

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

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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 (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

The transformation of UBI Banca from a joint stock co-operative company into an ordinary joint stock company

Art. 1 of Decree Law No. 3 of 24th January 2015 converted into Law No. 33 of 24th March 2015 amended some of the provisions of the Consolidated Banking Act (Legislative Decree No. 385/93, Consolidated Banking Act) on the question of “popular” co-operative banks. The reform of the law governing “popular” banks reserves the ability to adopt a “popular” co-operative bank model solely to banks with assets that do not exceed €8 billion.

In compliance with the provisions of the regulations to implement the law issued by the Bank of Italy, having verified that the Bank exceeded the capital threshold, on 10th October 2015 a shareholders’ meeting was held in second call the extraordinary session of which approved a proposal to transform UBI Banca into an ordinary joint stock company, with the consequent adoption of new Articles of Association. Subsequently an ordinary session of the shareholders’ meeting approved related amendments to the Regulations for Shareholders’ Meetings.

The transformation of UBI Banca into a joint stock companies took effect on 12th October 2015 when the resolution of the extraordinary shareholders’ meeting was filed with the Company Registrar of Bergamo.

The new Articles of Association of UBI Banca Spa

In 2015 UBI Banca made a series of amendments, as did its subsidiary banks, to its Articles of Association designed to implement provisions issued by the Bank of Italy (updates No. 1 and No. 7 of Circular No. 285 of 17th December 2013) in order to implement the provisions of the CRD IV Directive in national legislation.

The new text submitted to the Shareholders’ Meeting of 10th October 2015 was therefore drawn up following an approach that focuses specifically on the provisions no longer compatible with the new status of a joint stock company and on other changes that are in any case related to, connected with and a consequence of the amendments mentioned.

The main questions subject to amendment concerned the following:

- **the acceptance as a shareholder:** all the provisions relating to acceptance as a Shareholder were repealed because not compatible with the form of a joint stock company, where the figure of the registered shareholder is precisely the same as that of any other shareholder. In a joint stock company the mere ownership of shares normally automatically grants the bearer both financial rights and corporate management rights;
- **the provision of a limit on voting rights:** as is permitted in the transition period by Law No. 33 of 24th March 2015, a limit is inserted on voting rights equal to 5% of the share capital for 24 months from the date of entry into force of the aforementioned law (until 26th March 2017);
- **the convening of a shareholders’ meeting:** in accordance with Art. 2369 of the Italian Civil Code, unless the Articles of Association make other provision, the shareholders meetings of companies that are not co-operative companies, which make recourse to the market for risk capital are held in one single session; in this respect the Management Board may issue a single notice to convene in one session, but being able as an alternative to convene a second session and, limited to extraordinary shareholders’ meetings, a third session;
- **the proxy to participate in shareholders meetings:** because of the change in the form of company, the status of Shareholder as a requirement to be held by persons holding proxies to participate in shareholders meetings no longer exists, nor does the limit on the number

of proxies that may be conferred on the same person exist any more. Consequently, the new Articles of Association no longer contain the relative provisions;

- the **composition of the Management Board and the Supervisory Board**: in compliance with and in observance of the provisions of the Bank of Italy on the question of corporate governance, the number of members of the Management Board is set at 7 and the number of members of the Supervisory Board at 15 (supervisory regulations state that the total number of members of the Management Board and the Supervisory Board must not be greater than 22);
- the **secret ballot for shareholders' meeting resolutions to appoint company officers**: this was repealed because it constitutes a specific feature of co-operative companies, where a secret ballot, if it is provided for by the Articles of Association, is considered legitimate in virtue of the particular features of the company and the interests of worker-members and customer-members to a cast a vote that is free from potential conditioning;
- the **quorums for shareholders' meeting resolutions**: because in accordance with articles 2368 and 2369 of the Italian Civil Code, the extraordinary shareholders' meetings of joint-stock companies which make recourse to risk capital markets vote on resolutions in first session with the presence of at least one half of the share capital (if the Articles of Association do not provide for a higher majority) and with a vote in favour of at least two thirds of the share capital represented in the shareholders meetings and in second session with the participation of over one third of the share capital and with the vote in favour of at least two thirds of the share capital present, the increased quorum for resolutions previously provided for by article 28, paragraphs 3 and 4 of the Articles of Association were repealed;
- ***simul stabunt simul cadent***: a "*simul stabunt simul cadent*" (together they stand, together they fall) clause was introduced also for the Supervisory Board (already present for the Management Board) stating that if the positions of more than half of the members of the Supervisory Board originally elected are vacated then the entire board is retired;
- the **criterion for the appointment of the Supervisory Board**: the percentage of the share capital needed to submit a list for the election of the Supervisory Board has been set at 1%. This threshold takes account of the provisions of Art. 144-*quater* of Consob Resolution No. 11971/1999 (Issuers' Regulations) (applicable also to the Supervisory Board in accordance with the combined provisions of articles 144-*ter*, paragraph 2 and 144-*sexies*, paragraph 2 of the Issuers' Regulations), on the basis of the capitalisation of UBI Banca. The possibility of the Supervisory Board submitting a list was eliminated. The current criterion by which board members are drawn from lists, was maintained adapting it to percentages of the share capital (only two lists, those with a majority vote; assignment to the minority list of the number of board members determined on the basis of the percentage in favour obtained in Shareholders' Meetings; elimination of the provision relating to a share capital "premium", because it is no longer consistent in the context of a joint stock company). Therefore, continuing with the same guiding criteria provided by the previous Articles of Association, the new text of the articles provides for the assignment to the list that obtained the second highest numbers of votes of a number of Supervisory Board members varying from 1 to 3 on the basis of the percentage of votes received in the Shareholders' Meeting.
- the **internal committees of the Supervisory Board**: the provisions of the Articles of Association on the subject of internal committees of the Supervisory Board were standardised;
- the **composition of the Appointments Committee**: the number of members of the Appointments Committee (previously six) was reduced, providing for a minimum of three and a maximum of five members and this is in line with the Bank of Italy provisions on corporate governance;
- the **transition measures**: two transition regulations were introduced designed to maintain the composition of the Management Board and the Appointments Committee until the next renewal of company officers; furthermore, for all the remaining transition regulations, the reference to the date of the shareholders meeting was updated, replacing the date of 10th May 2014 with that of the date of 10th October 2015.

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 Unione di Banche Italiane S.p.A. (hereinafter UBI Banca), a system which takes account of the provisions and principles contained:

- in the regulations governing listed issuers set out in the Consolidated Finance Act and in the related rules to implement them adopted by the Consob (Italian securities market authority);
- in the regulations governing banks set out in the Consolidated Banking Act;
- 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, UBI Banca, 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 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 of the Articles of Association – available in the Corporate Governance – Corporate Documents section of www.ubibanca.it);
- 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 (article 28 of the Articles of Association).

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

* * *

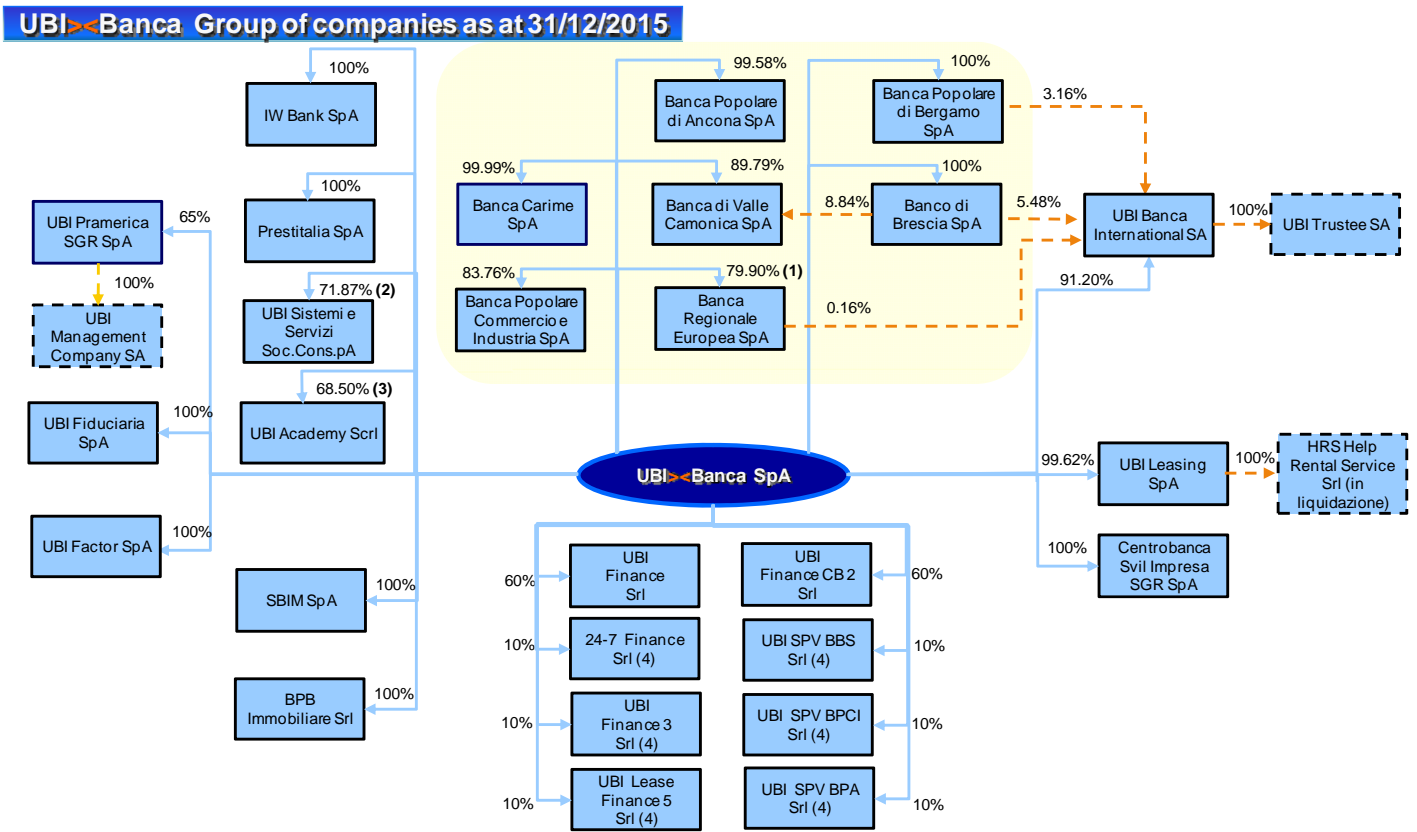
UBI Banca is the Parent of the Unione di Banche Italiane Group, organised according to a federal, multi-functional model, integrated with its listed Parent, which sets strategic policies and performs functions of co-ordination and control over all the organisational units and companies in the Group.

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

UBI Banca pursues its 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 Social Report.

The following chart illustrates the composition of the UBI Banca Group as at 31st December 2015:



(1) Relative percentage of the ordinary share capital

(2) The Group also holds 26.69% as follows: IW Bank (4.32%), BPA(2.88%), BPCI (2.88%), BBS (2.88%), Banca Carime (2.88%), BPB (2.88%), BRE (4.32%), 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 31.5% as follows: BPA(3%), BPCI (3%), BBS (3%), Banca Carime (3%), BPB (3%), BRE (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) Companies subject to control in the form of the dominating influence

On 30th April 2015 the Company UBI Fiduciaria SpA disposed of its fiduciary activity operations.

2) Information on the ownership structure (pursuant to Art. 123-bis, paragraph 1 of the Consolidated Finance Act) as of 10th February 2016

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 Spa is composed entirely of ordinary shares traded on the *Mercato Telematico Azionario* (electronic stock exchange) managed by Borsa Italiana.

* * *

The share capital of UBI Banca Spa as at 31st December 2015 amounted to €2,254,371,430.00 divided into no. 901,748,572 shares with no nominal value and it had not changed at the date of this report.

