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REPORT ON THE CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF UBI BANCA S.p.A.

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

Website: www.ubibanca.it

Financial year: 2018

Date: 7th February 2019



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Glossary

Code/Corporate Governance Code: the Corporate Governance Code for listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI (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).

Civil Code: the Italian Civil Code.

Regulations concerning risk assets and conflicts of interest with connected persons: Bank of Italy Circular No. 263 of 27th December 2006 - 9th amendment of 12th December 2011.

Supervisory Regulations: the regulations issued by the Bank of Italy in carrying out its regulatory functions, addressed to banks and banking groups, contained in Circular No. 285 of 17th December 2013.

Issuer/Company/Bank/UBI Banca: Unione di Banche Italiane Società per azioni.

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

Consob Issuers' Regulations/Issuers' Regulations: the regulations for issuers issued by the Consob (*Commissione Nazionale per le Società e la Borsa* - Italian securities market authority) with Resolution No. 11971 of 1999 (as subsequently amended).

Consob Markets Regulations: the regulations for markets issued by the Consob (Italian securities market authority) with Resolution No. 20249 of 2017 (as subsequently amended).

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

Report: Report on corporate governance and the ownership structure pursuant to Art. 123-*bis* of the Consolidated Finance Law.

Report on Remuneration: the Report on Remuneration prepared in accordance with Art. 123-*ter* of the Consolidated Finance Law and subsequent implementation provisions and also pursuant to Bank of Italy Supervisory Regulations is available in accordance with the law at the registered address of the Bank, on the website of the Issuer (www.ubibanca.it) and on the registered storage facility named "1info" (www.1info.it).

Consolidated Finance Law: Legislative Decree No. 58 of 24th February 1998, as subsequently amended.

Consolidated Banking Law: Legislative Decree No. 385 of 1st September 1993, as subsequently amended.

Introduction

This report - which is available on the Bank's website (www.ubibanca.it, Corporate Governance section) and on the registered storage facility named "1info" (www.1info.it) - has been prepared in accordance with Art. 123-bis of the Consolidated Finance Law and is also intended to fulfil the public disclosure obligations for banks relating to organisational structure and corporate governance pursuant to the supervisory regulations concerning corporate governance (Bank of Italy Circular No. 285 of 17th December 2013 - Title IV, Chapter 1, Section VII) - (Attachment 1 - Compliance table).

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INTEGRATION OF BRIDGE BANKS INTO UBI BANCA

The project to integrate the banks acquired in May 2017 into UBI Banca was completed in February 2018.

This project was carried out in accordance with the following schedule:

- the merger of Banca Adriatica (formerly Nuova Banca delle Marche, "NBM") and of CARILO - Cassa di Risparmio di Loreto ("CRL"), with the merger deed signed on 16th October 2017 and with effect with regard to third parties from 23rd October 2017 (effective for accounting and tax purposes from 1st October 2017);
- the merger of Banca Tirrenica (formerly Nuova Banca dell'Etruria e del Lazio, "NBEL") and Banca Federico del Vecchio ("BFDV") with the merger deed signed on 14th November 2017 and with effect with regard to third parties from 27th November 2017 (effective for accounting and tax purposes from 1st October 2017);
- the merger of Banca Teatina (formerly Nuova Cassa di Risparmio di Chieti, "NCRC") with the merger deed signed on 20th February 2018 and with effect with regard to third parties from 26th February 2018 (effective for accounting and tax purposes from 1st January 2018).

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DEVELOPMENTS IN GOVERNANCE

As already stated in the 2017 Report, on 12th December 2017 the Supervisory Board approved guidelines for the revision of governance involving the adoption of a one-tier system of management and control in place of the two-tier system because it is:

- (i) more familiar since it is widely used internationally;
- (ii) more efficient in terms of organisation; and
- (iii) able to maintain a strong focus on the control function, located within the Board, with the consequent participation of the said function in strategic decision making and the management of the Company.

The text of the new Articles of Association approved by the Management and Supervisory Boards within their respective remits and which received authorisation from the European Central Bank on 24th August 2018 was approved by an Extraordinary Shareholders' Meeting on 19th October 2018.

More specifically, the new Articles of Association, consisting of 38 articles, provide for a Board of Directors composed of 15 members, five of whom are also members of the Management Control Committee.

One of the changes in the new Articles of Association, in compliance with the Corporate Governance Code, regards the transitional nature of the provisions introduced by Law No. 120 of 12th July 2011 (the “Golfo-Mosca Law”) on parity between genders. It has been decided that the composition of the Board must in any case ensure a balance between genders, that is to say even after the specific period set by the law cited.

The new provisions of the Articles of Association will take effect when the first renewal of the governing bodies to which they apply takes place, with the exception of articles 20, 21 and 22 (concerning requirements and submission procedures for the slates for the appointment of members of the Board of Directors) which will become applicable from the date on which the Shareholders’ Meeting called to vote on the appointment of new governing bodies is convened.

The process for the adoption of the new governance system, which involves the revision, in progress, of policies and internal procedures, will be concluded by the time of the 2019 Annual General Meeting, which will appoint board members for the following three-year term of office, on the basis of the rules of the new corporate governance system.

For further information on the characteristics of the one-tier management and control model and the new Articles of Association approved by the Extraordinary General Meeting of the Shareholders of UBI Banca held on 19th October 2018, see the documentation available on the Bank’s website (www.ubibanca.it – Shareholders Section – October 2018 Shareholders’ Meeting). Reference is made in particular to the Illustrative Report to the Shareholders’ Meeting on the new Articles of Association in relation to the adoption of a one-tier management and control system in which the underlying reasons for the choice of a one-tier model are illustrated and details are given of the related amendments to the Articles of Association, which will be applied in the terms described above.

* * *

It should be noted that all the information given in this report refers to the Articles of Association in force at the reporting date.

* * *

1) Profile of the Issuer

The Bank is listed on the *Mercato Telematico Azionario* (electronic stock exchange) organised and managed by Borsa Italiana S.p.A..

The purpose of this report is to provide shareholders and the market with an analysis of the system of corporate governance adopted by the Bank. The system is based on the measures and principles contained:

- in the regulations governing listed issuers set out in the Consolidated Finance Law and in the related rules to implement them adopted by the Consob (Italian securities market authority);
- in the banking regulations contained in the Consolidated Banking Law and its implementing measures;
- in the Corporate Governance Code.

UBI Banca has adopted a two-tier system of management and supervision.

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

- policy, strategic supervision and control functions assigned to the Supervisory Board, which combines some of the 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, to which it can submit prior guidelines, 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. 38);
- corporate management functions, assigned to the Management Board, which has exclusive authority to perform all ordinary and extraordinary operations necessary to the pursuit of the company objects, in compliance with the general guidelines and strategic policies approved by the Supervisory Board (Art 28).

This division of functions makes it possible to identify distinct features of the operational life of the Bank and assign them to the aforementioned corporate bodies which, within their respective roles and responsibilities, give rise to a corporate governance model characterised by continuous dialogue and inter-functional co-operation.

Responsibilities are delegated from the highest governance body to the various organisational levels on the basis of the organisation chart in the General Company Regulations, which identifies missions and responsibilities in relation to each aspect of management for every organisational unit.

From the point of view of the supervisory regulations UBI Banca falls within the category of banks of greater size or operational complexity because it is a listed company.

The total number of the members of the collegiate bodies was decided in order to ensure adequate representation of shareholders and stakeholders and it also complies with supervisory regulations which state that the total number of members of the Management and Supervisory Boards should not be greater than 22 for banks of larger dimensions or greater organisational complexity that have adopted a two-tier governance model.

The table below shows the total number of members of the collegiate bodies of UBI Banca currently in office:

Supervisory Board	15 members
Management Board	7 members

On the basis of the provisions of the supervisory regulations, the strategic supervisory function is focused on the Supervisory Board.

Detailed information about the Supervisory Board and the Management Board is given in sections 4 and 12 respectively of this report.

As a significant supervised entity, UBI Banca is under the direct supervision of the European Central Bank, which has specific tasks relating to the prudential supervision of credit institutions as part of the Single Supervisory Mechanism, including specific checks on the presence of solid principles of corporate governance.

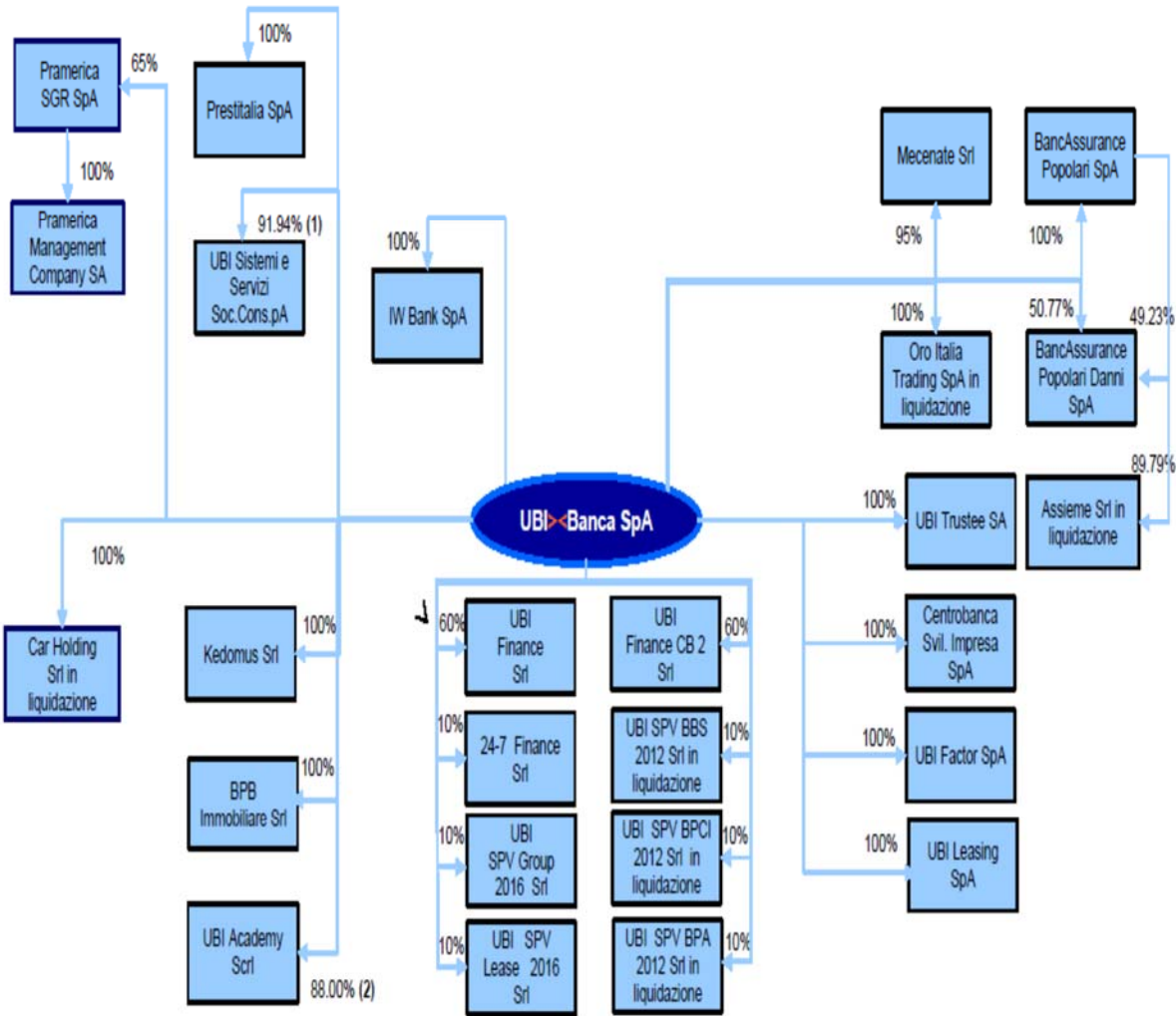
UBI Banca is the Parent of the Unione di Banche Italiane Group with a listed Parent,; it sets strategic policies and performs functions of co-ordination and control over all the organisational units and companies in the Group.

In implementing its management and co-ordination activities in compliance with specific regulations laid down by the Supervisory Authority and exercised in compliance with civil law, UBI Banca sets the strategic objectives of the UBI Group. Moreover, without prejudice to the Articles of Association and operational independence of each company in the Group, it also defines the strategic lines of development for each of them, just as they are called upon on the one hand to achieve those objectives in terms of a single business plan and on the other to

benefit from the overall results of the management and co-ordination activities. Furthermore, it also issues directives to them needed to implement instructions given by the Bank of Italy in the interest of the stability of the Group itself. The companies belonging to the Group are required to comply with the aforementioned provisions.

The chart that follows illustrates the composition of the UBI Group as at 31st December 2018:

UBI Banca Group of Companies as at 31st December 2018



(1) The Group also holds 6.62% divided as follows: IW Bank (4.31%), UBI Pramerica (1.44%), UBI Factor (0.72%), Bancassurance Popolari (0.07%), Prestitalia (0.07%), UBI Academy (0.01%).

(2) The Group also holds the remaining 12.00% divided as follows: UBISS (3%), IW Bank (3%), UBI Pramerica (1.5%), UBI Factor (1.5%), UBI Leasing (1.5%), Prestitalia (1.5%).

Social and environmental responsibility

UBI Banca pursues its business mission while at the same time maintaining that strong sense of social responsibility that is typical of banks which are deeply rooted in their local communities.

This philosophy is strengthened by the adoption of specific instruments such as the Charter of Values, Code of Ethics and Consolidated non-financial Statement. Since the Annual Report for 2017, the latter is the same document as the consolidated non-financial statement pursuant to Legislative Decree 254/2016, prepared in accordance with the policy for the preparation and publication of the consolidated non-financial statement of the UBI Banca Group pursuant to Legislative Decree No. 254/2016 and the relative implementing regulation.

The Management Board approves the consolidated non-financial statement pursuant to Legislative Decree No. 254/2016 and submits it to the Supervisory Board which as part of the functions assigned to it by law, oversees compliance with the provisions of the law that regard the preparation of that document.

As a separate document, the consolidated non-financial statement forms an integral part of the consolidated management report.

Committees which oversee specific issues have been created within the Supervisory Board. These include the Risk Committee, the central body for the periodical verification of project activities together with the broader supervision of sustainability issues associated with business activities, together with the functions previously performed by the Appointments Committee¹.

The environmental and social aspects of operations – and the related risks and opportunities – fall specifically within the responsibilities overseen by the Risk Committee and by the entire Supervisory Board as part of the Reputational Risk Policy and reporting to stakeholders (Consolidated non-financial Statement/Sustainability Report).

Ethical, social and environmental aspects of operations are co-ordinated by the CSR Manager, who is responsible for the Corporate Social Responsibility Function formed as part of the Financial Reporting, Accounting Principles and Controls Service. This service reports to the Chief Financial Officer, who is on the staff of the Chief Executive Officer.

The only official process for direct communication between stakeholders and the highest governing body consists of ordinary and extraordinary Shareholders' Meetings, regulated by the Articles of Association. These may be convened by shareholders themselves in compliance with the provisions of the Articles of Association. Shareholders may also ask for matters to be added to the agendas of Shareholders' Meetings as well as to submit motions for approval on matters already on the agenda.

Nevertheless, when important events occur in the life of the Group, stakeholders (both shareholders and others) are involved in opportunities for discussion with the participation of the Chairs of the Supervisory and Management Boards as well as the Chief Executive Officer, but without prejudice to regulations governing inside information.

Consultation with the other stakeholders is delegated to the various corporate units within the areas for which each is responsible. A special process for consultation with stakeholders for the preparation of the materiality matrix representing the strategic priorities of the Group in relation to sustainability is governed as part of the preparation process for the consolidated non-financial statement. The Supervisory Board is informed of the results and significant concerns that were

¹ Pursuant to Art. 2.1 of the relative Regulation (published on the Bank's website, in the Corporate Governance Section), the Appointments Committee:

- monitors the updating of corporate governance rules and principles of conduct that may be adopted by the Parent Bank and its subsidiaries, whilst also taking account of developments in this field at the national and transnational levels;
- assesses the adequacy of commitments made on issues of corporate social responsibility;
- supervises matters of sustainability associated with business activities and with the development of interactions with stakeholders.

found by means of internal reporting processes (including activities relating to the consolidated non-financial statement pursuant to Legislative Decree 254/2016 - Sustainability Report).

2) Information on the ownership structure (pursuant to Art. 123-bis, paragraph 1 of the Consolidated Finance Law) as of 7th February 2019

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

On 31st December 2018, and also on the date when this report was approved, the subscribed and paid-up share capital of the Bank amounted to €2,843,177,160.24, divided into 1,144,285,146 shares with no nominal value, as specified in Summary table No. 1 attached to this report.

The ordinary shares of UBI Banca are admitted for trading on the *Mercato Telematico Azionario* (electronic stock exchange) managed by Borsa Italiana S.p.A.

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As reported in the UBI Banca interim financial report of 30th September 2018, on the basis of an update of reports received from financial intermediaries, shareholders of UBI Banca numbered approximately 139,000 when the dividend for 2018 (for the financial year 2017) was paid.

Information on current incentive schemes based on financial instruments, relating to the short-term (annual) incentive schemes launched from 2014 to 2018 and the 2017-2019/20 long-term incentive scheme is given in the related documentation, available on the website of the Issuer (www.ubibanca.it, *Shareholders' section*) and in the Remuneration Report.

Sub-section i) below of this section may be consulted in relation to treasury shares.

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

No restrictions on the transfer of shares exist, since the shares are transferable in accordance with the law (Art. 7 of the Articles of Association).

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

On the basis of communications made in accordance with Art. 120 of the Consolidated Finance Law the following investors had investments in the share capital greater than 3% on the date of this report:

- **Fondazione Cassa di Risparmio di Cuneo:** 5.910% (declared on 29/6/2017);
- **Silchester International Investors LLP:** 5.123% (declared on 04/11/2015), stake held as part of its discretionary investment management (1);
- **Banca del Monte di Lombardia Foundation:** 4.959% (declared on 7/12/2017) (2).

- **Capital Research and Management Company (U.S.):** 4.8733% (declared on 28/9/2018), stake held as part of its discretionary investment management. In the same report, the company also disclosed that it held a potential investment of 0.0175% in relation to shares subject to stock lending contracts where the loan may be called at any time at the discretion of the lender;
- **HSBC Holdings Plc** (indirect): 4.236% (of which 4.189% relating to HSBC Bank Plc) (reported on 9/10/2018). The declarant has opted for the exemption provided for under Art. 119-bis, paragraph 4 of the Issuers' Regulations.

(1) On the basis of reports received relating to receipt of the 2018 dividend, Silchester holds an 8.10% stake in the share capital of UBI Banca.

(2) On the basis of reports received relating to receipt of the 2018, dividend, this foundation held a 3.95% stake in the share capital of UBI Banca.

With regard to investments in financial instruments and aggregate investments, we report that on 16th November 2017, in accordance with Art. 119 of the Issuers' Regulations, Edoardo Mercadante disclosed that he held indirectly through the subsidiary management company, Parvus Asset Management Europe Ltd an overall long position with settlement in cash accounting for 5.091% of the share capital composed as follows:

- (a) 0.431%: an equity swap contract with maturity date 03/05/2018;
- (b) 0.020% an equity swap contract with maturity date 03/07/2018;
- (c) 0.004%: an equity swap contract with maturity date 07/08/2018;
- (d) 4.604%: an equity swap contract with maturity date 27/03/2019;
- (e) 0.032% an equity swap contract with maturity date 05/07/2019.

It must in any case be considered that the percentage interests reported may no longer be those actually held if a change has occurred in the meantime which does not involve disclosure obligations in accordance with the applicable regulations.

Further information is given in Summary Table No. 1 attached to this Report.

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

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

The Issuer's Articles of Association do not include provisions for shares with doubled votes pursuant to Art. 127-quinquies of the Consolidated Finance Law, or for shares with multiple votes.

e) Shareholding by employees: exercise of voting rights (pursuant to Art. 123-bis, paragraph 1, letter e) of the Consolidated Finance Law)

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 Law)

At the date of this report there are no restrictions on voting rights.

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

On the basis of the information disclosed pursuant to Art. 122 of the Consolidated Finance Law and the recommendations published on the Consob website (www.consob.it), we report the following agreements between shareholders.

On **1st February 2016** UBI Banca received a communication concerning the constitution on 27th January 2016 of a shareholders' Pact for UBI shareholders entitled ***Patto dei Mille*** (Pact of the Thousand) together with an extract from the said Pact (published in the daily newspaper *MF* on 2nd February 2016) which has been published on the website of the Bank as required by the legislation and regulations.

The Bank also received the relative "Essential Information" pursuant to Art. 130 of the Consob Issuers' Regulations which it published on the corporate website of the Bank, again in accordance with the legislation and regulations in force.

Patto dei Mille governs prior consultation between the holders of the syndicated shares (Art. 122, paragraph 5, letter a of the Consolidated Finance Law), the exercise of voting rights attaching to the syndicated shares (Art. 122, paragraph 1 of the Consolidated Finance Law) and some limits on the circulation of these shares (Art. 122, paragraph 5, letter b of the Consolidated Finance Law).

There is no limit on the life of *Patto dei Mille*.

Holders of the syndicated shares have the right to withdraw from *Patto dei Mille* with three months' notice. Withdrawal is communicated by means of registered letter sent to the President. On the basis of the latest communication made, on 23/07/2018 91 shareholders had adhered to *Patto dei Mille*; they have bound 35,563,830 ordinary shares to the said Pact accounting for 3.108% of the total voting rights representing the share capital of UBI Banca.

On **18th February 2016** UBI Banca received a communication concerning the constitution on 17th February 2016 of a shareholders' Pact for UBI shareholders entitled "**Sindacato Azionisti UBI Banca Spa**" (the "**Syndicate Pact**") together with an abstract of the said Syndicate Pact (published in the daily newspaper *Il Giornale* on 18th February 2016) which has been published on the website of the Bank as required by the legislation and regulations.

The Bank received the relative "Essential Information" pursuant to Art. 130 of the Consob Issuers' Regulations which it published on the corporate website of the Bank, again in accordance with the legislation and regulations in force.

The Pact governs the submission of a slate for the appointment of the Board of Directors of UBI Banca and the exercise of the voting rights assigned to the syndicated shares (Art. 122, paragraph 1 of the Consolidated Finance Law) for the appointment of that Board, the exercise of voting rights in extraordinary Shareholders' Meetings of UBI Banca (Art. 122, paragraph 1 of the Consolidated Finance Law), the obligation of prior consultation between the holders of the syndicated shares (Art. 122, paragraph 5, letter a of the Consolidated Finance Law) and also some limits on the circulation of those shares (Art. 122, paragraph 5, letter b of the Consolidated Finance Law).

At the time of its expiration, due on 10th February 2019, the Syndicate Pact is tacitly renewed for a period of three years, from one three-year period to the next, unless the owners of the syndicated shares exercise their right to withdraw from the Pact by the last day of the third month prior to its expiration. On the basis of the latest communication received on 4th February 2019, since there have been no withdrawals, the life of the Syndicate Pact is extended by three years until 10th February 2022.

On the basis of the extract published on 4th February 2019 in the daily newspaper "*Il Quotidiano Nazionale*", on 30/01/2019, following a resolution of a General Meetings of Group Leaders the following changes were made to the Syndicate Pact, in addition to the indication of the new life of the Syndicate Pact:

- (i) Substitution of the reference to the Supervisory Board with that to the Board of Directors, due to amendments made to the Articles of Association of UBI Banca and to the governance model adopted by the Bank;
- (ii) A statement that the term of office of the members of the bodies of the Syndicate shall be for the period laid down by the resolution of the shareholders' resolution that appoints them;

- (iii) An amendment to the article relating to the possibility of the replacement of the Parent;
- (iv) The elimination of the transitional provision.

On the date of the entry into force of the aforementioned changes (30th January 2019) a total of 143,492,113 ordinary shares, accounting for 12.54% of the total voting rights representing the share capital of UBI Banca had been brought to the Syndicate Pact by 173 shareholders (the Participants). Amongst the parties who have adhered to the Syndicate Pact the following own more than 1% of the share capital of UBI Banca:

- Fondazione Banca del Monte di Lombardia, which syndicated 40,048,558 shares (3.50% of the shares with voting rights and 27.91% of those syndicated) and which holds a further 5,163,669 shares (0.45% of the shares with voting rights);
- Upifra S.A., which syndicated 9,000,000 shares (0.79% of the shares with voting rights and 6.27% of the syndicated shares) and holds a further 2,726,202 shares (0.24% of the shares with voting rights).

On **4th March 2016** UBI Banca received a communication concerning the formation on 3rd March 2016 of an “**Agreement**” having the status of a shareholders voting pact pursuant to Art. 122, paragraph 1 of the Consolidated Finance Law for the formation, filing and vote of a slate, and of its candidates, as well as of the first two candidates for the roles of Chairman and Senior Deputy Chairman, for the appointment of the Supervisory Board of UBI Banca on the occasion of the Shareholders’ Meeting convened for 2nd April 2016, between:

- *Sindacato Azionisti UBI Banca S.p.A.*
- *Patto dei Mille;*
- *Fondazione Cassa di Risparmio di Cuneo.*

The full text of the agreement signed by the parties (which also constitutes the "Essential Information" pursuant to Art. 130 of the Consob Issuers’ Regulations) and a copy of the extract pursuant to Art. 129 of the same Consob Issuers’ Regulations, published in the daily newspaper *Il Giornale* on 5th March 2016, were sent to the Bank. These documents have been published on the website of the Bank.

The agreement is between an overall group of 256 shareholders representing 153,674,628 shares accounting for 17.04% of the share capital with voting rights of UBI Banca.

Of those parties who adhered to the agreement the following, listed in order of the percentage held, own more than 1% of the share capital of UBI Banca:

- Fondazione Cassa di Risparmio di Cuneo, which holds 20,110,215 shares (2.23% of the UBI Banca shares with voting rights);
- Fondazione Banca del Monte di Lombardia which holds 14,411,631 shares (1.598% of the UBI Banca shares with voting rights) all pledged to the Sindacato Azionisti UBI Banca S.p.A.;
- Upifra S.A., which holds 9,710,178 shares (1.077% of the UBI Banca shares with voting rights) of which 9,000,000 shares pledged to the Sindacato Azionisti UBI Banca S.p.A. and 710,178 shares not pledged.

The duration of the Agreement was set at until the end of the proceedings of the Shareholders’ Meeting of 2nd April 2016 of UBI Banca.

On **17th March 2017** UBI Banca received a communication concerning the formation on 16th March 2017 of an “**Agreement concerning the exercise of voting rights in the Shareholders’ Meeting of UBI Banca S.p.A. convened for 7th April 2017, in accordance with Art. 122, paragraph 1 of Legislative Decree No. 58/1998**”

In particular the following adherents to the shareholders’ pacts:

- *Sindacato Azionisti UBI Banca S.p.A.,*
- *Patto dei Mille*

formed an agreement having the status of a shareholders’ voting pact on 16th March 2017, in accordance with Art. 122, paragraph one of Legislative Decree No. 58/1998 for the presentation of a candidature and for the vote for the appointment of a member of the Supervisory Board of UBI Banca S.p.A. on the occasion of the Shareholders’ Meeting convened for 7th April 2017.

The agreement is between an overall group of 269 shareholders representing 162,759,567 shares accounting for 16.655% of the share capital of UBI Banca.

Of those parties who adhered to the agreement the following, listed in order of the percentage held, own more than 1% of the share capital of UBI Banca:

- Fondazione Banca del Monte di Lombardia which holds 50,843,077 shares (5.2% of UBI Banca shares), while 34,170,500 shares have been pledged to the Syndicate Pact and it has waived its right to vote on 2,028,077 shares;
- Upifra S.A. holds 9,810,178 shares (1.004% of UBI Banca shares) while 9,000,000 of those shares have been pledged to the Syndicate Pact.

The candidate that was presented and voted on as a result of the agreement is *Dott. Ferruccio Dardanello*, born at Mondovì on 29th June 1944.

The duration of the Agreement was set until the end of the proceedings of the Shareholders' Meeting of UBI Banca held on 7th April 2017.

On **23rd November 2018** UBI Banca received a communication concerning the formation on 22nd November 2018 of an **“Agreement concerning the exercise of voting rights in the Shareholders’ Meeting convened for 14th December 2018 of UBI Banca S.p.A., in accordance with Art. 122, paragraph one of Legislative Decree No. 58/1998”**.

In particular the following adherents to the shareholders’ pacts:

- *Sindacato Azionisti UBI Banca S.p.A.*
- *Patto dei Mille*

and

- *Fondazione Cassa di Risparmio di Cuneo.*

formed an agreement having the status of a shareholders’ voting pact on 22nd November 2018, in accordance with Art. 122, paragraph one of the Consolidated Finance Law, for the presentation and vote of a candidate to the office of member of the Supervisory Board of UBI Banca on the occasion of the Shareholders’ Meeting convened for 14th December 2018.

