

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

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

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

Year: 2014

Date: 11<sup>th</sup> February 2015



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## Glossary

**Code/Corporate Governance Code:** the Corporate Governance Code for listed companies approved in July 2014 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, Ania (national insurance association), Assogestioni (national association of asset management companies), Assonime (association of joint stock companies) and Confindustria (Confederation of Italian Industry).

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

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

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

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

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

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

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

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

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

**The Consolidated Banking Act:** Legislative Decree No. 385 of 1<sup>st</sup> September 1993.

## Introduction

The information given in this report refers to the current Articles of Association and the related transition regulations.

The General Meeting of the Shareholders that met in extraordinary session on 10<sup>th</sup> May 2014 approved the amendments to the Articles of Association as proposed by the Supervisory Board.

The amendments introduced included the following in particular:

- a) a reduction in the number of members of the Supervisory Board from 23 to 17, with effect from the next renewal of the Board and a reduction, in provisions of the Articles of Association, in the maximum number of members of the Management Board from 11 to 9, with the presence of senior managers of the Bank on that Board (this is already the situation for the Management Board currently in office);
- b) an increase in the requirements of professionalism for members of governing bodies with respect to those set by the legislation and regulations in force and also the introduction of age limits for appointment to those positions. As concerns the Supervisory Board, a proposal is made that the majority of the members should be in possession of the requirements of independence set forth in the Corporate Governance Code recommended by Borsa Italia, and a limit to the maximum number of terms of office is set for the senior management appointments to that Board;
- c) lists for the election of members of the Supervisory Board may be submitted by the following:
  - at least 500 Registered Shareholders who represent at least 0.5% of the share capital;
  - the outgoing Supervisory Board with a proposal supported by at least 500 shareholders representing at least 0.5% of the share capital;
  - collective investment undertakings (UCITS) that hold a total of at least 1% of the share capital and that have the right to participate and vote in the Shareholders' Meeting called to elect the Supervisory Board;
- d) maintenance of the per capita voting principle in the selection of the two majority and minority lists for the election of the Supervisory Board, accompanied by a premium mechanism for the appointment of Board Members, which takes account of the total capital held by the Registered Shareholders who have voted for each list if it exceeds 10% of the share capital. This approach allows the interests of the Group's stakeholders to converge in an integrated manner;
- e) the introduction of a videoconference in shareholders' meetings and an increase in the number of proxies to five for each Registered Shareholder.

On 7<sup>th</sup> May 2014, the Bank of Italy issued "New supervisory provisions on the corporate governance of banks" which update the regulations concerning this previously issued since 2008; the update meets the need to:

- o ensure the implementation of European regulations, particularly Directive 2013/36/EU (CRD IV) and the guidelines on internal governance issued by the EBA in 2011;
- o clarify and reinforce the rules on some aspects that have emerged from experience, coordinate them with the clarifications and practical guidelines issued to the sector and ensure that they are consistent with the other regulations issued in the meantime or subject to revision in the context of the work associated with the implementation of CRD IV.

Additionally, on 18<sup>th</sup> November 2014 the Bank of Italy added a new chapter two to Circular No 285 "Remuneration and incentive policies and practices" which provides, amongst other things, for amendments to the Articles of Association concerning the powers of the Shareholders' Meeting in relation to remuneration and incentives.

In relation to the above it should be noted that the proposals to amend the Articles of Association associated with the aforementioned Bank of Italy supervisory provisions concerning corporate governance and remuneration and incentive policies and practices shall be reported to the body responsible for making decisions with an illustrative report

Decree Law No 3 of 24<sup>th</sup> January 2015, “Urgent Measures for the Banking System and Investment” (in force since 25<sup>th</sup> January 2015) was published in the Official Journal on 24<sup>th</sup> January 2015. Amongst other things it provides for regulations on the reform of the “popular” banks that are currently being examined by parliament.

## 1. Profile of the issuer

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

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

UBI Banca is a “popular” bank incorporated in the form of a joint stock co-operative company. As such, UBI Banca is required to comply with the provisions of the Italian Civil Code concerning co-operative societies (excluding those expressly listed in Art. 150 *bis* of the Consolidated Banking Act) and also with those governing joint stock companies, to the extent that they are compatible with the laws governing co-operatives, as indicated in Art. 2519 of the Italian Civil Code.

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

The criteria followed in company operations to pursue the Bank's mutual objects are given in the separate company financial report of UBI Banca Scpa, in accordance with Art. 2545 of the Italian Civil Code.

The legal nature of a “popular” co-operative bank lies in the circumstance that each Registered Shareholder of the co-operative is entitled to one vote whatever the number of shares possessed and there is a limit on share ownership.

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

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

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

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

\* \* \*

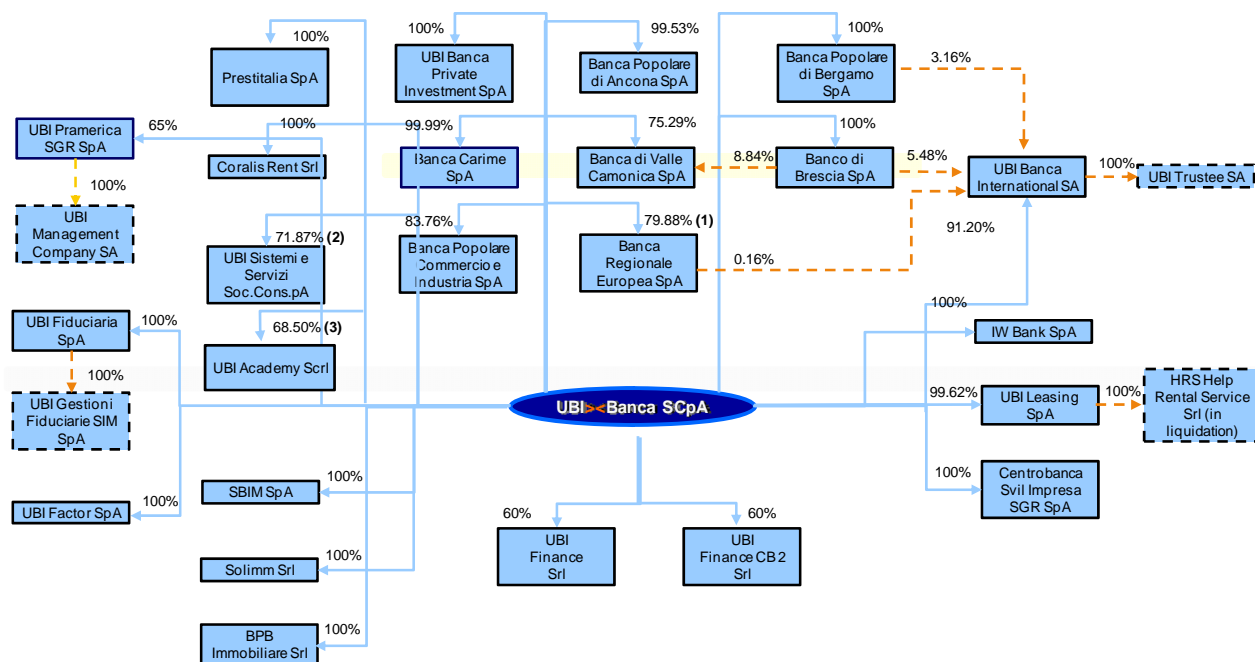
UBI Banca is the Parent of the Unione di Banche Italiane Group, organised on according to federal, multi-functional model, integrated with its listed “popular” Parent, which sets strategic policies and performs functions of co-ordination and control over all the organisational units and companies in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

In implementing its management and co-ordination activities in compliance with both specific regulations laid down by the Supervisory Authority and civil law, UBI Banca sets the strategic objectives of the Group. 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.

UBI Banca pursues its entrepreneurial mission while at the same time maintaining the strong sense of social responsibility that is typical of "popular" banks which are tightly rooted in their local communities. This sense of community is demonstrated by policies underlying the Charter of Values, Code of Ethics and the Social Report.

The following chart illustrates the composition of the UBI Banca Group as at 31<sup>st</sup> December 2014:

## UBI Banca Group of companies as at 31/12/2014



(1) Percentage is for the ordinary share capital

(2) The Group also holds 26.69% composed as follows: BPA(2.88%), BPCI (2.88%), BBS (2.88%), Banca Carime (2.88%), BPB (2.88%), IW Bank (2.88%), BRE (4.32%), BVC (1.44%), UBI Banca P. Inv. (1.44%), UBI Pramerica (1.44%), UBI Factor (0.72%), Prestitalia (0.07%), UBI Academy (0.01%).

(3) The Group also holds the remaining 31.5% composed as follows: BPA(3%), BPCI (3%), BBS (3%), Banca Carime (3%), BPB (3%), BRE (3%), UBISS (3%), BVC (1.5%), UBI Banca P. Inv. (1.5%), UBI Pramerica (1.5%), UBI Factor (1.5%), UBI Leasing (1.5%), IW Bank (1.5%), Prestitalia (1.5%).

The sale to third parties of the interest held (through UBI Fiduciaria Spa) in UBI Gestioni Fiduciarie Sim Spa was completed in January 2015.



## **2. Information on the ownership structure (pursuant to Art. 123 bis, paragraph 1 of the Consolidated Finance Act) as of 11<sup>th</sup> February 2015**

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

The share capital of UBI Banca Scpa is composed entirely of ordinary shares traded on the *Mercato Telematico Azionario* (electronic stock exchange).

\* \* \*

It should be noted that the Shareholders' Meeting that met on 10<sup>th</sup> May 2014 decided to amend Art. 5 of the Articles of Association providing for the elimination of the nominal value of the shares. This amendment was made in order to give greater flexibility in the event of operations concerning share capital, on the basis of rights pursuant to Art. 2346 of the Italian Civil Code.

\* \* \*

On 31<sup>st</sup> December 2014 the share capital of UBI Banca Scpa therefore amounted to €2,254,371,430.00 divided into 901,748,572 shares with no nominal value and has not changed at the date of this report.

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

Section i) below of this chapter 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 Act)**

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

Acceptance clauses exist solely for admission to the status of Registered Shareholder.

Persons who intend to become Registered Shareholders must present a certificate of participation in the centralised management system and a written application to the Management Board containing not only details of the shares possessed but also personal particulars, domicile, citizenship and all other information and/or declarations required by law or the Articles of Association or requested in general by the Bank.

Following the issue by the Bank of Italy on 11<sup>th</sup> February 2014 of the provision required pursuant to Art. 56 of the Consolidated Banking Act and on the basis of the powers assigned to it by the Articles of Association (Art. 46) regarding decisions to update the same to comply with legislation and regulations, on 13<sup>th</sup> February 2014 the Supervisory Board of UBI Banca decided on the statutory integration of Art. 8 and the amendment of Art. 15 of the Articles of Association, in order to implement the provisions relating to the acquisition and expiry of Registered Shareholder status contained in Art. 30, paragraph 5 *bis* of the Consolidated Banking Act, a paragraph introduced by Decree Law No 179 of 18<sup>th</sup> October 2012, converted with amendments by Law No 221 of 17<sup>th</sup> December 2012.

In order to encourage the capitalisation of the company, Art. 30 paragraph 5 *bis* of the Consolidated Banking Act provides that if the Articles of Association makes the acquisition of Registered Shareholder status subject to the holding of a minimum number of shares and this minimum shareholding is no longer held, the Registered Shareholder status acquired in this way expires.

In relation to the above, an addition was therefore made to paragraph 2 of Art. 8 of UBI Banca's Articles of Association as follows: "For the purposes of acceptance as a Registered Shareholder, certificates testifying to the ownership of at least 250 shares must be presented, while should they no longer be held, this shall result in the loss of Registered Shareholder status in accordance with the law". Art. 15 of the Articles of Association was accordingly amended, with the deletion of paragraph 4 providing at the same time for a transitory regulation to bring the number of shares possessed into compliance by 19<sup>th</sup> April 2014.

With account taken of the provisions of the law on "popular" co-operative banks, all decisions on the acceptance of applications for Registered Shareholder status are taken by the Management Board, with exclusive regard to the objective interests of the Bank, including those of its independence and autonomy, and to observance of the spirit of its co-operative status. For the purposes of assessing these requirements, account shall be taken, amongst other things, of any previous relations with Group member companies on the part of the persons applying.

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

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

Also, with a resolution of 10<sup>th</sup> March 2014, on the basis of its powers pursuant to Art. 30, paragraph 2 *bis* of the Consolidated Banking Act, the Shareholders' Meeting decided to amend its Articles of Association to implement the maximum limit of 3% on the shareholding held by banking foundations pursuant to Legislative Decree No 153 of 17<sup>th</sup> May 1999. On the date when Law 221/2012 came into effect (19<sup>th</sup> December 2013) the said banking foundations held an investment in the share capital greater than that set in paragraph 2 of Art. 30 of Legislative Decree 385/1993 in the event that this limit has been exceeded due to business combinations, it remaining the case that this investment may not be increased.

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

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

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

- Silchester International Investors LLP (4.903%)
- BlackRock Incorporated (indirect - assets under management) (4.951%)
- Fondazione Cassa di Risparmio di Cuneo (2.230%)

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

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

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

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

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

The exercise of voting rights is subject above all to acquiring the status of Registered Shareholder which is acquired following approval for admission by the Management Board, with enrolment in the Shareholders' Register.

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

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

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

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

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

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

While the members do not consider the association as qualifying as a shareholders' agreement pursuant to Art. 122 of Legislative Decree No. 58/1998, they have nevertheless fulfilled public disclosure obligations as required by the law in relation to some of the clauses of their Articles of Association, insofar as it may be necessary, in view of the legally binding nature of the decree mentioned and the consequences of failure to comply with it.

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

The following communications were also received:

- the constitution, on 23<sup>rd</sup> November 2007, of the association named "[Gli Amici di UBI Banca](#)", located in Bergamo, and report of compliance with disclosure obligations;
- the constitution on 24<sup>th</sup> January 2011 of an association called "[Tradizione in UBI Banca](#)", located in Cuneo.
- in a letter of 19<sup>th</sup> June 2012, the constitution of an association called "[Amici della Banca Regionale Europea e del Gruppo UBI](#)", located at Cuneo;
- the constitution, on 29<sup>th</sup> October 2012 of an association called "[Insieme per UBI Banca](#)", located in Milan;
- in a letter of 27<sup>th</sup> February 2013 the constitution of an association called "[Associazione Soci UBI Centro-Sud](#)", located in Rome;
- in a letter of 28<sup>th</sup> February 2013 the constitution of an association called "[Associazione Soci Lombardi UBI Banca](#)" also known as "[ASSOLUBI](#)", located in Brescia.
- on 15<sup>th</sup> March 2013 the constitution on 7<sup>th</sup> October 2011 of the "[Associazione Azionisti Banche Popolari 2011](#)".

On 26<sup>th</sup> July 2013 an application for admission to Registered Shareholder status was received from an association called "[UBI Banca Popolare!](#)" located in Bergamo and constituted on 8<sup>th</sup> May 2013.

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

Finally, the Bank learned from:

- a press release of the constitution on 10<sup>th</sup> November 2011 of the “Associazione dei cittadini e dipendenti soci di UBI Banca” located in Brescia;
- 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 Act) and Articles of Association provisions concerning public tender offers to purchase (pursuant to Art. 104, paragraph 1 ter of the Consolidated Finance Act)**

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

More specifically, in the event of a “change of control” 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 make no provision with regard to Art. 104, paragraph 1 *ter* of the Consolidated Finance Act.

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

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

As concerns the purchase of treasury shares:

- 1) The shareholders meeting held on 30<sup>th</sup> April 2011 authorised the Management Board and the Chairman, Deputy Chairman and Chief Executive Officer, individually on its behalf to repurchase, by 30<sup>th</sup> September 2011, a maximum of 1,200,000 treasury shares, to be assigned to the top management of the Group as part of an incentive scheme for a total maximum amount of €5,500,000 at a price per share of not less than the nominal value and not more than 5% higher than the official price quoted in the market session prior to each individual purchase transaction.

In compliance with that resolution, a total of 1,200,000 ordinary shares of UBI Banca were purchased in the period running from 12<sup>th</sup> July 2011 until 13<sup>th</sup> July 2011.

