



Global Policy

## Internal Audit Group Charter

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<b>Approving Function</b>	Board of Directors	Date <9th June 2016>
<b>Proponent Function</b>	Internal Audit	Release < 3.0>

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## **REGISTRY**

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<b>Competent functions certification</b>	Group Compliance Rules Coordination	
	Organizational Governance and Rules	
<b>Legal Entities involved in the sharing process</b>	UniCredit Bank AG, UniCredit Bank Austria AG, Bank Pekao, Pioneer Global Asset Management S.p.A..	
<b>Recipient Legal Entities</b>	Bank Pekao SA Cordusio Società Fiduciaria per Azioni Cordusio SIM - Advisory & Family Office S.p.A. Dom Inwestycyjny Xelion Sp.z.oo. Fineco Bank S.p.A. I-Faber S.p.A. Pioneer Global Asset Management S.p.A. UniCredit Bank AG UniCredit Bank Austria AG UniCredit Bank Ireland Plc UniCredit Business Integrated Solutions S.C.p.A. UniCredit Factoring S.p.A. UniCredit International Bank (Luxembourg) SA UniCredit Leasing S.p.A. UniCredit Subito Casa S.p.A.	
<b>Applicable to UniCredit S.p.A.</b>	Yes	
<b>Applicable to UniCredit S.p.A. Foreign Branches</b>	Shanghai	

### **Main changes compared to previous version**

Previous Version	Previous Version date	Reason/Summary of main changes	Change type <sup>1</sup>
GRIM/ GRETEL: 2013_083 Internal Regulation: 538/2 Revision 2	17/10/2013	<i>Changes of International Standards, issuance of regulatory guidelines and best practices</i>	<i>Revision of Mission (2.1) and Scope (2.2)</i>
		<i>Perimeter of Consulting services</i>	<i>Revision of Consulting services (2.2.2)</i>
		<i>Changes of International Standards</i>	<i>Revision of Standards of Audit Practices (2.3)</i>
		<i>Issuance of regulatory guidelines</i>	<i>Revision of Outsourcing of Internal Audit Activities (2.7)</i>
		<i>Changes of International Standards</i>	<i>Revision of Quality Assurance (2.8)</i>

### **Linked Group regulation**

Title	GRIM/GRETEL Number (for Global Rules only)/ Internal Regulation Number	Brief link explanation
Internal Audit Group Standards	OdS 127 Grim/Gretel 2012_010	Adherence to International Professional Practice Framework
Internal Audit Group Policy	OdS 128 Grim/Gretel 2013_009	Role of Internal Audit function
Management of critical audit findings	OdS 473 Grim/Gretel 2011_006	Role of Internal Audit function

### **Navigator for recipient Entities/Foreign Branches**

<b>Sections concerning UniCredit S.p.A.</b>	<i>Entire document</i>
<b>Sections concerning recipient Entities<sup>2</sup></b>	<i>Entire document</i>
<b>Sections concerning UniCredit S.p.A. Foreign Branches</b>	<i>Entire document</i>

<sup>1</sup> Revision: recipient Entities' approval not necessary. First release / Replacement: recipient Entities' approval necessary

<sup>2</sup> Only the paragraphs/sections listed here must be submitted for approval, adopted and implemented by the recipient Entities or subject to calibration requests

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## 1 INTRODUCTION

### 1.1 Purpose and content summary

The Internal Audit Group Charter has the aim to define principles and rules for definition of Internal Audit's mission, scope, independence, responsibility and authority within UniCredit Group.

This document replaces the previous version of the Group Audit Charter (October 2013) once approved at local level.

### 1.2 Reference external regulation framework

- International Professional Practices Framework (*The Institute of Internal Auditors*, July 2015);
- Implementation Guidance (*The Institute of Internal Auditors*, July 2015)
- Code of Ethics (*The Institute of Internal Auditors*);
- Outsourcing in Financial Services (*Bank for International Settlements*, February 2005);
- Internal Audit function in banks (*Bank for International Settlements*, June 2012);
- Corporate governance principles for banks (*Bank for International Settlements*, July 2015).