The agreement is between an overall group of 264 shareholders representing 246,157,311 shares accounting for 21.518% of the share capital of the Bank.

Of those parties who had adhered to the agreement the following, listed in order of the percentage held, own more than 1% of the share capital of UBI Banca:

- Fondazione Cassa di Risparmio di Cuneo, which holds 67,601,368 shares of UBI Banca (5.91% of UBI Banca shares);
- Fondazione Banca del Monte di Lombardia which holds 45,212,227 shares (3.95% of UBI Banca shares), stating that 40,048,558 shares have been pledged to Sindacato Azionisti UBI Banca S.p.A.;
- Upifra S.A. which holds 11,726,202 shares (1.024% of UBI Banca shares), stating that 9,000,000 shares have been pledged to Sindacato Azionisti UBI Banca S.p.A.;

The candidate that was presented and voted on as result of the agreement is Alberto Carrara born in Bergamo on 9th March 1961.

The duration of the Agreement was set until the end of the proceedings of the Shareholders’ Meeting of 14th December 2018 of UBI Banca.

On **20th December 2018** UBI Banca received a communication concerning the formation on 18th December 2018 of an **Agreement concerning the consultation and possibly the presentation and vote of a slate for the appointment of the Board of Directors of UBI Banca S.p.A. at the Shareholders’ Meeting that will be convened within 120 days of the end of the financial year 2018, in accordance with Art. 122, paragraph one of Legislative Decree No. 58/98.**

In particular the following adherents to the shareholders’ pacts:

- *Sindacato Azionisti UBI Banca Spa*
- *Patto dei Mille*

and

- *Fondazione Cassa di Risparmio di Cuneo.*

have formed an agreement for consultation aimed at drawing up and possibly subsequently presenting and voting for a slate for the nomination of the Board of Directors of UBI Banca at a Shareholders’ Meeting of that Bank which will be convened in the first months of 2019 and which, amongst other things, will have the nomination of the Board of Directors on its an agenda, as provided for by provisions of the Articles of Association approved by an Extraordinary Shareholders’ Meeting held on 19th October 2018.

The agreement is between an overall group of 264 shareholders representing 246,157,311 shares accounting for 21.518% of the share capital of UBI Banca Spa.

Of those parties who adhered to the agreement the following, listed in order of the percentage held, own more than 1% of the share capital of UBI Banca:

- Fondazione Cassa di Risparmio di Cuneo, which holds 67,601,368 shares of UBI Banca, representing 5.91% of the share capital;
- Fondazione Banca del Monte di Lombardia which holds 45,212,227 shares (3.95% of UBI Banca shares), of which 40,048,558 shares have been pledged to the Sindacato Azionisti UBI Banca Spa;
- Upifra S.A., which holds 11,726,202 shares (1.024% of the UBI Banca shares) of which 9,000,000 pledged to the Sindacato Azionisti UBI Banca S.p.A.

The duration of this Agreement is from the date of its signing until the end of the proceedings of the Shareholders' Meeting of UBI Banca convened to appoint the Board of Directors, without prejudice to the right of the Parties to withdraw from it with a notification sent by registered letter with advice of receipt to the other parties.

We also report that the adherents to the above pacts have declared that they have filed the information communicated to the Bank with the Business Register and notified Consob and the Bank of Italy.

For further information about the pacts described above see www.consob.it and the Shareholders/Shareholders agreements section of the website of the Issuer (www.ubibanca.it).

Without any claim to completeness, the further information known to the Bank in relation to UBI shareholders' associations is given below:

- a letter was received concerning the constitution on 24th January 2011 of an association called "**Tradizione in UBI Banca**", located in Cuneo;
- UBI Banca received a letter on 21st November 2011 entitled "Communication pursuant to Art. 20, paragraph 2 of the Consolidated Banking Law and Art. 122 of the Consolidated Finance Law" 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".
- a letter of 19th June 2012 was received concerning the constitution of an association called "**Amici della Banca Regionale Europea e del Gruppo UBI**", located at Cuneo;
- a letter was received concerning the constitution on 29th October 2012 of an association called "**Insieme per UBI Banca**", located in Milan;
- a letter of 27th February 2013 was received concerning the constitution of an association called "**Associazione Soci UBI Centro-Sud**", located in Rome;
- a letter of 28th February 2013 was received concerning the constitution of an association called "**Associazione Soci Lombardi UBI Banca**" also known as "ASSOLUBI", located in Brescia;
- notification was received on 15th March 2013 concerning the constitution on 7th October 2011 of the "**Associazione Azionisti Banche Popolari 2011**".

On 26th July 2013 an application for admission to registered shareholder status (under the previous co-operative company governance rules) was received from an association called "**UBI Banca Popolare!**" located in Bergamo and constituted on 8th May 2013.

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

The Bank also learned from:

- a press release of the constitution on 10th November 2011 of the "**Associazione dei cittadini e dipendenti soci di UBI Banca**" located in Brescia;
- from news in the press of the constitution of the "**Associazione Prealpina Azionisti di UBI Banca**".

h) Change of control clauses (pursuant to Art. 123-bis, paragraph 1, letter h) of the Consolidated Finance Law) and provisions of the Articles of Association concerning

public tender offers to purchase (pursuant to Art. 104, paragraph 1-ter and 104-bis, paragraph 1 of the same law)

The shareholders' agreement currently in force signed on 3rd July 2018 by UBI Banca and the Prudential USA concerning the joint venture, Pramerica SGR S.p.A. (the "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" of 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.

The Articles of Association of UBI Banca make no provision with regard to Art. 104, paragraph 1-ter of the Consolidated Finance Law for exceptions to the passivity rule pursuant to Art. 104, paragraphs 1 and 1-bis of the same Consolidated Finance Law. It is also noted that the Articles of Association of the Issuer do not allow the application of neutralisation rules considered by Art. 104-bis, paragraphs 2 and 3 of the Consolidated Finance Law.

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 Law)

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

At the date of this report UBI Banca holds a total of 7,861,190 treasury shares (being 0.69% of the share capital) of which: (i) 1,807,220 shares purchased on 8th April 2016 following the exercise of the right of withdrawal at the time of the transformation of UBI Banca into a joint stock company; and (ii) the remaining 6,053,970 shares purchased in implementation of the authorisations granted by the Shareholders' Meeting for the purpose of the incentive schemes for UBI Group employees and/or a productivity bonus (the "Company Bonus")².

On 7th April 2017 the Shareholders' Meeting resolved to authorise the Management Board to proceed with one or more transactions, to be carried out within 18 months of the date of the Shareholders' Meeting authorisation in accordance with the procedures specified in paragraph 1, letter b), of Art. 114-bis of the Issuers Regulations and in compliance with the limits set by law for treasury shares, to purchase own shares at a price that is neither 10% higher nor 10% lower than the reference price of the UBI Banca share quoted in the market session prior to each individual purchase transaction for:

- a. a maximum value amounting to approximately €3.5 million to cover the 2017 short-term incentive scheme for "Identified Staff", the number of shares to be set as a ratio of the amount required on the basis of the bonuses earned as a function of the performance levels achieved and the reference price recorded by the UBI Banca share at the time when they are granted;
- b. a maximum value amounting to approximately €16.4 million to cover the 2017-2019/20 long-term incentive scheme for "Identified Staff", the number of shares to be set as a ratio of (i) the amount required on the basis of the amount invested by the participants and the achievement

² Attention is drawn to the acquisition by UBI Banca, in implementation of the authorisations granted by the Shareholders' Meeting for the purpose of the incentive schemes for UBI Group employees and/or a productivity bonus (the "Company Bonus"), of a total of 7,214,341 UBI Banca shares of which a total of 1,160,371 shares had been granted on the date of publishing this report.

- of the objectives of the scheme and (ii) the reference price of the UBI Banca share at the time of the investment;
- c. a maximum value amounting to approximately €18 million to cover the 2017 productivity bonus (or Company Bonus) for all employees, the number of shares to be set as a ratio of the amount required on the basis of the number of applications from employees and the reference price recorded by the UBI Banca share at the end of the period during which they can choose to apply.

On 5th October 2018 UBI Banca, in implementation of a shareholder resolution dated 7th April 2017, completed the programme to purchase treasury shares at the service of the short and long-term incentive schemes for "Identified Staff" of the Group, launched on 4th October 2017 and 1st October 2018 respectively. At the date of this report, a total of 3,726,931 ordinary UBI Banca shares have been purchased at the service of the above incentive schemes.

For further information about the above programme for the purchase of treasury shares, see the press releases on the Investor Relations/Press Releases section of the Issuer's website at www.ubibanca.it.

On 6th April 2018 the Shareholders' Meeting resolved to authorise the Management Board to proceed with one or more transactions, to be carried out within 18 months of the date of the Shareholders' Meeting authorisation in accordance with the procedures specified in paragraph 1, letter b), of Art. 114-*bis* of the Issuers Regulations and in compliance with the limits set by law for treasury shares, to purchase own shares at a price that is neither 10%, higher nor 10% lower than the reference price of the UBI Banca share quoted in the market session prior to each individual purchase transaction for:

- a. a maximum value amounting to approximately €6 million to cover the 2018 short-term incentive scheme for "Identified Staff";
- b. a maximum value amounting to approximately €2.5 million as an increase to the maximum value over the course of the Scheme approved by the Shareholders' Meeting on 7th April 2017 for the long-term incentive scheme for "Identified Staff".

On 19th December 2018 UBI Banca, in implementation of a shareholder resolution dated 6th April 2018, started a programme to purchase treasury shares at the service of the short and long-term incentive scheme for "Identified Staff" of the Group. At the date of this report, a total of 1,440,410 ordinary UBI Banca shares have been purchased at the service of the above incentive schemes.

For further information about the above programme for the purchase of treasury shares, see the press releases on the Investor Relations/Press Releases section of the Issuer's website at www.ubibanca.it.

1) Management and co-ordination activities (pursuant to Art. 2497 et seq. of the Civil Code)

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

* * *

As concerns possible further information:

- information required by Art. 123-*bis*, paragraph 1, letter i) of the Consolidated Finance Law 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 Finance Law 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 Law)

UBI Banca has adopted the Corporate Governance Code (available on the website of the Corporate Governance Committee at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>), the provisions of which have been drawn up with reference to listed companies that have adopted a traditional governance model. Article 10 of the Code states that if a one or two-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 set in this article*".

The objective of this report is to furnish details of the manner in which the Code itself is applied in the Bank, with an account also given of those principles subject to full compliance and those with which the Bank has decided not to comply (or to comply with only partially) on a "comply or explain" basis. This is partly because the Bank must consider its status as a bank which, as such, demands strict compliance with regulations contained in the Consolidated Banking Law and with sector regulations.

* * *

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

Details of the corporate governance structure 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 1) of the Consolidated Finance Law)

The Supervisory Board is composed of 15 members, including a Chairman and a Senior Deputy Chairman, appointed by a Shareholders' Meeting in compliance with Art. 37 of the Articles of Association. The Supervisory Board may appoint one or two Deputy Chairmen from amongst 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 Civil Code.

The members of the Supervisory Board must be in possession of the requirements of integrity, professionalism and independence prescribed by the regulations currently in force. All members of the Supervisory Board must not yet have reached 75 years of age at the time of appointment and they must have acquired overall experience – through holding the office in Italy or abroad – of at least three years as Chairman or at least five years of working in:

- senior management and/or strategic supervision
 - management
- or
- control
- in
- banks, finance companies, asset management companies or insurance companies;
 - independent public authorities;
 - companies which carry out manufacturing and/or trade in goods or services;
 - companies with shares traded on an Italian or foreign regulated market.

Candidates who have not acquired that professional experience may also be elected provided that:

- they are or have been tenured university professors for at least five years in the subjects of law, economics, mathematics, statistics, or management engineering;
- they are or have been members of the professional associations of accountants, notaries or lawyers for at least ten years.

Persons who have occupied the position of Chairman or Senior Deputy Chairman for the three preceding terms of office may not be appointed to the relative position.

At least three members of the Supervisory Board must be chosen from amongst persons enrolled in the register of external statutory auditors who have exercised statutory auditing activities 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 12th July 2011, that a balance is maintained between genders for the period provided for by that law and at least the majority of the members of the Supervisory Board must not have occupied the position of member of the Supervisory Board and/or Member of the Management Board of the Bank continuously for the three previous terms of office.

While mandatory regulations of the law, the Supervisory Authority (pursuant to Art. 36, paragraph 9 of the Articles of Association) 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.

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

For the purpose of the election of members of the Supervisory Board, one or more Shareholders who represent at least 1% of the share capital, or a different percentage established by the regulations in force, may present one slate of candidates ordered consecutively by number, containing between a minimum of two and a maximum of 15 names.

By executive order 13 dated 24th January 2019 of the Manager of the Corporate Governance Division the Consob set the minimum percentage of the share capital required at UBI Banca for the presentation of slates of candidates for election to the management and supervisory bodies at 1%.

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

Each candidate may be entered in just one slate under penalty of ineligibility.

Slates presented that fail to observe the procedures indicated in Art. 37 of the Articles of Association are considered as not presented.

Each Shareholder may vote on only one slate.

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

- a) if one or more slates are submitted, the first two which received the greatest number of votes cast by the Shareholders and which are not connected within the meaning of the regulations in force are considered;
- b.1) if the slate which received the second greatest number of votes received less than 15% of votes cast in the Shareholders' Meeting, then 14 members of the Supervisory Board are taken from the slate that obtained the majority of the votes and one member of the Supervisory Board is taken from the slate which received the second greatest number of votes;
- b.2) if the slate which received the second greatest number of votes, received at least 15% and less than 30% of the votes cast in the Shareholders' Meeting, then thirteen members of the Supervisory Board shall be taken from the slate which received the majority of the votes and two members of the Supervisory Board shall be taken from the slate which received the second greatest number of votes;
- b.3) if the slate which received the second greatest number of votes, received at least 30% of the votes cast in the Shareholders' Meeting, then twelve members of the Supervisory Board

shall be taken from the slate which received the majority of the votes and three members of the Supervisory Board shall be taken from the slate which received the second greatest number of votes.

If, after identifying the candidates to be taken from the two slates which received the majority of the votes on the basis of the order in which they are indicated on the slates to which they belong, the gender proportions required under Law No. 120 of 12th July 2011 or the additional proportion specified in paragraph 8 of Art. 36 of the Articles of Association are not complied with, then those members of the Supervisory Board taken last from the aforementioned slates whose appointment would violate the said legislation and regulations are considered not elected. In this event the number of those board members indicated on the same slate 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 12th July 2011 and with the Articles of Association, again proceeding in the order in which those persons are indicated on the slate 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 or which allow compliance with the additional proportion specified in paragraph 8 of Art. 36 of the Articles of Association shall be taken from each slate in proportion to the total number of candidates elected on each slate according to the results of the voting. In this event, if the minority slate has not complied with the gender proportions established by Law No. 120 of 12th July 2011, or do not allow compliance with the additional proportion specified in paragraph 8 of Art. 36 of the Articles of Association the candidates to be appointed shall be taken from the slate that obtained the greatest number of votes only.

If only one slate is validly proposed and this obtained the majority required for an ordinary Shareholders' Meeting, then all 15 members of the Supervisory Board shall be taken from that slate.

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 slate at all is submitted, again in compliance with the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th 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 slates obtain an equal number of votes, those slates must be voted on again 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 slate that obtains a majority of votes, or on the only slate presented or to the members appointed as such by the Shareholders' Meeting if no slate 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 slate, the first candidate not elected on that slate shall be appointed who guarantees compliance with the requirements for the composition of the Supervisory Board provided for by Law No. 120 of 12th July 2011 and the Articles of Association. In the absence of such a candidate, the appointment shall be by a relative majority vote with no slate obligation.

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 shall 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.

If, however, board members belonging to the minority slate must be replaced the following procedure is employed:

- if only one Board Member has been appointed from the minority slate, then the first candidate not elected on the slate 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 slates 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 12th 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 further board members have been drawn from the minority slate, their replacements shall be taken from the slate from which the members to be replaced were drawn or in the absence of such a candidate from any other minority slates there may be, identified on the basis of the number of votes received in descending order and which have received the majorities of votes cast by the Shareholders' Meeting provided for in Art. 37, paragraph 11 of the Articles of Association; in the absence of such candidates, the board members to be replaced shall be drawn from the majority slate or, if application of the above criteria means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall proceed to decide by relative majority vote.

The replacement candidates, in accordance with the provisions of Art. 37 of the Articles of Association, 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 called upon to replace a previous member remains in office until the original term of office of the replaced member expires.

If for any reason the positions of the majority of the members originally appointed become vacant, then the entire Supervisory Board is considered as removed from office from the date of the appointment of new members. A Shareholders' Meeting is convened without delay to appoint a new Supervisory Board.

For further information about the succession plan adopted by the Issuer see section 8 of this report.

4.2. Composition and role (pursuant to Art. 123-bis, paragraph 2, letters d) and d-bis) of the Consolidated Finance Law)

The Supervisory Board, within the scope of its responsibilities, performs policy, strategic supervision and control functions. Without prejudice to the responsibilities assigned by law and regulations to its internal committees, the functions of the Supervisory Board are set out in Art. 38 of the Articles of Association, in accordance with which the same Board:

- a) on the basis of proposals from the Appointments Committee, shall appoint and remove all or part of the members of the Management Board and its Chairman and Deputy Chairman, in compliance with the provisions of Art. 21, paragraph two of the Articles of Association, determining their remuneration, in compliance with Art. 13, paragraph two, letter b) of the Articles of Association, after consulting with the Remuneration Committee. It also determines, after consulting with the Remuneration Committee and in compliance with Art. 13, paragraph two, letter b) of the Articles of Association, 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. 23, paragraph two of the Articles of Association, and in any case without effect for the replacement of members of the Management Board who have vacated 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 the Management Board, shall set the general plans and strategic policies of the Bank and of the Group and shall also be able to make recommendations to the management;

- 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 the 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 Civil Code;
- e) with regard to its control function, performs supervisory functions in compliance with Art. 149, paragraphs one and three of the Consolidated Finance Law;
- f) initiates liability actions against members of the Management Board;
- g) presents the statement to the Bank of Italy pursuant to Art. 70, paragraph 7, of the Consolidated Banking Law;
- h) reports in writing to the Shareholders' Meeting called pursuant to Art. 2364-*bis* of the 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;
- l) expresses a binding opinion concerning the person in charge of drawing up the corporate accounting documents set forth in Art. 154-*bis* of the Consolidated Finance Law;
- m) on the basis of proposals submitted by the Management Board, to which it may formulate possible policies, 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) and (vi), 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 the Articles of Association, for which purpose it may make specific recommendations to the Management Board;
 - (iii) 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;
 - (iv) 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;
 - (v) 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;
 - (vi) stipulations 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;
- n) 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;
- o) 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;
- p) 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, with particular regard to risk management, to the functioning of the internal audit and the accounting reporting system;

it also verifies that the strategic management control activities carried out by the Bank on Group member companies are properly performed; on the basis of a proposal from the Risk Committee and in consultation with the Internal Control Committee, it appoints and removes the heads of compliance, risk management and internal audit functions;

- q) approves and periodically verifies the corporate governance, organisational and administrative structure and the accounting and reporting systems of the Bank, determined by the Management Board;
- r) 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;
- s) approves remuneration policies for employees or associate workers not linked to the Bank by regular employee contracts;
- t) decides, on the basis of a proposal by the Chairman of the Supervisory Board, drafted in compliance with Art. 39, 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; supervises the public disclosure process and the Bank's communication process; ensures, through the Chairman of the Supervisory Board, that there is effective discussion with the management function and with the managers of the principal corporate functions and verifies on an ongoing basis the decisions that they take;
- u) decides on mergers and demergers pursuant to articles 2505 and 2505-bis of the Civil Code;
- v) exercises any other power provided by legislation in force or by the Articles of Association.

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

- a) the opening and closing down of secondary offices;
- b) reducing the share capital if a 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 exercise powers granted under Art. 151-bis of the Consolidated Finance Law, in accordance with the terms and conditions stated therein. For the purpose of a more effective and functional exercise of powers to acquire information pursuant to Art. 151-bis, paragraph one of the Consolidated Finance Law, normally the relative requests are addressed to the Chairwoman of the Management Board and to the Chief Executive Officer via the Chairman of the Supervisory Board. The information is distributed to all members of the Supervisory Board.

* * *

The UBI Banca Shareholders' Meeting of 2nd April 2016 first appointed the Supervisory Board for 2016-2017-2018, composed of 15 members in compliance with Art. 36 of the Articles of Association, and then proceeded to appoint *Ing.* Andrea Moltrasio as Chairman and *Prof. Avv.* Mario Cera as Senior Deputy Chairman in accordance with the provisions of the Articles of Association.

In particular, according to the procedures set out in Art. 37 of the Articles of Association, two slates were presented:

- **Slate deposited on 7th March 2016 and presented - in implementation of the Agreement between UBI Banca S.p.A. Shareholders' Syndicate, *Patto dei Mille* and the Fondazione Cassa di Risparmio di Cuneo - by:**
 - Fondazione Cassa di Risparmio di Cuneo
 - Fondazione Banca del Monte di Lombardia
 - Alberto Folonari
 - La Scuola S.p.A.
 - Quattro Luglio srl
 - Angelo Radici

- Emilio Zanetti
- Pecuvio Rondini
- Scame srl
- Miro Radici Family & Companies S.p.A.

the owners of a total of 50,940,841 shares accounting for 5.65% of the share capital of UBI Banca which contained the following candidates:

1. Andrea MOLTRASIO
2. Mario CERA
3. Armando SANTUS
4. Gian Luigi GOLA
5. Pietro GUSSALLI BERETTA
6. Pierpaolo CAMADINI
7. Letizia BELLINI CAVALLETTI
8. Lorenzo Renato GUERINI
9. Giuseppe LUCCHINI
10. Francesca BAZOLI
11. Sergio PIVATO
12. Alessandra DEL BOCA
13. Luciana GATTINONI
14. Simona PEZZOLO DE ROSSI
15. Antonella BARDONI

- **Slate deposited on 8th March 2016 by 33 Funds managed by asset management companies** (*Società di Gestione del Risparmio - SGR*) **and Italian and foreign institutional investors** (Aberdeen Asset Management Plc fund manager: Abbey Life Assurance Company, HBOS International Investment, Aberdeen Investment Funds UK ICVC II-Aberdeen European Equity Enhanced Index Fund, Scottish Widows Overseas Growth Investment Funds ICVC, Scottish Widows Overseas Growth Investment Funds ICVC-Global Growth Fund, Scottish Widows Investment Solutions Funds ICVC - European (ex UK) Equity Fund and State Street Trustees Limited ATF Aberdeen Capital Trust; Aletti Gestielle SGR S.p.A. fund manager: Gestielle Obiettivo Italia, Gestielle Cedola Italy Opportunity, Gestielle Absolute Return, Gestielle Cedola Multiasset, Gestielle Cedola Multiasset II, Gestielle Cedola Dual Brand, Gestielle Cedola Multi Target II, Gestielle Dual Brand Equity 30 and Volterra Absolute Return; Arca SGR S.p.A. manager of the Arca Azioni Italia fund; Eurizon Capital SGR S.p.A. manager of the Eurizon Azioni Italia fund; Eurizon Capital S.A. fund manager: EEF Equity Italy LTE, EEF Equity Financial LTE, Rossini Lux Fund – Azionario Euro, EEF Equity Italy and Eurizon Investment SICAV PB Equity EUR; Fideuram Asset Management (Ireland) fund manager: Fideuram Fund Equity Italy and Fonditalia Equity Italy; Interfund Sicav manager of the Interfund Equity Italy fund; Generali Investments Europe S.p.A. SGR manager of the GIE Alto Azionario fund; Legal & General Investment Management Limited – Legal & General Assurance (Pensions Management) Limited; Mediolanum Gestione Fondi SGR SpA manager of the Mediolanum Flessibile Italia fund; Mediolanum International Funds - Challenge funds - Challenge Italian Equity; Pioneer Investment Management SGRpA manager of the Pioneer Italia Azionario Crescita fund and Pioneer Asset Management S.A. (manager of the Pioneer Fund Italian Equity) fund), the owners of a total of 10,938,272 shares accounting for 1.21% of the share capital of UBI Banca which contained the following candidates:

1. Giovanni FIORI
2. Paola GIANNOTTI
3. Patrizia GIANGUALANO

All three candidates on this slate have declared irrevocably that they do not intend to take up the position of Chairman or Senior Deputy Chairman if their slate receives the majority of the votes.

The “Asset Management Companies and Institutional Investors” slate received the majority of the votes cast in the Shareholders’ Meeting, accounting for 51.11% (222,870,130 shares) while the slate presented in implementation of the “Agreement between UBI Banca S.p.A. Shareholders’ Syndicate, *Patto dei Mille* and the Fondazione Cassa di Risparmio di Cuneo” received 48.48% of the votes cast in the Shareholders’ Meeting (211,420,591 shares).

All the shareholders that presented the “SGR e Investitori istituzionali” slate also declared that there are no forms of connecting relationships and/or significant links (also in accordance with Communication No. DEM/9017893 of 26th February 2009) with shareholders who on the basis of communications of significant shareholdings (pursuant to Art. 120 of the Consolidated Finance Law) or the publication of shareholders’ agreements (in accordance with Art. 122 of the Consolidated Finance Law) to be found on the corporate website of UBI and the Consob website hold, even jointly, a controlling or majority shareholding pursuant to Art.147-*ter* paragraph 3 and Art. 148 paragraph 2 of the Consolidated Finance Law, Art. 144-*quinquies* of the Issuers Regulations and more generally the Articles of Association and the regulations in force.

All three candidates in the “Lista SGR e Investitori Istituzionali” slate were thus elected on the basis of the slate vote (having declared irrevocably that they did not intend to take up the position of Chairman or Senior Deputy Chairman when they stood as candidates), as well as the first three candidates in the slate submitted in implementation of the “Agreement between UBI Banca S.p.A. Shareholders' Syndicate, *Patto dei Mille* and the Fondazione Cassa di Risparmio di Cuneo”.

Consequently, in accordance with the Articles of Association, the board members who could not be appointed on the basis of the slate vote were appointed by relative majority vote.

Therefore on the basis of a proposal submitted by the **Fondazione Banca del Monte di Lombardia**, which holds 14,411,631 shares, the following nine candidates were appointed for 2016-2017-2018 by relative majority vote (with the vote of 209,602,099 shares, representing 99.23% of the share capital present at the Shareholders’ Meeting):

1. Gian Luigi Gola
2. Pietro Gussalli Beretta
3. Pierpaolo Camadini
4. Letizia Bellini Cavalletti
5. Lorenzo Renato Guerini
6. Giuseppe Lucchini
7. Francesca Bazoli
8. Sergio Pivato
9. Alessandra Del Boca

who were part of the slate presented in implementation of the Agreement between UBI Banca S.p.A. Shareholders' Syndicate, *Patto dei Mille* and the Fondazione Cassa di Risparmio di Cuneo; also on the basis of a proposal by the Fondazione Banca del Monte di Lombardia *Ing. Andrea Moltrasio* was appointed as Chairman of the Supervisory Board and *Prof. Avv. Mario Cera* was appointed as Senior Deputy Chairman of the Supervisory Board.

At the meeting held on 14th April 2016 the Supervisory Board appointed *Dott. Pietro Gussalli Beretta* and Notary *Dott. Armando Santus* as Deputy Chairmen.

Following the resignations:

- of *Dott. Gianluigi Gola* from the Supervisory Board in December 2016, the Shareholders’ Meeting, in a meeting held on 7th April 2017, appointed *Dott. Ferruccio Dardanella* as a member of the Supervisory Board.

In this regard it should be noted that the resigning member of the Supervisory Board had been appointed by a Shareholders’ Meeting held on 2nd April 2016 approved with a relative majority (as reported above) and therefore the replacement procedures pursuant to articles 37.17 part one and 37.19 of the Articles of Association that regulate cases in which places are vacated by a Board Member elected in a slate did not apply.

Dott. Dardanella was thus appointed as a Board Member with a relative majority vote without the obligation for a slate provided for by the Articles of Association themselves (with a vote in favour of approximately 92.4% of the share capital present).

The candidature of *Dott. Dardanella*, filed on 17th March 2017, was presented by the shareholders *Mar.Bea Srl* (3,350,000 UBI Banca shares) and *Fondazione Banca del Monte di Lombardia* (50,843,077 UBI Banca shares), in implementation of the agreement stipulated between *Sindacato Azionisti UBI Banca S.p.A.* (UBI Banca S.p.A. Shareholders' Syndicate) and *Patto dei Mille* on 16th March 2017.

- of *Dott. Lorenzo Renato Guerini* from the Supervisory Board in October 2018, the Shareholders' Meeting, in a meeting held on 14th December 2018, appointed *Dott. Alberto Carrara* as a member of the Supervisory Board.