Those shares were purchased at an average price of €3.6419 per share.

- 2) the Shareholders' Meeting held on 28<sup>th</sup> April 2012 authorised the Management Board and the Chairman, Deputy Chairman and Chief Executive Officer, individually on its behalf, to proceed with the purchase (to be carried out by the date of the Shareholders' Meeting called upon to vote in accordance with Art 2364 *bis* No. 4 of the Italian Civil Code on the allocation of profit for the year ended 31<sup>st</sup> December 2012) of a maximum of 500,000 treasury shares to be granted to the “top management” of the Group as part of the Group incentive schemes, for a total maximum value of €1,750,000, at a price per share of not less than the nominal value of the shares and not more than 5% higher than the official price quoted in the market session prior to each individual purchase transaction.

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

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

With reference to the 2011 incentives plan, during 2014 UBI Banca granted 216,808 treasury shares to 39 employees categorised as Key Personnel, because the two year retention period set in the Group remuneration and incentive policies for the upfront component to be paid in financial instruments had expired.

In the light of the above on the date of this report UBI Banca holds 1,483,192 UBI Banca shares, being 0.16% of the share capital.

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

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

\* \* \*

As concerns possible further information:

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

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

UBI Banca has adopted the Corporate Governance Code (available on the website of the Corporate Governance Committee at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.pdf>), a document intended mainly for listed companies that have adopted a traditional governance model. Article 10 of the code states that if a single 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, which has been prepared in accordance with Art. 123 *bis* of Legislative Decree No. 58/1998, 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 which the Bank has decided not to comply with (sometimes only partially) on a "comply or explain" basis. This is partly because the Bank must consider its status as a co-operative bank which, as such, demands strict compliance with regulations contained in the Consolidated Banking Act and with the consequent supervisory instructions issued by Bank of Italy.

\* \* \*

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

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



## 4. Supervisory Board

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

The Supervisory Board is composed of 23 members elected from among the Registered Shareholders with voting rights, including a Chairman and a Senior Deputy Chairman appointed by a Shareholders' Meeting in compliance with Art. 45 and two Deputy Chairmen chosen by the Supervisory Board itself from among its members. The members of the Supervisory Board shall remain in office for three financial years and they shall retire from office on the date of the Shareholders' Meeting convened in compliance with paragraph two of Art. 2364-*bis* of the Italian Civil Code.

Furthermore, as resolved by the Extraordinary Shareholders' Meeting held on 10<sup>th</sup> May 2014, the next time the Supervisory Board is renewed, it shall be composed of 17 members elected from among the Registered Shareholders with voting rights, including a Chairman and a Senior Deputy Chairman appointed by a Shareholders' Meeting in compliance with Art. 45. The Supervisory Board may appoint one or two Deputy Chairmen from among its members.

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

Furthermore, as resolved by the Extraordinary Shareholders' Meeting held on 10<sup>th</sup> May 2014, the next time the Supervisory Board is renewed, none of the members of the Supervisory Board shall be aged 75 or over when they are appointed, and each of them must have a total of at least three years' experience as chairman, in Italy or elsewhere, or at least five years' experience of:

- administration or strategic supervision
  - management
- or
- control
- in
- banks, financial companies, asset management companies, or insurance companies;
  - independent public authorities;
  - businesses aimed at the production and/or trading of goods or services;
  - companies with shares traded on regulated markets in Italy or elsewhere.

Candidates who have not gained this professional experience may also be elected as long as:

- they are or have been permanently employed as university lecturers in law, economics, mathematics, statistics, or management engineering for at least five years;
- they are or have been enrolled in the register of chartered accountants, notaries, or lawyers for at least ten years.

Those who have held precisely the same position continuously for the three previous mandates may not be appointed as Chairman or Senior Deputy Chairman. The majority of the members of the Supervisory Board must be in possession of the requirements of independence required by the Corporate Governance Code recommended by Borsa Italiana.

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

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

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

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

The next time the Supervisory Board is renewed, its members shall be elected on the basis of lists presented:

- a) directly by at least 500 Registered Shareholders who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of the right according to the legislation in force and who represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 days prior to the date set for calling the Shareholders' Meeting and to be indicated in the notice given to call the meeting;
- b) by UCITS (undertakings for the collective investment of transferable securities) holding a total percentage of at least 1% of the share capital who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board and provide documentary evidence of that right according to legislation in force;
- c) by the outgoing Supervisory Board on the basis of a proposal made by the Appointments Committee and with the approval of the Supervisory Board passed with the votes of at least two thirds of its members, and in any case supported as reported in letter a) above by at least 500 Registered Shareholders who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of the right according to the legislation in force and represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 days before the date set for calling the Shareholders' Meeting and to be indicated in the notice given to call the meeting.

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

Each candidate may be included in one list only or shall otherwise not be eligible for election. Lists presented that fail to observe the procedures reported above are considered as not presented.

Each Registered Shareholder may vote for one list only.

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

- a) when several lists are presented, the first two lists that have obtained the greatest number of votes cast by the Registered Shareholders and are not connected according to the legislation in force are considered;
- b.1) if the list that obtained the second-highest number of votes obtained less than 15% of the votes cast at the Shareholders' Meeting, twelve members of the Supervisory Board shall be drawn from the list that obtained the majority of the votes and one member of the Supervisory Board shall be drawn from the list that obtained the second highest number of votes;
- b.2) if the list that obtained the second-highest number of votes obtained more than 15% but less than 30% of the votes cast at the Shareholders' Meeting, eleven members of the Supervisory Board shall be drawn from the list that obtained the majority of the votes and two members of the Supervisory Board shall be drawn from the list that obtained the second highest number of votes;
- b.3) if the list that obtained the second-highest number of votes obtained at least 30% of the votes cast at the Shareholders' Meeting, ten members of the Supervisory Board shall be drawn from the list that obtained the majority of the votes and three members of the Supervisory Board shall be drawn from the list that obtained the second highest number of votes;
- c) if neither of the two lists referred to under letter a) has obtained the votes of Registered shareholders representing at least 10% of share capital, the following procedure shall

- apply:
- c.1) in the event of the conditions set out under point b.1) above, a further four members of the Supervisory Board are taken from the same list in the order of preference stated on it, taking the total number of board members drawn from that list to 16;
  - c.2) in the event of the conditions set out under point b.2) above, a further four members of the Supervisory Board are taken from the same list in the order of preference stated on it, taking the total number of board members drawn from that list to 15;
  - c.3) in the event of the conditions set out under point b.3) above, a further three members of the Supervisory Board are taken from the same list in the order of preference stated on it, taking the number of members of the Supervisory Board drawn from that list to 13, while a further member of the Supervisory Board shall be drawn from the list that obtained the second highest number of votes, taking the total number of board members drawn from that list to four.
  - d) if one or both of the lists referred to under letter a) has or have obtained the votes of Registered shareholders representing at least 10% of share capital the following procedure shall apply:
    - d.1) if the list that has obtained more than 10% is the list that obtained the greatest number of the votes cast at the Shareholders' Meeting or (if 10% of the share capital is exceeded by both lists) this list obtained the higher percentage, on the conditions set out under points b.1), b.2) and b.3) above being met, four further members of the Supervisory Board shall be drawn from that list, taking the total number of board members drawn from the majority list to 16, 15 or 14 respectively;
    - d.2) if the list that has obtained more than 10% is the list that obtained the second highest number of the votes cast at the Shareholders' Meeting or (if 10% of the share capital is exceeded by both lists) this list obtained the higher percentage, further members of the Supervisory Board shall be drawn from that list, taking the total number of board members drawn from that list to five.

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

If only one list is validly proposed and this obtained the majority required for an ordinary Shareholders' Meeting, then all 17 members of the Supervisory Board shall be taken from that list.

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

If two or more lists obtain an equal number of votes, those lists 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 list that obtains a majority of votes, or on the only list presented or to the members appointed as such by the Shareholders' Meeting if no list is presented at all.

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

If the positions of Chairman of the Supervisory Board and/or the Senior Deputy Chairman of the Supervisory Board should become vacant, an Ordinary Shareholders' Meeting should proceed without delay to restore the membership of the board and to appoint a Chairman and/or a Senior Deputy Chairman not by using in this case the replacement procedure just mentioned, since the Supervisory Board may present candidates itself for this purpose on the basis of proposals made by the Appointments Committee.

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

- if only one board member has been appointed from the minority list, then the first candidate not elected on the list from which the member to be replaced was drawn shall be appointed, or, in the absence of such a candidate, the first candidate on any other minority lists there may be shall be taken on the basis of the number of votes received in descending order. Should this not be possible or, if application of the above criteria means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities;
- if a further 2 (two) or 4 (four) board members have been elected from the minority list, on the basis of the votes cast by the Registered Shareholders, the relative replacements shall be taken from the list from which the member to be replaced was drawn or in the absence of such a candidate from any other minority lists there may be, identified on the basis of the number of votes received in descending order and which have received, according to the case, 15% or 30% of the votes cast by the Shareholders' Meeting. In the absence of such candidates, the board members shall be drawn from the majority list or in the absence again of such candidates, or, if application of the above criteria means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall proceed to decide by relative majority vote;
- if two or four board members belonging to the minority list have already been replaced, in accordance with the preceding clause, by drawing them from the majority list or by a relative majority vote of the Shareholders' Meeting to appoint them, as just described, the replacement of a further minority board member is by the first candidate named on any other minority lists there may be, on the basis of the descending number of votes received by these; should this not be possible or if application of the above criteria means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities.

Furthermore, as resolved by the Extraordinary Shareholders' Meeting held on 10<sup>th</sup> May 2014, with effect from the date when the next Supervisory Board is appointed, if board members belonging to the minority list must be replaced the following procedure is employed:

- if only one board member has been appointed from the minority list, then the first candidate not elected on the list from which the member to be replaced was drawn shall be appointed, or, in the absence of such a candidate, the first candidate on any other minority lists there may be shall be taken on the basis of the number of votes received in descending

order. Should this not be possible or, if application of the above criteria means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, then the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities;

- if further board members have been drawn from the minority list, the relative replacements shall be taken from the list from which the members to be replaced were drawn or in the absence of such a candidate from any other minority lists there may be, identified on the basis of the number of votes received in descending order and which have received the majorities of votes cast by the Shareholders' Meeting provided for in Art. 45, 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 list or, if application of the above criteria means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12<sup>th</sup> July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall proceed to decide by relative majority vote.

The replacement candidates, identified in accordance with the provisions of Art. 45 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 for the office by law or the Articles of Association.

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

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

The Supervisory Board, within the scope of its responsibilities, performs policy, strategic supervision and control functions within the limits set by Art. 46 of the Articles of Association. 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. 46 of the Articles of Association, on the basis of which the same Board:

- a) on the basis of proposals from the Appointments Committee, appoints and removes some or all of the members of the Management Board and its Chairman and Deputy Chairman, in compliance with Art 30, paragraph 2, determining their remuneration, in compliance with Art. 22, paragraph 2, letter b), after consulting with the Remuneration Committee. It also determines, after consulting with the Remuneration Committee and in compliance with Art. 22, paragraph 2, letter b), the remuneration of the members of the Management Board vested with special functions, duties or powers or assigned to committees. Without prejudice to the provisions of Art. 32, paragraph 2, of the Articles of Association, and without effect for members of the Management Board who vacate their positions, the Supervisory Board appoints the members of the Management Board in the first meeting following its own appointment by a Shareholders' Meeting;
- b) having taken account of proposals from Management Board, decides the general plans and strategic policies of the Bank and of the Group; it may also make recommendations to the Management Board;
- c) approves the separate financial statements and the consolidated financial statements prepared by the Management Board;
- d) authorises the Management Board to exercise powers to increase the share capital or to issue convertible bonds that may have been granted by a Shareholders' Meeting pursuant to articles 2420-ter and 2443 of the Italian Civil Code;
- e) as concerns its own control function, performs supervisory functions in compliance with Art. 149, paragraphs one and three of Legislative Decree No. 58 of 24<sup>th</sup> February 1998;
- f) initiates liability actions against members of the Management Board;
- g) submits the statement to the Bank of Italy pursuant to Art. 70, paragraph 7 of Legislative Decree No. 385 of 1<sup>st</sup> September 1993;
- h) reports in writing to a shareholders' meeting convened pursuant to Art. 2364 bis of the Italian Civil Code on the supervisory activity performed, on omissions and reprehensible

- actions observed, and also at any other ordinary or extraordinary Shareholders' Meetings convened, on matters falling within its sphere of responsibilities;
- 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 mandatory opinion on the person responsible for preparing the corporate accounting documents pursuant to Art. 154-*bis* of Legislative Decree No. 58 of 24th February 1998;
  - m) on the basis of proposals submitted by the Management Board, to which it may submit prior recommendations, decides on business and/or financial plans and budgets for the Bank and the Group prepared by the Management Board and on the strategic operations listed here below, but nevertheless without prejudice to the responsibility of the Management Board for its actions and while the aforementioned decision of the Supervisory Board shall not be necessary for the operations considered in points (iii), (iv), (v), (vi) and (vii) below, 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 submit specific recommendations to the Management Board;
    - (iii) operations pursuant to Art. 36, paragraph two, letter b);
    - (iv) purchases by the Bank and by its subsidiaries of controlling interests in companies and transactions involving a reduction in directly or indirectly held investments in subsidiaries;
    - (v) purchases or disposals by the Bank and its subsidiaries of companies, business *en bloc*, business units, spin-offs, and investments or disinvestments which involve commitments where the amount for each transaction is greater than 4% of the supervisory capital eligible for the purposes of calculating the consolidated core tier one capital or affects the core tier one ratio by more than 50 basis points as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
    - (vi) purchases or disposals by the Bank and its subsidiaries of investments in companies that are not controlled, the amount of which for each transaction is greater than 1% of the supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force, or which are significant from an institutional viewpoint or that of the sector nationally;
    - (vii) stipulation of strategically important trade, co-operation and corporate agreements, with account taken of the activities and/or volumes involved and/or of the nature of the partners and in relation to the guidelines and objectives contained in the Business Plan approved;
  - n) expresses a non binding opinion with a vote in favour of at least two thirds of its members on the candidates proposed by the Management Board to the position of Board Member and Statutory Auditor of the subsidiary undertakings listed in Art. 36, paragraph 2, letter b) of the Articles of Association (Banca Popolare Commercio e Industria Spa, Banca Popolare di Bergamo Spa, Banca Popolare di Ancona Spa, Banca Carime Spa, Banco di Brescia Spa and Banca Regionale Europea Spa);
  - o) sets, on the basis of proposals from the Management Board, strategic guidelines and policies for the management and control of risk, while verifying on an ongoing basis that they are adequate and implemented by the Management Board;
  - p) 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;
  - q) 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 control, the functioning of the internal audit and the accounting IT system; verifies the proper performance of strategic control and management activities by the Parent in relation to Group member companies; appoints and dismisses, after consulting with the Internal Control Committee, Chief Compliance Officer, Chief Risk Officer, and Chief Internal Audit Officer;

- r) approves and periodically verifies the organisational, administrative and accounting structure of the Bank, determined by the Management Board;
- s) 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;
- t) approves remuneration policies for employees or associate workers not linked to the Bank by regular employee contracts;
- u) on the basis of a proposal by the Chairman of the Supervisory Board, drafted in compliance with Art. 47, paragraph two letter h) of the Articles of Association, sets policies and takes decisions on projects for cultural and charitable initiatives and for the image of the Bank and the Group, with special reference to the enhancement of historical and artistic heritage, while it verifies that initiatives planned coincide with the objectives set;
- v) decides on mergers and demergers pursuant to articles 2505 and 2505-bis of the Italian Civil Code;
- z) exercises all other powers granted by regulations and legislation currently in force or by the Articles of Association.

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

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

The Supervisory Board and its members exercise the powers granted under in Art. 151-bis of Legislative Decree no. 58 of 24th February 1998, pursuant to the terms and conditions provided therein.

