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REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE OF UBI BANCA SPA

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

Website: www.ubibanca.it

Year 2016

Date: 9th February 2017



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Glossary

Code/Corporate Governance Code: the Corporate Governance Code for listed companies approved in July 2015 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 (*Commissione Nazionale per le Società e la Borsa* - 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 12th 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 27th December 2006 - 9th amendment of 12th 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 24th February 1998.

The Consolidated Banking Act: Legislative Decree No. 385 of 1st September 1993.

Introduction

It should firstly be noted that the Shareholders' Meeting, held in extraordinary session on 14th October 2016, approved the merger (the Merger) into the Parent UBI Banca S.p.A. (the Parent) of the seven local banks (Banca Regionale Europea S.p.A., Banca Popolare Commercio e Industria S.p.A., Banca Carime S.p.A., Banca Popolare di Ancona S.p.A., Banca Popolare di Bergamo S.p.A., Banco di Brescia San Paolo CAB S.p.A. and Banca di Valle Camonica S.p.A.).

As part of the merger, approval was given, amongst other things, to amendments to articles 1, 5, 27, 28, 32, 33, 34, 35, 38, 40, 42, 43 and 44 of the Articles of Association of UBI Banca (available in the Corporate Governance – Corporate Documents section of www.ubibanca.it) and the repeal of all the transition regulations contained in these Articles of Association, as described in the Merger Project (available in the Shareholders' – Shareholders' Meetings – October 2016 Shareholders' Meeting section of www.ubibanca.it).

In summary, the amendments made relate to:

- the addition of a provision allowing UBI Banca to use the names, trademarks and distinctive signs of the Network Banks and all of the companies merged on each occasion, including in combination with its own name, primarily as distinctive elements at the geographical level;
- the change to the number of shares and the share capital of UBI Banca following the merger ;
- the elimination of any reference (direct or indirect) to the Network Banks involved in the merger;
- on the subject of the General Management, replacement (i) of the provision requiring appointment of a General Manager with the mere option of appointing a person to this position and (ii) of the provision allowing appointment of one or more Deputy General Managers with a provision requiring a General Management composed of the General Manager, where appointed, and members appointed by the Management Board, with a member of the General Management designated to act in the stead of the Chief Executive Officer and, where appointed, General Manager, due to their absence or impediment;
- in charitable endeavours, the introduction of a provision requiring the allocation to beneficial, humanitarian, cultural and artistic aims of 2% of net profit, with a maximum of € 12 million, after deducting the minimum allocations to the legal reserve required by law and any allocations to the extraordinary reserve and/or other reserves approved by the Shareholders' Meeting, without prejudice, in any event, to compliance with the capital requirements set from time to time by the competent supervisory authorities, in contrast with the current provision allowing the Shareholders' Meeting to allocate an amount of no more than 1.5% of distributable net profit to such purposes.

It should be noted that, in the light of the many activities performed as part of the overall project for the merger of the Network banks, the project was implemented in two stages.

The first stage, comprising the merger of Banca Regionale Europea S.p.A. and Banca Popolare Commercio Industria S.p.A., took place in November 2016; the merger deeds were signed on 15th November 2016 and it became effective against third parties from 21st November 2016.

The completion of the second stage, comprising the merger of Banca Popolare di Bergamo S.p.A., Banca Popolare di Ancona S.p.A., Banca Carime S.p.A., Banco di Brescia and Banca di Valle Camonica S.p.A., is planned during the current month of February; the merger deeds for this, signed on 2nd February 2017, provide for them to become effective against third parties from 20th February 2017.

All the above changes to the Articles of Association of UBI Banca, other than those relating to Art. 5.1, including the repeal of all the transition regulations, became effective from the date on which the operations comprised in the first stage of the implementation of the merger became effective against third parties (21st November 2016).

The amendment of Art. 5.1 of the Articles of Association is divided into two stages, in connection with the implementation of the merger operations included in the above two stages.

* * *

The information given in this report refers to the current Articles of Association.

1) Profile of the Issuer

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

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

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

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

The main 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. 38);
- the corporate management functions, assigned to the Management Board, which has exclusive authority to perform all ordinary and extraordinary operations necessary to the pursuit of the company objects, in compliance with the general guidelines and strategic policies approved by the Supervisory Board (Art 28).

This two-way division of power allows the separate aspects of routine corporate management to be identified and assigned to the aforesaid corporate bodies which, in their respective roles and responsibilities, give rise to a corporate governance model that is more consistent with the structure of the Bank and the UBI Group within the single business plan, characterised by ongoing dialogue and interfunctional co-operation.

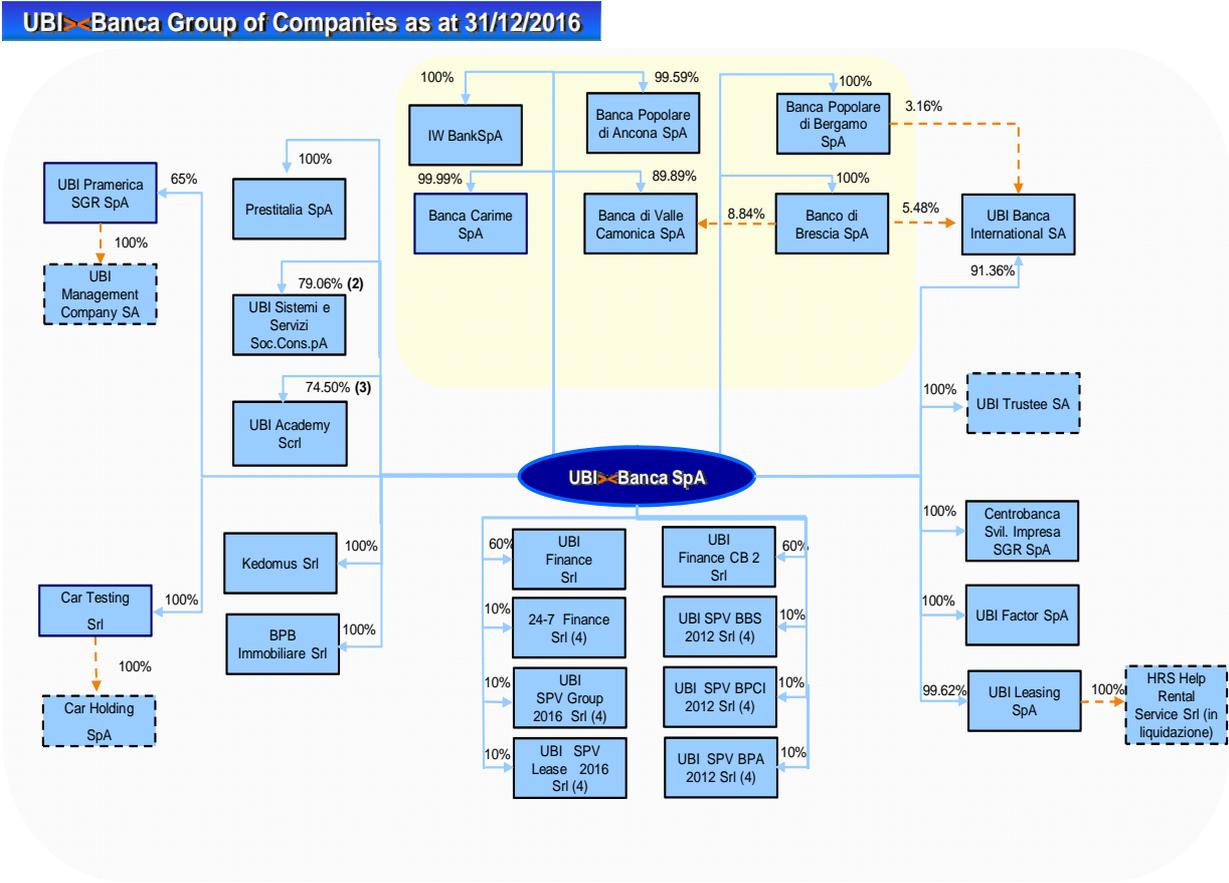
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UBI Banca is the Parent of the Unione di Banche Italiane Group with a listed Parent, which sets strategic policies and performs functions of co-ordination and control over all the organisational units and companies in the Group.

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

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

The chart that follows illustrates the composition of the UBI Group as at 31st December 2016:



(1) Percentage of ordinary capital
 (2) The Group also holds 19.50% divided as follows: IW Bank (4.32%), BPA (2.88%), BBS (2.88%), Banca Carime (2.88%), BPB (2.88%), BVC (1.44%), UBI Pramerica (1.44%), UBI Factor (0.72%), Prestitalia (0.07%), UBI Academy (0.01%).
 (3) The Group also holds the remaining 25.5% divided as follows: BPA(3%), BBS (3%), Banca Carime (3%), BPB (3%), UBISS (3%), IW Bank (3%), BVC (1.5%), UBI Pramerica (1.5%), UBI Factor (1.5%), UBI Leasing (1.5%), Prestitalia (1.5%).
 (4) Subject to "de facto" control

On 2nd February 2017, the four merger deeds relating to the merger of (i) Banca Popolare di Bergamo S.p.A. ("BPB"), (ii) Banca Popolare di Ancona S.p.A. ("BPA"), (iii) Banca Carime S.p.A. ("Carime"), and (iv) Banco di Brescia San Paolo CAB S.p.A. ("BBS") and Banca Valle Camonica S.p.A. ("BVC") into the Parent UBI Banca S.P.A. (UBI Banca) were signed. The above deeds provide for the mergers to become effective against third parties from 20th February 2017, subject to the relative filings with the competent offices of the Company Registrar. The merger will take effect for accounting and tax purposes, on the other hand, from 1st January 2017.

2) Information on the ownership structure (pursuant to Art. 123 bis, paragraph 1 of the Consolidated Finance Act) as of 9th February 2017

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 is composed entirely of ordinary shares traded on the Mercato Telematico Azionario (electronic stock exchange).

* * *

On 14th October 2016 the Shareholders' Meeting approved the project for the merger, on a divisible basis, of Banca Regionale Europea S.p.A., Banca Popolare Commercio e Industria S.p.A., Banca Carime S.p.A., Banca Popolare di Ancona S.p.A., Banca Popolare di Bergamo S.p.A., Banco di Brescia San Paolo CAB S.p.A. and Banca di Valle Camonica S.p.A. into UBI Banca.

More specifically, the merger deeds for Banca Regionale Europea S.p.A. and Banca Popolare Commercio Industria S.p.A. were signed on 15th November 2016. As a result of these mergers, the share capital of UBI Banca has increased by 74,551,823 shares.

The share capital of UBI Banca Spa as at 31st December 2016 amounted to 2,440,750,987.50 divided into 976,300,395 shares with no nominal value and it had not changed at the date of this report.

It should also be noted that since 20th February 2017 the share capital of UBI Banca amounts to €2,443,092,155.00 divided into 977,236,862 shares with no nominal value (subject to rounding) due to the implementation of the second stage of the merger as mentioned previously.

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

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

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

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

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

- Fondazione Cassa di Risparmio di Cuneo: 5.910% (declared on 22nd November 2016);
- Fondazione Banca del Monte di Lombardia: 5.208% (declared on 24th November 2016);
- Silchester International Investors LLP: 5.123% (declared on 4th November 2015);

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)

In accordance with Art. 10 of the Articles of Association, until 26th March 2017 no party with the right to vote may exercise it, for any reason, with a quantity of shares greater than 5% of the share capital with voting rights.

For this purpose, votes are considered that are cast in relation to shares possessed directly and indirectly, through subsidiary companies, trust companies or nominees and those cast in any other case in which the right to vote is attributed, for any reason, to a party other than the owner of the shares; shares held by Italian or foreign collective investment undertakings are never counted for the purposes of this limit. Control exists in those cases specified by article 23 of the Consolidated Banking Act and subsequent amendments. In cases of violation of the provisions of this paragraph, any shareholders' resolution that is passed may be annulled in accordance with article 2377 of the Civil Code, if the required majority would not have been reached without that violation. Shares for which the right to vote cannot be exercised are not counted for the purposes of the proper convening of Shareholders' Meetings.

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)

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

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

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

The Pact governs prior consultation between the holders of the Syndicated Shares (Art. 122, paragraph 5, letter a of the Consolidated Finance Act), the exercise of voting rights attaching to the Syndicated Shares (Art. 122, paragraph 1 of the Consolidated Finance Act) and some limits on the circulation of these shares (Art. 122, paragraph 5, letter b of the Consolidated Finance Act).

There is no limit on the life of the Pact.

Holders of the Syndicated Shares have the right to withdraw from the Pact with notice of three months. Withdrawal is communicated by means of registered letter sent to the President.

Lastly, on 25th November 2016 it was communicated that 93 shareholders had adhered to the said Pact; they have bound 28,893,691 ordinary shares to the Pact accounting for 2.96% of the total voting rights representing the share capital of UBI Banca.

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

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

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

The life of the Pact is set until 10th February 2019.

The Pact is tacitly renewed on its expiration for a period of three years, from one three-year period to the next, unless the owners of the Syndicated Shares exercise their right to withdraw from the Pact by the last day of the third month prior to its expiration. If only some of the owners withdraw, the Pact is renewed for the other owners of the Syndicated Shares, providing shares which represent at least 5% of the share capital of the Bank with voting rights remain bound by the Pact.

On the basis of the latest communication made on 30th January 2017, a total of 133,430,876 ordinary shares (“Syndicated Shares”) had been brought to the Syndicate by 176 shareholders in the Syndicate (“Participants”) accounting for 13.67% of the total voting rights representing the UBI share capital.

Of the Participants:

- the Fondazione Banca del Monte di Lombardia syndicated 34,170,500 shares (3.5% of the shares with voting rights and 25.61% of those syndicated) and holds a further 16,672,577 shares (1.708% of the shares with voting rights), while voting rights have been waived on 2,028,077 shares
- Upifra S.A. syndicated 9,000,000 shares (0.922% of the shares with voting rights and 6.75% of the Syndicated Shares) and holds a further 810,178 shares (0.083% of the shares with voting rights).

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

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

- UBI Banca S.p.A. Shareholders' Syndicate:
- *Patto dei Mille* (Pact of the Thousand)
- Fondazione Cassa di Risparmio di Cuneo

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

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

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

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

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

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

While the members do not consider the association as qualifying as a shareholders' agreement pursuant to article 122 of the Consolidated Finance Act, they have nevertheless fulfilled public disclosure obligations as required by the law in relation to some of the clauses of their by-laws, insofar as it may be necessary, in view of the legally binding nature of the decree mentioned and the consequences of failure to comply with it.

With a letter of 17th February 2016 the Association informed UBI Banca that in view of the amendments to the Articles of Association that had been approved, the Articles of Association of the said association have removed all reference to issuers of financial instruments of any type.

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

- a communication was received notifying the constitution on 23rd November 2007, of the association named "**Gli Amici di UBI Banca**", located in Bergamo, and report of compliance with disclosure obligations.
On 24th March 2016 the Chairman of the Association communicated that a general meeting held by the Association on the same date approved the dissolution of the same association and the appointment of a receiver;
- a letter was received concerning the constitution on 24th January 2011 of an association named "**Tradizione in UBI Banca**", located in Cuneo;
- UBI Banca received a letter on 21st November 2011 entitled "Communication pursuant to Art. 20, paragraph 2 of the Consolidated Banking Act and to Art. 122 of the Consolidated Finance Act" in relation to the establishment of the association named "**FuturoUBI**", located in Milan on 22nd September 2011. In that letter, the association declared that "while it does not consider the association as qualifying as a shareholders' agreement pursuant to the above legislation, it has nevertheless fulfilled public disclosure obligations by publishing its Articles of Association on the website www.futuroubi.it".
- in a letter of 19th June 2012, the constitution of an association called "**Amici della Banca Regionale Europea e del Gruppo UBI**", located in Cuneo was notified;
- a communication was received concerning the constitution on 29th October 2012 of an association called "**Insieme per UBI Banca**", located in Milan;
- in a letter of 27th February 2013 the constitution of an association called "**Associazione Soci UBI Centro-Sud**", located in Rome was notified;
- in a letter of 28th February 2013 the constitution of an association called "**Associazione Soci Lombardi UBI Banca**" also known as "ASSOLUBI", located in Brescia was notified;
- on 15th March 2013 the constitution on 7th October 2011 of the "**Associazione Azionisti Banche Popolari 2011**" was notified.

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

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

The Bank also learned from:

- a press release of the constitution on 10th November 2011 of the "Associazione dei cittadini e dipendenti soci di UBI Banca" located in Brescia;
- 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 on 29th July 2016 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.