In this regard it should be noted that the member of the Supervisory Board who resigned had been appointed by a Shareholders' Meeting held on 2nd April 2016 approved with a relative majority (as reported above) and therefore the replacement procedures pursuant to articles 37.17 part one and 37.19 of the Articles of Association that regulate cases in which places are vacated by a Board Member elected in a slate did not apply.

Dott. Carrara was thus appointed as a Board Member with a relative majority vote without the obligation for a slate provided for by the Articles of Association themselves (with a vote in favour of approximately 99.7% of the share capital present).

The candidature of *Dott. Carrara*, filed on 22nd November 2018, had been presented by the shareholders *Dott. Matteo Zanetti* (1,000,000 UBI Banca shares), *Dott. Paolo Zanetti* (1,649,930 UBI Banca shares), *Quattro Luglio srl* (5,167,139 shares), *Scame srl* (6,850,000 shares), *Nuova Fourb srl* (5,000,000 shares), *Mar.Bea Srl* (4,310,000 shares), *Fondazione Banca del Monte di Lombardia* (45,212,227 shares) and *Fondazione Cassa di Risparmio di Cuneo* (67,601,368 shares) in implementation of the Pact entered into on 22nd November 2018 between *Sindacato Azionisti UBI Banca S.p.A.*, *Patto dei Mille* and *Fondazione Cassa di Risparmio di Cuneo*.

Board Members *Dott. Dardanello* and *Dott. Carrara* will remain in office until the expiry of the term of office of the current Supervisory Board and that is until the Shareholders' Meeting that will be held in accordance with Art. 2364-*bis* of the Civil Code, after the end of the financial year.

At the date of this report the members of the Supervisory Board are thus as follows:

1	Andrea Moltrasio	Chairman
2	Mario Cera	Senior Deputy Chairman
3	Pietro Gussalli Beretta	Deputy Chairman
4	Armando Santus	Deputy Chairman
5	Francesca Bazoli	Board Member
6	Letizia Bellini Cavalletti	Board Member
7	Pierpaolo Camadini	Board Member
8	Alberto Carrara	Board Member
9	Ferruccio Dardanello	Board Member
10	Alessandra Del Boca	Board Member
11	Giovanni Fiori	Board Member
12	Patrizia Michela Giangualano	Board Member
13	Paola Giannotti	Board Member
14	Giuseppe Lucchini	Board Member
15	Sergio Pivato	Board Member

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

Attachment A) lists the offices held (as applicable) by all members of the Supervisory Board in companies listed on regulated markets, including foreign regulated markets, and in finance, banking, insurance or large companies.

More detailed information on the composition of the Supervisory Board is given in Summary table No. 2 attached to this report.

* * *

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.

As concerns the prior delivery to members of the Supervisory Board of material relating to items on the agenda, the aforementioned regulations underline the fundamental requirement for members of the Supervisory Board to be able to act in an informed manner. They state that following proper notice to convene, the Chairman of the Supervisory Board shall take steps to deliver adequate documentation, with levels of detail and in a manner consistent with the importance and complexity of the items placed on the agenda, in good time with regard to the date set for the board meeting (normally at least two days before). The material sent shall be decided from time to time by the Chairman on the basis of the items placed on the agenda, with account taken of the purposes of the advance information and it is made available through a digital environment accessible by board members using special customised identification software, which guarantees the full usability of the documents, in compliance with the Bank's regulations for proper management of confidential information. The time limit set by the regulations is normally complied with and usually where possible documents arrive even earlier, except in special cases due to the nature of the resolutions to be considered. During the year over 85% of documents were made available more than four days in advance.

Where it was not possible in specific cases to provide preliminary information by the aforementioned deadline, the Chairman took steps to provide adequate and precise detailed information during the Board meetings themselves. The documentation provided at Board meetings is stored electronically in a repository that ensures the traceability and accountability of the archiving and each Board Member can use the dedicated web portal to consult the documents relating to all the meetings of the Supervisory Board and the Committees of which he or she is a member.

At the invitation of the Chairman of the Supervisory Board, subject to the agreement of the Chief Executive Officer, the senior managers responsible for the corporate functions attend board meetings to provide information on matters on the agenda that are within their remit.

During the year the following attended meetings of the Supervisory Board, depending on the items to be discussed: the Chief Operating Officer, Chief Commercial Officer, Chief Wealth & Welfare Officer, Chief General Counsel, Chief Information Officer, Chief Lending Officer, Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, Chief Audit Executive and the Anti-Money Laundering and Investigations Officer with Responsibility for Suspicious Transactions (formerly the Anti-Money Laundering Officer), as well as other senior managers whose attendance was considered advisable by the Chairman in order to assist with studying the matters discussed during Board meetings in greater depth.

* * *

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 around once a year in the city of Milan.

It is convened by registered letter, telegram, fax, email or other means which leaves a record of the receipt of the notification.

Notices to convene meetings shall contain a list of the items on the agenda and these are 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.

The majority of the Directors in office must be present in order for the meetings to be valid.

The meetings shall be deemed as validly convened when they are attended by the majority of the board members in office.

The Supervisory Board passes resolutions with the vote in favour of at least two thirds of its members for proposals to amend the Articles of Association.

The members of the Supervisory Board shall report all interests which, either directly or through third parties, they may have in a determined transaction of the Bank or the Group, stating the nature, the terms, origin and extent. The relative resolution of the Supervisory Board must give

adequate reasons, explaining the reasons and the interest of the Bank in the transaction, without prejudice to other provisions of the law or regulations which may apply.

Remote participation in meetings of the Supervisory Board is permitted subject to the limitations and conditions contained in the last paragraph of Art. 25 of the Articles of Association.

The Supervisory Board may appoint a Secretary who need not be a member of the Board and may be permanent. In this regard, we report that the Manager of the Supervisory Board Support Unit, *Ing.* Lorenzo Brambilla of Civesio, has been appointed to the position of Secretary for the current term of office.

During year the Supervisory Board met 20 times and the average length of meetings was around four hours and forty minutes.

We also report that the Supervisory Board has planned eight meetings, of which three have already been held, for the first quarter of 2019, up to the date of the Shareholders' Meeting for the renewal of the governing bodies.

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

Details of further engagements of Deloitte & Touche and other companies in its network are given in a special report attached to the consolidated and separate annual reports.

* * *

The members of the Supervisory Board must meet the suitability requirements required by legislation, regulations and the Articles of Association.

More specifically, following its appointment and in accordance with the relevant regulations in force, the Supervisory Board fully ascertained that the requirements for integrity, professionalism, independence and overall suitability for the position were met by all its members³.

The Supervisory Board verifies the independence of the individual board members on an annual basis. During this verification (most recently performed on 16th October 2018), as well as in compliance with the provisions of the supervisory regulations, an analysis of the lending relationships between each Board Member and the Group was carried out with the assistance of the Appointments Committee. The position of the board members concerned within the UBI Banca S.p.A. Shareholders' Syndicate was also assessed.

In this regard it should be noted that all the members of the Supervisory Board - on the basis of a declaration made by each of them and the information available to the Bank - satisfy the requirements of independence pursuant to Art. 148, paragraph 3 of the Consolidated Finance Law and the Bank of Italy Supervisory Regulations in force.

With regard to the requirements set by the Corporate Governance Code and also in consideration of the specific nature of the Supervisory Board under a two-tier governance system, 11 out of 15 members of the Supervisory Board were found to be independent with regard also to the requirements of the aforementioned Code.

With reference to the principles and criteria referred to in Art. 3, section 1 of the Corporate Governance Code, the board members Andrea Moltrasio, Mario Cera, Pietro Gussalli Beretta and Sergio Pivato are not independent due to previous positions held over time within the UBI Banca Group.

³ Following the meeting of the Supervisory Board on 14th April 2016, the Company announced the outcome of the assessment carried out in relation to the members appointed to the Supervisory Board by the Shareholders' Meeting of 2nd April 2016 in a press release to the market pursuant to Art. 144-*novies*, paragraph 1-*bis* of the Issuers' Regulations. The same press release was issued (i) following the meeting of 12th May 2017, with regard to the outcome of the assessment concerning the appointment of *Dott.* Dardanello as a Member of the Supervisory Board by the Shareholders' Meeting of 7th April 2017 and (ii) following the meeting of 20th December 2018, with regard to the outcome of the assessment concerning the appointment of *Dott.* Carrara as a Member of the Supervisory Board by the Shareholders' Meeting of 14th December 2018.

Diversity in the composition of the Supervisory Board

In February 2016, in view of the appointment of a new Supervisory Board, the outgoing Supervisory Board prepared a report on the qualitative and quantitative composition considered optimal for the same Board; the results of this analysis have been published and distributed to the shareholders. The document takes into account the outcomes of the end of term of office board evaluation.

In particular, the report highlighted the need for the governing bodies of the Bank to contain a range of complementary skills and expertise on general management, risk management and compliance, legal and corporate affairs, human resources, marketing and sales, finance, accounting and financial reporting, organisation and IT processes, internal audit and compliance, acquired through experience of senior management in the banking, financial, industrial and service sectors, or through practice in the professions or in university teaching in order to ensure, now and also in the future, the presence of a balanced combination of profiles and experience on the Board. It also emphasised the need to preserve the requirements for diversity already present, also assessing in this context the value of age and gender diversification (without prejudice to the constraints of the Articles of Association).

Following its appointment on 2nd April 2016 by the Shareholders' Meeting, in April 2016 the Supervisory Board proceeded - in the context of the process to verify the necessary qualities of integrity, professionalism and independence required by the legislation in force - to verify that the actual composition resulting from the appointment process complies with the quantitative and qualitative composition identified in the above report. In this regard the Supervisory Board, following a detailed analysis of the professional skills of its various members, evaluated and verified that the composition of the Supervisory Board complies with the qualitative and quantitative composition deemed to be best for the achievement of the objective of performing the functions assigned to it in a correct manner. This assessment was therefore repeated in April 2017 following the appointment by the Shareholders' Meeting of 7th April 2017 of a new Board Member to replace one who had resigned and again, more recently, in December, following the appointment by the Shareholders' Meeting of 14th December 2018 of another new Board Member to replace one who had resigned.

Having taken into consideration the existence of a detailed document on its qualitative and quantitative composition that also includes diversity guidelines, the Supervisory Board did not assess that it was not currently necessary to draw up and adopt a specific diversity policy in relation to the composition of the administration and management bodies, considering that the aforementioned document comprehensively met the necessary requirements.

With regard to the diversity of the membership of the current Supervisory Board, it is noted that there are five board members of the less represented gender, amounting to a third of the total membership. In this respect, with reference to gender, it should be noted that the new Articles of Association approved by the Shareholders' Meeting on 19th October 2018 in relation to the forthcoming adoption of the one-tier management and control model, require each slate to be made up of candidates representing both genders, so that at least a third of the candidates belongs to the less represented gender.

In terms of age, having noted that the Articles of Association set the age limit for members of the Supervisory Board at 75 years old, we report that: 7% of board members are under 50, 53% of them are between 50 and 60, 20% between 60 and 70 and 20% are over 70 years old.

The members of the Supervisory Board have a varied background including considerable professional, financial, legal, managerial and entrepreneurial experience.

In view of the appointment of the new Board by the 2019 Annual General Meeting on the basis of the one-tier model, the outgoing Board has recommended that when selecting candidates account should also be taken of the adequacy of the composition of the Board of Directors and of the Management Control Committee as a whole, in order to foster discussion and dialogue within the corporate bodies, to encourage the generation of different approaches and perspectives in the analysis of issues and decision making and to provide effective support for the company processes of formulating strategies, management and risk activities and control over the work of senior management, taking into account the multiple interests that contribute to the sound and prudent management of the Bank. More specifically, the principles and criteria referred to in paragraphs 67-72 of the EBA/ESMA Guidelines are taken into consideration for the purposes of the adequate collective composition of the corporate bodies.

Self-assessment process

The assessment process is set out in the “UBI Banca Group Governing Body Self-Assessment Process” internal regulation, drawn up in order to implement the supervisory regulations (Part One – Title IV – Chapter 1), which formalises the annual self-assessment process of the corporate bodies, based on their three-year term of office, setting out the requirements of the Supervisory Authority across the UBI Banca Group using criteria of proportionality. The document also includes guidelines for the organisation of training activities for members of governing bodies.

The self-assessment for 2018, at the end of the three-year mandate of the Board, was performed with the consultancy support of Korn Ferry, which had already assisted the Company with the process carried out for 2016 and 2017. The consultant was chosen subject to a positive assessment of their independence and for this reason a check was made to verify that they do not perform other services for the Company or the Group, except for providing support for the self-assessment process of some of the subsidiaries.

The self-assessment process was carried out with the active contribution of the Appointments Committee, both for the selection of the outside consultants and for the preliminary examination of the outcomes of the process to be submitted to Supervisory Board for its analysis.

In this regard the Supervisory Board agreed with the approach put forward by the Appointments Committee concerning the additional use of the self-assessment for the last year of the mandate as a potential tool for formulating recommendations on the qualitative and quantitative profile of the future Board of Directors, with account taken of the need for adequate diversification of expertise, experience, age, gender, international range and of course the demands of the single Board in the one-tier model, having taken into account the balancing effect of non-executive and independent members on its composition.

The self-assessment carried out by the Supervisory Board for 2018, with the support of questionnaires and individual interviews provided by the consultant, was performed with reference, amongst other things, to the following areas of analysis: a clear understanding on the part of the Board and its members of its scope, role and responsibilities; possession of the appropriate skill set and experience within the Board for it to perform its mandate; appropriate interactions amongst board members and between the board members and management; the effective performance by the Board of its tasks and responsibilities; secretarial, training and IT support to the Board; the functioning of the committees and the effective coverage of the matters within their remit in order to assist the Board with guaranteeing good corporate governance.

On the basis of the results of the questionnaires it was found that the Board operates appropriately and consistently with its mandate.

More specifically, the analysis showed that the Bank has been able to achieve some significant results such as the change to a one-tier model, the adoption of advanced conflict of interest policies, the change to a Single Bank together with the merger of three banks (Banca Etruria, Banca Marche and Cassa di Risparmio di Chieti), as well as the adoption of internal regulations to meet conflict of interest and fit and proper requirements, acknowledged within the Italian banking sector as advanced practice.

The outcome of the self-assessment is entirely consistent with the significant governance development process that has led to the decision to adopt the one-tier model, which will make it possible to address the attention points that arose, including:

- resolving the remaining overlaps between the activities of the Management Board and the Supervisory Board;
- the need for alignment in relation to the clarity of the mandate of board members and their changing skill sets;
- the increasing strategic importance of IT and the associated need for close oversight on the part of the Board.

The latter two aspects, in particular, are discussed in the new document on qualitative and quantitative composition for the election of the new Board.

In accordance with the Corporate Governance Code the independent board members (in terms of both the Consolidated Finance Law and the Corporate Governance Code) must meet at least once a year in the absence of the other board members. On the date when this report was approved, the independent board members had not felt the need to hold the said meeting, amongst other things because of the composition of the Supervisory Board.

The Shareholders' Meeting has not authorised exceptions to the prohibition on competition pursuant to Art. 2390 of the Civil Code; the Supervisory Board carries out careful assessments to ensure that there are no situations of potential competition by its members, amongst other things pursuant to Art. 36 of Law No. 214/2011, the conversion with amendments of Decree Law 201 of 6th December 2011.

Induction Programme

The Chairman, both at Supervisory Board meetings and by means of specific induction sessions, ensures that the board members increase their knowledge of the regulatory and self-regulatory framework and of the situation and dynamics of the Bank and the Group, in order to ensure that they have a full and adequate awareness of the banking business, the economic and financial system, the system of controls and the methods for managing and monitoring risk.

During the year information sessions for members of the Management and Supervisory Boards have been held on “Conflicts of Interest”, “Updating the 231 Model”, “Non-financial reporting and strategic planning processes”, “MREL and Resolution Plan”, “Internal Models and TRIM”, “In-depth review of performance in business segments”, Performance measurement metrics - RORAC and EVA”, “Positioning of the UBI Group (market share)”, “Benchmark and best practice on the qualitative and quantitative composition of boards” and “Strategic reflections on the insurance field”. Ad hoc induction sessions were also held to support newly appointed board members during the mandate.

The appointment of a Lead Independent Director is not envisaged because the conditions set out in the Code do not exist.

Information on the internal regulations on the accumulation of positions is given in section 12.2 of this report.

4.3. Chairman of the Supervisory Board

The Chairman of the Supervisory Board convenes (on his own initiative and, in any event, in the cases prescribed by Law or the Articles of Association) and chairs and co-ordinates the meetings of the Supervisory Board itself, setting the agendas, taking account of the proposals formulated by the Senior Deputy Chairman and the other Deputy Chairmen, if appointed, and ensuring that adequate information on the items placed 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. 39 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 Law)

While it acknowledges the principle of collegiate responsibility in the 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 fact-finding functions in compliance with Bank of Italy regulations, the recommendations of the Corporate Governance Code and Supervisory Authority instructions. These committees were established to allow the Supervisory Board to work more efficiently and effectively, and, as recommended by the Corporate Governance Code, they are composed of not less than three members as follows:
 - Appointments Committee 5 members
 - Remuneration Committee 3 members

- Internal Control Committee 5 members
 - Risk Committee 5 members
- a Related Parties and Connected Persons Committee composed of three members, in compliance with the provisions of: (i) "Regulations for UBI Banca related-party transactions" adopted in implementation of Art. 2391-bis of the Civil Code and Consob Related Parties Regulation; (ii) "Regulations to govern transactions with persons connected to the UBI Banca Group", adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27th December 2006 - 9th amendment of 12th December 2011, "New regulations for the prudential supervision of banks", containing measures concerning "risk assets and conflicts of interest with connected persons" and, from 2nd November 2018, the new Single Regulation (as defined below).

The meetings of these committees are properly minuted. In the performance of their functions the committees may have access to the information and corporate functions necessary for the performance of their duties and make use of external consultants under the terms and conditions set by the Supervisory Board.

Each committee is governed by special regulations which determine its responsibilities and functioning.

The regulations governing the committees are published in the Corporate Governance/Supervisory Board section of the Bank's website.

Concerning the composition of the committees, it is noted that all the internal committees include board members drawn from the "Lista SGR e Investitori Istituzionali" slate and two of them are chaired by board members from the same slate.

6) Appointments Committee

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

- Andrea Moltrasio - Chairman of the Supervisory Board
- Mario Cera - Senior Deputy Chairman of the Supervisory Board
- Letizia Bellini Cavalletti (in office since 2nd February 2017 to replace Gianluigi Gola who resigned on 22nd December 2016)
- Pietro Gussalli Beretta
- Giovanni Fiori.

Compliance of the composition of the Appointments Committee with the provisions of the Corporate Governance Code.

In accordance with Art. 41.6 of the Articles of Association, the Chairman of the Supervisory Board, with the functions of Chairman, and the Senior Deputy Chairman are ex officio members are members of the Appointments Committee; as stated in paragraph 4.2, they are not independent pursuant to Art. 3 of the Corporate Governance Code.

Also, in view of his professional characteristics, *Dott.* Pietro Gussalli Beretta was identified as an additional member; he is also not independent pursuant to the same Art. 3 of the Corporate Governance Code (since he has held senior positions in the UBI Banca Group during the last three years).

The other members of the committee are in possession of the requirements of independence required by the Corporate Governance Code.

The Supervisory Board thus resolved, on the basis of the Articles of Association and in order to benefit from the professional experience of the members appointed to the Appointments Committee, that it was appropriate not to comply, for this specific point only, with the requirements of Art. 5 of the Corporate Governance Code, which require the majority of the members of the Appointments Committee to be independent.

The committee is governed by special regulations published in the Corporate Governance/Supervisory Board section of the Bank's website, which determine its responsibilities and its functioning. The Appointments Committee must have adequate resources available to it for carrying out its functions and be able to make use of outside experts, bringing in, where necessary, the competent corporate functions.

The Appointments Committee, in carrying out its proposal-making functions, as applicable:

- a) carries out fact-finding functions to establish official qualitative and quantitative career profiles for appointments to the Supervisory Board. It proposes the candidates to the Supervisory Board to the position of Deputy Chairman of the Supervisory Board where this is to be appointed;
- b) carries out fact-finding functions to establish qualitative and quantitative career profiles for appointments to the Management Board. It proposes candidates for appointment by the Supervisory Board to the position of Member of the Management Board at the Bank, inclusive of candidates to the positions of Chairman and Deputy Chairman of the Management Board;
- c) puts forward a name for the formulation of a non-binding proposal to be submitted by the Supervisory Board to the Management Board for the appointment of the Chief Executive Officer;
- d) assesses, including during the functioning of the bodies, the adequacy of the succession plans at senior management level for the Management Board and for Senior Management as well as career profiles and requirements for senior managers in office and potential succession candidates;
- e) defines processes to assess the work of the Management Board and Senior Management;
- f) carries out support functions for the purposes of the self-assessment of the Supervisory Board and the Management Board, and also for setting the criteria for carrying out the self-assessment process by the governing bodies of Group banks;
- g) supports the Management and Supervisory Boards in verification of the conditions provided for in Art. 26 of the Consolidated Banking Law;
- h) supports the Risk Committee in the formulation of proposals to Supervisory Board to appoint and remove the heads of the Internal Control Committee, in compliance also with the responsibilities of the Internal Control Committee;
- i) formulates opinions and proposals on the corporate governance and regulatory policies of the Bank and the Group which fall within the exclusive scope of the remit of the Supervisory Board;
- j) oversees the update of corporate governance rules and principles of conduct which may be adopted by Parent Bank and its subsidiaries, even with regard to developments on the matter at national and transnational level;
- k) assesses the adequacy of commitments made on issues of corporate social responsibility;
- l) supervises matters of sustainability connected with running a company and with the development of interactions with stakeholders.

The Appointments Committee met seven times during the year. The average length of the meetings was approximately one hour and they were all properly minuted. The Chief General Counsel and Head of Corporate Affairs attended the meetings.

Further information on the attendance of each member at the meetings of the Committee during the year is given in Summary table No. 2 attached to this report.

In particular, during the year the Appointments Committee provided support for the Supervisory Board during the process to verify the suitability requirements for board members pursuant to legislation and regulations in force, with particular reference to the annual verification that they meet the independence requirement. It also investigated the specific situations of certain board members.

During the year the Committee also carried out activities within its remit in relation to:

- fact-finding activities for the preparation and publication by the Supervisory Board of the "Qualitative and quantitative composition document" for the purpose of the election by the Shareholders' Meeting of 14th December 2018 of a new Board Member to replace the one who had resigned;
- establishing the fit and proper policy and drawing up the document on qualitative and quantitative composition for the forthcoming appointment of a new Board of Directors. The

Committee has subsequently studied these evaluations, working in co-operation with the Chairwoman of the Management Board and the Chief Executive Officer;

- fact finding and formulating proposals for the selection of the independent advisor for the self-assessment of the corporate bodies and the preliminary examination of the outcomes of the process to be submitted to Supervisory Board for its evaluation;
- fact finding for updating succession plans, particularly in relation to the selection of the independent outside company to be used and the preliminary examination of the plan submitted to Supervisory Board for its approval;
- providing support to the Supervisory Board in relation to the composition of sub-committees;
- supporting the Supervisory Board in relation to social responsibility issues, with specific attention to the charitable donations required, with fact finding to define the relevant regulations and the annual activity plan;
- relevant legislative and regulatory changes concerning the requirements for the board members of banks.

In performing its duties, the Appointments Committee makes use of the resources and corporate units of the Bank. In particular the Appointments Committee performs its functions and activities using means and resources made available by the Company at the request of the same Committee.

During the year the Committee had access to the information and Company functions that were necessary for the performance of its duties. The Committee made particular use of the unit reporting to the Chief General Counsel and the Supervisory Board Support Area.

The committee reported to the Supervisory Board on the activities performed at the first subsequent meeting.

The Appointments Committee has met twice in 2019 up until the date of this report.

7) Remuneration Committee

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

- Alessandra Del Boca, as the Chairwoman
- Ferruccio Dardanello
- Patrizia Michela Giangualano.

Dott. Dardanello was appointed to the Remuneration Committee by the Supervisory Board with a resolution dated 12th September 2017 in order to replace *Avv.* Prof. Cera, who resigned from the committee due to other professional commitments.

The Remuneration Committee is composed entirely of independent board members in compliance with the Corporate Governance Code.

The composition of the Remuneration Committee reflects an adequate level of experience and expertise in relation to bank governance, finance and remuneration policies.

The Remuneration Committee is governed by specific regulations published in the Corporate Governance/Supervisory Board section of the Bank's website, which determine its responsibilities and its functioning. These Regulations were last updated in January 2018, following changes to the relevant legislation and regulations and, in particular, the new provisions contained in the update to the joint Consob and Bank of Italy Regulations on the remuneration and incentive policies and practices of asset management companies, which are relevant to the UBI Group with regard to its subsidiary undertaking, Pramerica SGR S.p.A. In carrying out its duties the Committee has access to corporate information relevant to that purpose and it shall have sufficient funds to ensure its operational independence. The

Committee may make use of outside consultants at the Bank's expense for carrying out its activities following prior assessment of whether such consultants are in a situation that compromises the independence of their judgement.

As provided for by the regulations for its proceedings, on invitation of the Chairman, the chiefs of the human resources, risk management and internal audit functions, as well as other senior managers of internal units and functions of the Bank whose presence is considered useful by the Committee itself participated in meetings of the Committee for specific items on the agenda involving their respective areas of responsibility. Furthermore, the Compliance Function normally attends all the meetings of the Committee.

The Committee provides advisory, proposal-making and fact-finding activities for the Supervisory Board, involving the competent corporate functions. In this context, the Committee 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.

In detail, the Committee formulates proposals and opinions:

- for decisions that the Supervisory Board will submit for approval to a shareholders meeting;
- for the remuneration of governing bodies;
- for setting remuneration policies.

The Committee also formulates opinions for the purpose of verifying whether the following are compliant with remuneration and incentive policies approved by the Supervisory Board:

- possible remuneration and/or incentive schemes based on financial instruments;
- the remuneration of subsidiaries.

The Committee has in any event the duty to make proposals for the remuneration of the General Manager (if appointed) and the Senior Deputy General Manager as well as for any specific remuneration paid to them and for the remuneration of additional personnel for which the methods of remuneration and incentivisation are decided by the Supervisory Board in accordance with the supervisory regulations as interpreted in UBI Group's remuneration and incentive policies. It also provides consultation in relation to determining the criteria for the remuneration of all "Identified Staff".

It informs the Supervisory Board appropriately in its verifications on at least an annual basis concerning the proper implementation of remuneration and incentive policies.

The Committee also:

- collaborates with other internal committees of the Supervisory Board, co-ordinating in particular with the Risk Committee, which is responsible for ensuring that the incentives underlying remuneration and incentive schemes are consistent with the RAF;
- ensures, in accordance with regulations in force, that the competent corporate functions are involved in the process of drawing up and monitoring remuneration and incentive policies and practices;
- gives an opinion, assisted by information received from the competent corporate functions, on the achievement of the performance objectives to which incentive schemes are linked and on the satisfaction of other conditions set for the payout of remuneration;
- periodically assesses the appropriateness, overall consistency and concrete implementation of the general policy pursued for the remuneration of senior managers and "Identified Staff" of the UBI Banca Group;
- directly oversees the remuneration of the managers of corporate supervisory functions in close co-operation with the Supervisory Board;
- makes adequate reports on its activities to corporate bodies, including Shareholders' Meetings;
- gives advance assessments to the Supervisory Board on any individual agreements regarding employment termination benefits, in the context of criteria set by Shareholders, relating to "Identified Staff".

The Remuneration Committee met 20 times during the year, concentrating mainly on the areas described below. The average length of the meetings was approximately an hour and thirty

minutes (two hours when the four “single issue” meetings are not taken into account) and they were all properly minuted.

Particular attention is drawn to the activities carried out by the Committee during the year and with reference to the 2019 remuneration policies to assess the introduction of sustainability indicators, including diversity (for which a specific policy is currently being drawn up), with the objective of defining a remuneration system that takes these issues into account.

During the year the Committee also worked on the update to the supervisory regulations on “Remuneration and incentive policies and practices”, analysing the changes that were still at the consultation stage subsequently, following the consultation, making a report to the Supervisory Board on the changes made in the 25th update of 23rd October 2018 of the supervisory regulations on “Remuneration and incentive policies and practices”.