With a view to exercising the powers of acquiring information granted under Art. 151-bis, paragraph 1 of Legislative Decree No. 58 of 24th February 1998 in a more efficient and functional manner, requests in relation to this are normally addressed to the Chairman of the Management Board and the Chief Executive Officer through the Chairman of the Supervisory Board.

The information is circulated to all the members of the Supervisory Board.

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The UBI Banca S.c.p.A. Shareholders' Meeting of 20<sup>th</sup> April 2013 first appointed the Supervisory Board for 2013-2014-2015, and then proceeded to appoint *Ing.* Andrea Moltrasio as Chairman and *Prof.* Mario Cera as Senior Deputy Chairman.

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

- List filed by the Supervisory Board on 22nd March 2013. The list had the support of 865 registered shareholders representing 76,227,494 shares accounting for 8.45% of the share capital of UBI Banca S.c.p.A. and contained the following candidates:

1	Andrea	Moltrasio	Chairman
2	Mario	Cera	Senior Deputy Chairman
3	Armando	Santus	Member
4	Gian Luigi	Gola	Member
5	Lorenzo Renato	Guerini	Member
6	Alberto	Folonari	Member
7	Alfredo	Gusmini	Member
8	Sergio	Pivato	Member
9	Mario	Mazzoleni	Member
10	Federico	Manzoni	Member
11	Marina	Brogi	Member
12	Enrico	Minelli	Member
13	Antonella	Bardoni	Member

14	Pierpaolo	Camadini	Member
15	Ester	Faia	Member
16	Alessandra	Del Boca	Member
17	Carlo	Garavaglia	Member
18	Letizia	Bellini Cavalletti	Member
19	Mario	Comana	Member
20	Franco	Bossoni	Member
21	Giacomino	Maurini	Member
22	Stefano	Gianotti	Member
23	Graziano	Caldiani	Member

- The “UBI BANCA, CI SIAMO” list filed on 25<sup>th</sup> March 2013 by Mr Giorgio Jannone. That list had the support of 601 registered shareholders representing 7,372,268 shares accounting for 0.82% of the share capital of UBI Banca S.c.p.A. and contained the following candidates:

1	Giorgio	Jannone	Chairman
2	Piero	Bertolotto	Senior Deputy Chairman
3	Adele	Timo	Member
4	Valerio Renato	Gastoldi	Member
5	Paola	Corniani	Member
6	Vincenzo	Mascolo	Member
7	Giovanni	Soncini Soncini	Member
8	Annamaria	Minervini	Member
9	Vittorio	Dotti	Member
10	Giulio	Zonda	Member
11	Antonio	Porteri	Member
12	Ambrogina	Zanzi	Member
13	Roberto	Bolpagni	Member
14	Alberto	Facella	Member
15	Luciano	Franceschetto	Member
16	Angiolino	Legrenzi	Member
17	Stefano	Vedovato	Member
18	Marcello	Rosti	Member
19	Luca	Pizio	Member
20	Elena	Tosana	Member
21	Luigi	De Rossi	Member
22	Dario	Alfero	Member
23	Giuseppina Carla	Maria Nelli	Member

- The “UBI, banca popolare!” list filed on 25<sup>th</sup> March 2013 by Mr Marco Giacinto Gallarati. That list had the support of 700 registered shareholders representing 619,441 shares accounting for 0.07% of the share capital of UBI Banca S.c.p.A. and contained the following candidates:

1	Andrea Cesare	Resti	Chairman
2	Marco Giacinto	Gallarati	Senior Deputy Chairman
3	Maurizio	Zucchi	Member
4	Dorino Mario	Agliardi	Member
5	Luca Vittorio	Cividini	Member
6	Laura	Bertulesi	Member
7	Emilio	Gramano	Member
8	Marco	Balzarini	Member
9	Anna Loredana	Cassina	Member
10	Ignazio	Deleuse Bonomi	Member
11	Marco	Pesenti	Member
12	Simonetta	Mangili	Member
13	Giangiuseppe	Alborghetti	Member
14	Stefano	Franchini	Member
15	Daniele	Bonetti	Member
16	Beatrice	Mascheretti	Member
17	Luciano	Pezzoli	Member
18	Marco	Leali	Member



Votes:

- 7,318 votes in favour of the list presented by the Supervisory Board, being 53.5% of the votes cast at the Shareholders' Meeting;
- 4,693 votes in favour of the "UBI, banca popolare!" list, being 34.3% of the votes cast at the Shareholders' Meeting;
- 1,548 votes in favour of the "UBI BANCA – CI SIAMO!" list, being 11.3% of the votes cast at the Shareholders' Meeting.

In accordance with Art. 45 of the Articles of Association, 18 Board Members from the "List presented by the Supervisory Board" and 5 Board Members from the "UBI, banca popolare!" list were thus elected.

Again in accordance with the Articles of Association, *Ing.* Andrea Moltrasio was elected Chairman of the Supervisory Board and *Prof.* Mario Cera Senior Deputy Chairman of the Supervisory Board, having been in first and second place respectively on the list that received most votes.

At the meeting held on 23<sup>rd</sup> April 2013 the Supervisory Board appointed *Dott.* Alberto Folonari and Notary *Dott.* Armando Santus as Deputy Chairmen, and Board Member *Dott.* Alfredo Gusmini as Secretary.

The members of the Supervisory Board for 2013/2014/2015 are thus as follows:

1	Andrea	Moltrasio	Chairman
2	Mario	Cera	Senior Deputy Chairman
3	Alberto	Folonari	Deputy Chairman
4	Armando	Santus	Deputy Chairman
5	Alfredo	Gusmini	Member and Secretary
6	Dorino Mario	Agliardi	Member
7	Antonella	Bardoni	Member
8	Letizia	Bellini Cavalletti	Member
9	Marina	Brogi	Member
10	Pierpaolo	Camadini	Member
11	Luca Vittorio	Cividini	Member
12	Alessandra	Del Boca	Member
13	Ester	Faia	Member
14	Marco Giacinto	Gallarati	Member
15	Carlo	Garavaglia	Member
16	Gian Luigi	Gola	Member
17	Lorenzo Renato	Guerini	Member
18	Federico	Manzoni	Member
19	Mario	Mazzoleni	Member
20	Enrico	Minelli	Member
21	Sergio	Pivato	Member
22	Andrea Cesare	Resti	Member
23	Maurizio	Zucchi	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 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.

On 18<sup>th</sup> July 2013 *Dott.* Giorgio Jannone and other Registered shareholders served a writ of summons on UBI Banca, which, in summary, asks it to declare: (i) that the only valid list for the appointment of members of the Supervisory Board of the Bank is the list presented by, among others, the same Registered Shareholder Jannone, following the ascertainment of irregularities in the other two lists which received the majority of the votes at the Shareholders' Meeting of 20<sup>th</sup> April 2013; or alternatively (ii) the invalidity of the shareholders' resolution relating to the appointment of company officers; or secondarily (iii) the invalidity of some votes made during a particular period of time while the Shareholders' Meeting was being held (at the stage when the votes commenced).

The Bank, believing that the procedures for the verification of all the lists presented were performed correctly before the Shareholders' Meeting, and that the proceedings of the

Shareholders' Meeting were also in accordance with the rules, considers that the claims made in this summons are groundless.

Proceedings subsequent to the application made by nine Registered shareholders to render the Shareholders' resolution of April 2013 for the appointment of the Supervisory Board null and void are pending before the specialised business section of the Court of Brescia. UBI Banca made a preliminary objection that the claim was inadmissible, in so far as it was brought by a number of Registered Shareholders that fails to reach the quorum of one per thousand of those who had been recorded in the shareholders register for at least 90 days, as required by the combined provisions of Art. 2377 of the Italian Civil Code and Art.135 of the Consolidated Finance Act. In order to examine the preliminary legal issue raised by UBI, on 19<sup>th</sup> June 2014 the examining judge made an order for a court-appointed expert witness to verify the number of registered shareholders holding the minimum number of shares required by the Bank's Articles of Association, who had been recorded in the shareholders register for at least 90 days before the Shareholders' Meeting. The next hearing is scheduled for 7<sup>th</sup> May 2015, with a deadline of 4<sup>th</sup> May 2015 for the filing of the final report of the court-appointed expert witness.

\* \* \*

Special regulations govern the functioning of the Supervisory Board concerning:

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

A special section of those regulations deals with reporting systems.

The Chairman defines the documentation that, in addition to that already sent to all board members, he considers it necessary to make available to participants in meetings in order to provide complete information.

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 generally held once a year in the city of Milan.

The Supervisory Board is validly convened with the attendance of a majority of the members in office and it passes resolutions by a vote in favour of the absolute majority of the board members present for the vote. A qualified majority (vote in favour of at least two thirds of the board members) is required for amendments to the regulations of the Appointments Committee, for proposals to amend the Articles of Association, and for resolutions concerning proposals pursuant to Art. 36, paragraph two, letter b) of the Articles of Association.

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

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

During 2014 the Supervisory Board met 21 times and the average length of meetings was five hours.

We also report that the Supervisory Board has planned 14 meetings for 2015, of which two have already been held.

The Internal Control Committee has had ongoing meetings with the independent auditors, Deloitte & Touche SpA, reporting on the Supervisory Board.

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

\* \* \*

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

Before approving this Report, the Supervisory Board verified that it satisfied the requirement of independence. In this context, in compliance with, among other things, the Bank of Italy instructions concerning corporate governance, an analysis of the lending relationships between each board member and the Group was carried out. 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 Act and the Bank of Italy supervisory provisions concerning corporate governance in force (Circular No 285).

With regard to the requirements of the Corporate Governance Code and also the particular nature of the Supervisory Board in the context of a two tier governance model, 20 out of the 23 Members of the Supervisory Board meet the independence requirements of the Corporate Governance Code.

With reference to the principles and criteria referred to in Art. 3, section C1 point b) of the Corporate Governance Code, board members Andrea Moltrasio, Mario Cera and Lorenzo Renato Guerini are not independent since for the previous three years they were senior officers in subsidiaries of UBI Banca.

The Supervisory Board carried out a self-assessment with respect to its size, composition and procedures as well as those of its Committees, in the context of the self-assessment process planned for 2013, 2014 and 2015 (the duration of the mandate of the board), with an indication of the actions to be taken and the related schedule, and for the provision and implementation of a peer review system and process with the consultancy support of Egon Zehnder.

The self-assessment process was carried out by means of an analysis carried out at a meeting, on the basis of the results of a specific self-assessment questionnaire filled in by each board member, followed by individual interviews carried out by the consultant. The quantitative and qualitative composition of the Board and its Committees was also examined, including consideration of how representative it is in terms of age and gender, the professional skills of board members in relation to the size of the Group and its activities, the level of diversity among the Board members in terms of professional, managerial and business experience. More specifically, the self-assessment was conducted on the following factors: the quality and completeness of skills, experience and expertise within the Board and the internal committees; sufficient number of board members; the degree of effectiveness of the functioning of the Board and the five internal committees; the quality of Board and internal committee meetings; the quality and promptness of reporting and presentations to the Board; the effectiveness and efficiency of decision-making processes within the Board; the clarity, agreement and satisfaction with regard to policies, performance and risk objectives and the results achieved; relations with the Management Board and Senior Management.

On conclusion of the self-assessment conducted, it was shown that, taken as a whole, the proceedings of Board and Committee meetings, in terms of organisation, analysis of the issues, attendance at meetings and discussion, are key elements for the appropriate performance of the functions assigned to the Supervisory Board and its internal Committees.

The Appointments Committee (which is responsible, in accordance with its own regulations, for activities in preparation for the Supervisory Board's self-assessment) has thus commenced activities for the purposes of continuing the three year self-assessment programme to be implemented in 2015, including the drawing up of specific internal regulations governing the general process.

In accordance with the Corporate Governance Code the independent board members 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, among other things because of the composition of the Board.

The Chairman also, both at 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 Group, in order to guarantee 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.

Following the renewal of terms of office of corporate bodies in 2013, a programme involving the holding of two training meetings for officers of UBI Banca started in 2013. In this respect in 2014 the Management Board and Supervisory Board approved a two year programme of meetings to be held in 2014 and 2015, identifying specific topics to be covered. Two meetings were held in 2014: on 26<sup>th</sup> February 2014, about “The governance of management risks and strategic actions”, and on 27<sup>th</sup> November 2014, about “The system of controls”.

### **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 Board itself, setting the agendas, taking account of the proposals formulated by the Senior Deputy Chairman and the other Deputy Chairmen and ensuring that adequate information about the topics contained on the agenda are provided to all the members of the Supervisory Board.

The duties of the Chairman of the Supervisory Board are listed in Art. 47 of the Articles of Association.

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

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

- specific committees with proposal making, consultative and investigative functions in compliance with Bank of Italy regulations, the recommendations of the Borsa Italiana Corporate Governance Code and Supervisory Authority instructions. These committees were established to allow the Supervisory Board to work more efficiently and effectively, and they are composed - as recommended by the Corporate Governance Code - of more than three members.
  - Appointments Committee                      6 members
  - Remuneration Committee                      5 members
  - Internal Control Committee                      5 members
  - Accounts Committee                              4 members
  
- a Related and Connected Parties Committee composed of three members, in compliance with the provisions of: (i) "Regulations for UBI Banca Scpa related party transactions" adopted in implementation of Art. 2391 *bis* of the Italian Civil Code and Consob requirements with respect to related parties adopted with Resolution No. 17221/2010 and subsequent amendments; (ii) “Regulations for operations with parties connected to the UBI Banca Group”, adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27<sup>th</sup> December 2006 - 9<sup>th</sup> amendment of 12<sup>th</sup> December 2011, “New regulations for the prudential supervision of banks”, containing measures concerning “risk assets and conflicts of interest with connected parties”.

The 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.

The committees are 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.

The Bank of Italy provisions concerning corporate governance (Circular 285) provide for the formation of a Risk Committee which must be distinct from the Internal Control Committee. The appropriate investigations for the purpose of establishing the said Risk Committee are currently in progress, subject to definition of the responsibilities to be assigned to the various committees.

## 6. Appointments Committee

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

- Andrea Moltrasio                      Chairman of the Supervisory Board
- Mario Cera                              Senior Deputy Chairman of the Supervisory Board
- Alberto Folonari
- Mario Mazzoleni
- Enrico Minelli
- Armando Santus

A majority of the members of the Appointments Committee are independent board members, in accordance with the Corporate Governance Code.

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 functioning.

The Appointments Committee, in carrying out its proposal making functions and in compliance with the criteria set in the aforementioned regulations, as applicable:

- a) performs assessments for the formalisation of the qualitative and quantitative profiles for the appointment of the Supervisory Board; submits proposals for candidates to the position of member of the Supervisory Board of the Parent for submission to a Shareholders' Meeting, including candidates for the highest positions (i.e. Chairman and Senior Deputy Chairman of the Supervisory Board). It also proposes candidates, to be appointed by the Supervisory Board, for the position of Deputy Chairman of the Supervisory Board, if one is to be appointed;
- b) proposes candidates, to be appointed by the Supervisory Board, for the position of member of the Management Board of the Parent, including candidates to the positions of Chairman and Deputy Chairman of the Management Board;
- c) proposes the name to be formulated by the Supervisory Board of a non-binding proposal to be made to the Management Board for the appointment of the Chief Executive Officer;
- d) evaluates, even during the term of the boards, the adequacy of succession plans at the level of the senior positions on the Management Board and Senior Management, and the professional profiles and requirements of those currently holding office and any candidates there may be to succeed them;
- e) defines processes for the purposes of evaluating the work done by the Management Board and Senior Management;
- f) carries out appropriate fact-finding activities:
  - for the purposes of the self-assessment of the Supervisory Board;
  - in observance of the responsibilities of the Internal Control Committee, it identifies managers for appointment to internal control functions;
- g) carries out fact-finding activities for the purposes of issuing a non-binding opinion that the Supervisory Board pursuant to Art. 46, paragraph 1, letter n) of the Articles of Association

is responsible for expressing on the candidates proposed by the Management Board to the position of Director and Statutory Auditor of the subsidiaries listed by Art. 36, paragraph 2, letter b) of the Articles of Association and that is: Banco di Brescia Spa, Banca Regionale Europea Spa, Banca Popolare di Bergamo Spa, Banca Popolare Commercio e Industria Spa, Banca Popolare di Ancona Spa and Banca Carime Spa;

- h) formulates opinions and proposals on the corporate governance and regulatory policies of the Parent 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 the 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.