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

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 possessed shareholdings greater than 2%:

- Silchester International Investors LLP: 5.123%
- BlackRock Incorporated (indirect - assets under management): 4.998%
- Fondazione Cassa di Risparmio di Cuneo: 2.230% (*)

(*) *Investment calculated on the basis of the current share capital (the original investment reported was 2.278%, generated as a result of the merger of Banca Lombarda e Piemontese in April 2007).*

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 text of legislative decree No. 385 of 1st September 1993 and subsequent amendments. In cases of violation of the provisions of this paragraph, any shareholders' meeting resolution that is passed may be annulled in accordance with article 2377 of the Italian 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 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)

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 Legislative Decree No. 58/1998, they have nevertheless fulfilled public disclosure obligations as required by the law in relation to some of the clauses of their Articles of Association, insofar as it may be necessary, in view of the legally binding nature of the decree mentioned and the consequences of failure to comply with it.

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

The following communications were also received:

- the constitution, on 23rd November 2007, of the association named "[Gli Amici di UBI Banca](#)", located in Bergamo, and report of compliance with disclosure obligations. On 5th February 2016 the president of that association communicated that the Governing Board had passed a resolution in a meeting of 1st February 2016 to convene an Extraordinary General Meeting of its members (23rd-24th March 2016), with the dissolution of the association itself and the appointment of a receiver on the agenda;
- the constitution on 24th January 2011 of an association called "[Tradizione in UBI Banca](#)", located in Cuneo;
- in a letter of 19th June 2012, the constitution of an association called "[Amici della Banca Regionale Europea e del Gruppo UBI](#)", located at Cuneo;
- the constitution, on 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;
- 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;

- on 15th March 2013 the constitution on 7th October 2011 of the association called “Associazione Azionisti Banche Popolari 2011”.

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

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

The Bank learned from:

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

On 1st February 2016 UBI Banca received a communication regarding the constitution on 27th January 2016 of a Shareholders’ Pact between the shareholders of UBI Banca Spa named “Patto dei Mille” (Pact of the Thousand) together with an abstract of the text of the Pact (published in the daily newspaper MF on 2nd February 2016), which in accordance with legislation and regulations was published on the corporate website of the Bank.

On that same date 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.

From the aforementioned information received, the Pact governs prior consultation by the holders of syndicated shares, the exercise of voting rights attaching to the syndicated shares and some limits on the circulation of these shares.

The Pact is open in nature so that other shareholders of the bank who agree with the reasons for its constitution may adhere to it.

On 1st February 2016, 65 shareholders had adhered to it and a total of 20,500,412 ordinary shares were bound by the Pact accounting for 2.273% of the total voting rights representing the share capital of UBI Banca.

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 six months for the first year of membership of the Pact and three months for the subsequent period.

The Pact was filed with the office of the Bergamo Company Registrar on 1st February 2016.

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

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

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

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

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

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

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

As concerns the purchase of treasury shares:

1) The shareholders meeting held on 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’ meeting 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’ meeting authorisation, by the provisions of the law and EC Regulation 2273/2003 and by admissible market practices;

3) the Shareholders’ Meeting held on 25th April 2015 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 2015, of a maximum of 1,000,000 treasury shares to cover the long-term incentive scheme destined to the “Top Key Personnel” category, for a total maximum value of €6,000,000 at a price per share of not less than €2.50 and not more than 5% higher than the official price quoted in the market session prior to each individual purchase transaction.

With regard to the aforementioned shareholders’ meeting resolution, and with account taken of bonuses earned in previous years and the consequent sufficient availability of shares to cover the long-term incentive scheme, it was not necessary to proceed to the purchase of ordinary UBI Banca shares.

Furthermore, with the purchase of 1,700,000 UBI Banca shares as mentioned above and following the grant 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,

at the date of this report UBI Banca holds 1,431,829 UBI Banca shares, representing 0.16% of the share capital.

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

The issuer is not subject to management and co-ordination activities within the meaning of 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 Banking Act is given in the section of this report on the remuneration of board members;
- information required by Art. 123-bis, paragraph 1, letter l) of the Consolidated Banking Act is given in the section of this report on the Supervisory Board and shareholders' meetings.

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

UBI Banca has adopted the Corporate Governance Code (available on the website of the Corporate Governance Committee at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015engclean.en.pdf>), a document intended mainly for listed companies that have adopted a traditional governance model. Article 10 of the code states that if a single or two tier system of administration and control is adopted “the preceding articles apply only insofar as they are compatible, by adapting the individual provisions to the particular system adopted, in compliance with the objectives of good corporate governance, transparent reporting and the protection of investors and the market pursued by the Corporate Governance Code and in the light of the application criteria set in this article”.

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

* * *

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

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

4) Supervisory Board

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

The Supervisory Board is composed of 23 members, including a Chairman and a Senior Deputy Chairman, appointed by a Shareholders' Meeting in compliance with Art. 37 of the Articles of Association and two Deputy Chairmen chosen by the Supervisory Board itself from

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

The Supervisory Board may appoint one or two Deputy Chairmen from among its members.

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

Furthermore, as resolved by the Extraordinary Shareholders' Meeting held on 10th October 2015, for the next time that the Supervisory Board is renewed, it shall be 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.

Moreover, when the Supervisory Board is next renewed all members of the Supervisory Board, in addition to being in possession of the requirements of integrity and professionalism as well as those of independence in accordance with the regulations in force from time to time, 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 in accordance with the provisions of the law and the Articles of Associations.

In compliance with the new provisions of the Articles of Association approved by an Shareholders' Meeting on 10th October 2015, when the Supervisory Board is next renewed, 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 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.

* * *

Until the date of the appointment of the Supervisory Board that will replace that currently in office, should it be necessary to replace board members belonging to the minority list, then the following procedures shall apply:

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

any other minority lists there may be, on the basis of the descending number of votes received by these. Should this not be possible or, if application of the above criterion means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities.

Furthermore, as resolved by the Extraordinary Shareholders' Meeting held on 10th October 2015, with effect from the date when the next Supervisory Board is appointed, if, on the other hand, 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 elected from the minority list, the relative replacements shall be taken from the list from which the members to be replaced were drawn or in the absence of such a candidate from any other minority lists there may be, identified on the basis of the number of votes received in descending order and which have received the majorities in the Shareholders' Meeting specified in paragraph 11 of this Article. In the absence of such candidates, the Board Members shall be drawn from the majority list or in the absence again of such candidates, or, if application of the above criterion means that the requirements for the composition of the Supervisory board pursuant to Law No. 120 of 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, identified in accordance with the provisions of article 37, 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 the 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 Legislative Decree No. 58 of 24th February 1998;
- f) initiates liability actions against members of the Management Board;
- g) submits the statement to Bank of Italy pursuant to Article 70, paragraph 7 of Legislative Decree No. 385 of 1st September 1993;
- 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 preparing the corporate accounts pursuant to article 154-bis of Legislative Decree No. 58 dated 24th February 1998;
- 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), (vi) and (vii), where these are operations for which the main elements have already been defined in business plans already approved by the Supervisory Board itself:
 - (i) transactions on the share capital, the issuance of convertible bonds and bonds cum warrants in shares of the Bank, mergers and demergers;
 - (ii) amendments to the Articles of Association, for which purpose it may make specific recommendations to the Management Board;
 - (iii) operations specified in Art. 27, paragraph two, letter b of the Articles of Association;
 - (iv) purchases by the Bank and by its subsidiaries of controlling interests in companies and transactions involving a reduction in directly or indirectly held investments in subsidiaries;
 - v) purchases or disposals by the Bank and its subsidiaries of companies, business en bloc, business units, spin-offs, and investments or disinvestments which involve commitments where the amount for each transaction is greater than 4% of the regulatory capital eligible for the purposes of calculating the consolidated core tier one capital or affects the core tier one ratio by more than 50 basis points as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
 - (vi) purchases or disposals by the Bank and its subsidiaries of investments in companies that are not controlled, the amount of which for each transaction is greater than 1% of the 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 system;
 - (vii) stipulation of strategically important trade, co-operation and corporate agreements, with account taken of the activities and/or volumes involved and/or of the nature of

the partners and in relation to programmes and objectives contained in the Business Plan approved;

- n) expresses a non-binding opinion with a vote in favour of at least two thirds of its members on the candidates proposed by the Management Board to the position of Board Member and Statutory Auditor of the subsidiary undertakings listed in article 27, paragraph two, letter b) of the Articles of Association;
- o) 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;
- p) on the basis of proposals from the Management Board, sets policies for the management of compliance risk and makes decisions for the creation of a regulatory compliance function;
- q) formulates its considerations concerning the basic elements of the general architecture of the internal control system; assesses, with regard to those aspects that concern it, the efficiency and adequacy of the internal control system, with particular regard to risk 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;
- r) 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;
- s) approves corporate regulations concerning its functioning and, in co-operation with the Management Board, approves reporting systems between corporate bodies as well as those with the internal control system;
- t) approves remuneration policies for employees or associate workers not linked to the Bank by regular employee contracts;
- u) 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.
- v) decides on mergers and demergers pursuant to articles 2505 and 2505-*bis* of the Italian Civil Code;
- z) exercises any other powers conferred by the legislation and regulations currently in force or by the Articles of Association.

The Supervisory Board also has exclusive powers, in compliance with article 2436 of the Italian Civil Code, for decisions 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 the powers set forth in Article 151- *bis* of Legislative Decree No. 58 dated 24th February 1998, pursuant to the terms and conditions provided therein. For the purpose of a more effective and functional exercise of powers to acquire information pursuant to Art. 151-*bis*, paragraph one of Legislative Decree No. 58 of 24th February 1998, 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 UBI Banca Shareholders' Meeting of 20th April 2013 first appointed the Supervisory Board for 2013-2014-2015, and then proceeded to appoint Andrea Moltrasio as Chairman and Mario Cera as Senior Deputy Chairman.

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

- the list proposed by the Supervisory Board on 22nd March 2013. This list had the support of 865 Shareholders representing 76,227,494 shares accounting for 8.45% of the share capital of UBI Banca and contained the following candidates:

1	Andrea	Moltrasio	Chairman
2	Mario	Cera	Senior Deputy Chairman
3	Armando	Santus	Member
4	Gian Luigi	Gola	Member
5	Lorenzo Renato	Guerini	Member
6	Alberto	Folonari	Member
7	Alfredo	Gusmini	Member
8	Sergio	Pivato	Member
9	Mario	Mazzoleni	Member
10	Federico	Manzoni	Member
11	Marina	Brogi	Member
12	Enrico	Minelli	Member
13	Antonella	Bardoni	Member
14	Pierpaolo	Camadini	Member
15	Ester	Faia	Member
16	Alessandra	Del Boca	Member
17	Carlo	Garavaglia	Member
18	Letizia	Bellini Cavalletti	Member
19	Mario	Comana	Member
20	Franco	Bossoni	Member
21	Giacomino	Maurini	Member
22	Stefano	Gianotti	Member
23	Graziano	Caldiani	Member

- the “UBI BANCA-CI SIAMO” list filed on 25th March 2013 by Mr Giorgio Jannone. That list had the support of 601 Shareholders representing 7,327,268 shares accounting for 0.82% of the share capital of UBI Banca and contained the following candidates:

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

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

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

Votes:

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

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

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

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

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

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

22	Andrea Cesare	Resti	Member
23	Maurizio	Zucchi	Member

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

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

On 18th July 2013 *Dott.* Giorgio Jannone and other Shareholders served a writ of summons on UBI Banca, which, briefly, asked it to declare: (i) that the only valid list for the appointment of members of the Supervisory Board of the Bank is the list presented by, among others, the same 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 considers that the procedures preliminary to the shareholders meeting to check the lists presented were carried out correctly and that the proceedings of the shareholders' meeting were also carried out properly. It therefore judges the claims made in that summons to be without foundation.

UBI Banca made a preliminary objection that the claim was inadmissible, in so far as it was brought by a number of Shareholders that fails to reach the quorum of one per thousand of those who had been recorded in the shareholders register for at least 90 days, as required by the combined provisions of Art. 2377 of the Italian Civil Code and Art. 135 of the Consolidated Finance Act.

* * *

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 to be dealt with, 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 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.

The Supervisory Board must meet at least every 60 days. The location of the meetings alternates between the cities of Bergamo and Brescia and the 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 Board passes 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 and for resolutions concerning proposals pursuant to article 27, paragraph two, letter b) of 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 Board may appoint a secretary who need not be a member of the Board and may be permanent.

