

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

Web site: [www.ubibanca.it](http://www.ubibanca.it)

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## Glossary

**Code/Corporate Governance Code:** a voluntary code of conduct for listed companies recommended by Borsa Italiana Spa

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

**Issuer:** 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.

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

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

**Consolidated Banking Act:** Legislative Decree No. 385/1993.

## 1. Profile of the Issuer

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

- in the regulations governing listed issuers set out in the Consolidated Finance Act and in the related rules to implement them adopted by the Consob (Italian securities market authority);
- in legislation governing banks - with particular reference to specific legislation for co-operative banks – contained in the Consolidated Banking Act;
- in the Corporate Governance Code for listed companies of Borsa Italiana Spa.

UBI Banca is a “popular” bank incorporated in the form of a joint stock co-operative company. As such, UBI Banca is required to comply with the provisions of the Italian Civil Code concerning co-operatives (excluding those expressly listed in Article 150 *bis* of Legislative Decree No. 385/1993) and also with those governing joint stock companies, to the extent that they are not in conflict with the laws governing co-operatives, as indicated in Article 2519 of the Italian Civil Code. Express details of the Bank’s particular characteristics as a cooperative are given in the separate company financial report of UBI Banca Scpa, an integral part of the management report, which was drawn up in compliance with Article 2545 of the Italian Civil Code and states the criteria followed in company operations to pursue the Bank’s mutual objects.

The legal nature of a “popular” co-operative bank lies in the circumstance that each registered shareholder of the co-operative is entitled to one vote whatever the number of shares possessed and no one can hold more than 0.50% of the share capital, in accordance with Art. 30 of the Consolidated Banking Act. An exception to the maximum 0,50% limit is made for collective investment organisations, for which the regulatory limits specific to each of them apply.

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

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

- the 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 on the business and/or financial plans and budgets of the Bank and the Group and also on strategic operations indicated in the Corporate By-laws (article 46 of the Corporate By-laws – available on the corporate website [www.ubibanca.it](http://www.ubibanca.it) in the section corporate governance – corporate documents);
- corporate management functions, assigned to the Management Board, which has exclusive authority to perform all ordinary and extraordinary operations necessary to pursuit of the company objects, in compliance with the general guidelines and strategic policies approved by the Supervisory Board (Article 37 of the Corporate By-laws).

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 plan, characterised by continuous dialogue and inter-functional co-operation.

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

\* \* \*

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

In implementing its management and co-ordination activities in compliance with both specific regulations laid down by the Supervisory Authority and civil law, UBI Banca sets the strategic objectives of the Group, mainly through the Group budget and Business Plan. Moreover, without prejudice to the corporate by-laws 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.

The chart that follows illustrates the composition of the UBI Group as at 31<sup>st</sup> December 2009.



## **2. Information on the ownership structure (pursuant to Art. 123 bis, paragraph 1 of the Consolidated Finance Act)**

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

The share capital of UBI Banca Scpa is composed entirely of ordinary shares traded on the Mercato Telematico Azionario (screen based stock market) managed by Borsa Italiana Spa and as at 31<sup>st</sup> December 2009 it amounted to 1.597.864.755 euro divided into 639.145.902 shares with a nominal value of 2,50 euro each, and on that same date the registered shareholders numbered 81.111.

In implementation of a shareholders' resolution of 9<sup>th</sup> May 2009, the Bank proceeded to the issue of 639.145.900 "*warrant azioni ordinarie UBI Banca 2009/2011*" warrants allotted free of charge to the shareholders of the Bank on 18<sup>th</sup> May 2009, with a ratio of one warrant to every share held, which give the right to subscribe ordinary shares of the Bank with an exchange ratio of one share for every 20 shares on maturity at a price of 12,30 euro for each new share issued.<sup>1</sup> The shareholders' meeting approved an increase in the share capital, in tranches and by payment at the exclusive service of the exercise of warrants for a total maximum amount (inclusive of the share premium) of 393.074.729 euro, through the issue of a maximum of 31.957.295 ordinary shares, with normal dividend entitlement.

The "*warrant azioni ordinarie UBI Banca 2009/2011*" warrants have been traded on the Mercato Telematico Azionario (screen based stock market) managed by Borsa Italiana since 25<sup>th</sup> June 2009.

In implementation of powers granted by the shareholders' meeting and authorised by the Supervisory Board, the Management Board made the following decisions:

- to issue bonds convertible into ordinary shares of the Bank for a maximum amount of 640.000.000 euro to offer as an option to those who are shareholders of the Bank on the date of the beginning of the subscription period in proportion to the number of shares possessed;
- to increase the share capital at the service of the conversion of the bonds by a maximum amount of 640.000.000 euro, inclusive of the share premium, through the issue of a maximum of 256.000.000 ordinary shares of UBI Banca, with a nominal value of 2,50 euro each, normal dividend entitlement and having the same characteristics of the ordinary shares of UBI Banca outstanding on the date of issue.

The issuance of the bond "*UBI 2009/2013 convertible con facoltà di rimborso in azioni*" was therefore completed in July with the issue on 10<sup>th</sup> July 2009 of 50.129.088 convertible bonds with a nominal value of 12,75 euro, a maturity of four years (10<sup>th</sup> July 2013) and paying a fixed gross annual coupon of 5,75%, for a total nominal amount of 639.145.872 euro.

The convertible bonds have been traded on the Mercato Telematico Azionario (screen based stock market) managed by Borsa Italiana since 20<sup>th</sup> July 2009.

In view of the possible tightening of prudential regulations on capital outlined in the Basel Committee for Banking Supervision consultation document ("Strengthening the resilience of the banking sector") published last December, the competent governing bodies of the Bank have irrevocably decided not to take advantage of the right to redeem the bond with a cash payment as provided for by articles 7, 12 and 13 of the bond regulations if the market value of the UBI Banca share on the reference date is greater than 12,80 euro (against a nominal value of the bond 12,75 euro), leaving the right to choose for lower amounts unchanged. This decision will also lessen the impact on the income statement (pursuant to IAS 32) of the implicit volatility resulting from the valuation of the option in the presence of possible future prices of the share higher than 12,80 euro.

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<sup>1</sup> The holders of the warrants can exercise their rights to subscribe for a period of 30 calendar days from 1<sup>st</sup> June 2011 until 30<sup>th</sup> June 2011, unless suspended pursuant to article five of the regulations.

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

**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 15 of the Corporate By-Laws).

Acceptance clauses exist solely for admission to the status of registered shareholder. Persons wishing to become registered shareholders must present a certificate of participation in the centralised administration system and a written application to the Management Board containing not only details of the shares possessed but also personal particulars, address, citizenship and all other information and/or declarations required by law or the Corporate By-laws or requested in general by the Bank. For the purposes of admission as a registered shareholder certificates testifying to the ownership of at least 250 shares must be presented. With account taken of the provisions of the law on ‘popular’ co-operative banks, all decisions on the acceptance of applications for admission as a registered shareholder are taken by the Management Board, in consideration of the general criteria recommended by the Supervisory Board, with exclusive regard to the objective interests of the Bank, including those of its independence and autonomy and to observance of the spirit of its co-operative status. The decisions are then communicated to the parties concerned. For the purposes of assessing these requirements, account is taken of any previous relations between the persons applying and group member companies.

Since it is a “popular” bank, there is a limit on shareholdings pursuant to Art. 30 of the Consolidated Banking Act and to article 18 of the corporate by-laws, which states that no one may hold more than the maximum limit permitted by law, which is 0,50% of the share capital (this limit does not apply to collective investment organisations for which limits laid down in the rules of each of them apply).

With regard to the limit on the possession of share capital set by the regulations in force, in compliance with article 30 of the Consolidated Banking Act, the Bank has sent communications to those concerned for violation of the limit on holding more than 0.50% of the shares.

In accordance with regulations in force, the time limit for the obligation to dispose of shares has been extended until 31/12/2011 for those who as at 31/12/2008 held an investment in the share capital greater than the limits set, if exceeding that limit is the result of concentration transactions between banks or between investors, while it is understood that the investment may no be increased.

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

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

- BlackRock Incorporated (through Investment Management (UK) Limited) : 3,094%;
- Fondazione Cassa di Risparmio di Cuneo (2,278%);
- Fondazione Banca del Monte di Lombardia (2,255%);
- Carlo Tassara Spa (2,004%).

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

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

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

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

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

The exercise of voting rights is subject above all to acquiring the status of registered shareholder which is acquired following approval for admission by the Management Board, with enrolment in the shareholders register.

The rejection of an application to become a registered shareholder, for those who lawfully possess shares in the Bank, has the only effect of not allowing the exercise of rights other than those which have a financial content.

Those persons in possession of the right to vote for which the communication has been made to the Bank by the intermediary appointed in accordance with Art. 2370 of the Italian Civil Code and with any special provisions of the law or regulations, at least two working days prior to the date set for the first session, may participate in shareholders' meetings in accordance with the provisions of the law.

Registered shareholders may not withdraw shares or the relative certification before the meeting has taken place.

Only persons who have been registered shareholders for at least 90 days from the date of entry in the shareholder register may attend the shareholders' meetings, exercise voting rights and be eligible for appointment to corporate bodies (article 25 of the Corporate By-laws).

In compliance with article 30 of the Consolidated Banking Act and article 26 of the Corporate By-laws, registered shareholders have only one vote, irrespective of the number of shares held. Rights over capital and profits are in proportion to the shares owned (Art. 17 of the Corporate By-laws); nevertheless if a shareholder fails to transfer ownership of shares in excess of the 0,50% limit of the share capital within one year of the violation being reported by the Bank, the relative ownership rights maturing up to the time of the sale of the excess shares are acquired by the Bank.

**g) Shareholders' agreements (pursuant to Art. 123 bis, paragraph 1, letter g) of the Consolidated Finance Act)**

UBI Banca has received the following communications in relation to:

- the constitution, on 28<sup>th</sup> May 2007, of an unofficial association named "Associazione Banca Lombarda e Piemontese" located in Brescia to which former shareholders of the former Banca Lombarda e Piemontese belong who were previously members of the "Banca Lombarda e Piemontese Syndicate" and who, as a result of the merger between BLP and BPU have become shareholders of UBI Banca. An extract of the main clauses of the relative by-laws was published in the daily newspaper ItaliaOggi on 5<sup>th</sup> June 2007 and was subsequently updated with a publication in the daily newspaper "Il Giornale" on Saturday 23<sup>rd</sup> January 2010;
- the constitution, on 23<sup>rd</sup> November 2007, of the unofficial association named "Gli Amici di UBI Banca", located in Bergamo, by 28 registered shareholders of UBI Banca Scpa. An extract of the main clauses of the relative by-laws was published in the daily newspaper ItaliaOggi on 30<sup>th</sup> November 2007 and was subsequently updated in the daily newspaper "ItaliaOggi" on 5<sup>th</sup> March 2010.

While these associations do not qualify as shareholders' agreements pursuant to Article 122 of Legislative Decree No. 58/98, the members of both of them have nevertheless fulfilled public disclosure obligations as required by law in relation to some of the clauses of their by-laws, insofar as it is necessary and in view of the legally binding nature of the decree mentioned and the consequences of failure to comply with it.

#### **h) Change of control clauses (pursuant to Art. 123 bis, paragraph 1, letter h) of the Consolidated Finance Act)**

The shareholders' agreement signed on 18<sup>th</sup> January 2008 by UBI Banca and the Prudential USA concerning the joint venture, UBI Pramerica SGR Spa ("SGR") grants rights to purchase to the parties (call options) if certain predetermined events occur.

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

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

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

Details concerning the exercise of the powers granted by the shareholders in 2009 are given in paragraph a), which may be consulted.

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

As concerns the purchase of treasury shares, a shareholders' meeting of 9<sup>th</sup> May 2009 authorised the Management Board – until the shareholders' meeting convened to pass resolutions for the distribution of profits for the year ended 31<sup>st</sup> December 2009 – to purchase treasury shares at a price not higher than the official price or the closing price in the market session prior to each individual transaction to be charged to the "reserve for the purchase of treasury shares" amounting to 64.203.000,00 euro, with the further limit that the shares held as a result of trading performed do not exceed a maximum number equal to 1% of the share capital.

