

*This is an English courtesy translation of the original documentation prepared in Italian language.  
Please consider that only the original version in Italian language has legal value.*

**Report of the Management Control  
Committee to the Shareholders' General  
Meeting**

**pursuant to Art. 153, paragraph 1 of  
Legislative Decree No. 58 of 24<sup>th</sup>  
February 1998 and Art. 33.1, letter j) of  
the Articles of Association**

Dear Shareholders,

On 12th April 2019, UBI Banca adopted a one-tier system of management and supervision.

This model of corporate governance, which features a Board of Directors and a Management Control Committee with the board, both of which are appointed by the shareholders, has been deemed an appropriate development of the Bank's governance structure, while preserving the added value of exercising strategic supervision and control that had proven to be efficient and effective under the previous two-tier system.

The Bank's adoption of a one-tier system of management and supervision has also enabled us to align our corporate governance with industry best practice both nationally and, above all, at the European level.

During the first year of operations under this new system, the Management Control Committee carried out specific activities aimed at making this model fully operational, particularly with regard to the following areas:

- critical analysis of the documentation governing the Committee's activities (i.e. the Committee's rules and flows of information) and verification of their consistency with Bank's overall system of governance (e.g. Risks Committee, Board of Directors, and other internal and managerial committees), particularly as concerns: (i) procedures of coordination between the Management Control Committee and the Risk Committee; (ii) flows of information received by the Committee from the various corporate functions; (iii) flows of information between the Committee and the Board's other internal committees; (iv) procedures and timing of the process of interaction and reporting of the Committee with the Body with Strategic Supervision and Management Functions; (v) processes and mechanisms of interaction and coordination of the Committee with the Corporate Control Functions;
- support in the interpretation, fine-tuning and implementation of the mechanisms for the functioning of the Committee as needed to implement and put into operation the provisions contained in the Regulations of the Management Control Committee;
- induction sessions on specific matters relating to corporate governance.

The experience thus far has confirmed that the new system provides a more direct relationship between those who determine strategy guidelines and those who implement them, while also ensuring greater interaction and dialogue between those who monitor the consistency of operations with strategy guidelines and the Chief Executive Officer.

In terms of consulting and assessment, the oversight and verification activities conducted by the Management Control Committee, which is made up of independent and non-executive directors, contributed to making corresponding decisions by the Board that concerned, first and foremost, the organisational structure, the system of internal controls, and the policies and processes of risk management.

\*\*\*

This report on the supervisory activity conducted and on any omissions or irregularities encountered is the first that the Management Control Committee has prepared in accordance with Art. 153, paragraph 1, of Italian Legislative Decree 58/1998 (the Consolidated Finance Act) for presentation to shareholders at the meeting called to approve the financial report for the year. This report is also required under Art. 33.1, letter j, of the Articles of Association.

The structure of this report also takes account of related CONSOB recommendations and of the provisions contained in its Communication No. 1025564 of 6<sup>th</sup> April 2001 as amended, to which specific reference is made herein.

The Management Control Committee has performed its duties on an ongoing basis and taking on board the results of the efforts of the Supervisory Board, which conducted strategic supervision, guidance and control under the previous two-tier system. In order to provide a complete overview of the supervisory activities conducted in 2019, the first section of this report concerns the work of the Supervisory Board during the first four months, while the second section concerns the activities of the Management Control Committee from the date on which it was established.

## PART I

### REPORT ON THE SUPERVISORY ACTIVITIES OF THE SUPERVISORY BOARD DURING THE FIRST FOUR MONTHS OF 2019

In performing its functions following approval of the report on supervisory activities conducted in 2018 and until the end of its term (11th April 2019), prepared in accordance with Art. 153 of the Consolidated Finance Act, and with the support of the competent committees within the board, particularly of the Internal Control Committee and of the Risks Committee, the Supervisory Board approved:

- the quantitative results of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) for 2018;
- the report on the internal audit of the outsourcing of important operational functions;
- the adequacy of the business continuity plan and the annual plan for testing business continuity measures;
- the annual reports prepared by the corporate control functions in accordance with Art. nos. 13 and 14 of the joint CONSOB–Bank of Italy Regulation and Art. 22 of Delegated Regulation (EU) 2017/565.

Work also continued in order to provide the feedback requested by the supervisory authorities, including after audits and inspections, and to update the Group's governance documents.