During 2015 the Supervisory Board met 20 times and the average length of meetings was four hours.

We also report that the Supervisory Board has planned its meetings for 2016 up to the date of the Shareholders' Meeting, with five meetings programmed of which two already held.

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

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

* * *

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

Before approving this Report, the Supervisory Board verified that it satisfied the requirement of independence. In this context, in compliance with, among other things, the Bank of Italy instructions concerning corporate governance, an analysis of the lending relationships between each board member and the Group was carried out. In this regard it should be noted that all the members of the Supervisory Board - on the basis of a declaration made by each of them and the information available to the Bank - satisfy the requirements of independence pursuant to Art. 148, paragraph 3 of the Consolidated Finance Act and the Bank of Italy supervisory provisions concerning corporate governance in force (Circular No 285).

With regard to the requirements set by the Corporate Governance Code and also in consideration of the specific nature of the Supervisory Board under a two tier governance system, 20 members of the Supervisory Board out of 23 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.C.1. at point b) of the Corporate Governance Code, Board Members Andrea Moltrasio, Mario Cera e Lorenzo Renato Guerini are not independent since for the previous three years they were senior officers in subsidiaries of UBI Banca.

In 2015 the Supervisory Board carried out a self assessment, relating to the year 2014, of the size, composition and functioning of the board itself and its internal committees, as part of a self-assessment process programmed for the years 2013, 2014 and 2015 (the duration of the Board's term of office), with support from the firm Egon Zehnder.

The self-assessment process was carried out by means of an analysis performed at a meeting, on the basis of the results of a specific self-assessment questionnaire filled in by each board member, followed by individual interviews carried out by the consultant. The quantitative and qualitative composition of the Board and its Committees was also examined, including consideration of how representative it is in terms of age and gender, the professional skills of board members in relation to the size of the Group and its activities, the level of diversity among the Board members in terms of professional, managerial and business experience.

More specifically, the self-assessment was conducted on, amongst other things, the following factors: the quality and completeness of skills, experience and expertise within the Board and its internal committees; sufficient number of board members; the degree of effectiveness of the functioning of the Board and each of the internal committees; the quality of Board and internal committee meetings; the quality and promptness of reporting and presentations to the Board; the effectiveness and efficiency of decision-making processes within the Board; the clarity, agreement and satisfaction with regard to policies, performance and risk objectives and the results achieved; relations with the Management Board and Senior Management. The assessment also focused on developments concerning points for consideration that had arisen in the self-assessment conducted the year before.

On conclusion of the examinations and assessments, it was shown that, taken as a whole, the proceedings of Board and committee meetings, in terms of organisation, the level of diversity in terms of experience and the expertise of Board members, the level of analysis of the issues, the 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.

Again in 2015, in order to implement Supervisory Regulations on the subject of corporate governance (Bank of Italy Circular No. 285 – Part One – Title IV – Chapter 1), steps were taken, assisted by the Appointments Committee, to draw up an internal set of regulations entitled “Self-assessment Process for Governing Bodies of the UBI Banca Group”, which formally sets out the self-assessment process for Governing Bodies and interprets the supervisory authority requirements in terms of the UBI Group according to criteria of proportionality. The document also includes guidelines for the organisation of training activities for members of Governing Bodies.

With regard to the self-assessment for 2015, the end-of-term-of-office “board evaluation”, to be carried out at the beginning of 2016 on the basis of the aforementioned “Self-assessment Process for Governing Bodies of the UBI Banca Group” is also used to prepare a document on the qualitative and quantitative composition considered optimal for the purposes of renewing the Board.

In this context, in December 2015 the Supervisory Board, assisted by the Appointments Committee, commenced activities in preparation for the renewal of the governing bodies whose terms of office end in 2016. It did this by preparing a document entitled “Guidelines for the appointments process for the Supervisory Board and for the selection of the members of the Management Board”, as part of which activities were defined in view of the renewal of the governing bodies of UBI Banca, also in compliance with the requirements of the already mentioned supervisory provisions concerning corporate governance (Bank of Italy Circular No. 285 – Part One – Title IV – Chapter 1). The process will come to a close in 2016 with the identification of the optimal quantitative and qualitative composition.

On conclusion of this, as part of the process to verify the requirements for suitability, the new Supervisory Board appointed also ascertains the absence of causes for incompatibility pertaining to board members as well as verifying that the qualitative and quantitative composition considered optimal does in fact correspond to the actual result of the appointments process.

In accordance with the Corporate Governance Code the independent board members must meet at least once a year in the absence of the other board members. On the date when this Report was approved, the independent board members had not felt the need to hold the said meeting, among other things, because of the composition of the Board.

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

Following the renewal of the terms of office of corporate bodies in 2013, a programme that involved holding two training meetings for officers of UBI Banca started in 2013. In this respect, in 2014 the Management Board and Supervisory Board approved a two-year programme of meetings to be held in 2014 and 2015, identifying specific topics to be covered. Two meetings were held in 2014: on 26th February 2014, on “The governance of management risks and strategic actions”, and on 27th November 2014, on “The system of controls”. Finally, on 26th September 2015 a further training meeting was held on the subject of “The organisation of the structure of the IT system”.

Furthermore, board members may participate individually in an induction session designed to examine specific subjects.

4.3. Chairman of the Supervisory Board

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

The duties of the Chairman of the Supervisory Board are listed in article 39 of the Articles of Association.

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

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

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

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|---|----------------------------|--|
| - | Appointments Committee | 6 members |
| - | Remuneration Committee | 5 members |
| - | Internal Control Committee | 5 members |
| - | Risk Committee | 4 members (created on 15 th September 2015) |

- a Related and Connected Parties Committee composed of three members, in compliance with the provisions of: (i) "Regulations for UBI Banca related-party transactions" adopted in implementation of Art. 2391-bis of the Italian Civil Code and Consob requirements with respect to related parties adopted with Resolution No. 17221/2010 and subsequent amendments; (ii) “Regulations for operations with parties connected to the UBI Banca Group”, adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27th December 2006 - 9th amendment of 12th December 2011, “New regulations for the prudential

supervision of banks”, containing measures concerning “risk assets and conflicts of interest with connected parties”.

Until 15th September 2015 an Accounts Committee had also existed, further details of which are given later in this report.

A Risk Committee was formed in 2015 to implement Supervisory Regulations on corporate governance (Bank of Italy Circular No. 285 – Part One – Title IV – Chapter 1) which states that with two-tiered governance a Risk Committee must be created, that is separate from the Internal Control Committee.

The following actions have been taken with the objective of achieving an efficient overall set of internal committees as a result of the compulsory formation of a new Risk Committee to avoid overlaps of responsibilities with already existing internal committees with a view to continuity and the purpose at the same time of ensuring that the Supervisory Board receives the different types of support from the internal committees indicated in Supervisory Regulations and also in compliance with the recommendations of the Corporate Governance Code:

- the constitution of a new Risk Committee to provide support functions to the Supervisory Board in carrying out its responsibilities in its capacity as the body responsible for strategic supervision on matters concerning risks and internal controls and drawing up the relative operational regulations;
- the related revision of the Regulations for the Internal Control Committee;
- the elimination of the Accounts Committee, whose activities are now carried out by the new Risk Committee and the Internal Control Committee.

In order to exploit the expertise and knowledge acquired, former members of the Accounts Committee were appointed to the new Risk Committee, being in possession of the necessary skills and experience to manage the start-up stage of the new Committee.

The operational regulations of the Risk Committee and the Internal Control Committee include provisions governing specific procedures for co-ordination and mutual exchange of information between the two committees.

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

The committees are governed by special regulations which determine its responsibilities and functioning.

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

6) Appointments Committee

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) is composed of the following members of the Supervisory Board:

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

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

The Committee is governed by special regulations – published 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 Parent 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 carries out fact-finding activities for the purposes of issuing a non-binding opinion that the Supervisory Board pursuant to Art. 38, paragraph 1, letter n) of the Articles of Association is responsible for expressing on the candidates proposed by the Management Board to the position of Director and Statutory Auditor of the subsidiaries listed by Art. 27, paragraph 2, letter b) of the Articles of Association and that is: Banco di Brescia S.p.A., Banca Regionale Europea S.p.A., Banca Popolare di Bergamo S.p.A., Banca Popolare Commercio e Industria S.p.A., Banca Popolare di Ancona S.p.A. and Banca Carime S.p.A.;
- j) it formulates opinions and proposals on the corporate governance and regulatory policies of the Parent Bank and the Group which fall within the exclusive scope of the remit of the Supervisory Board;
- k) it oversees the update of corporate governance rules and principles of conduct which may be adopted by the Parent Bank and its subsidiaries, even with regard to developments on the matter at national and transnational level;
- l) it assesses the adequacy of commitments made on issues of corporate social responsibility;
- m) it supervises matters of sustainability connected with running a company and with the development of interactions with stakeholders.

In 2015 the Appointments Committee met five times. The average length of meetings, all properly minuted, was over one hour.

In 2015, the Appointments Committee worked together with the Supervisory Board to update the regulations for its proceedings in order to bring these into line with the new Articles of Association when UBI Banca transformed from a joint stock co-operative company into an ordinary joint stock company with a resolution of an Extraordinary Shareholders’ Meeting dated 10th October 2015. In this respect, we report that the new provisions of the Articles of Association, (Art. 41.6) state that the Appointments Committee shall be composed of between three and five Supervisory Board members. That rule takes effect from the date of the appointment of the Supervisory Board that will replace that in office on the date on which the resolution for the transformation into a joint stock company took effect.

In 2015, the Appointments Committee performed its duties with regard to fact finding activity for the issue of a non-binding opinion by the Supervisory Board for appointments to corporate bodies of banks in the Group pursuant to Art. 27 of the Articles of Association. Furthermore, it also carried out fact-finding information for the purposes of proposing candidates for the office of member of the Board of Arbitrators of UBI Banca for the three-year period 2015-2017, submitted to an ordinary Shareholders' Meeting on 25th April 2015.

In 2015, the Committee also collaborated with the Supervisory Board:

- on the annual self-assessment process for Governing Bodies and on the formulation of the relative internal regulations, as also described in Sub-section 4.2 of this report;
- on the definition of guidelines for the renewal of the Governing Bodies of UBI Banca, whose term of office expires in 2016, as also described in Sub-section 4.2 of this report;
- on the assessment of succession plans, assisted for that purpose with support from an independent outside company selected by the Committee itself;
- on social responsibility issues with a specific focus on the definition of action programmes for charitable donations required by the Articles of Association, together with an examination of the contents of the 2014 Social Report.

In this context, the Appointments Committee supported the Supervisory Board in launching activities in preparation for the renewal of the Governing Bodies, whose term of office ends with the 2016 Ordinary Annual General Meeting, by preparing a document entitled "Guidelines for the process of appointing the Supervisory Board and selecting members of the Management Board", as described in Sub-section 4.2 of this report. At the end of that process, the new Supervisory Board appointed shall proceed to the appointment of a new Appointments Committee (in its new configuration indicated above in accordance with Art. 41.6 of the current Articles of Association of UBI Banca S.p.A.), whose first duty will be to formulate a proposal to the Supervisory Board for the designation of members of the Management Board, consistent with the results of the analysis conducted. The Committee will also be given the duty of supporting the new Governing Bodies, with regard to the process of verifying requirements for suitability, in ascertaining the absence of causes for incompatibility on the part of board members as well as verifying that the qualitative and quantitative composition considered optimal does in fact correspond to the actual result of the appointments process.

At the date of this report a meeting has been programmed for February 2016.

7) Remuneration Committee

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

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

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

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

With reference to the appointment of the Senior Deputy Chairman, Mario Cera (who for the previous three years had performed a senior role in a strategically significant subsidiary) to the position of Chairman of the Remuneration Committee, as already described in the 2015 Report, with a view to the efficient operational continuity of the Bank it was considered appropriate not to comply, for this specific point only, with the requirements of Art. 6.P.3 of the Borsa Italiana Corporate Governance Code in order to ensure that the Committee continues to function in a full and efficient manner. It is precisely the professional experience

and knowledge of the Group that Mario Cera has acquired that, together with his substantial and well-known independence of judgment, were and are a suitable guarantee of the better and appropriate functioning of the Committee. The other four members of the Committee are in possession of the requirements of independence required by the Code.