That same shareholders' meeting also authorised the Management Board to sell all or part of the treasury shares that the Bank might hold at a price not less than the official price or the closing price in the session prior to each individual sales transaction, with the understanding that the amount from the sale of the shares held returns, up until the carrying amount, to the funds held in the "reserve for the purchase of treasury shares".

The mandate for the purchase of treasury shares was not exercised in 2009 and in the period up until the date of this report.

#### **l) Activities of management and co-ordination (pursuant to Art. 2497 et seq of the Italian Civil Code)**

The issuer is not subject to activities of management and co-ordination 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 the 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 the 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 [www.borsaitalia.it](http://www.borsaitalia.it)), a document designed mainly for listed companies that have adopted a traditional governance model. Article twelve of that code states that if a two tier or single 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 provided by this article".

Therefore, in compliance with the provisions of article 12.P.3 of the Corporate Governance Code this report is specifically designed to provide a detailed description of the procedures by which that code has been applied by the Bank. It also reports those standards with which the Bank fully complies with and those with which it does not, even partially, on a "comply or explain" basis. This is partly because the Bank must consider its status as a co-operative banking company 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.

The report has also been drawn up in compliance with the recommendations mentioned, issued by Borsa Italiana and also in particular to implement article 89-bis of the Issuers' Regulations which requires the issuers of shares to publish an annual report on compliance with the codes of conduct indicated in article 123-bis, paragraph 2, letter a) of the Consolidated Finance Act.

This report also contains information on corporate governance and ownership structure required by Art. 123 bis of Legislative Decree No. 58/1998.

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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. Appointment of Supervisory Board Members**

The Supervisory Board is composed of 23 members appointed by a Shareholders' Meeting chosen from among those registered shareholders possessing the necessary qualities of integrity, professionalism and independence required by the legislation 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.

In particular, at least three members of the Supervisory Board must be chosen from among persons enrolled in the *Registro dei Revisori Contabili* (register of auditors) who have practised as legal certifiers of accounts for a period of not less than three years.

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

Members of the Supervisory Board are elected by a shareholders' meeting on the basis of lists in accordance with the terms and procedures contained in article 45 of the Corporate By-laws.

*“Members of the Supervisory Board shall be elected by the Shareholders' Meeting on the basis of lists, which may be submitted by the Registered Shareholders or by the Supervisory Board, in accordance with the terms and procedures set forth below.*

*The lists of candidates, signed by those presenting them, must be deposited at the registered offices of the Bank at least 15 (fifteen) days prior to the date set for the Shareholders' Meeting in the first call and they must contain the names of at least two candidates. The signature of each Registered Shareholder presenting 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.*

*The lists must also be accompanied by information concerning the identity of the registered shareholders who have presented them, with indications of the number of shares and therefore the total percentage of the shares held by the registered shareholders presenting them and by certificates which prove ownership of the shares, as well as all other information required by regulations including the regulatory provisions in force.*

*Exhaustive information must be deposited together with each list on the personal and professional characteristics of the candidates as well as a declaration by the candidates themselves stating that they are in possession of the requirements specified by the Law and by regulatory and corporate by-law provisions and also that they accept their candidature.*

*In cases where only one list has been presented within the time limit mentioned in paragraph two, or in any event in the cases provided for by the regulations in force, the Bank reports this immediately with a press release sent to at least two press agencies. In this case lists may be presented up until the fifth day following the date of the time limit cited. Again in this case the limits laid down in the subsequent paragraph are reduced by half.*

*The election of the Members of the Supervisory Board shall take place on the basis of lists presented:*

*a) directly by at least 500 (fivehundred) Registered Shareholders who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of the right according to the legislation in force, and that is by one or more registered shareholders who represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 (ninety) days before the date set for calling the Shareholders' Meeting and to be indicated in the notice given to call the meeting;*

*b) by the outgoing Supervisory Board on the basis of a proposal made by the Appointments Committee and with the approval of the Supervisory Board passed with the votes of at least 17 (seventeen) of its members, and in any case supported as reported in the preceding letter a) by at least 500 (fivehundred) Registered Shareholders who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of the right according to the legislation in force, and that is by one or more registered shareholders who represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 (ninety) days before the date set for calling the Shareholders' Meeting and to be indicated in the notice given to call the meeting.*

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

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

*Lists presented that fail to observe the procedures reported above are considered as not presented.*

*Each Registered Shareholder may vote for one list only.*

*The election of the Supervisory Board is performed as follows:*

*a) in the case of the presentation of more than one list and without prejudice to the provisions of the following letter b), 22 (twentytwo) members of the Supervisory Board are taken from the list that obtains a majority of Registered Shareholders' votes in the order of preference stated on it;*

*b) 1 (one) member of the Supervisory Board is taken from the list with the second highest number of votes which is not connected within the meaning of the regulations in force with the list mentioned in letter b), and it is the name of the first person on that list. If that list has obtained at least 15% of the votes counted in the Shareholders' Meeting, in addition to the first name indicated on that list, a further 2 (two) members of the Supervisory Board shall be taken from that list, and they shall be the second and third persons on that list. However, if that list has obtained at least 30% of the votes counted in the Shareholders' Meeting, in addition to the first*

name indicated on that list a further 4 (four) members shall be taken from that list, and they shall be the second, third, fourth and fifth persons on that list. Consequently 20 (twenty) or 18 (eighteen) members respectively of the Supervisory Board shall be taken from the list that obtains a majority of Registered Shareholders' votes in the order of preference stated on it.

c) if the minority list mentioned in letter b) should contain the names of only 2 (two) candidates, the third and if necessary the fourth and fifth members of the board, where at least 30% of the votes are obtained, shall be taken from the majority list consisting of the persons not already elected on that list in order of preference stated on it.

If only one list is validly proposed, then all 23 members of the Supervisory Board shall be taken from that list, if it obtains the majority required for an ordinary shareholders' meeting.

The Shareholders' Meeting shall proceed by a relative majority vote to appoint those members of the Supervisory Board, who for any reason whatsoever could not be elected by means of the procedures mentioned in the preceding paragraphs or if no list at all is presented; 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 General Meeting if no list is presented at all.

If, during the course of the year, the Board lacks one or more members, where it is a case of replacing directors elected in the majority list, the first candidate not elected on that list is appointed. In the absence of such a candidate, the appointment is by a relative majority vote with no list obligation, since the Supervisory Board itself may present candidacies, if necessary, upon proposal of the Appointments Committee.

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

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

- if only one board member has been appointed from the minority list, then the first candidate not elected on the list from which the member to be replaced was drawn is appointed, or, in the absence of such a candidate, the first candidate on any other minority lists there may be is taken on the basis of the number of votes received in descending order. Should this not be possible, the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities;

- if a further 2 (two) or 4 (four) board members have been elected from the minority list, on the basis of the votes cast by the Registered Shareholders, the relative replacements shall be taken from the list from which the member to be replaced was drawn or in the absence of such a candidate from any other minority lists there may be, identified on the basis of the number of votes received in descending order and which have received, according to the case, 15% or 30% of the votes cast by the Shareholders' Meeting. In the absence of such candidates, the board members shall be drawn from the majority list or in the absence of such candidates, 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 any other minority lists there may be, on the basis of the descending number of votes received by these. Should this not be possible, the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities.

The replacement candidates, identified in accordance with the provisions of this article, 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 this Corporate Statute for the office.

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

## 5. Supervisory Board

The functions of the Supervisory Board are set out in article 46 of the Corporate By-laws, according to which the board:

- a) on the basis of proposals from the Appointments Committee, appoints and removes the members of the Management Board and its Chairman and Deputy Chairman, determining their remuneration, in compliance with Art. 22, paragraph 2, letter b), after consulting with the Remuneration Committee. It also determines, after consulting with the Remuneration Committee and in compliance with Art. 22, paragraph 2, letter b), the remuneration of the members of the Management Board vested with special functions, duties or powers or assigned to committees. Without prejudice to the provisions of article 32, paragraph 2, of the Corporate By-laws, and without effect for members of the Management Board who vacate their positions, the Supervisory Board appoints the members of the Management Board in the first meeting following its own appointment by a shareholders' meeting;
- b) on the basis of proposals from Management Board, sets the general guidelines and strategic policies of the Bank and of the Group;
- c) approves the separate financial statements and the consolidated financial statements prepared by the Management Board;
- d) authorises the Management Board to exercise the authority to increase share capital or to issue convertible bonds that may have been granted by a Shareholders' Meeting pursuant to article 2443 and/or to article 2420-*ter* of the Italian Civil Code;
- e) performs supervisory functions in compliance with article 149, paragraphs one and three of Legislative Decree No. 58 of 24<sup>th</sup> February 1998;
- f) initiates liability actions against members of the Management Board;
- g) submits the statement to Bank of Italy pursuant to Article 70, sub-section 7, of Legislative Decree No. 385 of 1<sup>st</sup> 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 24<sup>th</sup> February 1998;
- m) on the basis of proposals submitted by the Management Board, 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 cum warrants in shares of the Bank, mergers and demergers;
  - (ii) amendments to Corporate By-laws;
  - (iii) operations pursuant to Art. 36, paragraph two, letter b);
  - (iv) purchases by the Bank and by its subsidiaries of controlling interests in companies and transactions involving a reduction in directly or indirectly held investments in subsidiaries;
  - (v) purchases or disposals by the Bank and its subsidiaries of companies, business *en bloc*, business units, spin-offs, and investments or disinvestments which involve commitments where the amount for each transaction is greater than 4% of the supervisory capital eligible for the purposes of calculating the consolidated core tier one capital or affects the core tier one ratio by more than 50 basis points as stated in the latest report to the Bank of Italy in accordance with the regulations in force;

- (vi) purchases or disposals by the Bank and its subsidiaries of investments in companies that are not controlled, the amount of which for each transaction is greater than 1% of the supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force, or which are significant from an institutional viewpoint or that of the sector nationally;
- (vii) stipulation of strategically important trade, co-operation and corporate agreements, with account taken of the activities and/or volumes involved and/or of the nature of the partners and in relation to programmes and objectives contained in the Business Plan approved;
- n) expresses a non binding opinion with a vote in favour of at least 17 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 36, paragraph 2, letter b) of the Corporate By-laws (Banca Popolare Commercio e Industria Spa, Banca Popolare di Bergamo Spa, Banca Popolare di Ancona Spa, Banca Carime Spa, Centrobanca Spa, Banco di Brescia Spa and Banca Regionale Europea Spa);
- o) sets, on the basis of proposals from the Management Board, strategic guidelines and policies for the management and control of 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; expresses its opinion on the appointment and removal by the Management Board of the officer responsible for the internal control function and the officer responsible for the compliance function;
- r) approves and periodically verifies the organisational administrative and accounting structure of the Bank, determined by the Management Board;
- s) approves corporate regulations concerning its functioning and, in co-operation with the Management Board, approves reporting systems between corporate bodies as well as those with the internal control system;
- t) approves remuneration policies for employees or associate workers not linked to the Bank by regular employee contracts;
- u) on the basis of a proposal by the Chairman of the Supervisory Board, drafted in compliance with article 47, paragraph two letter h) of the Corporate By-laws, sets policies and takes decisions on projects for cultural and charitable initiatives and for the image of the Bank and the Group, with special reference to the enhancement of historical and artistic heritage, while it verifies that initiatives planned coincide with the objectives set;
- v) decides on mergers and demergers pursuant to articles 2505 and 2505-*bis* of the Italian Civil Code;
- z) exercises any other powers conferred by the legislation and regulations currently in force or by the Corporate By-laws.

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 down of secondary offices;
- b) reducing the share capital if a registered shareholder withdraws from the Bank;
- c) amendments to the Corporate By-laws to comply with legislation and regulations, subject to consultation with the Management Board.

The Supervisory Board and its members exercise powers granted under article 151-*bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, in accordance with the terms and conditions stated therein.