The Remuneration Committee has also carried out:

- activities on behalf of the Supervisory Board for the proposal for setting remuneration and incentive policies for members of the Supervisory Board and members of the Management Board to be submitted to the Shareholders’ Meeting;
- activities on behalf of the Supervisory Board for the approval of incentive and remuneration Policies that regard employees and associate workers not bound to companies by employee contracts;
- activities on behalf of the Supervisory Board for subsequent proposal to the Shareholders’ Meeting, for schemes based on financial instruments in relation to the 2018 Short-term and 2017-2019/20 Long-term incentive schemes for "Identified Staff" and the Productivity bonus (or Company Bonus) for the year, by the grant of financial instruments;
- activities on behalf of the Supervisory Board for the approval of the Remuneration Report submitted to a Shareholders’ Meeting for approval;
- activities on behalf of the Supervisory Board for defining the criteria for determining remuneration in the event of the early termination of an employment relationship or position, submitted to a Shareholders’ Meeting for approval;
- activities on behalf of the Supervisory Board to increase the ratio between fixed and variable remuneration from 1:1 to 2:1 for those employed by the subsidiary undertaking Pramerica SGR subject to the approval of the Shareholders’ Meeting;
- activities on behalf of the Supervisory Board to define the classification criteria for "Identified Staff" (Senior Managers with strategic responsibilities) and for the approval of the relative short-term and medium to long-term incentives model to support the business plan;
- verification that remuneration changes for specific management positions categorised as "Top Management" and "Highest Management Levels of the Control Functions" comply with remuneration and incentive policies;
- verification of the trigger conditions and the performance objectives for the 2017 incentive scheme; examination of the 2018 Merit Plan;
- specific evaluation of the incentive schemes of the subsidiary undertakings Pramerica SGR and IW Bank, in relation to the particular areas in which they operate;
- examination of the report on the verifications conducted by the Internal Audit Function on remuneration and incentive practices.

Further information on the attendance of each member at the meetings of the Committee during the year is given in Summary table No. 2 attached to this report.

During the year the Committee had access to the information and Company functions that were necessary for the performance of its duties.

The Remuneration Committee performs its functions and activities using means and resources made available by the Company at the request of the same Committee.

During the year the Committee did not formulate proposals for the Board that related to its own remuneration.

Members of the Committee abstain from participating at meetings of the same Committee which formulate proposals for the Board that relate to their own remuneration.

The committee reported to the Supervisory Board on the activities performed at the first subsequent meeting.

The Remuneration Committee has met once so far in 2019. The meeting was mainly devoted to in-depth analyses for the annual update of the remuneration and incentive Policies.

Further information on remuneration and incentive policies is given in Section I of the Report on Remuneration published pursuant to Art. 123-*ter* of the Consolidated Finance Law.

8) Remuneration and Succession Planning

Information concerning remuneration policies is given in Section I of the Remuneration Report prepared in accordance with Art. 123 *ter* of the Consolidated Finance Law, which may be consulted.

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, if appointed, 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, amongst other things, participation in committees and the potential assignment of the functions of Supervisory Body pursuant to Legislative Decree 231/2001.

The determination of remuneration is based on an approach that is designed to attract the best expertise and skills and is at the same time designed to pursue the objective of containing governance costs. Account is also taken of the time necessary and the overall expertise required of board members in general and more specifically of the Articles of Association-related duties required of members of the Supervisory Board assigned particular responsibilities, powers and functions, as well as of members of committees, with consideration given in this respect also to Supervisory Authority recommendations. The assessment was made on the basis of a benchmark analysis carried out with the support of an independent advisor.

Management Board

Pursuant to the Articles of Association, the Supervisory Board sets, after consulting with the Remuneration Committee, the remuneration of the Management Board and of its members vested with special offices, duties or powers.

In accordance with the provisions of the remuneration policies for members of the Management Board, the maximum total fee payable to each member of the Management Board, with the exception of those relating to the “special assignments” of the Chairwoman, the Deputy Chairman of the Board and the Chief Executive Officer, for membership of the Management Board and where relevant the governing bodies of Group banks and companies, is equal to the amount due for the position of member of the Management Board (currently €120,000 per year), plus 2/3 (and therefore a potential maximum amount of €200,000 per year).

Any exemptions for exceptional reasons are in any event subject to the prior approval of the Supervisory Board, following consultation with the Remuneration Committee.

If the Chairwoman of the Management Board takes up positions in other UBI Group banks or companies, she may receive total further remuneration of not more than 30% of the remuneration set for the position of Chairman of the Supervisory Board.

The Chief Executive Officer and members of the Management Board classified as senior management of UBI Banca, included within the “Material Risk Takers” perimeter, are eligible for forms of variable remuneration linked to results.

No attendance payments exist. There are no guaranteed bonuses for members of the Management Board (without prejudice to exceptions allowed by legislation and regulations, limited to the first year of employment, for board members classified as senior management). No member of the Management Board may unilaterally waive their right to part or all of their remuneration.

* * *

Further information on the remuneration and incentive policies in place in the UBI Banca Group is given in Section I of the Report on Remuneration published pursuant to Art. 123-ter of the Consolidated Finance Law.

The remuneration paid during the year to members of the Supervisory Board and the Management Board for any reason and in any form is given in Section II of the Report on Remuneration published pursuant to Art. 123-ter of the Consolidated Finance Law.

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

The criteria for determining extraordinary remuneration, in addition to what is required by law or under the national trade union agreement, in the event of the early termination of the employment relationship or of the position held, including the limits set in terms of years of fixed remuneration and the maximum amount resulting from their application, are set by the Shareholders’ Meeting.

No special payments (golden parachutes) are generally provided for the early termination of an employment relationship or the office held.

Any individual agreements, on an exceptional basis, will be managed in the context of the criteria set by a Shareholders’ Meeting, up to a maximum of 24 months of fixed individual remuneration, subject to deferment and retention conditions for the component paid in financial instruments and to ex post adjustment mechanisms (malus and clawback) and they must reflect performance achieved over time.

This is without prejudice to payments and disbursements that are required by law or under the national trade union agreement, or on the basis of transactions performed within the context and limits of these regulations and in order to avoid objectively justified litigation risks.

These payments and disbursements do not fall within the pay mix and are to be determined based on the specific cases concerned and taking account of the motivations underlying termination of employment, of the position within the organisation, of performance over time, and of proper conduct, as well as in strict adherence to applicable regulations, without prejudice to observance of prevailing supervisory and legislative provisions.

A structured approval process is followed for decisions regarding “Identified Staff”. More specifically, the Management Board, within the context of the criteria and limits set by a Shareholders’ Meeting, submits the measures adopted and the relative reasons to the Supervisory Board for verification of compliance, after prior consultation with the Remuneration Committee.

Further information is given in the Remuneration Report.

Succession Planning

In 2011 UBI Banca established a structured process 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 (if appointed) in particular.

In September 2016 a decision was taken to update the succession plan taking into account, amongst other things, the revision of the organisational model for the Group following the implementation of the Single Bank Project. In this regard, a leading independent specialised firm was engaged to assist in the preparation of a succession plan for senior management by assessing the profile of all the most senior positions including the activities performed as above.

On conclusion of the above activity, in 2017, the Supervisory Board approved an update to the succession plan for the Top Management Level, which had been examined beforehand by the Appointments Committee.

The Plan defines formal procedures for the replacement of Top Management and includes description of the process to update the succession plan and the long-term and emergency plans to be followed to trigger it, with the activities to be carried out by the Boards and their internal committees for those aspects that concern them.

The Supervisory Board considered that the plan in question meets the requirement to ensure continuity in the company and prevent repercussions on operations and reputation both over the long-term and in the event of sudden senior management vacancies.

Over 50 managers were covered by the review. Each manager is assessed individually through in-depth interviews, together with the acquisition of a very full set of references, conducted by external specialist firms. The assessment therefore provides an indication of strengths and areas for improvement. Each manager receives feedback on their 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.

During the year the Supervisory Board has conferred a mandate to the same leading independent specialised firm to update the current succession plan, taking into account the forthcoming adoption of the new one-tier governance model. The update is currently under way.

9) Internal Control Committee

The Internal Control Committee is composed of the following Supervisory Board members:

- Giovanni Fiori - as the Chairman (*)
- Pierpaolo Camadini
- Patrizia Giangualano
- Alberto Carrara (*)
- Sergio Pivato (*)

(*) Enrolled in the Register of Statutory Accounting Auditors

Dott. Alberto Carrara was appointed by the Supervisory Board on 20th December 2018, replacing *Dott.* Renato Guerini who resigned as a member of the Supervisory Board on 11th October and as a consequence of this also ceased to be a member of the Internal Control Committee.

All the members of the Committee including the Chairman are independent board members in accordance with the Corporate Governance Code and Art. 148 of the Consolidated Finance Law.

The activities of the Committee are governed by special regulations published in the Corporate Governance/Supervisory Board section of the Bank's website, which determine its responsibilities and functioning. According to the contents of those, the purpose of the Committee is to support the Supervisory Board with fact-finding, advisory and proposal-making functions in those areas overseen by the Board in its capacity as the Supervisory Body in accordance with regulatory requirements as may be in force from time to time, in order to increase its effectiveness.

The Committee's duties also include supporting the Supervisory Board with its supervisory functions pursuant to Art. 149, paragraphs one and three, of the Consolidated Finance Law, having regard to the internal control system and other activities connected with the functions of the Supervisory Body and the following activities in particular:

- overseeing the functioning of the internal control system as a whole and ascertains the effectiveness of the units and functions involved in the system itself and that they are properly co-ordinated, initiating corrective action for shortcomings and irregularities where they are found;
- assessment of the basic elements of the general architecture of the internal control system (powers, responsibilities, resources, information and management of conflicts of interest);
- overseeing the completeness, adequacy, functionality and reliability of the RAF;
- overseeing the process for calculating internal capital (inclusive of the ICAAP and ILAAP processes) and the completeness, adequacy, functionality and reliability of internal risk measurement systems for calculating capital requirements and that they comply with regulatory requirements;
- providing an opinion on the appointment and removal of the heads of the compliance, risk management and internal audit functions and the Senior Officer Responsible for preparing the corporate accounting documents pursuant to Art. 154-*bis* of the Consolidated Finance Law, by submitting its assessment of the candidates to the Risk Committee;
- examining periodic reports on the activities carried out by control functions and also the results of the self-assessment of internal Group adequacy in terms of the principles of the Supervisory Review and Evaluation Process (SREP) of the competent Supervisory Authorities;
- verification of the proper performance of strategic control and management activities by the Parent in relation to Group companies;
- overseeing compliance with laws, regulations and the Articles of Association, the proper performance of management activities and the adequacy of the Bank's organisational structure and its accounting systems;
- informing 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 Law. If in the course of its activities the Committee becomes aware of circumstances that may be relevant pursuant to Art. 52 of the Consolidated Banking Law, it notifies the Supervisory Board and Management Board of the shortcomings and irregularities found, requests corrective actions to be taken and monitors their effectiveness over time;
- verification and study of the causes and remedies for management irregularities, performance problems and shortcomings in organisational structures and accounting systems, with particular attention paid to regulations concerning conflicts of interest and infringements of rules governing the provision of investment services;
- examination of the Group's policy on whistleblowing and performance of the activities assigned to it by this policy, including regular assessments of the reports received;
- assessment of proposals formulated by the independent auditors for their engagement, examining their professionalism and experience to ensure these qualities are adequate for the size and operational complexity of the Bank;
- assessment of reports for Shareholders' Meetings called in accordance with Art. 2364-*bis* of the Civil Code, and also for any other Shareholders' Meetings, ordinary or extraordinary, on its supervisory activities carried out, on omissions and on irregularities observed.

Furthermore, the Committee performs its internal control and audit functions in accordance with Art. 19 of Legislative Decree No. 39 of 27th January 2010.

The Committee supports the Supervisory Board with its duties connected with assessing the adequacy and functionality of the accounting and tax systems, including IT systems, in order to ensure accurate recording of corporate events and facts.

The members of the Internal Control Committee are also members of the Supervisory Body of UBI Banca pursuant to Legislative Decree No. 231/2001, which met six times in during the year. Detailed information relating to the Supervisory Body and Model of Organisation, Management and Control pursuant to Legislative Decree No. 231/2001 is given in section 15.3 of this report.

The Committee normally performs its duties using the information provided to the Supervisory Board in compliance with the relevant regulations and information provided by corporate internal control units and functions and the results of activities carried out by the Supervisory Body pursuant to Legislative Decree No. 231/2001. In this context the Committee had access during the year to the information and Company functions that were necessary for the performance of its duties. In order to acquire constant information on the principal management events, at least one member of the Committee attends meetings of the Management Board and reports to the Committee and through its Chairman to the Supervisory Board on matters of major importance that are dealt with.

Furthermore, in order to carry out its activities to support the Supervisory Board in exercising the supervisory duties assigned to by supervisory regulations, the Committee co-ordinates with the Risk Committee. More specifically, the regulations require that the Committee and the Risk Committee exchange all information of mutual interest. This co-ordination was also ensured because some members of the Internal Control Committee are also members of the Risk Committee.

By employing the services of the appropriate organisational units of the Bank, the Committee can carry out inspections and controls at any time and exchange information with the control bodies of the companies of the Group with regard to management and control systems and corporate activity. In particular, the Committee, when it considers it necessary, asks the Internal Audit Function to perform checks on specific areas. In accordance with Art. 43 of the Articles of Association, it also activates the Internal Audit Function in response to extraordinary requests for inspections and/or investigations made by the Chief Executive Officer. The Committee reports on the activities and investigations it has carried out, including the tasks assigned to the Internal Audit Function, at meetings of the Supervisory Board.

The Internal Control Committee performs its functions and activities using means and resources made available by the Company at the request of the same Committee.

In particular, the Internal Control Committee may identify and make use of external consultants, at the Bank's expense.

The Internal Control Committee met 18 times in during the year, one of the meetings being held jointly with the Risk Committee (the average length of each meeting was approximately two and a half hours). All the meetings were properly minuted. The members were present at the following number of meetings: Prof. G. Fiori, 18 meetings; *Dott.ssa* P. Gianguialano, 18 meetings; *Dott.* R. Guerini, 13 meetings; Prof. S. Pivato, 16 meetings and *Avv.* P. Camadini, 17 meetings. Members who were unable to attend a meeting gave reasons for their absence. Further information on the attendance of each member at the meetings of the Committee during the year is given in Summary table No. 2 attached to this report.

The Chief Audit Executive, the Chief of the Compliance Function and the Chief Risk Officer attend the meetings of the Committee. The regulations of the Committee provide that "if it is apparent from the matters on the agenda for discussion that this is advisable, the Chairman of the Supervisory Board may participate in the work of the Committee at his request or by invitation of the Chairman". This provision was not applied during the year. 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 during the year.

The Committee reported on its activities at each meeting of the Supervisory Board. In this context, the Chairman of the committee also notifies the Supervisory Board (normally as part of the examination of the quarterly reports made by the corporate control functions and also from time to time in relation to investigations made in relation to specific matters) 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, by providing relevant information to support the work of the Supervisory Board.

During the year the Internal Control Committee focused mainly on the following activities:

- the most important issues concerning the internal control system of the Bank, for the purpose of evaluating the adequacy of the same, as follows:
 - the main legislative and regulatory changes in areas relevant to the general architecture of the Group's system of internal controls, with a particular focus on issues relating to the governance of the Bank, in relation to the development of the Corporate Governance Plan for the adoption of the one-tier management model. In this context, specific attention has been paid to the system of powers, the definition and attribution of responsibilities, the management of resources (with particular reference to remuneration and incentive schemes);
 - the management of conflicts of interest, with a particular focus on projects relating to related parties and connected persons, as well as the formulation of the Single Policy for the management of conflicts of interest adopted by the Bank;
 - the organisation and structure of the Bank, with a particular focus on the changes to the units of the corporate control functions. In this context the completion of the merger of the New Banks (Banca Adriatica, Banca Tirrenica and Banca Teatina) into UBI Banca, completed in the first quarter of the year, was the subject of constant monitoring;
 - reporting lines, with particular regard to the reports made by the organisational units responsible for controls. In this context, there was a particular focus on aspects of co-ordination of the corporate control functions, leading to the use of an integrated reporting tool showing the most significant findings of the functions (Top Issues Report and Flash Report), for the benefit of the corporate bodies;
 - issues relating to the IT system, with specific reference to the checks carried out by the Chief Information Officer on the adequacy of the Business Continuity Plan of the Group, the updating of the Data Governance policy and the development of projects relating to IT Governance and Data Governance;
 - assessment of the adequacy of the organisational structure and accounting systems of the Bank, taking into account information provided by the independent auditors and reports made by the Chief Financial Officer;
 - matters concerning Anti-Money Laundering, transparency, usury, compound interest and privacy, with a particular focus on specific projects being developed by the Bank to constantly enhance and improve controls, including reference to the integration of the New Banks;
 - the performance of activities connected with the management of reports made by staff using the procedure provided for this and the examination of the periodic report made by the Chief Audit Executive, as the whistleblowers' champion;
- the supervision of the adequacy of the system for managing and monitoring risk and of the compliance of the ICAAP process with the regulatory requirements, with reference to both the requirements for the Group to submit periodic reports to the Bank of Italy and the ICAAP and ILAAP processes;
- the evaluation of the activities plan of the corporate control functions and of their periodic reports on the activities carried out (Internal Audit, Compliance, Corporate Anti-Money Laundering Officer, Complaints and Risk Management), also with reference to those that concern the assessment of the internal control and risk management system. In this context both the projects concerning the evolution of organisational models, tools, methods and processes involving the control functions have been examined and investigated;
- the policy-setting and co-ordination activities of the Parent, including meetings held for this purpose with representatives of the Boards of Statutory Auditors and the General Managers of all the main subsidiaries, in order to obtain updates on their overall situation and in particular the adequacy of their internal control systems;
- changes to the Internal Audit, in terms of the organisational structure of the Unit, the number and quality of the staff engaged in the Function, changes in method and new operational tools adopted, also in order to monitor its independence, adequacy, efficiency and effectiveness. In this context, during the year the Internal Control Committee has required the performance of an External Quality Assurance Review of Internal Audit, with a specific in-depth examination of the risk assessment methodology adopted by the Function, as a result of which Internal Audit was awarded the highest possible score and made some changes with a view to continuous improvement. At the same time, the

Committee monitored the process of strengthening the Internal Audit Unit, from an organisational viewpoint and in terms of human resources;

- the provision of investment services, with reference also made to the examination of the annual report in accordance with the joint Consob and Bank of Italy Regulations;
- 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, whose independence has been subject to constant and attentive monitoring by the Committee, including by means of stringent instructions and guidelines concerning the engagement of the Group’s independent auditors to provide advisory services;
- the consolidated non-financial statement pursuant to Legislative Decree No. 254/2016;
- periodic reporting and specific reporting on the results of analyses conducted by the Internal Audit Function;
- relations with the Supervisory Authority, with specific regard to inspections carried out by them and requests for self-analysis concerning specific transactions;
- an examination of the underlying causes of the main damaging events in the Group.

We report that, at the date of this report, the Internal Control Committee has set the dates of its meetings until the first ten days of April 2019, planning to hold six meetings, two of which have already been held.

10) Risk Committee

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

- Paola Giannotti - as the Chairwoman;
- Francesca Bazoli;
- Patrizia Michela Gianguialano;
- Sergio Pivato (in office since 2nd February 2017 to replace Gianluigi Gola who resigned on 22nd December 2016);
- Lorenzo Renato Guerini (until 10th October 2018);
- Alberto Carrara (in office since 20th December 2018), replacing Lorenzo Renato Guerini who resigned on 11th October 2018).

Following the resignation of *Dott. Lorenzo Renato Guerini* from the Supervisory Board, *Dott. Carrara* was appointed by the Shareholders’ Meeting of 14th December 2018. At a meeting held on 20th December 2018, the Supervisory Board appointed *Dott. Alberto Carrara* as a member of the Risk Committee.

All the members of the Committee including the Chairman are independent board members in accordance with the Corporate Governance Code and Art. 148 of the Consolidated Finance Law, in possession of adequate experience of accounting and finance or risk management.

As provided for by the regulations for its proceedings, on invitation of the Chairman, the chiefs of the risk management, internal audit, administration, credit and human resources functions, as well as other senior managers of internal units and functions of the Bank whose presence is considered useful by the Committee itself participated in meetings of the Committee for specific items on the agenda involving their respective areas of responsibility. As provided for by the regulations for its proceedings, the Committee may also make use of outside consultants selected by it having assessed in advance whether such consultants might place themselves in a situation that compromises the independence of their judgement.

The purpose of the Committee, which is governed by special regulations (published in the Corporate Governance/Supervisory Board section of the Bank’s website) which determine its duties and how it functions, is to support the Supervisory Board by performing assessments, furnishing advice and submitting proposals in those areas overseen by the Board as a strategic Supervisory Body in accordance with supervisory provisions as applicable at the time (in particular Bank of Italy Circular No. 285 of 17th December 2013) relating to risk and the internal control system inclusive of determination of the Risk Appetite Framework (RAF) and risk management policies, the approval of the proposed separate and consolidated financial reports

and the examination of the half-year financial report and, if they have been prepared, the quarterly financial reports. Without prejudice to the responsibilities of the Remuneration Committee, the Committee helps to ensure that remuneration policy reflects and promotes sound and effective risk management.

More specifically the Committee:

- having first consulted with the Internal Control Committee and received advice from the Appointments Committee, makes proposals for the appointment and removal of the heads of the compliance, risk management and internal audit functions; having first consulted with the Internal Control Committee, submits an advisory opinion to the Supervisory Board concerning that Board's own opinion on the appointment and the removal of the Senior Officer Responsible for preparing the corporate accounting documents pursuant to Art. 154-*bis* of the Consolidated Finance Law;
- carries out a prior examination of programmes and activities (including an audit plan) and annual reports prepared by corporate control functions for submission to the Supervisory Board;
- submits assessments and opinions to the Supervisory Board on compliance with the standard principles of the internal control system and corporate organisation and with the requirements that must be observed by corporate control functions, bringing any weaknesses there may be to the attention of the Supervisory Board together with the consequent corrective action to be taken. For this purpose it assesses proposals made by the Management Board;
- assists, by means of assessments and opinions, with Group policy-setting for the outsourcing of corporate control functions;
- verifies that corporate control functions comply properly with Supervisory Board recommendations and guidelines and it assists the latter in the preparation of the co-ordination document required by Circular No. 285 of 17th December 2013, Title IV, Chapter 3;
- assesses the proper use of accounting policies for the preparation of separate and consolidated financial reports and to this end it co-ordinates with the Senior Officer Responsible for the preparation of corporate accounting documents and with the Internal Control Committee.

The Committee also performs functions to support the Supervisory Board, with particular reference to duties concerning risk management and control, on the following: i) the setting and approval of strategic guidelines and risk management policies; ii) monitoring the proper implementation of strategies, risk governance policies and the RAF; iii) the assessment of periodic reports; iv) the assessment of internal capital adequacy and liquidity assessment processes; v) the assessment of documents that the Group prepares and submits to the competent authorities relating to changes to validated internal systems; vi) the assessment of the process for the development and the validation of internal systems used to measure risks not used for regulatory purposes; (vii) the assessment of the second level credit risk management process; (viii) the assessment of non-viability risk in the context of the "Recovery plan"; ix) setting policies and defining assessment processes for corporate activities. In this context, amongst other things, the Committee supports the Supervisory Board in ensuring that the strategic plan, the RAF, the "Internal Capital Adequacy Assessment Process" (ICAAP), the "Internal Liquidity Adequacy Assessment Process" (ILAAP), the budget and the internal control system are all compatible with each other.

With regard to the approval of accounting policies and proposed separate and consolidated financial reports and the examination of the half-yearly and quarterly financial reports, if prepared, the Committee supports the Supervisory Board with fact-finding, advisory and proposal-making functions in carrying out its duties as defined by the regulations in force from time to time, furnishing an opinion on the relative matters in order to allow the Board itself to make decisions in a knowledgeable and informed manner. The Committee periodically, and normally at least once each quarter, conducts an examination with the Senior Officer Responsible for preparing the corporate accounting documents, consulting also with the independent auditors, and in particular it examines Group accounting matters and those of individual companies and looks into issues connected with supervisory regulations and the related supervisory reporting process.

While the responsibilities of the Remuneration Committee remain, the Committee checks that the mechanisms underlying incentive schemes operating within the remuneration and incentive system of the Bank and the Group are consistent with the RAF. The Committee supports the Supervisory Board – co-ordinating with the Remuneration Committee – in defining the process for the identification of "Identified Staff" and takes part in the identification and exclusion process for the definition of the relative perimeter. The Committee supports the Supervisory Board in the assessment of strategies and implementation plans for the management of non-performing loans, ensuring that they are consistent with the RAF and the strategic plan. The Committee met 20 times during the year; the members of the Risk Committee also attended a joint meeting with the members of the Internal Control Committee to examine matters of common interest relating to internal control systems. The average length of each meeting was approximately three hours.

Given the above, the Committee mainly examined and investigated the following issues during the year:

- updating policy and related implementing regulations and documents setting operational limits for the management of risks including financial, credit, counterparty, operational, IT, reputational and equity risks, the valuation of financial instruments and guarantees acquired for credit risk mitigation purposes;
- updating the " Risk Appetite Statement";
- updating internal regulations concerning i) the internal validation framework, ii) the second level credit control process, iii) processes to develop, change and extend the IRB credit risk management systems, iv) regulation of funds transfer pricing, v) policies and regulations to manage risks connected with money laundering and the finance of terrorism and vi) policies and regulations for the procurement of physical gold;
- results of the ICAAP and ILAAP processes, together with the reports made by the Internal Audit Function;
- quarterly risk report and pillar 3 Disclosures;
- quarterly self-assessment report for the main areas of SREP analysis (UBI SREP Dashboard);
- reports on second level credit control activities;
- matters relating to reputational risk, including:
 - o quarterly reputational risk reporting;
 - o analysis of potential reputational and operational risk profiles connected to marketing, communication, publicity and sponsorship activities;
 - o examination, in the context of reputational risk, of the Compliance action plan for assessing the regulatory system;
 - o analysis of potential reputational risk profiles relating to potentially prejudicial facts;
- examination of the IT system architecture and controls framework for managing operational and IT risks;
- documentation relating to requirements for reporting to the Supervisory Authority as a result of the authorisation to adopt internal models for calculating capital requirements for credit risks and operational risks;
- examination of the application package for applications to authorise the extension and change of the internal models for the calculation of capital requirements for credit risks and monitoring of changes in the validation process;
- revision of the roll-out plan for advanced approaches such as AIRB/IRB and AMA;
- reports on the activities of the Risk Control, Compliance and Internal Validation functions in 2017;
- activity plans for the Risk Control, Compliance, Audit and Internal Validation functions in 2018;
- activity plan relating to second level credit control activities;
- outcomes of the 2018 European Banking Authority (EBA) EU-wide Stress Test;
- verification of the consistency of the Risk Appetite Framework with the mechanisms underlying incentive schemes operating within the remuneration and incentive system;
- examination of the method for the identification of "Identified Staff";
- examination of Compliance methodology;
- examination of the Recovery Plan and the associated non-viability risk management framework;
- matters relating to non-performing loans:

- o examination and monitoring of the UBI Group Strategy for managing non-performing loans;
- o examination of transactions for disposals of non-performing loan portfolios;
- o examination of issues connected with the remediation plan for NPL Guidance;
- o examination of issues connected with the inspection of the credit and counterparty risk management and risk control system;
- periodical examination of sustainability and the non-financial statement, with an evaluation of the risk map, the materiality matrix and the strategic macro-objectives relating to sustainability;

Finally, the following were analysed and examined with regard to accounting and financial reporting policies:

- disclosure of the main aspects of financial statements and periodic financial reports;
- information on the methodological and procedural approach of the impairment test recognised on goodwill and shareholdings and their results;
- loan loss rate, deteriorated loans and receivables and the trends of the related coverage rates, with a particular focus on the most significant positions and on impairment losses on loans, calculated either singly or collectively, including comparisons between Group companies and comparisons with the main market competitors;
- the state of the UBI Group's tax litigation;
- the accounting effects of the introduction of new regulations and tax legislation;
- periodical examination of activities connected with the IFRS 9 project and associated deliverables;
- updates to the Group Accounting and Reporting Manual with a specific focus on methodologies in the context of IFRS 9.

During the year the Committee had access to the information and Company functions that were necessary for the performance of its duties.

The Risk Committee performs its functions and activities using means and resources made available by the Company at the request of the same Committee.

The Risk Committee has met three times so far in 2019.

Five meetings have been scheduled for the current year up to the planned end of the mandate of the current Supervisory Board in April 2019.

The committee reported to the Supervisory Board on the activities performed at the first subsequent meeting.

11) Related Parties and Connected Persons Committee

The Related Parties and Connected Persons Committee is composed of the following board members:

- Armando Santus, as the Chairman;
- Letizia Bellini Cavalletti;
- Paola Giannotti.

The Related Parties and Connected Persons Committee is composed of three permanent members, including the Chairman, appointed by the body with responsibility for strategic supervision from amongst its members in possession of the requirements of independence set by legislation and regulations in force and those determined on the basis of the principles contained in the Corporate Governance Code, or those applicable for each company in the UBI Group, in compliance with the provisions of the law and the Articles of Association in force.