The 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. These regulations were revised in 2015 for compliance with Supervisory Regulations for Banks on Corporate Governance (Circular No. 285 – Part One – Title IV – Chapter 2). 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, 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 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 as interpreted in UBI Group’s remuneration and incentive policies. It also provides consultation in relation to determining the criteria for the remuneration of all 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;
- sees to the preparation of the documentation to be submitted to the Supervisory Board for taking the relative decisions;
- 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 13 times in 2013 (the average length of the meetings, all properly minuted was approximately one hour forty minutes), concentrating mainly on the following areas:

- examination of the new provisions and recommendations received from the Supervisory Authorities;
- examination of the results of the inspection conducted by the Bank of Italy between 6th October and 19th December 2014 on the subject of "remuneration and incentive policies and practices" and a preliminary examination of the reply provided by the Bank on 10th April 2015;
- examination of information to be provided to the Supervisory Authority on remuneration matters;
- activities on behalf of the Supervisory Board for the revision of the regulations of the Committee in implementation of the new Supervisory Regulations for Banks;
- activities on behalf of the Supervisory Board for the approval of remuneration policies regarding members of the Supervisory Board and the Management Board subject to the approval of a Shareholders' Meeting;
- activities on behalf of the Supervisory Board for verifying that amounts indicated by the Management Board for the boards of directors and senior managers of subsidiaries is compliant with the Group Remuneration Policy;
- 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) resolved by the Management Board and 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;
- verification of the trigger conditions and the performance objectives for the 2014 incentive scheme;
- examination and formulation of a proposal for the revision of the remuneration and incentives policies for 2016;
- 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 Chairman of the Committee had a meeting with the inspectors of the ECB Joint Supervisory Team, during which a full examination was made of fundamental questions regarding the current operational and regulatory framework and those which specifically regarded UBI's situation. The Chairman reported to the Committee on that meeting and on its contents.

The Committee commenced activities to support the Supervisory Board formulating a proposal to submit to the 2016 Annual General Meeting to set the remuneration for the Supervisory Board when that Board itself is renewed. The newly appointed Supervisory Board will have to appoint a new Remuneration Committee, whose first duty will be to formulate a proposal for the allocation by the Supervisory Board of the overall amount established by the Shareholders' Meeting in order to set the remuneration of the Chairman, Senior Deputy Chairman and Deputy Chairmen, if appointed, 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 shall, amongst other things, take account of any possible assignment of Supervisory Body functions pursuant to Legislative Decree No 231/2001, in compliance with the criteria set by the Articles Association. The new Committee must also formulate a proposal to the Supervisory Board for the remuneration of members of the newly appointed Management Board, as well as for the remuneration of the Chairman and Deputy Chairman of the Management Board, the Chief Executive Officer and Members of the Management Board who have been assigned particular or specific offices, duties or powers.

At the date of this report a meeting has been programmed for February 2016.

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.

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 exceptions for exceptional reasons are in any event subject to the prior approval of the Supervisory Board.

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

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

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

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

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

Succession Planning

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

In order to update this, 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.

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

In cases of early or unexpected substitution of the General Manager and/or Chief Executive Officer, the results of the 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 evaluating, even during the term of the boards, the adequacy of succession plans at the level of the senior positions on the Management Board and Senior Management, and the professional profiles and requirements of those currently holding office and any candidates there may be to succeed them.

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

As part of the above process, the periodic structured assessment carried out in 2015 involved senior management including executives that sit on the Management Board in accordance with the Articles of Association.

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

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

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

9) Internal Control Committee

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

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

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

The 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. These regulations were updated in September in relation to the creation at that time of a Risk Committee and the elimination of the Accounts Committee. 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 Legislative Decree No. 58 of 24th February 1998, having regard to the internal control system and other activities connected with the functions of the Supervisory Body and the following activities in particular:

Internal control system

- 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 ICAAP process) 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 Legislative Decree No. 58 of 24th February 1998, 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 member 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;
- assessment of proposals formulated by the independent auditors for their engagement;
- 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 nine times in 2015. 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 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 and in order to ensure as much co-ordination as possible, a member of the Internal Control Committee attends meetings of the Risk Committee and they also hold joint meetings.

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

The Internal Control Committee met 27 times in 2015, the average length of each meeting was approximately two hours and all the meetings were properly minuted. The attendance of each member was as follows: *prof.* S. Pivato, 27 meetings; *dott.* A. Gusmini, 27 meetings; *avv.* P. Camadini, 27 meetings; *dott.* C. Garavaglia, 24 meetings; *dott.* G. Gola, 26 meetings. Members who were unable to attend a meeting gave reasons for their absence.

The Chief Risk Officer and the Chief Audit Executive attend the meetings of the Committee on a regular basis. The regulations of the Committee provide that *"if it is apparent from the matters on the agenda for discussion that this is advisable, the Chairman of the Supervisory Board may participate in the work of the Committee at his request or by invitation of the Chairman"*. This provision was not applied in 2015. In relation to the matters discussed under specific items on the agenda, and at the request of the Chairman of the committee, representatives of UBI Banca and other Group companies, as well as outside professionals attending as consultants and representatives of the independent auditors have attended meetings as needed during the year.

The Committee submits special six-monthly reports on the activities performed to the Supervisory Board, in which it gives its opinion on the adequacy of the internal control system of the Bank and its strategic subsidiaries. The Chairman of the committee also notifies the Supervisory Board (normally as part of the examination of the quarterly reports made by the corporate control functions and also from time to time in relation to investigations made in relation to specific matters) of areas that have been observed requiring improvement or attention, requesting the adoption of appropriate measures to strengthen internal controls and assessing their effectiveness over time, by providing relevant information to support the work of the Supervisory Board.

In 2015 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, and the legislative framework, as follows:
 - the main legislative and regulatory changes in areas relevant to the general architecture of the Group's system of internal controls, including the supervisory review and evaluation process (SREP), in relation to the Single Supervisory Mechanism and the regulations resulting from the implementation of Directive 2014/59/EU (BRRD);
 - the completion of "Project 263", with the purpose of updating the overall framework to implement the new regulations for prudential supervision pursuant to the 15th update to Bank of Italy Circular 263/06, in terms of the revision of the organisational units and the internal system of regulations (Policy and Regulations);
 - the management of conflicts of interest and in particular situations when the limits on the accumulation of positions are exceeded in the network banks, with reference to the subject of interlocking directorships, annual verification that no causes of incompatibility exist in relation to the members of the Management Board and the Senior Officer responsible for the preparation of corporate accounting documents;
 - the organisation and structure of the Bank and its subsidiaries, including reference to changes in the number of Group Companies and the information relating to the senior management of the Bank and its subsidiaries. The operation to transform UBI Banca from a joint stock co-operative company into an ordinary joint-stock company

- was of particular importance in this respect and the Internal Control Committee studied this matter in detail;
- matters relating to the system of powers, the definition and attribution of responsibilities and the management of resources, such as the remuneration and incentive schemes, changes in staff costs, the training activity carried out by UBI Academy and projects and initiatives regarding human resources;
 - reporting lines, with particular regard to reporting from the control functions to senior management and the frequency of reporting required by the organisational units responsible for controls, also including the co-ordination of corporate control functions;
 - the activities of the Supervisory Bodies of the Group member companies, including by means of specific meetings;
 - matters regarding the IT system, with reference to which it oversaw the creation of a Chief Information Officer position and the implementation of the organisational units to manage IT risk and it examined the 2016-2018 strategic policy document for the IT system;
 - 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 relating to anti-money laundering, with a particular focus on the “Anti-money laundering - appropriate verification of customers and keeping of the AUI [single financial transactions database]” project, intended to ensure the compliance of procedures and internal systems with the regulations in force;
 - compliance (using, among other things, the reports produced) to monitor the progress of the initiatives relating to the relative organisational and regulatory framework, especially with regard to the structuring and progressive co-ordination or specialist compliance units, and those designed to generally strengthen compliance processes;
 - transparency, usury, privacy and the question of compounding of interest;
 - matters concerning the complaints management process;
 - activities to prepare for the UBI Banca Shareholders’ Meeting;
- the supervision of the adequacy of the risk management and control system and of the regulatory compliance of the Internal Capital Adequacy Assessment Process (ICAAP), monitoring in particular activities to roll out the use of advanced methods in Group member companies, developments in the methodology of internal models and the new requirements for the Group to submit periodic reports;
 - the evaluation of the activities plan of the corporate control functions and of their 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;
 - the policy-setting and co-ordination activities of the Parent, with particular attention to its subsidiaries;
 - the provision of investment services;
 - areas relating to covered bonds, analysing the results of internal audits carried out by the Internal Audit Function on the programme for issuing them, the securitisations, and transactions with related parties - significant intragroup and “atypical” transactions;
 - 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;
 - 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;
 - changes to Internal Audit, in terms of the structure, staff numbers and projects in progress on the operational tools of the function, also for the purpose of monitoring its autonomy, adequacy, efficacy and efficiency;

As concerns our activities in 2016 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 six meetings, two of which have already been held.

10) Accounts Committee

The Accounts Committee was in office until 15th September 2015 and was composed of the following members of the Supervisory Board:

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

The Committee supported the Supervisory Board with fact-finding, advisory and proposal making functions in carrying out the Board's responsibilities as defined by the regulations in force from time to time, relating to the approval of the financial statements and the examination of periodic reports, providing an opinion, where necessary, in order to allow the Board itself to make decisions in a knowledgeable and informed manner.

More specifically, as part of those duties the Committee satisfies the Supervisory Board's requirements in terms of facts and analysis by carrying out fact-finding activities on the accounts prior to the preparation of annual separate and consolidated financial statements or interim reports, overseeing the preparation of accounting documents on the basis of an examination of the figures as they are progressively recorded and the relative information as and when it becomes available. In order to do this the Committee:

- examined accounting issues common to Group companies across the Group and as regards single Group companies;
- acquired detailed knowledge of issues concerning the measurement and representation of items in the accounts;
- studied issues concerning supervisory regulations for banks, acquiring knowledge of technical and operational aspects.

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

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

The Accounts Committee met seven times in 2015. The average length of each meeting was longer than two and a half hours.

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

- the most important accounting matters and their impact on the financial statements of the Group and its main legal entities;
- the process and method used for the recognition of impairment losses on intangible assets, and in particular on goodwill, finite useful life intangible assets and equity investments;
- the loan loss rate, deteriorated loans and receivables and the trends of the related coverage rates, with a particular focus on the most significant positions and on impairment losses on loans, calculated either singly or collectively, including comparisons between Group companies and comparisons with the main market competitors;

- the recognition of contributions or quotas relating to the Interbank Deposit Protection Fund, the Deposit Guarantee Scheme and the Single Supervisory Mechanism;
- the procedures for the identification, classification and measurement of forborne loans;
- regulatory updates relating to the IFRS 9 accounting standard and the related project work;
- the valuation of the own securities and equity investment portfolios;
- verification of the existence of contingent assets as defined by IAS 37;
- the state of the Group's tax litigation and an examination of the legal opinions provided on the most significant cases;
- deferred taxation and the regulatory developments in this regard, with particular reference to examination of the recoverability of deferred tax assets and the current and future tax treatment of impairment losses on loans;
- the accounting effects of the introduction of new regulations and tax legislation;
- the disclosure of the main aspects of financial statements and periodic financial reports;
- examination of responses to information requests made by the authorities in relation to accounting and financial statements;
- legislative and regulatory changes, including those at the consultation stage, concerning supervisory reporting and financial statements;
- the accounting and financial reporting aspects of the integration process resulting from the merger of IW Bank into UBI Banca Private Investment;
- methodological aspects relating to audit activity pursuant to Law No. 262/2005, the outcomes of those audits conducted at the times of the annual and half year reports and the consequent process and procedural initiatives undertaken;

11) Risk Committee

In implementation of Supervisory Regulations concerning corporate governance, the Supervisory Board passed a resolution on 15th September 2015 to create a Risk Committee.

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

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

The purpose of the Committee, whose activities are governed by special regulations published on the Bank's website in the Corporate Governance/Supervisory Board section, 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 strategic supervisory body in accordance with regulatory requirements as may be in force from time to time, on the following matters: 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 the quarterly financial reports.