The meeting of the shareholders of BPU Banca held on 3<sup>rd</sup> March 2007 appointed the first Supervisory Board of UBI Banca for the years 2007/2008/2009.

Those appointments became effective on 1<sup>st</sup> April 2007, the date on which the merger of Banca Lombarda into BPU Banca became legally effective.

Resolutions were passed in the shareholders' meetings of 5<sup>th</sup> May 2007 and 10<sup>th</sup> May 2008 to appoint members following resignations from the board and therefore at the date of this report the Supervisory Board was composed as follows:

Faissola Corrado	Chairman
Calvi Giuseppe	Senior Deputy Chairman
Folonari Alberto	Deputy Chairman
Mazzoleni Mario	Deputy Chairman
Albertani Battista	Member
Bazoli Giovanni	Member
Bellini Luigi	Member
Cattaneo Mario	Member
Ferro Luzzi Paolo	Member
Fidanza Virginio	Member
Fontana Enio	Member
Garavaglia Carlo	Member
Gussalli Beretta Pietro	Member
Lucchini Giuseppe	Member
Lucchini Italo	Member
Manzoni Federico	Member
Moltrasio Andrea	Member
Musumeci Toti S.	Member
Orlandi Sergio	Member
Pedersoli Alessandro	Member
Perolari Giorgio	Member
Pivato Sergio	Member
Sestini Roberto	Member

The curricula vitae of the Chairman and of the Senior Deputy Chairman of the Supervisory Board are available on the website of UBI Banca.

The Supervisory Board has verified that all the members of the Supervisory Board in office are in possession of the requirements of independence in compliance with current law. Considering also the particular nature of the Supervisory Board in the context of a two tier governance model, all the Members of the Supervisory Board meet independence requirements of the Corporate Governance Code.

Special regulations govern the functioning of the Supervisory Board concerning:

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

A special section of those regulations deals with reporting systems.

The Supervisory Board must meet at least every 60 days. The location of the meetings alternates between the cities of Bergamo and Brescia and a meeting is held once a year in the city of Milan. The Supervisory Board is validly convened with the attendance of a majority of the members in office and it passes resolutions by a vote in favour of the absolute majority of the board members present. A qualified majority (vote in favour of at least 17 members) is required for amendments to the regulations of the Appointments Committee, for proposals to amend the Corporate By-laws, for resolutions concerning proposals pursuant to article 36, paragraph two, letter b) of the Corporate By-laws and for other matters for which the Corporate By-laws require a qualified majority

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

In order to facilitate attendance at board meetings the corporate by-laws allow remote attendance through the use of appropriate audio/videoconference and/or teleconference connections

The Supervisory Board met 23 times in 2009 and the average length of meetings was four hours.

Six meetings have been scheduled for the first four months of 2010, four of which have already been held.

## **6. 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 specific internal committees with the functions of submitting proposals and advice and performing controls, in compliance with Bank of Italy regulations, the recommendations of the Borsa Italiana Corporate Governance Code and supervisory authority instructions. These committees have been established to allow the Supervisory Board to make its decisions on a more informed basis and they are composed - as recommended by the Corporate Governance Code - of more than three members.

- Appointments Committee	6 members
- Remuneration Committee	5 members
- Internal Control Committee	5 members
- Accounts Committee	4 members

The meetings of these committees are properly minuted. They may have access in the performance of their functions to the corporate functions and information required to perform their duties and they may make use of external consultants, with adequate funds provided for that purpose.

## **7. Appointments Committee**

The Appointments Committee (members of which pursuant to Art. 49 of the Corporate By-laws 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:

- Corrado Faissola – as the Chairman
- Giuseppe Calvi
- Carlo Garavaglia
- Mario Mazzoleni
- Giovanni Bazoli
- Alberto Folonari.

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

In compliance with the Corporate By-laws, the Appointments Committee's duties include the following:

- it identifies candidates for membership of the Supervisory Board to be proposed to the Supervisory Board itself for submission to a Shareholders' Meeting;
- it identifies candidates for membership of the Management Board to be proposed to the Supervisory Board.

The Appointments Committee met twice in 2009.

In March 2009 the Appointments Committee performed its duties with regard to appointments to the corporate bodies of some of the banks in the Group.

## 8. Remuneration Committee

The remuneration committee is composed of the following members of the Supervisory Board  
Alessandro Pedersoli as Chairman

- Giuseppe Calvi
- Giuseppe Lucchini
- Toti S. Musumeci
- Alberto Folonari.

The committee is governed by special regulations which determine its duties and how it functions.

The Remuneration Committee is called upon to formulate opinions and proposals to submit to the Supervisory Board for resolutions concerning pay and remuneration policies for corporate officers, employees and associate workers not linked to the Bank by regular employee contracts.

The Remuneration Committee met four times in 2009 and it examined incentive mechanisms, a proposal to reduce the remuneration of the Supervisory Board (like that decided by that board on 23<sup>rd</sup> March 2009) and the remuneration of senior managers with strategic responsibilities.

## 9. Remuneration

The Members of the Supervisory Board receive fixed remuneration by law, determined for their entire period of office by a shareholders' meeting at the time of their appointment, and also reimbursement of expenses incurred in performing their duties in office. They are also assigned tokens for attendance at meetings of the Supervisory Board and also at meetings of commissions and committees formed by the Supervisory Board itself in the amount established by a shareholders' meeting.

Furthermore, the Supervisory Board, after consultation with Remuneration Committee, has set fixed remuneration for the Chairman, the Senior Deputy Chairman, the Deputy Chairmen and the members of the Supervisory Board to whom special duties, powers or functions have been assigned.

In compliance with the Corporate By-laws currently in force, the next time the Supervisory Board is renewed, total remuneration will also be set by the Shareholders' Meeting for special duties, powers or functions which will then be allocated to individuals by the Supervisory Board in accordance with the Corporate By-laws.

In March 2009 the Supervisory Board decided, with the agreement of all its members, to reduce its total fixed remuneration by 20% for its last year of office in order to demonstrate its awareness of the economic and financial crisis that had hit the country and to signal its concern to those who had been hit either directly or indirectly by that crisis.

### Management Board

In compliance with the corporate by-laws, 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 remuneration of the members of the Management Board is not linked to the operating results achieved by the Bank. As concerns the Chief Executive Officer, as the highest ranking executive officer of the Bank, a part of his remuneration is variable, determined on the basis of criteria set for all senior executives. No member of the Management Board is a participant in any incentive schemes.

In March 2009 the Management Board decided to reduce their fixed remuneration by 20% for 2009, on similar grounds to those which motivated the members of the Supervisory Board.

Furthermore, the Chairman and Deputy Chairman of the Management Board in particular decided to reduce their remuneration for their positions by 50%.

### **Group remuneration and incentive policies**

The remuneration policies of the UBI Banca Group are based on key principles consistent with those adopted generally in the management of human resource development. They can be summarised as follows:

- fairness, interpreted as the payment of what is due to each individual, in terms of professional growth, on the basis of their possession of the required characteristics, without any discrimination whatsoever, giving the same career opportunities to all;
- uniformity, interpreted as the constant use across the board of consistent approaches and parameters in all the companies of the Group;
- meritocracy, applied by placing value on individuals on the basis of the recognition of their merit;
- consistency over time, with regard to medium-to-long term objectives.

The adoption of these cornerstone principles requires a methodological approach and a structured process, also in consideration of supervisory instructions concerning the organisation and corporate governance of banks, issued by the Bank of Italy on 4<sup>th</sup> March 2008 and contained in the subsequent interpretive note issued on 19<sup>th</sup> February 2009.

With specific reference to the latter, the procedure followed in the application of the principles mentioned to senior management remuneration resulted in the approval by the Supervisory Board in a meeting of 12<sup>th</sup> March 2008 of a resolution submitted to it by the Remuneration Committee of the UBI Banca Group in compliance with Art. 2 of the regulations of that same committee. The resolution was to employ a process for the assessment of positions which – on the basis of an assessment of the proper performance of the functions of each role – determined the assignment of a value to each role that is representative of the complexity of the position. This was performed above all by making a comparison between the level of remuneration for the position considered and the median market rate for positions of similar complexity (external consistency) and then on the basis of an assessment of a balance between the complexity of the role and the relative level of remuneration within the Group (internal consistency).

This method of weighting positions was performed with the assistance of a specialist consulting firm in co-operation with the Human Resources Area of the Parent.

Account of the following was taken in assessing the proper performance of the functions of each role:

- individual performance, where performance assessment is available;
- performance of the company with respect to the principal operating and balance sheet KPIs, taken from the financial statements;
- the level of skills acquired, where available from skill assessments;
- direct knowledge of the individual;
- measurement of the level of motivation;
- availability of internal reports.

As a consequence and in application of the above, in acceptance of a proposal made by the Remuneration Committee, the Supervisory Board set a general policy stating that as a rule the remuneration of individual members of the senior management of companies in the Group must obey the following general principles:

- there must be balance between the remuneration for positions of similar weight within the Group;
- the remuneration for a position may be adjusted towards the median of market remuneration rates for positions of similar complexity on condition that assessments of performance are positive.

The Remuneration Committee also acknowledged that adjustments may be made to the general policy for each individual senior manager in order to take due account of some additional corrective factors concerning the following:

- the context of the company in question in order to recognise specific characteristics of companies that operate in particular fields;
- the geographical context and the social, business and financial setting;
- company performances, in terms of result trends;

- assessment of the potential of the senior manager;
- the degree of seniority in the role occupied.

The principles (fairness, consistency, meritocracy and uniformity) which govern the remuneration of all Group employees are analogous to those reported above for senior management.

These principles, which form the foundations for all remuneration policies, are applied by employing a structured process based on official operational instruments present in the Group:

- performance assessment;
- skill assessment;
- measurement of potential;
- career hierarchies.

With regard to the variable, performance related, component of remuneration, in 2009 mechanisms were employed in Group member companies to determine the performance related component of remuneration based on the same principles as those used by the Parent, while respecting the specific characteristics of individual companies.

Official incentive schemes are normally linked to the achievement of objectives set in terms of “return on risk adjusted capital” (RORAC) and corporate profits, as a tangible sign of the desire to involve all personnel in the strategies and objectives pursued. The schemes are also based on the principle of management by objectives, where individual goals are set and reward incentives are calculated on the basis of the extent to which those goals are achieved.

The objectives have been weighted in the light of supervisory regulations, in compliance with the requirements for “objectivity” and “immediate measurement” and in order to ensure prudent risk management, with a long and not just a short term perspective. With regard to result objectives, use was in fact made, amongst other things, of operating and capital indicators consistent with the medium-to-long term strategic objectives set in the 2007-2010 Business Plan, such as gross income net of impairment losses on loans and operating losses, used also in combination with the RORAC indicator mentioned.

The identification of indicators used to define individual performance and in particular those related to the provision of investment services (employees in the commercial network responsible for the sale of financial products and instruments) was performed with regard to the requirement to avoid risks of failing to comply with regulations and those concerning transparency in banking and conflicts of interest. The methods used to quantify bonuses do not in fact consider direct connections with single services or products but relate more generally to areas or sectors of activity and categories of services or products.

With regard to the mechanisms just described, the use of economic indicators was expressly excluded for organisational units – and the relative managers – which it was considered might fall within those cases mentioned in regulations, such as for example internal control functions and those responsible for preparing corporate accounting documents. In these cases appropriate indicators linked to the operations of the organisational unit were identified.

While the incentive schemes employed by the UBI Group in 2009 possessed all the characteristics mentioned so far, they adopted a model for employees belonging to professional areas and middle management that was different from that used for senior managers. Incentive bonuses for the former were also calculated on the basis of the performance of the organisational unit to which individuals belong in order to encourage interpersonal co-operation and team spirit.

The performance indicators identified for teams were adopted to assign individual objectives for the senior managers that lead them. The incentive model for senior managers does not include the existence of “teams”, but uses the complexity of the role filled and the performance achieved at company and individual level to determine bonus levels.

Except for the residual existence of warrants relating to the private equity operations of Fondo Centrobanca Sviluppo Impresa SGR, no remuneration mechanisms exist in the Group that are linked to financial instruments.