Activities of the Internal Control Committee during the period in question included the examination of the 2018 consolidated non-financial disclosure in accordance with Italian Legislative Decree 254/16 and analysis of the activities conducted to manage financial reporting risk in accordance with Italian Law 262/05.

The following is worthy of note in relation to the fact-finding activities of the Risk Committee:

- financial reporting information as at 31<sup>st</sup> December 2018;
- the consolidated non-financial disclosure as at 31<sup>st</sup> December 2018 pursuant to Legislative Decree 254/2016;
- the SREP dashboard as at 31<sup>st</sup> December 2018;
- the ILAAP and ICAAP reports as at 31<sup>st</sup> December 2018;
- the mandatory qualitative disclosure as at 31<sup>st</sup> December 2018 following authorisation to adopt the internal models for calculating capital requirements for credit and operational risks;
- the updates to the IFRS 9 project;
- the proposed revisions to the 2019 Risk Appetite Framework and the framework for management non-viability risk;
- the changes to the validated AIRB-IRB systems subject to *ex post* reporting to the supervisory authority (Basel 2).

During the first four months of 2019, the following meetings were held:

- 10 meetings of the Supervisory Board;
- 7 meetings of the Internal Control Committee;
- 7 meetings of the Risks Committee.

## **PART II**

### **REPORT ON THE SUPERVISORY ACTIVITIES OF THE MANAGEMENT CONTROL COMMITTEE**

The Articles of Association assign the Management Control Committee (hereinafter also the “Committee”) the duties granted by applicable law to the supervisory body and the responsibilities assigned to the accounts control and auditing committee in accordance with Art. 19 of Italian Legislative Decree 39/2010.

In performing its duties to the best of its ability, the Committee shares information of mutual interest and, where appropriate, coordinates with the Risk Committee for the duties and information of joint interest. The Committee also coordinates with the supervisory committee established as per Legislative Decree 231/2001, which is responsible for overseeing the functioning, efficacy and observance of the Bank’s model of organisation, management and control adopted in accordance with said legislative decree.

It should also be noted that the following meetings of the governing bodies were held from April to December 2019:

- 22 meetings of the Board of Directors;
- 26 meetings of the Management Control Committee;
- 21 meetings of the Risks Committee.

#### **1. Oversight of compliance with the law and with the articles of association**

For the purpose of implementing the one-tier system of governance, the Committee examined and approved its own rules and, at the time of appointment, verified the requirements of integrity, professionalism and independence of its members in accordance with applicable law, with Art. 21 of the Articles of Association, and with the Committee’s internal rules.

With regard to the adequacy of its composition and functioning, within its rules the Committee formalised a self-assessment process in accordance with applicable law and with internal and external regulations, as well as in application of the guidelines of the European Banking Authority (EBA), while also taking account of the provisions of the Corporate Governance Code as amended in July 2018, to which the bank has adhered.

In accordance with these rules, the Committee has conducted a process of self-assessment, separate from a similar process conducted by the Board of Directors, in accordance with criteria and procedures that are consistent with the characteristics of the function performed within the scope of the one-tier corporate governance model. Conducted with the support of an external, independent consultant, this self-assessment made use of specific questionnaires and individual interviews, which focused on the functioning, efficiency and efficacy of the Committee. The results of this self-assessment confirmed the adequacy of the Committee and the high degree of overall compliance with the provisions of the Corporate Governance Code, the EBA guidelines and Bank of Italy circular no. 285/2013, and in line with best practice among other publicly listed corporations insofar as they are comparable with the Bank. Therefore, on 20th February 2020, the Committee provided an assessment of the adequacy of its composition, in both qualitative and quantitative terms, and of its functioning.

As concerns observance of the provisions of the Articles of Association introduced in conjunction with the transition to the one-tier model, the Committee oversaw the actual creation and proper regulation of the Steering Committee, which is

chaired by the Chief Executive Officer and is made up of executives in charge of the company's main functions.

With regard legislative compliance, the Committee examined, *inter alia*, proposals concerning:

- adaptation of the rules and the issuance of the internal procedures needed in response to changes in relation to the new definition of default (DOD);
- issuance of the new policy and regulations concerning relations with supervisory authorities, entities and bodies;
- creation of the physical-security regulation for the UBI Banca Group;
- the policy for the provision of products and services for government bodies by way of tenders or negotiated procedures and arrangements with concessionary authorities;
- issuance of the new Global Markets Regulation;
- issuance of the new dividend payout policy for UBI Banca.