The treasury shares currently held by the Bank were partly acquired on the basis of authorisation resolutions passed by the Shareholders' Meeting which have expired on the date of publication of this report, in particular:

- 1) the shareholders meeting held on 30th April 2011 authorised the Management Board and the Chairman, Deputy Chairman and Chief Executive Officer, individually on its behalf to repurchase, by 30th September 2011, a maximum of 1,200,000 treasury shares, to be assigned to the "top management" of the Group (now "Key Personnel") 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 12th July 2011 until 13th July 2011.
Those shares were purchased at an average price of €3.6419 per share.
- 2) the Shareholders' Meeting held on 28th 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 31st December 2012) of a maximum of 500,000 treasury shares to be granted to the "top management" of the Group (now "Key Personnel") 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 28th 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.

Concerning existing resolutions authorising the acquisition of treasury shares, it is noted that on 2nd April 2016 the Shareholders' Meeting resolved to authorise the Management Board and the Chairman, Deputy Chairman and Chief Executive Officer, individually and on its behalf, to proceed with one or more transactions, to be carried out within 18 months of the date of the Shareholders' Meeting authorisation, by means of the procedures specified in paragraph 1, letter b), of Art. 144-*bis* of the Issuers' Regulations, namely the purchase on regulated markets following operational procedures that guarantee equal treatment of shareholders and do not allow proposals to purchase to be directly linked to predetermined proposals to sell, to the purchase of treasury shares at a price per share of not less than €2.50 and not greater than 5% of the official price quoted in the market session prior to each individual purchase transaction of:

- a. a maximum of 1,200,000 shares to cover the short-term incentive scheme for "Key Personnel", for a total maximum consideration of €3,500,000.00;
- b. a maximum of 5,100,000 shares to cover the 2016 incentive scheme for employees of the UBI Banca Group (with the exception of "Key Personnel"), for a total maximum consideration of €15,000,000.00;
- c. a maximum of 10,200,000 shares to cover the 2015 and 2016 productivity bonus (the "Company Bonus"), for a total maximum consideration of €30,000,000.00.

A total of 347,000 ordinary shares of UBI Banca have been purchased to date to cover the 2015 productivity bonus in implementation of that shareholders' resolution.

With respect to the purchase of 2,047,000 UBI Banca shares as shown above the following shares have been assigned on the date of publishing this report:

as reported in points 1, 2 and 3 above and following the assignation of:

- 216,808 treasury shares to 39 staff in 2014 under the 2011 incentive scheme;
 - 51,363 treasury shares to 15 staff in 2015 under the 2012 incentive scheme;
 - 208,636 treasury shares to 63 staff in 2016 under the 2011 and 2014 incentive schemes;
 - 345,439 treasury shares to 791 staff in 2016 under the 2015 productivity bonus
- consequently, there remain 1,223,194 shares for the purpose of the incentive schemes and 1,561 shares for the purpose of the productivity bonus for the employees of UBI Group.

It is also noted that on 8th April 2016 the Bank acquired 1,807,220 shares following the exercise of the right of withdrawal in relation to the resolution to transform UBI Banca into a joint stock company.

In view of the above on the date of this report UBI Banca holds 3,031,974 UBI Banca shares, being 0.31% 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 article 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 Finance 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 Finance 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/2015clean.pdf>), a document the provisions of which have been drawn up with reference to listed companies that have adopted a traditional governance model. Article 10 of the code states that if a 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 the Consolidated Finance Act is to furnish details of the manner in which the Code itself is applied in the Bank, with an account also given of those principles subject to full compliance and those with which the Bank has decided not to comply with (sometimes only partially) on a "comply or explain" basis. This is partly because the Bank must consider its status as a bank which, as such, demands strict compliance with regulations contained in the Consolidated Banking Act and with sector regulations.

* * *

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

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

4) Supervisory Board

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

The Supervisory Board is composed of 15 members, including a Chairman and a Senior Deputy Chairman, appointed by a Shareholders' Meeting in compliance with Art. 37 of the Articles of Association. The Supervisory Board may appoint one or two Deputy Chairmen from among its members. The members of the Supervisory Board shall remain in office for three financial years and they shall retire from office on the date of the Shareholders' Meeting convened in compliance with paragraph two of Art. 2364-*bis* of the Italian Civil Code.

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

- senior management and/or strategic supervision

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

Candidates can also be elected who have not acquired that career experience provided they:

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

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

At least three members of the Supervisory Board must be chosen from amongst persons enrolled in the register of external statutory auditors who have exercised statutory auditing activities for a period of not less than three years.

Furthermore, the composition of the Supervisory Board must ensure, in compliance with the provisions of Law No. 120 of 12th July 2011, that a balance is maintained between genders for the period provided for by that law and at least the majority of the members of the Supervisory Board must not have occupied the position of member of the Supervisory Board and/or member of the Management Board of the Bank continuously for the three previous terms of office.

While mandatory regulations of the law, the Supervisory Authority or other regulations must be complied with, persons already holding the office of full statutory auditor, or who are members of other supervisory bodies in more than five listed companies and/or their parent companies or subsidiaries, cannot hold office as a member of the Supervisory Board.

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

For the purpose of the election of members of the Supervisory Board, one or more Shareholders who represent at least 1% of the share capital, or a different percentage established by the regulations in force, may present one list of candidates ordered consecutively by number, containing between a minimum of 2 (two) and a maximum of 15 names.

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

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

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

Each Shareholder may vote for one list only.

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

- a) if one or more lists are submitted, the first two which received the greatest number of votes cast by the Shareholders and which are not connected within the meaning of the regulations in force are considered;
- b.1) if the list which received the second greatest number of votes received less than 15% of votes cast in the Shareholders' Meeting, then 14 members of the Supervisory Board are taken from the list that obtained the majority of the votes and one member of the

Supervisory Board is taken from the list which received the second greatest number of votes;

- b.2) if the list which received the second greatest number of votes, received at least 15% and less than 30% of the votes cast in the Shareholders' Meeting, then thirteen members of the Supervisory Board shall be taken from the list which received the majority of the votes and two members of the Supervisory Board shall be taken from the list which received the second greatest number of votes;
- b.3) if the list which received the second greatest number of votes, received at least 30% of the votes cast in the Shareholders' Meeting, then twelve members of the Supervisory Board shall be taken from the list which received the majority of the votes and three members of the Supervisory Board shall be taken from the list which received the second greatest number of votes.

If, after identifying the candidates to be taken from the two 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 12th July 2011 or the additional proportion specified in paragraph 8 of article 36 of the Articles of Association are not complied with, then those members of the Supervisory Board taken last from the aforementioned lists whose appointment would violate the said legislation and regulations are considered not elected.

In this event the number of those board members indicated on the same 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 12th 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 or which allow compliance with the additional proportion specified in paragraph 8 of article 36 of the Articles of Association 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 has not complied with the gender proportions established by Law No. 120 of 12th July 2011, or do not allow compliance with the additional proportion specified in paragraph 8 of article 36 of the Articles of Association the candidates to be appointed 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 15 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 submitted, again in compliance with the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th July 2011 and to the Articles of Association; in the event of a tied vote the candidate more senior by age is elected.

If two or more 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, during the course of the financial year, the Board lacks one or more members, where it is a case of replacing members elected in the majority list, the first candidate not elected on that list shall be appointed who guarantees compliance with the requirements for the composition of the Supervisory Board provided for by Law No. 120 of 12th July 2011 and the Articles of Association. In the absence of such a candidate, the appointment shall be by a relative majority vote with no list obligation.

If the positions of Chairman of the Supervisory Board and/or the Senior Deputy Chairman of the Supervisory Board should become vacant, an Ordinary Shareholders' Meeting shall proceed without delay to restore the membership of the Board and to appoint a Chairman and/or a Senior Deputy Chairman not by using in this case the replacement procedure just mentioned.

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

- if only one board member has been appointed from the minority list, then the first candidate not elected on the list from which the member to be replaced was drawn shall be appointed, or, in the absence of such a candidate, the first candidate on any other minority lists there may be shall be taken on the basis of the number of votes received in descending order. Should this not be possible or, if application of the above criterion means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th July 2011 and the Articles of Association are not met, then the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities;
- if further board members have been drawn from the minority list, their 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. 37, paragraph 11 of the Articles of Association; in the absence of such candidates, the board members to be replaced shall be drawn from the majority 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 12th July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall proceed to decide by relative majority vote.

* * *

The replacement candidates, in accordance with the provisions of Article 37 of the Articles of Association, must confirm that they accept their appointment and also make declarations that no cause for ineligibility and incompatibility exists and that they possess the requirements prescribed by law and by these Articles of Association for the office.

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

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

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. Without prejudice to the responsibilities assigned by law and regulations to its internal committees, the functions of the Supervisory Board are set out in Art. 38 of the Articles of Association, on the basis of which the same Board:

- a) on the basis of proposals from the Appointments Committee, shall appoint and remove all or part of the members of the Management Board and its Chairman and Deputy Chairman, in compliance with the provisions of article 21, paragraph two of the Articles of Association, determining their remuneration, in compliance with Art. 13, paragraph two, letter b) of the Articles of Association, after consulting with the Remuneration Committee. It also determines, after consulting with the Remuneration Committee and in compliance with Art. 13, paragraph two, letter b) of the Articles of Association, the remuneration of the members of the Management Board vested with special functions, duties or powers or

assigned to committees. Without prejudice to the provisions of article 23, paragraph two of the Articles of Association, and in any case without effect for the replacement of members of the Management Board who have vacated their positions, the Supervisory Board appoints the members of the Management Board in the first meeting following its own appointment by a Shareholders' Meeting;

- b) on the basis of proposals from the Management Board, shall set the general plans and strategic policies of the Bank and of the Group and shall also be able to make recommendations to the management;
- c) approves the separate financial statements and the consolidated financial statements prepared by the Management Board;
- d) authorises the Management Board to exercise the authority to increase share capital or to issue convertible bonds that may have been granted by a Shareholders' Meeting pursuant to article 2443 and/or to article 2420-ter of the Italian Civil Code;
- e) with regard to its control function, performs supervisory functions in compliance with Art. 149, paragraphs one and three of the Consolidated Finance Act;
- f) initiates liability actions against members of the Management Board;
- g) presents the statement to the Bank of Italy pursuant to Art. 70, paragraph 7, of the Consolidated Banking Act;
- h) reports in writing to the Shareholders' Meeting called pursuant to article 2364- bis of the Italian Civil Code on the supervisory activity performed, on omissions and irregularities observed as well as, in any other ordinary or extraordinary Shareholders' Meeting called, on matters considered to fall within its authority;
- i) informs the Bank of Italy without delay of all events or facts it may learn of in the performance of its duties, which might constitute a management irregularity or an infringement of banking regulations;
- l) expresses a binding opinion concerning the person in charge of drawing up the corporate accounting documents set forth in Art. 154-bis of the Consolidated Finance Act;
- m) on the basis of proposals submitted by the Management Board, to which it may formulate possible policies, decides on business and/or financial plans and budgets for the Bank and the Group prepared by the Management Board and on the strategic operations listed here below, but nevertheless without prejudice to the responsibility of the Management Board for its actions and while the aforementioned decision of the Supervisory Board shall not be necessary for the operations considered in points (iii), (iv), (v) and (vi), where these are operations for which the main elements have already been defined in business plans already approved by the Supervisory Board itself:
 - (i) transactions on the share capital, the issuance of convertible bonds and bonds cum warrants in shares of the Bank, mergers and demergers;
 - (ii) amendments to the Articles of Association, for which purpose it may make specific recommendations to the Management Board;
 - (iii) purchases by the Bank and by its subsidiaries of controlling interests in companies and transactions involving a reduction in directly or indirectly held investments in subsidiaries;
 - (iv) purchases or disposals by the Bank and its subsidiaries of companies, business en bloc, business units, spin-offs, and investments or disinvestments which involve commitments where the amount for each transaction is greater than 4% of the supervisory capital eligible for the purposes of calculating the consolidated core tier one capital or affects the core tier one ratio by more than 50 basis points as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
 - (v) purchases or disposals by the Bank and its subsidiaries of investments in companies that are not controlled, the amount of which for each transaction is greater than 1% of the regulatory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force, or which are significant from an institutional viewpoint or that of the sector nationally;
 - (vi) stipulation of strategically important trade, co-operation and corporate agreements, with account taken of the activities and/or volumes involved and/or of the nature of the partners and in relation to programmes and objectives contained in the Business Plan approved;

- n) sets, on the basis of proposals from the Management Board, strategic guidelines and policies for the management and control of risks, constantly verifying that they are adequate and implemented by the Management Board;
- o) on the basis of proposals from the Management Board, sets policies for the management of compliance risk and makes decisions for the creation of a regulatory compliance function;
- p) formulates its considerations concerning the basic elements of the general architecture of the internal control system; assesses, with regard to those aspects that concern it, the efficiency and adequacy of the internal control system, with particular regard to risk management, to the functioning of the internal audit and the accounting reporting system; it also verifies that the strategic management control activities carried out by the Bank on Group member companies are properly performed; on the basis of a proposal from the Risk Committee and in consultation with the Internal Control Committee, it appoints and removes the heads of compliance, risk management and internal audit functions;
- q) approves and periodically verifies the corporate governance, organisational and administrative structure and the accounting and reporting systems of the Bank, determined by the Management Board;
- r) approves corporate regulations concerning its functioning and, in co-operation with the Management Board, approves reporting systems between corporate bodies as well as those with the internal control system;
- s) approves remuneration policies for employees or associate workers not linked to the Bank by regular employee contracts;
- t) decides, on the basis of a proposal by the Chairman of the Supervisory Board, drafted in compliance with article 39, paragraph two letter h) of the Articles of Association, sets policies and takes decisions on projects for cultural and charitable initiatives and for the image of the Bank and the Group, with special reference to the enhancement of historical and artistic heritage, while it verifies that initiatives planned coincide with the objectives set; supervises the public disclosure process and the Bank's communication process; ensures, through the Chairman of the Supervisory Board, that there is effective discussion with the management function and with the managers of the principal corporate functions and verifies on an ongoing basis the decisions that they take;
- u) decides on mergers and demergers pursuant to articles 2505 and 2505-*bis* of the Italian Civil Code;
- v) exercises any other power provided by legislation in force or by the Articles of Association.

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

- a) the opening and closing of secondary offices;
- b) the decrease in the share capital in the event of a Shareholder's withdrawal;
- c) amendments to the Articles of Association to comply with legislation and regulations, subject to consultation with the Management Board.

The Supervisory Board and its members exercise powers granted under article 151-*bis* of the Consolidated Finance Act, in accordance with the terms and conditions stated therein. For the purpose of a more effective and functional exercise of powers to acquire information pursuant to Art. 151-*bis*, paragraph one of the Consolidated Finance Act, normally the relative requests are addressed to the Chairman of the Management Board and to the Chief Executive Officer via the Chairman of the Supervisory Board. The information is distributed to all members of the Supervisory Board.

* * *

The Supervisory Board, from 1st January 2016 until the Shareholders' Meeting held on 2nd April 2016 which renewed the appointment of the Supervisory Board, was composed 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	Secretary Member
6	Dorino Mario Agliardi	Board Member
7	Antonella Bardoni	Board Member
8	Letizia Bellini Cavalletti	Board Member
9	Marina Brogi	Board Member
10	Pierpaolo Camadini	Board Member
11	Luca Vittorio Cividini	Board Member
12	Alessandra Del Boca	Board Member
13	Ester Faia	Board Member
14	Marco Giacinto Gallarati	Board Member
15	Carlo Garavaglia	Board Member
16	Gian Luigi Gola	Board Member
17	Lorenzo Renato Guerini	Board Member
18	Federico Manzoni	Board Member
19	Mario Mazzoleni	Board Member
20	Enrico Minelli	Board Member
21	Sergio Pivato	Board Member
22	Andrea Cesare Resti	Board Member
23	Maurizio Zucchi	Board Member

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

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

- List deposited on 7th March 2016 and presented - in implementation of the Agreement between UBI Banca S.p.A. Shareholders' Syndicate, Patto dei Mille and the Fondazione Cassa di Risparmio di Cuneo - by:

- the Fondazione Cassa di Risparmio di Cuneo
- the Fondazione Banca del Monte di Lombardia
- Alberto Folonari
- La Scuola S.p.A.
- Quattro Luglio srl
- Angelo Radici
- Emilio Zanetti
- Pecuvio Rondini
- Scame srl
- Miro Radici Family & Companies S.p.A.