The composition of the Related Parties and Connected Persons Committee reflects an adequate level of expertise and professionalism in relation to the activities performed by the UBI Group and the independence of judgement appropriate to their positions. Possession of the requirements of independence by the members of the Committee is certified by the Body with the Strategic Supervision Function when they are appointed and periodically every six months.

On 2nd November 2018 the “Single Policy on transactions with Related Parties in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulations Circular No. 263, “Identified Staff” of the UBI Group, Significant Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Significant Parties” came into force, together with the relative implementing Regulation governing the procedural aspects of the relative processes concerning fact finding, approval and reporting to governing bodies and to the market (the “Single Policy” and “Single Regulation”). The Single Policy and Single Regulation (as subsequently defined in section 16 of this report) replace the previous “Regulations to govern transactions with parties related to UBI Banca” and the “Regulations to govern transactions with persons connected to the UBI Banca Group”.

The Single Policy is the document drawn up by UBI Banca - as the Parent of the UBI Group - containing the regulations, in terms of principles and guidelines, to be adopted by UBI Group with reference to situations of actual or potential conflict of interest subject to the procedural and decision-making rules in accordance with the Single Regulation.

All UBI Group companies (including the non-banking members), in Italy or abroad, are required to implement both the Single Policy and their own Single Regulation.

In terms of their procedural and decision making aspects, the Single Policy and Single Regulation serve to implement the principles and controls required by the provisions relating to the regulation of transactions with related parties, connected persons, "Identified Staff" and significant parties pursuant to Art. 136 of the Consolidated Banking Law, as well as any other person defined as significant by the Bank on a self-regulatory basis, and also in consideration of the provisions of articles 2391 and 2391-*bis* of the Civil Code. The provisions of the aforementioned regulations form an integral part of the Single Policy and Single Regulation.

The Single Policy and the relative amendments are published on the website of UBI Banca (www.ubibanca.it), along with the Single Regulation. For further information on the Single Policy and Single Regulation, see paragraph 16 of this report.

As set out in the Single Regulation, senior officers and any other persons whose presence is deemed useful by the Committee in formulating its opinion may be called upon to participate in meetings of the Committee, in relation to the subject dealt with. With particular reference to transactions with parties related to UBI Banca, the following persons may be called upon to participate in meetings of the Related Parties and Connected Persons Committee: the Chairman of the Management Board, the Chief Executive Officer, the Chairman of the Supervisory Board, the chiefs of the corporate functions of the Bank and its subsidiaries in relation to the details of the transaction, the chiefs of the Internal Audit Function and external advisors appointed to assist the Bank or one of its subsidiaries in the negotiations concerning the Related-Party Transaction performed by UBI Banca.

The Related Parties and Connected Persons Committee is required to perform the tasks allocated to it by the Single Regulation, in accordance with the procedures governed by it.

The Related Parties and Connected Persons Committee met 13 times during the year (the average length of the meetings was around one and a half hours), concentrating mainly on the following fields:

- examination and reading of the report on the periodic updating of activities in progress and of the main results achieved in relation to the “Related Parties and Connected Persons Stabilisation” and “Managing Conflicts of Interest” projects, both intended to create a single oversight in order to optimise the proper management of potential conflicts of interest on the part of the UBI Group in relation to transactions with related parties, connected persons and those categorised as "Identified Staff", with the involvement of the Corporate Affairs and Relations with Authorities, Compliance and Organisation units;
- examination of the profile of new connected persons resulting from the acquisition of the New Banks in May 2017, as stated in periodic reporting;
- examination and reading of the report on credit lines and limits applicable to counterparties qualifying as significant parties pursuant to Art. 136 of the Consolidated Banking Law;
- examination and reading of the periodic receipt of the list of all transactions with related parties, connected persons and those categorised as "Identified Staff", including those not subject to a prior opinion from the Related Parties and Connected Persons Committee, with requests made to the competent units for assessments of their economic profile and the link between the party in whose name the transaction was performed and, if it is the case, the relative originator/senior officer, in order to acquire increased knowledge of the salient

- characteristics of the transaction in question and the significant parties involved;
- opinion concerning the adoption of the Single Policy and Single Regulation;
- examination and reading of the report on the activities carried out by the Related Parties and Connected Persons Committee (included in the Corporate Governance Report) and the periodic financial report on transactions with related parties and connected persons in the annual and interim management reports;
- opinion concerning decisions to approve loans, signing leasing contracts and proposals for donations and sponsorships to related parties and connected persons and those categorised as "Identified Staff";
- opinion concerning relationships between the Purchasing Department of UBI Sistemi e Servizi, in the name of and on behalf of UBI Banca, and suppliers that are related parties and/or connected persons, taking into account the investigations requested from the Boards;
- opinion concerning the Single Policy of the Group and the related implementing regulation for the management of conflicts of interest, intended to oversee the integrity, transparency and proper nature of decision-making processes regarding the transactions of the Bank and other UBI Group companies with parties defined as Related Parties, Connected Persons, "Identified Staff", significant parties in accordance with Art. 136 of the Consolidated Banking Law and other significant parties, as well as overseeing the risk that the closeness of persons to the decision-making centres of UBI Group companies might compromise the objectivity and impartiality of the relevant bodies in reaching their decisions.

In the context of the aforementioned activities, the Related Parties and Connected Persons Committee examined twelve transactions during the year, giving a favourable, reasoned and non-binding opinion in relation to each of them.

The Related Parties and Connected Persons Committee carried out its activities in accordance with the principle of the circulation of information and on the basis of the involvement of the Corporate Affairs and Relations with Authorities, Compliance and Organisation units of UBI Banca.

The Related Parties and Connected Persons Committee has already met twice in 2019.

The Related Parties and Connected Persons Committee reported to the Supervisory Board on the activities performed in the first meeting.

The Related Parties and Connected Persons Committee performs its functions and activities using means and resources made available by the Company at the request of the same Committee and as established by the Group's Single Regulation and any further internal implementing regulations.

12) Management Board

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

The Management Board is composed of seven members, including a Chair, a Deputy Chair and a Chief Executive Officer; the members of the Management Board are appointed by the Supervisory Board, on the basis of a proposal from the Appointments Committee, according to a criterion which, in compliance with Law No. 120 of 12th July 2011, ensures a balance between genders for the period provided for by that law.

Without prejudice to compliance with the applicable regulations in force, two members of the Management Board are selected from amongst the senior management of the Bank. The Board Member nominated as the Chief Executive Officer in accordance with Art. 33 of the Articles of Association is not counted in that number even if he is a senior manager of the Bank at the time of his appointment or is appointed to that position subsequently.

The members of the Management Board remain in office for three financial years. Their term of office expires 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. 38, letter a) of the Articles of Association and they may be re-appointed. Members of the Management Board who also hold positions as senior managers of the Bank shall vacate their office as board members immediately, at the moment they leave their positions as senior managers, no matter what the reason.

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 12th 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 positions of the majority of the members originally appointed by the Supervisory Board become vacant, then the entire Management Board is 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.

The Chief Risk Officer attends meetings of the Management Board in a consultative capacity only, unless supervisory regulations provide otherwise.

Persons who are ineligible or debarred within the meaning of Art. 2382 of the Civil Code, as well as those do not satisfy the requirements of integrity, professionalism or any other requirement contained in the relevant legislation and regulations, and also those subject to the limits on the accumulation of positions imposed by internal regulations, may not be appointed as members of the Management Board. At least one member of the Management Board must, however, possess the requirements of independence set forth in Art. 148, paragraph three of the Consolidated Finance Law.

Members of the Management Board must not in any case have reached 70 years of age at the time of appointment and they must have acquired overall experience – through holding the office in Italy or abroad – of at least three years as Chairman or at least five years of working in:

- management and/or strategic supervision

or

- direction

in

- banks, finance companies, asset management companies or insurance companies;
- independent public authorities;
- companies that carry out manufacturing and/or trade in goods or services;
- companies with shares traded on an Italian or foreign regulated market.

Candidates who have not acquired that career experience can also be elected provided they are or have been members of the professional associations of accountants, notaries or lawyers for at least ten years.

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

The members of the Management Board are 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.

12.2. Composition (pursuant to Art. 123-bis, paragraph 2, letters d) and d-bis) of the Consolidated Finance Law)

On 14th April 2016 the Supervisory Board appointed the following members of the Management Board for the three-year period 2016/2017/2018 and also proceeded to appoint *Dott.sa* Letizia Maria Bricchetto Arnaboldi as Chairwoman and *Dott.* Flavio Pizzini as Deputy Chairman,

designating *Dott.* Victor Massiah as Chief Executive Officer, who was then appointed by the Management Board at their meeting on 15th April 2016.

The Management Board is currently composed of the seven members, in office for three financial years, in accordance with Art. 21 of the Articles of Association:

Maria Letizia Brichetto Arnaboldi	Chairwoman
Flavio Pizzini	Deputy Chairman
Victor Massiah	Chief Executive Officer
Silvia Fidanza	Board Member
Osvaldo Ranica	Board Member
Elvio Sonnino	Board Member
Elisabetta Stegher	Board Member

The *curricula vitae* of the members of the Management Board in office 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.

More detailed information on the composition of the Management Board is given in Summary table No. 3 attached to this report.

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 on the number of positions by company personnel" adopted by the Bank in June 2009, subsequently modified by decisions taken by the Supervisory Board on 18th July 2012, and implemented by the banks in the Group, apply to the Management Board.

The Shareholders' Meeting has not authorised exceptions to the prohibition on competition pursuant to Art. 2390 of the Civil Code; the Management Board carries out careful assessments to ensure that there are no situations of potential competition by its members, amongst other things pursuant to Art. 36 of Law No. 214/2011, the conversion with amendments of Decree Law 201 of 6th December 2011.

The internal regulations apply to members of the Management and Supervisory Boards of the Bank, 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 UBI Group members, but also they may not accept other appointments as board members in companies in the UBI 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 UBI 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 situation compliant with the contents of the internal regulations.

Self-assessment process

In March 2016, in view of the appointment of a new Management Board and in the context of the Board evaluation performed at the end of its term of office, the outgoing Management Board focused particular attention on the assessments made in order to identify the qualitative and quantitative composition considered optimal for the same Board; the results of this analysis have been forwarded to the Supervisory Board.

In particular, the report highlighted the need for the members of the Management Board, in consideration of the complexity of the background context and the size of the Group, to be in possession of adequate experience acquired nationally or internationally, and therefore have a knowledge of business management and of the dynamics of the economy and finance, of systems of corporate governance, organisation, company management and management control. It also emphasised the need to preserve the requirements for diversity already present, also assessing in this context the value of age and gender diversification (without prejudice to the constraints of the Articles of Association).

Following the appointment of the new Management Board by the Supervisory Board, the Management Board proceeded, in May 2016 - in the context of the process to verify the necessary qualities of integrity, professionalism and independence required by the legislation in force - to verify that the actual composition resulting from the appointment process complies with the quantitative and qualitative composition identified by the outgoing Management Board; in this regard the Management Board, following a detailed analysis of the professional skills of its various members, evaluated and verified that the composition of the Management Board complies with the qualitative and quantitative composition deemed to be best for the achievement of the objective of performing the functions assigned to it in a correct manner.

This verification was once again carried out as part of the annual self-assessment process for the Management Board, which took place in January 2017 with the consultancy support of Korn Ferry, which together with the detailed diversity provisions contained in the Articles of Association, meet the regulatory requirements.

With regard to the diversity of the membership of the current Management Board, it is noted that there are three board members of the less represented gender, including the Chairwoman, amounting to more than a third of the total membership. In terms of age, having noted that the Articles of Association set the age limit for members of the Management Board at 70 years old, we report that: 14% of board members are under 50, 43% of them are between 50 and 60 and 43% are over 60 years old. Most of the board members have a financial professional background. The Board includes members with managerial and entrepreneurial profiles.

The assessment process is set out in the "UBI Banca Group Governing Body Self-Assessment Process" internal regulation, drawn up in order to implement the supervisory regulations concerning corporate governance (Bank of Italy Circular No. 285 of 17th December 2013 – Part One – Title IV – Chapter 1), which formalises the annual self-assessment process of the corporate bodies, based on their three-year term of office, setting out the requirements of the Supervisory Authority across the UBI Banca Group using criteria of proportionality. The document also includes guidelines for the organisation of training activities for members of governing bodies.

The follow-up self-evaluation carried out for the third year of the Board's mandate (2018), the results of which were examined at its meeting of 29th January 2019, again with the consultancy support of Korn Ferry, included the following areas of analysis:

1) the mandate of the Board; 2) the composition of the Board; 3) the contribution made by the board members; 4) internal dynamics; 5) implementation of the mandate; 6) secretarial and training support. On the basis of the results of the questionnaires it was found that the Board operates appropriately and consistently with its mandate. Some opportunities to improve the functioning of the Board were found within the various sections of the self-assessment questionnaire.

The main strengths found by the analysis were: (i) awareness and satisfaction that it has worked effectively in relation to the agenda and major recommendations of the ECB; (ii) significant transitions in the development of the Bank had been completed with the adoption of the one-tier model, the integration of the three local banks and the adoption of the new conflict of interest and fit and proper regulations; (iii) strong alignment between board members in their interpretation of the mandate of the Management Board; (iv) capacity for investigating and discussion operational issues; (v) appreciation of the role of the Chairwoman in facilitating discussion and managing the work of the Board; (vi) agreement between the Managing Director and the Chairwoman in planning the work of the Management Board and presenting the results to the Supervisory Board.

The Board review also highlighted the following areas for improvement and suggestions: (i) improvement of some aspects of internal functioning associated with the two-tier model, particularly relating to the definition of the Board's remit and sphere of activity in managing and guiding strategic and management issues, and the possibility of further developing the skill set in order to support the strategic development of the Bank. This improvement is one of the objectives of the one-tier model adopted by the Shareholders' Meeting of the Bank; (ii) very long Board meetings associated with high number of matters dealt with and the detailed analysis and discussion. There is potential scope for improvement in the prioritisation of matters for discussion and the planning of the agenda; (iii) there is an awareness that digital transformation has become an area that needs to be carefully monitored. The Management Board should promote discussion of this matter, concentrating on scenario analyses, organisational impact analyses and assessing and designing implementation solutions.

The self-assessment of the Board ends with some final observations, noting that the change to the one-tier model will involve a review of the dynamics and procedures of the Board. The ideas emerging from all seven of the sections analysed in the Board review can be dealt with in the formation of the new Board.

More specifically, the analysis performed provides some key summary points and guidance for the formation of the forthcoming Board: (i) there is awareness and satisfaction it has worked effectively and a completed a three-year cycle in which the UBI Banca Group has undergone an extraordinary process of change, some of it relating to the agenda and major recommendations of the ECB; (ii) the Management Board and its committees have been able to function effectively, completing significant transitions in the development of the Bank with the adoption of the one-tier model, the integration of the three local banks and the adoption of the new conflict of interest and fit and proper regulations; (iii) the change to the one-tier model should help the Board to project the Bank towards a new round of development requiring an appropriate skill set and a strong ability to direct and focus on strategic, managerial and regulatory issues; (iv) more specifically, the Board will have to be able to raise and project digital transformation content from the operational and technological level to the strategic level; analysing scenarios and impacts on customer behaviour, the organisation and decision making, equipping itself with the appropriate skills amongst board members and also through the use of expert advisors; (v) changes at the Bank are taking place by means of an effective development and management of human resources and the capacity to ensure a succession process for all key roles, making full use of the skills and ability of resources to interpret a new context, new technologies and changes in customer behaviour and ways of providing geographical market coverage; (vi) regulatory issues will continue to play a central role in the management of the Bank. The new Board will have to ensure that it has sufficient capacity to interact with the various Italian and European authorities, building on the fruitful progress made over this three-year period, able to offer authoritative dialogue and represent the specific local context.

Induction Programme

Partly in the light of the results of the self-assessment, the Chairwoman, both at meetings of the Management Board and by means of specific induction sessions, ensures that the board members increase their knowledge of the regulatory and self-regulatory framework and of the situation and dynamics of the Bank and the Group, in order to ensure that they have a full and adequate awareness of the banking business, the economic and financial system, the system of controls and the methods for managing and monitoring risk.

During the year information sessions for members of the Management and Supervisory Boards were held on *"Conflicts of Interest"*, *"Updating the 231 Model"*, *"Non-financial reporting and strategic planning processes"*, *"MREL and Resolution Plan"*, *"Internal Models and TRIM"*, *"In-depth review of performance in business segments"*, *Performance measurement metrics - RORAC and*

EVA, “Positioning of the UBI Group (market share)”, “ Benchmark and best practice on the qualitative and quantitative composition of boards” and “Strategic reflections on the insurance field”.

The Chairwoman of the Management Board, having taken account of the topics covered and the findings that have arisen, arranged for the documentation examined during training sessions to be filed with the minutes of the Management Board.

12.3. Role of the Management Board (pursuant to Art. 123-bis, paragraph 2, letters d) and d-bis) of the Consolidated Finance Law)

The Management Board meets at least once a month, as well as each time the Chairwoman thinks it fit to call a meeting or when a request is submitted by at least half of the members in office.

The location of the meetings alternates between the cities of Bergamo and Brescia and a meeting is held around once a year in the city of Milan.

The Management Board met 28 times during the year and the average length of meetings was approximately seven hours.

Remote participation in meetings of the Management Board is admissible by means of appropriate audio-video conference and/or teleconference systems on condition that all those with the right may participate and be identified and that they are able to follow the meeting and intervene in the matters dealt with in real time as well as receive, transmit or view documents, examining them and deciding on resolutions simultaneously with other members. In these cases, the meeting of the Management Board shall be considered as being held in the place where the person chairing the meeting and the Secretary are located.

The resolutions of the Management Board are taken by open ballot, with the vote in favour of the majority of members present, unless a resolution must be passed by means of a qualified quorum (Art. 27.2 of the Articles of Association).

In compliance with Borsa Italiana regulations, in January UBI Banca announced its calendar of corporate events for 2019, 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 respect we report that the Management Board has planned meetings for 2019 up to the date of the Shareholders’ Meeting, and it has scheduled meetings for examinations of periodic operating and financial figures, with eleven meetings planned, four of which have already been held.

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

The Chairwoman, 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. 28 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 in relation to this by the Management Board itself. For this purpose, it carries out all the transactions that are necessary, useful or advisable for achieving the corporate purpose, whether they refer to ordinary or extraordinary management.

In addition to those matters that cannot be delegated by law and to those pursuant to the last paragraph of Art. 27, the Management Board has exclusive responsibility for the following:

- a) the formulation of 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 with account also taken of recommendations concerning them made by the Supervisory Board;
- 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 two thirds of the members of the Supervisory Board. The revocation of the powers is decided by the Management Board with the vote in favour of all the members of the Management Board, except for the person concerned, after consultation with the Supervisory Board;
- c) the formulation, 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 Civil Code;
- d) the setting of risk management guidelines and policies including those relating to non-compliance with internal regulations and controls, to be submitted to the approval of the Supervisory Board
- e) conferring, modifying or revoking authorisations and powers and assigning specific functions or authorisations to one or more board members;
- f) the possible appointment and removal of the General Manager and other members of General Management, defining their functions and responsibilities and also the appointment of the senior management of the Company and the companies in the Group;
- g) the appointment to the position of member of the Board of Directors and of the Board of Statutory Auditors of the companies belonging to the Group;
- h) 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 regulatory 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 agencies;
- l) determination of 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. 41 of the Articles of Association, setting up committees or commissions with advisory, investigative, controlling or co-ordinating functions, without prejudice to Art. 33, paragraph two of the Articles of Association;
- m) the approval and amendment of the regulations of the Bank and the Group, with exception made for the responsibilities and powers of the Supervisory Board pursuant to Art. 38, paragraph one, letter r) of the Articles of Association;
- n) determination of 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;
- o) subject to the compulsory opinion of the Supervisory Board, appointing and removing the Manager in charge of drawing up the accounting documents, pursuant to Art.154-*bis* of the Consolidated Finance Law and determining the remuneration for this. 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. This expertise, to be verified by the Management Board, must have been acquired through experience in positions of appropriate levels of responsibility for a reasonable period of time and in comparable companies;
- p) the appointment and removal, in agreement with the Supervisory Board, of the Anti-Money Laundering Officer;
- o) the preparation of separate financial statements and consolidated financial statements proposed for approval;
- r) exercising the authority to increase share capital granted pursuant to Art. 2443 of the Civil Code, as well as to issue convertible bonds pursuant to Art. 2420-*ter* of the Civil Code, following authorisation by the Supervisory Board;
- s) obligations of the Management Board pursuant to articles 2446 and 2447 of the Civil Code;

- r) formulation of merger or demerger plans;
- u) proposals for strategic transactions pursuant to Art. 38, paragraph one, letter m) of the Articles of Association to submit to the Supervisory Board for approval;
- v) definition of criteria to identify related-party transactions for which responsibility will lie with the Board itself.

The Management Board carries out periodic evaluations of the performance of operations, especially in the light of information provided by the Chief Executive Officer, which may coincide with the presentation of the income statement figures of the Bank and the Group, and periodic comparisons of results with budget figures.

Special Regulations govern the functioning of the Management Board.

The Regulations consist of the following:

- a general part (Introduction, Operating Rules, Information Flows) including the Operating Rules (largely drawn from the Articles of Association) and the general characteristics of information flows.
- a special part (Attachments) consisting of a detailed analysis of the information flows from the Units to the Management Board and from the Management Board to the Supervisory Board.

The Bank is required to regulate the information flows between the corporate bodies and state the specific responsibilities of each body pursuant to Bank of Italy Circular No. 285 concerning corporate governance.

A working “General Agenda” for the Board was introduced in which items to be dealt with by the Board are programmed on the basis of regulatory deadlines, requests from the authorities, or time limits set by the Board itself. The “General Agenda” is managed by Management Board Support using a database and input to the process is based on the results of previous Management Board meetings and minutes. Information contained in the “General Agenda” helps with the formulation of the actual agendas of specific Management Board meetings: in the run-up to Management Committee Meetings, each Chief receives the section of the “Agenda” that regards them, with deadlines underlined for the current and subsequent month, in order to enable efficient programming of the issues to be submitted to the Board.

In this manner the “General Agenda” also makes it possible to programme and improve feedback on recommendations made by the Board to Management, showing the actions undertaken and the results achieved, as emerged during the self-assessment process.

A Progress Chart provides information on actions requested by the governing bodies and by control functions (Internal Audit, Compliance and Risk, the Anti-Money Laundering Area), with the relative deadline set by the Board also on the basis of recommendations made by the Supervisory Body or by the aforementioned functions. It is managed in parallel with the “General Agenda”.

As concerns the prior delivery of material relating to items on the agenda to board members, the aforementioned regulations underline the fundamental requirement for members of the Management Board to be able to act in an informed manner. They state that following proper notice to convene, the Chairwoman of the Management Board shall take steps to deliver adequate documentation, with levels of detail and in a manner consistent with the importance and complexity of the items placed on the agenda, in good time with regard to the date set for the board meeting and in any event by the second working day before the date set for the meeting.

The material sent shall be decided from time to time by the Chairwoman on the basis of the items placed on the agenda, with account taken of the purposes of the advance information and it is made available through a digital environment accessible by board members using special customised identification software to grant full access to the documents, in compliance with the Bank’s regulations for proper management of confidential information.

The time limit set by the regulations is normally complied with and usually where possible documents arrive even earlier, except in special cases due to the nature of the resolutions to be considered. In 2018 over 80% of documents were made available more than three days in advance.

When, in specific cases, it was not possible to provide the preliminary information within the above time limit, the Chairwoman arranged for adequate and detailed information to be provided during the Board meetings themselves. The documentation provided at Board meetings is stored electronically in a repository that ensures the traceability and accountability of the archiving and each Board Member can use the dedicated web portal to consult the documents relating to all the meetings of the 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 relative amounts are reported in detail in the Remuneration Report prepared in accordance with Art. 123-ter of the Consolidated Finance Law, which may be consulted.

12.4. Executive officers

Chief Executive Officer and General Manager

The Management Board appointed *Dott.* Victor Massiah as Chief Executive Officer, with prime responsibility for the management of the Bank and as General Manager.

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

- to oversee 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 the operational directives for 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 Bank and Group member companies to the Management Board, in agreement with the Chairman and Deputy Chairman of the Management Board and after consultation with the General Manager (where the two positions are not filled by the same person and if appointed);
- 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.

On 15th April 2016, the Management Board assigned duties to the Chief Executive Officer pursuant to Art. 35 of the Articles of Association, concerning internal control systems.

Finally, the Management Board, consistent with the organisational and management responsibilities assigned to the Chief Executive Officer, has granted him specific operating powers, within set limits.

12.5. Chairwoman of the Management Board

The duties of the Chairwoman of the Management Board are listed in Art. 30 of the Articles of

Association. More specifically, the Chairwoman 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 Chair of a company's management body, which she performs by liaising with the other Articles of Association regulated bodies where appropriate.

12.6. Other Executive Board Members

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 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 the activities reserved to it on a collegial basis.

In addition to the Chief Executive Officer, the Articles of Association (Art. 30) 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 board members apply not only to the sphere of the Management Board, but also at Group level by appointments to positions in the management bodies of the subsidiaries of UBI Banca, which actively helps to ensure that the various member companies of the UBI 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 the Consolidated Finance Law, in compliance with Art. 147-*quater* of the Consolidated Finance Law. The Management Board verified the independence of the individual board members when they were appointed and then verifies this annually; the last verification of this carried out by the Management Board on 23rd October 2018 established that the Board Member *Dott.ssa* Silvia Fianza met the above requirements. In this context, in compliance with, amongst other things, the supervisory regulations concerning corporate governance, an analysis of the lending relationships between each Board Member and the Group was carried out.

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.

13) The Board of Arbitrators

The Board of Arbitrators is composed of a Chairman, two full members and two alternate members elected by a Shareholders' Meeting. The arbitrators remain in office for three years and may be re-elected.

They provide their services free of charge, except for the reimbursement of expenses. Justifiable 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. If as a result of replacements, the number of the remaining alternate members falls to one, then a Shareholders' Meeting shall elect the Arbitrator required to make up the total number.

The election of the arbitrators takes place on the basis of individual candidates submitted by Shareholders and/or by the Supervisory Board, where the maximum number is that of the number of arbitrators to be elected. The candidature, signed by the person or persons submitting it, must indicate the name of the candidate to the office of Arbitrator, with no distinction made between full and alternate, and it must be deposited at the registered offices within the time limit set by the regulations in force for the submission of slates of candidates for election to the Supervisory Board. It must be accompanied: (i) by information on the identity of the Shareholder or Shareholders submitting it, with an indication of the number of shares and therefore the percentage totally held, to be certified when the candidature is deposited according to the procedures set by the regulations in force; (ii) by exhaustive information on the personal and professional characteristics of the candidate and (iii) by the declaration with which the candidate accepts their candidature. The signature of each Shareholder submitting a list must be duly authenticated in accordance with the law by employees of either the Bank or its subsidiaries specifically authorised by the Management Board. Candidatures submitted that fail to observe the procedures reported above are considered as not submitted. If no candidatures are submitted within the time limit set, the Shareholders' Meeting votes on candidatures submitted during the meeting by the Shareholders present. Each person with the right to vote may vote for a maximum number of candidates equal to that of the arbitrators to be elected. The candidates are ranked in decreasing order on the basis of the number of votes obtained. The first three candidates voted are elected as Full Arbitrators and the next two candidates voted are elected as Alternate Arbitrators. In the event of a tied vote between candidates, the Shareholders' Meeting votes by ballot in order to establish the rank order. The candidate who receives the majority of the votes is elected Chairman.

Appeal may be made to the Board of Arbitrators to settle any disputes that may arise between the Bank and/or 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 any 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, if appointed, or an employee designated by him are required to provide the arbitrators with all the information that they may request concerning disputes to be settled.

The service address of the Board of Arbitrators for all purposes shall be the registered address of the Bank.

On 6th April 2018 a Shareholders' Meeting appointed the following Board of Arbitrators for the three-year period 2018-2020:

Avv. Giuseppe Onofri - Chairman
Avv. Attilio Rota - Full Arbitrator
Prof. Rodolfo Luzzana - Full Arbitrator
Avv. Pierluigi Tirale - Alternate Arbitrator
Avv. Giampiero Donati - Alternate Arbitrator

14) General Management

At its meeting on 15th April 2016 the Management Board resolved to appoint *Dott.* Victor Massiah, the Chief Executive Officer, to the position of General Manager until a further decision is made in relation to this by the Board itself.

The Management Board appointed *Dott.* Elvio Sonnino as Senior Deputy General Manager and *Dott.* Frederik Geertman and *Dott.ssa* Rossella Leidi as Deputy General Managers who have been assigned various responsibilities in the Group.