Within the scope of its ordinary activities, the Committee also examined proposals for changes and/or updates to existing rules and regulations.

With regard to relations with the supervisory authority, the Committee received periodic updates from the Corporate & Regulatory Affairs Area concerning relevant activities under way and the start of inspections, after which the Committee examined the feedback provided by the Bank and monitored the progress of mitigation plans put into place. Of particular note were the analyses conducted by the Committee in relation to the feedback provided by the Bank in response to the ECB recommendation letter concerning:

- conflicts of interest;
- IT strategy;
- governance culture.

In addition, following an examination of the matter, the Committee assessed the feedback provided by the Bank of Italy, including in relation to the outcome of the audits concerning transparency in banking services and anti-money laundering.

With regard to the filing of reports by shareholders, pursuant to Art. 2408 of the Italian civil code, concerning potential irregularities, initiatives undertaken and their related outcome, it should be noted that, as of the date of this report, the Committee had received no such reports.

As for complaints and actions taken, it should be noted that, in 2019, no complaints were submitted by customers to the supervisory body related to the Bank's core business.

## **2. Supervision of observance of proper management principles**

The Committee held periodic meetings with the heads of the various units and areas of the company, with the Corporate Control Functions, with the senior officer responsible for the preparation of the corporate accounting documents (the "Financial Reporting Officer"), and with the independent auditing firm Deloitte & Touche S.p.A. (the "Independent Auditors") for the purpose, *inter alia*, of verifying that decision-making processes are based on an adequate understanding of risks and of the effects of the decisions made and that the corporate bodies are supported by an adequate set of information. With regard to this final point, the Committee noted a constant flow of information between the units of the Bank, the Chief Executive Officer, and the Board of Directors. The sharing of information between the Committee and the Chief Executive Officer has been backed by meetings that primarily focused on the functioning and efficacy of the system of internal controls and by the presentation to the Board of Directors of the Committee's reports on activities conducted and related recommendations.

The Committee conducted oversight of observance of the provisions and obligations concerning transactions with a significant impact on financial

performance and standing and has found said transactions to be in compliance with the law and with the Articles of Association and that they were not manifestly imprudent or risky and did not entail conflicts of interest or compromise the integrity of the Bank's assets.

The Committee received the periodic reports, as required under Art. 150, paragraphs 1 and 2, of the Consolidated Finance Act, concerning the activities conducted and on the most significant transactions executed by the Bank or its subsidiaries both within the scope of disclosures concerning the preparation of the interim and annual financial reports provided to the Financial Reporting Officer and in conjunction with the periodic meetings with the Chief Executive Officer. With regard to transactions between companies in the Group and all of its related parties, no atypical and/or unusual transactions were performed during the year (as defined by Consob Communication No. DEM/1025564 of 6-4-2001 and subsequent amendments). Furthermore, no transactions of that type were even performed with counterparties that were not related parties.

Furthermore, no irregularities or anomalies in management or performance were encountered.

The main ordinary or otherwise recurring transactions with related parties of greatest significance within the Group (which are exempt, as per the related regulation, from the more restrictive decision-making process and from the obligation to publish a market disclosure) have been reported and described in the management reports and explanatory notes to the separate and consolidated financial statements for the year ended on 31st December 2019, as approved by the Board of Directors on 28<sup>th</sup> February 2020. See these documents for more information.

The main risks and uncertainties to which the UBI Banca Group is exposed, as well as the outlook on operations for the Group, are also presented in the management report for the separate and consolidated financial statements for the year ended on 31<sup>st</sup> December 2019.

With regard to all of the above, the principles of proper administration have consistently been applied.

### **3. Supervision of actual implementation of the Corporate Governance Code**

The Committee has examined the draft of the Report on Corporate Governance and Ownership Structure prepared in accordance with Art. 123-*bis* of the Consolidated Finance Act (the "Report on Corporate Governance") for 2019, which was then approved by the Board of Directors on 28<sup>th</sup> February 2020, including with regard to information concerning the main aspects of the risk management and internal control systems in relation to financial reporting processes.

The Report on Corporate Governance also describes the model of management and control adopted by UBI Banca and provides thorough information on how the Bank has adopted and implemented the recommendations of the Corporate Governance Code.