On 28<sup>th</sup> October 2009, the Bank of Italy issued a communication (No. 0321560/09) concerning remuneration and incentive schemes for banks and parent companies recommending scrupulous and prompt compliance with international standards for remuneration and incentive schemes. The appropriateness of these schemes is considered an essential condition for ensuring the sound and prudent management of banks.

Two aspects were underlined in the communication: the guidelines for all banks and the standards drawn up for banks of large dimensions whose activities may have effects for the stability of the banking system as a whole.

## **Guidelines**

With regard to the guidelines for all banks, the communication drew attention to the needs for:

- 1) the performance related component of remuneration to follow these criteria:
  - a) a substantial proportion must be subject to an adequate system for deferring remuneration for an appropriate period of time;
  - b) it must be linked to long term performance measurement indicators which must reflect the profitability of the bank over time and be appropriately adjusted for current and future risks regarding the cost of equity and the liquidity required to perform the activities undertaken;
  - c) it must be directly related to the results actually achieved, reducing significantly or to nil if performance is below forecasts or negative;
  - d) account must be taken of the results of the business unit a person belongs to and to that of the bank or group as a whole and, where possible, of the results of the individual.
- 2) the total amount of performance related remuneration not to limit the ability of the bank to maintain or reach an adequate level of capitalisation for the risks assumed;
- 3) the clauses agreed for the early termination of employment contracts to be such as to ensure that the remuneration paid in these circumstances is linked to the performance achieved and the risks assumed.

For all banks it is also necessary to ensure that adequate internal control mechanisms are in place which, by applying principles of proportionality, ensure proper implementation of the guidelines and standards to be applied.

## **Implementation standards drawn up by the FSB for major banking groups**

The major banking groups listed in the Bank of Italy communication, which includes UBI Banca, must:

- a. identify those persons (roles and employees) for the application of the standards which the FSB applies to certain corporate roles. These in any case include board members with executive positions, the general manager and the chiefs of the main corporate functions whose decisions have a significant impact on the risks assumed by the bank;
- b. specifically verify the compliance of their remuneration policies and practices with the criteria and standards applicable on the basis of the communication mentioned and define measures to be taken and the timing of them in relation to existing contracts. The results of this verification and the related plans for action were sent to the Bank of Italy by 31/12/09.

The Supervisory Board assigned the task of supervising this activity required by the Bank of Italy to the Remuneration Committee and it therefore involved the following:

- 1) identifying those persons to whom the FSB standards were to be applied;
- 2) the formulation:
  - a. of proposals, with details of the underlying reasoning, which the Supervisory Board must submit to a shareholders' meeting for:
    - remuneration policies for the Management Board;
    - the total remuneration of the Supervisory Board;
    - the total remuneration of the Members of the Supervisory Board with particular duties, powers or functions;
  - b. of proposals to the Supervisory Board for their decisions concerning:
    - the remuneration of members of the Management Board;

- remuneration policies for employees (and associate workers not linked to the UBI Banca and the Group by regular employee contracts);
- remuneration policies for corporate officers of subsidiaries.

A summary of the results of the self assessment process for FSB implementation standards conducted with the assistance of a specialist consulting firm is given below.

- *Areas of basic compliance by the remuneration practices of UBI Banca with the new FSB standards:*
  - the decision making process is based on good governance practices with full responsibility maintained by company officers and with verification of control functions;
  - mechanisms exist to prevent payment of variable remuneration in cases of nil or negative results;
  - no guaranteed bonuses exist;
  - no “golden parachutes” are provided and no terms and conditions are set other than those provided in standard labour contracts for all company positions.

Areas for improvement were also identified which must be reviewed and studied in order to bring the remuneration system as a whole into line with the standards set by regulators, by the European Commission and by the Financial Stability Board in order to achieve full compliance of the system.

- *Areas for improvement and project work in progress*
  - definition of parameters for sustainable medium and long term performance;
  - deferment of annual bonuses and linkage with medium and long term incentive mechanisms for roles with strategic responsibilities;
  - determination of specific and differentiated variable remuneration mechanisms for control functions;
  - alignment of long term management interests with those of other stakeholders, including linkage with the performance of the UBI share.

In relation to the above, in March 2010 the Supervisory Board, approved a Group policy for remuneration and incentives. Proposals will be submitted to the next shareholders’ meeting to set, insofar as it is competent, the following:

- remuneration policies for members of the Management Board;
- a medium-to-long term incentive plan based on the performance of the UBI Banca share as part of the remuneration policies for UBI Banca and Group employees.

## **10. Internal control committee**

The internal control committee is composed of the following members of the Supervisory Board, all of whom are enrolled in the register of auditors:

- Pivato Sergio, as the Chairman
- Luigi Bellini
- Mario Cattaneo
- Carlo Garavaglia
- Italo Lucchini

The committee is governed by special regulations which determine its duties and how it functions.

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.

At least one member of the internal control committee attends meetings of the Management Board on a rotating basis in compliance with regulations in force.

The Internal Control Committee met 27 times in 2009, focusing its activity mainly:

- on the most important issues concerning the internal control system of the Bank and the legislative framework, as follows:
  - aspects of corporate governance with regard, amongst other things, to the provisions contained in the corporate governance code for listed companies, in the update of the regulations of the Supervisory board and its internal committees and of reporting systems;
  - the details of the principles and constituent elements of the internal control system with regard to policy, Group regulations and Parent regulations;
  - work to strengthen the internal control system and, in that respect, the co-ordination of first and second level controls and the creation of a Risk Control Macro Area
  - assessment of the adequacy of the internal control system as a whole;
  - the activities of the Supervisory Body pursuant to Legislative Decree No. 231/01 of UBI Banca and more specifically, the “Model for the organisation, management and control of the Bank”;
  - relations with the boards of statutory auditors of subsidiaries, including specific meetings;
  - the structure, the personnel, and the operational tools of the internal audit function of the Group and the interactions between it and other corporate units and also its non binding opinion on the appointment of the internal audit officer, to support the opinion that the Supervisory Board must give pursuant to Art. 46 letter q) of the Corporate By-laws;
- on policy setting and co-ordination activities performed by the Parent, where particular attention was paid to events involving subsidiaries with reference to existing processes in relations between them and the Bank, in order to examine proper performance of strategic control and management activities by the Parent;
- on matters connected with the risk and capital management system;
- on the provision of investment services, with regard to provisions introduced by the MiFID directive in terms of modifications to the relative corporate procedures of the Bank and the Group for compliance with regulations and the creation, in accordance with the joint Bank of Italy and Consob regulations, of a Compliance Function;
- on periodic and specific reporting on the outcomes of analyses performed by the internal auditing function;
- on relations with the Supervisory Authorities, with specific regard to requests for self-analysis concerning specific transactions and inspections carried out at the Bank and at subsidiary companies.

## 11. Accounts Committee

The accounts committee is composed of the following members of the Supervisory Board:

- Mario Cattaneo as Chairman
- Carlo Garavaglia
  - Federico Manzoni
  - Sergio Orlandi

Its function is to support the Supervisory Board by performing assessments, furnishing advice and submitting proposals in areas relating to the approval of annual reports and the examination of interim financial statements.

The Accounts Committee met 16 times in 2009 and concentrated mainly on examinations of the separate and consolidated financial statements of the Parent, the half year financial report and the quarterly reports to the end of March and September. In this context, the committee assessed the accounting system by following the preparation of the documents just mentioned on the basis of an examination of the data as they gradually emerged and of the relative information as it became available, through the Senior Officer Responsible for the Preparation of Corporate Accounting Documents.

The Accounts Committee, again as part of its assessment, advisory and proposal making functions on behalf of the Supervisory Board, investigated certain matters of particular significance on which it felt it should take action itself.

The following are reported as worthy of mention here:

- study of the accounting and tax treatment of the Branch Network Optimisation project and the details of the various implementation phases;
- supervision of the state of progress of the work on the Basel 2 project in the various implementation stages with regard to the more technical aspects affecting administrative, accounting and financial reporting processes linked mainly, but not exclusively, to quantitative factors underlying the three pillars.

## **12. Management Board**

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

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

The members of the Management Board are appointed from among registered shareholders with voting rights by the Supervisory Board, on the basis of a proposal by the Appointments Committee, after their number has first been set.

The members of the Management Board remain in office for three financial years. Their term of office expires on the date of the Supervisory Board meeting convened to approve the financial statements for 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 Corporate By-laws and they may be re-appointed.

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

If the positions of one or more members of the Management Board becomes vacant, the Supervisory Board replaces them without delay, again on the basis of a proposal submitted by the Appointments Committee. The term of office of members appointed in this manner expires 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 remain in office for the remaining term of office that the original board would have served.

At least one member of the Management Board must possess the requirements of independence set forth in Article 148, paragraph 3, of Legislative Decree No. 58 of 24<sup>th</sup> February 1998. In this respect, the Management Board ascertained that Alfredo Gusmini possessed those requirements of independence.

Furthermore, at least the majority of the members must have a total of at least three years experience in management and/or professional activities in financial and/or banking and/or insurance companies in Italy or abroad.

In compliance with the Corporate By-laws (article 30), members of the Management Board may be directors, members of the management boards or general managers of rival companies. The authorisation of the Supervisory Board is, however, required when the company concerned is outside the Group or is not partly owned by the Bank.

In this respect, in September 2009 the Supervisory Board, insofar as applicable and with regard to positions held in the Group, favourably assessed and therefore authorised the appointment of the member of the Management Board, Giampiero Auletta Armenise, to the Board of Directors of the company Rothschild SpA Italia as Non Executive Chairman.

In compliance with instructions issued by the Bank of Italy on the organisation and corporate governance of banks, 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. 2).

The members of the Management Board are in fact 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 Corporate By-laws performs its main activities exclusively on a collegial basis with no powers to delegate authority.

In addition to the Chief Executive Officer, the Corporate By-laws (article 39) also assign powers and functions to the Chairman and the Deputy Chairman which underline their involvement in the management of the Bank.

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

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

The Management Board was appointed by the Supervisory Board on 2<sup>nd</sup> April 2007, which established the number of members as ten, unanimously appointed the members and also appointed Emilio Zanetti as the Chairman and Corrado Faissola as the Deputy Chairman, designating Giampiero Auletta Armenise as Chief Executive Officer, who was then appointed by the Management Board on the same date.

Following the resignation of the Deputy Chairman and member of the Management Board, *avv.* Corrado Faissola, in a meeting of 10<sup>th</sup> May 2008, the Supervisory Board appointed *rag.* Franco Polotti as a member of the Management Board and Flavio Pizzini as Deputy Chairman of the Management Board.

On 27<sup>th</sup> November 2008, the Chief Executive Officer, Giampiero Auletta Armenise, resigned with effect from 1<sup>st</sup> December 2008 from his executive position, with the consequent relinquishment of the powers that had been conferred on him by the Management Board.

Following his resignation, the Supervisory Board decided to increase the number of members of the Management Board to eleven and unanimously appointed Victor Massiah, the General Manager of UBI Banca, to that board.

The Management Board – again with effect from 1<sup>st</sup> December 2008 – appointed Victor Massiah to the position of Chief Executive Officer, while he resigned from his position as General Manager at the same time.

In view of the above, the Management Board is currently composed of the following members

Zanetti Emilio	Chairman
Pizzini Flavio	Deputy Chairman
Massiah Victor	Chief Executive Officer
Auletta Armenise Giampiero	Member
Bertolotto Piero	Member
Boselli Mario	Member
Camadini Giuseppe	Member
Cera Mario	Member
Frigeri Giorgio	Member
Gusmini Alfredo	Member
Polotti Franco	Member

The curricula vitae of the Chairman, the Deputy Chairman and the Chief Executive Officer 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.

The Management Board is appointed for three financial years, expiring on the date of the Supervisory Board meeting convened to approve the financial statements for 2009

It has been verified in this respect that the members of the Management Board are in possession of the current legal requirements to hold their positions.

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” apply to the Management Board. They were adopted by the Parent in June 2009 following their approval by the Supervisory Board and they were subsequently sent to the banks in the Group for implementation.

