory Board and, if exceeded, must be immediately notified to the Supervisory Board or its Chairman by the Management Board, which retains complete operating independence;
- target: the value – possibly referring to a quantifiable risk indicator – that the Management Board must aim for in its activities, and therefore in annual and multi-year plans. It is also possible to set a qualitative target. Divergence from the established targets is stated in the periodical reports sent between the Management Board and the Supervisory Board.

UBI Group sets risk appetite towards connected parties in terms of:

- the maximum authorised credit towards all connected parties as a ratio against the total authorised credit to ordinary customers (nominal value);
- an early warning threshold and an absorbed capital limit (credit requirements) at consolidated level, as an expression of total consolidated Available Financial Resources<sup>19</sup>.

<sup>19</sup> For the definition of Available Financial Resources, see "Risk appetite and the creation of value in the UBI Banca Group: interpretation and governance". The values attributed to the Available Financial Assets are not to be added to the amounts given in the "Credit risk management policy", of which they are simply a component.

The values can be summarised as follows:

<b>Description of levels *</b>		<b>Value</b>
<b>Authorised credit limit (nominal value)</b>	Total authorised credit for connected parties / total authorised credit for ordinary customers	≤ 2.75%
<b>Early warning threshold for allocated capital (credit risk)</b>	Internal capital absorbed / available financial resources	≤ 1.75%
<b>Allocated capital limit (credit risk)</b>	Internal capital absorbed / available financial resources	≤ 2.0%

(\*) Figures used to calculate limits are updated to 30th September 2012

Levels of authorised credit and internal capital absorbed are checked on a quarterly basis, at the same time as supervisory reports are produced.

The Management Board is responsible for verifying the figure set out in this document and must report to the Supervisory Board regarding maintaining the indicator within below the established value.

Lastly, the Group assesses legal, reputational and conflict-of-interest risks related to dealing with connected parties, where relevant to business operations, as part of the Internal Capital Adequacy Assessment Process (ICAAP); specifically, if prudential limits are exceeded, as well as the initiatives described in the recovery schedule it also takes account of excesses in the process to determine total internal capital.

#### *Qualitative controls*

In order to ensure proper management and adequate monitoring of risk assets, the Group has adopted suitable controls and specific credit policies which cover the following subjects:

- procedures to identify connected parties, to record their details in Group IT applications, considering the overlaps with IFRS connected parties, regulations on connected parties pursuant to Consob resolution 17221/2010 and Art. 136 of the Consolidated Banking Act regarding the proper storage of information and its amendment in the event of changes in connected parties;
- rules to determine the amount of exposure subject to limit checks in the event of the existence of risk mitigation guarantees (e.g. personal guarantees, guarantees with security, etc.);
- rules to identify cases in which the assumption of additional risk assets should be accompanied by specific risk attenuation techniques provided by persons independent from the connected parties and whose value is not positively correlated with the creditworthiness of the borrower. The identification of such cases must be general in scope and refer to the amount of risk assets as a ratio of regulatory capital, transaction frequency and the nature of the relationship between the connected party and the bank or banking group;
- processes to ensure effective management of limits on risk exposure to connected parties, to be evaluated both *ex ante* (when a new loan is under consideration or being amended) and *ex post* (during the monitoring phase);
- rules on first level and second level monitoring and on periodic reporting, clearly identifying the organisational structures responsible. Regulations must also be drawn up on processes regarding prompt notification of the bodies responsible in the event that the defined limits are exceeded;
- the establishment of a process to ensure that risk asset exposures to connected counterparties are restored to within the limits if they are exceeded<sup>20</sup> under the rules set out in legislation and regulations<sup>21</sup>.

<sup>20</sup> For example, if it became a connected party after the relationship was established.

### *Significant Persons*

The guidelines, systems and rules set out in this section must also be adequately applied following the minimum standards set forth in supervisory documents<sup>22</sup> on significant persons, as defined in the introduction.

## **4. Guidelines for the establishment and governance of organisational processes to identify and collect information on connected parties and to identify and quantify transactions with them at all stages of the relationship**

### *Introduction*

In order to comply with supervisory regulations on identifying and recording information about parties and identifying and quantifying transactions, the UBI Group has devised and adopted specific organisational processes to:

- identify connected parties, to record their complete details in Group IT applications, considering the overlaps with IFRS connected parties, regulations on connected parties pursuant to Consob resolution 17221/2010 and art. 136 of the Consolidated Banking Act regarding the correct storage of information and its amendment in the event of changes;
- identify and quantify transactions with connected parties at all stages of the relationship, from the time that the transaction is requested and prior to its execution.

The rules and guidelines that the Group intends to follow in terms of organisational roles and IT systems and procedures are set out below.

### *Organisational roles*

The responsibility for identifying existing relationships between counterparties – and between counterparties and the bank, or between the Parent and the Group companies – where the counterparty can be defined as a related or connected party, lies with the corporate function assigned to monitor business groups in order to assess major risks, as defined in the supervisory regulations.

To this end, the function responsible for identifying the counterparty as a connected party and the connected relationships must use all information available both internally (e.g. company databases and archives) and externally (the “*Centrale rischi*” central credit register, the “*Centrale bilanci*” central register of financial statements, etc.), integrating and comparing them in order to ensure it has a complete overview of the business groups.

The activities relating to identifying a counterparty as a connected party must be carried out on an ongoing basis and ensure that information is up to date.

The function must also adopt suitable procedures for collecting, conserving and updating information on connected parties, and must make these procedures official by way of a specific internal regulation.

Lastly, particular attention is required in cases of relationships with business groups that use complex corporate structures or do not ensure total transparency with regard to their ownership and organisation structures (e.g. if they include offshore companies or use company vehicles or legal schemes that can obstruct the reconstruction of ownership or control structures).