In 2014, the Appointments Committee performed its duties with regard to assessment activity for the issue of a non-binding opinion by the Supervisory Board for appointments to corporate bodies of banks in the Group pursuant to Art. 36 of the Articles of Association. During 2014, the Appointments Committee also worked with the Supervisory Board to update the regulations of the Appointments Committee in order to bring them into compliance with the provisions added to the Articles of Association by a decision of the Extraordinary General Meeting of 10<sup>th</sup> May 2014 and those of the “Supervisory instructions concerning the organisation and corporate governance of banks” issued by the Bank of Italy in May 2014. Lastly, the committee worked with the Supervisory Board on the annual self-assessment process of the corporate bodies, the evaluation of the adequacy of succession plans, and corporate social responsibility.

The Appointments Committee met four times in 2014. The average length of meetings was approximately one hour.

No meetings have been held as yet in 2015.

## **7. Remuneration Committee**

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

- Mario Cera – as the Chairman
- Marina Brogi
- Alessandra Del Boca
- Andrea Cesare Resti
- Armando Santus

*Compliance of the composition of the Remuneration Committee with the provisions of the Borsa Italiana Corporate Governance Code.*

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

With reference to the appointment of the Senior Deputy Chairman, Mario Cera (who for the previous three years had performed a senior role in a strategically significant subsidiary) to the position of Chairman of the Remuneration Committee, as already described in the 2013 Report, with a view to the efficient operational continuity of the Bank it was considered appropriate not to comply, for this specific point only, with the requirements of Art. 6.P.3 of the Borsa Italiana Corporate Governance Code in order to ensure that the Committee continues to function in a full and efficient manner. It is precisely the professional experience and knowledge of the Group that Mario Cera has acquired that, together with his substantial and well-known independence of judgment, were and are a suitable guarantee of the better and appropriate functioning of the Committee. The other four members of the Committee are in possession of the requirements of independence required by the Code.

The Remuneration Committee is formed of members of the Supervisory Board and governed by special regulations, published in the “Corporate Governance/Supervisory Board” section of the

Bank's website, which determine its responsibilities and functioning in compliance with legal, regulatory and Article-of-Association provisions.

The Committee provides assessment work, submits proposals and performs preliminary activities for the Supervisory Board, making use of external independent consultants and 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:

- for the decisions that the Supervisory Board submits to a Shareholders' Meeting for approval;
- for the remuneration of corporate bodies;
- for remuneration policies;
- for the remuneration of Material Risk Takers, with particular reference to the "Top" and "Parent" groups.

For the purpose of verification of the consistency with Group remuneration policies, it provides opinions:

- on remuneration and/or incentive schemes based on financial instruments;
- on the amount of the remuneration set by the Management Board for the senior management of UBI Banca and its subsidiaries.

The Committee also:

- provides consultation in relation to determining the criteria for the remuneration of other personnel categorised as Material Risk Takers employed by the Subsidiaries;
- directly oversees the proper application of the rules concerning the remuneration of the corporate control functions;
- provides opinions to the Supervisory Board about whether the trigger conditions and performance objectives of the incentive schemes have been achieved;
- works with other internal committees of the Supervisory Board and ensures that the competent corporate bodies are involved;
- sees to the preparation of the documentation to be submitted to the Supervisory Board and draws up the periodic Report on Remuneration;
- provides the Supervisory Board and Shareholders' Meeting with adequate information about the activities performed.

The Remuneration Committee met 14 times in 2014 (the average length of the meetings was over two hours), concentrating mainly on the following fields:

- examination of the new provisions and recommendations received from the Supervisory Authorities;
- examination of requests relating to remuneration and the related answers to be submitted to the Supervisory Authorities;
- fact-finding work and the submission of proposals to the Supervisory Board for the approval of the remuneration policies for members of the Management Board for submitted for the approval of the Shareholders' Meeting;
- fact-finding work and the submission of proposals to the Supervisory Board for the determination of the additional remuneration to be paid to members of the Supervisory Board who are members of the Internal Control Committee for performing the duties of a Supervisory Body pursuant to Legislative Decree No. 231/2001 to be submitted for the approval of the Shareholders' Meeting;
- fact-finding work and the submission of recommendations to the Supervisory Board to verify the consistency of the remuneration recommended by the Management Board for the management bodies and senior management of subsidiaries with Group remuneration policies;
- assessment work and the submission of proposals to the Supervisory Board for the approval of remuneration and incentive policies for employees and associate workers not bound to companies by employee contracts;
- assessment work and the submission of proposals to the Supervisory Board for the formulation of the reasoned recommendation to increase the ratio between variable and fixed remuneration up to a maximum of 2:1, limited to employees of the subsidiary UBI Pramerica SGR S.p.A., to be submitted for the approval of the Shareholders' Meeting;

- assessment and advisory work for the Supervisory Board to verify the compliance of the remuneration plan based on financial instruments (shares of the listed Parent, UBI Banca), decided by the Management Board and submitted for the approval of the Shareholders' Meeting with Group remuneration policies;
- fact-finding and advisory work for the Supervisory Board for the approval of the Report on Remuneration to be submitted for the approval of the Shareholders' Meeting;
- verification of the trigger conditions and the performance objectives for the 2013 incentive scheme;
- examination and formulation of a proposal for the revision of the remuneration and incentives policies for 2015;
- assessment and advisory work for the Supervisory Board for the approval of the incentive scheme for "Key Personnel";
- 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;

In particular, amongst the main changes as part of the revision of the 2015 Remuneration and incentive policies, we report the introduction of a long-term incentive scheme (LTIS) on a three yearly basis, intended to bring the interests of management increasingly into line with those of shareholders in the medium to long term. The system concerns a small number of top managers amongst the Key Personnel, on the basis of the key position occupied in policy terms over the governance of the Group and their impact on the main business areas.

Three meetings have already been held in 2015.

## **8. Remuneration and succession planning**

Information concerning remuneration policies is given in the Remuneration Report prepared in accordance with Art. 123 *ter* of the Consolidated Finance Act, 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 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 assignation of the functions of Supervisory Body pursuant to Legislative Decree 231/2001.

### **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 maximum total fee payable to each member of the Management Board, with the exception of those relating to the "special assignments" of the Chairman, the Deputy Chairman of the Board and the Chief Executive Officer, for membership of the Management Board and where relevant the corporate bodies of the 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.

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

No attendance payments exist; There are no guaranteed bonuses or leaving 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.

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

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

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

### **Succession Planning**

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

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

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

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

Each manager receives feedback on 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.

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

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

The Appointments Committee evaluates, even during the term of the boards, the adequacy of succession plans at the level of the senior positions on the Management Board and Senior Management, and the professional profiles and requirements of those currently holding office and any candidates there may be to succeed them.

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

The methodology, output and procedures of the “management appraisal” process are similar to those described above for the “senior leadership succession” process and they were carried out with advisory support from a leading specialised firm (Egon Zehnder International). The results of the “management appraisal” process are validated by the Chief Executive Officer and by the General Manager and they are discussed with the Chairman and Deputy Chairman of the Management Board and with the Chairman and Senior Deputy Chairman of the Supervisory Board.

The succession plans are updated periodically in accordance with the procedures and methods described above.

## 9. The Internal Control Committee

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

- Sergio Pivato, as the Chairman (\*)
- Pierpaolo Camadini
- Carlo Garavaglia (\*)
- Gian Luigi Gola (\*)
- Alfredo Gusmini (\*)

(\*) Enrolled on the Register of External Statutory Auditors.

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 supervisory body in accordance with regulatory requirements in force at the time.

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

### Internal control system

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

### Other activities in support of the Supervisory Board oversight activities:

- assessment of the adequacy of the organisational and accounting structures of the Bank;
- communication to the Bank of Italy of events or facts which might constitute a management irregularity or an infringement of banking regulations pursuant to Art. 52 of the Consolidated Banking Act. Should the Committee become aware of circumstances that may be relevant pursuant to Art. 52 of the Consolidated Banking Act in the course of its activities, it shall inform the Supervisory Board of this immediately;
- reporting of management irregularities and violations of the regulations governing the provision of investment services;
- reporting of management irregularities and violations of the regulations governing the provision of investment services;
- opinion regarding the appointment and removal of the person in charge of preparing the financial reporting documents pursuant to Art. 154 *bis* of Legislative Decree No. 58 dated 24<sup>th</sup> February 1998, (and pursuant to Art. 46 letter Q of the Articles of Association), by submitting its own assessment of the identified candidates to the Supervisory Board;
- preparation of the report on supervisory activity performed, on omissions and on irregularities observed on the occasion of the Shareholders' Meeting called pursuant to Art. 2364 *bis* of the Italian Civil Code as well as for any other ordinary or extraordinary Shareholders' Meeting called.

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

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

Members of the Internal Control Committee are also members of the Supervisory Body of UBI Banca pursuant to Legislative Decree No. 231/2001. Detailed information relating to Supervisory Body and model of organisation, management and control pursuant to Legislative Decree No. 231/2001 is given in the relevant section of this report (section 15.3).

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

The Committee, by employing the services of the appropriate organisational units of the Bank, can proceed to inspections and controls at any time and exchange information with the control bodies of the companies of the Group with regard to the management and control systems and to corporate activity. In 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, the Committee 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. In order to carry out its activities, the committee may also identify and make use of external consultants, at the Bank's expense.

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

The Internal Control Committee met 28 times in 2014 (the average length of each meeting was approximately two hours) and all the meetings were properly minuted. Each member was present at the following number of meetings: *Prof. S. Pivato*, 28 meetings; *Dott. A. Gusmini*, 28 meetings; *Avv. P. Camadini*, 25 meetings; *Dott. C. Garavaglia*, 27 meetings; *Dott. G. Gola*, 28 meetings. Members who were unable to attend a meeting gave reasons for their absence.

The Chief Risk Officer and the Chief Audit Executive attend the meetings of the Committee on a regular basis. 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 in 2014. . 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 submits special six-monthly reports on the activities performed to the Supervisory Board, in which it gives its opinion on the adequacy of the internal control system



of the Bank and its strategic subsidiaries. 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.

In 2014 the Internal Control Committee concentrated 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, and the legislative framework, as follows:
  - the main legislative and regulatory changes in areas relevant to the general architecture of the internal control system of the Group System of Internal Controls, including the update of 6<sup>th</sup> May 2014 to Bank of Italy Circular No 285/2013 concerning corporate governance, the update of July 2014 to the Corporate Governance Code for listed companies, and the process of convergence with the European Single Supervisory Mechanism. In relation to this, it has monitored with particular care the stages of the comprehensive assessment started by the ECB, working with the local supervisory authorities, relating to the main banks in the system;
  - the development of Project 263, with the purpose of updating the overall framework to implement the new regulations for prudential supervision pursuant to the 15<sup>th</sup> update to Bank of Italy Circular 263/06, in terms of the revision of the organisational units and the internal system of regulations (policy and regulations);
  - the management of conflicts of interest and in particular situations when the limits on the accumulation of positions are exceeded in the network banks, with reference to the subject of interlocking, annual verification that no causes of incompatibility exist in relation to the members of the Management Board and the Senior Officer responsible for the preparation of corporate accounting documents;
  - the organisation and structure of the Bank and its Subsidiaries, including reference to changes in the number of Group Companies (notable amongst which are the merger of IW Bank into UBI Banca Private Investment and the International Strategy Project and UBI World Project) and the information relating to the senior management of the Bank and its subsidiaries;
  - matters relating to the system of powers, the definition and attribution of responsibilities and the management of resources, such as the remuneration and incentive schemes, changes in staff costs, the training activity carried out by UBI Academy and the *Qualità Risorse Umane* [Quality Human Resources] project;
  - the reporting lines, with particular regard to reporting from the control functions to senior management and the frequency of reporting required by the organisational units responsible for controls, also including the co-ordination of corporate control functions, defined in the Internal Control System Policy of UBI Banca Group;
  - the activities of the Supervisory Bodies of the Group member companies, including specific meetings, with a particular focus on the areas affected by the New regulations for prudential supervision issued by the Bank of Italy and the use of advanced internal models adopted by the Group for measuring and managing credit and operational risks and the process of convergence with the European Single Supervisory Mechanism;
  - assessment of the adequacy of the organisational and accounting structures of the Bank, taking into account evidence provided by the independent auditors and reports made by the Chief Financial Officer; matters relating to anti-money laundering, with a particular focus on implementing the “Anti-money laundering - appropriate verification of customers and keeping of the AUI [single financial transactions database]” project, designed to ensure the compliance of procedures and internal systems with the regulations in force;
  - compliance (using, amongst other things, the reports produced) to monitor the progress of the initiatives relating to the relevant organisational and regulatory framework and those designed to strengthen compliance processes and in particular the centralisation at the Parent of the compliance functions of UBI Leasing, Prestitalia and UBI Factor. There was also a similar centralisation process in relation to the Risk Management function;

- transparency, usury and privacy, with particular reference to developments in monitoring compliance in relation to these matters, pursuant to the specific projects launched by the Parent;
- matters concerning the complaints management process;
- activities to prepare for the UBI Banca Shareholders' Meeting;
- the supervision of the adequacy of the risk management and control system and of the regulatory compliance of the Internal Capital Adequacy Assessment Process (ICAAP), monitoring in particular activities roll out the use of advanced methods in Group member companies, developments in the methodology of internal models and the new requirements for the Group to submit periodic reports;
- the evaluation of the activities plan of the corporate control functions and of their regular reports on the activities carried out (Internal Audit, Corporate Anti-Money Laundering Officer, Compliance, Risk Management and Complaints );
- the policy setting and co-ordination activities of the Parent, with particular attention to its subsidiaries;
- the provision of investment services, with regard to the process for the management and control of derivative products traded in the Group (with a focus on the system of authorisations and powers and on the reporting procedures adopted for management and accounting purposes) and the management of the proprietary securities portfolio;
- areas relating to covered bonds, analysing the results of internal audits carried out by the Internal Audit Function on the programme for issuing them, the securitisations, and transactions with related parties - significant intragroup and "atypical" transactions;
- on aspects affected by legislation concerning external statutory audits of annual separate and consolidated financial statements, including specific meetings with the "Senior Officer responsible for the preparation of corporate accounting documents" and with members of independent auditors;
- on periodic reporting and specific reporting on the results of analyses conducted by the Internal Audit Function;
- on relations with Supervisory Authorities, with specific regard to requests for self-analysis concerning specific operations and inspections carried out at the Bank and its subsidiaries, including Bank of Italy monitoring of governance at UBI Banca relating to policies and practices concerning remuneration and incentives and inspections of the network banks relating to transparency;
- on an examination of the underlying causes of the main damaging events in the Group;
- on changes to the Internal Audit, in terms of the structure, staff numbers and operational tools of the function - particularly the aspects relating to the setting up of a system for the automatic assignment of ratings to Italian branches, in support of the remote monitoring activities performed by the Internal Audit - as well as the Quality Assurance review carried out by an external company with positive results;
- on the assignment of the post of Officer Responsible for the Risk Control Function to the Chief Risk Officer, in relation to which it has formulated its opinion pursuant to Art. 47, paragraph 1, letter q. of the Articles of Association of UBI Banca.

As concerns our activities in 2015 we report that, at the date of this report, the Internal Control Committee has set the dates of its meetings until 31<sup>st</sup> December, planning to hold 26 meetings, three of which have already been held.

## 10. Accounts Committee

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

- Lorenzo Renato Guerini, as the Chairman
- Dorino Mario Agliardi
- Marina Brogi
- Federico Manzoni

The purpose of the Committee (which is by governed by special regulations published in the Corporate Governance/Supervisory Board section of the Bank's website) is to support the Supervisory Board by performing assessments, furnishing advice and submitting proposals in accordance with regulatory requirements, as may be in force from time to time, relating to the approval of financial statements and periodic reports. It may express opinions designed to allow the Board itself to make decisions in a knowledgeable and informed manner.