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. Furthermore, board members may not accept more than two positions in foreign registered companies outside the Group and in which no interest is held by it.

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 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.

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 general situation basically compliant with the contents of the regulations.

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

The Management Board meets at least once a month and also at any time the Chairman considers it appropriate or when a request is made by five members. Meetings take place alternating between the city of Bergamo and the city of Brescia and once a year in the city of Milan. The Management Board met 30 times in 2009 and the average length of meetings was five hours. In order to facilitate attendance at board meetings, article 34 of the Corporate By-laws allows remote attendance through the use of appropriate audio/videoconference and/or teleconference connections.

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

In compliance with Borsa Italiana regulations, in January UBI Banca announced its calendar of corporate events for 2010 to the market (and published it on its website), with the dates of board meetings for the approval of operating and financial results.

Twenty four meetings have been scheduled for 2010, seven of which have already been held.

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

The Chairman, after consulting with the Chief Executive Officer or on his request, may invite external advisors and/or senior managers of the Group 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 article 37 of the Corporate By-laws, 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 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 36, the Management Board has exclusive responsibility for the following:

- a) setting the general programmes and strategic policies of the Bank and the Group, on the basis of proposals from the Chief Executive Officer, to be submitted to Supervisory Board for approval;
- 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 17 members of the Supervisory Board. Revocation of the powers is decided by the Management Board with the vote in favour of at least eight members of the Management Board (or of all the members minus one, if the Management Board consists of seven or eight members), 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) the management of risk and internal controls, with exception made for the responsibilities and powers of the Supervisory Board pursuant to Art. 46 of the Corporate By-laws;
- 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, the Joint General Manager and the members of general management, defining their functions and responsibilities and also appointing the senior management of 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 36, paragraph two, letter e) of the Corporate By-laws;
- 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 supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
- 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 49 of the Corporate By-laws, setting up committees or commissions with advisory, investigative, controlling or coordinating functions, without prejudice to Art. 42, paragraph two of the Corporate By-laws;

- m) the approval and amendment of the regulations of the Bank and the Group, with exception made for the responsibilities and powers of the Supervisory Board pursuant to Art. 46. paragraph I, letter r) of the Corporate By-laws;
- 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 financial reporting officer, pursuant to article 154-*bis* of legislative Decree No. 58 of 24<sup>th</sup> February 1998, and determination of the relative remuneration.
- p) the appointment and removal, subject to the opinion of the Supervisory Board, of the officer responsible for the internal control function, the officer responsible for the compliance function and those officers responsible for functions whose appointment is the sole responsibility by law and regulations in force of the Management Board;
- q) the preparation of separate financial statements and consolidated financial statements 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 transactions pursuant to Art. 46, paragraph I, letter m) of the Corporate By-laws 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.

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 before board meetings, in order to allow members to act in an informed manner;
- performance of 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 Corporate By-laws, 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 table prepared in accordance with Art. 78 of Consob Resolution No. 11971/1999 and also in the notes to the financial statements for the year ended 31<sup>st</sup> December 2009 which may be consulted.

The remuneration of the members of the Management Board is not linked to the operating results achieved by the Bank.

As concerns the current Chief Executive Officer, as the highest ranking executive officer of the Bank a part of his remuneration is variable, determined on the basis of criteria set for all senior executives.

No-one is the beneficiary of share-based incentive plans.

In March 2009 the Management Board decided to reduce their fixed remuneration by 20% from 1<sup>st</sup> January 2009, on similar grounds to those which motivated the members of the Supervisory Board. Furthermore, the Chairman and Deputy Chairman of the Management Board in particular decided to reduce their remuneration for their positions by 50%.

## 12.4. Executive officers

### *Chief Executive Officer*

The Management Board, in compliance with the by-laws, has conferred the following powers on the Chief Executive Officer:

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

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

Furthermore, on 7<sup>th</sup> April 2009, the Management Board assigned duties to the Chief Executive Officer pursuant to Art. 43 *bis* of the Corporate By-laws. On 26<sup>th</sup> May 2009, following amendments made to the Corporate By-laws by a shareholders' meeting of 9<sup>th</sup> May 2009, the Management Board updated that assignment of duties. It therefore 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 with the General Manager, in observance of the responsibilities of the Supervisory Board on those matters and decisions made by it.

## 12.5. Chairman of the Management Board

The duties of the Chairman of the Management Board are listed in article 39 of the Corporate By-laws. 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 by-law regulated bodies where appropriate.

## 12.6. Other executive board members

In compliance with instructions issued by the Bank of Italy on the organisation and corporate governance of banks, 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 in fact 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 Corporate By-laws performs its main activities exclusively on a collegial basis with no powers to delegate authority.

In addition to the Chief Executive Officer, the Corporate By-laws (article 39) also assign powers and functions to the Chairman and the Deputy Chairman which underline their involvement in the management of the Bank.

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

## 12.7 Independent board members

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

*Dott.* Alfredo Gusmini was identified as the independent member of the Management Board, pursuant to the legislation just mentioned.

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

## 13. Board of Arbitrators

Appeal may be made to the Board of Arbitrators to settle any disputes that may arise between the Bank and/or registered shareholders over the interpretation or application of the Corporate By-laws 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 are required to provide the arbitrators with all the information that they may request concerning disputes to be settled.

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

The Board of Arbitrators, appointed by the shareholders' meeting of 9<sup>th</sup> May 2009 for the three year period 2009-2011, is composed as follows:

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

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

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.

## 14. General Management

The Management Board, in compliance with the Corporate By-laws, has appointed Riccardo Sora to the position of General Manager with the following functions and responsibilities:

- chief operating officer;
- chief of personnel;
- ensuring, as a rule (unless otherwise specified by the competent management bodies), that the resolutions of the Management Board and of the Chief Executive Officer are implemented;
- managing day-to-day business in compliance with the policies set by management bodies;
- attending, with an advisory vote, the meetings of the Management Board;
- supervising the strategic co-ordination of the Bank and the Group.

The Management Board appointed a Joint General Manager – Graziano Caldiani, who is also the Head of the Resources and Organisation Macro Area – and four Deputy General Managers who have been assigned various responsibilities in the Group:

- Rossella Leidi
- Giovanni Lupinacci
- Ettore Giuseppe Medda
- Pierangelo Rigamonti.

## 15. System of internal control

### Internal controls

The system of internal control is a set of rules, procedures and organisational units designed to enable the business of the Bank to be performed in a healthy and proper manner consistent with its objectives by means of an appropriate process of identifying, measuring, managing and monitoring the principal risks. As such it constitutes an essential part of the corporate governance system of UBI Banca and the companies of the Group.

UBI Banca has adopted an internal control system which, in compliance with the principles of the corporate governance code, with instructions issued by the supervisory authority and with the Corporate By-laws of the Bank, assigns functions and responsibilities to the various officers who, in constant consultation with each other and supported also by regular reporting, contribute to the efficiency and effectiveness of the system of control itself.

The process of assessing the internal control system and verifying its adequacy and effective functioning form part of the responsibilities of the corporate bodies which fulfil strategic supervision, control and management 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).

In accordance with Art. 43-*bis* of the Corporate By-laws, 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 with the General Manager, in observance of the responsibilities of the Supervisory Board on those matters and decisions made by it.

## Principles for the organisation of the internal control system of the UBI Group

The corporate bodies responsible have approved a document containing the "Principles for the organisation of the internal control system of the UBI Group", designed to favour the most appropriate organisation of the internal control system of the Bank and the Group. These principles are designed for application on a permanent basis to all Group member companies and constitute a point of reference for the definition and implementation of all the components of the system of internal control.

The main contents of the principles can be summarised as follows:

- efficiency avoiding overlap and/or gaps in control mechanisms with a systemic vision of governance and control designed to achieve high levels of effectiveness and risk management;
- consistency in the organisation processes of the Bank and the Group which, based on the Group's mission, identifies values, defines objectives and pinpoints risks which hinder their achievement and implements appropriate responses;
- compliance with legislation and regulations, even before they become compulsory, as a distinguishing feature and key factor of success for enhancing customer relations and, lastly, creating value for all stakeholders.

The senior management of the Bank has also formulated specific risk management policies that apply to the Group operations.

The responsibilities for internal controls of various roles in the Bank are identified within the context of those policies, as follows:

- line controls (first level), the responsibility of the managers of organisational or process units, are integrated in the processes to which they belong or relate and are designed to ensure the proper performance of the activities relating to their mission at different hierarchical levels;
- controls on risks (second level), the responsibility of specialist functions (Risk Management, Risk Capital & Policies, Compliance, Operational Control and CFO), whose objectives are to assist in the definition of risk measurement and assessment methods, to verify compliance with limits assigned to different operating functions and to verify that the operations of single production areas are consistent with the risk-return objectives set for them;
- internal audit (third level), performed by the Parent and Group Audit Macro Area, in addition to the strategic supervision performed by the Supervisory Board.

The first two types of control (first and second level), not only satisfy the requirements for reporting to the supervisory body, 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 tableau de bord useful, amongst other things, for monitoring and assessing the system of internal controls.

In the second half of 2009, the functions responsible for second level controls were affected by corporate reorganisation as a result of the streamlining and simplification of organisational units of the Parent, designed, amongst other things to strengthen risk management. The reorganisation involved the establishment of a Risk Control Macro Area, which unifies Compliance, Risk Management, Anti-money Laundering and Customer Care Areas under one command and a Strategic Development and Planning Macro Area which includes the Planning and Management Control, Strategic Development, Risk Capital & Policies and Studies Areas, both of which report directly to the Chief Executive Officer. The management control function is located within the Administration and Operational Control Macro Area which reports to the General Manager. The three macro areas mentioned are assigned the following functions with respect to the general regulations of the Bank:

- **the Risk Control Macro Area:** guarantees the implementation of guidelines and policies set for the management of corporate risks, ensuring the development of an independent and

integrated risk control model. It ensures the measurement and control of the exposure of the Group to different types of risk. In this respect it ensures the supervision and implementation of activities required by regulations concerning risk management, compliance, anti-money laundering and customer care. It contributes to the diffusion of a control culture within the Group and oversees the detection and monitoring of potential failure to comply with legislation and regulations. It supports the Management Board and Senior Management in the creation and maintenance of an effective and efficient System of Internal Controls. It supports the Chief Executive Officer, in his organisational, proposal making and reporting role, on internal control matters through co-ordination with risk management units and liaison with the Parent and Group Audit Macro Area, working on the assessment of the adequacy of the System of Internal Controls;

- **the Strategic Development and Planning Macro Area:** supports senior management in the assessment and preparation of the Group Business Plan, strategic planning, extraordinary finance and/or initiatives with significant impact. It supervises Group planning and budget setting cycles and the development and management of the system of strategic departmental reporting. It supports senior management in the assessment of the adequacy of capital with respect to risks and to the requirements identified by the corporate process for the calculation of capital adequacy requirements (Pillar two of Basel two). It monitors macroeconomic developments with particular reference to key variables which have a direct or indirect impact on the operating and capital objectives of the Group. It analyses the competitive positioning of the Group on its markets, identifying the main strengths and weaknesses with respect to industry benchmarks;
- **the Administration and Operational Control Macro Area:** guarantees adequate levels of control and directs activities for compliance with Law No. 262/2005 according to which the role of the Senior Officer Responsible of the preparation of accounting documents is required. It prepares compulsory periodic separate Parent and consolidated financial reports in compliance with the legislation and regulations in force. It formulates and diffuses guidelines, principles, methodologies and regulatory interpretations on accounting and financial reporting matters within the Group. It ensures supervision of accounting, tax, financial reporting and regulatory activities on a separate company (Bank and operating companies) and consolidated basis, sending financial reports to Senior Management at regular intervals. It ensures the development and management of the management control system, following its development and overseeing the use of uniform methods within the Group, ensuring that senior management receives proper management reports from Group banks and companies with regard to the competent functions of the Parent (also to support financial reporting) and to the departments of the network banks.