15) Internal control and risk management system

Introduction

During the year the Supervisory Board, assisted by the Internal Control Committee, the other internal committees for the areas in which they operate, and the control functions, assessed and oversaw, within the scope of its remit, the adequacy, completeness, functionality and reliability of the organisational, administrative and accounting structure of the Issuer and its strategic subsidiaries, with particular reference to the internal control and risk management system, including those that may become relevant in relation to the medium to long-term sustainability of the activities of UBI Group. The Supervisory Board, after prior consultation with the Internal Control Committee, evaluates the adequacy of the internal control system on the basis of reports made by Internal Audit, which also take into account the assessments made by the other corporate control functions.

Internal controls

The UBI Banca Group, in compliance with Bank of Italy provisions and in line with the principles required by the Corporate Governance Code and the Articles of Association, defines its internal control system as the set of rules, procedures and organisational units designed, in accordance with sound and prudent management, to ensure the achievement of the following aims:

- verifying that company strategies and policies are implemented;
- containment of risk within the limits set in the reference framework for determining the risk appetite of the Bank (Risk Appetite Framework - RAF);
- safeguarding the value of assets and protecting against losses;
- effectiveness and efficiency of company processes;
- reliability and security of company records and IT procedures;
- preventing the risk of the Bank being involved, even involuntarily, in illicit activities (with particular reference to those associated with money laundering, usury and the financing of terrorism);
- compliance of operations with the law and supervisory regulations and also with internal policies, regulations and procedures (*Bank of Italy Circular No. 285 of 17th December 2013: Title IV, Chapter 3 "The system of internal controls", Section I, Paragraph 6 "General Principles"*).

The process of defining and managing the internal control system and verifying its completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability form part of the responsibilities of the corporate bodies which fulfil strategic supervision, control and management functions, supported by the control functions. In order to accomplish this, the Supervisory Board makes use of the Internal Control Committee and the Risk Committee which it forms directly itself (the composition, powers and functioning of the Internal Control Committee and Risk Committee have already been examined in this report in the section specifically on internal board committees).

UBI Banca Group Internal Control System Policy

In the context of the amendments required by the supervisory regulations for banks concerning the "Internal Control System" (Bank of Italy Circular No. 285 of 17th December 2013, Title IV, Chapter 3 "The Internal Control System"), on 13th November 2017 the Supervisory Board approved an update of the "UBI Banca Group Internal Control System Policy" (updated from the first version approved in July 2014) which is the reference document for the definition and implementation of all the components of the Group's internal control system.

In particular, the UBI Banca Group Internal Control System Policy:

- is essential knowledge for the corporate bodies, making them fully aware of the current position of the Bank;

- ensures effective management of corporate risks and the relationships between them;
- guides changes in the Bank's strategies and policies;
- makes it possible to adapt the organisational context in which the Group operates in a consistent manner;
- oversees the functionality of management systems and compliance with prudential supervision obligations;
- promotes the development of a positive culture in relation to risk, legality and corporate values.

In the light of these statements, it follows that the UBI Banca Group Internal Control System:

- is of strategic importance and, more generally, that the "control culture" has widespread approval, with a prominent position in the UBI Group's hierarchy of values, and does not concern solely the corporate control functions, but also the entire business organisation of the Bank and the UBI Group member companies (e.g. corporate bodies, units, management hierarchy and staff);
- represents a key part of the corporate governance system of the Bank and UBI Group member companies and assumes a role of fundamental importance in the identification, mitigation and management of significant risks, contributing to the protection of shareholders' investments and the assets of the entire UBI Group as well as protecting its customers and the integrity of the markets in which it operates.

The guiding principles of UBI Banca Group's internal control system are characterised by a scope of application that extends to all Group member companies. They are key to the definition and implementation of all the components of the internal control system. In this context the application of the internal control system by all the Group member companies is an important factor enabling the achievement of a single business model.

The principles described accordingly highlight the importance of:

- an integrated vision designed to achieve high levels of effectiveness and efficiency, at the same time avoiding overlaps and/or potential gaps in governance control, risk management and the valuation processes and methods used for corporate activities, including those used for accounting purposes;
- consistency in the organisational process of the Bank and the Group which, based on the Group's mission, identifies values, defines objectives, immediately pinpoints risks that hinder their achievement and implements appropriate corrective measures;
- compliance with the general organisational principles that ensure the formalisation of the functions assigned to staff, the unambiguous identification of tasks and responsibilities and the separation of the operating and control functions for the prevention of conflicts of interest;
- compliance with legislation and regulations, even before they become compulsory, as a distinguishing feature and key factor of success for enhancing customer relations and, ultimately, creating value for all stakeholders;
- reinforcement of the capacity of the Bank to manage corporate risk in compliance with the RAF, ensuring sound and prudent management and financial stability.

With reference to the implementation of the internal control system, it should be noted that control activity is not the exclusive responsibility of the corporate control functions or bodies, but involves the entire business organisation (bodies, units, management hierarchy and staff) in developing and applying logical and systematic methods to identify, measure, communicate and manage the intrinsic risks of transactions, according to their different levels of responsibility.

Given the above, the internal control system of the Group is divided, in compliance with the provisions of the supervisory instructions, into the following levels of control:

- *line controls* ("first level controls"): designed to ensure the proper performance of operations. These controls are carried out by the operating units themselves (e.g. hierarchical, systematic and sample controls), and may also be carried out by units with control duties only who report to the managers responsible for the operating units (or they are carried out as part of back office activities) and, where possible, they are incorporated into IT procedures. With this approach the operating units are the first with responsibility in the risk management process, indeed, in the course of day-to-day operations these units are called upon to identify, measure or evaluate, monitor, mitigate and report the risks resulting from ordinary business activities in accordance with the risk management process. These units also have to comply with the

operating limits assigned to them in accordance with the risk targets and the procedures that constitute the risk management process; Line controls consist of first line controls (controls implemented by the organisational units performing the operating activities) and second line controls (controls implemented by units/roles other than those responsible for first line controls);

- *risk and compliance controls (second level controls)*: designed to ensure compliance with the operating limits assigned to the various functions, the correct implementation of the risk management process and the compliance of business operations with regulations, including self-regulation. In compliance with regulatory requirements, the functions responsible for second level controls are separate from the operational functions. In detail these functions are:
 - the risk control function (Risk Management);
 - the regulatory compliance function (Compliance);
 - other corporate control functions (Anti-Money Laundering functions and Validation functions).

The second level control activities are also similar to those performed by the Senior Officer Responsible for the preparation of corporate accounting documents and the reporting of suspicious transactions;

- *internal audit (third level controls)* - assigned to the Internal Audit Function: designed to identify violations of the procedures and regulations and periodically evaluate the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and IT system (ICT audit), with a frequency set on the basis of the nature and intensity of risks.

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

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 and the Management Board on current and future exposure to risk which also includes a special progress chart useful, amongst other things, for monitoring and assessing the system of internal controls.

With specific reference to second level corporate control functions, the current organisation chart includes the presence of a Chief Risk Officer (CRO), a position held by *Dott. Mauro Senati* (a direct report to the Management Board), bringing together in one sphere the Credit Risk Management Area, the Capital & Liquidity Risk Management Area, the Risk Governance Area, which also oversees the Internal Validation function and, a direct report to the CRO, the Data Risk Management Service as a specific unit to manage data governance under the CRO. With effect from 1st November 2018, the competent bodies approved the reorganisation of the units reporting to the Chief Risk Officer, involving the breaking-up of the Anti-Money Laundering & Claims Area and at the same time the establishment of two distinct units, one on the staff of the Management Board to manage the reporting of suspicious transactions and the other on the staff of the Chief Executive Officer with responsibility for Anti-Money Laundering functions. The reorganisation separates the role of “Group Officer for Suspicious Transactions” from that of “Group Head of Anti-Money Laundering”, partly in order to facilitate and guarantee the necessary independence of the assessments.

Again with reference to the organisational structure of UBI Banca, with effect from 1st March 2018 the competent bodies have approved the upgrade of the Compliance Area Manager to Chief Compliance Officer, a position held by *Ing. Maria Martinelli* until 31/12/2018 and by *Dott. Roberto Rovere* since 01/01/2019, reporting directly to the Management Board and maintaining the same organisational structure divided into Banking Services Compliance, Investment and Financial Services Compliance, Governance and other Support Compliance, ICT Operations Compliance, Controls Compliance, the Data Protection Officer and Methodologies, Monitoring and Reporting.

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

- The Chief Risk Officer: is 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 etc.). He co-ordinates the process of defining and managing the Risk Appetite Framework (RAF) in order to ensure that the risk appetite reported in the RAF and the risk-taking policies and procedures adopted by the Group are consistent with the prudent person approach. Again with regard to the process of defining and managing the RAF, amongst other things he proposes the risk capacity and risk tolerance levels and also validates the risk appetite proposed by the Chief Financial Officer in order to ensure that they are consistent with the RAF and with adequate levels of prudence within current and future risk targets. He proposes the allocation of internal capital by type of risk, consistently with the process of assessing internal capital. Together with the Chief Financial Officer, he proposes the risk appetite, with a view to its subsequent approval by the governing bodies, and verifies with the Chief Financial Officer that the risk appetite is consistent with corporate requirements and with the expectations of the Supervisory Authorities. He also co-ordinates the preparation of the risk appetite document. He also proposes the risk limits and co-ordinates the consolidation process for the risk appetite document for purposes including the internal authorisation procedure, while also verifying the overall adequacy of the RAF. As part of the process for drawing up and monitoring the NPL Strategy, he assesses the consistency of the NPL Strategy against the RAF risk appetite indicators and the policies that relate to the Strategy and the internal process for valuing capital adequacy (ICAAP). He ensures the measurement and control of the Group's exposure 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 supports the governing bodies 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. He provides independent information to the governing body responsible for strategic supervision, partly by attending Internal Control Committee and Risk Committee meetings, sending reports and intervening directly. He is responsible for defining the non-viability risk management framework associated with the Group Recovery Plan, monitors the relevant indicators and, to the extent of his responsibility, may initiate a process of escalation to the corporate bodies responsible for managing the recovery process. In this context, he works with the Chief Financial Officer and the relevant corporate bodies, to draw up/update the Recovery plan, proposing possible changes and updates on at least an annual basis and notifying the parties responsible. In the context of the planning process, he is responsible for producing forward estimates of expected loss by customer segment to support loan loss and capital allocation projections, forward estimates of capital requirements and indicators of individual company and consolidated structural balance and liquidity ratios and the verification of their adequacy in relation to the risk appetite and the Group policies and procedures for the assumption of credit risk. He is also responsible for forecasting estimates for the elements for which he is responsible. He supervises and co-ordinates the regulatory stress tests set by the Supervisory Authorities. he supervises the process for evaluating capital adequacy in relation to the risks taken (ICAAP), the public disclosure process, the process for evaluating liquidity adequacy (ILAAP) and in general the risk evaluation process for the purposes of the Supervisory Review and Evaluation Process (SREP) used by the Supervisory Authority. Oversight is ensured while taking account of current prudential rules, as well as strategy guidelines, the business model, the complexity of operations, and the ability to raise funds. He is responsible for providing prior opinions on the compliance of transactions of major significance with the RAF and carrying out second level verifications of credit exposures. he establishes a credit activities function framework, in line with the regulatory provisions issued by the Supervisory Authorities. He is responsible for the development, validation and maintenance of the risk measurement and control systems, supervises the Group credit rating process and co-ordinates the units involved in the overall data entry and data quality process. In relation to the IFRS 9 financial reporting standard, he is responsible for defining, developing and maintaining stage allocation models and motors in the context of assets, for calculating Expected Credit Loss and for developing and maintaining choices of methodology for the benchmark text for the accounting classification of financial assets. In the framework of the overall risk management process, he ensures oversight of the second level controls connected with data quality that fall within its remit and holds the position of Process Owner for the risk measurement systems. He is responsible for defining and applying the IT risk analysis

methodology together with the related process of evaluation and data processing. He is involved in defining policies and processes for the valuation of properties provided as guarantee for exposures and provides a prior opinion on the reliability of any internal standards for the valuation of properties. He is involved in defining policies and processes for write-downs and the granting of forbearance measures; in this context he issues an opinion in order to check compliance with the rules set by the UBI Group for proposals relating to the granting, changing or confirmation of the amount of provisions and the granting of a second or subsequent long-term forbearance measure. He identifies portfolios that are potentially subject to transfer on the basis of optimisation and consistency with the RAF and capital position of the Group. He works alongside and co-ordinates with the other control functions for the purpose of developing a shared view on operational and methodological aspects and the actions to be taken if significant or critical events occur in order to identify possible synergies and avoid potential overlaps and duplications of activity. He contributes to the spread and development of an internal control culture within the Group. He also helps to ensure compliance with the relevant regulatory recommendations, overseeing them in a structured and precise manner on the basis of consolidated procedures and shared compliance methodologies. He participates in the process of defining remuneration and incentive policies and the relative regulations to implement them with the objective of containing the long and short-term risk of each legal entity and the Group overall. The Chief Risk 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;

For the benefit of the Supervisory Board, the Management Board and Senior Management, the Chief Risk Officer provides an integrated outline of risks considered significant that, identified by the second level control functions responsible for monitoring them and provided using an integrated reporting tool - the SREP Dashboard - in the context of the report's broader purpose of representing a self-assessment of the situation of UBI Group in relation to the recommendations of the European Banking Authority (EBA) guidelines on the "Supervisory Review and Evaluation Process" (SREP) and those in the annual "SREP Decisions" on the UBI Group. The SREP Dashboard is also a tool for summarising co-ordination activities amongst the second level control functions.

- Anti-Money Laundering & Investigations: he monitors activities to combat money laundering and the finance of terrorism, consistent with the responsibilities defined in the "Group organisational regulations on combating money laundering and the finance of terrorism". Within these areas of responsibility he communicates independently with the management and supervisory bodies by sending reports and intervening directly, as appropriate. He assists inquiries made by the investigating authorities into customers and co-ordinates contributions to the *Fondo Unico di Giustizia* (Single Justice Fund) for the companies for which he operates as a service provider. Within the scope of his responsibilities, he ensures that the regulatory and operational system of the Parent and the subsidiaries for which he operates as a service provider are in compliance with current regulations and performs planning and advisory activities concerning the application of regulations at Group level. He contributes, within the scope of his remit, to the implementation of policies and the risk management process. He works alongside and co-ordinates with the other control functions for the purpose of developing a shared view on operational and methodological aspects and the actions to be taken if significant or critical events occur in order to identify possible synergies and avoid potential overlaps and duplications of activity. The Manager of the Anti-Money Laundering & Investigations Area, within the fields for which he has specific responsibility, performs the co-ordination function for Group member companies.
- Suspicious Transactions: on behalf of UBI Banca and the subsidiaries that have granted authorisation to the Group officer he assesses proposals to report suspicious transactions flagged by operating outlets or those they have become aware of in the context of their activities. He passes reports that he considers valid on to the FIU (Financial Intelligence Unit), while preserving evidence of the assessments made, amongst other things in case the report is not received by the FIU. Without prejudice to first level controls and within the fields for which he has responsibility, he monitors transactions carried out within the Group by parties categorised within the subjective perimeter of the Single Policy on transactions with related parties in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulations Circular No.

263, "Identified Staff" of the UBI Group, significant parties pursuant to Art. 136 of the Consolidated Banking Law and other significant parties. He also performs spot checks on first level assessments of business with customers.

- **Chief Compliance Officer:** he is responsible for circulating the directives provided for in the "UBI Banca Group Policies for the management of compliance risk" issued by the Supervisory Board on the basis of a proposal from the Management Board of the Parent, overseeing their implementation and reporting on this to those same bodies. He is the compliance processes owner and ensures that compliance risk is managed efficiently and effectively, in accordance with a risk-based approach, verifying for that purpose that processes, internal procedures and the entire organisational and regulatory system and the IT infrastructure for monitoring all operations are consistent with the objective of preventing the violation of any regulation applicable to the Bank and the Group member companies, whether they are of a generic external nature (laws and regulations issued by Italian Supervisory Authorities such as the Bank of Italy, Consob (Italian securities market authority), or IVASS (Insurance Supervisory Authority) and at the international level (EBA, ESMA, European Directives, etc)) or a self-regulatory nature (codes of conduct, policies, internal regulations etc). Within these areas of responsibility he communicates independently with the management and supervisory bodies by sending reports and intervening directly, as appropriate. He uses "trace back to unit" to ensure oversight of compliance risk, by supervising and managing operating activities associated with the performance of compliance processes, running across the Bank and the Group, supervising their methodological aspects, the adequacy of the contents, the performance of the checks for which he is responsible, also assisted for that purpose by the assistance of the specialist skills available there (legal, organisational, risk management, technological, human resources, Internal Audit Function etc.) as well as the contributions of the various roles specified in the compliance model. He centralises for oversight purposes the analysis of potential non-compliance reports received from the operating structure of the Bank, notified by the other second and third level control functions or identified using the checks for which he is responsible (e.g. tests for effectiveness, analyses of complaints received), and oversees/monitors their resolution. He works alongside and co-ordinates with the other control functions for the purpose of sharing operational and methodological aspects and the actions to be taken if significant and/or critical events occur, in accordance with the areas of responsibility assigned to them, in order to identify possible synergies and avoid potential overlaps and duplications of activity. To achieve this, he manages the structural exchange of information flows with the other control functions to ensure that their specific responsibilities are properly performed, in accordance with the rules set out in the model of the internal control system adopted by the UBI Group, and co-ordinates with them about methodological aspects in order to ensure the consistency of the risk assessments performed and also for the annual activity plan. He employs a preventive approach to ensure substantial compliance with regulations by corporate processes and therefore appropriate conduct by all personnel, ensuring that the interests of clients and investors are protected and it co-operates in the policy to establish relations of trust with all stakeholders. With this in view he co-operates in activities to train staff on the measures applicable to the activities they perform, in order to promote a corporate culture based on principles of honesty, integrity and respect with both the spirit and letter of regulations. He monitors external regulations on the management of NPLs, informing the competent organisational units of the relevant changes in order to allow for the evaluation of potential changes to the NPL Strategy and the processes relating to its formulation. He performs a policy-setting, co-ordination and control role for the subsidiaries, forming direct relationships with local compliance managers and contacts, where present, and with their General Management teams. He operates as a service provider to the subsidiaries of the Group that have conferred the appropriate powers upon it, ensuring the oversight of risk and non-compliance with regulations. He sends the other control functions details relevant to the quantification of operational, IT and reputational risks resulting from non-compliance and/or attributable to misconduct.

Having stated the above, we report that since 2016 and throughout 2017 and 2018 the Compliance Function of UBI Banca, with the additional assistance of the other corporate units involved, has launched the "Roll-out of the Model of Organisation, Tools and Processes", with streams focused on specific activities, in order to align and keep up with current best practice,

the views of the European Supervisory Authority (SSM – Single Supervisory Mechanism) and the input of regulators.

These actions, involving both an initial revision of the organisational model and the optimisation of the Compliance Function, in view of the continued specialisation of the Units in compliance with supervised regulations (banking, investment & financial services, ICT operations and Governance & Support) and the introduction of a process stage structure, are intended to achieve the following aims:

- an increase to its qualitative and quantitative sizing with a 2017/2019 timeframe and the consequent revision of the activities and skills of the Function’s resources, identifying specific change management actions;
- the development of tools to support the activities;
- the maintenance and updating of methods for the management of compliance risk (most recent update of the Methodological Manual for Compliance - December 2018).

The purpose of internal auditing (third level), which is performed by the Internal Audit Function detailed in sub-section 15.2 below, is to make an independent assessment, in support of the Supervisory Board and Management Board, intended on the one hand to check, with a view to third level checks, including on-site inspections, that its functioning and changes in risks are in accordance with the rules, and on the other to evaluate the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the internal control system, reporting to the aforementioned corporate bodies on potential improvements that could be made, with particular reference to risk management policies and tools for risk measurement and control.

More specifically, the Internal Audit Function audits the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the Group’s internal control system, while also taking into account information provided by the other control functions, and also verifies its performance and changes in risks, identifying the actions required to improve the system concerned and proposing them to the administrative and auditing bodies, with particular reference to the Risk Appetite Framework, the risk management process and the relative systems of measurement and control. To achieve this, it carries out independent assessments on the basis of a specific activity plan, using methods, operating procedures and predetermined tools. Within the fields for which it has specific responsibility, it performs the co-ordination function for Group member companies that have their own internal audit functions. It verifies the compliance of activities carried out as part of the internal audit mandate in order to identify any need for updating and ensure that, through the Quality Assurance and Improvement Programme, it is consistent with international professional standards. It ensures the preparation of periodic summary information statements to be provided to the corporate bodies with regard to the main managerial features of the Function, the control activities performed, the monitoring of the findings and the progress of mitigation action. It provides periodic information statements concerning the co-ordination of the control functions; this activity is, amongst other things, intended to promote more structured and systematic co-operation between them and with the corporate bodies, by sharing operational and methodological aspects and the actions to be taken if significant and/or critical events occur. It is the body responsible for the internal reporting systems for whistleblowing for UBI Banca and the UBI Group companies that have granted a specific mandate for this.

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 Law are illustrated in attachment 2 to this report.

Regulations for the Risk Appetite Framework of the UBI Banca Group

Again as part of the changes required by Supervisory regulations for banks on the question of the “internal control system” (Bank of Italy Circular No. 285 of 17th December 2013: Title IV, Chapter 3 “The system of internal controls”), on 1st July 2014 the Supervisory Board approved “Regulations for the Risk Appetite Framework of the UBI Banca Group” which define the principles and rules of the process for the management of the Risk Appetite Framework, describing the following:

- the main roles and responsibilities assigned to the main macro units involved in activities to define, implement and monitor the RAF;
- the RAF formation and approval macro processes, consistent with the Group budget and with the definition of risk-return, monitoring, reporting and internal audit objectives;

- the main lines of reporting between the Group macro units involved, on the basis of a management model consistent with the operations and complexity of the UBI Group and developed in observance of the principal proportionality defined on the basis of the size of the exposure and the materiality of the risks.

In relation to the Risk Appetite Framework, the UBI Group has adopted a risk management framework consistent with definition of Group regulations and strategies which have developed over the years consistent in turn with developments in the regulatory framework. The main parts of the current framework regard the following:

- definition of risk appetite;
- definition of risk management policies;
- interpretation and management of the RAF in UBI Group companies;
- monitoring of current and future risks.

Group policy on internal systems for reporting violations (whistleblowing)

The Group has a Group policy on internal systems for reporting violations (whistleblowing), effective from 1st January 2016. The objective is to provide staff in the companies of the banking Group with guidelines to follow for reporting actions and facts which may constitute a violation of the regulations governing banking and financial activities during the performance of their professional duties in order to contribute to the uncovering and prevention of risks and situations harmful to companies to which they belong and, as a consequence, in the interests of the entire UBI Group and, more generally, all its stakeholders.

Reports by staff are facilitated and incentivised through the adoption by the UBI Group of measures which guarantee the reserved and confidential nature of the information given, the protection of the personal data of the person making the report and of the person reported and also the protection of the whistleblower from being the victim of possible retaliatory, discriminatory or in any case unfair treatment as a consequence of making the report.

With effect from 3rd August 2018 the competent bodies have approved the update to the Policy which has become necessary following the issue of new regulatory provisions regarding the administrative liability of entities (Law No. 179/17 which amended Legislative Decree No. 231/2001). Following these provisions, the internal reporting system that had already been adopted by UBI Banca for violations relating to banking and financial activities is therefore extended to reports of significant unlawful conduct in accordance with Legislative Decree No. 231/2001 and violations of the Model of Management and Organisation adopted in accordance with the same decree.

15.1 Executive Board Member responsible for the internal control and risk management system

On 15th April 2016, the Management Board, in compliance with the Articles of Association, conferred the following powers relating to internal controls on the Chief Executive Officer, *Dott.* Victor Massiah:

- promotion of integrated risk management;
- the power to make extraordinary requests for inspections and investigations to the internal control function through the Internal Control Committee.

Also, in accordance with Art. 35-*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 and agreement with the General Manager, if appointed, in observance of the responsibilities of the Supervisory Board on those matters and decisions made by it, for which he may also make use of the support of the second level corporate control functions.

For this purpose, in relation to Internal Audit activities and the integration of what is stated in the three-monthly reports, the Chief Executive Officer receives periodic reports concerning the auditing activities that are in progress or have been completed in the period in question, and also meets the Chief Audit Executive on a periodic basis to discuss specific aspects, including the results of these reports.

Further information on the activities performed is given in sections 15.2 and 15.6 of this report.

15.2 Office responsible for the Internal Audit Function

The mission of the Internal Audit is set out in the “Audit Mandate”, a document that, in compliance with the provisions of the International Standards for the Professional Practice of Internal Auditing, formalises internal auditing activities and clarifies their spheres of competence, tasks, independence, authority, responsibilities and interactions with other corporate functions as well as defining the procedures for the periodic approval and revision of the Mandate itself by the Supervisory Board.

The Head of the Internal Audit Function is appointed by and reports to the Supervisory Board and has direct access to all the information required for its work and has no responsibility for any operational unit.

The position of Chief Audit Executive is assigned to *Dott.* Stefano Maria Tortelotti, who was appointed by the Supervisory Board at its meeting of 11th July 2013, subject to the prior opinion in favour of the Internal Control Committee.

In September 2018 the Quality certification awarded to the Internal Audit Function was renewed by a leading consulting firm. In particular, on conclusion of the effective application of the External Quality Assessment Review of the Internal Audit - performed in order to verify the effective application of organisational design of internal audit activities and the procedures defined for carrying these out with professional internal auditing practice standards and the Ethical Code of the Profession - the consulting firm expressed the opinion that it was “generally compliant”, which is the highest level of opinion available on the scale of values applied.

In application of the supervisory regulations with regard to the remuneration and incentive policies and practices of banks and banking groups, the Remuneration Committee, after prior consultation with the Internal Control Committee within the scope of its remit, has provided advisory functions and made recommendations with regard to the remuneration of the Chief of the Internal Audit Function and directly oversees the correct application of the rules relating to his remuneration. 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 the Bank, and more generally on all the companies in the Group as the Parent. In short, the Internal Audit Function acts on a third level basis, providing an opinion that is independent from the second level operational and control stage, concerning the overall reliability and effectiveness of the internal control and risk management system, and also considers the ability of that system to identify errors and irregularities, operating on the basis of an activity plan extending over a number of years.

Using a process-oriented and risk-driven approach, the Internal Audit defines control priorities and draws up the audit activity plan on the basis, amongst other things, of the most significant changes affecting the operating environment of the Bank.

The activities plan is submitted annually to the Management and Control bodies of the subsidiaries and, at a consolidated level, by the Management and Control bodies of the Parent. 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 has also been guaranteed for 2018 by the provision of a specific budget.

The performance of the various audit activities makes it possible to appraise the capacity of the first and second level specialist control units to supervise risks in an adequate manner, and thereby makes it possible to evaluate the principal corporate processes, in part with a view to contributing to an increase in the degree of reliability and, as a consequence, the overall internal control system.

During the year, 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 UBI 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.

In addition to the specific report submitted following the conclusion of the analysis to senior management and, as applicable, the Audit Contact of the company concerned, 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 reporting also provides a summary of the main situations that have emerged from the audit activities and the state of progress of the actions taken to remedy them. In the event of particularly significant circumstances appropriate information is immediately provided and sent to the management and supervisory bodies and the executive Board Member responsible for the internal control system.

Finally, we report that in the fourth quarter of 2018 a review of the organisational structure of Internal Audit concluded that the previous three Areas should be replaced by the creation of four new Areas reporting to the Chief and focused on specific remits:

- Methodologies & Frauds Audit Area, which co-ordinates audit activities (planning and periodical reporting) and the development of audit methodologies and tools consistent with best practice in the profession, and verifies their correct application as part of the Internal Quality Assurance Review (IQAR); it also develops procedures for the remote monitoring of processes and sales networks through the use of data analysis tools and oversees audit investigation activities;
- Governance & Risks Audit Area, focused on governance processes from an SREP viewpoint and the oversight of risk management;
- Commercial & Financial Processes Audit Area, overseeing commercial processes and the sale of products and services to customers on an end-to-end basis, with a dedicated team for monitoring financial consultants and private bankers and, at the level of local centres, an operational focus on the sale of products and services to customers of the banking network;
- Support Processes Audit Area, providing support processes and those relating to Information and Communication Technology, financial and non-financial reporting and back office, as well as monitoring processes to oversee compliance with the main regulatory recommendations.

15.3 Model of Organisation, Management and Control pursuant to Legislative Decree No. No. 231/2001.

UBI Banca has adopted its own “Model of Organisation, Management and Control” (the “Model 231/01”), which complies with Legislative Decree No. 231/2001 and the relative legislation and regulations that apply and is based on principles that are already rooted in its governance culture and on the recommendations contained in the guidelines of the major trade and professional associations.