### **4. Supervision of the adequacy, efficiency and functioning of the organisational structure**

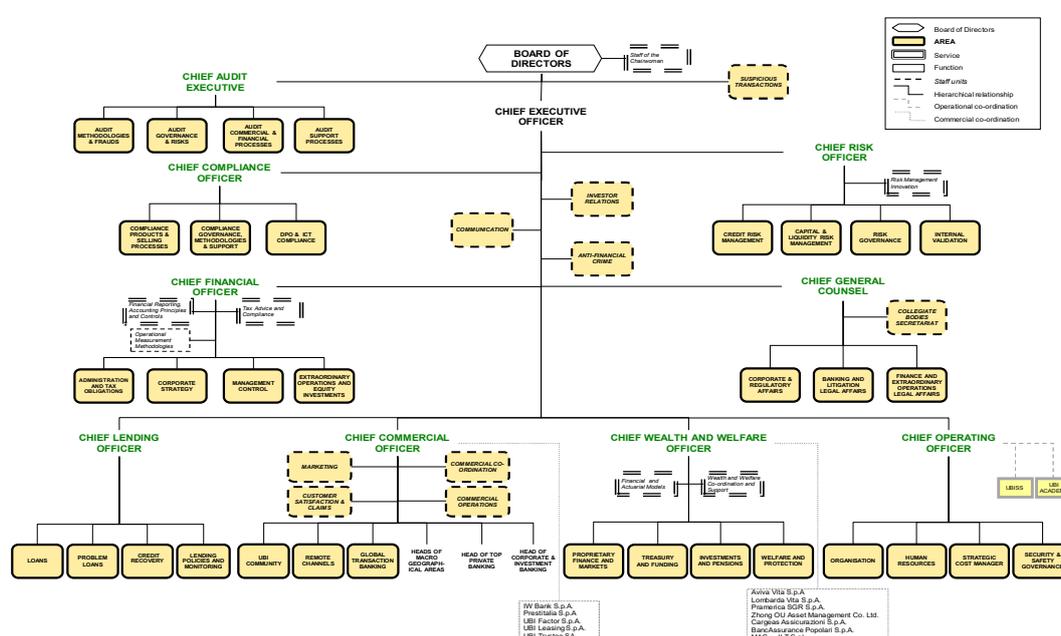
The Committee has analysed the organisational units of UBI Banca and the other main companies of the Group, with a particular emphasis on the mechanisms of

risk management and related support processes. In 2019, the following were examined in particular:

- the revised organisation with regard to anti-money laundering;
- the guidelines for the optimisation and streamlining of information provided to the Board of Directors;
- the revised organisation of the subsidiary UBI.S with regard to the CIO;
- the proposed change to the articles of association of IW Bank following the transition to the one-tier model of governance and the observations received from the supervisory authority;
- the proposed rationalisation of logistics and operations for the offices in Milan.

It should also be noted that the Report on Corporate Governance describes the organisational and operating of UBI Banca.

Provided below is top-level organisation chart for UBI Banca as it stands today.



## 5. Supervision of the adequacy, efficiency and functioning of the administrative and accounting systems

The Committee, acting also as the internal audit committee pursuant to Art. 19, paragraph 2, letter c, of Italian Legislative Decree 39/2010, has examined the periodic reports concerning the activities conducted and corrective action taken by the Financial Reporting Officer in support of the statements required by law and has looked at the causes of and remedies for deficiencies in the accounting systems.

In order to contribute to assessing the proper application of accounting principles and the adequacy of public disclosures, the Committee met with the Risks Committee, with the Senior Officer Responsible for the preparation of company accounting documents, and with the Independent Auditors to examine the methods of preparing the interim consolidated reports as at 31<sup>st</sup> March, 30<sup>th</sup> June and 30<sup>th</sup> September 2019, and the annual report for 2019. The Committee placed

particular emphasis on developments in non-performing loans and the results of application of the criteria and procedures for classifying, assessing and managing these exposures.

Within the scope of these meetings, UBI Banca's process for preparing Pillar 3 disclosures and the consolidated non-financial declaration were also examined and found to be in compliance with Italian Legislative Decree 254/2016. These documents were approved by the Board on 28th February 2020.