The purpose of the Internal Audit Function (third level) is to make an independent assessment of the organisation and functioning of the system of internal controls or parts of it to support senior management in its responsibilities. The mission of the Parent and Group Audit Area, to which the Internal Audit Function belongs, can be summarised very briefly as to systematically monitor the adequacy of risk controls at group level, to assess the functioning of the Group internal control system and to help to improve it (in terms of effectiveness and efficiency).

The Internal Audit Function reports to the Supervisory Board.

In consideration:

- of information received from the Audit Macro Area, senior management, General Management and the independent auditors,
- of meetings with senior management, organisational units responsible for third level controls (Audit Macro Area) and second level controls (risk managers),
- of activities organised and programmed by senior management to resolve situations of concern as they arise in the course of inspections;

and with account taken of both the recent reorganisation action taken at the Parent and of the lines of development identified as part of the constant refinement of specific aspects of the system of internal control of the Bank and the Group, the competent bodies of the Bank expressed their opinion that the organisation and functioning of the system of internal controls of UBI Banca as the Parent was basically adequate at the end of the financial year 2009, while they are carefully supervising action taken for improvements in specific areas.

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 of this report.

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

In accordance with Art. 43-*bis* of the Corporate By-laws, 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.

As part of his duties, he initiated the approval by the competent bodies of the "Principles for the organisation of the internal control system of the UBI Group", as described in the initial part of this section.

### **15.2. The Internal Control Officer**

The head of the Internal Audit Function also fulfils the role of Internal Control Officer, responsible for verifying that the internal control system is adequate, fully operative and functioning at all times. He also reports on his work to the Supervisory Board, at times through the Internal Control Committee, and to the Management Board. More specifically, he reports on the procedures by which risk management is performed and on compliance with plans formulated to limit risk and expresses an opinion on the appropriateness of the internal control system to ensure compliance with risk policies set by senior management.

The current Internal Control Officer is Angelo Arrigo appointed by the Management Board with the favourable opinion of the Supervisory Board.

The relative remuneration is consistent with the remuneration policies set in compliance with supervisory regulations, and in particular, with regard to the variable part, which involves the assignment of non profit-related quality objectives for determined roles, including the internal control officer.

The Internal Control Officer is also the chief of the Parent and Group Audit Macro Area and does not report to the chief of any operating area, but only to the Supervisory Board.

The Internal Control Officer has direct access to all the information needed to perform his functions and was allocated a budget in 2009 of 500.000 euro.

The Internal Audit Function makes exclusive use of internal resources and conducts auditing activities on UBI Banca and on subsidiaries which have delegated internal auditing to it and more generally to all the companies in the Group as the Parent.

In 2009, in compliance with the policies set and with 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 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 particularly, in relation to their importance, 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.

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

UBI Banca has adopted its own “model of organisation, management and control” (hereinafter the “Model”), which complies with Legislative Decree No. 231/2001 and the relative legislation and regulations that apply and is based on principals that are already rooted in its governance culture and on the recommendations contained in the Italian Banking Association Guidelines.

The Model is presented in the "*Document describing the organisational, management and control model of UBI Banca S.C.p.A.*" 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;
- crimes of terrorism and subversion of democratic law;
- crimes against the person of individuals;
- the crime of market manipulation and those covered by “market abuse” regulations;
- transnational crimes;
- crimes relating to health and safety at the workplace;
- crimes consisting of the receipt, laundering and use of money, goods or benefits of illicit origin;
- computer crimes and illicit processing of data;
- crimes relating to organised crime;
- crimes against industry and commerce;
- crimes concerning the violation of copyright.

In compliance with Art. 6, paragraph 1, letter b) of Legislative Decree No. 231/2001 and in view of the recommendations of the most representative business associations representing banks and of the Italian Banking Association above all, UBI Banca has formed its Supervisory Body as a collegial body composed of the following:

- two members of the Management Board;
- the Chief of the Legal Affairs and Litigation Area;
- the Chief of the Compliance Area;
- an external professional, with the necessary specific expertise.

The Supervisory Body reports to the corporate bodies on the implementation of the model, any critical aspects there may be and the need to make modifications 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 Bank, informs subsidiaries of the policies it has set in relation to the prevention of crimes pursuant to Legislative Decree No. 231/2001 and recommends general criteria which subsidiaries may follow. In this context, UBI Banca:

- with regard to the “Model”, implemented a Group project in 2009 designed to update the models of each of the main Italian companies in the Group on the basis of updates to regulations that had occurred since 2007 and corporate and organisational changes resulting from the merger between the two former Groups, BPU and BL;
- with regard to the organisation of the supervisory bodies, it has recommended different solutions for the composition of these for subsidiaries, which for the more complex companies, including banks, consists of a collegial body with three members, a member of the board of directors, a professional expert in the field and a compliance contact, while a body with a sole member is recommended for the less complex companies.

An extract of the UBI Banca Model entitled “Summary of the document describing the organisational, management and control model of UBI Banca S.C.p.a.” is available on the website of the Bank at the address:

[http://www.ubibanca.it/contenuti/RigAlle/UBI\\_Sintesi\\_MOGC231\\_091217.pdf](http://www.ubibanca.it/contenuti/RigAlle/UBI_Sintesi_MOGC231_091217.pdf)

#### **15.4 Independent auditors**

The appointment of the independent auditor for the separate company and consolidated financial statements for BPU was performed on 10<sup>th</sup> May 2003, for a period of three financial years (from 2003 until 2005 inclusive) with the engagement of KPMG Spa, with registered head office at 25, Via Vittor Pisanim Milan 20124. Subsequently a shareholders’ meeting of 22<sup>nd</sup> April 2006 extended the appointment of KPMG Spa for a further period of three years (from 2006 until 2008 inclusive).

On 5<sup>th</sup> May 2007 an ordinary shareholders’ meeting of UBI Banca passed a resolution, in accordance with article 8, paragraph 7 of Legislative Decree No. 303/2006, to extend the appointment of the auditors KPMG Spa for auditing the annual accounts and limited audits of the interim reports for the separate company and the consolidated accounts for the period 2007-2011.

KPMG Spa is enrolled with the Milan Company Registrar under No. 00709600159, Milan ‘R.E.A. No’ (Administrative and Economic Reg. No.) 512867 and is a member of ASSIREVI (Italian association of auditors).

#### **15.5 Senior officer responsible for the preparation of corporate accounting documents**

The Management Board appointed, with the favourable opinion of the Supervisory Board, Elisabetta Stegher – the current Chief of the Administration and Tax Area of the Bank – as the Senior Officer Responsible for the preparation of corporate accounting documents pursuant to Article 154-*bis* of the Consolidated Finance Act.

The following responsibilities have been 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 reports – the adequacy and effective application in the relative period of the procedures just mentioned and that the disclosures correspond to the records contained in the corporate accounting documents and records and provide a true and fair view of the capital, operating and financial position of UBI Banca and the Group.

The Senior Officer Responsible is also required to make special reports to the Chief Executive

Officer, the Management Board, the Supervisory Board and the Internal Control Committee. The reports must allow these bodies and officers to assess the adequacy and effective application of the administrative and accounting procedures of the Group and to verify that the powers and means conferred on this officer are appropriate.

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

- be able to gain direct access to all the information needed to produce accounting data. The officer may access all sources of corporate information without the need for authorisation;
- be able to rely on internal channels of communication which ensure accurate and proper access to intercompany information;
- be able to form her own office and organisational structure independently, both with regard to personnel and technical means (tangible resources, hardware, software, etc.);
- design administrative and accounting procedures of the Bank autonomously, being able also to benefit from the co-operation of all the offices involved in the supply of significant information;
- have powers to make proposals, evaluate and veto on all “sensitive” procedures within the Bank;
- be able to participate in board meetings in which matters concerning the functions of the officer are discussed;
- be able to make use of external consultants, where particular requirements of the Bank make this necessary;
- to be able to establish reporting systems with other roles responsible for the control of financial reporting, which ensure constant mapping of risk and processes and adequate monitoring of the proper functioning of procedures (independent auditors, General Manager, Internal Control Officer, risk managers, compliance officers, etc.).

With regard to the centralisation at the Parent of the management of administrative and accounting procedures pursuant to the provisions introduced by Law No. 262/2005, a System of Administrative and Financial Governance has been created for 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.

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

The certifications by subsidiaries are brought to the attention of the boards of directors when they approve financial statements and they are then sent to the Parent before the Management Board meeting that approves the draft separate Parent and consolidated financial statements.

The hierarchical system of certification is completed with a specific certification issued for Group companies by an external independent consultant.

As listed issuers with Italy as their member state of origin, Banca Popolare di Bergamo Spa and Centrobanca Spa have also appointed a senior officer responsible for preparing company accounting documents under Art. 154 *bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998.

## **16. Interests of board members and related party transactions**

Transactions with representatives of the bank, with representatives of Group member companies and with companies controlled by them – all of whom may qualify as related parties – are conducted under normal market conditions and 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 representatives of companies, make it possible to identify in advance the potential assumption of a direct or indirect obligation of a representative and consequently subject the transaction to the procedures required by the aforementioned Art. 136 of the Consolidated Banking Act.

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

More specifically, with the exception of the responsibilities of the Supervisory Board concerning transactions of strategic significance on the basis of the Corporate By-laws in force, the Management Board is obliged to specifically approve those transactions with related parties that are atypical, unusual or capable of having a significant effect on the assets of the Bank.

The Bank has put special procedures in place for monitoring, reporting and taking decisions on related party transactions.

In addition to transactions already reserved by law or by the corporate by-laws exclusively to the authority of the Management Board, transactions to be performed with “related parties” must also be subject to prior authorisation by the board itself, including intragroup transactions of significant operating, capital and financial importance, such as for example:

- the purchase and sale of properties
- the purchase and sale of equity investments (even if they do not give rise to changes in the banking Group), companies or lines of business;
- partnerships or joint venture agreements;
- transactions, of a financial or commercial nature, with an economic value of greater than ten million euro, provided that they are not normal transactions, i.e. part of the normal business of the Bank concluded under normal market terms and contractual conditions practised with customers;
- multi-year general agreements for the provision of intragroup services;
- the grant to Companies in the banking Group of:
- credit lines that are not destined to support the investee's standard activity;
- subordinated loans and other subordinated assets, that are eligible for inclusion in the subsidiary's supervisory capital, if the amount exceeds 25% of the tier one capital of each company;
- loans and guarantees, directly or indirectly connected with acquisitions of control in other companies or interventions on share capital (payments for future increases in share capital, replenishment of losses, etc.), unless the credit granted is instrumental to transactions already authorised by the competent bodies of UBI Banca;
- the grant to related parties that are not members of the banking Group of credit lines for an amount exceeding 2,5% of the supervisory capital;
- transactions with related parties that are classified as "impaired", "non-performing", "being restructured" or "restructured".

Transactions with "related parties" other than those just mentioned performed by authorised bodies or organisational units and not forming part of normal business performed under standard conditions, must be subject to periodic reports to the Management Board, when they involve a significant amount.

Generally, in a similar manner to the provisions laid down for the Management Board by Art. 2391 of the Italian Civil Code, the Corporate By-laws 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.

With regard to related parties, with resolution No. 17221 of 12<sup>th</sup> March 2010, the Consob adopted a set of regulations concerning related party transactions and examination of the new provisions is currently in progress in order to implement them within the time limits set.

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

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

In order to avoid the risk of improper disclosure of reserved information, the Management Board has approved the guidelines for 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.

## **18. Relations with shareholders**

UBI Banca plays particular attention to the continuous management of relations with shareholders, institutional investors and members of 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.

An investor relations staff and a registered shareholders service are provided for this purpose. Information of significant importance to shareholders is also provided in special sections of the corporate website of the Bank ([www.ubibanca.it](http://www.ubibanca.it)).

The registered shareholders' service is responsible for all relations with the Bank's registered shareholders and it processes applications for admission as registered shareholders, maintains the shareholders' register up-to-date and proposes and co-ordinates the various initiatives offered for them.