More specifically the Committee:

- having first consulted with the 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 and the senior officer responsible for preparing the corporate accounting documents pursuant to Art. 154-*bis* of Legislative Decree No. 58 of 24th February 1998;
- 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, 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.

Since its creation the Committee has also performed 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 validation of internal systems used to measure risks not used for regulatory purposes; vii) the assessment of non-viability risk in the context of the “Recovery plan”; viii) setting policies and defining assessment processes for corporate activities. In this context, amongst other things, the Committee supports the Supervisory Board in ensuring that the strategic plan, the RAF, the “Internal Capital Adequacy Assessment Process” (ICAAP), the “Internal Liquidity Adequacy Assessment Process” (ILAAP), the budget and the internal control system are all compatible with each other.

With regard to the approval of accounting policies and proposed separate and consolidated financial reports and the examination of the half yearly and quarterly financial reports, 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.

The Committee met three times in 2015. The average length of each meeting was around three and a half hours.

The Committee directed its activities mainly towards its duties to support the Supervisory Board in the setting and approval of strategic guidelines and risk management policies, in verification of the proper implementation of strategies, risk governance policies and the RAF, in the assessment of periodic reports on risk management and control, in the formulation of opinions on compliance with the principles on which the internal control system and corporate organisation must be uniformly based and the requirements to be met by corporate control functions and towards an examination of the third quarter financial report, an examination of UBI Banca Group accounting policies, an examination of the regulatory update on accounting and an initial examination of accounting matters relating to the 2015 Annual report. More specifically, the following main subject areas were analysed and examined:

- the 2016 risk appetite proposal;
- an update of the documents “Risk Appetite Framework – The risks in the UBI Banca Group” and “Guidelines for carrying out stress tests”;
- Integrated Risk and Mitigation Action reporting;
- periodic reporting on risks and the Pillar 3 Public Disclosures as at 30th September;
- the report on the second level credit control activities;

- update of the “Policy for trading in, the placement and subscription of financial products” and the related “Implementation regulations” and “Details of operational limits” documents;
- update of the “Regulations for funds transfer pricing”;
- update of the “Policy for the outsourcing of corporate functions in the Group”;
- update of the “Compliance policy”;
- the “Group policy on product development and management”;
- proposals concerning limits and caps as exceptions to the Credit Risk Management Policy of the UBI Banca Group;
- update of the validation procedure for the roll out of the use of internal AIRB/IRB methods for the calculation of capital requirements for credit risk at UBI Leasing.

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

- the disclosure of the main aspects of financial statements and periodic financial reports;
- the loan loss rate, deteriorated loans and receivables and the trends of the related coverage rates, with a particular focus on the most significant positions and on impairment losses on loans, calculated either singly or collectively, including comparisons between Group companies and comparisons with the main market competitors;
- the impacts on the accounts of loan disposal transactions;
- the state of the Group’s tax litigation and an examination of the legal opinions provided on the most significant cases;
- 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;
- regulatory updates regarding the IFRS 9 accounting standard and the initial results of the related project work;
- accounting aspects of the National Resolution Fund and the Interbank Deposit Protection Fund.

The Risk Committee has met twice in 2016.

12) Related and Connected Parties Committee

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

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

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

- (i) 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;
- (ii) 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 committee's procedures are governed by the regulations mentioned above, available in the Corporate Governance/Supervisory Board section of the Bank’s website.

The “Regulations for UBI Banca 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 Committee met eleven times in 2015 (the average length of the meetings was approximately one hour), focusing its activities mainly on the following areas:

- reading and examination of reports pursuant to Art. 14 (Decision-making procedures for transactions of lesser importance) of the regulations for Transactions with connected parties of the UBI Group;
- reading and examination of reports pursuant to Art. 15 of the Regulations for transactions with connected parties of the UBI Group / Regulations for transactions with related parties of UBI Banca (Decision-making procedures for transactions with connected parties/related parties subject to the provisions of Art. 136 of the Consolidated Banking Act);
- opinions on the existence of an advantage for UBI Banca in entering into contracts with related parties/connected parties and on the advantages and fairness of the relative conditions;
- opinions on the existence of an advantage for a subsidiary company in entering into contracts with connected parties, and on the advantages and substantial fairness of the relative conditions;
- examination and acknowledgement of the periodic receipt of the list of all the connected-party transactions performed, including those not subject to a prior opinion from the Related and Connected Parties Committee;
- examination and acknowledgement of the periodic receipt of the list of all the connected-party transactions performed, including those not subject to a prior opinion from the Related and Connected Parties Committee;
- compliance testing of the completeness and correctness of the survey of connected parties in the Group customer database, with reference to those categorised as Corporate Executives;
- examination and reading of the report on the Related and Connected Parties Committee pursuant to Art. 123-bis, paragraph 2, letter d) of the Consolidated Finance Act (“Internal Board Committees”);
- examination and reading of the periodic financial report on related party transactions in the annual and interim management reports;

- opinion on the “Policy on internal controls to manage risk assets and conflicts of interest with regard to connected parties”.

The Related and Connected Parties Committee has already held one meeting in 2016.

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

13) Management Board

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

The Management Board shall be composed of between a minimum of seven and a maximum of nine 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, after determining their number, 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.

Furthermore, as resolved by the Extraordinary Shareholders' Meeting held on 10th October 2015, the next time the Management Board is renewed, it shall be composed of seven members.

Without prejudice to legal obligations, two members of the Management Board shall be 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 nevertheless shall remain in office until a new Management Board is appointed in accordance with article 38, letter a) 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: i) at least one member of the Management Board must possess the requirements of independence set forth in Art. 148, paragraph three of Legislative Decree No. 58 of 24th February 1998; ii) at least the majority must have a total of at least three years experience in professional and/or management activities in financial and/or investment and/or banking and/or insurance companies in Italy or abroad.

In accordance with a resolution of the Ordinary Shareholders' Meeting held on 10th October 2015, when the Supervisory Board is next renewed it is confirmed in the Articles of Association that persons who are ineligible or debarred within the meaning of Art. 2382 of the Italian Civil Code, and that is 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 Legislative Decree No. 58 of 24th February 1998.

Furthermore, when the Management Board is next renewed, it is laid down in the Articles of the Association that members of the Management Board must nevertheless 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.

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

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

Following the resignation of *dott.* Francesco Iorio with effect from 31st May 2015, in a meeting of 14th July 2015 the Supervisory Board appointed *dott.* Ettore Giuseppe Medda (Deputy General Manager) to the Management Board.

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

Franco Polotti	Chairman
Giorgio Frigeri	Deputy Chairman
Victor Massiah	Chief Executive Officer

Silvia Fidanza	Member
Luciana Gattinoni	Member
Italo Lucchini	Member
Ettore Giuseppe Medda	Member
Flavio Pizzini	Member
Elvio Sonnino	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 Parent 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 Parent, to the board members and statutory auditors of the banks in the Group, without prejudice to compliance with mandatory legislation and regulations and the provisions of the supervisory authority, including regulations concerning the limits on the accumulation of positions by members of the supervisory bodies of listed issuers and companies with publicly distributed financial instruments, which the Group's regulations extend to cover all the statutory auditors of all the banks in the Group.

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

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

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

The Governing Bodies of UBI Banca launched the Self-Assessment Process for the years linked to the duration of their mandate, with an indication of the actions to be taken and the related schedule, and for the provision and implementation of a peer review system and process in the second and third years of their mandate, assisted for that purpose by the consultancy support of Egon Zehnder International.

In this context, again in 2015 the Management Board carried out a self-assessment relating to its size, composition and functioning in 2014, with the assistance of the appointed consultant. The self-assessment of the Management Board was specifically addressed in the board meeting of 10th March 2015, at which it examined the results of a specific self-assessment questionnaire filled in by each board member, followed by individual interviews carried out by the consultant.

The self-assessment was conducted with particular reference to the following factors: (i) the quality and completeness of skills, experience and expertise within the Board as a whole; (ii) sufficient number of board members; (iii) the quality of Board meetings; (iv) the quality and promptness of reporting and presentations to the Board; (v) the effectiveness and efficiency of decision-making processes within the Board; (vi) the clarity, agreement and satisfaction with regard to policies, performance and risk objectives and the results achieved. As part of the self-assessment process, the results in line with that which had been found in previous years and the differences were examined. The assessment also focused on developments carried out on the basis of points for consideration that had arisen in the self-assessment conducted the year before.

On conclusion of the process, the Board assessed the adequacy of its composition, size and functioning positively, considering that the overall performance of board proceedings in terms of organisation, examination of the arguments, participation of board members at meetings and in discussion constituted adequate guarantees of the sound and prudent management of the Bank and the Group. More specifically, against a background that was already considered positive the previous year, the Board expressed its appreciation for the significant improvements found in the both the questionnaires and the interviews at an overall level, obtained following the previous self assessment, with specific reference to determined strengths. The Board also acknowledged the appreciable improvements recorded in relation to determined areas for improvement that had emerged the previous year, agreeing in that respect on the need to review and implement the plan for the improvement of the effectiveness of the Management Board.

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

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

The Management Board met 30 times in 2015 and the average length of meetings was approximately 4.5 hours.

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

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

In compliance with Borsa Italiana regulations, in January UBI Banca announced its calendar of corporate events for 2016 to the market (and published it on its website), with the dates of board meetings for the approval of operating and financial results.

In this respect we report that the Management Board has planned meetings for 2016 up to the date of the Shareholders' Meeting, and it has scheduled meetings for examinations of periodic operating and financial figures, with nine meetings planned, three of which already 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 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 Bank and companies in the Group;
- g) the designation of members of the Board of Directors and of the Board of Statutory Auditors of the companies belonging to the Group, without prejudice to the provisions of the preceding article 27, paragraph two, letter c);
- 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, the creation of committees or commissions with advisory, investigative, controlling or co-ordinating functions, without prejudice to article 33, paragraph two;
- 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 s) of these 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 mandatory opinion of the Supervisory Board, the appointment and removal of the Senior Officer Responsible for the corporate accounting documents, pursuant to article 154-*bis* of Legislative Decree No. 58 of 24th February 1998, and determination of the relative remuneration. 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;
- q) 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;
- s) obligations of the Management Board pursuant to articles 2446 and 2447 of the Italian Civil Code;
- t) formulation of merger or demerger plans;
- u) proposals for strategic transactions pursuant to Art. 38, paragraph one, letter m) 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 renewal of the terms of office of corporate bodies in 2013, a programme that involved holding two training meetings for officers of UBI Banca started in 2013. In this respect, in 2014 the Management Board and Supervisory Board approved a two-year programme of meetings to be held in 2014 and 2015, identifying specific topics to be covered. Two meetings were held in 2014: on 26th February 2014, on “The governance of management risks and strategic actions”, and on 27th November 2014, on “The system of controls”. Finally, on 26th September 2015 a further training meeting was held on the subject of “The organisation of the structure of the IT system”.

Furthermore, Board Members may participate individually in an induction session designed to examine specific subjects.

13.4. 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);
- 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 23rd April 2013, the Chief Executive Officer was assigned duties pursuant to Art. 35 *bis* of the Articles of Association on the subject of internal controls.

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.

13.5. 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.

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

13.7. Independent board members

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

The Management Board verified the independence of the individual board members when they were appointed and then verifies this annually; the last verification of this carried out by the Management Board before the approval of this report established that board members *dott.ssa* Silvia Fidanza and *dott.* Italo Lucchini meet the above requirements. In this context, in compliance with, among other things, the Bank of Italy instructions concerning corporate governance, an analysis of the lending relationships between each board member and the Group was carried out.

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.

14) 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 or an employee designated by him shall be required to provide the arbitrators with all the information that they may request concerning disputes to be settled.

The 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:

<i>Prof. Rodolfo Luzzana</i>	- Chairman
<i>Avv. Giampiero Donati</i>	- Full arbitrator
<i>Avv. Attilio Rota</i>	- Full arbitrator
<i>Avv. Giuseppe Onofri</i>	- Alternate arbitrator
<i>Avv. Pierluigi Tirale</i>	- Alternate arbitrator

15) General Management

Following the resignation of the General Manager *dott. Francesco Iorio* effective from 31st May 2015, Management Board resolved to appoint *dott. Victor Massiah*, the Chief Executive Officer, to the position of General Manager from 1st June 2015, with duration not later than the expiry of the Management Board's term of office (2016 Annual General Meeting).