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

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

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

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

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

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

All the shareholders that presented the “Asset Management Companies and Institutional Investors” list also declared that there are no forms of connecting relationships and/or significant links (also in accordance with Communication No. DEM/9017893 of 26th February 2009) with shareholders who on the basis of communications of significant shareholdings pursuant to Art. 120 of Legislative Decree No. 58/1998 (the Consolidated Finance Act) to be found on the corporate website of UBI and the Consob website hold, even jointly, a controlling or majority shareholding pursuant to Art.147-ter paragraph 3 and Art. 148 paragraph 2 of the Consolidated Finance Act, Art. 144-quinquies of the Issuers Regulations and more generally the Articles of Association and the regulations in force.

All three candidates in the “Asset Management Companies and Institutional Investors” list were thus elected on the basis of the list vote (having declared irrevocably that they did not intend to take up the position of Chairman or Senior Deputy Chairman when they stood as candidates), as well as the first three candidates in the list submitted in implementation of the “Agreement between UBI Banca S.p.A. Shareholders’ Syndicate, Patto dei Mille and the Fondazione Cassa di Risparmio di Cuneo”.

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

Therefore on the basis of a proposal submitted by the Fondazione Banca del Monte di Lombardia, which holds 14,411,631 shares, the following nine candidates were appointed for

2016-2017-2018 by relative majority vote (with the vote of 209,602,099 shares, representing 99.23% of the share capital present at the Shareholders' Meeting):

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

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

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

The members of the Supervisory Board for 2016/2017/2018 are thus as follows:

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

Dott. Gianluigi Gola resigned from the Supervisory Board on 22nd December 2016 for personal reasons.

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

Attachment A) lists the offices held (if it is the case) 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.

* * *

We report that on 18th July 2013 *Dott.* Giorgio Jannone and other Registered Shareholders served a writ of summons on UBI Banca, which, in summary, asked it to declare: (i) that the only valid list for the appointment of members of the Supervisory Board of the Bank was 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 20th 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, considered that the claims made in this summons were groundless.

UBI Banca made a preliminary objection in the courts that the claim was inadmissible, in so far as it was brought by a number of Shareholders that failed 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.

With a ruling filed in the court registry on 20th February 2016, the Business Division of the Court of Brescia ruled definitively against the action brought by *Dott.* Giorgio Jannone and by eight other shareholders to render null and void the resolution of 20th April 2013 with which a Shareholders' Meeting of the Bank appointed the Supervisory Board for the three-year period 2013-2015. With that same ruling, the Court of Brescia also ruled against the claim for damages brought by the claimants and ordered them to pay the court costs of the defendant, UBI Banca.

* * *

Special regulations govern the functioning of the Supervisory Board concerning:

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

A special section of those regulations deals with reporting systems.

As concerns the prior delivery to members of the Supervisory Board of material relating to items on the agenda, the aforementioned regulations underline the fundamental requirement for members of the Supervisory Board to be able to act in an informed manner. They state that following proper notice to convene, the Chairman of the Supervisory Board shall take steps to deliver adequate documentation, with levels of detail and in a manner consistent with the importance and complexity of the items placed on the agenda, in good time with regard to the date set for the board meeting (normally at least two days before). The material sent shall be decided from time to time by the Chairman on the basis of the items placed on the agenda, with account taken of the purposes of the advance information and it is made available through a digital environment accessible by board members using special customised identification software, in compliance with the Bank's regulations for proper management of confidential information. The time limit set by the regulations is normally complied with and usually where possible documents arrive even earlier, except in special cases due to the nature of the resolutions to be considered. Where it was not possible in specific cases to provide preliminary information by the aforementioned deadline, the Chairman took steps to provide adequate detailed information during the Board meetings themselves. The documentation provided at board meetings is filed with the minutes and each board member may consult documents on all meetings of the Supervisory Board and its internal committees by means of a dedicated IT Portal.

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

The Supervisory Board must meet at least every 60 days. The location of the meetings alternates between the cities of Bergamo and Brescia and a meeting is held around once a year in the city of Milan.

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

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

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

The Supervisory Board shall pass resolutions with a vote in favour of the absolute majority of the board members present for the vote.

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

The members of the Supervisory Board shall report all interests which, either directly or through third parties, they may have in a determined transaction of the Bank or the Group, stating the nature, the terms, origin and extent. The relative resolution of the Supervisory Board must give adequate reasons, explaining the reasons and the interest of the Bank in the transaction, without prejudice to other provisions of the law or regulations which may apply.

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

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

During 2016 the Supervisory Board met 25 times and the average length of meetings was around four hours and thirty minutes.

We also report that the Supervisory Board has planned its meetings for 2017, with 19 meetings programmed of which four already held.

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

Details of further engagements of Deloitte & Touche S.p.A.

and other companies in its Network are given in a special report attached to the consolidated and separate annual reports.

* * *

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

In this context, in compliance with, amongst other things, the Bank of Italy regulations concerning corporate governance, an analysis of the lending relationships between each board member and the Group was carried out when independence requirements were verified. 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 regulations concerning corporate governance in force (Circular No 285 of 17th December 2013).

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

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

A press release has been issued to inform the market of the outcome of the verification that they meet the independence requirement.

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

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

Considering that the new members of the Supervisory Board took office in April 2016, followed by the formation of the internal committees of that Supervisory Board, a proper and effective evaluation of the functioning of the Supervisory Board and Committees, and of their size and composition, needs to be carried out after an appropriate period of activity, sufficient to provide suitable assessment criteria, including the recent changes in the membership of the body among the factors to be taken into account during the evaluation.

In this context, in December 2016 the self-assessment process for 2016 started, on the size, composition and functioning of the Board and its internal committees, with the consultancy support of Korn Ferry, subject to confirmation of the independence of the consultant.

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

The self-assessment was performed using questionnaires and individual interviews carried out by the advisor and conducted on the basis of factors including: the quality and completeness of skills, experience and expertise within the Board; the degree of effectiveness of the functioning of the Board and the contribution of each of the internal committees; the quality of 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; and relations with the Management Board and Senior Management.

The overall proceedings of Board and committee meetings, in terms of the organisation, clarity and efficacy of the presentations and the timeliness of the receipt of information are key elements for the appropriate performance of the functions assigned to the Supervisory Board and its internal committees. The relationships among board members and between the board members and management were also found to be efficient and effective and the contribution made by the individual committees to the activities of the Board was positive.

The Board has already started implementing the points for improvement that emerged from the assessment.

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, amongst other things because of the composition of the Board.

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 their responsibilities and functioning.

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

Concerning the composition of the committees, it is noted that all the internal committees include the board members drawn from the "Asset Management Companies and Institutional Investors" list and two of them are chaired by board members from the same list.

6) Appointments Committee

Until their term of office expired following a shareholders' resolution on 2nd April 2016, the Appointments Committee (members of which pursuant to the Articles of Association include the Chairman of the Supervisory Board, with the functions of Chairman, and the Senior Deputy Chairman) was 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

Following an amendment to the Articles of Association approved by the Extraordinary Shareholders' Meeting on 10th October 2015 which resolved to transform UBI Banca from a joint stock co-operative company into an ordinary joint stock company, the new provisions of the Articles of Association (Art. 41.6) provide for the Appointments Committee to be composed of between three and five members. This rule became effective from the date of appointment of the Supervisory Board that replaced that in office on the date when the resolution for the transformation into a joint stock company became effective.

Since the newly-elected Supervisory Board took office on 13th April 2016, the Appointments Committee has thus been 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
- Pietro Gussalli Beretta
- Giovanni Fiori
- Gian Luigi Gola (until 22nd December 2016, retired following his resignation from the position of Member of the Supervisory Board on the same date).

Dott.ssa Letizia Bellini Cavalletti was appointed to replace the resigning Board Member on 2nd February 2017.

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

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

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

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

The Supervisory Board thus resolved, on the basis of the Articles of Association and in order to benefit from the professional experience of the members appointed to the Appointments Committee, that it was appropriate not to comply, for this specific point only, with the requirements of Art. 3 of the Corporate Governance Code of Borsa Italiana, which require the majority of the members of the Appointments Committee to be independent.

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

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

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

The Appointments Committee met eight times in 2016. The average length of the meetings amounted to approximately 45 minutes and they were all properly minuted.

During the year, the Appointments Committee supported the Supervisory Board with activities in preparation for the renewal of the same Board, which came to the end of its three-year term at the time of the Ordinary Shareholders’ Meeting for 2016, by preparing the document entitled “Qualitative and quantitative composition of the Board”, described in section 4.2 of this Report, which was drawn up on the basis of the outcomes of the self-assessment of the outgoing Supervisory Board. The document was drawn up in accordance with the provisions contained in the "Supervisory regulations for banks concerning corporate governance" (Bank of Italy Circular No. 285 of 17th December 2013 – Part One – Title IV – Chapter 1) and the Corporate Governance Code for listed companies.

Following the renewal of the Supervisory Board, the new Appointments Committee which took office on 13th April 2016 proceeded within its remit to propose the appointment of the two Deputy Chairmen of the same Board. It also formulated proposals within its remit for the appointment of the Management Board, in compliance with the outcomes of the self-assessment process carried out by the outgoing Management Board, and for the expression of a non-binding opinion for the appointment of the Chief Executive Officer.

The Committee also provided support for the new corporate bodies during the process to verify the suitability requirements for board members pursuant to legislation and regulations in force, as well as verifying the qualitative and quantitative composition of the same bodies.

During 2016 the Committee also carried out activities within its remit in relation to:

- fact-finding and formulating proposals for the selection of the independent advisor for the self-assessment of the corporate bodies;
- fact-finding for updating succession plans, particularly in relation to the selection of the independent outside company to be used;
- supporting the Supervisory Board in relation to social responsibility issues, with specific attention to the charitable donations required by the Articles of Association and the examination of the highlights of the Social Report.

The committee reports to the Supervisory Board on the activities performed in the first meeting.

The Appointments Committee has met twice so far in 2017.

7) Remuneration Committee

Until their term of office expired following a shareholders' resolution on 2nd April 2016, the Appointments Committee was composed of the following members of the Supervisory Board:

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

Since the newly-elected Supervisory Board took office on 13th April 2016, the Remuneration Committee has been composed of the following members of the Supervisory Board:

- Alessandra Del Boca, as the Chairwoman
- Mario Cera
- Patrizia Michela Gianguialano

A majority of the members of the Remuneration Committee are independent board members, with the Chairman chosen from those who are independent, in accordance with the 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.

The committee is governed by special regulations – published on the Bank's website in the Corporate Governance/Supervisory Board section – which determine its responsibilities and its functioning. The Committee shall have access in carrying out its duties to corporate information relevant to that purpose and it shall have sufficient funds to ensure its operational independence. The Committee shall make use of outside consultants at the Bank's expense for carrying out its activities and shall assess in advance whether such consultants are in a situation that compromises the independence of their judgement. As provided for by the regulations for its proceedings, on invitation of the Chairman, the chiefs of the human resources, strategic planning, risk management, compliance and internal audit functions, as well as other senior managers of internal units and functions of the Bank whose presence is

considered useful by the Committee itself shall be invited to participate in meetings of the Committee for matters involving their respective areas of responsibility.

The Committee provides advisory, proposal making and fact-finding activities for the Supervisory Board, making use of outside 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 and opinions:

- for decisions that the Supervisory Board will submit for approval to a shareholders meeting;
- for the remuneration of Governing Bodies;
- for setting Remuneration Policies.

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

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

The Committee has in any event the duty to make proposals for the remuneration of the General Manager (if appointed) and the Senior Deputy General Manager as well as for any specific remuneration paid to them and for the remuneration of additional personnel for which the methods of remuneration and incentivisation are decided by the Supervisory Board in accordance with the provisions of Circular No. 285 of 17th December 2013 issued by the Bank of Italy as interpreted in the UBI Group's remuneration and incentive policies. It also provides consultation in relation to determining the criteria for the remuneration of all Key Personnel. It informs the Supervisory Board appropriately in its verifications on at least an annual basis concerning the proper implementation of remuneration and incentive policies.

The Committee also:

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

The Remuneration Committee met 15 times in 2016, the average length of the meetings was approximately an hour and forty-five minutes and all the meetings were properly minuted. During the year, the Committee supported the Supervisory Board for the preparation of the proposal to be submitted to the Shareholders' Meeting of 2nd April 2016 for the determination of the remuneration to be assigned to the Supervisory Board at the time when the mandate of the same Board was renewed.

Following the renewal of the Supervisory Board, the new Remuneration Committee which took office on 13th April 2016 proceeded to the formulation of a proposal to the same Supervisory Board for the distribution of the total amount set by a Shareholders' Meeting for the remuneration of the Chairman, the Senior Deputy Chairman and the Deputy Chairmen of the

Supervisory Board, as well as those members of that Board to whom specific offices, powers or functions have been assigned by the Articles of Association or by the Supervisory Board itself. This allocation took account of, amongst other things, any possible allocation of Supervisory Body functions pursuant to Legislative Decree No. 231/2001, in compliance with the criteria set by the Articles of Association;

The Committee also submitted a proposal to the Supervisory Board for the remuneration of the members of the newly appointed Management Board, the Chairman and Deputy Chairman of the Management Board and the Chief Executive Officer.

During 2016 the Committee also carried out activities within its remit in relation to:

- activities on behalf of the Supervisory Board for the approval of Incentive and Remuneration Policies that regard employees and associate workers not bound to companies by employee contracts;
- activities on behalf of the Supervisory Board for verifying compliance with Group Policy of the remuneration scheme based on financial instruments (shares of the listed Parent, UBI Banca), submitted to a Shareholders' Meeting for approval;
- activities on behalf of the Supervisory Board for the approval of the Remuneration Report submitted to a Shareholders' Meeting for approval;
- activities on behalf of the Supervisory Board for defining the criteria for determining remuneration in the event of the early termination of an employment relationship or position, submitted to a Shareholders' Meeting for approval;
- activities for the Supervisory Board to increase the 1:1 ratio between fixed and variable remuneration for those employed in the Investment Area of the subsidiary undertaking Pramerica SGR subject to the approval of the Shareholders' Meeting;
- verification of the trigger conditions and the performance objectives for the 2015 incentive scheme;
- activities on behalf of 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;
- specific assessment of the incentives schemes of the subsidiaries UBI Pramerica SGR and IW Bank, in relation to the particular fields in which these subsidiaries operate.

The activities of the Committee were supported by an external consultant from Ernst and Young, who has already been assessed and found to be free from situations that would compromise their independence.

The committee reports to the Supervisory Board on the activities performed in the first meeting.

The Remuneration Committee has met three times so far in 2017.

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, if appointed, and other members of the Supervisory Board with certain specific responsibilities, powers and functions pursuant to the Articles of Association or in accordance with Supervisory Board decisions requiring, amongst other

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

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

Management Board

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

As provided for by Remuneration Policies for members of the Management Board, the maximum total fee payable to each member of the Management Board, with the exception of those relating to the “special assignments” of the Chairman, the Deputy Chairman of the Board and the Chief Executive Officer, for membership of the Management Board and where relevant the Governing Bodies of Group banks and companies, is equal to the amount due for the position of member of the Management Board (currently €120,000 per year), plus 2/3 (and therefore a potential maximum amount of €200,000 per year).

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

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

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

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

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.

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

No special payments are generally envisaged for the early termination of the employment relationship or of membership of the Management Board or the Supervisory Board. We note only that *Dott.* Osvaldo Ranica, a member of the Management Board, who is an employee of the subsidiary undertaking Banca Popolare di Bergamo S.p.A., has a job-security agreement, entered into in January 2002 and in brought into compliance with current remuneration and incentive regulations on 23rd December 2015 (Circular No. 285 issued by the Bank of Italy on 17th December 2013 7th update of 18th November 2014 section VII), which, in the event of termination of the employee relationship at the initiative of the Bank, involves the granting of

an indemnity in accordance with the Remuneration and Incentive Policies of the Group as applicable at the time of the termination of employment. Further information is given in the Remuneration Report.

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 (if appointed) in particular.

In 2015 a new management succession process (“Leadership & Succession”) was commenced with assistance from a leading independent specialist firm, again designed to ensure future continuity for management and avoid negative, operational and reputational repercussions, by following a succession planning approach based on continuity.

The process identified above involves structured assessment of senior management staff that fill roles of responsibility in the Group (skills and adequacy for the position occupied and market benchmarking).

Each manager is assessed individually through in-depth interviews, together with the acquisition of a very full set of references, conducted by external specialist firms. The assessment therefore provides an indication of strengths and areas for improvement as well as providing a summary assessment to identify possible candidates to succeed to the roles of Chief Executive Officer and General Manager, if appointed.

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, if appointed, and/or Chief Executive Officer, the results of the structured assessment therefore represent a point of reference for decisions relating to new appointments and for the assessment of potential candidates.

The results of the assessment are discussed and validated by the Appointments Committee, which is responsible for continuously evaluating 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.