The Model 231/01 consists of the following documents:

- The **“UBI Banca Spa Model of Organisation, Management and Control pursuant to Legislative Decree No. 231/2001”**, divided into two parts containing:
 - o in the general part a description of:
 - the legislative framework;
 - the nature 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 Model 231/2001;
 - o in the special part, a description of:

- the types of crime (and corporate offences) that are important for the purposes of the corporate 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 (referred to in articles 24 and 25 of Legislative Decree No. 231/2001);
- computer crime (referred to in Art. 24-*bis* of Legislative Decree No. 231/2001);
- organised crime (referred to in Art. 24-*ter* of Legislative Decree No. 231/2001);
- crimes against public trust (referred to in Art. 25-*bis* of Legislative Decree No. 231/2001);
- crimes against industry and commerce (referred to in Art. 25-*bis*.1 of Legislative Decree No. 231/2001);
- corporate crimes (referred to in Art. 25-*ter* of Legislative Decree No. 231/2001);
- crimes of terrorism and subversion of democratic law (referred to in Art. 25-*quater* of Legislative Decree No. 231/2001);
- crimes concerning customs of mutilation of female genital organs (referred to in Art. 25-*quater*.1 of Legislative Decree No. 231/2001);
- crimes against the person of the individual (mentioned in Art. 25-*quinquies* of Legislative Decree No. 231/2001);
- administrative offences concerning market abuse (referred to in Art. 25-*sexies* of the Legislative Decree No. 231/2001 and Art. 187-*quinquies* of the Consolidated Finance Law);
- transnational crimes referred to in Art. 10 of Law No. 146 of 16th March 2006 which “ratifies and implements the United Nations convention and protocols on transnational organised crime, adopted by the General Assembly on 15th November 2000 and 31st May 2001”;
- crimes committed in violation of health and safety regulations at the work place (referred to in Art. 25-*septies* of Legislative Decree No. 231/2001);
- crimes consisting of the receipt, laundering and use of money, goods or benefits of illicit origin, and also money laundering (referred to in Art. 25-*octies* of Legislative Decree No. 231/2001);
- crimes concerning copyright (referred to in Art. 25-*novies* of Legislative Decree No. 231/2001);
- the crime of “inducing persons not to make statements or to make false statements to judicial authorities” (referred to in Art. 25-*novies* of Legislative Decree No. 231/2001);
- environmental crimes (referred to in Art. 25-*undecies* of Legislative Decree No. 231/2001);
- the crime of “employing citizens of third party countries whose stay documents are irregular”(referred to in Art. 25-*duodecies* of Legislative Decree No. 231/2001);
- crimes of racism and xenophobia (referred to in Art. 25-*terdecies* of Legislative Decree No. 231/2001).
- The “***UBI Group Code of Ethics***”, which constitutes UBI Banca’s internal self-disciplinary rulebook, which was drafted on the basis of the Code of Ethics and provides those it regulates with a framework of the principles of behaviour with which to assess concrete situations from time to time and whether decisions to be taken are compliant with ethical principles and with regulations;
- The “***UBI Banca Code of Conduct***”, which defines the manner in which UBI Banca intends to pursue its mission and act in dealings with its various stakeholders, by basing its management and operating activities on observance of moral and legal obligations towards society;
- The “***UBI Banca Risk Area Identification Matrix***” (RAIM), which maps activities that, given the specific contents, are potentially vulnerable to the commission of crimes (and corporate offences) that are significant for the purposes of the possible corporate liability of UBI Banca;
- The “***UBI Banca Implementation Matrix***”, which shows the RAIM together with the internal company regulations (policies, regulations, rulebooks and any relevant circulars) for each process and type of offence.

The Model 231/01, as shown above, has been approved by the Management Board and Supervisory Board of UBI Banca in meetings held on 4th and 6th December 2018 respectively.

In addition to the Model 231/01, UBI Banca has adopted the “**Regulations governing the Model of Organisation, Management and Control**”, which govern the processes, roles and responsibilities of the units involved in the overall management of the Model 231/01. More specifically, in relation to the provisions contained in Model 231/01, the said Regulations are intended to establish:

- the role of the Parent in relation to its subsidiary undertakings, for the purposes of Legislative Decree No. 231/01;
- the process for updating the Model 231/01, formulating proposals for amendments for submission to be submitted to the Management Board and the Supervisory Board for approval;
- the process for verification of the adequacy of Model 231/01 for the purpose of evaluating its ability to prevent illegal conduct and evaluate the consistency of the actual behaviour within UBI Banca and the provisions of the Model itself;
- the establishment of a standardised and predetermined system for the exchange of information.

In application of changes in legislation and of supervisory regulations that require functional compatibility between control bodies and the Supervisory Body, the Governing Bodies of UBI Banca decided to appoint the members of the Internal Control Committee to perform the function of the Supervisory Body.

The Supervisory Body reports to governing bodies on the adoption and effective implementation of the Model, on the oversight of its functioning and on the supervision of updates to it. 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.

The Supervisory Body pursuant to Legislative Decree No. 231/2001 met six times during the year.

UBI Banca, as the Parent, informs subsidiaries of the policies it has set in relation to trends in the development of the relevant regulations, suggesting the general criteria which subsidiaries may follow.

An extract of the UBI Banca Model entitled “*Summary of the UBI Banca Spa Model of Organisation, Management and Control pursuant to Legislative Decree No. 231/2001*” and the Code of Ethics are available on the website of the Bank at <https://www.ubibanca.it/pagine/Documenti-societari-IT.aspx>.

15.4 Independent auditors

On 30th April 2011, on the basis of a reasoned 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 S.p.A., 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.

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

15.5 Senior Officer Responsible for the preparation of corporate accounting documents

In a meeting held on 30th April 2007, the Management Board appointed *Dott.ssa* Elisabetta Stegher, with the favourable opinion of the Supervisory Board. She is the current Chief Financial Officer and Senior Officer Responsible for the preparation of corporate accounting documents pursuant to Art. 154-*bis* of the Consolidated Finance Law, in possession of the requirements of professionalism required by the Articles of Association which, in addition to the requirements of integrity prescribed by the current regulations in force for persons performing administrative and management functions, also require qualities of professionalism with specific administrative and accounting expertise in the banking, finance, investment or insurance fields.

The following responsibilities are 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 financial 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, the Risk Committee and the Internal Control Committee. The periodic 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 Senior Officer are appropriate.

The certifications signed by the Chief Executive Officer and the Senior Officer Responsible in accordance with Art. 154-*bis* of the Consolidated Finance Law are included in the annual report (one for the consolidated report and one for the separate company report) and they are disclosed to the public according to the provisions laid down by Consob regulations (Attachment 3c-*ter* of the Issuers' Regulations).

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;
- rely on internal channels of communication which ensure accurate and proper access to intercompany information;
- define her own office and organisational unit independently, with regard to both personnel and technical means (material resources, hardware, software, etc.);
- define the administrative and accounting procedures of the Bank autonomously, also being able to benefit from the co-operation of all the offices involved in the supply of significant information;
- have powers to propose, evaluate, or veto all “sensitive” procedures within the Bank and the Group;
- participate in board meetings in which matters concerning the functions of the officer are discussed;
- make use of external consultants, where particular requirements of the Bank make this necessary;
- establish reporting systems with other roles responsible for control (independent auditors, Internal Control Officer, Chief Risk Officer, Compliance Officer, etc.) and reports and information flows which ensure constant mapping of risk and processes and adequate monitoring of the proper functioning of procedures, partly by means of specific co-ordination

sessions held with the corporate control functions including operational and methodological issues.

With regard to the provisions introduced by Law No. 262/2005, a System of Administrative and Financial Governance has been created for 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.

That same certification obligation applies to the executive officers of Group companies subject to full consolidation.

Certifications issued by subsidiaries are brought to the attention of the Board of Directors in the meeting that approves the proposed annual or half-yearly financial report and they are sent to the Bank prior to the meeting of the Management Board which approves the separate annual report of the Bank and the consolidated annual report or the half-yearly financial report.

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

15.6 Co-ordination between those involved in the internal control and risk management system

Within the UBI Banca Group, in compliance with the provisions of the supervisory provisions and in direct continuity with actions taken in the recent past, a *model of co-ordination and co-operation between the corporate bodies and the control functions* is in operation, divided in relation to the following three components:

- processes and methods;
- co-ordination tools;
- reporting lines.

On 12th July 2018 the Supervisory Board, having examined the 2017 Internal Audit report, in accordance with the provisions of criterion 7.C.1 of the Code, expressed the opinion that the report was adequate, amongst other things in relation to the co-ordination procedures for all those involved in the internal control and risk management system.

The “model of co-ordination” adopted by the Group is completed through the co-ordination provided by the Parent at Group level, in the context of its own management and co-ordination activities.

As concerns co-ordination tools, they provide for the definition of tools intended to promote an immediate practicality that are simple to operate and organise so as to promote active co-operation and liaison between the control functions and between them and the corporate bodies, without prejudice to the responsibilities assigned by law and without altering, even in substance, the primary responsibility of the corporate bodies for the internal control system.

In particular, the following tools have been defined at Group level:

- co-ordination activities between the control functions;
- integrated progress chart of the corporate control functions, consisting of a Top Issue Report and a Flash Report;
- the Internal Control System Calendar (ICS Calendar);
- committees with consultative, informative and proposal-making roles in the context of the matters within their remit.

The co-ordination activities typically include periodic meetings of the chiefs of the corporate control functions and the Senior Officer Responsible and exchanges of information between them, normally on a monthly basis.

At the end of each meeting the Chief Audit Executive provides a memorandum outlining the matters discussed and the subsequent evidence, which is used, amongst other things, to provide a quarterly summary that the Chief Audit Executive presents to the Internal Control Committee,

in the presence of the Chief Executive Officer, the Chiefs of Corporate Control Functions and the Senior Officer Responsible.

In compliance with regulatory requirements, matters discussed at meetings particularly concern the co-ordination of annual inspection programmes (without prejudice to the powers and duties of the respective control functions), significant findings resulting from control activities and the monitoring of the state of progress of the related mitigation actions in order to identify possible synergies and to avoid potential overlaps and duplications of activity, while maintaining compliance with the principles of autonomy and independence that characterise the control functions. Furthermore, that co-ordination regards, amongst other things, agreement on methodological aspects in order to encourage a common language in terms of the classification of processes, procedures for assessing risks and controls and the scales of importance used. Amongst various tools designed to improve ways of co-ordinating, while also ensuring the diffusion of a shared language for risk management and the structure of risk monitoring, a project to create an integrated progress chart for the corporate control functions was implemented during the year. It led to the creation of two documents focusing on bringing together the most significant findings (the Top Issues Report (TIR) and Flash Report) which provide a summary of all the issues contained in control function reports, which are significant in terms of their impact on the achievement of corporate goals. These impacts (sanction-related, administrative, economic, financial, reputational, etc.) are viewed in terms of their potential, for the purposes of preventing them.

The TIR is prepared on the basis of reporting provided by single control functions, which remain responsible for the contents proposed, in order to guarantee their autonomy and independence. In this context, the TIR does not replace summary and detailed reports prepared by the respective control functions in compliance with the provisions of regulations. It has at least a half-yearly frequency and it is submitted, subject to prior reporting to the Internal Control Committee and to the Risk Committee, to the board sessions following those of the Management Board in which the consolidated half-yearly report and consolidated annual results are approved.

The Flash Report, presented together with the individual reports of the control functions, provides evidence of new findings that have arisen since the TIR for the previous period (incoming/outgoing findings). It has at least a half-yearly frequency, and it is submitted in conjunction with the board sessions at which the interim financial report and the consolidated annual results are approved, subject to prior reporting to the Internal Control Committee and to the Risk Committee (possibly in joint session).

These reports are governed by specific documentation describing the roles, timings, procedures and means for their production.

The Internal Control System Calendar (ICS Calendar) identifies, in accordance with the diary of meetings of the governing bodies, the deadlines for the corporate control functions and the Senior Officer Responsible to hold regular discussions of subjects connected with the internal control system (e.g. the activity plan, periodic reports etc.)

A series of co-ordination activities connected with the internal control system take place as part of the usual activities of committees with consultative, informational and proposal-making roles in the context of the matters within the remit of the Parent and, when they are present, the subsidiaries.

The UBI Banca committees with consultative, informational and proposal-making roles in the context of the matters within their remit are the:

- Management Committee;
- Credit Committee;
- Asset and Liability Committee (ALCO);
- Finance Committee;
- Risk Management Committee;
- Operational Risk Committee.

16) Transactions with Related Parties, Connected Persons and other Significant Parties with a potential conflict of interest

- Interests of board members and management of personal transactions

Transactions with related parties, connected persons and other significant parties with a potential conflict of interest

The Bank pays particular attention to the issue of potential conflicts of interest due to transactions with related parties, connected persons and other significant parties that are in a position of particular proximity to the decision-making centres of the Bank and the other UBI Group companies.

Effective from 2nd November 2018, issues relating to potential conflicts of interest within the UBI Group are governed by the “*Single Policy on transactions with Related Parties in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulations Circular No. 263, “Identified Staff” of the UBI Group, Significant Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Significant Parties*” (the **Single Policy**) and the related implementing regulation, the “*Group Regulation on Related Parties in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulations Circular No. 263, “Identified Staff” of the UBI Group, Significant Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Significant Parties*” (the **Single Regulation**).

The regulations governing transactions with related parties and connected persons in force until 1st November 2018 and the new regulations referred to in the Single Policy and Single Regulation are described below.

A. Regulations in force until 1st November 2018

Until 1st November 2018 potential conflicts of interest due to transactions with related parties and connected persons were regulated by the “*UBI Banca Regulations for Related-Party Transactions*” (**RPT Regulations**) for related-party transactions and, for connected persons, the “*Regulations to govern transactions with persons connected with the UBI Group, adopted in implementation of Title V, Chapter 5 of Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks” (9th amendment of 12th December 2011, containing measures concerning risk assets and conflicts of interest with connected persons)*” (**Connected Persons Regulations**) most recently approved by the Management Board and Supervisory Board of UBI Banca in meetings held on 17th and 24th January 2017 respectively.

More specifically, the RPT Regulations were adopted by the Bank in its capacity as a company issuing listed shares, in compliance with the Consob Related Parties Regulations, while also taking account of the related communication concerning their implementation.

The Connected Persons Regulations regulated transactions with persons connected with the UBI Group, in accordance with the Regulations concerning risk assets and conflicts of interest with connected persons and also in order to implement Art. 53, paragraph 4 and following of the Consolidated Banking Law.

The main purpose of the measures contained in the Connected Persons Regulation was to contain the risk that the closeness of some “connected persons” to the decision-making centres of the Bank might compromise the objectivity and impartiality of decisions concerning the grant of loans or other transactions relating to those parties. To oversee this risk the provisions of the Connected Persons Regulations, in compliance with the Regulations concerning risk assets and conflicts of interest with connected persons, included: (i) monitoring and compliance with the specific prudential limits set by the supervisory regulations concerning risk assets undertaken towards connected persons by the Parent and subsidiaries; (ii) the adoption of special decision-making procedures that guarantee the integrity of decision-making processes in transactions with connected persons. Furthermore, since 30th June 2017 the Connected Persons Regulations were also extended to “Identified Staff” (Material Risk Takers), ensuring that there was also transparency and oversight in the transactions concluded with the said persons.

We also report that the RPT Regulations and Connected Persons Regulations already provided for: (i) the introduction of detailed guidelines intended to define more precise objectives for the assessment of market equivalent or standard conditions for the most significant types of operations performed by the UBI Group and (ii) a specific, more stringent procedure for transactions with senior officers, pursuant to Art. 136 of the Consolidated Banking Law.

B. Regulations in force with effect from 2nd November 2018: the Single Policy and Single Regulation

With effect from 2nd November 2018, the RPT Regulations and Connected Persons Regulations have been replaced by the Single Policy and Single Regulation⁴.

The Single Policy and Single Regulation establish a unitary set of rules at the level of the UBI Group, which the Bank and other Group companies are required to adopt with regard to transactions with a potential conflict of interest pursuant to the Consob Related Parties Regulation, Art. 2391-*bis* of the Civil Code, the Regulations concerning risk assets and conflicts of interest with connected persons and the Consolidated Banking Law.

More precisely:

- the Single Policy contains the principles and guidelines applicable to: (i) transactions performed with parties related to UBI Banca, persons connected to the UBI Group, "Identified Staff" of the Group and significant parties pursuant to Art. 136 of the Consolidated Banking Law, for which the law expressly requires the adoption of strengthened decision-making procedures and specific monitoring actions, as well as (ii) any other transaction which, although it does not directly involve the aforementioned parties, is concluded with parties that may be considered to be connected or associated with, or in any way linked to them and that may thus compromise the impartiality and objectivity of decisions relating to transactions performed at any time, for which the Bank, by way of self-regulation, intends to apply the monitoring and mitigation procedures for potential conflicts of interest referred to under (i);
- the Single Regulation governs issues concerning transactions with the aforementioned parties, relating to investigative and decision making issues and disclosures to the corporate bodies and the market, in accordance with the applicable legislation and regulations.

The Single Policy and Single Regulation have also introduced significant new developments compared to the previous regulations. These include: (i) the definition of a single set of procedural rules for monitoring and managing all conflict of interest situations (both actual and potential); (ii) the introduction of a "Single Group Perimeter", more extensive than is required by the Consob Related Parties Regulation and the Regulations concerning risk assets and conflicts of interest with connected persons, in order to ensure the improved identification, mitigation, management and prevention of conflicts of interest, (iii) the establishment of specific operational limits for particular transactions with some significant parties according to the Single Group Perimeter; (iv) a specific mapping procedure for significant parties that enables the automatic detection of transactions with a potential conflict of interest.

The Single Policy and Single Regulation are published in the Corporate Governance section of UBI Banca's website (www.ubibanca.it).

Interests of board members and management of personal transactions

Generally, in a similar manner to the provisions laid down for the Management Board by Art. 2391 of the Civil Code, the Articles of Association also require the members of the Supervisory Board to report all interests that, either directly or through third parties, they may have in a determined transaction of the Bank or the UBI Group, stating the nature, the terms, origin and extent. The relative resolution of the Supervisory Board must give adequate reasons, explaining

⁴ The Single Policy was approved by the Management Board on 17th April 2018 and by the Supervisory Board on 19th April 2018, while the Single Regulation was approved by the Management Board on 13th June 2018 and by the Supervisory Board on 14th June 2018. Both documents are available in the Corporate Governance/Corporate Documents section of UBI Banca's corporate website at www.ubibanca.it.

the interest of the Bank in the transaction, without prejudice to other provisions of the law or regulations which may apply.

UBI Banca has adopted an internal “*Policy for the management of personal transactions*” which provides detailed regulation of obligations concerning personal transactions in financial instruments performed by significant parties, as identified in the legislation mentioned.

17) Handling of corporate information

In order to ensure the appropriate management of confidential and inside information (as defined in Art. 7 of EU Regulation No. 596/2014 - the **MAR**), the Bank has adopted the “Group regulations for the management and disclosure of inside information” (last updated following a resolution of the Management Board on 18th December 2018, in order to implement Consob guidelines on the management of inside information). These regulations include definitions of: (i) measures to be adopted to protect the confidentiality of the information in question; (ii) the roles and responsibilities of each of the units involved in the process of managing relevant and/or inside information; (iii) in compliance with the aforementioned Consob guidelines, the establishment of the relevant information list (register of persons with access to specific relevant information, or relevant information that may at some time and possibly the immediate future become inside information); (iv) the establishment of the insider list (register of persons that have access to inside information pursuant to Art. 18 MAR); (v) procedures for the disclosure of inside information to the public (or the activation of the procedure for delayed disclosure to the public, in accordance with the principles defined by Art. 17 MAR).

The Bank will update the “Group regulations for the management and disclosure of inside information” to take account of regulatory developments that may occur from time to time, including those of a secondary nature.

In line with European market abuse regulations, UBI Banca has insider dealing regulations in place (“Regulations for transactions performed by significant parties and persons closely associated with them”).

The regulations govern reporting obligations and the operational restrictions to which board members and the senior management of banks and those who are closely associated with them are subject, in relation to the performance of transactions involving financial instruments quoted on public markets by the Bank (or other related financial instruments).

These regulations are available on the Bank’s website, together with any transactions that may have been performed by significant parties (www.ubibanca.it, Corporate Governance/internal dealing section).

18) Relations with shareholders

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

The Corporate Affairs and Conflicts-of-Interest Service (Manager *Avv.* Alessio Lavieri) for retail shareholders is provided for this purpose together with the Investor Relations Area (Manager Dott.ssa Laura Ferraris), which is responsible for relations with operators, analysts and institutional investors.

Information of significant importance to shareholders the market in general is also provided in the shareholders and Investor Relations section of the corporate website of the UBI Group (www.ubibanca.it,).

The Corporate Affairs and Conflicts-of-Interest Service, is part of the Corporate Affairs and Relations with Authorities Area. It oversees relations with retail shareholders and co-ordinates preparations for the Shareholders' Meetings of the Bank, managing all the related activities.

The Investor Relations Area reports directly to the Chief Executive Officer. It is responsible for interactions with the Italian and foreign financial markets. The UBI Group share is currently followed by 21 brokerage houses. During 2018, 50 price sensitive press releases were issued (and translated into English) and approximately 409 institutional investors (equity and debt) were met in one-on-one or group meetings, for a total of approximately 1,060 contacts over the year.

Participating in international conferences with public presentations has made it possible to convey information to a wider audience. The Group's management was present at eight international conferences for equity and five for debt. Fifteen equity and fixed income road shows were proactively organised and 33 group meetings with investors were held at the head offices of UBI.

Finally, as part of its institutional duties, the Investor Relations Area manages and supervises the Bank's corporate website, www.ubibanca.it, as a whole, with direct responsibility for the Investor Relations Sections.

19) Shareholders' Meetings (pursuant to Art. 123-bis, paragraph 2, letter c) of the Consolidated Finance Law)

Shareholders' Meetings are either ordinary or extraordinary.

The relative laws and regulations apply for the validity of a Shareholders' Meeting that has been convened and also for the validity of the relative resolutions, except for the provisions of Art. 19, paragraph one of the Articles of Association on the question of the individual remuneration of "Identified Staff" and Art. 37 of the Articles of Association on the question of the election of the Supervisory Board.

In accordance with the Articles of Association, an Ordinary Shareholders' Meeting:

- a) appoints and removes members of the Supervisory Board and sets the fees 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. 36. It elects the Chairman and the Senior Deputy Chairman of the Supervisory Board according to the procedures set out in Art. 37. Proper grounds must be given for the removal of members of the Supervisory Board;
- b) approves:
 - remuneration and incentive policies for members of the Supervisory Board and members of the Management Board;
 - the remuneration and/or incentive plans based upon financial instruments;
 - the criteria for determining the indemnity to be granted in the case of early termination of the employment relationship or early cessation from the role, therein including the limits fixed to that remuneration in terms of annual payment of fixed remuneration and the maximum amount deriving from their application;
 - on the basis of a proposal from the Supervisory Board, a higher ratio than that of 1:1 between the individual variable and the fixed remuneration of "Identified Staff", but nevertheless not higher than the maximum limit set by the regulations then in force;
- c) decides on the liability of the members of the Supervisory Board and, pursuant to Art. 2393 and Art. 2409-*decies* of the 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 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) approves and amends the Regulations for Shareholders' Meetings;
 - h) appoints the Board of Arbitrators;
 - i) decides on the other matters that fall within its competence either by law or by the Articles of Association.

The extraordinary Shareholders' Meeting shall resolve on amendments to the Articles of Association, on the appointment, removal, replacement and powers of the liquidators and on any other matter within its purview pursuant to the law.

If a Shareholders' Meeting, whether in ordinary or extraordinary session, is called upon to consider a proposal formulated by the competent bodies of the Bank concerning a transaction with related parties, where the committee formed in compliance with the Related Parties Regulation has expressed an opinion against the transaction and if the Shareholders' Meeting has approved that proposal with the quorum for resolutions required by the Articles of Association, the transaction may not be performed if a number of non-related party shareholders who represent at least 5% of the share capital is present in the Shareholders' Meeting and the majority of those non-related party shareholders have voted against the transaction.

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. 40, paragraph five of the Articles of Association 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 Consolidated Finance Law, 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 are convened without delay at the request of Shareholders who represent at least one-twentieth of the share capital following submission of a request indicating the grounds and the agenda.

In compliance with the procedures, according to the terms and within the time limits set forth by the law, the Shareholders who, jointly, represent at least one-fortieth of the share capital may, by written application, request additions to the items to be discussed at the Shareholders' Meeting, as recorded by the notice of convocation of the same, indicating in the application the additional matters proposed by them as well as they may submit resolution proposals on matters already on the agenda. Legitimacy to exercise that right is proven by the filing of a copy of the communication issued by the intermediary in accordance with the laws and regulations in force.

A Shareholders' Meeting is also validly held when remote connection systems are used that ensure the identification of Shareholders with a legitimate right to participate, the possibility for them to take part in the proceedings of the meetings and to vote on deliberations and, if expressly provided for by the notice of call, the possibility to take part in the discussion of the items dealt with. However, the Chairman and the Secretary must be present in the place indicated in the notice of call where it is considered that the meeting is taking place. The Management Board, in agreement with the Chairman of the Supervisory Board, identifies, from time to time, the locations connected by means of remote systems for each call, taking account in particular of the composition of the Shareholders. The Regulations for Shareholders' Meetings establish the criteria and procedures for holding Shareholders' Meetings by means of the use of remote connection systems.

Persons having the right to vote, for which the Company has received, within the time limits provided for by the law, the notice of the authorised intermediary certifying their voting right,

may attend at the Shareholders' Meeting.

Each ordinary share attributes the right to one vote.

Those with the right to vote may have themselves represented in Shareholders' Meetings in compliance with the provisions of the law. Notification of the proxy may be performed electronically by means of electronic mail according to the procedures contained in the notice to convene or using other procedures chosen from amongst those provided for by the laws and also the regulations in force.

The Management Board has the right, reporting this information in the notice to convene, to designate one or more parties to whom those with the right to vote may grant, following the procedures provided for by the applicable legislation and regulations, a proxy with voting instructions on all or some of the items on the agenda. The proxy is valid solely with regard to those items for which the voting instructions have been granted.

Without prejudice to the provisions of Art. 2372, paragraph 2, of the Civil Code, the proxy may be granted for a single meeting only, effective also for subsequent calls, but may not be granted without specifying the name of the representative.

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

Shareholders' Meetings shall be held, alternately, in the city or province of Bergamo and in the city or province of Brescia.

As concerns proceedings in Shareholders' Meetings, the Bank has (by means of a shareholders' resolution) adopted Regulations, designed to govern the ordered and efficient functioning of these meetings and in particular to regulate the procedures for Shareholders to speak and reply. These Regulations have been published on the Bank's website in the shareholders' section.

Three Shareholders' Meetings were held during the year:

- on 6th April 2018 - in ordinary session (all the members of the Management Board and fourteen out of fifteen members of the Supervisory Board in office were present). At the Shareholders' Meeting the Board reported on the activities performed and planned;
- on 19th October 2018 - in extraordinary and ordinary session (all the members of the Management Board and thirteen out of fourteen members of the Supervisory Board in office were present);
- on 14th December 2018 - in ordinary session (six out of seven members of the Management Board in office and eight out of fourteen members of the Supervisory Board in office were present);

At these meetings shareholders were provided with adequate disclosure of the necessary information to enable them take the decisions for which the Shareholders' Meeting is responsible with full knowledge of the facts.

For further information see the minutes of the Shareholders' Meetings available on the website of the Bank (www.ubibanca.it – Shareholders Section).

* * *

By executive order 13 dated 24th January 2019 of the Manager of the Corporate Governance Division the Consob set the minimum percentage of the share capital required at UBI Banca for the presentation of slates of candidates for election to the management and supervisory bodies at 1%.

* * *

At a global level, the tariff war triggered by the United States, uncertainties about the future direction of monetary policies and the various instabilities of the geopolitical picture have, partly

through their potential negative repercussions for growth, led to high volatility on all equity markets which has become more pronounced towards the end of the year.

In this context the Italian stock market fell by over 16% at the end of the year (-16.1% for the FTSE Mib and -16.7% for the FTSE Italia All-Share). In addition to global volatility factors, political events at the national level aggravated the fears and uncertainties of investors (and rating agencies) about the future trend for public debt reduction (particularly in the last quarter with the initial rejection of the manoeuvre by the European Authorities) and the developing role of Italy in Europe.

These uncertainties caused the sovereign spread to increase, with a particularly negative impact on the banking sector, which has significant investments in government securities (- 30.3% for the FTSE Italia Banks index).

The UBI Banca share price, in line with the sector trend, has consequently fallen by over 30%, ending the trading day on 28th December 2018 at €2.50 [official price €2.532 (-31.2%; reference price €2.533 (30.5%)].

The minimum and maximum prices for the year were €2.383 and €4.420 respectively.

At the end of the year the stock market capitalisation of UBI Banca (based on the official price) had fallen to €2.9 billion compared to €4.2 billion in December 2017, placing UBI Banca in fourth place amongst listed Italian commercial banking groups that are part of the FTSE/Mib index (and in fifth place amongst all the Italian banking groups included in the index).