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

- examines accounting issues common to all Group member companies;
- examines accounting issues relating to individual Group member companies;
- acquires detailed knowledge of issues concerning the measurement of items in the accounts;
- acquires detailed knowledge of issues concerning the presentation of accounts;
- studies issues concerning supervisory regulations for banks, acquiring knowledge of technical and discretionary aspects.

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

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

The Accounts Committee met 10 times in 2014. The average length of each meeting was approximately three hours.

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

- the most important accounting matters and their impact on the balance sheets of the Group and its main legal entities;
- the process and method used for the recognition of impairment losses on intangible assets, and in particular on goodwill, finite useful life intangible assets and equity investments;
- the 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 procedures for the identification, classification and measurement of forborne loans and the regulatory updates related to the IFRS 9 accounting standard;
- the valuation of the own securities and equity investment portfolios;
- verification of the existence of contingent assets as defined by IAS 37;
- the state of the Group's tax litigation and the examination of the legal opinions provided on the most significant cases;
- deferred taxation and the regulatory developments in this regard, with particular reference to examination of the recoverability of deferred tax assets;
- the accounting effects of the introduction of new regulations and tax legislation;
- the disclosure of the main aspects of financial statements and periodic financial reports;
- updates to the Group Accounting and Reporting Manual and the newsletters issued on the main changes relating to accounting;

- examination of responses to information requests made by the authorities in relation to accounting and financial statements;
- legislative and regulatory changes, including those at the consultation stage, concerning supervisory reporting and financial statements, with particular reference to the implementation of the FINREP and COREP regulations within the Group;
- the progress of the process for the centralisation of the administration, accounts and management control of the product companies (UBI Leasing, UBI Factor and Prestitalia) to the CFO of the Parent;
- methodological aspects relating to audit activity pursuant to Law No. 262/2005 and the outcomes of audits performed at the times of the annual and half year reports;
- monitoring of activities related to and resulting from the Comprehensive Assessment carried out by the European Central Bank in co-operation with the national central banks, for aspects considered particularly relevant to the Committee.

Two meetings have already been held in 2015.

## 11. Related and Connected Parties Committee

The Related and Connected Parties Committee is composed of the following members of the Supervisory Board:

- Marco Giacinto Gallarati - as the Chairman;
- Antonella Bardoni;
- Enrico Minelli.

The Related and Connected Parties Committee is required to perform the tasks allocated to it:

- by the "Regulations for UBI Banca Scpa Related Party Transactions" adopted in implementation of Art. 2391 *bis* of the Italian Civil Code and Consob requirements with respect to related parties adopted with Resolution No. 17221/2010 and subsequent amendments;
- by the "Regulations for transactions with parties connected to the UBI Group", adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27<sup>th</sup> December 2006 - 9<sup>th</sup> amendment of 12<sup>th</sup> December 2011, "New regulations for the prudential supervision of banks", containing measures concerning "risk assets and conflicts of interest with connected parties".

The committee's procedures are governed by the regulations mentioned above, available in the Corporate Governance/Supervisory Board section of the Bank's website.

The "Regulations for UBI Banca Scpa related party transactions" govern rules relating to the identification, approval and implementation of related party transactions performed by Unione di Banche Italiane Scpa, either directly or through its subsidiaries, in order to ensure their substantive and procedural fairness.

The Supervisory Board oversees compliance of the Regulations with the principles recommended in the Consob Regulation and also observance of the procedural and substantive rules contained in them and it reports in this respect to shareholders in accordance with Art. 153 of Legislative Decree No. 58 of 24<sup>th</sup> February 1998 (the "Consolidated Finance Act"). To achieve this, the Management Board provides the Supervisory Board, at least every quarter, with a list of all the related party transactions completed in the preceding quarter, including those not subject to a prior opinion from the Committee in accordance with these regulations.

The "Regulations for transactions with parties connected to the UBI Banca Group" govern procedures for maintaining the integrity of decision-making processes in transactions with connected parties performed by Unione di Banche Italiane Scpa, and by the members (banking or non-banking) of the banking group controlled by it.

The corporate bodies of UBI Banca Group member companies that perform a strategic supervisory function supervise the proper application of the provisions of these regulations by the respective companies on a separate company basis, with the support of the relevant functions. To achieve this, each of these bodies updates, at least every quarter, the list of all the connected-party transactions completed in the preceding quarter, including those not subject to a prior opinion from the Committee in accordance with these regulations.

In order, amongst other things, to enable the Parent to maintain constant compliance with the consolidated limit on risk assets, the Supervisory Board oversees compliance of these Regulations with the principles recommended in the supervisory provisions and also observance, at consolidated level, of the procedural and substantive rules contained in them and it reports to shareholders in accordance with Art. 153 of the Consolidated Finance Act. To achieve this the corporate bodies that perform a strategic supervisory function for the other UBI Banca Group member companies send the Supervisory Board of the Parent the lists of all the connected-party transactions completed in the preceding quarter, including those not subject to a prior opinion from the Committee in accordance with these regulations, on a quarterly basis.

The Related and Connected Parties Committee met twelve times in 2014 (the average length of the meetings was one hour) concentrating mainly on the following fields:

- opinions on the existence of an advantage for UBI Banca in entering into contracts with related parties, and on the advantages and fairness of the relative conditions;
- opinions on the existence of an advantage for a subsidiary company in entering into contracts with connected parties, and on the advantages and substantial fairness of the relative conditions;
- examination and acknowledgement of the periodic receipt of the list of all the connected-party transactions performed, including those not subject to a prior opinion from the Related and Connected Parties Committee;
- examination and acknowledgement of the periodic receipt of the list of all the connected-party transactions performed, including those not subject to a prior opinion from the Related and Connected Parties Committee;
- compliance testing of the completeness and correctness of the survey of connected parties in the Group customer database, with reference to those categorised as Corporate Executives;
- examination and reading of the report on the Related and Connected Parties Committee pursuant to Art. 123 bis, paragraph 2, letter d) of the Consolidated Finance Act;
- examination and reading of the periodic financial report on related party transactions in the annual and interim management reports.

One meeting has already been held in 2015.

The Committee submits regular special reports to the Supervisory Board on the activities performed.

## **12. Management Board**

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

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

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

Subject to regulatory constraints, two members of the Management Board will be selected from



the most senior managers of the Bank. The board member appointed as Chief Executive Officer is not counted as one of the managers required above pursuant to Art. 42 of the Articles of Association, even if he is a Top Manager of the Bank at the time of his appointment or is appointed as one thereafter.

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

The members of the Management Board who are also Top Managers of the Bank must step down from the position of board member at the time when, for whatever reason, they cease to hold the position of Top Manager.

The members of the Supervisory Board cannot be appointed as members of the Management Board as long as they remain in that office.

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

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

At least one of the members of the Management Board must hold the requirements of independence pursuant to Art. 148, paragraph three of Legislative Decree No. 58 of 24<sup>th</sup> February 1998.

In addition to this, at least the majority of them must have gained at least three years' experience by exercising professional and/or managerial activity in financial and/or stock brokerage and/or banking and/or insurance companies in Italy or abroad. Furthermore, as resolved by the Extraordinary Shareholder's Meeting held on 10<sup>th</sup> May 2014, the next time the Management Board is renewed, this requirement will no longer apply, while it will be required that none of the members of the Supervisory Board shall be aged 70 or over when they are appointed, and each of them must have a total of at least three years' experience as chairman, in Italy or elsewhere, or at least five years' experience of:

- administration or strategic supervision

or

- management

in

- banks, financial companies, asset management companies, or insurance companies;
- independent public authorities;
- businesses aimed at the production and/or trading of goods or services;
- companies with shares traded on regulated markets in Italy or elsewhere.

Candidates who have not gained this professional experience may also be elected as long as they are or have been enrolled in the register of chartered accountants, notaries, or lawyers for at least ten years.

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, letter d) of the Consolidated Finance Act)**

On 23<sup>rd</sup> April 2013 the Supervisory Board set the number of members at nine, appointing *Rag.* Franco Polotti as Chairman and *Dott.* Giorgio Frigeri as Deputy Chairman, designating *Dott.* Victor Massiah as Chief Executive Officer, who was then appointed by the Management Board at their meeting on 23<sup>rd</sup> April 2013.

The Management Board is currently composed of the following members, in office for three financial years:

Franco	Polotti	Chairman
Giorgio	Frigeri	Deputy Chairman
Victor	Massiah	Chief Executive Officer
Silvia	Fidanza	Member
Luciana	Gattinoni	Member
Francesco	Iorio	Member
Italo	Lucchini	Member
Flavio	Pizzini	Member
Elvio	Sonnino	Member

The Chief Risk Officer is present at meetings of the Management Board in a purely advisory capacity, without prejudice to the provisions of the supervisory regulations.

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.

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

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

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

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

With regard to Groups of companies, for persons belonging to subsidiaries who also perform the same function in the Parent, the regulations allow a reduction by fifty percent of the weighting for the position occupied in the subsidiary company, in consideration of the synergies resulting from a knowledge of the facts and conditions that concern the entire group to which they belong and which therefore reduce, other conditions remaining the same, the commitment involved compared to that required for activities performed in other similar, but independent companies. Similarly, the regulations allow a reduction of thirty percent in the weighting for positions occupied by members of the Management Board of UBI Banca in

companies in which the UBI Group holds a strategic investment, or in associates. There are also specific rules for the directors and statutory auditors of authorities and partners of the Group by virtue of shareholders' agreements and those who hold posts in the parent company and subsidiaries of a group other than the UBI Banca 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 regulations.

The corporate bodies of UBI Banca launched the Self-Assessment Process for the years linked to the duration of their mandate, with an indication of the actions to be taken and the related schedule, and for the provision and implementation of a peer review system and process in the second and third years of their mandate, assisted for that purpose by the consultancy support of Egon Zehnder International. In this context, as at the start of its mandate in 2013, the Management Board carried out another Self-Assessment Process relating to its size, composition and functioning in 2014, with the assistance of the appointed consultant. The self-assessment of the Management Board was specifically addressed in the board meeting of 24<sup>th</sup> March 2014, at which it examined the results of a specific self-assessment questionnaire filled in by each board member, followed by individual interviews carried out by the consultant. The self-assessment was conducted with particular reference to the following factors: (i) the quality and completeness of skills, experience and expertise within the Board as a whole; (ii) sufficient number of board members; (iii) the quality of Board meetings; (iv) the quality and promptness of reporting and presentations to the Board; (v) the effectiveness and efficiency of decision-making processes within the Board; (vi) the clarity, agreement and satisfaction with regard to policies, performance and risk objectives and the results achieved. The Self-Assessment Process, together with points for consideration that will help further to improve the activities of the Board, showed that the Board is characterised by a level of diversity in terms of professional managerial and business experience, and that, taken as a whole, the proceedings of Board and Committee meetings, in terms of organisation, analysis of the issues, and the attendance of board members at meetings and in discussions, are key elements for the efficient and effective performance of the functions assigned to the Management Board.

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

The Management Board meets at least once a month, as well as each time the Chairman thinks it fit to call a meeting or when a request is submitted by at least half the members in office. Meetings are held alternating between the city of Bergamo and the city of Brescia and generally once a year in the city of Milan.

The Management Board met 29 times in 2014 and the average length of meetings was approximately 5 hours.

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

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

In compliance with Borsa Italiana regulations, in January UBI Banca announced its calendar of corporate events for 2015 to the market (and published it on its website), with the dates of board meetings for the approval of operating and financial results.

We also report that the Management Board has planned 24 meetings for 2015, of which three have already been held.

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



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

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

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

- 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 the Supervisory Board for approval, with account also taken of the recommendations on the matter made by the Supervisory Board;
- the granting and revocation of 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;
  - 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 Italian Civil Code;
  - the definition of recommendations and policies for risk management, including the policy relating to the risk of non-compliance with internal regulations and controls, to be submitted to the Supervisory Board for approval;
  - the assignment, amendment or revocation of powers of attorney and authorities as well as assigning special functions or powers of attorney to one or more Board Members;
  - the 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;
  - the designation of members of the Board of Directors and of the Board of Statutory Auditors of the companies belonging to the Group, without prejudice to the provisions of Art. 36, paragraph two, letter c) of the Articles of Association;
  - proposals concerning the acquisition or disposal of controlling investments in companies and the acquisition or disposal of non controlling investments where the amount is greater than 0.01% of the supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
  - the opening and closing of branches and representative offices;
  - the 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. 49 of the Articles of Association, setting up committees or commissions with advisory, investigative, controlling or coordinating functions, without prejudice to Art. 42, paragraph two of the Articles of Association;
  - 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. 46. paragraph I, letter s) of the Articles of Association;

- the 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;
- subject to the mandatory opinion of the Supervisory Board, the appointment and dismissal of the financial reporting officer, pursuant to Art. 154-*bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, and the determination of the relative remuneration;
- the appointment and dismissal of the Anti Money-Laundering Officer, in agreement with the Supervisory Board;
- preparing separate financial statements and consolidated financial statements for approval;
- the exercise of powers to increase the share capital granted pursuant to Art. 2443 of the Italian Civil Code and also to issue convertible bonds pursuant to Art. 2420 *ter* of the Italian Civil Code, subject to authorisation by the Supervisory Board;
- obligations of the Management Board pursuant to articles 2446 and 2447 of the Italian Civil Code;
- formulation of merger or demerger plans;
- proposals for transactions pursuant to Art. 46, paragraph I, letter m) of the Articles of Association to submit to the Supervisory Board for approval;
- 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 concerning:

- the general organisation of the work of the Management Board;
- the preparation of agendas for meetings;
- procedures, timing and contents of documentation to be sent to members of the Management Board;
- holding meetings;
- minutes and records of decision-making processes;
- reporting on the decisions taken.

A special section of those regulations deals with reporting systems.

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

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

Following the renewal of terms of office of corporate bodies in 2013, a programme has started that involves the holding of two training meetings for officers of UBI Banca in 2013. In this respect, in 2014 the Management Board and Supervisory Board approved a two year programme of meetings to be held in 2014 and 2015, identifying specific topics to be covered. Two meetings were held in 2014: on 26<sup>th</sup> February 2014, about “The governance of management risks and strategic actions”, and on 27<sup>th</sup> November 2014, about “The system of controls”.

## **12.4. Executive officers**

### *Chief Executive Officer*

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

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

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

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

Furthermore, on 23<sup>rd</sup> April 2013, the Management Board assigned duties to the Chief Executive Officer pursuant to Art. 43 *bis* of the Articles of Association, with the support of the General Manager in connection with the overall design of internal control systems.

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

## **12.5. Chairman of the Management Board**

The duties of the Chairman of the Management Board are listed in Art. 39 of the Articles of Association. More specifically the Chairman of the Management Board, who acts as the Bank's legally authorised representative and authorised signatory, performs the tasks that are typically carried out by the Chairman of a company's management body, which he performs by liaising with the other corporate 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 its main activities exclusively on a collegial basis with no powers to delegate authority.

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

The management commitments and responsibilities of board members apply not only to the sphere of the Management Board, but also at Group level by appointments to positions in the governing bodies of the main subsidiaries of UBI Banca, which actively helps to ensure that

the various member companies of the Group comply with instructions issued by the Parent in the exercise of its management and co-ordination activities.

### **12.7. Independent board members**

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

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 before the approval of this report established that board members *Dott.ssa* Silvia Fidanza and *Dott.* Italo Lucchini meet the above requirements. In this context, in compliance with, amongst other things, the Bank of Italy instructions 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 the internal committees within the Supervisory Board provided for by that code (for which those requisites are required).

## **13. The Board of Arbitrators**

Appeal may be made to the Board of Arbitrators to settle any disputes that may arise between the Bank and/or Registered Shareholders over the interpretation or application of the Articles of Association and over any other resolutions or decisions taken by the governing bodies of the Bank concerning its business. It decides as a friendly arbiter by absolute majority vote. Without prejudice to the legislation and regulations currently in force, application to the Board of Arbitrators is not compulsory. Its decisions are not binding on the parties and do not constitute a hindrance to taking disputes before the courts or any other 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 or an employee designated by him shall be required to provide the arbitrators with all the information that they may request concerning disputes to be settled.