These results are then submitted to the Supervisory Board and Management Board, for consideration within the limits of their remits.

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

UBI Banca has also had a structured “management appraisal” process in place since 2009, designed to enhance the leadership development of UBI 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.

The methodology, output and procedures of the “management appraisal” process are similar to the process described above and they are carried out with support from a leading specialised firm.

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

9) Internal Control Committee

Until the renewal of the governing bodies at the Shareholders' Meeting of UBI Banca held on 2nd April 2016, the Internal Control Committee was composed of the following members of the Supervisory Board:

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

(*) Enrolled in the Register of Statutory Accounting Auditors

Since 13th April 2016 the Internal Control Committee has been composed of the following members of the Supervisory Board:

- Giovanni Fiori, as the Chairman (*)
- Pierpaolo Camadini
- Patrizia Giangualano
- Renato Guerini (*)
- Sergio Pivato (*)

(*) Enrolled in the Register of Statutory Accounting Auditors

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

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

- it oversees the functioning of the internal control system as a whole and ascertains the effectiveness of the units and functions involved in the system itself and that they are properly co-ordinated, initiating corrective action for shortcomings and irregularities where they are found;
- assessment of the basic elements of the general architecture of the internal control system (powers, responsibilities, resources, information and management of conflicts of interest);
- it oversees the completeness, adequacy, functionality and reliability of the RAF;
- it oversees the process for calculating internal capital (inclusive of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process" (ILAAP) processes) and the completeness, adequacy, functionality and reliability of internal risk measurement systems for calculating capital requirements and that they comply with regulatory requirements;
- it provides an opinion on the appointment and removal of the heads of the compliance, risk management and internal audit functions and the senior officer responsible for preparing the corporate accounting documents pursuant to article 154 *bis* of The Consolidated Finance Act, by submitting its assessment of the candidates to the Risk Committee;
- it examines periodic reports on the activities carried out by control functions and also the results of the self-assessment of internal Group adequacy in terms of the principles of the Supervisory Review and Evaluation Process (SREP) of the competent supervisory

- authorities;
- verification of the proper performance of strategic control and management activities by the Parent in relation to Group companies;
 - it oversees compliance with laws, regulations and the Articles of Association, the proper performance of management activities and the adequacy of the Bank's organisational structure and its accounting systems;
 - communication to the Bank of Italy of events or facts which might constitute a management irregularity or an infringement of banking regulations pursuant to article 52 of the Consolidated Banking Act. Should the Committee become aware in the course of its activities of circumstances that may be relevant pursuant to article 52 of the Consolidated Banking Act, it shall inform the Supervisory Board and Management Board of the shortcomings and irregularities found, and it shall request corrective action to be taken and monitor its effectiveness over time;
 - verification and study of the causes and remedies for management irregularities, performance problems and shortcomings in organisational structures and accounting systems, with particular attention paid to regulations concerning conflicts of interest and infringements of rules governing the provision of investment services;
 - examination of the Group's policy on whistleblowing and performance of the activities assigned to it by this policy, including regular assessments of the reports received;
 - assessment of proposals formulated by the independent auditors for their engagement, examining their professionalism and experience to ensure these qualities are adequate for the size and operational complexity of the Bank;
 - assessment of reports for Shareholders' Meetings called in accordance with article 2364-*bis* of the Italian Civil Code, and also for any other Shareholders' Meetings, ordinary or extraordinary, on its supervisory activities carried out, on omissions and on irregularities observed.

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

- the financial reporting process;
- effectiveness of the system of internal control, internal audit and risk management;
- the external statutory audit of separate and consolidated accounts;
- the independence of auditors particularly with respect to the provision of non-audit services.

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

The members of the Internal Control Committee are also members of the Supervisory Body of UBI Banca pursuant to Legislative Decree No. 231/2001, which met six times in 2016. 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.

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

Furthermore, in order to carry out its activities to support the Supervisory Board in exercising the supervisory duties assigned to it by Circular No. 285 of 17th December 2013 issued by the Bank of Italy, the Committee co-ordinates with the Risk Committee. More specifically, the regulations require that the Committee and the Risk Committee exchange all information of mutual interest.

Until the renewal of the governing bodies in April, this was co-ordinated by means of the participation of a member of the Internal Control Committee in meetings of the Risk Committee;

after this date, co-ordination was achieved because two members of the Internal Control Committee are also members of the Risk Committee.

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, it also activates the Internal Audit Function in response to extraordinary requests for inspections and/or investigations made by the Chief Executive Officer. The Committee reports on the activities and investigations it has carried out, including the tasks assigned to the Internal Audit Function, at meetings of the Supervisory Board. In order to carry out its activities, the committee may also identify and make use of external consultants, at the Bank's expense.

The Internal Control Committee met 26 times in 2016 (the average length of each meeting was approximately two hours). All the meetings were properly minuted. The members (each for the period of their membership) were present at the following number of meetings: *Prof. G. Fiori*, 17 meetings; *Dott.ssa P. Giangualano*, 17 meetings; *Dott. R. Guerini*, 16 meetings; *Prof. S. Pivato*, 24 meetings; *Avv. P. Camadini*, 26 meetings; *Dott. A. Gusmini*, 9 meetings and *Dott. C. Garavaglia*, 8 meetings; and *Dott. G. Gola*, 8 meetings.

Members who were unable to attend a meeting gave reasons for their absence.

The Chief Audit Executive, the Chief of the Compliance Function and the Chief Risk Officer 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 2016. 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 reports periodically to the Supervisory Board on its activities. 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 2016 the Internal Control Committee focused mainly on the following activities:

- the most important issues concerning the internal control system of the Bank, for the purpose of evaluating the adequacy of the same, as follows:
 - the main legislative and regulatory changes in areas relevant to the general architecture of the Group's system of internal controls;
 - issues concerning the system of powers, the definition and attribution of responsibilities, the management of resources (with particular regard to remuneration and incentive schemes) and the management of conflicts of interest, including verification of the limits to the accumulation of positions, the ban on interlocking positions and activities to comply with the fit and proper requirements of the Supervisory Authority;
 - the organisation and structure of the Bank and its subsidiaries, including reference to changes in the number of Group companies and the information relating to the senior management of the Bank and its subsidiaries. In this context, a detailed investigation of the implementation of the Single Bank Project has been performed, with the start of the process for the merger of the seven Network banks into UBI Banca, which will be completed in the first quarter of 2017 and is constantly monitored by the Internal Control Committee;

- the reporting lines, with particular regard to the reports made by the organisational units responsible for controls, also including the co-ordination of corporate control functions;
- the issues relating to the IT system, with particular reference to the checks carried out by the Chief Information Officer on the adequacy of the Business Continuity Plan of the Group and the development of the IT Governance Transformation Project;
- assessment of the adequacy of the organisational structure and accounting systems of the Bank, taking into account information provided by the independent auditors and reports made by the Chief Financial Officer;
- matters concerning anti-money laundering, transparency, usury and compound interest;
- transactions with related and connected parties, checking, amongst other things, the implementation of regulatory updates into internal regulations;
- activities to prepare for the UBI Banca Shareholders' Meeting;
- the Group's policy on whistleblowing and the performance of activities connected with the management of reports made by staff using the procedure provided for this;
- on the supervision of the adequacy of the system for managing and monitoring risk and of the compliance of the ICAAP process with the regulatory requirements, with reference to both the requirements for the Group to submit periodic reports to the Bank of Italy and the ICAAP and ILAAP processes;
- the evaluation of the activities plan of the corporate control functions and of their periodic reports on the activities carried out (Internal Audit, Corporate Anti-Money Laundering Officer, Compliance, Risk Management and Complaints), also with reference to those that concern the assessment of the internal control and risk management system;
- on the policy-setting and co-ordination activities of the Parent, with particular attention to its subsidiaries, including specific investigations into the subsidiary undertakings affected by particular corporate ownership transactions or significant issues;
- the provision of investment services;
- 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;
- 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 by the European Central Bank and the Bank of Italy at the Bank and at subsidiaries;
- 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 on projects in progress on the operational tools of the function, also in order to monitor its independence, adequacy, efficiency and effectiveness.

As concerns the activities performed in 2017 we report that, at the date of this report, the Internal Control Committee has set the dates of its meetings until 31st March, planning to hold five meetings, two of which have already been held.

The committee reports to the Supervisory Board on the activities performed in the first meeting.

10) Risk Committee

Until the renewal of the governing bodies in April 2016, the Risk Committee was composed of the following members of the Supervisory Board:

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

Since the new Supervisory Board took office on 13th April 2016, the Risk Committee has been composed of the following board members:

- Paola Giannotti - as the Chairwoman;
- Francesca Bazoli;
- Patrizia Michela Giangualano;
- Gianluigi Gola (resigned from the position of board member on 22nd December 2016)
- Lorenzo Renato Guerini

Prof. Sergio Pivato was appointed to replace the resigning Board Member on 2nd February 2017.

A majority of the members of the Committee are independent board members with an independent Chairman in accordance with the Corporate Governance Code. At least one member of the committee must possess adequate experience in accounting and finance or risk management.

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

The purpose of the Committee, which is governed by special regulations (published in the Corporate Governance/Supervisory Board section of the Bank's website) which determine its duties and how it functions, is to support the Supervisory Board by performing assessments, furnishing advice and submitting proposals in those areas overseen by the Board as a strategic supervisory body in accordance with supervisory provisions as applicable at the time (in particular Bank of Italy Circular No. 285 of 17th December 2013) relating to risk and the internal control system inclusive of determination of the Risk Appetite Framework (RAF) and risk management policies, the approval of the proposed separate and consolidated financial reports and the examination of the half-year financial report and, if they have been prepared, the quarterly financial reports. Without prejudice to the responsibilities of the Remuneration Committee, the Committee helps to ensure that remuneration policy reflects and promotes sound and effective risk management.

More specifically the Committee:

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

- assesses the proper use of accounting policies for the preparation of separate and consolidated financial reports and to this end it co-ordinates with the Senior Officer responsible for the preparation of corporate accounting documents and with the Internal Control Committee.

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

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

While the responsibilities of the Remuneration Committee remain, the Committee checks that the mechanisms underlying incentive schemes operating within the remuneration and incentive system of the Bank and the Group are consistent with the RAF. The Committee supports the Supervisory Board – co-ordinating with the Remuneration Committee – in defining the process for the identification of Key Personnel (“material risk takers”) and takes part in the identification and exclusion process for the definition of the relative perimeter. The Committee supports the Supervisory Board in the assessment of strategies and implementation plans for the management of non-performing loans, ensuring that they are consistent with the RAF and the strategic plan.

The Committee met 14 times in 2016. The average length of each meeting was approximately three and a half hours. The members of the Risk Committee also attended a joint meeting with the Remuneration Committee to examine matters of common interest as part of the process of updating the 2017 remuneration and incentive policies.

Given the above, in 2016 the Committee mainly examined and investigated the following issues:

- updating policy and related implementation regulations and documents setting operational limits for the management of risks including financial, credit, operational, IT, reputational and equity risks;
- updating the “ Risk Appetite Statement - 2017”;
- updating the internal regulations concerning i) the Internal Validation framework, ii) the second level credit control process, iii) the ICAAP, ILAAP and Disclosure processes, iv) processes to develop, change and extend the IRB credit risk management systems, v) the UBI SREP Dashboard process for management reporting of self-assessment on the basis of the main areas of SREP analysis;
- highlights of the ICAAP and ILAAP processes, together with the reports made by the Internal Audit Function;
- quarterly risk report and pillar 3 Disclosures;

- quarterly self-assessment report for the main areas of SREP analysis (UBI SREP Dashboard);
- reports on second level credit control activities;
- Reputational Risk Reporting, in an initial framework version;
- documentation relating to requirements for reporting to the Supervisory Authority as a result of the authorisation to adopt internal models for calculating capital requirements for credit risks and operational risks.
- reports on the activities of the Risk Control and Internal Validation functions in 2015;
- activity plans for the Risk Control, Compliance, Audit and Internal Validation functions in 2016;
- activity plan relating to second level credit control activities;
- verification of the consistency of the growth objectives in the 2005-2007 Industrial Plan with the Group's Risk Appetite Framework;
- outcomes of the 2016 European Banking Authority (EBA) EU-wide Stress Test;
- examination of the evaluations provided by the Supervisory Authority concerning the decision establishing prudential requirements (the SREP Decision);
- pre-application e application package for applications to authorise the extension and change of the internal models for the calculation of capital requirements for credit risks.
- revision of the roll-out plan for advanced approaches such as AIRB/IRB and AMA;
- verification of the consistency of the Risk Appetite Framework with the mechanisms underlying incentive schemes operating within the remuneration and incentive system.

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

- disclosure of the main aspects of financial statements and periodic financial reports;
- information on the methodological and procedural approach of the impairment test recognised on goodwill and shareholdings and their results;
- information on the most significant IT and accounting aspects of the Single Bank Project, including the accounting treatment of extraordinary impacts due to the implementation of the project in the context of the Industrial Plan approved in June 2016;
- 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, as well as the impacts of adopting an even more prudential approach for the evaluation of deteriorated loans, with a view to reducing the time taken to recover and reduce the portfolio within the time horizon of the Industrial Plan;
- the state of the UBI Group's tax litigation and the examination of the legal opinions provided on the most significant cases and information on proposals to settle some of the disputes;
- the accounting effects of the introduction of new regulations and tax legislation;
- updates to the Group Accounting and Reporting Manual and the newsletters issued on the main changes relating to accounting;
- performance of the main project initiatives that affect the Administration and Tax Obligations Area, with particular reference to the state of progress of the initiative concerning compliance with the IFRS 9 accounting standard;
- budgetary aspects of expenses and contributions connected with interventions in the Atlante Fund, the National Resolution Fund, the Deposit Guarantee Scheme and the voluntary Interbank Deposit Protection Fund scheme

The Risk Committee has met three times so far in 2017.

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

The committee reports to the Supervisory Board on the activities performed in the first meeting.

11) Related and Connected Parties Committee

Until the Shareholders' Meeting of 2nd April 2016, the Related and Connected Parties Committee was composed of the following members of the Supervisory Board:

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

Since the newly-elected Supervisory Board took office on 13th April 2016, the Related and Connected Parties Committee has been composed of the following board members:

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

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

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

As provided for by the regulations governing UBI Banca related-party transactions, the following persons may be called upon to participate in meetings of the Committee, in relation to the subject dealt with: the Chairman of the Management Board, the Chief Executive Officer, the Chairman of the Supervisory Board, the chiefs of the corporate functions of the Bank and its subsidiaries in relation to the details of the Related-Party Transaction, the chiefs of the Internal Audit Function, external advisors appointed to assist the Bank or one of its subsidiaries in the negotiations concerning the UBI Banca Related-Party Transaction on which the Committee must express a prior opinion and any other person whose presence is deemed useful by the Committee in formulating its opinion.

As provided for by the regulations governing UBI Banca related-party transactions, the following persons may be called upon to participate in meetings of the Committee, in relation to the subject dealt with: Senior Officers and any other persons whose presence is deemed useful by the Committee in formulating its opinion.

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

- by the "Regulations for UBI Banca Spa 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 27th December 2006 - 9th amendment of 12th December 2011, and subsequent updates, "New regulations for the prudential supervision of banks", containing measures concerning "risk assets and conflicts of interest with connected parties".