The Bank has created the Value Project for registered shareholders, a set of banking concessions and free of charge insurance policies. The banking concessions are reserved to those registered shareholders who hold a current account and have shares in the Bank deposited with banks in the Group, while the insurance policies are for registered shareholders in general.

The Investor Relations Staff is responsible for relations with the financial community (institutional investors and financial analysts), which may also require bringing specific functions in the Bank and the Group into play, in accordance with policies set by the senior management of the Bank.

The investor relations officer guarantees clear, prompt and full reporting, using methods which include press releases, presentations and the use of the Bank's website. A total of 36 price sensitive press releases were published in 2009 in accordance with current regulations and legislation.

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

Shareholders' Meetings are either ordinary or extraordinary.

**An ordinary shareholders' meeting:**

- a) appoints and removes members of the Supervisory Board and sets the remuneration (also establishing amounts for attendance tokens) 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 44 of the Corporate By-laws. It elects the Chairman and the Senior Deputy Chairman of the Supervisory Board according to the procedures set out in article 45 of the Corporate By-laws. Appropriate grounds must be given for the removal of Members of the Supervisory Board;
- b) approves remuneration policies for members of the Management Board and remuneration and/or incentive schemes based on financial instruments;
- c) decides on the liability of the Members of the Supervisory Board and, pursuant to Art. 2393 and Art. 2409-*decies* of the Italian Civil Code, on the liability of the members of the Management Board, without prejudice to the concurrent liability of the Supervisory Board;
- d) decides on the distribution of profits, subject to the presentation of the financial statements and of the consolidated financial statements approved pursuant to Art. 2409-*terdecies* of the Italian Civil Code;
- e) appoints and removes the independent auditors of 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) decides on the other matters that fall within its competence either by law or by the Corporate By-laws.

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

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

Without prejudice to any other mandatory provision of the law, the vote in favour of at least one twentieth of all the registered shareholders with voting rights, who also represent at least 20% of the share capital subscribed and paid up on the ninetieth day prior to that of the Shareholder's Meeting is required, even in a second call of a shareholders' meeting, for the approval of resolutions concerning the repeal or amendment of article 45, paragraph six, article 48, paragraph six and article 49, paragraphs six, seven and eight of the Corporate By-laws and also of this clause itself and the quorum for passing resolutions contained in it.

For resolutions to be passed upon request of the Banking Supervisory Authority in relation to amendments to legal regulations, both ordinary and extraordinary shareholders' meetings, pass resolutions by an absolute majority vote. In these cases, the provisions of article 48, paragraph five of the Corporate By-laws apply for resolutions for which the Supervisory Board is responsible."

Shareholders' meetings are held in all the cases provided for by law and by the Corporate By-laws and they are convened by the Management Board, or, pursuant to Art. 151-*bis* of Legislative Decree No. 58 of 24<sup>th</sup> February 1998, by the Supervisory Board or by at least two of its members, without prejudice to the other powers to convene provided by law.

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

Ordinary and Extraordinary Shareholders Meetings may be convened by Registered Shareholders and are held without delay following the presentation of the request, giving the

grounds and the agenda, which must be signed by at least one tenth of the Registered Shareholders in possession of voting rights on the date of the request.

In compliance with the procedures and the time limits set by law, a number of Registered Shareholders equal to not less than one fortieth of those entitled on the date of request, may make an application in writing for additions to be made to the agenda to be dealt with in the meeting, as it results from the notice convening the Shareholders' Meeting. The signatures of the Registered Shareholders must be authenticated in accordance with the law either by employees of the Bank or of its subsidiaries authorised to do so. The legitimacy of the right is given by the validity of the documentation testifying to the possession of the shares on the date of the presentation of the application.

Those persons in possession of the right to vote for which the communication has been made to the Bank by the intermediary appointed in accordance with Art. 2370 of the Italian Civil Code and with any special provisions of the law or regulations, at least two working days prior to the date set for the first session, may participate in shareholders' meetings in accordance with the provisions of the law. Registered shareholders may not withdraw shares or the relative certification before the meeting has taken place. Only persons who have been registered shareholders for at least 90 days from the date of entry in the shareholders' register may attend the meetings, exercise voting rights and be eligible for appointment to corporate bodies.

A registered shareholder is entitled to only one vote no matter how many shares are possessed. A registered shareholder is entitled to be represented by issuing a written proxy to another registered shareholder having the right to participate in the shareholders' meeting. Proxies may not be granted to members of governing or controlling bodies or to employees of the Bank, to companies controlled by it or to members of governing or controlling bodies or to employees of the latter.

Without prejudice to the provisions of paragraph 2, of Art. 2372 of the Italian Civil Code, proxy authorisations can be issued for individual shareholders' meetings only, with effect also for subsequent sessions, and may not be issued with the name of the representative left blank. No registered shareholder may act as proxy for more than three other registered shareholders. Voting by post is not permitted.

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

As concerns proceedings in shareholders' meetings, the Bank has adopted regulations for shareholders' meetings based on standard regulations recommended by the Italian Banking Association and Assomine (association of joint stock companies) designed to govern the ordered and efficient functioning of meetings and to ensure that each registered shareholder has the right to speak on the items on the agenda.

These regulations have also been published on the Bank's website in the corporate governance section and in the shareholders' section.

Changes in capitalisation in 2009 occurred basically in line with market fluctuations.

The UBI Banca share ended the trading day on 2<sup>nd</sup> January 2009 with a price of 10,52 euro and ended the year on 30<sup>th</sup> December 2009 with a price of 10,04 euro.

The share also reached a high on 8<sup>th</sup> January 2009 with a price of 11,69 euro and a low on 9<sup>th</sup> March 2009 with a price of 6,15 euro.

## Attachment A

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

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

NAME	POSITION HELD IN THE ISSUER	POSITIONS HELD IN OTHER LISTED COMPANIES OR IN BANKING, FINANCIAL, INSURANCE OR LARGE COMPANIES
<b>Zanetti Emilio</b>	Chairman	<p><u>Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- Banca Popolare di Bergamo Spa</li> <li>- Società Editrice S.S. Alessandro Ambrogio Bassiano Spa</li> </ul> <p><u>Deputy Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- Società per l'Aeroporto Civile di Bergamo - Orio al Serio Spa</li> <li>- La Provincia di Como Spa Editoriale</li> </ul> <p><u>Board Member:</u></p> <ul style="list-style-type: none"> <li>- <b>Italcementi Fabbriche Riunite Cemento Spa (*)</b></li> </ul>
<b>Pizzini Flavio</b>	Deputy Chairman	<p><u>Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- UBI Banca International Sa (**)</li> </ul> <p><u>Deputy Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- UBI Sistemi e Servizi Scpa (**)</li> </ul> <p><u>Board Member:</u></p> <ul style="list-style-type: none"> <li>- Banco di Brescia Spa (**)</li> </ul> <p><u>Chairman of the Board of Statutory Auditors:</u></p> <ul style="list-style-type: none"> <li>- <b>Mittel Spa (*)</b></li> <li>- Mittel Generale Investimenti Spa</li> </ul>
<b>Massiah Victor</b>	Chief Executive Officer	<p><u>Board Member:</u></p> <ul style="list-style-type: none"> <li>- Banca Popolare di Bergamo Spa (**)</li> <li>- Banco di Brescia Spa (**)</li> <li>- Centrobanca Spa (**)</li> <li>- Istituto Centrale delle Banche Popolari Italiane Spa</li> <li>- Lombarda Vita Spa</li> </ul>
<b>Auletta Armenise Giampiero</b>	Board Member	<p><u>Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- Mistralfin Spa</li> <li>- Rothschild Spa Italia</li> </ul> <p><u>Senior Deputy Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- Banca Carime Spa (**)</li> </ul> <p><u>Board Member:</u></p> <ul style="list-style-type: none"> <li>- Banca Popolare di Bergamo Spa (**)</li> <li>- Banca Popolare Commercio e Industria Spa (**)</li> <li>- Banca Popolare di Ancona Spa (**)</li> <li>- Banca Regionale Europea Spa (**)</li> <li>- Humanitas Spa</li> </ul>
<b>Bertolotto Piero</b>	Board Member	<p><u>Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- Banca Regionale Europea Spa (**)</li> </ul> <p><u>Board Member:</u></p> <ul style="list-style-type: none"> <li>- UBI Banca International Sa (**)</li> <li>- B@nca 24-7 Spa (**)</li> </ul>
<b>Boselli Mario</b>	Board Member	<p><u>Chairman of the Board of Directors:</u></p> <ul style="list-style-type: none"> <li>- Centrobanca Spa (**)</li> <li>- Setefi Spa</li> </ul> <p><u>Board Member:</u></p> <ul style="list-style-type: none"> <li>- <b>Ratti Spa (*)</b></li> </ul>

<b>Camadini Giuseppe</b>	Board Member	<u>Chairman of the Board of Directors:</u> - Istituto Atesino di Sviluppo Spa <u>Deputy Chairman of the Board of Directors:</u> - Banca Regionale Europea Spa (**) - La Scuola Spa <u>Board Member:</u> - <b>Società Cattolica di Assicurazioni Spa (*)</b> - Banco di Brescia Spa (**) - Banca di Valle Camonica Spa (**) - San Giuseppe Spa
<b>Cera Mario</b>	Board Member	<u>Chairman of the Board of Directors:</u> - <b>IW Bank Spa (*) (**)</b> <u>Deputy Chairman:</u> - Banca Popolare Commercio Industria Spa (**) <u>Senior Deputy Chairman:</u> - Banca Regionale Europea Spa (**) <u>Chairman of the Board of Statutory Auditors:</u> - <b>Italmobiliare SpA (*)</b>
<b>Frigeri Giorgio</b>	Board Member	<u>Chairman of the Board of Directors:</u> - UBI Pramerica SGR Spa (**) - Società Pubblicità & Media Srl - Centrobanca Sviluppo e Impresa SGR Spa (**) - Finanzattiva Servizi Srl (**) - UBI Pramerica Alternative Investment SGR Spa (**) - The Sailor Fund - Sicav <u>Deputy Chairman of the Board of Directors:</u> - Centrobanca Spa (**) <u>Board Member:</u> - Banca 24-7 Spa (**) - <b>IW Bank Spa (*) (**)</b> - UBI Sistemi e Servizi Spca (**) - Capitalgest Alternative Investments SGR Spa (**) - Società Editrice S.S. Alessandro Ambrogio Bassiano Spa - Banca Emilveneta Spa
<b>Gusmini Alfredo</b>	Board Member	<u>Chairman of the Board of Directors:</u> - I.C.T. Immobiliare SpA - Immobiliare Mirasole Spa
<b>Polotti Franco</b>	Board Member	<u>Chairman of the Board of Directors:</u> - Trafilati Martin Spa <u>Deputy Chairman of the Board of Directors and Executive Director:</u> - Mar.Bea Srl <u>Executive Director:</u> - O.R.I Martin Acciariera e Ferriera di Brescia Spa <u>Board Member:</u> - Banco di Brescia Spa (**) 

## Summary tables

**TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE**

STRUCTURE OF THE SHARE CAPITAL				
	NO. OF SHARES	PERCENTAGE OF SHARE CAPITAL	LISTED (indicate markets )/UNLISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	639.145.902	100 %	Milan – Mercato Telematico Azionario (screen based stock market)	
SHARES WITH LIMITED VOTING RIGHTS				
SHARES WITH NO VOTING RIGHTS				

OTHER FINANCIAL INSTRUMENTS (conferring the right to subscribe new share issues)				
	LISTED (indicate markets )/UNLISTED	NO. OF INSTRUMENTS OUTSTANDING	TYPE OF SHARES AT THE SERVICE OF THE CONVERSION/ EXERCISE	NO. OF SHARES AT THE SERVICE OF THE CONVERSION/ EXERCISE
CONVERTIBLE BONDS	Milan – Mercato Telematico Azionario (screen based stock market)	50.129.088	ORDINARY	MAXIMUM 255.658.348
WARRANTS	Milan – Mercato Telematico Azionario (screen based stock market)	639.145.900	ORDINARY	MAXIMUM 31.957.295