The activities conducted have shown that the separate financial statements for the Bank and the consolidated financial statements for the Group, in application of Italian Legislative Decree 38/2005, have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission in accordance with Regulation (EC) No. 1606/2002. These documents are also prepared in accordance with the instructions issued by the Bank of Italy in its Circular 262/2005 as amended.

The draft separate financial statements of UBI Banca and the consolidated financial statements for the Group as at 31st December 2019 were approved by the Board on 28<sup>th</sup> February 2020.

In accordance with applicable legislation with regard to prudent supervision, public disclosures have been published on the Bank's website within the deadlines established for the publication of financial reports.

During the year, the Committee also paid specific attention to verifying the correctness of internal and external indicators related to the impairment testing of goodwill as at 30th June and 31st December 2019. These verifications were conducted jointly with the Risks Committee and with the support of external, independent experts with demonstrated experience in such matters.

Within the scope of the aforementioned meetings, UBI Banca's process for preparing Pillar 3 disclosures and the consolidated non-financial declaration were also examined and found to be in compliance with Italian Legislative Decree 254/2016. These documents were approved by the Board on 28<sup>th</sup> February 2020.

The reports of the Independent Auditors, issued on 6th March 2020 and concerning the separate financial statements of UBI Banca and consolidated financial statements of the UBI Group as at 31<sup>st</sup> December 2019 in accordance with Italian Legislative Decree No. 39 of 27<sup>th</sup> January 2010 and Art. 10 of Regulation (EU) No. 537/2014, pointed to no limitations or other deficiencies in the information provided. More specifically, these reports note that:

- (i) the two documents provide a fair and correct representation of financial standing as at 31<sup>st</sup> December 2019 and of financial performance and cash flows for the year ended on 31<sup>st</sup> December 2019 in accordance with the IFRSs adopted by the European Union and with the measures issued in implementation of Art. 9 of Italian Legislative Decree 38/2005 and Art. 43 of Legislative Decree 136/2015;
- (ii) the management reports and certain specific information pursuant to paragraph 4 of Art. 123-*bis* of the Consolidated Finance Act as presented in the Report on Corporate Governance are consistent with the separate and consolidated financial reports for the year ended on 31<sup>st</sup> December 2019 and were prepared in compliance with applicable law.

Furthermore, on 6<sup>th</sup> March 2020, the Independent Auditors issued:

- (i) their additional report required by Art. 11 of Regulation (EU) No. 537/2014. The conclusion of the report on the separate financial statements for UBI Banca and the consolidated financial statements for the UBI Group for the year ended 31st December 2019, was that no shortcomings in the system of internal accounting controls were found. The audit pointed to no cases of actual or presumed non-compliance with laws and regulations or with provisions of the articles of association.

- (ii) the annual confirmation of independence pursuant to Art. 6, paragraph 2, letter a, of Regulation (EU) No. 537/2014 and in accordance with paragraph 17 of ISA Italy 260.

In light of the information provided by the Financial Reporting Officer concerning the efficiency and adequacy of the system of internal controls in financial reporting and of the observations of the Independent Auditors, the Committee has reason to find that the administrative and accounting systems of the Bank and of the Group ensure the proper representation of operations and that there are no significant deficiencies in the system of internal controls that concern the financial reporting process.

Based on the information received, the administrative and accounting procedures for preparation of financial reports and all other financial disclosures have also been applied effectively.

## **6. Supervision of the audits and independence of the Independent Auditors**

Deloitte & Touche S.p.A. has been assigned the role of sole independent auditor of the Group responsible for auditing the separate and consolidated accounts of UBI Banca for the year ended on 31st December 2019, within the scope of a mandate for the period 2012-2020, in accordance with applicable law. This company is responsible for the verification, during the year, of the proper maintenance of the company accounts and the accurate recording of operating events in the accounting records. Upon completion of these audits, the company issues related reports and an assessment of the half-year and annual separate and consolidated financial reports concerning their consistency with the accounting records and compliance with applicable laws and regulations. The mandate also covers: a limited audit of the half-year report, including the limited audit of the half-year statements of the foreign branches for their inclusion in the half-year report for the Bank; an examination of the information provided for preparation of the consolidated half-year financial statements and report; auditing of the accounts of the special-purpose vehicles; and] audits related to the signing of fiscal declarations and statements issued by the National Guarantee Fund.