The procedures of the Related and Connected Parties Committee 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 Spa related-party transactions" govern rules relating to the identification, approval and implementation of related-party transactions performed by Unione di Banche Italiane Spa, 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 24th 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 operations 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 Spa, 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 14 times in 2016 (the average length of the meetings was around one and a half hours), concentrating mainly on the following fields:

- examination and reading at the start of the activities of the new Committee after 13th April 2016, of the overall functional and regulatory framework for related and connected parties, with particular attention to: the legislative and regulatory sources, the subjective perimeter (which are the related and connected parties), the objective perimeter (the characteristics of transactions with related and connected parties) and the exemptions permitted and controls identified by the current provisions.
- examination and reading of the information concerning the updating of the procedure for mapping the related and connected parties of UBI Banca, carried out by the corporate units responsible following the appointment of the members of the Supervisory Board and the Management Board of UBI Banca and the control and verification activities performed by the units of the Bank;
- issuing a reasoned opinion on merger transactions and the rationalisation of the organisational model of the Group, on the basis of the Single Bank Project and, in particular, the interest of UBI Banca in carrying out the merger of BRE and BPCI into UBI Banca and the purchase of privileged and savings shares by the Fondazione CRC, in the terms defined, and on the appropriateness and substantive fairness of the above;
- examination and reading of the public disclosure on related-party transactions, in the contest of the merger of the Network banks into UBI Banca, drawn up in accordance with Art. 5 of the Consob Regulations for Related Party Transactions” (Consob Resolution No. 17221/2010) with specific regard to the correctness of the procedures involved;
- examination and reading of the letter received from the Fondazione Banca del Monte di Lombardia, concerning the agreement between UBI Banca and the Foundation in question, and the text of the letter of reply approved by the Management Board.
- examination and reading of the report provided by the Credit Area concerning the direct and indirect relationships with the Group held by the Members of the Supervisory and Management Board;
- examination and reading of the report on the recipients of charitable donations made by UBI Banca in 2015;

- opinion concerning transactions of lesser importance with related parties, pursuant to Art. 13 (Decision-Making Procedures for Transactions of Lesser Importance) of the Regulation to govern transactions with parties related to UBI Banca;
 - examination and reading of the report pursuant to Art. 14 (Decision-Making Procedures for Transactions of Lesser Importance) of the Regulations to govern transactions with parties connected to UBI Banca;
- reading and examination of reports pursuant to Art. 15 of the Regulations for transactions with parties connected with the UBI Group / Regulations for UBI Banca S.P.A. related-party transactions (Decision-making procedures for transactions with connected parties/related parties subject to the provisions of Art. 136 of the Consolidated Banking Act);
- 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;
 - 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 (“Internal Board Committees”);
 - examination and reading of the periodic financial report on related-party transactions in the annual and interim management reports;
 - opinion concerning the updating of the “Regulation to govern transactions with parties related to UBI Banca” and the “Regulations to govern transactions with parties connected to the UBI Banca Group”, designed to enable strengthened and innovative controls.

The Related and Connected Parties Committee has already met twice in 2017.

The Related and Connected Parties Committee submits regular special reports to the Supervisory Board on the activities performed.

The committee reports to the Supervisory Board on the activities performed in the first meeting.

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

Without prejudice to legal obligations, two members of the Management Board are selected from among the senior management of the Bank. The board member nominated as the Chief Executive Officer in accordance with article 33 of the Articles of Association is not counted in that number even if he is a senior manager of the Bank at the time of his appointment or is appointed to that position subsequently.

The members of the Management Board 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 article 38, letter a) of the Articles of Association and they may be re-appointed. Members of the Management Board who also hold positions as senior managers of the Bank shall vacate their office as board members immediately, the moment they leave their positions as senior managers, no matter what the reason.

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

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

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

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

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

senior management and/or strategic supervision

or

management

in

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

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

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

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

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

Until 13th April 2016 the Management Board was composed of the following members:

Franco Polotti	Chairman
Giorgio Frigeri	Deputy Chairman
Victor Massiah	Chief Executive Officer
Silvia Fidanza	Board Member
Luciana Gattinoni	Board Member
Italo Lucchini	Board Member

Ettore Giuseppe Medda	Board Member
Flavio Pizzini	Board Member
Elvio Sonnino	Board Member

On 14th April 2016 the Supervisory Board appointed the following members of the Management Board for the three-year period 2016/2017/2018 and also proceeded to appoint *Dott.sa* Letizia Maria Brichetto Arnaboldi as Chairwoman and *Dott.* Flavio Pizzini as Deputy Chairman, designating *Dott.* Victor Massiah as Chief Executive Officer, who was then appointed by the Management Board at their meeting on 15th April 2016.

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

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

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

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 Bank in June 2009, subsequently modified by decisions taken by the Supervisory Board on 18th July 2012, and implemented by the banks in the Group, apply to the Management Board.

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

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

With regard to groups of companies, for persons belonging to subsidiaries who also perform the same function in the Parent, the regulations allow a reduction by fifty percent of the weighting for the position occupied in the subsidiary company, in consideration of the synergies resulting from a knowledge of the facts and conditions that concern the entire group to which they belong and which therefore reduce, other conditions remaining the same, the commitment involved compared to that required for activities performed in other similar, but independent companies. Similarly, the regulations allow a reduction of thirty percent in the weighting for positions occupied by members of the Management Board of UBI Banca in companies in which the UBI Group holds a strategic investment, or in associates. There are also specific rules for the directors and statutory auditors designated by authorities and

partners of the UBI Group by virtue of shareholders' agreements and those who hold posts in the Parent company and subsidiaries of a group other than the UBI Group, for which positions held in the subsidiaries of the said outside group are exempt.

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

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

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

Following the renewal of the Management Board in April 2016, in December the self-assessment process on the size, composition and functioning of the Board, in relation to the first year of its term of office started, with the consultancy support of Korn Ferry, subject to confirmation of the independence of the consultant.

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

The areas of analysis covered by the self-assessment included: 1) the mandate of the Board; 2) the composition of the Board; 3) the contribution made by the board members; 4) internal dynamics; 5) implementation of the mandate; 6) secretarial and training support.

On the basis of the results of the questionnaires it was found that the Board operates appropriately and consistently with its mandate. Some key areas of intervention were identified: (i) start the discussion on the governance model in order to improve synergies in the decision-making process with a view to both the short and long terms; (ii) broaden the range and depth of expertise in the Management Board by means of outside support (monitoring unit/advisory board) on key themes such as: Digital/Fintech - International Benchmarking; (iii) further express the discussion of and alignment with the "*Fare Banca Per Bene*" (to do banking well and fairly) strategic driver, in agreement with the Supervisory Board; introduce a set of indicators to support the Board in monitoring and discussing the management of the Bank. In this context, a specific induction programme has commenced in order to facilitate an increase in the range and depth of expertise in the 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 shall meet 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 of the members in office.

Meetings are held alternating between the city of Bergamo and the city of Brescia and around

once a year in the city of Milan.

During 2016 the Management Board met 36 times and the average length of meetings was around four hours and thirty minutes.

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

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

In compliance with Borsa Italiana regulations, in January UBI Banca announced its calendar of corporate events for 2017 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 its meetings for 2017 and arranged meetings relating to the examination of the operating and financial results for the period, with 25 meetings planned, of which five have already been held.

At least one member of the Internal Control Committee shall attend meetings of the Management Board 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. 28 of the Articles of Association, according to which the Management Board is responsible for managing the Bank in compliance with the general guidelines and strategic policies approved by the Supervisory Board, with account taken of the proposals made in relation to this by the Management Board itself. 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 operating nature.

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

- a) the formulation of the strategic policies and plans of the Bank and the Group, on the basis of proposals from the Chief Executive Officer, to be submitted to Supervisory Board for approval with account also taken of recommendations concerning them made by the Supervisory Board;
- b) granting and revoking the powers of the Chief Executive Officer. The selection of the member of the Management Board to whom powers are granted must be performed on the basis of a non-binding proposal from the Supervisory Board, decided in turn, subject to a proposal by the Appointments Committee. If this proposal has not been made by the Appointments Committee with the quorum required by the relative regulations, the proposal submitted by the Supervisory Board to the Management Board shall be decided with the vote in favour of at least two thirds of the members of the Supervisory Board. The revocation of the powers is decided by the Management Board with the vote in favour of all the members of the Management Board, except for the person concerned, after consultation with the Supervisory Board;
- c) the formulation, on the basis of proposals from the Chief Executive Officer, of the business and/or financial plans and the budgets of the Bank and the Group to be submitted to the Supervisory Board for approval pursuant to Art. 2409-terdecies of the Italian Civil Code;
- d) setting of risk management guidelines and policies including those relating to non-compliance with internal regulations and controls, to be submitted to the approval of the

- Supervisory Board;
- e) conferring, modifying or revoking authorisations and powers and assigning specific functions or authorisations to one or more board members;
 - f) the possible appointment and removal of the General Manager and other members of General Management, defining their functions and responsibilities and also the appointment of the senior management of the Company and the companies in the Group;
 - g) the appointment to the position of member of the Board of Directors and of the Board of Statutory Auditors of the companies belonging to the Group;
 - h) proposals concerning the acquisition or disposal of controlling investments in companies and the acquisition or disposal of non-controlling investments where the amount is greater than 0.01% of the regulatory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
 - i) opening and closing down of branches and agencies;
 - l) determination of the organisational, administrative and accounting structure of the Bank, to be submitted to the Supervisory Board for approval, and, without prejudice to the exclusive powers of the Supervisory Board pursuant to article 41 of the Articles of Association, setting up committees or commissions with advisory, investigative, controlling or co-ordinating functions, without prejudice to Art. 33, paragraph two of the Articles of Association;
 - m) the approval and amendment of the regulations of the Bank and the Group, with exception made for the responsibilities and powers of the Supervisory Board pursuant to article 38, paragraph one, letter r) of the Articles of Association;
 - n) determination of the criteria for the co-ordination and management of Group member companies and also the criteria for implementing instructions issued by the Bank of Italy;
 - o) subject to the compulsory opinion of the Supervisory Board, appointing and removing the Manager in charge of drawing up the accounting documents, pursuant to Art. 154-*bis* of the Consolidated Finance Act and determining the remuneration for this. In addition to the requirements of integrity prescribed by the current regulations in force for persons performing administrative and management functions, the Senior Officer Responsible for preparing financial reporting documents officer must also possess requirements of professionalism with specific administrative and accounting expertise in the banking, finance, investment or insurance fields. This expertise, to be verified by the Management Board, must have been acquired through experience in positions of appropriate levels of responsibility for a reasonable period of time and in comparable companies;
 - p) the appointment and removal, in agreement with the Supervisory Board, of the Anti-Money Laundering Officer;
 - o) the preparation of separate financial statements and consolidated financial statements proposed for approval;
 - r) 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;
 - q) obligations of the Management Board pursuant to articles 2446 and 2447 of the Italian Civil Code;
 - r) formulation of merger or demerger plans;
 - u) proposals for strategic transactions pursuant to Art. 38, paragraph one, letter m) of the Articles of Association to submit to the Supervisory Board for approval;
 - v) definition of criteria to identify related-party transactions for which responsibility will lie with the Board itself.

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

Special regulations govern the functioning of the Management Board 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 appointment of new Management and Supervisory Boards, a series of induction meetings on issues significant to the activities of listed banks started in September 2016, with the support of specialised outside consultants; twelve meetings had been held by the end of 2016.

In the context of the investigations, a meeting between the members of the Management and Supervisory Boards was held to examine strategic matters concerning possible developments in the banking system, in the Italian and European context and in view of technological developments, with contributions from leading speakers,

A workshop session was also organised, on the subject of the technological developments that affect the methods used to provide banking and financial services.

12.4. Executive officers

Chief Executive Officer and General Manager

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

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

- to 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 Bank and Group member companies to the Management Board, in agreement with the Chairman and Deputy Chairman of the Management Board and after consultation with the General Manager (where the two positions are not filled by the same person and if appointed);
- to promote integrated risk management;
- to make extraordinary requests for inspections and investigations to the internal control function through the Internal Control Committee.

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

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

Finally, the Management Board, consistent with the organisational and management responsibilities assigned to the Chief Executive Officer, 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 article 30 of the Articles of Association. More specifically, the Chairman of the Management Board, who acts as the Bank's legally authorised representative and authorised signatory, performs the tasks that are typically carried out by the Chairman of a company's management body, which he performs by liaising with the other Article of Association regulated bodies where appropriate.

12.6. Other Executive Board Members

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 (article 30) also assign powers and functions to the Chairman and the Deputy Chairman which underline their involvement in the management of the Bank.

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

12.7. Independent board members

In accordance with the Articles of Association, at least one member of the Management Board must possess the requirements of independence pursuant to Art. 148, paragraph 3 of the Consolidated Finance Act, 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 established that the board member *Dott.ssa* Silvia Fianza met the above requirements. In this context, in compliance with, amongst other things, the Bank of Italy regulations concerning corporate governance, an analysis of the lending relationships between each board member and the Group was carried out.

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

13) The Board of Arbitrators

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

and may be re-elected.

They provide their services free of charge, except for the reimbursement of expenses. Justifiable grounds must be given for their removal.

If a Full Arbitrator vacates his position during his three-year period of office, he is replaced by the most senior alternate member by age. If the Chairman of the Arbitrators vacates his position, the chairmanship is taken by the most senior Full Arbitrator by age for the remainder of the three-year period. If as a result of replacements, the number of the remaining alternate members falls to one, then a Shareholders' Meeting shall elect the Arbitrator required to make up the total number.

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

Appeal may be made to the Board of Arbitrators to settle any disputes that may arise between the Bank and/or Shareholders over the interpretation or application of the Articles of Association and over any other resolutions or decisions taken by the governing bodies of the Bank concerning its business. It decides as a friendly arbiter by absolute majority vote.

Without prejudice to the legislation and regulations currently in force, application to the Board of Arbitrators is not compulsory. Its decisions are not binding on the parties and do not constitute a hindrance to taking disputes before the courts or any other any authority with jurisdiction for settlement.

The Board of Arbitrators regulates its own proceedings as it deems appropriate without being bound by procedural formalities.

The Management Board and the General Manager, if appointed, or an employee designated by him are required to provide the arbitrators with all the information that they may request concerning disputes to be settled.

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

On 25th April 2015 a Shareholders' Meeting appointed the following Board of Arbitrators for the three-year period 2015-2017:

Prof. Rodolfo Luzzana - Chairman

Avv. Giampiero Donati - Full arbitrator

Avv. Attilio Rota - Full arbitrator
Avv. Giuseppe Onofri - Alternate arbitrator
Avv. Pierluigi Tirale - Alternate arbitrator

14) General Management

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

The Management Board appointed *Dott. Elvio Sonnino* as Senior Deputy General Manager *Dott. Frederik Geertman* (from 1st August 2016) and *Dott.ssa Rossella Leidi* Deputy General Managers who have been assigned various responsibilities in the Group.

15) Internal control and risk management system

Introduction

During 2016 the Supervisory Board, assisted by the Internal Control Committee, the other internal committees for the areas in which they operate and the control functions, assessed and oversaw, within the scope of its remit, the adequacy, completeness, functionality and reliability of the organisational, administrative and accounting structure, with particular reference to the internal control and risk management system, including those that may become relevant in relation to the medium to long-term sustainability of the activities of UBI Group. The Supervisory Board, after prior consultation with the Internal Control Committee, evaluates the adequacy of the internal control system on the basis of reports made by Internal Audit, which also take into account the assessments made by the other corporate control functions.

Internal controls

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

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

The process of defining and managing the internal control system and verifying its completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability form part of the responsibilities of the corporate bodies which fulfil strategic supervision, control and management functions, supported by the control functions. In order to accomplish this, the Supervisory Board makes use of the Internal Control Committee and the Risk

Committee which it forms directly itself (the composition, powers and functioning of the Internal Control Committee and Risk Committee have already been examined in this report in the section specifically on internal board committees).

UBI Banca Group Internal Control System Policy

In the context of the modifications required by the supervisory regulations concerning the “system of internal controls” (Bank of Italy Circular No. 285 of 17th December 2013: Title IV, Chapter 3 “The system of internal controls”) on 1st July 2014 the Supervisory Board approved 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:

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

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

The principles described accordingly highlight the importance of:

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

With reference to the implementation of the internal control system, it should be noted that control activity is not the exclusive responsibility of the corporate control functions or bodies, but involves the entire business organisation (bodies, units, management hierarchy and staff)

in developing and applying logical and systematic methods to identify, measure, communicate and manage the intrinsic risks of transactions, according to their different levels of responsibility.

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

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

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 function.

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

With specific reference to second level corporate control functions, the current organisation chart includes the presence of a Chief Risk Officer (CRO), a position held by *Dott. Mauro Senati* (a direct report to the Management Board), bringing together in one sphere the Credit Risk Management Area, the Capital & Liquidity Risk Management Area, the Risk Governance Area, which also oversees the Internal Validation function, the Anti-Money Laundering & Claims Area and, a direct report to the CRO, the Data Risk Management Service as a specific unit to manage data governance under the CRO.

The same organisation chart includes a Compliance Area, currently headed by *Ing. Maria Martinelli*, reporting directly to the Management Board, divided into Banking Services Compliance, Investment and Financial Services Compliance, Governance and other processes, ICT Operations Compliance and Methodologies, Monitoring and Reporting.