SIGNIFICANT INVESTMENTS IN THE SHARE CAPITAL				
DECLARER	DIRECT SHAREHOLDER	PERCENTAGE OF ORDINARY SHARE CAPITAL	PERCENTAGE OF VOTING SHARE CAPITAL	
BLACKROCK INCORPORATED (direct shareholder: Blackrock Investment Management UK limited)	NO	3,094 %	3,094 %	
FONDAZIONE CASSA DI RISPARMIO DI CUNEO	YES	2,278 %	2,278 %	
FONDAZIONE BANCA DEL MONTE DI LOMBARDIA	YES	2,255 %	2,255 %	
C.TASSARA SPA	YES	2,004 %	2,004 %	

**TABLE 2: SUPERVISORY BOARD**

Supervisory Board									Appointments Committee •		Remuneration Committee ♦		Internal Control Committee ◇		Accounts Committee \$	
Position	Members	In office since	In office until	List (M/m) §	Independent	Supervisory Board ****	Management Board ****	No. of positions **	***	****	***	****	***	****	***	****
<b>Chairman</b>	FAISSOLA CORRADO	10/5/2008	A.G.M. 2010	(§§)	X	100		3	X	100						
<b>Senior Deputy Chairman</b>	CALVI GIUSEPPE	1/4/2007	A.G.M. 2010	M	X	91		3	X	100	X	100				
<b>Deputy Chairman</b>	FOLONARI ALBERTO (appointed DC on 10/5/07)	5/5/2007	A.G.M. 2010	(§§)	X	91		6	X	100	X	100				
<b>Deputy Chairman</b>	MAZZOLENI MARIO	1/4/2007	A.G.M. 2010	M	X	100		4	X	100						
<b>Board Member</b>	ALBERTANI BATTISTA	10/5/2008	A.G.M. 2010	(§§)	X	87		11								
<b>Board Member</b>	BAZOLI GIOVANNI	5/5/2007	A.G.M. 2010	(§§)	X	65		4	X	100						
<b>Board Member</b>	BELLINI LUIGI *	1/4/2007	A.G.M. 2010	M	X	96	17 (*)	6					X	100		
<b>Board Member</b>	CATTANEO MARIO *	1/4/2007	A.G.M. 2010	M	X	87	20 (*)	10					X	96	X	100
<b>Board Member</b>	FERRO-LUZZI PAOLO	1/4/2007	A.G.M. 2010	M	X	74		4								
<b>Board Member</b>	FIDANZA VIRGINIO	1/4/2007	A.G.M. 2010	M	X	70		2								
<b>Board Member</b>	FONTANA ENIO	1/4/2007	A.G.M. 2010	M	X	48		16								
<b>Board Member</b>	GARAVAGLIA CARLO *	1/4/2007	A.G.M. 2010	M	X	91	20 (*)	8	X	100			X	89	X	94
<b>Board Member</b>	GUSSALLI BERETTA PIETRO	1/4/2007	A.G.M. 2010	M	X	65		6								

**continued TABLE 2: SUPERVISORY BOARD**

Supervisory Board										Appointments Committee •		Remuneration Committee ♦		Internal Control Committee ◇		Accounts Committee \$	
Position	Members	In office since	In office until	List (M/m) §	Independent	Supervisory Board ****	Management Board ****		No. positions **	***	****	***	****	***	****	***	****
Board Member	LUCCHINI GIUSEPPE	1/4/2007	A.G.M. 2010	M	X	74			5			X	50				
Board Member	LUCCHINI ITALO *	1/4/2007	A.G.M. 2010	M	X	83	27 (°)		14					X	93		
Board Member	MANZONI FEDERICO *	1/4/2007	A.G.M. 2010	M	X	100			21	Sec.	100	Sec.	100			X	81
Board Member	MOLTRASIO ANDREA	1/4/2007	A.G.M. 2010	M	X	78			5								
Board Member	MUSUMECI TOTI S.	1/4/2007	A.G.M. 2010	M	X	96			4			X	100				
Board Member	ORLANDI SERGIO	1/4/2007	A.G.M. 2010	M	X	100			4							X	94
Board Member	PEDERSOLI ALESSANDRO	1/4/2007	A.G.M. 2010	M	X	65			3			X	100				
Board Member	PEROLARI GIORGIO	1/4/2007	A.G.M. 2010	M	X	87			3								
Board Member	PIVATO SERGIO *	1/4/2007	A.G.M. 2010	M	X	91	13 (°)		5					X	96		
Board Member	SESTINI ROBERTO	1/4/2007	A.G.M. 2010	M	X	83			24								
<b>Quorum required for the presentation of lists by registered shareholders for the last appointments at the Shareholders' Meeting of BPU of 3/3/2007 called upon to appoint the first Supervisory Board:</b> 500 registered shareholders who have the right to participate and to vote who represent at least 0,50% of the share capital. <b>Quorum currently required for the presentation of lists by registered shareholders:</b> 500 registered shareholders who have the right to vote or a number of registered shareholders who represent at least 0,50% of the share capital.																	
<b>Number of meetings held during 2009</b>		Supervisory Board: 23					Appointments Committee: 2			Remuneration Committee: 4			Internal Control Committee: 27			Accounts Committee: 16	

## continued TABLE 2: SUPERVISORY BOARD

### NOTES

(°) as a member of the internal control committee.

(§) M/m, where “M” indicates a member elected from the majority list and “m” from a minority list.

(§§) the appointment was performed in compliance with the Corporate By-laws with no list voting, but by a majority vote.

\* Enrolled in the Register of Accounting Auditors

\*\* Number of appointments as management or supervisory/auditor board member held by the person pursuant to article 148-*bis* of the Consolidated Finance Act (inclusive of the position at UBI Banca scpa). The full list of offices is attached, pursuant to article 144-*quinquiesdecies* of the Consob Issuers’ Regulations, to the report on supervisory activities prepared by the Supervisory Board in accordance with article 153, paragraph 1 of the Consolidated Finance Act.

\*\*\* An “X” in this column indicates that the member of the Supervisory Board is a member of the committee.

\*\*\*\* This column contains the percentage attendance of board members at the meetings.

**TABLE 3 MANAGEMENT BOARD**

Position	Members	in office since	In office until	Independent (in accordance with Art. 147 <i>quater</i> of the Consolidated Finance Act) (**)	Executive	Percentage of attendance at meetings of the Management Board	Number of other positions (***)
<b>Chairman</b>	ZANETTI EMILIO	2/4/2007	(*)		X	100	5
<b>Deputy Chairman</b>	PIZZINI FLAVIO (appointed Deputy Chairman on 10/05/2008)	2/4/2007	(*)		X	97	5
<b>Chief Executive Officer</b>	MASSIAH VICTOR (appointed Chief Executive Officer on 27/11/2008 with effect from 1/12/2008)	27/11/2008	(*)		X	100	5
<b>Board Member</b>	AULETTA ARMENISE GIAMPIERO	2/4/2007	(*)		X	100	8
<b>Board Member</b>	BERTOLOTTO PIERO	2/4/2007	(*)		X	97	3
<b>Board Member</b>	BOSELLI MARIO	2/4/2007	(*)		X	100	3
<b>Board Member</b>	CAMADINI GIUSEPPE	2/4/2007	(*)		X	97	7
<b>Board Member</b>	CERA MARIO	2/4/2007	(*)		X	100	4
<b>Board Member</b>	FRIGERI GIORGIO	2/4/2007	(*)		X	97	13
<b>Board Member</b>	GUSMINI ALFREDO	2/4/2007	(*)	X		100	2
<b>Board Member</b>	POLOTTI FRANCO	10/05/2008	(*)		X	93	4

Number of meetings held during 2009: 30 meetings

\* The members of the Management Board remain in office for three financial years (2007/2009). Their term of office expires on the date of the Supervisory Board meeting convened to approve the financial statements for 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 Corporate By-laws 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 risk and internal control management system in relation to the financial reporting process.

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

In this respect of Law No. 262 of 28<sup>th</sup> December 2005 (and subsequent amendments) “Measures for the protection of savings and to regulate financial markets”, inserted Art. 154 *bis* into the Consolidated Finance Act, which introduced the figure of the Senior Officer Responsible for preparing corporate accounting documents (hereinafter the “Senior Officer Responsible”) into the corporate organisation of listed companies in Italy.

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

The model developed was approved by the Management Board and the Supervisory Board on 15<sup>th</sup> January 2008 and 6<sup>th</sup> February 2008 respectively and then officially implemented in a specific set of regulations, issued with Group Communication No. 166 of 8<sup>th</sup> August 2008.

That model is based on the main reference frameworks recognised nationally and internationally for the development of adequate systems of internal controls for financial reporting, the COSO Framework<sup>2</sup> and the COBIT Framework<sup>3</sup>, and it involves different areas of analysis along the following lines:

- the existence of an adequate system of internal controls at company level designed to reduce the risk of errors and improper conduct for the purposes of accounting and financial reporting, by verifying that adequate systems of governance and standards of conduct are in place, that risk management processes are correct and that organisational units and reporting systems are effective. Verification at company level is performed by using a special tool known as “CLC Assessment”, which is based on the qualitative assessment of a series of risk factors considered essential for the soundness and reliability of an administrative and financial governance system;
- the development and maintenance of adequate processes to control the production of accounts and financial reports and subsequent verification over time that they are adequate and actually applied. This includes administrative and accounting procedures that guarantee reasonable certainty of the reliability of financial reporting, whether it relates to financial reporting processes in the strict sense of the term or to business and support processes considered nevertheless significant for the purposes of financial reporting;
- the development of controls on the management of technological infrastructures and software applications which regard financial and administrative processes and subsequent verification over time that they are adequate and actually applied.

More specifically, with regard to the development of adequate processes of control over the production of accounts and financial reports and the development of controls over the

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

<sup>3</sup> COBIT (Control Objectives for IT and related technology Framework) was drawn up by the IT Governance Institute, a United States body which has the objective of defining and improving corporate standards in the IT sector. More specifically, the UBI Group has adopted the Framework IT Control Objectives for Sarbanes Oxley, defined specifically to control financial information.

management of technological infrastructures, the framework adopted involves the following stages of analysis and investigation:

- identification of the scope of application in terms of the companies in the UBI Banca Group and the accounts and processes considered significant. In this respect, under the methodological model, controls over the adequacy of administrative accounting processes for the purposes of Law No. 262/2005 must be performed six monthly on a scope of application that has been appropriately identified as significant;
- documentation of the processes and the relative risks and controls. 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. Monitoring the risks of the violation of financial reporting procedures, intrinsic to the life cycle of financial data, is dependent on observance of “financial assertions” which international standards define as the requirements which each item in the financial statements must meet for compliance with legal obligations. “Financial assertions” therefore perform the function of an operational tool which guides the identification and assessment of the controls to perform, the absence or ineffectiveness of which can prejudice the achievement of veracity and accuracy in the representation of the capital, operating and financial position of the Group;
- risk measurement and the adequacy of the controls. The objective of that activity, termed “risk and control assessment”, is to verify the adequacy of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. It concludes with the definition of corrective action plans for failings found during the adequacy assessment just mentioned;
- 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 failures which require the preparation of appropriate corrective action plans;
- definition and monitoring of corrective action to be undertaken as a result of the verifications performed. The methodology involves the initiation, on the basis of the corrective action plans just mentioned, of a structured course of action which by means of specific monitoring action, leads to effective reinforcement of controls by the involvement and empowerment of the relative process owners and the consequent modification of the related internal system of regulations;
- assessment of the degree of adequacy of the system of internal controls put in place for the production of financial reports. Final assessment is officially performed with a specific certification that is notified to the General Management and the Management Board.

The operational stages just described are conducted, on the basis of specific methodologies taken from international standards, by a specially created and dedicated unit within the Bank with the support of various other corporate roles involved for various reasons in compliance with the specific requirements of Law No. 262/05.

The following are involved:

- the Organisation Area of UBI and of UBI Sistemi e Servizi 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;
- other internal control functions (Parent and Group Audit Macro Area, Compliance Area, Risk Management Area) in order to create organisational synergies and consistency in assessment across the various units concerned.

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

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