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

The arbitrators remain in office for three years and may be re-elected. Grounds must be given for their removal.

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

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 Registered 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 lists of candidates for election to the Supervisory Board. It must be accompanied: (i) by information on the identity of the Registered Shareholder or Registered 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 Registered 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 Registered 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.

On 28<sup>th</sup> April 2012 the Shareholders' Meeting appointed the following Board of Arbitrators for the three year period 2012/2014:

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

Full arbitrator *Avv.* Mario Caffi passed away on 14<sup>th</sup> September 2013 and, in accordance with the Articles of Association, *Avv.* Attilio Rota took his place as Full Arbitrator.

The Shareholders' Meeting held on 10<sup>th</sup> May 2014 made up the number of the Board of Arbitrators by confirming *Avv.* Attilio Rota, who became a Full Arbitrator on 14<sup>th</sup> September 2013 following the death of *Avv.* Mario Caffi, and appointing *Prof.* Rodolfo Luzzana as Alternate Arbitrator.

The Shareholders' Meeting scheduled for 24<sup>th</sup> April 2015 in first call and 25<sup>th</sup> April 2015 in second call must appoint the new Board of Arbitrators for the three year period 2015/2017.

## 14. General management

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

- chief operating officer;
- chief of personnel;
- he generally (unless otherwise indicated by the management bodies responsible) supervises the implementation of decisions taken by the Management Board and the Chief Executive Officer;
- he manages everyday business in compliance with the policies set by the governing bodies;
- he attends Management Board meetings with a consultative vote;
- he co-ordinates the operations of the Bank and the Group.

The Management Board appointed *Dott.* Elvio Sonnino as Senior Deputy General Manager



and the Deputy General Managers listed below who have been assigned various responsibilities in the Group:

- Rossella Leidi
- Ettore Giuseppe Medda
- Pierangelo Rigamonti.

## **15. Internal control and risk management system**

### **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<sup>1</sup>.

The process of assessing 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 which it forms directly itself (the composition, powers and functioning of the Internal Control Committee have already been examined in this report in the section specifically on that Committee).

### **UBI Banca Group Internal Control System Policy**

In the context of the amendments required by the new provisions concerning the “System of internal controls, information systems and operational continuity” (Prudential Supervision of Banks - Circular No 263 of 27<sup>th</sup> December 2006 - 15<sup>th</sup> update), on 1<sup>st</sup> July 2014 the Supervisory Board approved the “UBI Group Internal Control System Policy” 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:

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<sup>1</sup> Circular No 263 of 27<sup>th</sup> December 2006 (15<sup>th</sup> update of 2<sup>nd</sup> July 2013), Title V, Chapter 7, Section I, paragraph. 6, “General principles”.



- is of strategic importance and, more generally, that the “control culture” has widespread approval, with a prominent position in the Group’s hierarchy of values, and does not concern solely the corporate control functions, but also the entire business organisation of the Parent and the Group member companies (e.g. corporate bodies, units, management hierarchy and staff);
- it represents an essential part of the corporate governance system of the Parent and 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 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;
- *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:

- o the Risk Management function;
  - o the Compliance function;
  - o the specialist control functions (anti money-laundering function and validation function).
- The second level control activities are also similar to those of the senior officer responsible for the preparation of corporate accounting documents.

- *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 body and the general management.

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

With specific reference to the 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*, bringing together in one unit the Credit Risk Control, Operational, Financial and Structural Balance Risk Control, Money-laundering and Complaints Risk Control and, reporting directly to the CRO, the Risk Governance Service, which also oversees the Internal Validation function.

The same organisational unit includes a Compliance Area, currently headed by *Ing. Maria Martinelli*, reporting directly to the Chief Executive Officer, divided into Banking Services Compliance, Investment Services Compliance, and Group member companies compliance co-ordination.

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, money-laundering 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, among 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 (ICAAP). Together with the Chief Financial Officer, he proposes the risk appetite to the Chief Executive Officer, with a view to its subsequent approval by the corporate bodies, and verifies that the risk appetite is consistent with the requirements of the Group and the expectations of the Supervisory Authorities. 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. He supports the corporate bodies and senior management in the creation and maintenance of an effective and efficient System of Internal Controls and the formulation of risk and limits management policy proposals. More specifically, he supports the Chief Executive Officer, who is responsible for promoting integrated risk control, among other things by providing regular reports and communications. He provides independent information to the corporate body responsible

for strategic supervision, partly by attending Internal Control Committee meetings, sending reports and intervening directly. He ensures the measurement and control of the exposure of the Group to different types of risk. In this respect he ensures the supervision and implementation of activities concerning risk management, partly by means of activities carried out by its own units. He is responsible for the development, validation and maintenance of the risk measurement and control systems, supervises the Group credit rating process and coordinates the units involved in the overall data entry and data quality process of the credit risk management system. He is responsible for defining and applying the IT risk analysis methodology together with the related process of evaluation and data processing. He is responsible for giving prior opinions on the compliance of transactions of major significance with the RAF and carry out second level verifications of credit exposures. He supervises the process for evaluating capital adequacy in relation to the risks taken, the public disclosure process, the process for evaluating the structural balance of the Group in terms of liquidity, and the process of evaluating short-term liquidity in stress conditions and in general the risk evaluation process for the purposes of the Supervisory Review and Evaluation Process (SREP) used by the supervisory authorities. He defines the reference framework in relation to the internal trigger rules in the event of a shortfall of capital, in compliance with regulatory principles, as a basis for the subsequent definition of a capital plan activated by the units reporting to the Chief Financial Officer. 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 diffusion and development of an internal control culture within the Group. He supervises the activities of the units reporting to him in the context of preventing money-laundering and the financing of terrorism and also with regard to the management and monitoring of complaints and Alternative Dispute Resolution (ADR). 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;

- **Compliance:** it is responsible for circulating the directives provided for in the “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 within the Group and reporting on this to those same bodies. It uses “trace back to unit” to ensure that compliance risk is managed efficiently and effectively, in accordance with a risk-based approach, verifying for that purpose that the internal procedures and the entire regulatory system are consistent with the objective of preventing the violation of any regulation applicable to the Bank in relation to all the different activities performed, 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.), while communicating independently with the management and supervisory bodies by sending reports and intervening directly, as appropriate. It co-ordinates activities carried out by the directly managed units of the Bank and UBI.S that are involved in the process, and the professional contributions made by each unit, for the purpose of managing compliance risk and the definition of an adequate regulatory and operational system. It provides its own advice and assessments, suggesting appropriate and effective organisational solutions for achieving the aims of the oversight and control of compliance risk. It integrates the facts showing areas for improvement, detected directly or by specialist compliance units, in a single summary table (map of non-compliances) and the related Compliance Plan, together with the planned actions to solve and monitor them. It works together with the functions forming part of the internal control system in order to ensure the compliance of the existing regulatory, operational and procedural system. Where possible it carries out the activities for which it has responsibility verifying the level of efficacy of the existing compliance procedures independently or with the support of the specialist units. It 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. It 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. It operates as a service provider to the Network Banks of the Group and its subsidiaries that have conferred the appropriate powers upon it, ensuring the oversight of risk and non-compliance with regulations. In order to carry out its duties effectively, the regulatory compliance function has access to all the Bank's activities, whether central or local, and to any information that is relevant for that purpose, which may also be obtained by speaking with staff directly. It works alongside and co-ordinates with the other control functions for the purpose of developing a shared view of 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 Compliance Area, under the overall supervision of senior management and within the fields for which it has specific responsibility, performs the co-ordination function for Group member companies.

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.

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

### **15.1. Executive board member responsible for the internal control and risk management system**

On 23<sup>rd</sup> April 2013, 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. 43 *bis* of the Articles of Association, the Management Board has assigned duties to the Chief Executive Officer, exclusively in support of the Management Board, with organisational, proposal-making and reporting functions on internal control matters, to be performed in close co-operation and agreement with the General Manager, 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.

### **15.2. Chief of 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 function is headed by the Chief Audit

Executive, who 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*.

In application of the supervisory provisions of the Bank of Italy with regard to the remuneration and incentive policies and practices of banks and banking groups, the Remuneration Committee, internal to the Supervisory Board, 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 Parent, 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. This plan, developed by Internal Audit using a process-oriented and risk-based approach, defines the drivers to be prioritised for auditing activity from a long-term perspective and the annual audit activity plan has been drawn up on the basis, amongst other things, of the most significant changes affecting the operating environment of the Bank.

The performance of the various audit activities makes it possible to appraise the capacity of the first and second level specialist functions 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.

The activities plan is submitted 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 2014 by the provision of a specific budget.

In 2014, in compliance with the policies set and the relative regulations, the Internal Audit Function audited the proper functioning of risks and changes in them and it assessed the general functioning of the Group internal control system reporting to corporate bodies and to senior management on potential improvements that could be made to risk management policies and to measurement instruments and procedures.

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

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

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 Controls 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 it has immediately provided appropriate information



sent to the Management and Supervisory bodies and the executive Board Member responsible for the internal control system.

### **15.3. The organisational model pursuant to Legislative Decree No. 231/2001**

UBI Banca has adopted its own “model of organisation, management and control” (hereinafter the “Model”), which complies with Legislative Decree No. 231/2001 and the relative legislation and regulations that apply and is based on 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 is presented in the "*Document describing the organisational, management and control model of UBI Banca Scpa.*" approved by the Management Board and Supervisory Board of UBI Banca. It is divided into two parts which contain the following:

- in the general part a description of:
  - the legislative framework;
  - the reality of the company (system of governance and organisational structure of UBI Banca);
  - the structure of the Model and the methodology chosen to define and update it;
  - identification and appointment of the supervisory body of UBI Banca, with specification of the relative powers, tasks and reporting systems;
  - the functioning of the disciplinary system and the relative penalties;
  - the training and communication plan to be adopted to ensure that people have a knowledge of the measures and regulations of the model;
  - criteria for updating the Model;
- in the special part, a description of:
  - the types of crime (and administrative violations) relevant for the purposes of the administrative liability of entities which the Bank had decided to take into consideration in view of the nature of its business;
  - sensitive processes/activities and the relative control procedures.

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

- crimes against public administrations;
- crimes consisting of forgery of coins, public credit notes, duty stamps, identification instruments and distinctive signs;
- corporate crimes, including the crime of corruption between natural persons (Art. 2635 of the Italian Civil Code);
- crimes of terrorism and subversion of democratic law;
- crimes against the person of individuals;
- the crime of market manipulation and those covered by “market abuse” regulations;
- transnational crimes;
- crimes relating to health and safety at the workplace;
- crimes consisting of the receipt, laundering and use of money, goods or benefits of illicit origin;
- computer crimes and illicit processing of data;
- crimes relating to organised crime;
- crimes against industry and commerce;
- crimes concerning the violation of copyright;
- environmental crimes;
- the crime of employing third country nationals whose presence is irregular.

In application of the most recent changes in regulations and provisions for the prudential supervision of banks that require functional compatibility between control bodies and the Supervisory Body, in July 2013 the corporate 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 Corporate 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.

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 document describing the organisational, management and control model of UBI Banca Spa*" is available on the website of the Bank.

#### **15.4. Independent Auditors**

On 30<sup>th</sup> 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 Spa, with registered address at 25 Via Tortona, Milan. They have been engaged to perform the statutory audits of the separate company financial statements of UBI Banca and the consolidated financial statements of the UBI Banca Group, to verify that the corporate accounts are properly kept and that operating events are accurately recorded in those accounts, and also to perform a limited audit of the condensed interim consolidated financial statements of the UBI Banca Group for the years running from 2012 until 2020, setting the fees and the criteria for adjusting them during the period of the appointment.

Deloitte & Touche Spa 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**

The Management Board appointed *dr.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 Act, 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 and 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 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 officer are appropriate.

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

- be able to gain direct access to all the information needed to produce accounting data. The officer may access all sources of corporate information without the need for authorisation;
- be able to rely on internal channels of communication which ensure accurate and proper access to intercompany information;
- be able to 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;
- be able to participate in board meetings in which matters concerning the functions of the officer are discussed;
- be able to make use of external consultants, where particular requirements of the Bank make this necessary;
- to be able to establish reporting systems with other roles responsible for control (independent auditors, General Manager, 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 centralisation at the Parent of the management of administrative and accounting procedures pursuant to the provisions introduced by Law No. 262/2005, a System of Administrative and Financial Governance has been created for the network banks and some other subsidiaries of UBI Banca which, amongst other things, regulates internal controls for financial reports produced for listed issuers.

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

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

Certifications issued by subsidiaries are brought to the attention of the Management Board at a meeting for the approval of financial statements or interim financial reports and are then sent to the Parent before the Management Board meeting that approves the proposed separate Parent and consolidated financial statements or interim financial reports.

The hierarchical system of certification is further strengthened by a specific annual report on the adequacy and effective application of administrative and accounting procedures, issued for Group companies included in the area of investigation due to their qualitative or quantitative importance pursuant to Law No 262/2005, by an external independent consultant.

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

## **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;
- information flows.

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;
- the Internal Control System Calendar (ICS Calendar);
- committees with consultative, informational 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.

In compliance with regulatory requirements, 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 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.

Information about these co-ordination activities is reported to the Internal Control Committee on a quarterly basis by the Chief of the Group Internal Audit Function.

The Internal Control System Calendar (ICS Calendar) identifies, in accordance with the diary of meetings of the corporate 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.)

Lastly, 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;
- Group Risk Committee;
- Operational Risk Committee.

With reference to the co-ordination between those involved in the internal control and risk management systems, the Supervisory Board, the Management Board and Senior Management also currently benefit from an integrated overall outline of risks considered significant, identified by the control functions responsible for monitoring them and furnished using a tool developed in 2011 by the units reporting to the Chief Risk Officer.

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

Transactions with representatives of the Bank, with representatives of Group member companies and with companies controlled by them – all of whom may qualify as related

parties – are conducted under normal market conditions and for transactions relating to the senior managers of banks, the provisions of Art. 136 of Legislative Decree No. 385/1993 (Consolidated Banking Act) are carefully complied with.

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

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

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

The key points of the new requirements are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **18. Relations with registered and unregistered 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 Group's activities, results and strategies.

The “Relationships with Registered Shareholders Service” and “Investor and Media Relations Area” are provided for this purpose. Information of significant importance to shareholders is also provided in special sections of the corporate website of the Bank ([www.ubibanca.it](http://www.ubibanca.it)).

The “Relationships with Registered Shareholders Service”, as part of the Corporate Affairs, Participation and Relations with the Authorities Area oversees all aspects of the Bank's relations with shareholders, assesses applications to become a Registered Shareholder, maintains the shareholders' register, in compliance with all company requirements, and also co-ordinates preparations for the Shareholders' Meetings of the Bank and all related activities. The “UBI Club”, which is available for Registered Shareholders, offers a series of banking concessions and insurance cover: a current account at particularly attractive conditions and discounts on other products and services such as custody accounts, Qui UBI internet



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

The Investor and Media Relations Area, which reports directly to the Chief Executive Officer, is responsible for interactions with international financial markets, (the UBI Group share is currently followed by 24 brokerage houses and approximately 550 institutional investors were met during 2014), managing media relations, planning and organising corporate events held by UBI Banca, UBI Banca's sponsorships, and co-ordinating and supporting the communication activities of Group member companies. As part of its institutional duties the Investor and Media Relations Area is also responsible for the direct management of the Investor Relations and Press Section of the Bank's website and the supervision of the [ubibanca.it](http://ubibanca.it) website as a whole.

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

Shareholders' Meetings are either ordinary or extraordinary.

General Meetings, both ordinary and extraordinary, are validly constituted in first call, when at least one twentieth of the Registered Shareholders with the right to vote are present either in person or through a representative and proxy.

In second call, an Ordinary Shareholders' Meeting shall be validly constituted regardless of the number of Registered Shareholders present, while in the second call an Extraordinary Shareholders' Meeting shall be validly constituted, without prejudice to the provisions of Art. 28, when at least 1/400 (onefourhundredth) of the members with the right to vote are present either in person or through a representative and proxy.