The roles and units mentioned are assigned the following functions with respect to the [General Regulations of the Bank](#):

- The Chief Risk Officer: is responsible for implementation of governance policies and the risk management system, performing the control function and providing the corporate bodies with an overview of the various risks (credit, market, operational, liquidity, reputational, 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, amongst other things he proposes the risk capacity and risk tolerance levels and also validates the risk appetite proposed by the Chief Financial Officer in order to ensure that they are consistent with the RAF and with adequate levels of prudence within current and future risk targets. He proposes the allocation of internal capital by type of risk, consistently with the process of assessing internal capital (ICAAP). He also oversees the liquidity adequacy process (ILAAP). 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, amongst other things by providing regular reports and communications. He provides independent information to the governing body responsible for strategic supervision, partly by attending Internal Control Committee and Risk Committee meetings, sending reports and intervening directly. He ensures the measurement and control of the Group's exposure to different types of risk. In this respect he ensures the supervision and implementation of activities concerning risk management, partly by means of activities carried out by its own units. He is responsible for the development, validation and maintenance of the risk measurement and control systems and supervises the Group credit rating. In the framework of the overall risk management process, he ensures oversight of the second level controls connected with data quality that fall within its remit and holds the position of Process Owner for the risk measurement and anti-money laundering systems. He is responsible for defining and applying the IT risk analysis methodology together with the related process of evaluation and data processing.. He is 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. This person works alongside and co-ordinates with the other control functions for the purpose of developing a shared view on operational and methodological aspects and the actions to be taken if significant or critical events occur in order to identify possible synergies and avoid potential overlaps and duplications of activity. He contributes to the spread and development of an internal control culture within the Group. He 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 UBI 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 Bank, overseeing their implementation within the UBI Group and reporting on this to those same bodies. It uses a standard uniform approach to compliance processes, either carried out directly or assigned to other control

functions and/or specialist units 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 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 to management and to organisational units in the Bank, 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 or the other corporate control functions responsible for the management of specific compliance processes, 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 unit for the regulatory and operational areas directly assigned to it. For regulatory areas assigned to other corporate control functions (e.g. anti-money laundering, validation etc.), the function receives the outcomes of their existing compliance procedures undertaken in response to a “trace back to unit” request. 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 subsidiaries of the Group 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. This person works alongside and co-ordinates with the other control functions for the purpose of developing a shared view on operational and methodological aspects and the actions to be taken if significant or critical events occur in order to identify possible synergies and avoid potential overlaps and duplications of activity. The 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.

In December 2015 the governing bodies approved modifications to “Compliance risk management policies” made necessary following the publication of a “clarification note” by the Bank of Italy on the procedures for modifying internal controls to comply with supervisory regulations issued with Circular No. 263 and implemented in Circular No. 285 of 17th December 2013. In view of these clarifications the UBI and the UBI Group compliance model was completely overhauled in 2016. Extremely briefly the modifications regarded the following: (i) a new configuration for specialist controls (identified in the new model in “Tax Compliance”, “Prevention and Safety at the workplace”, “Privacy”); (ii) the redesign of specialist controls no longer admissible because they have been assigned to the control of the whole compliance process and created under non-primary regulations (e.g. Supervisory Reporting, CSR – non-financial reporting, etc.) in the role of “Support Units”; (iii) the elimination of specialist controls identified at UBIS to oversee ICT compliance and the transfer of the areas assigned to the latter to compliance at the Parent.

These changes have necessarily entailed a revision of the organisational and operational compliance model which was carried out by changing the organisational structure of the Compliance Area from 30th June 2016 and by the approval of the amendments to the “Group regulations to manage the compliance process” in July 2016. The actions taken had the objective of bringing IT compliance activities back into the Area, improve compliance risk management, reinforcing specialist units and rationalising co-ordination with other control functions.

Additionally, in compliance with Bank of Italy recommendations on the internal control system in relation to reporting by corporate control functions in banks, in 2016 it was decided that the Chief Risk Officer and the Compliance Area would report directly to the Management Board (previously these were on the staff of the Chief Executive Officer).

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.

Regulations for the Risk Appetite Framework of the UBI Banca Group

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

- the main roles and responsibilities assigned to the main macro units involved in activities to define, implement and monitor the RAF;
- the RAF formation and approval macro processes, consistent with the Group budget and with the definition of risk-return, monitoring, reporting and internal audit objectives;
- the main lines of reporting between the group macro units involved, on the basis of a management model consistent with the operations and complexity of the UBI Group and developed in observance of the principal proportionality defined on the basis of the size of the exposure and the materiality of the risks.

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

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

Group policy on internal systems for reporting violations or “whistleblowing”

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

Reports by staff are facilitated and incentivised through the adoption by the UBI Group of measures which guarantee the reserved and confidential nature of the information given, the

protection of the personal data of the person making the report and of the person reported and also the protection of the whistleblower from being the victim of possible retaliatory, discriminatory or in any case unfair treatment as a consequence of making the report.

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

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

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

Also, in accordance with Art. 35 *bis* of the Articles of Association, the Management Board has assigned duties to the Chief Executive Officer, exclusively in support of the Management Board, with organisational, proposal-making and reporting functions on internal control matters, to be performed in close co-operation and agreement with the General Manager, if appointed, in observance of the responsibilities of the Supervisory Board on those matters and decisions made by it, for which he may also make use of the support of the second level corporate control functions.

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

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 regulations 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 Bank, and more generally on all the companies in the Group as the Parent. In short, the Internal Audit Function acts on a third level basis, providing an opinion that is independent from the second level operational and control stage, concerning the overall reliability and effectiveness of the internal control and risk management system, and also considers the ability of that system to identify errors and irregularities, operating on the basis of an activity plan extending over a number of years. A process-oriented and risk-based approach is used to define 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 corporate environment.

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 2016 by the allocation of a specific budget.

The performance of the various audit activities makes it possible to appraise the capacity of the first and second level specialist 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 their degree of reliability and, as a consequence, that of the overall internal control system. The methodological approach and the analysis and assessment procedures employed in Internal Audit activities are being progressively modified to comply with the SREP framework in line with European Supervisory requirements.

In 2016, in compliance with the policies set and the relative regulations, the Internal Audit Function audited the proper functioning of risks and changes in them and it assessed the general functioning of the UBI Group internal control system reporting to corporate bodies and to senior management on potential improvements that could be made to risk management policies and to measurement instruments and procedures.

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 core business processes, second level controls, regulatory aspects, IT governance, cyber security and the “digital bank”.

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 Control Committee and the Management and Supervisory Boards of the Parent. This reporting also provides a summary of the main situations that have emerged from the audit activities and the state of progress of the actions taken to remedy them. In the event of particularly significant circumstances it has immediately provided appropriate information sent to the management and supervisory bodies and the executive board member responsible for the internal control system.

Finally, we report that in March 2015 the Internal Audit Function obtained Quality Certification from a consulting company in terms of the “general compliance” (which corresponds to the highest level of judgement on the scale of values applied) of the effective application of the organisational design of internal audit activities and the procedures defined for carrying these out with professional internal auditing practice standards and the Ethical Code of the Profession in force at the time of carrying out the activities.

Since 30th June 2016, the organisational structure of the Internal Audit Function has been revised with the objective of increasing the correlation of the areas of operations overseen by the various units while developing an integrated view of risks to capital, risks to liquidity and funding and non-measurable risks and increasing compliance with the EBA guidelines.

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*" 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 and also self-laundering;
- 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 citizens of third party countries whose stay documents are irregular.

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

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

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 abstract of the UBI Banca Model entitled "Summary of the document describing the organisational, management and control model of UBI Banca" is available on the website of the Bank.

15.4 Independent Auditors

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

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

15.5 Senior officer responsible for the preparation of corporate accounting documents

In a meeting held on 30th April 2007, the Management Board appointed *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 article 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 or insurance fields.

The following responsibilities are conferred on that senior officer:

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

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

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

For the purposes of concrete implementation of the aforementioned legislation, the Senior Officer Responsible must be able to:

- gain direct access to all the information needed to produce accounting data. The Officer may access all sources of corporate information without the need for authorisation;
- rely on internal channels of communication which ensure accurate and proper access to intercompany information;
- define her own office and organisational unit independently, with regard to both personnel and technical means (material resources, hardware, software, etc.);
- define the administrative and accounting procedures of the Bank autonomously, also being able to benefit from the co-operation of all the offices involved in the supply of significant information;
- have powers to propose, evaluate, or veto all “sensitive” procedures within the Bank and the Group;
- participate in board meetings in which matters concerning the functions of the officer are discussed;
- make use of external consultants, where particular requirements of the Bank make this necessary;
- establish reporting systems with other roles responsible for control (independent auditors, 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 provisions introduced by Law No. 262/2005, a System of Administrative and Financial Governance has been created for subsidiaries of UBI Banca which, amongst other things, regulates internal controls for financial reports produced for listed issuers.

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

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

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

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

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

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

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

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, informative and proposal-making roles in the context of the matters within their remit.

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

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 Governing Bodies, the deadlines for the corporate control functions and the Senior Officer Responsible to hold regular discussions of subjects connected with the internal control system (e.g. the activity plan, periodic reports etc.)

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

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

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

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

16. Interests of Board Members and related-party transactions

Transactions with senior officers of the bank, with senior officers 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 those transactions relating to senior officers of banks, the provisions of Article 136 of the Consolidated Banking Act are carefully complied with.

Special IT procedures have been introduced in this respect which, on the basis of declarations issued by senior officers of companies, make it possible to identify in advance the potential assumption of a direct or indirect obligation of a senior officer 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 12th March 2010, subsequently amended by Resolution No. 17389 of 23rd June 2010, has approved regulations in this connection. 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 Group, to UBI Banca as an issuer of listed shares.

As a result of the above, the competent bodies of the Bank have approved a set of regulations concerning related-party transactions, available on the website of the bank (Corporate Governance Section/Supervisory Board), 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 29th July 2008, on 12th 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 UBI Group, the officers of UBI Leasing and Prestitalia, 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 (Corporate Governance Section/Supervisory Board).

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 of the Bank or the UBI Group, stating the nature, the terms, origin and extent. The relative resolution of the Supervisory Board must give adequate reasons, explaining 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 ensure the appropriate management of confidential and inside information (as defined in EU Regulation No. 596/2014), the Management Board has approved the procedure for the management of inside information, (including the stage when the information is generated, by defining measures that protect the confidentiality of the said information) and its disclosure to the public and the register of persons with access to inside information pursuant to Art. 18 of the Regulation.

More specifically, these procedures govern how inside information that relates directly or indirectly to the Bank or its subsidiaries is managed, by establishing the tasks and responsibilities of each unit in the Group companies in order to enable the Bank to fulfil disclosure obligations required by law.

18. Relations with shareholders

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

The “Corporate Affairs Service” (Manager *avv.* Alessio Lavieri) for retail shareholders is provided for this purpose together with the “Investor and Media Relations Area” (Manager *Dott.ssa* Laura Ferraris), which is responsible for relations with institutional investors and with the media, as well as for events and sponsorships. Information of significant importance to shareholders is also provided in special sections of the corporate website of the UBI Group (www.ubibanca.it).

The “Corporate Affairs Service”, as part of the Corporate Affairs and Relations with Authorities Area oversees relations with shareholders and co-ordinates preparations for the Shareholders' Meetings of the Bank , managing all the related activities.

The Investor and Media Relations Area reports directly to the Chief Executive Officer. It is responsible for interactions with the Italian and foreign financial markets. UBI Group share is currently followed by 22 brokerage houses. Approximately 400 institutional investors (equity and debt) were met in one-on-one or group meetings during 2016, while participation in various international conferences has made it possible to convey information to a wider audience. Investor and Media Relations is also responsible for managing media relations, both traditional and digital, planning and organising corporate events held by UBI Banca, the Group's sponsorships and co-ordinating and supporting the communication activities of Group companies. As part of its institutional duties the Investor and Media Relations Area manages and supervises the Bank's corporate website, www.ubibanca.it, as a whole, with direct responsibility for the Investor Relations and Press Sections.

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

Shareholders' Meetings are either ordinary or extraordinary.

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

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

- a) appoints and removes members of the Supervisory Board and sets the fees of the members of the Supervisory Board, as well as an additional total sum for the remuneration for those assigned particular offices, powers or functions, which is allocated in accordance with article 36. It elects the Chairman and the Senior Deputy Chairman of the Supervisory Board according to the procedures set out in article 37. Proper grounds must be given for the removal of members of the Supervisory Board;
- b) approves:
 - remuneration and incentive policies for members of the Supervisory Board and members of the Management Board;
 - remuneration and/or incentive schemes based on financial instruments;
 - criteria and limits for the determination of remuneration to be agreed in the event of the early termination of an employment relationship or early retirement from corporate office, inclusive therein of the limits set to said remuneration in terms of years of fixed remuneration and the maximum amount resulting from their application;
 - on the basis of a proposal from the Supervisory Board, a higher ratio than that of 1:1 between the individual variable and the fixed remuneration of Key Personnel, but nevertheless not higher than the maximum limit set by the regulations in force from time to time";
- 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.

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 12th 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 the Articles of Association, the transaction may not be performed if a number of non-related party shareholders who represent at least 5% of the share capital is present in the Shareholders' Meeting and the majority of those non-related party shareholders have voted against the transaction.

For resolutions to be passed upon request of the Supervisory Authority on credit matters in relation to amendments to legal regulations, both ordinary and extraordinary Shareholders' Meetings, pass resolutions by an absolute majority vote. In these cases, the provisions of article 40, paragraph five of the Articles of Association apply for resolutions for which the Supervisory Board is responsible.”.

Shareholders' meetings are held in all the cases provided for by law and by the Articles of Association and they are convened by the Management Board, or, pursuant to Art. 151-*bis* of Consolidated Finance Act, 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 Shareholders who represent at least one twentieth of the share capital and shall be held without delay following the presentation of the request, giving the grounds and the agenda.

In compliance with the procedures, according to the terms and within the time limits set by law, Shareholders who, even jointly, represent at least one fortieth of the share capital, may make an application in writing for additions to be made to the agenda to be dealt with in the Shareholders' Meeting, as it results from the notice convening the Shareholders' Meeting, with the indication in the request of the additional items proposed by them and they may also submit proposals for resolutions on matters already on the agenda. 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.

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

Those with the right to vote for whom the Bank has received a communication from the authorised intermediary certifying their legitimate right may take part in Shareholders' Meetings.

Each ordinary share gives the right to one vote, exception being made for the provisions of article 10 of the Articles of Association.

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

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

Without prejudice to the provisions of article 2372, sub-section 2, of the Italian Civil Code, the proxy may be granted for a single Meeting only, effective also for subsequent calls, but may not be granted without specifying the name of the representative.

Voting by mail is not permitted.

Members of the Management Board and similarly members of the Supervisory Board may not vote on resolutions concerning their areas of responsibility

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

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

These Regulations have been published on the Bank's website in the shareholders' section.

Shareholders' Meetings were held twice in 2016:

- on 2nd April 2016 - in ordinary session (8 out of 9 members of the Management Board and 21 out of 23 members of the Supervisory Board were present)
- on 14th October 2016 - in extraordinary session (all the members of the Management Board and 11 out of 15 members of the Supervisory Board were present).

In 2016 the equity markets showed a strong volatility: at the worldwide level, a first unfavourable stage linked to the Chinese crisis, the fall in oil prices and fears in relation to Brexit was followed by a significant rally which made it possible to recover the losses of the first half of the year. On the other hand, the Italian stock markets were affected by the negative trend in the banking sector which was driven downward by the problems that have involved various domestic banks.

The UBI Banca share ended the trading day on 30th December 2016 at 2.607 euro (-58.3% compared with twelve months before). The minimum and maximum prices for the year were €1.903 and €6.150 respectively.

The stock market capitalisation of UBI Banca at the end of the year (based on the official price) was €2.5 billion compared to €5.6 billion in December 2015, which placed UBI Banca in third place among listed Italian commercial banking groups (fifth place among all the listed Italian banking groups).¹

At the European level, the UBI Banca Group was among the first 50 institutions by stock market capitalisation in the classification drawn up by the Italian Banking Association in the European Banking Report it published in December 2016, which includes the countries of the European Monetary Union plus Switzerland.

¹ On 30th December 2016 trading in Monte dei Paschi di Siena Group shares was suspended and the capital of the bank was thus reduced to zero, while Banca Popolare and Banca Popolare di Milano were still listed as two distinct entities.