The independent auditors furnished the Management Control Committee – which, in accordance with Art. 33.1 of the Articles of Association, performs supervisory functions pursuant to Art. 19 of Legislative Decree No. 39/2010 – with annual confirmation of its independence pursuant to Art. 6, paragraph 2, letter a, of Regulation (EU) 537/2014 and in accordance with paragraph 17 of ISA Italy 260. The matter is being constantly monitored by the same Committee within the scope of the its responsibilities of overseeing the independence of auditors, particularly as concerns the performance of non-auditing services, which, as shown in the table above, were minimal.

A complete overview of amounts paid in 2019 to the Independent Auditors is provided in the annex to the financial report concerning the fees for independent auditing and other services in accordance with Art. 149-*duodecies* of CONSOB Regulation No. 11971.

Provided below are the total fees paid for auditing and other services in 2019.

<b>Type of service</b> <i>(figures in thousands of euro)</i>	Deloitte & Touche SpA				
	UBI SpA	Banca	Other Group	UBI companies	Banca
Audit of the accounts	2,603		1,393		
Certification services	847		107		
Other services	1				
<b>Total</b>	<b>3,451</b>		<b>1,500</b>		

(\*)

(\*) Includes fees paid to Deloitte Audit Sàrl in the amount of approximately €67,630 (including auditing services in the amount of €45,430 and certification services in the amount of €22,200) and fees paid to Deloitte Polska Sp.K in the amount of approximately €15,000 (for auditing services)

The appointment of Deloitte & Touche S.p.A. to audit the accounts will end in 2020. The Management Control Committee, which is responsible for the process of selecting the independent auditor, has decided to begin this process and has submitted a documented proposal for assignment of the mandate for the period 2021-2029 to be examined by shareholders at their meeting called to approve the 2019 annual report.

## **7. Supervision of the adequacy, efficiency and functioning of the system of internal controls**

The Committee has verified observance of supervisory provisions concerning the general principles of the system of internal controls, the role of the corporate bodies, and the role and requirements of all functions involved in the system of controls and has noted their adequacy and the proper execution and coordination of duties. Where deemed appropriate, corrective action aimed at resolving any deficiencies has been promoted.

The guidelines of the integrated system of internal controls of UBI Banca, both as a bank and as the Parent of the UBI Group, are governed by UBI Banca Group's Internal Control System Policy in accordance with applicable supervisory provisions. This policy establishes the responsibilities of the corporate bodies and functions with control duties, determines the methods of coordination and information promoting system integration, and implements the principles of other internal regulations. It also defines the guidance and coordination of the subsidiaries and foreign branches for the purpose of ensuring a consistent approach to risk management throughout the Group.

In accordance with this policy, the internal control system is structured into three levels:

- first level controls: designed to ensure the proper performance of operations. These controls are conducted by the operating units themselves (e.g.

hierarchical, systematic and random controls), including by way of units dedicated exclusively to such

- controls and which report to the heads of the operating units (or executed as back-office duties), and are, when possible, incorporated into digital procedures.
- second level controls: designed to ensure compliance with the operating limits assigned to the various functions, the correct implementation of the risk management process and the compliance of business operations with regulations, including self-regulation. In compliance with regulatory requirements, the functions responsible for second level controls are separate from the operational functions. In detail these functions are:
  - the risk control function (Risk Management);
  - the regulatory compliance function (Compliance);
  - the specialist control functions (anti-money laundering function and validation function).

The second level control activities are also similar to those of the Senior Officer Responsible for the preparation of corporate accounting documents.

- third level controls: 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 the risks.

In relation to the system of controls, the Committee serves as the point of reference within the continuum of corporate control functions. This system, which is amply described in the aforementioned Report on Corporate Governance, also involves specialist functions with control-related duties, as well as the person responsible for the Business Continuity Plan, the Independent Auditors, and the supervisory committee pursuant to Legislative Decree 231/2001.

With regard to this supervisory committee, in October 2019 a meeting was held between the chairman of the Committee and the chairman of the “231” (administrative liability) supervisory committee to discuss the main aspects of activities conducted and the planning of future efforts, with a particular emphasis on the model of risk assessment and information flows to the supervisory committee pursuant to Legislative Decree 231/01, which also involved the Compliance function and the advisory support of a leading consulting firm.

In November 2019 and January 2020, the supervisory committee provided the Committee with updates on this project.