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

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

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

Except as otherwise provided for by these Articles of Association, both ordinary and extraordinary Shareholders' Meetings pass resolutions by an absolute majority of the votes; in the case of a tied vote, the motion is considered rejected. If a Shareholders' Meeting, whether in ordinary or extraordinary session, is called upon to consider a proposal concerning a transaction with related parties, where the committee formed in compliance with Consob Regulation No. 17221 of 12<sup>th</sup> March 2010 and subsequent amendments has expressed an opinion against the transaction and if the Shareholders' Meeting has approved that proposal with the quorum for resolutions required by these Articles of Association, the conclusion of that transaction shall be forbidden if a number of non-related party shareholders who represent at least 3% of shareholders with voting rights is present in the Shareholders' Meeting and the majority of those non-related party shareholders have voted against the transaction.

Appointments of company officers, when they are responsibility of the Shareholder's Meeting, must be performed by secret ballot in accordance with the procedures set forth in Art. 45 of the Articles of Association.

Moreover, in accordance with Art. 28, paragraph three of the Articles of Association, "Without prejudice to any other mandatory provision of the law, for the approval of resolutions concerning a change of the company objects, the elimination or closedown of the operational headquarters at Brescia and Bergamo, as provided for and identified in Art. 3, the early dissolution of the company, determined by events provided for by law, excluding the case pursuant to number six of Art. 2484 of the Italian Civil Code, the repeal or the amendment of articles 23 and 36 of the Articles of Association and/or the introduction of any other provision incompatible with those articles, such as the approval of the amendment or repeal of this clause and/or of the quorum for resolutions provided in it, the vote in favour of at least one twentieth of all the Registered Shareholders with voting rights is required, even in a second call of a Shareholders' Meeting.

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

For resolutions to be passed upon request of the Banking Supervisory Authority in relation to amendments to legal regulations, both ordinary and extraordinary shareholders' meetings shall pass resolutions by an absolute majority vote. In these cases, the provisions of Art. 48, paragraph five 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 Legislative Decree No. 58 of 24<sup>th</sup> February 1998, by the Supervisory Board or by at least two of its members, without prejudice to the other powers to convene provided by law.

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

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

In compliance with the Articles of Association in force and with the procedures and time limits

set by law, a number of Registered Shareholders equal to not less than one fortieth of those entitled to participate in the Shareholders' Meeting on the date of request, may make an application in writing for additions to be made to the agenda to be dealt with in the meeting, as it results from the notice convening the Shareholders' Meeting. Their application shall indicate the additional matters they are proposing and also present proposals for resolutions on matters that are already on the agenda. The signatures of the Registered Shareholders must be authenticated in accordance with the law, either by employees of the Bank or of its subsidiaries authorised to do so. Legitimation to exercise the right is given by filing a copy of the communication issued by the intermediary in accordance with the law and regulations in force.

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

A Shareholders' Meeting is also validly held when remote connection systems are used that ensure the identification of Registered 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 Registered Shareholders.

The Regulations for Shareholders' Meetings establish the criteria and procedures for holding Shareholders' Meetings by means of the use of remote connection systems.

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

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

Without prejudice to the provisions of paragraph 2, of Art. 2372 of the Italian Civil Code, proxy authorisations can be issued for individual shareholders' meetings only, with effect also for subsequent sessions, and may not be issued with the name of the representative left blank. No Registered Shareholder may act as proxy for more than five other Registered Shareholders, or whatever greater number is set by the regulations currently in force. Voting by mail is not permitted.

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

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

Shareholders' Meetings are attended by the members of the Management and Supervisory Boards, managers and employees of the Bank, the Directors, Statutory Auditors and employees of Group member companies and the representatives of the companies appointed to audit the consolidated annual accounts.

The Shareholders' Meeting met once in 2014, on 10<sup>th</sup> May 2014 in ordinary and extraordinary session.

In 2014 the equity markets were characterised by a first half dominated by a bullish phase followed by the second half of the year which was affected by high volatility, due both to the fragile and varying prospects for economic recovery in the Eurozone, and the rapid succession of alarming data on the geo-political front.

The UBI Banca share ended the trading day on 30<sup>th</sup> December 2014 at €5.967, an increase of 21.2% compared with the end of 2013. The minimum and maximum prices for the year were €4,824 and €7.545 respectively.

The stock market capitalisation of UBI Banca on 30<sup>th</sup> December 2014 (based on the official price) was €5.4 billion compared to €4.4 billion at the end of 2013, which placed UBI Banca in third place amongst listed Italian commercial banking groups (fourth place amongst all the listed Italian banking groups) and in first position amongst "popular" banks.

At European level, the UBI Banca Group was again amongst the first 45 institutions by stock market capitalisation in the classification drawn up by the Italian Banking Association in its European Banking Report, which includes the countries of the European Monetary Union plus Switzerland.

## Attachment A

**Positions held by the members Supervisory Board of UBI Banca Scpa** 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	<b>Chairman of the Board of Directors:</b> - Icro Didonè Spa - Clinica Castelli Spa <b>Deputy Chairman:</b> - European Association of Co-operative Banks (EACB) <b>Director:</b> - Icro Coatings Spa - Italian Banking Association - Banca Popolare di Bergamo Onlus Foundation - BergamoScienza Association
Mario CERA	Senior Deputy Chairman of the Supervisory Board	= =
Alberto FOLONARI	Deputy Chairman of the Supervisory Board	<b>Chairman of the Board of Directors:</b> - Fingiana Spa - Mercury Spa <b>Director:</b> - Editoriale Bresciana Spa - Centro Stampa Quotidiani Spa
Armando SANTUS	Deputy Chairman of the Supervisory Board	= =
Dorino Mario AGLIARDI	Member of the Supervisory Board	= =
Antonella BARDONI	Member of the Supervisory Board	= =
Letizia BELLINI CAVALETTI	Member of the Supervisory Board	= =
Marina BROGI	Member of the Supervisory Board	<b>Board Member:</b> Impregilo Spa Prelios Spa <b>Chairman of the Board of Statutory Auditors:</b> Fratelli Branca Distillerie Srl <b>Chairman of the Supervisory Committee:</b> Cape Natix SGR Spa in compulsory administrative liquidation Credito Cooperativo Fiorentino in compulsory administrative liquidation <b>Member of the Supervisory Committee:</b> IMEL.EU
Pierpaolo CAMADINI	Member of the Supervisory Board	<b>Board Member:</b> - Finanziaria di Valle Camonica Spa - Gold Line Spa
Luca CIVIDINI	Member of the Supervisory Board	<b>Vice President &amp; General Manager:</b> - G.F.C. Spa <b>Board Member:</b> - Malpaga Spa
Alessandra DEL BOCA	Member of the Supervisory Board	= =
Ester FAIA	Member of the Supervisory Board	= =
Marco Giacinto GALLARATI	Member of the Supervisory Board	= =

*continued*

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Carlo GARAVAGLIA	Member of the Supervisory Board	<b>Board Member:</b> - De Longhi Spa (*) - Del Clima Spa (*) - O.R.I. Martin Spa <b>Chairman of the Board of Statutory Auditors:</b> - Comitalia Compagnia Fiduciaria Spa
Gian Luigi GOLA	Member of the Supervisory Board	<b>Board Member:</b> - Newspaper Milano Srl <b>Chairman of the Board of Statutory Auditors:</b> - 2I Rete Gas Spa <b>Full Statutory Auditor:</b> - Sigit Spa - 2B Energia Spa <b>Chairman of the Supervisory Committee:</b> - Ial Cisl Piedmont in extraordinary administration
Lorenzo Renato GUERINI	Member of the Supervisory Board	<b>Chairman of the Board of Directors:</b> - 035 investimenti Spa - Quenza Srl <b>Deputy Chairman of the Board of Directors</b> - Italcementi Spa (*)
Alfredo GUSMINI	Member of the Supervisory Board	= =
Federico MANZONI	Member of the Supervisory Board	<b>Chairman of the Board of Directors and Managing Director:</b> - Mittel Investimenti Immobiliari Srl <b>Chairman of the Board of Statutory Auditors:</b> - Mesgo Spa <b>Full Statutory Auditor:</b> - Barabino & Partners Spa - Fidelitas Spa - FGH Spa - Terme di Sirmione Spa - Castello SGR Spa - Iniziative Bresciane Spa - Enercom Srl - G.E.I. Gestione Energetica Impianti Spa
Mario MAZZOLENI	Member of the Supervisory Board	= =
Enrico MINELLI	Member of the Supervisory Board	= =
Sergio PIVATO	Member of the Supervisory Board	<b>Chairman of the Board of Statutory Auditors:</b> - SMA Spa - Società Editoriale Vita Spa <b>Full Statutory Auditor:</b> - Brembo Spa (*) - Auchan Spa
Andrea RESTI	Member of the Supervisory Board	= =
Maurizio ZUCCHI	Member of the Supervisory Board	= =



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

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

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Franco POLOTTI	Chairman of the Management Board	<p><b>Chairman of the Management Board and Chief Executive Officer:</b></p> <ul style="list-style-type: none"> <li>- O.R.I. Martin Spa</li> </ul> <p><b>Deputy Chairman of the Management Board and Chief Executive Officer:</b></p> <ul style="list-style-type: none"> <li>- Mar.Bea. Srl</li> </ul> <p><b>Chief Executive Officer:</b></p> <ul style="list-style-type: none"> <li>- Trafilati Martin Spa</li> </ul> <p><b>General Partner:</b></p> <ul style="list-style-type: none"> <li>- F.B.G. di Polotti Franco e C. Snc</li> </ul> <p><b>Board Member:</b></p> <ul style="list-style-type: none"> <li>- Italian Banking Association</li> <li>- Banca San Paolo di Brescia Foundation</li> <li>- Opera per l'Educazione Cristiana Art and Spirituality</li> <li>- Eco Fortis Srl</li> <li>- C.M. Srl</li> </ul> <p>Committee Member:</p> <ul style="list-style-type: none"> <li>- Associazione Industriale Bresciana</li> </ul> <p><b>Member of the Governing Council:</b></p> <ul style="list-style-type: none"> <li>- Federacciai</li> </ul>
Giorgio FRIGERI	Deputy Chairman of the Management Board	<p><b>Chairman of the Board of Directors:</b></p> <ul style="list-style-type: none"> <li>- Banca Popolare di Bergamo Spa (**)</li> </ul> <p><b>Chairman:</b></p> <ul style="list-style-type: none"> <li>- Istituto Diocesano per il Sostentamento del Clero di Bergamo (Diocesan Institute for the Support of the Clergy of Bergamo)</li> </ul>
Victor MASSIAH	Chief Executive Officer	<p><b>Board Member:</b></p> <ul style="list-style-type: none"> <li>- Italian Banking Association</li> <li>- Interbank Deposit Protection Fund</li> <li>- Federazione delle Banche, Assicurazioni e della Finanza (banking, insurance and finance federation)</li> </ul>
Silvia FIDANZA	Member of the Management Board	<p><b>Executive Officer:</b></p> <ul style="list-style-type: none"> <li>- Fondo Condor Trade Srl</li> </ul> <p><b>Chairman of the Supervisory Board:</b></p> <ul style="list-style-type: none"> <li>- Befado S.p. z.o.o. Poland</li> </ul>
Luciana GATTINONI	Member of the Management Board	<p><b>Chairman of the Board of Directors:</b></p> <ul style="list-style-type: none"> <li>- BPB Immobiliare Srl with sole shareholder (**)</li> </ul> <p><b>Full Statutory Auditor:</b></p> <ul style="list-style-type: none"> <li>- Italcementi Spa Bergamo (*)</li> <li>- Angelo Canevisio Spa</li> <li>- Domus Adiutrix Spa</li> <li>- Ganart Srl</li> <li>- Trafilerie Assi Spa</li> <li>- Metalmauri Trafilerie Spa</li> </ul> <p><b>Alternate Auditor:</b></p> <ul style="list-style-type: none"> <li>- Immobillegno Spa</li> <li>- Proposte Spa</li> <li>- Anita Srl</li> </ul>
Francesco IORIO	Member of the Management Board / General Manager	<p><b>Board Member:</b></p> <ul style="list-style-type: none"> <li>- UBI Sistemi e Servizi Scpa (**)</li> <li>- Italian Banking Association</li> </ul>

*continued*

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Italo LUCCHINI	Member of the Management Board	<p><b>Chairman of the Board of Directors:</b> - Azienda Agricola Lodoletta Srl.</p> <p><b>Deputy Chairman of the Board of Directors:</b> - Italmobiliare Spa (*)</p> <p><b>Chief Executive Officer:</b> - Foundation for the Economic and Social history of Bergamo - Study and Research Institute - Legler Family Foundation</p> <p><b>Board Member:</b> - Italcementi Spa Bergamo (*) - Fondazione Italcementi Cav. Lav. Carlo Pesenti - Fondazione A.J. Zaninoni - Banca Popolare di Bergamo Onlus Foundation - Bergamo in History Onlus Foundation</p> <p><b>Chairman of the Board of Statutory Auditors:</b> - Immobiliere Spa</p> <p><b>Alternate Auditor:</b> - Fonderia di Torbole Spa</p>
Flavio PIZZINI	Member of the Management Board	<p><b>Chairman of the Board of Directors:</b> - Borghesi Buroni Foundation</p> <p><b>Deputy Chairman of the Board of Directors:</b> - UBI Sistemi e Servizi Scpa (**)</p> <p><b>Board Member:</b> - Immobiliare Due Febbraio Srl - Fondazione Lambriana - Moncucco SA - Clinica Luganese SA</p> <p><b>Chairman of the Board of Statutory Auditors:</b> - Impresa Tecnoeditoriale Lombarda Srl - Fondazione Opere Sociali - Fondazione Housing Sociale - Fondazione Ebis</p> <p><b>Single Auditor:</b> - Novaradio Srl</p> <p><b>Receiver:</b> - Bosa Srl (in liquidation)</p>
Elvio SONNINO	Member of the Management Board / Senior Deputy General Manager	<p><b>Board Member:</b> - UBI Academy SCRL (**) - UBI Sistemi e Servizi Scpa (**) - UBI Banca International Sa (**)</p> <p><b>Chairman of the Governing Council:</b> - <i>Centro Studi Nazionale per il Controllo e la Gestione dei Rischi Aziendali</i> (National Study Centre for the Control and Management of Corporate Risk)</p>

## Summary Tables

**TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE (as at 31<sup>st</sup> December 2014)**

### STRUCTURE OF THE SHARE CAPITAL

	Number of shares	percentage of share capital	Listed (indicate markets) /unlisted	Rights and obligations
Ordinary shares	901,748,572	100%	Milan – <i>Mercato Telematico Azionario</i> (electronic stock exchange)	
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
Silchester International Investor LLP	No	4.903%	4.903%
BLACKROCK INCORPORATED (indirect - assets under management)	No	4.951%	4.951%
Cassa di Risparmio di Cuneo Foundation	Yes	2.230%	2.230%

**TABLE 2: SUPERVISORY BOARD (appointed by the Shareholders' Meeting of 20<sup>th</sup> April 2013 for the three year period 2013/2014/2015) and committees (appointed by the Shareholders' Meeting of 23<sup>rd</sup> April 2013)**