Attachment A

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

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Andrea MOLTRASIO	Chairman of the Supervisory Board	Chair of the Board of Directors: <ul style="list-style-type: none"> - Icro Didonè Spa - Clinica Castelli Spa Director: <ul style="list-style-type: none"> - Icro Coatings Spa - Italian Banking Association - Banca Popolare di Bergamo Onlus Foundation - BergamoScienza Association
Mario CERA	Senior Deputy Chairman of the Supervisory Board	= =
Pietro GUSSALLI BERETTA	Deputy Chairman of the Supervisory Board	Chairman of the Management Board and Chief Executive Officer: <ul style="list-style-type: none"> - Beretta Holding S.p.A. Chairman of the Board of Directors: <ul style="list-style-type: none"> - Benelli U.S.A. Corp. - Humbert CTTS s.a.s. - Beretta-Benelli Iberica S.A. Deputy Chairman of the Board of Directors: <ul style="list-style-type: none"> - Beretta U.S.A. Corp. Deputy Chairman of the Board of Directors and Executive Director: <ul style="list-style-type: none"> - Fabbrica d'Armi Pietro Beretta S.p.A. - Benelli Armi S.p.A. Chief Executive Officer: <ul style="list-style-type: none"> - Arce Gestioni S.p.A. Board Member: <ul style="list-style-type: none"> - Lucchini RS S.p.A. - LLC Russian Eagle
Armando SANTUS	Deputy Chairman of the Supervisory Board	= =
Francesca BAZOLI	Member of the Supervisory Board	Chairwoman of the Board of Directors: <ul style="list-style-type: none"> - Alba S.p.A. (*) Director: <ul style="list-style-type: none"> - Editoriale Bresciana S.p.A.
Letizia BELLINI CAVALETTI	Member of the Supervisory Board	= =
Pierpaolo CAMADINI	Member of the Supervisory Board	Director: <ul style="list-style-type: none"> - Finanziaria di Valle Camonica Spa - Gold Line Spa - Editoriale Bresciana Spa - ANSA – Agenzia Nazionale Stampa Associata Soc. Coop.
Alessandra DEL BOCA	Member of the Supervisory Board	= =
Giovanni FIORI	Member of the Supervisory Board	Chairman of the Board of Statutory Auditors: <ul style="list-style-type: none"> - Italconsult S.p.A. - Gamenet S.p.A. - AskaneWS S.p.A. - Cinecittà Studio S.p.A.
Patrizia Michela GIANGUALANO	Member of the Supervisory Board	= =
Paola GIANNOTTI	Member of the Supervisory Board	= =

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Lorenzo Renato GUERINI	Member of the Supervisory Board	Chairman of the Board of Directors: - 035 Investimenti Spa - Quenza Srl
Giuseppe LUCCHINI	Member of the Supervisory Board	Chairman of the Board of Directors: - Sinpar Spa - Lucchini RS S.p.A.
Sergio PIVATO	Member of the Supervisory Board	Chairman of the Board of Statutory Auditors: - SMA Spa Full Statutory Auditor: - Brembo Spa (*) - Auchan Spa

Positions held by the members of the Management Board of UBI Banca 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
Letizia Maria BRICHETTO ARNABOLDI	Chairwoman of the Management Board	Chairwoman of the Board of Directors: - Fondazione E4Impact Chief Executive Officer: - Securfin Holdings S.p.A. Director: - AON Italia srl
Flavio PIZZINI	Deputy Chairman of the Management Board	Chairman of the Board of Directors: - Fondazione Borghesi Buroni Chairman of the Board of Directors: - UBI Sistemi e Servizi Scpa (**) Board Member: - Immobiliare Due Febbraio Srl - Fondazione Lambriana Chairman of the Board of Statutory Auditors: - Impresa Tecnoeditoriale Lombarda Srl - Fondazione Opere Sociali - Fondazione Housing Sociale - Fondazione EBIS - Brevivet S.p.A. - Fondazione Achille e Giulia Boroli Sole Statutory Auditor - Novaradio Srl Receiver: - Bosa Srl in liquidation Member of the Board of Statutory Auditors: - Fondazione E4Impact
Victor MASSIAH	Chief Executive Officer/General Manager	Board Member: - Italian Banking Association - Interbank Deposit Protection Fund. - Voluntary Scheme - <i>Federazione delle Banche, delle Assicurazioni e della Finanza</i> (Federation of Banks, Insurance Companies and Finance Companies)
Silvia FIDANZA	Member of the Management Board	Executive Officer - Condor Trade Srl Chairman of the Supervisory Board: - Befado S.p. z.o.o. (Poland)
Oswaldo RANICA	Member of the Management Board	Chairman: - Italian Banking Association Regional Commission for Lombardy Deputy Chairman of the Board of Directors: - UBI Leasing SpA (**) Board Member:

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
		- Fondazione Unione di Banche Italiane per Varese Onlus General Manager: - Banca Popolare di Bergamo SpA (**)
Elvio SONNINO	Member of the Management Board / Senior Deputy General Manager	Deputy Chairman of the Board of Directors: - IW Bank Spa (**) Executive Director: UBI Sistemi e Servizi SCpA (**) Director: - UBI Academy SCRL (**) - UBI Banca International Sa (***) - Associazione Bancaria Italiana
Elisabetta STEGHER	Member of the Management Board / Chief Financial Officer	= =

SUMMARY TABLES

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE (as at 31st December 2016)

STRUCTURE OF THE SHARE CAPITAL

	Number of shares	percentage of share capital	Listed (indicate markets)/unlisted	Rights and obligations
Ordinary shares	976,300,395	100 %	Milan – FTSE MIB	
Shares with multiple voting rights	==	==	==	
Shares with limited voting rights	= =	= =	= =	
Shares with no voting rights	= =	= =	= =	
Other	==	==	==	

SIGNIFICANT INVESTMENTS IN THE SHARE CAPITAL(*)

Declarant	Direct shareholder	Percentage (%) of ordinary share capital	Percentage of voting share capital(**)
Fondazione Cassa di Risparmio di Cuneo (declared on 22 nd November 2016)	Yes	5.910%	5.910%
Fondazione Banca del Monte di Lombardia (declared on 24 th November 2016)	Yes	5.208%	5.208%
Silchester International Investor LLP (declared on 4 th November 2015)	No	5.123%	5.123%

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

(**) In accordance with Art. 10 of the Articles of Association, until 26th March 2017 no party with the right to vote may exercise it, for any reason, with a quantity of shares greater than 5% of the share capital with voting rights (shares held by Italian or foreign collective investment undertakings are not counted for the purposes of this limit).

TABLE 2: SUPERVISORY BOARD (appointed by the Shareholders' Meeting of 2nd April 2016 for the three-year period 2016/2017/2018) AND COMMITTEES (appointed by the Shareholders' Meeting of 13th April 2016)

Supervisory Board											Appoint-ments Committee		Remuneration Committee		Internal Control Committee		Risk Committee		Related and Connected Parties Committee	
Position	Members	Year of birth	Date first appointed	In office since	In office until	List (*)	Independent as per Corporate Governance Code	Supervisory Board (****)	Managem-ent Board (****)	No. of appointm-ents (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Chairman	Andrea MOLTRASIO	1956	from 1/04/2007 to 24/04/2010 since 20/04/2013	2/04/2016	AGM 2019	M		25/25		6	p	8/8								
Senior Deputy Chairman	Mario CERA	1953	20/04/2013	2/04/2016	AGM 2019	M		25/25		= =	M	6/8	M	15/15 (3)						
Deputy Chairman	Pietro GUSSALLI BERETTA	1962	from 1/04/2007 to 20/04/2013	2/04/2016 (Appointed DC on 14/4/2016)	AGM 2019	M		17/19		10	M	4/6 (1)								
Deputy Chairman	Armando SANTUS	1969	28/04/2012	2/04/2016 (Appointed DC on 14/4/2016)	AGM 2019	M	X	24/25		= =	M	1/2 (2)	M	2/2 (2)					P	11/11 (5)
Board Member	Francesca BAZOLI	1968	2/04/2016	2/04/2016	AGM 2019	M	X	19/19		2					M	10/10 (1)				
Board Member	Letizia BELLINI CAVALLETTI	1962	20/04/2013	2/04/2016	AGM 2016	M	X	25/25		= =									M	11/11 (1)
Board Member	Pierpaolo CAMADINI	1963	20/04/2013	2/04/2016	AGM 2019	M	X	25/25	20/36(§)	4				M	26/26					
Board Member	Alessandra DEL BOCA	1947	20/04/2013	2/04/2016	AGM 2019	M	X	25/25		= =			P	15/15 (4)						
Board Member	GIOVANNI FIORI (*)	1961	2/04/2016	2/04/2016	AGM 2019	m	X	18/19	7/29(§)	4	M	6/6 (1)		P	17/17					
Board Member	Patrizia Michela GIANGUALANO	1959	2/04/2016	2/04/2016	AGM 2019	m	X	18/19	16/29(§)	= =			M	13/13 (1)	M	17/17	M	10/10 (1)		

continued TABLE 2: SUPERVISORY BOARD AND COMMITTEES

Supervisory Board											Appoint-ments Committee		Remuneration Committee		Internal Control Committee		Risk Committee		Related and Connected Parties Committee	
Position	Members	Year of birth	Date first appointed	In office since	In office until	List (*)	Independent as per Corporate Governance Code	Supervisory Board (****)	Managem-ent Board (****)	No. of appointm-ents (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Board Member	Paola GIANNOTTI	1962	2/04/2016	2/04/2016	AGM 2019	m	X	17/19		= =							P	10/10 (5)	M	11/11 (1)
Board Member	Lorenzo Renato GUERINI (*)	1949	20/04/2013	2/04/2016	AGM 2019	M	X	25/25	11/29(§)	2					M	16/17	M	14/14 (3)		
Board Member	Giuseppe LUCCHINI	1952	from 1/04/2007 to 20/04/2013	2/04/2016	AGM 2019	M	X	18/19		2										
Board Member	Sergio PIVATO (*)	1945	1/04/2007	2/04/2016	AGM 2019	M		23/25	7/36(§)	3					M	24/26				

SUPERVISORY BOARD MEMBERS RETIRED IN 2016 DUE TO RESIGNATION

Board Member	Gian Luigi GOLA(*)	1964	20/04/2013	2/04/2016	22/12/2016	M	X	24/24	1/7(§)	n.a.	M	6/6 (6)			M	8/9	M	10/10 (6)		
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SUPERVISORY BOARD MEMBERS RETIRED IN 2016 DUE TO EXPIRY OF MANDATE AT THE SHAREHOLDERS' MEETING ON 2ND APRIL 2016

Supervisory Board											Appoint-ments Committee		Remuneration Committee		Internal Control Committee		Risk Committee		Related and Connected Parties Committee	
Position	Members	Year of birth	Date first appointed	In office since	In office until	List (****)	Independent as per Corporate Governance Code	Supervisory Board (****)	Managem-ent Board (****)	No. of appoint-ments (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Deputy Chairman	Alberto FOLONARI	1937	5/5/2007 (appointed DC on 10/5/2007)	20/04/2013 (appointed DC on 23/4/2013)	2/04/2016	M/CDS	X	3/6		n.a.	M	2/2								
Board Member	Dorino Mario AGLIARDI (*)	1954	20/04/2013	20/04/2013	2/04/2016	m	X	6/6		n.a.						M	4/4			
Board Member	Antonella BARDONI	1963	20/04/2013	20/04/2013	2/04/2016	M/CDS	X	6/6		n.a.								M	3/3	
Board Member	Marina BROGI	1967	20/04/2013	20/04/2013	2/04/2016	M/CDS	X	5/6		n.a.			M	2/2			M	4/4		
Board Member	Luca Vittorio CIVIDINI	1961	20/04/2013	20/04/2013	2/04/2016	m	X	6/6		n.a.										
Board Member	Ester FAIA	1973	20/04/2013	20/04/2013	2/04/2016	M/CDS	X	6/6		n.a.										
Board Member	Marco Giacinto GALLARATI	1963	20/04/2013	20/04/2013	2/04/2016	m	X	6/6		n.a.								P	3/3	
Board Member	Carlo GARAVAGLIA (*)	1943	1/04/2007	20/04/2013	2/04/2016	M/CDS	X	5/6		n.a.				M	8/9					
Member Secretary	GUSMINI ALFREDO (*)	1944	24/04/2010	20/04/2013	2/04/2016	M/CDS	X	6/6	4/7(S)	n.a.				M	9/9					
Board Member	Federico MANZONI (*)	1949	1/04/2007	20/04/2013	2/04/2016	M/CDS	X	6/6		n.a.							M	4/4		
Board Member	Mario MAZZOLENI	1943	1/04/2007	20/04/2013	2/04/2016	M/CDS	X	6/6		n.a.	M	2/2								
Board Member	Enrico MINELLI	1965	28/04/2012	20/04/2013	2/04/2016	M/CDS	X	6/6		n.a.	M	2/2							M	3/3
Board Member	Andrea Cesare RESTI	1965	20/04/2013	20/04/2013	2/04/2016	m	X	6/6		n.a.			M	2/2						
Board Member	Maurizio ZUCCHI	1954	20/04/2013	20/04/2013	2/04/2016	m	X	6/6		n.a.										

Number of meetings held in 2016	Supervisory Board: 25	Appointments Committee: 8	Remuneration Committee: 15	Internal Control Committee: 26(a)	Risk Committee: 14	Related and Connected Parties Committee: 14
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The members of the Internal Control Committee are also members of the Supervisory Body of UBI Banca pursuant to Legislative Decree No. 231/2001, which met six times in 2016.

NOTES

- 1) Member since 13/4/2016
- 2) Member until 2/4/2016
- 3) Chairman until 2/4/2016; Member since 13/4/2016
- 4) Member until 2/4/2016 - Chairman since 13/4/2016
- 5) Chairman since 13/4/2016
- 6) Member from 13/4/2016 until 22/12/2016

(°) Enrolled in the Register of External Statutory Auditors

(§) As a member of the Internal Control Committee

- (*) Board members indicated with the letter “M” were in the list that received the second highest number of votes at the Shareholders’ Meeting of 2nd April 2016. Board Members Moltrasio, Cera and Santus were appointed by the list vote mechanism set out in the Articles of Association, while the remaining board members were appointed by a decision of the Shareholders’ Meeting taken by a majority vote, again on 2nd April 2016.
Board members indicated with the letter “m” were drawn from the list that obtained the majority of the votes at the Shareholders’ Meeting of 2nd April 2016.
- (**) Number of directorships or appointments as statutory auditor (or equivalent positions) held in other companies listed on regulated markets including foreign markets, in financial, banking or insurance
- (***) This column shows the position of the Member of the Supervisory Board within the Committee (“C” Chairman; “M” Member).
- (****) This column shows the number of meetings attended by the member in relation to the total number of meetings he/she could have attended.
- (*****) “M/SB” or “m” depending on whether the Board Member has been elected from the “majority list presented by the Supervisory Board (M/SB) or from the “minority list (m)”.

TABLE 3 MANAGEMENT BOARD (appointed by the Supervisory Board on 14th April 2016)

Position	Members	Year of birth	Date first appointed	In office since	In office until	Independent (in accordance with Art. 147 quater of the Consolidated Finance Act) (**)	Executive	Attendance at meetings of the Management Board (***)	Number of other positions (****)
Chairwoman	LETIZIA MARIA BRICHETTO ARNABOLDI	1949	14/4/2016	14/4/2016	(*)		X	29/29	3
Deputy Chairman	Flavio PIZZINI	1955	2/04/2007	14/4/2016	(*)		X	36/36	13
Chief Executive Officer/General Manager	Victor MASSIAH (1)	1959	27/11/2008 appointed Chief Executive Officer on 27/11/2008 with effect from 1/12/2008)	14/04/2016 appointed Chief Executive Officer on 15/4/2016)	(*)		X	36/36	4
Board Member	Silvia FIDANZA	1974	23/04/2013	14/4/2016	(*)	X		36/36	2
Board Member	OSVALDO RANICA	1952	14/4/2016	14/4/2016	(*)		X	29/29	4
Board member /Senior Deputy General Manager	Elvio SONNINO	1960	23/04/2013	14/4/2016	(*)		X	36/36	5
Board Member/Chief Financial Officer	Elisabetta STEGHER	1967	14/4/2016	14/4/2016	(*)		X	26/29	=

MEMBERS OF THE MANAGEMENT BOARD RETIRED IN 2016 DUE TO EXPIRY OF MANDATE

Chairman	Franco POLOTTI	1954	10/05/2008	23/04/2013 (appointed Chairman on 23/4/2013)	14/4/2016		X	7/7	n.a.
Deputy Chairman	Giorgio FRIGERI	1941	2/04/2007	23/04/2013 (appointed Deputy Chairman on 23/4/2013)	14/4/2016		X	7/7	n.a.
Board Member	Luciana GATTINONI	1950	23/04/2013	23/04/2013	14/4/2016		X	7/7	n.a.
Board Member	Italo LUCCHINI	1943	23/04/2013	23/04/2013	14/4/2016	X		7/7	n.a.
Board member /Deputy General Manager	Ettore Giuseppe MEDDA	1953	14/07/2015	14/07/2015	14/4/2016		X	7/7	n.a.

36 meetings of the Management Board were held in 2016.

NOTES

(1) The Chief Executive Officer to whom duties have been assigned pursuant to Art. 35 of the Articles of Association, in relation to internal control systems.