The UBI Banca Group was again amongst the first 45 institutions on the basis of the classification drawn up by the Italian Banking Association in its European Banking Report, which considers the 14 main EU countries plus Switzerland.

* * *

20) Additional corporate governance practices (pursuant to Art. 123-bis, paragraph 2, letter a) of the Consolidated Finance Law)

The Issuer does not apply any additional corporate governance practices other than those required by law or regulations and described in this report.

21) Changes occurring since the end of the year

No further changes in the structure of the corporate governance of the company have occurred in addition to those reported in the specific sections.

22) Considerations on the letter of 21st December 2018 from the Chairman of the Corporate Governance Committee

The Corporate Governance Committee issues, together with the report on its own activities, an annual report on the application of the Corporate Governance Code, in order to monitor the extent to which it has been implemented by the issuers that have stated that they comply with it.

This document was sent to all the listed companies together with a letter dated 21st December 2018 from the Chairman of the Corporate Governance Committee to provide evidence of the monitoring that has been performed and indicate the key findings, inviting the management

bodies of listed companies to take account of it and, partly in the light of the results of the self-assessment, ensuring that the best practice recommended in the Code is applied better and more effectively by identifying possible changes to governance or addressing any gaps in the application or explanations provided. It also repeated the wish for the observations concerning the four recommendations made by the Committee and any initiatives that were planned or undertaken would be reported in the Corporate Governance Report.

The recommendations made in the letter were brought, on 7th February 2019, to the attention of the Management Board, which recognised the overall adequacy of the Bank in terms of the recommendations made and arranged for it to be sent to the Supervisory Board at its next meeting.

As concerns the four principal areas that the Corporate Governance Committee identified with a view to urging greater adherence to the recommendations of the Corporate Governance Code, we note the following:

- **Information before board meetings:** the Corporate Governance Committee invites the Boards of Directors to give an explicit evaluation of the adequacy of the information received before board meetings during the year. More specifically, it invites the Chairs of the Boards of Directors to promote these evaluations and ensure that the need for confidentiality is met without compromising the adequacy and timeliness of information flows before Board meetings (see sections 4.2 and 12.3 of this report);
- **Application of independence criteria:** the Corporate Governance Committee invites the management bodies to apply the independence criteria set out in the Code more rigorously and encourages the control bodies to oversee their correct application. the Committee underlines the way in which cases when they have not been applied should form an exception and, above all, be the subject of an in-depth assessment at the individual level, with reference to the situations in which the particular Board Member finds himself and an exhaustive explanation in the Corporate Governance Report (see sections 4.2 and 12.7 of this report);
- **Board review:** The committee invites the Board of Directors to ensure greater transparency with regard to the procedures for carrying out the Board review. The Corporate Governance Committee hopes that, especially for the largest issuers, a Board Member will supervise the Board review process and that procedures will be adopted to highlight the individual contribution made by each Board Member (see sections 4.2 and 12.2 of this report);
- **Remuneration of Executive Directors:** The Corporate Governance Committee invites the Boards of Directors and the committees responsible for matters relating to remuneration to evaluate whether remuneration policies are commensurate with pursuing the objective of the medium to long-term sustainability of the Bank's activities. In particular, the Committee recommends that the competent bodies of the medium to large issuers in particular should strengthen the association between variable remuneration and parameters linked to long-term objectives and limit the payment of ad hoc bonuses that are not linked to previously determined parameters to individual exceptional cases, subject to adequate explanation (*see section 8 of this report and the Report on Remuneration, which may be consulted*).

Attachment A

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

Name	Position held in the Issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Andrea MOLTRASIO	Chairman of the Supervisory Board	Chairman of the Board of Directors: - Icro Didonè Spa Director: - Icro Coatings Spa - Italian Banking Association
Mario CERA	Senior Deputy Chairman of the Supervisory Board	= =
Pietro GUSSALLI BERETTA	Deputy Chairman of the Supervisory Board	Chairman of the Board of Directors and Chief Executive Officer: - Beretta Holding Spa - Beretta Industrie Spa Chairman of the Board of Directors: - Benelli U.S.A. Corp. - Humbert CTTS s.a.s. - Beretta-Benelli Iberica S.A. Deputy Chairman of the Board of Directors: - Beretta U.S.A. Corp. Deputy Chairman of the Board of Directors and Executive Director: - Fabbrica d'Armi Pietro Beretta Spa - Benelli Armi Spa Executive Director: - Arce Gestioni Spa Director: - Lucchini RS Spa - Upifra S.A.
Armando SANTUS	Deputy Chairman of the Supervisory Board	= =
Francesca BAZOLI	Member of the Supervisory Board	Director: - Editoriale Bresciana Spa - Panaria Group Spa (*)
Letizia BELLINI CAVALLETTI	Member of the Supervisory Board	= =
Pierpaolo CAMADINI	Member of the Supervisory Board	Director: - Finanziaria di Valle Camonica Spa - Gold Line Spa - ANSA – Agenzia Nazionale Stampa Associata Soc. Coop. Chairman of the Board of Directors: - Editoriale Bresciana Spa
Alberto CARRARA	Member of the Supervisory Board	Full Statutory Auditor: - Bianchi Industry Spa - Comelit Group Spa
Ferruccio DARDANELLO	Member of the Supervisory Board	Chairman: - CCIAA of the province of Cuneo - Azienda Speciale Centro Estero Alpi del Mare Chairman of the Board of Directors: - Agroqualità Spa Deputy Chairman: - QUAS (supplementary healthcare fund for middle managers in the Italian tertiary sector) Director: - CEIP (the Piemonte Agency for Investments, Export and Tourism) - Confcommercio (the Italian General Confederation of Enterprises, Professions and Self-Employment) Board Member:

Name	Position held in the Issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
		- Euro C.I.N. GEIE
Alessandra DEL BOCA	Member of the Supervisory Board	= =
Giovanni FIORI	Member of the Supervisory Board	Chairman of the Board of Directors: Elettra 1938 Spa Chairman of the Board of Statutory Auditors: - Italconsult Spa - Pfizer Italia Holding Spa - Italo Treno NTV Sp - Luxottica Group Spa (*) - Astaldi Spa (*)
Patrizia Michela GIANGUALANO	Member of the Supervisory Board	Director: - Mondadori Spa (*)
Paola GIANNOTTI	Member of the Supervisory Board	Director - Terna Spa (*) - EPS Equita PEP SPAC 2 Spa (*) - TIM Spa (*) - ICF Group Spa (*)
Giuseppe LUCCHINI	Member of the Supervisory Board	Chairman of the Board of Directors: - Sinpar Spa - Lucchini RS Spa - Lucchini Industries Srl - Gilpar Spa Director: - Beretta Holding Spa
Sergio PIVATO	Member of the Supervisory Board	Chairman of the Board of Statutory Auditors: - SMA Spa - E-Novia Spa Full Statutory Auditor: - Auchan Spa

Positions held by the members of the Management Board of UBI Banca in other companies listed on 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
Letizia Maria BRICHETTO ARNABOLDI	Chairwoman of the Management Board	Chairwoman of the Board of Directors: - Fondazione E4Impact - Securfin Holdings Srl Director: - AON Italia srl - Bracco Spa
Flavio PIZZINI	Deputy Chairman of the Management Board	Chairman of the Board of Directors: - Fondazione Borghesi Buroni Chairman of the Board of Directors: - UBI Sistemi e Servizi Scpa (**) Board Member: - Immobiliare Due Febbraio Srl - Fondazione Lambriana Chairman of the Board of Statutory Auditors: - Impresa Tecnoeditoriale Lombarda Srl - Fondazione Housing Sociale - Fondazione EBIS - Brevivet Spa - Fondazione Achille e Giulia Boroli

Name	Position held in the Issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
		<p>Sole Statutory Auditor - Novaradio Srl</p> <p>Receiver: - Bosa Srl in liquidation</p> <p>Member of the Board of Statutory Auditors: - Fondazione E4Impact</p>
Victor MASSIAH	Chief Executive Officer/General Manager	<p>Chairman of the Board of Directors: - Associazione per lo Sviluppo degli Studi di Banca e Borsa (Association for bank and stock market studies)</p> <p>Director and member of the Executive Committee: - Italian Banking Association</p> <p>Director: - Interbank Deposit Protection Fund. - Voluntary Scheme</p>
Silvia FIDANZA	Member of the Management Board	<p>Chairman of the Supervisory Board: - Befado S.p. z.o.o. (Poland)</p>
Osvaldo RANICA	Member of the Management Board	<p>Chairman: Italian Banking Association - Regional Commission for Lombardy</p> <p>Deputy Chairman of the Board of Directors: - UBI Leasing SpA (**)</p> <p>Board Member: - Unione di Banche Italiane per Varese Onlus Foundation - Digital Innovation Hub (DIH) Association - Bergamo</p>
Elvio SONNINO	Member of the Management Board / Senior Deputy General Manager	<p>Deputy Chairman of the Board of Directors: - IW Bank Spa (**)</p> <p>Executive Director: UBI Sistemi e Servizi SCpA (**)</p> <p>Director: - UBI Academy SCRL (**) - Italian Banking Association</p>
Elisabetta STEGHER	Member of the Management Board /Chief Financial Officer	= =

SUMMARY TABLES

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE (as at 31st December 2018) and at the date of this report)

STRUCTURE OF THE SHARE CAPITAL

	Number of shares	Percentage of share capital	Listed (indicate markets) /unlisted	Rights and obligations (*)
Ordinary shares	1,144,285,146	100%	MTA FTSE MIB	Each share gives the right to one vote. The rights and obligations of shareholders are those provided for by articles 2346 et seq. of the Civil Code
Shares with multiple voting rights	==	==	==	
Shares with limited voting rights	= =	= =	= =	
Shares with no voting rights	= =	= =	= =	
Other	==	==	==	

SIGNIFICANT INVESTMENTS IN THE SHARE CAPITAL(*)

Declarant	Direct shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital
Fondazione Cassa di Risparmio di Cuneo (declared on 29 th June 2017)	Yes	5.910%	5.910%
Silchester International Investor Llp (declared on 4 th November 2015) (1) <i>stake held as part of its discretionary investment management</i>	No	5.123%	5.123%
Fondazione Banca del Monte di Lombardia (Declared on 7 th December 2017) (2)	Yes	4.959%	4.959%
Capital Research and Management Company (U.S.) (3) (declared on 28 th September 2018) <i>stake held as part of its discretionary investment management</i>	Yes	4.8733%	4.8733%
HSBC Holdings Plc (of which 4.189% relating to HSBC Bank Plc) (reported on 9/10/2018), <i>The declarant has opted for the exemption provided for under Art. 119-bis, paragraph 4 of the Issuers' Regulations.</i>	No	4.236%	4.236%

(*) Source: communications performed in accordance with Art. 120 of the Consolidated Finance Law.

- (1) On the basis of reports received relating to receipt of the 2018 dividend, Silchester holds an 8.10% stake in the share capital of UBI Banca.
- (2) On the basis of reports received relating to receipt of the 2018, dividend, this foundation held a 3.95% stake in the share capital of UBI Banca.
- (3) In that same report, the company also disclosed that it held a potential investment of 0.0175% in relation to shares subject to stock lending contracts where the loan may be called at any time at the discretion of the lender.

With reference to investments in financial instruments and aggregate investments, we report that on 16th November 2017, in accordance with Art. 119 of the Issuers' Regulations, Edoardo Mercadante disclosed that he held indirectly through the subsidiary management company, Parvus Asset Management Europe Ltd an overall long position with settlement in cash accounting for 5.091% of the share capital composed as follows:

- (a) 0.431%: an equity swap contract with maturity date 03/05/2018;
- (b) 0.020%: an equity swap contract with maturity date 03/07/2018;
- (c) 0.004%: an equity swap contract with maturity date 07/08/2018;
- (d) 4.604%: an equity swap contract with maturity date 27/03/2019;
- (e) 0.032%: an equity swap contract with maturity date 05/07/2019.

It must in any case be considered that the percentage interests reported may no longer be those actually held if a change has occurred in the meantime which does not involve disclosure obligations in accordance with the applicable regulations.

TABLE 2: SUPERVISORY BOARD AND COMMITTEES (1)

Supervisory Board											Appoint-ments Committee		Remuneration Committee		Internal Control Committee		Risk Committee		Related Parties and Connected Persons Committee	
Position	Members	Year of birth	Date first appointed	In office since	In office until	Slate (*)	Independent as per Corporate Governance Code	Supervisory Board (****)	Managem-ent Board (****)	No. of appointm-ents (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Chairman	Andrea MOLTRASIO	1956	from 01/04/2007 to 24/04/2010 since 20/04/2013	02/04/2016	AGM 2019	M		20/20		3	C	7/7								
Senior Deputy Chairman	Mario CERA	1953	20/04/2013	02/04/2016	AGM 2019	M		20/20		= =	M	7/7								
Deputy Chairman	Pietro GUSSALLI BERETTA	1962	from 01/04/2007 to 20/04/2013	02/04/2016 (Appointed DC on 14/04/2016)	AGM 2019	M		17/20		11	M	5/7								
Deputy Chairman	Armando SANTUS	1969	28/04/2012	02/04/2016 (Appointed DC on 14/4/2016)	AGM 2019	M	X	18/20		= =									C	13/13
Board Member	Francesca BAZOLI	1968	02/04/2016	02/04/2016	AGM 2019	M	X	20/20		2						M	17/21			
Board Member	Letizia BELLINI CAVALLETTI	1962	20/04/2013	02/04/2016	AGM 2019	M	X	20/20		= =	M	7/7							M	13/13
Board Member	Pierpaolo CAMADINI	1963	20/04/2013	02/04/2016	AGM 2019	M	X	19/20	14/28 (§)	4				M	17/18					
Board Member	Alberto CARRARA (*) (2)	1961	14/12/2018	14/12/2018	AGM 2019	(*)	X	1/1	0/0 (§)	2				M	0/0 (4)	M	0/0 (4)			
Board Member	Ferruccio DARDANELLO (3)	1944	07/04/2017	07/04/2017	AGM 2019	(*)	X	19/20		7			M	20/20						
Board Member	Alessandra DEL BOCA	1947	20/04/2013	02/04/2016	AGM 2019	M	X	20/20		= =			C	20/20						
Board Member	Giovanni FIORI (*)	1961	02/04/2016	02/04/2016	AGM 2019	m	X	20/20	5/28 (§)	6	M	7/7			C	18/18				
Board Member	Patrizia Michela GIANGUALANO	1959	02/04/2016	02/04/2016	AGM 2019	m	X	19/20	6/28 (§)	1			M	19/20	M	18/18	M	21/21		

continued TABLE 2: SUPERVISORY BOARD AND COMMITTEES

Supervisory Board											Appoint-ments Committee		Remuneration Committee		Internal Control Committee		Risk Committee		Related Parties and Connected Persons Committee	
Position	Members	Year of birth	Date first appointed	In office since	In office until	Slate (*)	Independent as per Corporate Governance Code	Supervisory Board (****)	Managem-ent Board (****)	No. of appointm-ents (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Board Member	Paola GIANNOTTI	1962	02/04/2016	02/04/2016	AGM 2019	m	X	20/20		4							C	21/21	M	12/13
Board Member	Giuseppe LUCCHINI	1952	from 01/04/2007 to 20/04/2013	02/04/2016	AGM 2019	M	X	16/20		5										
Board Member	Sergio PIVATO (*)	1945	01/04/2007	02/04/2016	AGM 2019	M		20/20	4/28 (§)	3					M	16/18	M	19/21		

SUPERVISORY BOARD MEMBER RETIRED IN 2018 DUE TO RESIGNATION

Board Member	Lorenzo Renato GUERINI (*)	1949	20/04/2013	2/04/2016	11/10/2018	M	X	14/14	9/20 (§)	n.a.					M	13/13 (5)	M	15/17 (5)		
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Number of meetings held during 2018	Supervisory Board: 20	Appointments Committee: 7	Remuneration Committee: 20	Internal Control Committee: 18 (#)	Risk Committee: 21	Related Parties and Connected Persons Committee: 13
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(#) The members of the Internal Control Committee are also members of the Supervisory Body of UBI Banca pursuant to Legislative Decree No. 231/2001, which met six times in 2018

NOTES

- 1) MEMBER OF THE SUPERVISORY BOARD: appointed by the Shareholders' Meeting of 2nd April 2016 for the three-year period 2016/2017/2018 - COMMITTEES: appointed by the Supervisory Board on 13th April 2016
- 2) BOARD MEMBER appointed by a Shareholders' Meeting on 14th December 2018
- 3) BOARD MEMBER appointed by a Shareholders' Meeting on 7th April 2017
- 4) BOARD MEMBER since 20/12/2018
- 5) BOARD MEMBER until 10/10/2018
- (*) Enrolled in the Register of External Statutory Auditors

- (S) As a member of the Internal Control Committee
- (*) Board members indicated with the letter “M” were in the slate that received the second highest number of votes at the Shareholders’ Meeting of 2nd April 2016. Board Members Moltrasio, Cera and Santus were appointed by the slate vote mechanism set out in the Articles of Association, while the remaining board members were appointed by a decision of the Shareholders’ Meeting taken by a majority vote, again on 2nd April 2016.
Board members indicated with the letter “m” were drawn from the slate that obtained the majority of the votes at the Shareholders’ Meeting of 2nd April 2016.
- (*1) Board Member appointed by the Shareholders’ Meeting on 14th December 2018 by a majority vote to replace a Board Member who had resigned; the candidature was presented by *Dott. Matteo Zanetti, Dott. Paolo Zanetti, Quattro Luglio srl, Scame srl, Nuova Fourb srl, Mar.Bea srl, Fondazione Banca del Monte di Lombardia and Fondazione Cassa di Risparmio di Cuneo* shareholders in implementation of the agreement stipulated on 22nd November 2018 between *Sindacato Azionisti UBI Banca S.p.A. (UBI Banca S.p.A. Shareholders' Syndicate), Patto dei Mille and Fondazione Cassa di Risparmio di Cuneo*.
- (*2) Board Member appointed by the Shareholders’ Meeting on 7th April 2017 by a majority vote to replace a Board Member who had resigned; the candidature was presented by the *Mar.Bea Srl and Fondazione Banca del Monte di Lombardia* shareholders in implementation of the agreement stipulated between *Sindacato Azionisti UBI Banca S.p.A and Patto dei Mille*
- (**) Number of directorships or appointments as statutory auditor (or equivalent positions) held in other companies listed on regulated markets including foreign markets, in financial, banking or insurance
- (***) This column shows the position of the member of the Supervisory Board within the Committee (“C” Chairman; “M” Member).
- (****) This column shows the number of meetings attended by the member in relation to the total number of meetings he/she could have attended.

TABLE 3 MANAGEMENT BOARD (1)

Position	Members	Year of birth	Date first appointed	In office since	In office until	Independent (in accordance with Art. 147- <i>quater</i> of the Consolidated Finance Law) (**)	Executive	Attendance at meetings of the Management Board (***)	Number of other positions (****)
Chairwoman	LETIZIA MARIA BRICHETTO ARNABOLDI	1949	14/04/2016	14/04/2016	(*)		X	27/28	4
Deputy Chairman	Flavio PIZZINI	1955	02/04/2007	14/04/2016	(*)		X	28/28	12
Chief Executive Officer/General Manager	Victor MASSIAH (2)	1959	27/11/2008 (appointed Chief Executive Officer on 27/11/2008 with effect from 01/12/2008)	14/04/2016 (appointed Chief Executive Officer on 15/04/2016)	(*)		X	28/28	4
Board Member	Silvia FIDANZA	1974	23/04/2013	14/04/2016	(*)	X		28/28	1
Board Member	Oswaldo RANICA	1952	14/04/2016	14/04/2016	(*)		X	28/28	4
Board Member /Senior Deputy General Manager	Elvio SONNINO	1960	23/04/2013	14/04/2016	(*)		X	27/28	4
Board Member/Chief Financial Officer	Elisabetta STEGHER	1967	14/04/2016	14/04/2016	(*)		X	27/28	=

28 meetings of the Management Board were held in 2018.

NOTES

(1) Appointed by the Supervisory Board on 14th April 2016

(2) Chief Executive Officer to whom duties concerning internal controls have been assigned pursuant to Art. 35-*bis* of the Articles of Association.

* The members of the Management Board shall remain in office for three financial years (2016-2017-2018). Their term of office expires 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. 38, 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.

*** This column shows the number of meetings attended by the member in relation to the total number of meetings he could have attended.

**** Number of directorships or appointments as statutory auditor 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).

TABLE 4 – Composition of governing bodies – diversity indicators

COMPOSITION OF GOVERNING BODIES BY DIVERSITY INDICATORS	2018			2017		
	Supervisory Board	Management Board	Total	Supervisory Board	Management Board	Total
Gender						
Men	66.7%	57.1%	63.6%	66.7%	57.1%	63.6%
Women	33.3%	42.9%	36.4%	33.3%	42.9%	36.4%
Educational Qualifications						
Senior high school graduate	0.0%	14.3%	4.5%	0.0%	14.3%	4.5%
First degree	100.0%	85.7%	95.5%	100.0%	85.7%	95.5%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Age						
under 30	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
30 to 50	6.7%	14.2%	9.1%	6.6%	14.2%	9.0%
50 to 60	53.3%	42.9%	50.0%	46.7%	42.9%	45.5%
Over 60	40.0%	42.9%	40.9%	46.7%	42.9%	45.5%
Average age	60	59		60	58	

Attachment 1

COMPLIANCE TABLE	
PUBLIC DISCLOSURE OBLIGATIONS FOR BANKS RELATING TO ORGANISATIONAL STRUCTURE AND CORPORATE GOVERNANCE PURSUANT TO THE SUPERVISORY REGULATIONS (Bank of Italy Circular No. 285 - Title IV, Chapter 1, Section VII)	CONTENTS OF THIS REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE
Information on general aspects of organisational structure and corporate governance	Sections 1, 2, 4 and 12
Indication of the category in which the Bank is placed as a result of the assessment process pursuant to section I, paragraph 4.1 of the supervisory regulations	Section 1
Total number of members of the collegiate bodies in office and reasons for any extra members with respect to the limits set in the application guidelines contained in Section IV of the supervisory regulations	Section 1
Distribution of the members of the collegial bodies by age, gender and length of time in office	Tables 2, 3 and 4
Number of board members in possession of the requirements of independence	Sections 4 and 12
Number of board members representing minorities	Section 4 and Table 2
Number and type of positions held by each Senior Officer of the Bank in other companies and entities	Attachment A
Number and names of internal board committees, their functions and responsibilities	Sections 5, 6, 7, 9, 10 and 11
Succession policies in place, number and type of positions concerned	Section 8

Attachment 2

Principal characteristics of the existing risk and internal control management systems in relation to the financial reporting process pursuant to Art. 123-bis, paragraph 2, letter b) of the Consolidated Finance Law

1) Introduction

The existing risk and internal control management system in relation to the financial reporting process of the UBI Banca Group 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 of Law No. 262 of 28th December 2005 (and subsequent amendments) “Measures for the protection of savings and to regulate financial markets”, inserted Art. 154-*bis* into the Consolidated Finance Law which introduced the role of the Senior Officer Responsible for the preparation of corporate accounting documents (hereinafter the “Senior Officer Responsible) into the corporate organisation of listed companies in Italy, who is held responsible for the preparation of corporate accounting documents.

The UBI Group responded to the legislation designed to strengthen the system of internal controls in relation to the financial reports produced by listed issuers by adopting an organisational and methodological system (administrative and financial model of governance), which, in a context of integrated compliance, makes it possible to continuously regulate activities concerning the adequacy and effective application of the management 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 and Supervisory Boards on 15th January 2008 and 6th February 2008 respectively and then officially implemented in a specific set of regulations, issued with Group Communication No. 166 of 8th August 2008. This Group Communication also includes the “Methodological manual for compliance risk assessment pursuant to Law No. 262/2005”, the most recent update of which was approved by the Management Board on 15th December 2015, with the aim of further maximising the effectiveness of audit activity conducted by the Senior Officer Responsible on the areas considered most critical on the basis of the degree of risk assigned to the various significant processes pursuant to Law No. 262/2005 (a “risk-driven” process).

The model adopted, the efficacy of which is the subject of constant monitoring, 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 and the COBIT Framework¹, and it involves different areas described in detail in the section that follows.

2) Description of the main characteristics of the 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 communication

¹ 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.

systems. Verification at company level, conducted by the Parent Audit Methodologies & Frauds Area, is performed by using a special tool known as “Company Level Control (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, maintenance and formalisation of adequate processes to control the production of accounts and financial reports and subsequent verification annually 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 annually that they are adequate and actually applied.

The adequacy and effective application of administrative and accounting procedures, forming part of the broader system of financial reporting controls, is also subject to specific verification by an external independent consultant, who reports on the activities carried out in a special report issued for each Group company included as part of the investigation pursuant to Law No. 262/2005, defined annually on the basis of significant quantitative or qualitative indicators.

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

With regard to the development, maintenance and formalisation 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 Group, the items on the financial statements and the processes considered significant on the basis of both quantitative parameters, in relation to operating and capital amounts in the consolidated financial statements, and qualitative parameters, in relation to the complexity of the business and the type or implicit risks. The method adopted by the UBI Group for the definition of the relevant scope of application requires the identification of significant variables derived, in consecutive order, from:
 - selection of the significant companies;
 - selection of the significant items in the financial statements at Group level;
 - selection of the significant items in the financial statements at single company level;
 - tracing the significant items in the financial statements to significant processes/contexts;
- definition of the **area of investigation** for the year in question, approved annually by the Management Board, by planning annual audit activities over the course of the whole year, 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;
 - the analysis of anomalies found by other monitoring functions;
- formalisation of the relevant processes and risks connected with financial reporting and related supervisory controls prioritised on the basis of an analysis of external regulations, self-regulation and interviews of the relative process owners. 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;
- 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;

- risk measurement and the adequacy of the controls. The objective of that activity is to verify the adequacy and effective application of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting, as well as how efficiently the controls have been designed and implemented. The activity consists of the following steps:
 - verification of the adequacy of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. This activity, known as “**risk and control assessment**”, is carried out by monitoring the risks associated with financial reporting procedures intrinsic to the life cycle of financial data, attributable to observance of “financial assertions” which international standards define as the requirements which financial reports 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 principal controls, 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;
 - 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 which require 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 which require 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. The corrective action plans are communicated by means of a special report to the Management Board and the Boards of Directors of subsidiaries responsible for the consequent decisions;
- a brief assessment, on completion of the stages described above, of the overall degree of adequacy of the internal control system put in place to oversee financial reports produced relating to the reporting period for oversight activities. The final assessment, which considers the significance of any points found requiring attention, is formalised in a special report, drawn up for each significant company in the Group and submitted to the attention of the Management Board of the Parent and the Boards of Directors of subsidiaries;
- a “Cascade-like certification system” is put in place with the issue of certifications, the content of which is substantially similar to that required by law, by the governing bodies of Group companies subject to full consolidation, addressed to the Chief Executive Officer and the Senior Officer Responsible of the Parent.

b) Roles and functions involved

The operational stages described above are conducted by the specialist structure within the Bank, 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. 262/2005.

The following are involved:

- the Chief Operating Officer through the units reporting to him. More specifically, the Organisation Area of UBI and of UBI Sistemi e Servizi Scpa are 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;

- the other control functions, in order to create organisational synergies and consistency in assessment across the various units concerned.

The roles and responsibilities of the stakeholders involved in the specific activities required by Law No 262/2005, as well as the relations between the Senior Officer Responsible and the various company personnel involved, with particular reference to the exchange of information between them, are defined by the specific Organisational Regulation which serves as follows:

- to clearly state the tasks and operational responsibilities of the Senior Officer Responsible and those of the other persons involved in the processes/activities for compliance with Law No 262/2005;
- to define the necessary reporting to the Senior Officer Responsible, and identify the units responsible for providing them, and their frequency and deadlines;
- to provide for the Senior Officer Responsible to have a functional role within the corporate governance of the Group.

The interactions of the Senior Officer Responsible with the other control functions are also regulated by the “UBI Banca Group Internal Control System Policy” approved by the Supervisory Board on the basis of proposals submitted by the Management Board on 13th November 2017. It formalises the co-ordination activity that normally takes the form of periodic meetings of the Chiefs of the corporate control functions and the Senior Officer Responsible with the aim of promoting the constant exchange of information. This co-ordination also relates to the sharing of operational aspects (e.g. activity programmes), methodological aspects (e.g. procedures for assessing risks and controls) and any actions to be taken. Information on these co-ordination activities is reported periodically to the competent governing bodies at meetings which are also attended by the Senior Officer Responsible.

The administrative and financial governance model also employs the aforementioned cascade-like certification system whereby in addition to the competent bodies of the individual Group companies subject to full consolidation and first line staff of UBI Banca, together with the competent bodies of the “outsourcer” companies, provide the Chief Executive Officer and the Senior Officer Responsible of the Parent with special internal certifications.