### *IT systems and procedures*

The Group has adopted IT systems that are in use across the entire banking group and accessible to all units, which make it possible to:

- record information about connected parties from the moment they are defined as such pursuant to the “[Regulation on transactions with UBI Group connected parties](#)”;

---

<sup>21</sup> See Circular No. 263 of 27<sup>th</sup> December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12<sup>th</sup> December 2011 – Title V – Chapter 5 – Section II – Paragraph 3: “the Parent will prepare, within 45 days of the limit being exceeded, a recovery plan put forward by the management body and approved by the body responsible for strategic oversight, having consulted the body responsible for control. The recovery plan is sent to the Bank of Italy within 20 days of its approval, together with the documents containing the resolutions of the corporate bodies.”

<sup>22</sup> The legislation and regulations require that banks and banking groups’ own rules must at least require personnel to declare their interests in operations and for the management of such relationships (e.g. granting credit, entering credit litigation) to be assigned to a hierarchically superior level.

- provide all banks in the Group with up-to-date information about Group connected parties;
- to record changes to them;
- to monitor – *ex ante* and *ex post* – the total amount of and changes in the associated risk assets, also considering the current value of any existing risk mitigation techniques.

Specifically, the Parent uses IT systems that make it possible to verify, at all times, compliance with the consolidated and individual limits on risk asset exposures to connected parties.

#### *Significant Persons*

The guidelines, systems and rules set out in this section must also be properly applied following the minimum standards set forth in supervisory documents<sup>23</sup> on significant persons, as defined in the introduction.

### **5. Guidelines for the establishment and governance of control processes for the correct measurement and management of risks assumed, and monitoring the design and implementation of internal policies.**

In order to ensure that it has a system of controls that are in line with legislation and regulations, the UBI Group designs and adopts appropriate multi-level organisational control processes in accordance with the Group governance policy.

Three different levels of control units are responsible for ensuring correct measurement and management of risk exposures to connected parties and good scheme and implementation of internal policies, each according to the responsibilities assigned to them under corporate procedures, as indicated the relevant internal Group documentation, which must be updated and expanded to take account of the supervisory regulations and the rules and guidelines set forth in the policy.

Group controls are structured as follows:

- *first level controls* (i.e. line controls) designed to ensure the proper performance of the activities relating to their mission at different hierarchical levels. These are carried out by the unit managers (hierarchical controls), incorporated into procedures (procedural controls) or performed as part of back-office and/or staff activities; they are integrated into the processes to which they belong/pertain;
- *second level controls*, performed by specialist functions tasked with the ongoing identification, prevention and measurement of business risks, and providing periodic and specific reports, as a necessary basis for monitoring and assessing the system of internal controls;
- *third level controls*, performed by the internal audit function and leading to an objective judgment on the setup and functioning of the internal control system or parts thereof and, in particular, on the adequacy of risk controls assigned to specialist functions.

Specifically, the legislation and regulations require that:

- the risk management function is responsible for measuring the risks – including market risks – underlying relationships with connected parties, checking compliance with the limits attributed to the various structures and operating units, and monitoring each of their compliance with the risk appetite levels set out in internal policies;
- the compliance function verifies the ongoing existence and robustness of procedures and systems capable of ensuring compliance with all external and internal regulatory obligations;
- the internal audit function checks that internal policies are being followed, immediately reporting any failures to the supervisory body and the bank's senior

<sup>23</sup> The legislation and regulations require that banks and banking groups' own rules must at least require personnel to declare their interests in operations and for the management of such relationships (e.g. granting credit, entering credit litigation) to be assigned to a hierarchically superior level.

management; it also provides periodic reports to corporate bodies regarding the overall exposure of the bank or banking group to risks deriving from transactions with connected parties and other conflicts of interest, where necessary proposing amendments to internal policies and organisational and control structures to improve monitoring of such risks;

- the independent directors of the Parent provide assessments, support and proposals on organisational matters and the performance of internal controls on all activities involving the assumption and management of risk exposures to connected parties and also perform general checks on the compliance of the activities with strategic and management guidelines. The Supervisory Board assigns the functions described in this paragraph to the current Consob Related Parties Committee, which is to be renamed the Related and Connected Parties Committee.

The processes, mechanisms and IT systems relative to the controls at every level – both procedural and hierarchical/functional – are identified and described for each business sector, naming the units responsible, and made official in the internal regulations governing the management and performance of the operations.

## **6. Powers and competences**

The Supervisory Board is responsible for defining and adopting Group-wide strategies on risk exposures to connected counterparties and approving the Management Board's proposed methods for identifying and assessing risk, qualitative risk management indicators and quantitative information.

The Parent approves and reviews internal policies on risk assets and conflicts of interest with regard to connected parties at least once every three years. The documents setting out internal control policies are communicated to shareholders via a specific report and kept available in case requested by the Bank of Italy.

The Supervisory Board is responsible for amending and updating the policy, while the Management Board is responsible for the practical implementation of the individual rules and regulations.

Without prejudice to the boundaries set out above, the Management Board is responsible for the practical implementation of rules and limits established in internal regulations.

In order to ensure the utmost thoroughness of information, any proposals to amend this policy document submitted for the approval of the Supervisory Board must be accompanied by the documents referred to above, noting any changes necessary for the practical implementation of the new version of the policy document.

In the event of changes to the regulations implementing the rules and policy guidelines adopted by the Management Board, the new version of the regulations must be submitted to the Supervisory Board for information purposes; the new provisions will take effect 15 days after the Management Board sends the document to the Supervisory Board.

The Management Board is responsible for the full implementation of this policy.