* The members of the Management Board shall remain in office for three financial years (2016-2017-2018). 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 article 38, letter a) of the Articles of Association and they may be re-appointed.

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

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

**** Number of directorships or appointments as statutory auditor held in other companies listed on regulated markets including foreign markets, in financial, banking or insurance companies or companies of significant dimensions.

THIS REPORT CONTAINS FULL DETAILS OF THE APPOINTMENTS (ATTACHMENT A).

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 28th December 2005 (and subsequent amendments) “Measures for the protection of savings and to regulate financial markets”, inserted Art. 154 *bis* into the Consolidated Finance 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.

The UBI Group responded to the legislation designed to strengthen the system of internal controls in relation to the financial reports produced by listed issuers by adopting an organisational and methodological system (administrative and financial model of governance), which, in a context of integrated compliance, makes it possible to continuously regulate activities concerning the adequacy and effective application of the management of financial reporting risk and consequently to be able to make an accurate assessment of the internal control system in question.

The model developed was approved by the Management Board and the Supervisory Board on 15th January 2008 and 6th February 2008 respectively and then officially implemented in a specific set of regulations, issued with Group Communication No. 166 of 8th August 2008. This Group Communication also includes the “Methodological manual for compliance risk assessment pursuant to Law No. 262/2005”, the most recent update of which was approved by the Management Board on 15th December 2015, with the aim of further maximising the effectiveness of audit activity conducted by the Senior Officer Responsible on the areas considered most critical on the basis of the degree of risk assigned to the various significant processes pursuant to Law No. 262/2005 (a “risk-driven” process).

The model adopted, the efficacy of which is the subject of constant monitoring, is based on the main reference frameworks recognised nationally and internationally for the development of adequate systems of internal controls for financial reporting, the COSO Framework² and the COBIT Framework³, 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

² 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.

³ 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, conducted by the Parent Audit Governance & Methodologies Area, is performed by using a special tool known as “Company Level Control (CLC) Assessment”, which is based on the qualitative assessment of a series of risk factors considered essential for the soundness and reliability of an administrative and financial governance system;

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

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

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

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

- identification of the relevant scope of application consisting of the companies in the UBI Group, the items on the financial statements and the processes considered significant on the basis of both quantitative parameters, in relation to operating and capital amounts in the consolidated financial statements, and qualitative parameters, in relation to the complexity of the business and the type or implicit risks. The method adopted by the UBI Group for the definition of the relevant scope of application requires the identification of significant variables derived, in consecutive order, from:
 - selection of the significant companies;
 - selection of the significant items in the financial statements at Group level;
 - selection of the significant items in the financial statements at single company level;
 - tracing the significant items in the financial statements to significant processes/contexts;
- definition of the **area of investigation** for the year in question, approved annually by the Management Board, by planning annual audit activities over the course of the whole year, in application of the risk-driven Model referred to above, involving the assignment of a risk ranking to processes. On the basis of that Model, differentiated analysis approaches are defined, while always ensuring an appropriate level of supervision of the most significant processes, partly on the basis of qualitative elements inferred from:
 - anomalies found in previous analyses;
 - level of stability of the processes;
 - the analysis of anomalies found by other monitoring functions; and
 - information acquired through special interviews of the Chief Risk Officer, Chief Audit Executive and Chief Operating Officer;
- formalisation of the relevant processes and risks connected with financial reporting and related supervisory controls prioritised on the basis of an analysis of external regulations, self-regulation and interviews of the relative process owners. This activity is designed to assess and document the processes identified as significant for the purposes of Law No. 262/2005 and also the risks connected with financial reporting and the relative controls set

in place to oversee them. The production of these documents constitutes a preliminary condition for the subsequent verification of the adequacy of the internal control system;

- definition of the regular frequency of assessment processes, on the basis of the degree of risk assigned to the process, giving priority to processes that are considered to be at high risk but in any event ensuring, over the three-year period, that all significant process are assessed, even if they are considered to be at low risk;
- risk measurement and the adequacy of the controls. The objective of that activity is to verify the adequacy and effective application of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting, as well as how efficiently the controls have been designed and implemented. The activity consists of the following steps:
 - verification of the adequacy of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting activity, known as “**risk and control assessment**”, is carried out by monitoring the risks associated with financial reporting procedures intrinsic to the life cycle of financial data, attributable to observance of “financial assertions” which international standards define as the requirements which financial reports must meet for compliance with legal obligations. “Financial assertions” therefore perform the function of an operational tool which guides the identification and assessment of the principal controls, the absence or ineffectiveness of which can prejudice the achievement of veracity and accuracy in the representation of the capital, operating and financial position of the Group;
 - valuation of the key controls for mitigation of financial reporting risks, identified and defined at the “risk and control assessment” stage. This activity, known as “test of design”, is intended to define the requirements of the key controls for mitigation of the risks of failure to comply with “financial assertions”. This activity may bring to light concerns which require the preparation of appropriate corrective action plans;
 - verification of the effective and continuous application of controls. This stage, which consists of “**effectiveness tests**”, is designed to assess the effective application, in the accounting period, of administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. In this stage, verification is performed of the implementation of the controls provided for by the system of documentation put in place during the stage when processes and procedures were formulated and introduced. This activity may bring to light concerns which require the preparation of appropriate corrective action plans;
- definition and monitoring of corrective action to be undertaken as a result of the verifications performed. The methodology involves the initiation, on the basis of the corrective action plans just mentioned, of a structured course of action which by means of specific monitoring action, leads to effective reinforcement of controls by the involvement and empowerment of the relative process owners and the consequent modification of the related internal system of regulations. The corrective action plans are communicated by means of a special report to the Management Board and the Boards of Directors of subsidiaries responsible for the consequent decisions;
- a brief assessment, on completion of the stages described above, of the overall degree of adequacy of the internal control system put in place to oversee financial reports produced relating to the reporting period for oversight activities. The final assessment, which considers the significance of any points found requiring attention, is formalised in a special report, drawn up for each significant company in the Group and submitted to the attention of the Management Board of the Parent and the Boards of Directors of subsidiaries;
- a “Cascade-like certification system” is put in place with the issue of certifications, the content of which is substantially similar to that required by law, by the Governing Bodies of Group companies subject to full consolidation, addressed to the Chief Executive Officer and the Senior Officer Responsible of the Parent.

b) Roles and functions involved

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

The following are involved:

- the Chief Operating Officer through the units reporting to him. the Organisation Area of UBI and of UBI Sistemi e Servizi spa 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 1st 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 on these co-ordination activities is reported periodically to the competent Governing Bodies at meetings which are also attended by the Senior Officer Responsible.

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

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
- 3 Risk appetite
 - Consolidated and individual quantitative limits
 - Qualitative controls
- 4 Guidelines for the establishment and governance of organisational processes to identify and acquire information on connected parties and to identify and quantify transactions with them at all stages of the relationship
 - Introduction
 - Organisational roles
 - IT systems and procedures
- 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.
- 6 Powers and responsibilities
 - Attachment 1 – glossary

1 Introduction

External regulatory framework

The Bank of Italy published guidelines on “Risk assets and conflicts of interest with regard to connected parties”(1) which require authorised banks in Italy to adopt appropriate organisational structures and internal control systems.

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”(2).

Supervisory regulations identify two types of controls against such risk:

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

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

- related parties;
- parties connected with them (6).

Furthermore, 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 risk profile of individual banks or companies (“Material Risk Takers” or “Key personnel”(7)), 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.

¹ Cf. “New regulations for the prudential supervision of banks” Circular No. 285 of 17th December 2013 - 12th update of 15th September 2015 - Part One - Title IV - Chapter 1 - Section III, Par. 2.2. sub (i) which makes reference on the subject of managing risk assets and conflicts of interest with regard to connected parties to the “New regulations for the prudential supervision of banks” Circular No. 263 of 27th December 2006 Title V - Chapter 5 - 9th update.

² Cf. “New regulations for the prudential supervision of banks” Circular No. 263 of 27th December 2006 - 9th update Title V - Chapter 5 – Section I.

³ Risk assets are considered net exposures as defined for the purposes of the regulations on concentration of risk, Circular No. 263 of 27th December 2006, Title V, Chapter 1, Section II, Par. 2 and the “Instructions for compiling reports on own funds and capital ratios” (Circular No 155 of 18th December 1991 and subsequent updates), Section 5.

⁴ Cfr. “New Regulations for the Prudential Supervision of banks” Circular No. 263 of 27th December 2006 - 9th update - Title V – Chapter 5 Section II Limits on risk assets.

⁵ Cf. “New Regulations for the Prudential Supervision of banks” Circular No. 263 of 27th December 2006 - 9th update – Title V – Chapter 5 Section III Decision-making procedures.

⁶ Cf. “New Regulations for the Prudential Supervision of banks” Circular No. 263 of 27th December 2006 - 9th update - Title V – Chapter 5 Section I paragraph 3.

⁷ Cf. Par. 4 “Group remuneration and incentives policies” currently in force.

For those transactions in which counterparties are involved that fall within the “Material Risk Taker” or “Key Personnel” category and at the same time are classified as connected parties according to the definition contained in the “Regulations for transactions with parties connected with the UBI Group” the decision-making procedure laid down in those regulations is applied.

Internal regulatory framework

In order to implement the regulations on controls (8), the UBI Group has adopted a “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.

Regarding the definition of “connected parties”, the UBI Group has a Rule Book and “Regulations for transactions with UBI Group connected parties” in which it sets out, in detail, the scope of what is meant by related parties and connected parties.

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 profile (e.g. “Material Risk Takers” or “Key Personnel”) the UBI 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.

As concerns the definition of significant personnel, those who fall within the “Material Risk Taker” or “Key Personnel” perimeter are classified in this area, as defined in the document “UBI Group remuneration and incentive policies” currently in force, approved by the Supervisory Board. With regard to the aforementioned persons, the guidelines, systems and criteria set out in this document must also be properly applied following the minimum standards set forth in supervisory documents (9).

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

⁸ Cf. “New Regulations for the Prudential Supervision of banks” Circular No. 263 of 27th December 2006 - 9th update - Title V – Chapter 5 Section IV.

⁹ The regulations (cf. “New Regulations for the Prudential Supervision of banks” Circular No. 263 of 27th December 2006 - 9th update - Title V – Chapter 5 Section IV) require that banks and banking groups’ own rules must at least require personnel to declare their interests in transactions and for the management of such relationships (e.g. granting credit, entering credit litigation) to be assigned to a hierarchically superior level.

decisions are adopted following the procedures set forth in legislation and regulations (10) 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 sections (11):

- 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 considered an acceptable 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;
- 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

¹⁰ Cf. "New Regulations for the Prudential Supervision of banks" Circular No. 263 of 27th December 2006 - 9th update - Title V – Chapter 5 Section III. "The bank's management body, supervisory body 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 body with the supervisory function 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 (identified at UBI Banca as the Related and Connected Parties Committee) and supervisory body 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."

¹¹ Cf. "New Regulations for the Prudential Supervision of banks" Circular No. 263 of 27th December 2006 - 9th update - Title V – Chapter 5 Section IV.

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 (12), transfers of resources, services or obligations, regardless of whether or not consideration is due in return.

The Group has a Rule Book and “Regulations on transactions with UBI Group connected parties” which set 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 and the own funds (13) and the relevance indicator of the asset; qualitative indicators include organisational rules that determine which bodies take decisions over specific transactions);
- cases of exclusion (14).

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 procedures (15), 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 section 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

¹² Risk assets are considered net exposures as defined for the purposes of the regulations on concentration of risk, Circular No. 263 of 27th December 2006, 9th update, Title V, Chapter 1, Section II, Par. 2 and the “Instructions for compiling reports on own funds and capital ratios” (Circular No 155 of 18th December 1991 and subsequent updates), Section 5.

¹³ 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 disbursable 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.

¹⁴ In accordance with supervisory regulations (cf. Circular No. 263 del 27 December 2006 -9th update Title V – Chapter 5 – Section I) 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 schemes in banks;
- 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;
- furthermore, intragroup transfers of funds or of collateral carried out as part of procedures to manage liquidity risk at consolidated level are not considered to be connected-party transactions.

Transactions connected with covered bonds, securitisations and similar are considered as comprised within intragroup transfers carried out as part of the system to manage consolidated liquidity risk.

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

operations and strategies can be split into ordinary banking activities (in the narrow sense) and extraordinary transactions (in the broad sense).

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

- granting credit (16);
- funding activities;
- investment and ancillary services for financial and non-financial assets (17);
- 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 purchases 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.

3 Risk appetite

Consolidated and individual quantitative limits

The UBI Group and each bank and company in the Group intend to comply with the prudential limits on risk asset exposures to connected parties set forth in supervisory regulations (18). To that end, they have adopted mechanisms designed to ensure ongoing compliance with said limits. Risk assets are weighted using factors that take account of the

¹⁶ 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.

¹⁷ See the specific instructions on conflicts of interest in investment and ancillary services, as set out in the joint Bank of Italy-Consob regulation.

¹⁸ Cf. "New Regulations for the Prudential Supervision of banks" Circular No. 263 of 27th December 2006 - 9th update -Title V – Chapter 5 Section I and II.

The "connected parties" perimeter is defined by virtue of the relationships they hold with UBI Banca and with other banks or Supervised Intermediaries belonging to the UBI Group. Nevertheless, companies belonging to the UBI Group not defined as banks or supervised intermediaries also contribute to the definition of risk asset exposures to connected parties. Supervised Intermediaries are defined as follows: Italian and foreign investment companies and asset management companies, electronic money institutions (EMIs), financial intermediaries enrolled in the register according to article 106 of the Consolidated Banking Act (2), the payment institutions which form part of the a banking Group and have individual own funds of greater than 2% of the consolidated regulatory capital of the Group to which they belong.

risks connected with the nature of the counterparty and any forms of credit protection there may be. The weighting factors and conditions for the admissibility of techniques to mitigate risk are stable in the context of risk concentration regulations. (19)

The consolidated regulatory limits are reported in the table below.

Prudential limits on risk asset exposures to connected parties (The limits related to the consolidated regulatory capital)			
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 influence
5%	Non-financial related parties		
	5%	7,50%	15%
	Other related parties		
	7,50%	10%	20%

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

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

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

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

Given the specific nature of the matter considered, in accordance with the provisions of the document entitled “RAF - Risk Appetite Framework” the UBI Group sets risk appetite(20) towards connected parties in terms of:

- the maximum authorised credit towards all connected parties as a ratio of the total authorised credit to ordinary customers and of that drawn on by institutional customers;
- an early warning threshold and an absorbed capital limit at consolidated level with respect to the total consolidated Available Financial Resources, first and second tier (21).

The values can be summarised as follows:

¹⁹ Cf. “New Regulations for the Prudential Supervision of banks” Circular No. 263 of 27th December 2006 - 9th update -Title V – Chapter 5 Section II.

²⁰ Cf. “Attachment 1 – glossary” in this document.

²¹ For the definition of Available Financial Resources, see "RAF - Risk appetite framework". 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.

Description of levels		Value
Authorised credit limit (nominal amount)	Total authorised credit for connected parties / total authorised credit* * Authorised credit = credit authorised for ordinary customers + credit drawn on by institutional customers	≤ 2,75%
Early warning threshold for allocated capital	Internal capital absorbed / available financial resources (1 st and 2 nd tier)	≤ 1,75%
Allocated capital limit	Internal capital absorbed / available financial resources (1 st and 2 nd tier)	≤ 2,0%

Final levels of authorised credit and internal capital absorbed are measured 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 ICAAP process; specifically, if prudential limits are exceeded, as well as the initiatives described in the recovery schedule it also takes account of excesses in the process to determine total internal capital.

Qualitative controls

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

- procedures to accurately identify connected parties, to record their details in Group IT software, 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 own funds, transaction frequency and the nature of the relationship between the connected party and the bank/company 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 (22) according to the rules set out in legislation and regulations (23).
- 4 Guidelines for the establishment and governance of organisational processes to identify and acquire 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 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.

²² For example, if it became a connected party after the relationship was established.

²³ Cf. “New Regulations for the Prudential Supervision of banks” Circular No. 263 of 27th December 2006 - 9th update - Title V – Chapter 5 - Section II: “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.”

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

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

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

IT systems and procedures

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

- record information about connected parties from the moment they are defined as such pursuant to the “Regulation on transactions with UBI Group connected parties”;
- provide all banks and companies 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.

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

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

Three different levels of control units are responsible for ensuring correct measurement and management of risk exposures to connected parties and good 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 judgement 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 board members 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 responsibilities

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.

Attachment 1 – glossary

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 reported to the Supervisory Board or its Chairman by the Management Board, which retains complete operating independence.