Provided below is a summary of the activities conducted by the bodies responsible for conducting internal controls.

### **Chief Compliance Officer**

The Chief Compliance Officer has provided the Committee with the periodic reports within the scope of the position’s respective responsibilities, particularly with regard to activities conducted in the first half of 2019, the annual report for 2019, and the 2020 action plan in accordance with Bank of Italy supervisory regulations and with Art. 22 of Delegated Regulation (EU) 2017/565, along with the respective progress reports on the activities of greatest significance. Information on the overall status of complaints and on the adequacy of related procedures has also been provided.

The Chief Compliance Officer has also provided specific information concerning:

- the release of procedures for certificates;
- the outcome of the Bank of Italy transparency inspection;
- the outcome of the CONSOB MiFID II inspection;
- the process of adapting to new product governance provisions.

## **Anti-Money Laundering & Investigations**

In order to enable the Committee to provide adequate supervision of compliance with legislation concerning money laundering, the financing of terrorism, and the management of embargoes, as well as of the completeness, functioning and adequacy of related controls, the head of the anti-money laundering (AML) function has provided constant updates on the state of the Group's anti-money laundering efforts. The Committee has received specific information with regard to:

- quarterly reports provided to the Bank of Italy following the anti-money laundering verification conducted over the period November 2017 to February 2018, which pointed to a need to strengthen the Group's coverage with a structured remediation plan, which was completed in 2019;
- employee training on the topic of money laundering;
- the revised organisation with regard to anti-money laundering;
- adaptations to the new Bank of Italy provisions in the area of adequate verification.

In 2019, the head of the AML function presented the annual report for 2018 and the action plan for 2019. This report included summary information concerning the progress of the training plan and communications with the supervisory bodies in accordance with Art. 46 of Legislative Decree 231/2007, as amended by Legislative Decree 90/2017.

Finally, the head of the AML function provided the Committee with the periodic reports within the scope of the position's respective responsibilities, i.e. the report on activities conducted in the first half of 2019, the annual report for 2019, and the 2020 action plan in accordance with Bank of Italy supervisory regulations.

## **Chief Risk Officer**

The Chief Risk Officer provided mid-year and full-year information on risks, with an emphasis on critical issues for the Group, as well as the annual report on activities conducted in 2019 and the plan of activities for 2020, including those of the validation function. In accordance with Art. 13 of the regulations issued by the Bank of Italy and by CONSOB as per Art. 6, paragraph 2-*bis*, of the Consolidated Finance Act, the Chief Risk Officer also reported on risk management activities in the area of investment services provided to customers in 2019. The Committee has also received, *inter alia*, specific information with regard to:

- quarterly updates related to the SREP dashboard;
- public disclosures as at 30th June 2019 and 31st December 2019;
- quarterly reporting on risks;
- updates regarding the Risk Appetite Framework;
- information within the scope of monitoring the IRB models authorized within the Eurosystem credit assessment framework (ECAF).

## **Chief Audit Executive**

The Chief Audit Executive is the head of the main unit to which the Committee turns in the performance of our supervisory duties. The unit reports functionally to the Committee and participates in the Committee's meetings, keeping the Committee informed of the work being done, some of which is at the explicit request of the Committee.

The Committee plays a proactive role with the Internal Audit function, and the priorities expressed are also taken into consideration when defining the annual audit plan.

In 2019, in the performance of its duties, the Internal Audit function provided the Committee with monthly updates on the work being done, highlighting the main issues encountered, and reported on the action plans carried out by the competent

functions of the company in order to overcome these issues. The function provided observations and assessments concerning the overall system of internal controls in half-year and full-year reports. The unit also provided the Committee with an annual report of activities conducted and the results of the risk-assessment process, guidelines, and activities planned for the coming year.

The year-end report on activities conducted in 2019 also complies with the Bank of Italy obligation concerning information provided to the corporate bodies in relation to certain specific areas, such as the management of liquidity risk, anti-money laundering, information systems and business continuity, the outcome of audits conducted at foreign branches, and the internal whistleblowing systems.

The Internal Audit function also oversaw preparation of the following documents:

- information on each report received via the established whistleblowing channels;
- the annual report on internal audits in accordance with Art. 14 of the joint CONSOB-Bank of Italy Regulation pursuant to Art. 6, paragraph 2-*bis*, of the Consolidated Finance Act.