Supervisory Board											Appoint-ments Committee		Remuneration Committee		Internal Control Committee		Accounts Committee		Related and Connected Parties Committee	
Position	Members	Date of birth	Date first appointed	In office since	In office until	List (*)	Independent as per Corporate Governance Code	Supervisory Board (****)	Management Board (****)	No. of appointments (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
<b>Chairman</b>	ANDREA MOLTRASIO	1956	(from 01/04/2007) as at 24/04/2010 from 20/04/2013	20/04/2013	AGM 2016	M/SB		21/21		7	p	4/4								
<b>Senior Deputy Chairman</b>	MARIO CERA	1953	20/04/2013	20/04/2013	AGM 2016	M/SB		20/21		= =	M	4/4	p	14/14						
<b>Deputy Chairman</b>	ALBERTO FOLONARI	1937	05/05/2007 (appointed DC on 10/5/2007)	20/04/2013 (appointed DC on 23/4/2013)	AGM 2016	M/SB	X	19/21		4	M	4/4								
<b>Deputy Chairman</b>	ARMANDO SANTUS	1969	28/04/2012	20/04/2013 (appointed DC on 23/4/2013)	AGM 2016	M/SB	X	18/21		= =	M	3/4	M	11/14						
<b>Board Member</b>	DORINO MARIO AGLIARDI (*)	1954	20/04/2013	20/04/2013	AGM 2016	m	X	21/21		= =						M	9/10			
<b>Board Member</b>	ANTONELLA BARDONI	1963	20/04/2013	20/04/2013	AGM 2016	M/SB	X	17/21		= =								M	10/12	
<b>Board Member</b>	LETIZIA BELLINI CAVALLETTI	1962	20/04/2013	20/04/2013	AGM 2016	M/SB	X	21/21		= =										
<b>Board Member</b>	MARINA BROGI	1967	20/04/2013	20/04/2013	AGM 2016	M/SB	X	21/21		6			M	13/14			M	10/10		
<b>Board Member</b>	PIERPAOLO CAMADINI	1963	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/21	10/29 (§)	2					M	25/28				
<b>Board Member</b>	LUCA VITTORIO CIVIDINI	1961	20/04/2013	20/04/2013	AGM 2016	m	X	21/21		2										
<b>Board Member</b>	ALESSANDRA DEL BOCA	1947	20/04/2013	20/04/2013	AGM 2016	M/SB	X	21/21		= =			M	14/14						
<b>Board Member</b>	ESTER FAIA	1973	20/04/2013	20/04/2013	AGM 2016	M/SB	X	19/21		= =										
<b>Board Member</b>	MARCO GIACINTO GALLARATI	1963	20/04/2013	20/04/2013	AGM 2016	m	X	21/21		= =								P	12/12	

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

Supervisory Board											Appointments Committee		Remuneration Committee		Internal Control Committee		Accounts Committee		Related and Connected Parties Committee		
Position	Members	Date of birth	Date first appointed	In office since	In office until	List (*)	Independent as per Corporate Governance Code	Supervisory Board (***)	Management Board (****)	No. of appointments (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	
Board Member	CARLO GARAVAGLIA (*)	1943	01/04/2007	20/04/2013	AGM 2016	M/SB	X	21/21	6/29 (§)	4					M	27/28					
Board Member	GIAN LUIGI GOLA (*)	1964	20/04/2013	20/04/2013	AGM 2016	M/SB	X	21/21	2/29 (§)	5					M	28/28					
Board Member	LORENZO RENATO GUERINI (*)	1949	20/04/2013	20/04/2013	AGM 2016	M/SB		21/21		3							P	10/10			
Board Member - Secretary	ALFREDO GUSMINI (*)	1944	24/04/2010	20/04/2013	AGM 2016	M/SB	X	21/21	9/29 (§)	= =					M	28/28					
Board Member	FEDERICO MANZONI (*)	1949	01/04/2007	20/04/2013	AGM 2016	M/SB	X	20/21		10							M	10/10			
Board Member	MARIO MAZZOLENI	1943	01/04/2007	20/04/2013	AGM 2016	M/SB	X	21/21		= =	M	4/4									
Board Member	ENRICO MINELLI	1965	28/04/2012	20/04/2013	AGM 2016	M/SB	X	21/21		= =	M	4/4							M	12/12	
Board Member	SERGIO PIVATO (*)	1945	01/04/2007	20/04/2013	AGM 2016	M/SB	X	21/21	1/29 (§)	4					p	28/28					
Board Member	ANDREA CESARE RESTI	1965	20/04/2013	20/04/2013	AGM 2016	m	X	21/21		= =			M	14/14							
Board Member	MAURIZIO ZUCCHI	1954	20/04/2013	20/04/2013	AGM 2016	m	X	21/21		= =											
<p><b>Quorum currently required for the presentation of lists by Registered Shareholders</b></p> <p>The election of the members of the Supervisory Board shall take place on the basis of lists presented by:</p> <ul style="list-style-type: none"> <li>- at least 500 Registered Shareholders who represent at least 0.5% of the share capital;</li> <li>- the outgoing Supervisory Board with a proposal supported by at least 500 shareholders representing at least 0.5% of the share capital;</li> <li>- by UCITS (undertakings for the collective investment of transferable securities) holding a total percentage of at least 1% of the share capital who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board.</li> </ul>																					
<b>Number of meetings held during 2014</b>		Supervisory Board: 21			Appointments Committee: 4			Remuneration Committee: 14			Internal Control Committee: 28			Accounts Committee: 10			Related and Connected Parties Committee: 12				

NOTES

(\*) Enrolled in the Register Of External Statutory Auditors

(§) as a member of the Internal Control Committee

(\*) "M/SB" or "m" depending of if the Board Member has been elected from the "majority list presented by the Supervisory Board (M/SB" or from the "minority list (m)".

(\*\*) 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 could have attended.



**TABLE 3 MANAGEMENT BOARD (appointed by the Supervisory Board at its meeting on 23<sup>rd</sup> April 2013)**

Position	Members	Date of birth	First appointed	In office since	In Office until	Independent (in accordance with Art. 147 <i>quater</i> of the Consolidated Finance Act) (**)	Executive	Participation in meetings of the Management Board	Number of other positions (***)
<b>Chairman</b>	FRANCO POLOTTI	1954	10/05/2008	23/04/2013 (appointed Chairman on 23/04/2013)	(*)		X	29/29	12
<b>Deputy Chairman</b>	GIORGIO FRIGERI	1941	02/04/2007	23/04/2013 (appointed Deputy Chairman on 23/04/2013)	(*)		X	28/29	2
<b>Chief Executive Officer</b>	VICTOR MASSIAH (1)	1959	27/11/2008 (appointed Chief Executive Officer on 27/11/2008 with effect from 1/12/2008)	23/04/2013 (appointed Chief Executive Officer on 27/11/2008)	(*)		X	29/29	3
<b>Board Member</b>	SILVIA FIDANZA	1974	23/04/2013	23/04/2013	(*)	X		28/29	2
<b>Board Member</b>	LUCIANA GATTINONI	1950	23/04/2013	23/04/2013	(*)		X	27/29	10
<b>Board Member</b>	FRANCESCO IORIO	1968	23/04/2013	23/04/2013	(*)		X	29/29	2
<b>Board Member</b>	ITALO LUCCHINI	1943	23/04/2013	23/04/2013	(*)	X		28/29	11
<b>Board Member</b>	FLAVIO PIZZINI	1955	02/04/2007	23/04/2013	(*)		X	27/29	12
<b>Board Member</b>	ELVIO SONNINO	1960	23/04/2013	23/04/2013	(*)		X	29/29	4

29 meetings of the Management Board were held in 2014.

**NOTES**

- (1) the Chief Executive Officer to whom duties have been assigned pursuant to Art. 43 *bis* of the Articles of Association, with the support of the General Manager in connection with the overall design of internal control systems.
- \* The members of the Management Board shall remain in office for three financial years (2013-2014-2015). Their term of office shall expire on the date of the Supervisory Board meeting convened to approve the financial statements relating to their last year in office. They remain in office in any event until a new Management Board is appointed in accordance with Art. 46, letter a) of the Articles of Association and they may be re-appointed.
- \*\* The members of the Management Board are not required to meet the requisites of independence in the Corporate Governance Code, due, amongst other things, to the decision made by UBI Banca to form internal committees within the Supervisory Board provided for by that code for which those requisites are required.
- \*\*\* Number of positions as management or supervisory/auditor board member held in other companies listed on regulated markets including foreign markets, in financial, banking or insurance companies or companies of significant dimensions. This report contains full details of the appointments (Attachment A).

# Attachment 1

## **Principal characteristics of the existing risk and internal control management systems in relation to the financial reporting process.**

### **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 28<sup>th</sup> December 2005 (and subsequent amendments) “Measures for the protection of savings and to regulate financial markets”, inserted Art. 154 *bis* into the Consolidated Finance Act which introduced the role of the Senior Officer Responsible for the preparation of corporate accounting documents (hereinafter the “Senior Officer Responsible) into the corporate organisation of listed companies in Italy, who is held responsible for the preparation of corporate accounting documents.

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

The model developed was approved by the Management Board and the Supervisory Board on 15<sup>th</sup> January 2008 and 6<sup>th</sup> February 2008 respectively and then officially implemented in a specific set of regulations, issued with Group Communication No. 166 of 8<sup>th</sup> August 2008. This Group Communication also includes the “Methodological manual for compliance risk assessment pursuant to Law No. 262/2005” that was updated and then approved by the Management Board on 17<sup>th</sup> December 2012 and circulated in Group Circular 44 of 25<sup>th</sup> January 2013, with the aim of increasing the focus of the Senior Officer Responsible on the most critical areas by planning monitoring activities on the basis of the degree of risk assigned to the various relevant processes pursuant to Law No. 262/2005 (the 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<sup>2</sup> and the COBIT Framework<sup>3</sup>, and it involves different areas described in detail in the section that follows.

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

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

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

<sup>2</sup> COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a private voluntary organisation for the improvement of the quality of financial reporting through the use of ethical principles in business, internal controls and an adequate system of corporate governance.

<sup>3</sup> 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.

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

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

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

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

- identification of the **relevant scope of application** consisting of the companies in the UBI Banca Group, the accounts and processes considered significant on the basis of both quantitative parameters, in relation to operating and capital amounts in the financial statements, and qualitative parameters, in relation to the complexity of the business and the type or implicit risks. The method adopted by UBI Banca Group for the definition of the relevant scope of application requires the identification of significant variables derived, in sequential order, from:
  - selection of the significant companies;
  - selection of the significant accounts at Group level;
  - selection of the significant accounts at individual company level;
  - intersection of the significant accounts with processes, at individual company level;
- formalisation of the relevant processes and risks connected with financial reporting and related supervisory checks. 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 area of investigation of the reference year by planning annual assessment activities, planned on a six-monthly basis, in application of the risk driven Model referred to above, involving the assignment of a risk ranking to processes. On the basis of that Model, differentiated analysis approaches are defined, while always ensuring an appropriate level of supervision of the most significant processes, partly on the basis of qualitative elements inferred from:
  - anomalies found in previous analyses;
  - level of stability of the processes;
  - the analysis of anomalies found by other monitoring functions; and
  - information acquired through interviews of the Chief Risk Officer, Chief Audit Executive and Chief Operating Officer held for this purpose;
- definition of the regular frequency of assessment processes, on the basis of the degree of risk assigned to the process, giving priority to processes that are considered to be at high risk but in any event ensuring, over the three year period, that all significant process are assessed, even if they are considered to be at low risk;
- risk measurement and the adequacy of the controls. The objective of that activity is to verify the adequacy 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”, 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 each item in the financial statements must meet for compliance with legal obligations. “Financial assertions” therefore perform the function of an operational tool which guides the identification and assessment of the controls to perform, the absence or ineffectiveness of which can prejudice the achievement of veracity and accuracy in the representation of the capital, operating and financial position of the Group;
- 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;
- 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. Final assessment is officially performed with a specific report that is submitted to the General Management and the Management Board.

## b) Roles and functions involved

The operational stages described above are conducted by the specialist structure within the Parent, in staff units under the Senior Officer Responsible, and also with the support of various other corporate roles involved for various reasons in compliance with the specific requirements of Law No. 262/2005.

The following are involved:

- the Chief Operating Officer through the units reporting to him. 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 internal control functions (relating in particular to the Chief Audit Executive e Chief Risk Officer), in order to create organisational synergies and consistency in assessment across the various units concerned.

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 1<sup>st</sup> July 2014. 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 about these co-ordination activities is reported to the Internal Control Committee on a quarterly basis at a meeting which is also attended by the Senior Officer Responsible.

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

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



## Attachment 2

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

1. Introduction
2. Identification of sectors of activity and types of economic relationships  
Criteria for the identification of sectors of activity and types of economic relationships  
Mechanisms for the identification of sectors of activity and types of economic relationships  
Significant Persons
3. Risk appetite  
Consolidated and individual quantitative limits  
Management of credit quality  
Significant Persons
4. Guidelines for the establishment and governance of organisational processes to identify and collect information on connected parties and to identify and quantify transactions with them at all stages of the relationship  
Introduction  
Organisational roles  
IT systems e Procedures  
Significant Persons
5. Guidelines for the establishment and governance of control processes for the correct measurement and management of risks assumed, and monitoring the design and implementation of internal policies  
Powers and responsibilities

## 1 Introduction

### *External regulatory environment*

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

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

Supervisory regulations identify two types of controls against such risk:

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

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

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

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

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

### *Internal regulatory environment*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *Content and structure of the policy*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *Significant Persons*

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

## **3 Risk appetite**

### *Consolidated and individual quantitative limits*

The UBI Group and each bank in the Group intend to comply with the prudential limits on risk asset exposures to connected parties set forth in supervisory regulations.

To that end, they have adopted mechanisms designed to ensure ongoing compliance with said limits.

Prudential limits on risk asset exposures to connected parties  
(The limits related to the consolidated regulatory capital)

The consolidated limits are summarised in the table.

Senior managers	Investors with control or able to exercise considerable influence	Other investors and parties who are not investors	Parties subject to control or considerable
5%	Non-financial related parties		
	5%	7.5%	15%
	Other related parties		
	7.5%	10%	20%

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

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

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



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

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

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

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

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

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

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

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

The values can be summarised as follows:

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

(\*) Figures used to calculate limits are updated to 30<sup>th</sup> September 2012

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

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

Lastly, the Group assesses legal, reputational and conflict-of-interest risks related to dealing with connected parties, where relevant to business operations, as part of the Internal Capital Adequacy Assessment Process (ICAAP); specifically, if prudential limits are exceeded, as well

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

as the initiatives described in the recovery schedule it also takes account of excesses in the process to determine total internal capital.

### *Qualitative controls*

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

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

### *Significant Persons*

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

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

### *Introduction*

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

- identify connected parties, to record their complete details in Group IT applications, taking account of overlaps with IFRS connected parties, regulations on connected parties pursuant

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

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

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

to Consob resolution 17221/2010 and Art. 136 of the Consolidated Banking Act regarding the correct storage of information and its amendment in the event of changes;

- identify and quantify transactions with connected parties at all stages of the relationship, from the time that the transaction is requested and prior to its execution.

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

### *Organisational roles*

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

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

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

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

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

### *IT systems and procedures*

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

- record information about connected parties from the moment they are defined as such pursuant to the “Regulation on transactions with UBI Banca Group connected parties”;
- provide all banks in the Group with up-to-date information about Group connected parties;
- to record changes to them;
- to monitor – ex ante and ex post – the total amount of and changes in the associated risk assets, also considering the current value of any existing risk mitigation techniques.

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

### *Significant Persons*

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

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

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

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

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

Group controls are structured as follows:

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

Specifically, the legislation and regulations require that:

- the risk management function is responsible for measuring the risks – including market risks – underlying relationships with connected parties, checking compliance with the limits attributed to the various structures and operating units, and monitoring each of their compliance with the risk appetite levels set out in internal policies;
- the compliance function verifies the ongoing existence and robustness of procedures and systems capable of ensuring compliance with all external and internal regulatory obligations;
- the Internal Audit Function checks that internal policies are being followed, immediately reporting any failures to the Supervisory Body and the Bank's senior management; it also provides periodic reports to corporate bodies regarding the overall exposure of the bank or banking group to risks deriving from transactions with connected parties and other conflicts of interest, where necessary proposing amendments to internal policies and organisational and control structures to improve monitoring of such risks;
- the independent directors of the Parent provide assessments, support and proposals on organisational matters and the performance of internal controls on all activities involving the assumption and management of risk exposures to connected parties and also perform general checks on the compliance of the activities with strategic and management guidelines. The Supervisory Board assigns the functions described in this paragraph to the current Consob Related Parties Committee, which is to be renamed the Related and Connected Parties Committee.

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

## **6 Powers and competences**

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

The Parent approves and reviews internal policies on risk assets and conflicts of interest with regard to connected parties at least once every three years. The documents setting out internal

control policies are communicated to shareholders via a specific report and kept available in case requested by the Bank of Italy.

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

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

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

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

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