The Management Board appointed *dott. Elvio Sonnino* as Senior Deputy General Manager and *dott.ssa Rossella Leidi* and *dott. Ettore Giuseppe Medda* as Deputy General Managers who have been assigned various responsibilities in the Group.

16) Internal control and risk management system

Introduction

The Supervisory Board, through, amongst other things, the Internal Control Committee and other internal Board committees, assessed and oversaw, within the scope of its responsibilities, the adequacy of the organisational, management and accounting structure of the Group with particular reference to the internal control and risk management system.

Internal controls

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

- verifying that company strategies and policies are implemented;
- containment of risk within the limits set in the reference framework for determining the risk appetite of the Bank (Risk Appetite Framework - RAF);
- safeguarding the value of assets and protecting against losses;
- effectiveness and efficiency of company processes;
- reliability and security of company records and IT procedures;
- preventing the risk of the Bank being involved, even involuntarily, in illicit activities (with particular reference to those associated with money-laundering, usury and the financing of terrorism);
- compliance of operations with the law and supervisory regulations and also with internal policies, regulations and procedures (*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 assessing the internal control system and verifying its completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability form part of the responsibilities of the corporate bodies which fulfil strategic supervision, control and management functions, supported by the control functions. In order to accomplish this, the Supervisory Board makes use of the Internal Control Committee which it forms directly itself (the composition, powers and functioning of the Internal Control Committee have already been examined in this report in the section specifically on that Committee).

UBI Banca Group Internal Control System Policy

In the context of the 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 Group’s hierarchy of values, and does not concern solely the corporate control functions, but also the entire business organisation of

the Parent and the Group member companies (e.g. corporate bodies, units, management hierarchy and staff);

- it represents an essential part of the corporate governance system of the Parent and Group member companies and assumes a role of fundamental importance in the identification, mitigation and management of significant risks, contributing to the protection of shareholders' investments and the assets of the entire Group as well as protecting its customers and the integrity of the markets in which it operates.

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

The principles described accordingly highlight the importance of:

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

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

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

- *line controls (first level controls)*: designed to ensure the proper performance of operations. These controls are carried out by the operating units themselves (e.g. hierarchical, systematic and sample controls), and may also be carried out by units with control duties only who report to the managers responsible for the operating units (or they are carried out as part of back office activities) and, where possible, they are incorporated into IT procedures. With this approach the operating units are the first with responsibility in the risk management process, indeed, in the course of day-to-day operations these units are called upon to identify, measure or evaluate, monitor, mitigate and report the risks resulting from ordinary business activities in accordance with the risk management process. These units also have to comply with the operating limits assigned to them in accordance with the risk targets and the procedures that constitute the risk management process;
- *risk and compliance controls (second level controls)*: designed to ensure compliance with the operating limits assigned to the various functions, the correct implementation of the risk management process and the compliance of business operations with regulations, including self-regulation. In compliance with regulatory requirements, the functions responsible for second level controls are separate from the operational functions. In detail these functions are:
 - the Risk Management function;
 - the Compliance function;

- o 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 body and the general management.

More specifically, those responsible for second level controls are required to continuously identify, prevent and measure risk situations by adopting appropriate valuation models and to assist in the formulation of risk assumption and management policies with regard, amongst other things, to the maximum limits on exposure to them. Adequate reporting is provided to the Supervisory Board, the Management Board and the General Management on current and future exposure to 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*, 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 organisational configuration includes a Compliance Area, currently headed by *Ing. Maria Martinelli*, reporting directly to the Chief Executive Officer, divided into Banking Services Compliance, Investment Services Compliance, and Group member companies compliance co-ordination.

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

- **The Chief Risk Officer**: is responsible for implementation of governance policies and the risk management system, performing the control function and providing the corporate bodies with an overview of the various risks (credit, market, operational, liquidity, reputational, money-laundering etc.). He co-ordinates the process of defining and managing the Risk Appetite Framework (RAF) in order to ensure that the risk appetite reported in the RAF and the risk-taking policies and procedures adopted by the Group are consistent with the prudent person approach. Again with regard to the process of defining and managing the RAF, 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). Together with the Chief Financial Officer, he proposes the risk appetite to the Chief Executive Officer, with a view to its subsequent approval by the corporate bodies, and verifies that the risk appetite is consistent with the requirements of the Group and the expectations of the Supervisory Authorities. He also proposes the risk limits and co-ordinates the consolidation process for the risk appetite document for purposes including the internal authorisation procedure, while also verifying the overall adequacy of the RAF. He supports the corporate bodies and senior management in the creation and maintenance of an effective and efficient System of Internal Controls and the formulation of risk and limits management policy proposals. More specifically, he supports the Chief Executive Officer, who is responsible for promoting integrated risk control, among other things by providing regular reports and communications. He provides independent information to the 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 exposure of the Group to different types of risk. In this

respect he ensures the supervision and implementation of activities concerning risk management, partly by means of activities carried out by its own units. He is responsible for the development, validation and maintenance of the risk measurement and control systems, supervises the Group credit rating process and coordinates the units involved in the overall data entry and data quality process of the credit risk management system. He is responsible for defining and applying the IT risk analysis methodology together with the related process of evaluation and data processing. He is responsible for giving prior opinions on the compliance of transactions of major significance with the RAF and carry out second level verifications of credit exposures. He supervises the process for evaluating capital adequacy in relation to the risks taken, the public disclosure process, the process for evaluating the structural balance of the Group in terms of liquidity, and the process of evaluating short-term liquidity in stress conditions and in general the risk evaluation process for the purposes of the Supervisory Review and Evaluation Process (SREP) used by the supervisory authorities. He defines the reference framework in relation to the internal trigger rules in the event of a shortfall of capital, in compliance with regulatory principles, as a basis for the subsequent definition of a capital plan activated by the units reporting to the Chief Financial Officer. He works alongside and co-ordinates with the other control functions for the purpose of developing a shared view on operational and methodological aspects and the actions to be taken if significant or critical events occur in order to identify possible synergies and avoid potential overlaps and duplications of activity. He contributes to the 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 Group member companies;

- **Compliance:** it is responsible for circulating the directives provided for in the “Policies for the management of compliance risk” issued by the Supervisory Board on the basis of a proposal from the Management Board of the Parent, overseeing their implementation within the Group and reporting on this to those same bodies. It uses “trace back to unit” to ensure that compliance risk is managed efficiently and effectively, in accordance with a risk-based approach, verifying for that purpose that the internal procedures and the entire regulatory system are consistent with the objective of preventing the violation of any regulation applicable to the Bank in relation to all the different activities performed, whether they are of a generic external nature (laws and regulations issued by Italian supervisory authorities such as the Bank of Italy, Consob (Italian securities market authority), or IVASS (Insurance Supervisory Authority), and at the international level (EBA, ESMA, European Directives, etc.) or a self-regulatory nature (codes of conduct, policies, internal regulations etc.), while communicating independently with the management and supervisory bodies by sending reports and intervening directly, as appropriate. It co-ordinates activities carried out by the directly managed units of the Bank and UBI.S that are involved in the process, and the professional contributions made by each unit, for the purpose of managing compliance risk and the definition of an adequate regulatory and operational system. It provides its own advice and assessments, suggesting appropriate and effective organisational solutions for achieving the aims of the oversight and control of compliance risk. It integrates the facts showing areas for improvement, detected directly or by specialist compliance units, in a single summary table (map of non-compliances) and the related Compliance Plan, together with the planned actions to solve and monitor them. It works together with the functions forming part of the internal control system in order to ensure the compliance of the existing regulatory, operational and procedural system. Where possible it carries out the activities for which it has responsibility verifying the level of efficacy of the existing compliance procedures independently or with the support of the specialist units. It employs a preventive approach to ensure substantial compliance with regulations by corporate processes and therefore appropriate conduct by all personnel, ensuring that the interests of clients and investors are protected and it co-operates in the policy to establish relations of trust with all stakeholders. It performs a policy setting, co-ordination and control role for the subsidiaries, forming direct relationships with local compliance managers and contacts, where present, and with their General Management teams. It operates as a service provider to the Network Banks of the Group and its subsidiaries that have conferred the appropriate powers upon it, ensuring the oversight of risk and non-compliance with regulations. In

order to carry out its duties effectively, the regulatory compliance function has access to all the Bank's activities, whether central or local, and to any information that is relevant for that purpose, which may also be obtained by speaking with staff directly. It works alongside and co-ordinates with the other control functions for the purpose of developing a shared view 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. In view of these clarifications the UBI and Group compliance model was completely overhauled. 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 modifications will necessarily involve a revision of the compliance organisational and operational model which will be implemented in the first months of 2016 and will therefore be reported on in the next corporate governance report.

The purpose of internal auditing (third level), which is performed by the Internal Audit Function detailed in sub-section 16.2 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 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 Group companies;
- monitoring current and future risks.

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

In 2015, the Governing Bodies approved 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.

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

On 23rd April 2013, the Management Board, in compliance with the Articles of Association, conferred the following powers relating to internal controls on the Chief Executive Officer, *Dott.* Victor Massiah:

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

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

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

16.2 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 Parent, and more generally on all the companies in the Group as the Parent. In short, the Internal Audit Function acts on a third level basis, providing an opinion that is independent from the second level operational and control stage, concerning the overall reliability and effectiveness of the internal control and risk management system, and also considers the ability of that system to identify errors and irregularities, operating on the basis of an activity plan extending over a number of years. 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 2015 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 2015, in compliance with the policies set and the relative regulations, the Internal Audit Function audited the proper functioning of risks and changes in them and it assessed the general functioning of the Group internal control system reporting to corporate bodies and to senior management on potential improvements that could be made to risk management policies and to measurement instruments and procedures.

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

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

In addition to the specific report submitted following the conclusion of the analysis to senior management and, as applicable, the Audit Contact of the company concerned, the results of auditing activities have been the object of regular reports to the Boards of Directors and Boards of Statutory Auditors of the subsidiaries, presented on a cumulative basis to the Internal Controls Committee and the Management and Supervisory Boards of the Parent. This reporting also provides a summary of the main situations that have emerged from the audit activities and the state of progress of the actions taken to remedy them. In the event of particularly significant circumstances it has immediately provided appropriate information sent to the Management and Supervisory bodies and the executive Board Member responsible for the internal control system.

Finally, 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.

16.3 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.

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

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

16.5 Financial Reporting Officer appointed to prepare the corporate accounting documents

The Management Board appointed *dr.ssa* Elisabetta Stegher, with the favourable opinion of the Supervisory Board. She is the current Chief Financial Officer and Senior Officer Responsible for the preparation of corporate accounting documents pursuant to 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 and insurance fields.

The following responsibilities are conferred on that senior officer;

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

The Senior Officer Responsible is also required to make special reports to the Chief Executive Officer, the Management Board, the Supervisory Board, 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 Parent prior to the meeting of the Management Board which approves the separate annual report of the Parent 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 Group activities, and the definition and performance of assessments in support of certifications.

16.6 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;
- Group Risk Committee;
- Operational Risk Committee.

With reference to the co-ordination between those involved in the internal control and risk management systems, the Supervisory Board, the Management Board and Senior Management also currently benefit from an integrated overall outline of risks considered significant, identified by the control functions responsible for monitoring them and furnished using a tool developed from 2011 by the units reporting to the Chief Risk Officer. The progressive development of this integrated reporting tool (“Integrated reporting on risks and mitigation action”) has been in progress since 2015 in order to constitute a self assessment of the Group situation with respect to the recommendations given in the European Banking Authority (EBA) guidelines relating to the Supervisory Review and Evaluation Process (SREP) and those present in the annual “SREP Decision” on the UBI Group.

17 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 transactions relating to the senior officers of banks, the provisions of Article 136 of Legislative Decree No. 385/1993 (Consolidated Banking Act) are carefully complied with.

Special IT procedures have been introduced in this respect which, on the basis of declarations issued by 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 (Consob Regulations). The new requirements regulate procedures for the approval of transactions entered into by listed companies and issuers with a broad shareholder base with parties that could create a conflict of interest. Such parties include major and controlling shareholders, members of administrative and controlling bodies and senior management and their immediate family members.