The function also produced numerous, timely informational reports concerning issues arising during the year. These reports were brought to the attention of the Committee, which then looked into the matters and encouraged the competent company functions to resolve the issues.

### **Integrated Reporting**

In accordance with the provisions of the Internal Control System Policy of the UBI Group, the Committee was provided with the quarterly flash reports of the various control functions. These reports provide a brief overview of all issues arising from the reporting of the control functions that are significant in terms of their impact on the ability of the Bank or the Group to achieve established objectives. Twice during the year, the Committee was provided with the Top Issues Report (TIR) of the most significant findings that emerge from the reporting of the control functions and which are significant in terms of impact (e.g. in terms of fines or sanctions, or other impacts financial performance, financial standing, or reputation) on the ability of the Bank or the Group to achieve established objectives.

The Committee attributes great value to this information and has constantly dedicated time on the issues reported and monitored the progress of the mitigation efforts planned by the various areas of the Group.

The Committee has examined the annual summary report of the corporate control functions, which – upon completing their work for 2019 – assessed the overall adequacy of risk management, including in terms of the completeness, functioning and reliability of the system of internal controls.

## **8. Supervision of the adequacy, efficiency and functioning of risk management and governance**

The Committee has overseen:

- the completeness, adequacy, functioning, and reliability of the Risk Appetite Framework (RAF) for 2019 and examined related methodological aspects;
- the completeness, adequacy, functioning, and reliability of the internal risk measurement systems to determine capital requirements and their compliance with applicable legislation, including for the purposes of the annual certification issued by the Board of Directors concerning observance of the requirements for their use. In greater detail, the Committee examined the specific annual report prepared by the Internal Audit function and the

summary report on the activities conducted by the Internal Validation function.

The Committee also examined:

- the plan for IW Bank to adopt the one-tier system;
- the centralisation of IW Bank customer care within UBI Online;
- the revised organisational model in terms of security (UBI-UBIS);
- the outsourcing of an important function of the operations unit of UBI Factor.

## **9. Supervision of compliance with legislation applicable to the Bank as a parent company**

The Committee has verified that the Bank, within the scope of its management and co-ordination of the Group, exercises control over the development of the various areas of business in which the Group operates and of related risks, as well as management control aimed at ensuring maintenance of the conditions of financial performance and standing both of the individual companies and of the Group as a whole, and technical and operational control aimed at assessing the various risk profiles brought to the Group by the individual subsidiaries and the overall risks of the Group. Flows of information between the Parent and the subsidiaries ensure an effective exchange of information between the corporate bodies with regard to the systems of management and control and the general business trends. The regulations and procedures in place enable UBI Banca to meet its disclosure obligations in a timely manner in accordance with Art. 114, paragraph 2, of the Consolidated Finance Act.

In accordance with Art. 151-ter, paragraph 4, of the Consolidated Finance Act, the Committee has been informed of the activities conducted by the control-function bodies of the main subsidiaries of the Group and has held a series of dedicated meetings with representatives of those bodies.

## **10. Concluding considerations concerning the supervisory activities performed**

As detailed above, the Committee has verified the functioning of internal procedures and found them to be suited to ensuring observance of applicable laws, regulations, and articles of association. With regard to observance of the principles of proper management, the Committee has verified that the decision-making process takes due account of the risks and effects of management decisions made and that the corporate bodies can rely on an adequate system of information, including with regard to any interests of the directors. The organisational structure, the administration and accounting system, and the process of auditing the accounts are deemed to be adequate and functional to the duties they are called upon to fulfil.

The Committee has also verified that there are not critical issues that could compromise the system of internal controls or the processes of governance and risk management, while also taking account of the mitigation efforts in place, as described in the aforementioned annual reports of the various corporate control functions.

Given all of the above, and having considered the opinions issued by the Independent Auditors and taken note of the joint statements issued by the Chief Executive Officer and the Financial Reporting Officer, the Committee, within the scope of our purview, has found no reason not to approve the financial report of UBI Banca for the year ended on 31st December 2019 and accompanying

management report and explanatory notes as approved by the Board of Directors on 28th February 2020.

The Committee is also in favour of the proposed allocation of earnings for the year and distribution of reserves as stated in the financial report.

Brescia, 12th March 2020

for the Management Control Committee

The Chairman – Alessandro Masetti Zannini