The key points of the new requirements are:

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

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

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

In implementation of Art. 53, paragraphs 4 et seq. of the Consolidated Banking Act and Inter-Ministerial Credit Committee Resolution No. 277 of 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 Group, the officers of UBI Leasing, and parties connected to those officers according to the definition given in the rules).

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

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

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

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

18 Treatment of corporate information

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

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

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

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

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

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

19 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 Group's activities, results and strategies.

The “Shareholder Relations Service” (Manager *dott.* Giuseppe Sciarrotta) 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 Bank (www.ubibanca.it).

The “Shareholder Relations Service”, as part of the Corporate Affairs, Participation and Relations with the Authorities Area oversees relations with shareholders and coordinates preparations for the Shareholders’ Meetings of the Bank and manages all the related activities.

The Investor and Media Relations Area, which reports directly to the Chief Executive Officer, is responsible for interactions with international financial markets, (the UBI Group share is currently followed by 23 brokerage houses and approximately 500 institutional investors were met during 2015) managing media relations, the planning and organisation of UBI Banca institutional events, UBI Banca’s sponsorships and also for co-ordinating and supporting the communication activities of Group companies. As part of its institutional duties the Investor and Media Relations Area is also responsible for the direct management of the Investor Relations and Press Section of the Bank’s website and the supervision of the ubibanca.it website as a whole.

20 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 these 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 these Articles of Association, the conclusion of that transaction shall be forbidden if a number of non-related party shareholders who represent at least 5% of the share capital is present in the Shareholders' Meeting and the majority of those non-related party shareholders have voted against the transaction.

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

Shareholders' Meetings shall be held in all the cases provided for by law and by these Articles of Association and they are convened by the Management Board, or, pursuant to Art. 151-*bis* of Legislative Decree No. 58 of 24th February 1998, by the Supervisory Board or by at least two of its members, without prejudice to the other powers to convene provided for 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, paragraph 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 2015 (both in ordinary and extraordinary session):

- on 25th April 2015 (all members of the Management Board attended and 22 out of 23 members of the Supervisory Board attended);
- on 10th October 2015 (all members of the Management Board attended and 21 out of 23) members of the Supervisory Board attended).

Equity markets were highly volatile in 2015. Share indices improved overall, despite the effects of worldwide geopolitical tensions, the weakness and evenness of the recovery in Europe, uncertainties over growth in the United States economy and, especially in the second half of the year, concerns over prospects for the Chinese economy and falling oil prices.

The UBI Banca share ended the trading day on 30th December 2015 with an official price of €6.246 an increase of 4.7% over 12 months. The minimum and maximum prices for the year were €5.180 and €7.880 respectively.

The stock market capitalisation of UBI Banca on 30th December 2015 (based on the official price) had risen to €5.6 billion from €5.4 billion at the end of 2014, which placed UBI Banca in third place amongst listed Italian commercial banking groups (fourth place amongst all the listed Italian banking groups).

At European level, the UBI Banca Group was again amongst the first 40 institutions by stock market capitalisation in the classification drawn up by the Italian Banking Association in its European Banking Report, which includes the countries of the European Monetary Union plus Switzerland.

Attachment A

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

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Andrea MOLTRASIO	Chairman of the Supervisory Board	Chairman of the Board of Directors: - Icro Didonè Spa - Clinica Castelli Spa Director: - Icro Coatings Spa - Italian Banking Association - Banca Popolare di Bergamo Onlus Foundation - BergamoScienza Association
Mario CERA	Senior Deputy Chairman of the Supervisory Board	= =
Alberto FOLONARI	Deputy Chairman of the Supervisory Board	Chairman of the Board of Directors: - Fingiamia Spa - Mercury Spa Director: - Editoriale Bresciana Spa - Centro Stampa Quotidiani Spa
Armando SANTUS	Deputy Chairman of the Supervisory Board	= =
Dorino Mario AGLIARDI	Member of the Supervisory Board	= =
Antonella BARDONI	Member of the Supervisory Board	= =
Letizia BELLINI CAVALLETTI	Member of the Supervisory Board	= =
Marina BROGI	Member of the Supervisory Board	Director: - Luxottica Group Spa (*) - Salini Impregilo Spa Chairman of the Board of Statutory Auditors: - Fratelli Branca Distillerie Srl Chairman of the Supervisory Committee: - Cape Natixis SGR Spa in LCA - Credito Cooperativo Fiorentino in LCA Member of the Supervisory Committee: - IMEL.EU
Pierpaolo CAMADINI	Member of the Supervisory Board	Director: - Finanziaria di Valle Camonica Spa - Gold Line Spa - Editoriale Bresciana Spa - ANSA – Agenzia Nazionale Stampa Associata Soc. Coop.
Luca CIVIDINI	Member of the Supervisory Board	Deputy Chairman and General Manager: - G.F.C. Spa Director: - Malpaga Spa
Alessandra DEL BOCA	Member of the Supervisory Board	= =
Ester FAIA	Member of the Supervisory Board	= =
Marco Giacinto GALLARATI	Member of the Supervisory Board	Chairman of the Board of Directors - CoinService Spa - CoinService Nord Spa Sole Director - EVA-Efficienza Valore Analisi Spa Director:

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
		<ul style="list-style-type: none"> - Venpay Spa - CRS Holding Spa - Cialdamia Srl - Rheingold Srl
Carlo GARAVAGLIA	Member of the Supervisory Board	<p>Chairman of the Board of Directors:</p> <ul style="list-style-type: none"> - Eunomia Spa <p>Director:</p> <ul style="list-style-type: none"> - De Longhi Spa (*) - Del Clima Spa (*) - O.R.I. Martin Spa - Cordifin Spa
Gian Luigi GOLA	Member of the Supervisory Board	<p>Chairman of the Board of Statutory Auditors:</p> <ul style="list-style-type: none"> - Aferpi SpA <p>Full Statutory Auditor:</p> <ul style="list-style-type: none"> - 2I Rete Gas Spa - Sigit Spa - 2B Energia Spa <p>Chairman of the Supervisory Committee:</p> <ul style="list-style-type: none"> - Ial Cisl Piedmont in extraordinary administration
Lorenzo Renato GUERINI	Member of the Supervisory Board	<p>Chairman of the Board of Directors:</p> <ul style="list-style-type: none"> - 035 investimenti Spa - Quenza Srl <p>Deputy Chairman of the Board of Directors</p> <ul style="list-style-type: none"> - Italcementi Spa (*)
Alfredo GUSMINI	Member of the Supervisory Board	= =
Federico MANZONI	Member of the Supervisory Board	<p>Chairman of the Board of Directors and Managing Director:</p> <ul style="list-style-type: none"> - Mittel Investimenti Immobiliari Srl <p>Chairman of the Board of Statutory Auditors:</p> <ul style="list-style-type: none"> - Mesgo Spa <p>Full Statutory Auditor:</p> <ul style="list-style-type: none"> - Barabino & Partners Spa - Fidelitas Spa - FGH Spa - Terme di Sirmione Spa - Castello SGR Spa - Iniziative Bresciane Spa - Enercom Srl - G.E.I. Gestione Energetica Impianti Spa
Mario MAZZOLENI	Member of the Supervisory Board	= =
Enrico MINELLI	Member of the Supervisory Board	= =
Sergio PIVATO	Member of the Supervisory Board	<p>Chairman of the Board of Statutory Auditors:</p> <ul style="list-style-type: none"> - SMA Spa - Società Editoriale Vita Spa <p>Full Statutory Auditor:</p> <ul style="list-style-type: none"> - Brembo Spa (*) - Auchan Spa
Andrea RESTI	Member of the Supervisory Board	= =
Maurizio ZUCCHI	Member of the Supervisory Board	= =

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

(**) Companies belonging to the UBI Banca Group

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Franco POLOTTI	Chairman of the Management Board	<p>Chairman of the Board of Directors: - O.R.I. Martin Spa</p> <p>Deputy Chairman of the Board of Directors and Executive Director: - Mar.Bea. Srl</p> <p>Executive Director: - Trafilati Martin Spa</p> <p>General Partner: F.B.G. di Polotti Franco e C. Snc</p> <p>Director: - Italian Banking Association - Banca San Paolo di Brescia Foundation - Opera per l'Educazione Cristiana - Arte e Spiritualità - Eco Fortis Srl - C.M. Srl</p> <p>Member of the Governing Council - Brescia Industrial Association</p> <p>Member of the Governing Council: - Federacciai</p>
Giorgio FRIGERI	Deputy Chairman of the Management Board	<p>Chairman of the Board of Directors: - Banca Popolare di Bergamo Spa (**)</p> <p>Chairman: - Istituto Diocesano per il Sostentamento del Clero di Bergamo</p>
Victor MASSIAH	Chief Executive Officer/General Manager	<p>Board Member: - Italian Banking Association - Interbank Deposit Protection Fund. - <i>Federazione delle Banche, delle Assicurazioni e della Finanza</i> (Federation of Banks, Insurance Companies and Finance Companies)</p>
Silvia FIDANZA	Member of the Management Board	<p>Executive Officer - Condor Trade Srl</p> <p>Chairman of the Supervisory Board: - Befado Sp. Z.o.o. (Poland)</p>
Luciana GATTINONI	Member of the Management Board	<p>Chair of the Board of Directors: - BPB Immobiliare srl with a sole shareholder (**)</p> <p>Deputy Chair of the Board of Directors: - Misericordia Maggiore MIA Foundation</p> <p>Director: - Valle d'Astino srl</p> <p>Full Statutory Auditor: - Italcementi Spa Bergamo (*) - Angelo Canevisio Spa - Ganart Srl - Trafilerie Assi Spa - Metalmauri Trafilerie Spa</p> <p>Substitute Auditor: - Immobililegno Spa - Proposte Spa - Anita Srl</p>
Italo LUCCHINI	Member of the Management Board	<p>Chairman of the Board of Directors - Azienda Agricola Lodoletta Srl.</p> <p>Deputy Chairman of the Board of Directors: - Italmobiliare Spa (*)</p> <p>Executive Director: - Foundation for the Economic and Social history of Bergamo – Studies and Research Institute - Famiglia Legler Foundation</p> <p>Director: - Italcementi Spa Bergamo (*) - Italcementi Cav. WD. Carlo Pesenti Foundation - A.J. Zaninoni Foundation - Banca Popolare di Bergamo Onlus Foundation - Bergamo nella Storia Onlus Foundation</p> <p>Chairman of the Board of Statutory Auditors:</p>

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
		<ul style="list-style-type: none"> - Almag Spa - Immobileffe Spa Substitute Auditor: - Fonderia di Torbole Spa
Ettore Giuseppe MEDDA	Member of the Management Board / Deputy General Manager	<p>Director:</p> <ul style="list-style-type: none"> - Banca Regionale Europea SpA (**) – Executive Committee member - Banca di Valle Camonica S.p.A. (**)
Flavio PIZZINI	Member of the Management Board	<p>Chair of the Board of Directors:</p> <ul style="list-style-type: none"> - Borghesi Buroni Foundation <p>Deputy Chairman of the Board of Directors:</p> <ul style="list-style-type: none"> - UBI Sistemi e Servizi Scpa (**) <p>Board Member:</p> <ul style="list-style-type: none"> - Immobiliare Due Febbraio Srl - Lambriana Foundation <p>Chairman of the Board of Statutory Auditors:</p> <ul style="list-style-type: none"> - Impresa Tecnoeditoriale Lombarda Srl - Opere Sociali Foundation - Housing Sociale Foundation - EBIS Foundation - Brevivet S.p.A. - Achille e Giulia Boroli Foundation <p>Sole Statutory Auditor</p> <ul style="list-style-type: none"> - Novaradio Srl <p>Receiver:</p> <ul style="list-style-type: none"> - Bosa Srl in liquidation <p>Member of the Board of Statutory Auditors:</p> <ul style="list-style-type: none"> - Fondazione E4Impact
Elvio SONNINO	Member of the Management Board / Senior Deputy General Manager	<p>Deputy Chairman of the Board of Directors:</p> <ul style="list-style-type: none"> - IW Bank Spa (**) <p>Director:</p> <ul style="list-style-type: none"> - UBI Academy SCRL (**) - UBI Sistemi e Servizi SCpa (**) (and acting General Manager) - UBI Banca International Sa (**) <p>Chairman of the Governing Board:</p> <ul style="list-style-type: none"> - <i>Centro Studi Nazionale per il Controllo e la Gestione dei Rischi Aziendali</i> (National Study Centre for the Control and Management of Corporate Risk)

SUMMARY TABLES

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE (as at 31st December 2015)

STRUCTURE OF THE SHARE CAPITAL

	Number of shares	percentage of share capital	Listed (indicate markets) / unlisted	Rights and obligations
Ordinary shares	901,748,572	100 %	Milan – 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
Silchester International Investor Llp	No	5.123%	5.123%
Blackrock Incorporated (indirect - asset management)	No	5.055%	5.055%
Fondazione Cassa di Risparmio di Cuneo	Yes	2.230%	2.230%

TABLE 2: SUPERVISORY BOARD (appointed by the Shareholders' Meeting of 20th April 2013 for the three-year period 2013/2014/2015) AND COMMITTEES (appointed by the Shareholders' Meetings of 23rd April 2013 and 15th September 2015)

Supervisory Board											Appoint-ments Committee		Remuneration Committee		The internal control committee		Accounts Committee (until 15/9/2015)		Risk Committee (from 15/9/2015)		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 (****)	Management Board (****)	No. of appointments (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Chairman	Andrea MOLTRASIO	1956	from 1/04/2007 to 24/04/2010 since 20/04/2013	20/04/2013	AGM 2016	M/SB		20/20		6	C	5/5										
Senior Deputy Chairman	Mario CERA	1953	20/04/2013	20/04/2013	AGM 2016	M/SB		20/20		= =	M	5/5	C	13/13								
Deputy Chairman	Alberto FOLONARI	1937	5/5/2007 (appointed DP on 10/5/2007)	20/04/2013 (appointed DC on 23/4/2013)	AGM 2016	M/SB	X	16/20		4	M	4/5										
Deputy Chairman	Armando SANTUS	1969	28/04/2012	20/04/2013 (appointed DC on 23/4/2013)	AGM 2016	M/SB	X	19/20		= =	M	5/5	M	7/13								
Board Member	Dorino Mario AGLIARDI	1954	20/04/2013	20/04/2013	AGM 2016	m	X	20/20		= =						M	7/7	M	3/3			
Board Member	Antonella BARDONI	1963	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/20		= =										M	11/11	
Board Member	Letizia BELLINI CAVALLETTI	1962	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/20		= =												
Board Member	Marina BROGI	1967	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/20		6			M	12/13			M	7/7	M	3/3		
Board Member	Pierpaolo CAMADINI	1963	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/20	12/30(§)	4					M	27/27						
Board Member	Luca Vittorio CIVIDINI	1961	20/04/2013	20/04/2013	AGM 2016	m	X	19/20		2												
Board Member	Alessandra DEL BOCA	1947	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/20		= =			M	13/13								
Board Member	Ester FAIA	1973	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/20		= =												
Board Member	Marco Giacinto GALLARATI	1963	20/04/2013	20/04/2013	AGM 2016	m	X	19/20		7										C	11/11	

continued TABLE 2: SUPERVISORY BOARD AND COMMITTEES

Supervisory Board											Appoint-ments Committee		Remuneration Committee		Internal Control Committee		Accounts 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 (****)	Management Board (****)	No. of appointments (**)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)	(***)	(****)
Board Member	Carlo GARAVAGLIA (*)	1943	1/04/2007	20/04/2013	AGM 2016	M/SB	X	18/20	2/30 (§)	5					M	24/27						
Board Member	Gian Luigi GOLA(*)	1964	20/04/2013	20/04/2013	AGM 2016	M/SB	X	20/20	3/30 (§)	5					M	26/27						
Board Member	Lorenzo Renato GUERINI (*)	1949	20/04/2013	20/04/2013	AGM 2016	M/SB		20/20		3						C	7/7	C	3/3			
Board Member Secretary	Alfredo GUSMINI (*)	1944	24/04/2010	20/04/2013	AGM 2016	M/SB	X	20/20	12/30 (§)	= =					M	27/27						
Board Member	Federico MANZONI (*)	1949	1/04/2007	20/04/2013	AGM 2016	M/SB	X	20/20		10						M	6/7	M	3/3			
Board Member	Mario MAZZOLENI	1943	1/04/2007	20/04/2013	AGM 2016	M/SB	X	19/20		= =	M	5/5										
Board Member	Enrico MINELLI	1965	28/04/2012	20/04/2013	AGM 2016	M/SB	X	20/20		= =	M	5/5									M	11/11
Board Member	Sergio PIVATO (*)	1945	1/04/2007	20/04/2013	AGM 2016	M/SB	X	20/20	1/30 (§)	4					C	27/27						
Board Member	Andrea Cesare RESTI	1965	20/04/2013	20/04/2013	AGM 2016	m	X	20/20		= =			M	13/13								
Board Member	Maurizio ZUCCHI	1954	20/04/2013	20/04/2013	AGM 2016	m	X	20/20		= =												
<p>Quorum currently required for the presentation of lists by Shareholders: 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 (fifteen) names.</p>																						
Number of meetings held during 2015			Supervisory Board: 20			Appointments Committee: 5		Remuneration Committee: 13			Internal Control Committee: 27 (a)			Accounts Committee: 7		Risk Committee: 3		Related and Connected Parties Committee: 11				

(a) 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 nine times in 2015

NOTES

(*) Enrolled in the Register of External Statutory Auditors

(§) As a member of the Internal Control Committee

(*) "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)".

(**) Number of directorships or appointments as statutory auditor (or equivalent positions) held in other companies listed on regulated markets including foreign markets, in financial, banking or insurance

(***) This column shows the position of the Member of the Supervisory Board within the Committee ("C" Chairman; "M" Member).

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

TABLE 3 MANAGEMENT BOARD

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 (***)
Chairman	Franco POLOTTI	1954	10/05/2008	23/04/2013 (appointed Chairman on 23/4/2013)	(*)		X	30/30	12
Deputy Chairman	Giorgio FRIGERI	1941	2/04/2007	23/04/2013 (appointed Deputy Chairman on 23/4/2013)	(*)		X	28/30	2
Chief Executive Officer/General Manager	Victor MASSIAH (1)	1959	27/11/2008 (appointed Chief Executive Officer on 27/11/08 with effect from 1/12/2008)	23/04/2013 (appointed Chief Executive Officer on 23/4/2013)	(*)		X	30/30	3
Board Member	Silvia FIDANZA	1974	23/04/2013	23/04/2013	(*)	X		30/30	2
Board Member	Luciana GATTINONI	1950	23/04/2013	23/04/2013	(*)		X	29/30	11
Board member /Deputy General Manager	Ettore Giuseppe MEDDA	1953	14/07/2015	14/07/2015	(*)		X	12/12 (a)	2
Board Member	Italo LUCCHINI	1943	23/04/2013	23/04/2013	(*)	X		29/30	12
Board Member	Flavio PIZZINI	1955	2/04/2007	23/04/2013	(*)		X	30/30	13
Board member /Senior Deputy General Manager	Elvio SONNINO	1960	23/04/2013	23/04/2013	(*)		X	30/30	5

MANAGEMENT BOARD MEMBERS RETIRED IN 2015

Board Member	Francesco IORIO	1968	23/04/2013	23/04/2013	31/05/2015		X	12/14 (a)	NA
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(a) *Number of attendances as a ratio of the number of meetings held in the period in office.*

In the 2015 30 meetings of the Management Board were held.

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 (2013-2014-2015). Their term of office shall expire on the date of the Supervisory Board meeting convened to approve the financial statements relating to their last year in office. They remain in office in any event until a new Management Board is appointed in accordance with article 46, letter a) of the Articles of Association and they may be re-appointed.

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

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

Attachment 1

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

1) Introduction

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

In this respect of Law No. 262 of 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 Banca 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 Framework¹ and the COBIT Framework², 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

¹ 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.

² 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 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 UBI Banca 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. This activity, known as “**risk and control assessment**”, is carried out by monitoring the risks associated with financial reporting procedures intrinsic to the life cycle of financial data, attributable to observance of “financial assertions” which international standards define as the requirements which financial reports must meet for compliance with legal obligations. “Financial assertions” therefore perform the function of an operational tool which guides the identification and assessment of the principal controls, the absence or ineffectiveness of which can prejudice the achievement of veracity and accuracy in the representation of the capital, operating and financial position of the Group;
 - valuation of the key controls for mitigation of financial reporting risks, identified and defined at the “risk and control assessment” stage. This activity, known as “**test of design**”, is intended to define the requirements of the key controls for mitigation of the risks of failure to comply with “financial assertions”. This activity may bring to light concerns which require the preparation of appropriate corrective action plans;
 - verification of the effective and continuous application of controls. This stage, which consists of “effectiveness tests”, is designed to assess the effective application, in the accounting period, of administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. In this stage, verification is performed of the implementation of the controls provided for by the system of documentation put in place during the stage when processes and procedures were formulated and introduced. This activity may bring to light concerns which require the preparation of appropriate corrective action plans;
- definition and monitoring of corrective action to be undertaken as a result of the verifications performed. The methodology involves the initiation, on the basis of the corrective action plans just mentioned, of a structured course of action which by means of specific monitoring action, leads to effective reinforcement of controls by the involvement and empowerment of the relative process owners and the consequent modification of the related internal system of regulations. The corrective action plans are communicated by means of a special report to the Management Board and the Boards of Directors of subsidiaries responsible for the consequent decisions;
- a brief assessment, on completion of the stages described above, of the overall degree of adequacy of the internal control system put in place to oversee financial reports produced relating to the reporting period for oversight activities. The final assessment, which considers the significance of any points found requiring attention, is formalised in a special report, drawn up for each significant company in the Group and submitted to the attention of the Management Board of the Parent and the Boards of Directors of subsidiaries;
- a “Cascade-like certification system” is put in place with the issue of certifications, the content of which is substantially similar to that required by law, by the Governing Bodies of Group companies subject to full consolidation, addressed to the Chief Executive Officer and the Senior Officer Responsible of the Parent.

b) Roles and functions involved

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

The following are involved:

- the Chief Operating Officer through the units reporting to him. the Organisation Area of UBI and of UBI Sistemi e Servizi 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 UBI Banca, 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 – December 2015

- 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.

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 governing transactions with

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 Cf. “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.

Connected Parties of 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 decisions are adopted following the procedures set forth in legislation and regulations (10) and

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.

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. More precisely:

– procedures are approved by the body responsible for strategic supervision;

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

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 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.

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.

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, checks 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 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);

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 disburseable in the case of loans. Qualitative/organisational rules set by the Supervisory Board on the basis of the provisions of the Articles of Association or other legislation and regulations (the Civil Code, the supervisory code etc.) are deemed to be more significant.

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).

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.

- 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 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.

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, 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.

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.

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:

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%

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.

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 Internal Capital Adequacy Assessment Process (ICAAP); specifically, if prudential limits are exceeded, as well as the initiatives described in the recovery schedule it also takes account of excesses in the process to determine total internal capital.

Qualitative controls

In order to ensure proper management and adequate monitoring of risk assets, the Group has adopted suitable controls 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).

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."

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.

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 judgment on the setup and functioning of the internal control system or parts thereof and, in particular, on the adequacy of risk controls assigned to specialist functions.

Specifically, the legislation and regulations require that:

- the risk management function is responsible for measuring the risks – including market risks – underlying relationships with connected parties, checking compliance with the limits attributed to the various structures and operating units, and monitoring each of their compliance with the risk appetite levels set out in internal policies;
- the compliance function verifies the ongoing existence and robustness of procedures and systems capable of ensuring compliance with all external and internal regulatory obligations;
- the internal audit function checks that internal policies are being followed, immediately reporting any failures to the supervisory body and the bank's senior management; it also provides periodic reports to corporate bodies regarding the overall exposure of the bank or banking group to risks deriving from transactions with connected parties and other conflicts of interest, where necessary proposing amendments to internal policies and organisational and control structures to improve monitoring of such risks;

- the independent 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.