### 1.3 Glossary and Acronyms

Key word	Definition
Holding Company	UniCredit S.p.A. (hereafter also "UniCredit")
Group Legal Entity	Legal Entity directly or indirectly controlled by UniCredit S.p.A. (hereafter also "Legal Entity", "Entity", "Company" or "Subsidiary")
Group	UniCredit Group, composed of UniCredit S.p.A. and of the Group Legal Entities (hereafter also "Unicredit Group")
Acronym	Definition
N/A	N/A

## **2 INTERNAL AUDIT GROUP CHARTER**

### **2.1 MISSION**

Internal Audit is an independent function established by the Board<sup>3</sup> of the Company and it is an integral part of the Internal Control System, performing third level controls<sup>4</sup>. It carries out an independent, objective assurance and consulting activity in order to evaluate, add value and improve the Internal Control System of the Company.

It helps the Company achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the adequacy of the Company's operations through the evaluation and improvement of the effectiveness of risk management, controls and governance processes.

Internal Audit enhances and protects the Company's value by providing risk-based, objective and insightful<sup>5</sup> assurance and consulting to the Board, Audit Committee and Senior Management.

### **2.2 SCOPE**

#### **2.2.1 Assurance**

The assurance activity, via a systematic and disciplined approach, is an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management<sup>6</sup> and control processes of the Company. Assurance aims at assessing the adequacy of the Internal Control System of the Company, also through the evaluation of the completeness and correctness of the design and the functioning of key controls.

Nature and scope of assurance services are determined based on Internal Audit risk assessment that drives the audit planning as well as audit fieldwork.

The scope of work of the Internal Audit is to determine whether the Company's risk management, control and governance processes, as designed and implemented by Management, are adequate and functioning properly, in particular, among others, with reference to the following matters:

- identification, assessment, management and control of risks;
- adequacy and functioning of the risk appetite framework;
- design and operating effectiveness of the internal governance structures and processes of the Company;
- accuracy, reliability and timely availability of significant financial, managerial and regulatory information;
- adequacy and effectiveness of the Risk Management and Compliance functions;
- employees' actions in compliance with policies, standards, procedures and applicable laws and regulations;
- behaviors in line with Company's integrity policies and values contributing to prevent conduct and/or reputational risks;

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<sup>3</sup> Board shall be intended as the Board of Directors in Traditional Model and I Tier Model or the Supervisory Board/Management Board in II Tier Model, according to the local regulation.

<sup>4</sup> The Internal Control System is organized on three levels: line controls (first-level controls); risk management and compliance controls (second level controls) and internal audit controls (third level controls).

<sup>5</sup> Entailing knowledge of the Company aimed at fostering added value.

<sup>6</sup> Risk management is intended as the process of identifying, assessing, managing and controlling potential events or situations to provide reasonable assurance regarding the achievement of the Company's objectives.

- achievement of intended results related to the implementation of policies and to the roll out of Company 's processes in alignment with the objectives and risk appetite framework of the Company;
- economic acquisition of resources and related efficient employment and adequate protection;
- quality and continuous improvement in the Company's control processes;
- recognition and proper management of significant legislative or regulatory issues impacting the Company.

### 2.2.2 Consulting services

In accordance with the mission, consulting services of Internal Audit add value to the Company by providing advice on the design, operation and improvement of the Internal Control System. Consulting services are performed in an independent and objective way, without assuming managerial responsibility.

Consulting services can be provided by Internal Audit in two ways:

- Consulting activities (e.g. participation in major projects, provision of advice on new processes, policies, procedures and new products);
- Consulting engagements.

When defining a consulting engagement Internal Audit and the counterpart should share the objectives, scope and respective responsibilities. Consulting engagements are formalized and documented and when accepted must be also included in the audit plan and the agreed recommendations tracked and monitored.

## 2.3 STANDARDS OF AUDIT PRACTICE

Internal Audit adheres to the following elements of the International Professional Practices Framework<sup>7</sup>, issued by The Institute of Internal Auditors:

- Definition of Internal Audit;
- Core Principles for the Professional Practice of Internal Auditing;
- Code of Ethics;
- International Standards.

## 2.4 INDEPENDENCE

The Internal Audit activity is independent and Internal Auditors are objective in performing their work.

The Head of Internal Audit of the Company must report to an adequate level within the Company that allows the Internal Audit Function to fulfill its responsibilities. To achieve the degree of independence necessary to carry out effectively the responsibilities of the internal audit activity, the Head of Internal Audit is directly subordinated to the Board. Consequently, the Board is involved in:

- approving the Audit Charter;

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<sup>7</sup> Applicable as of the date of publication of this document.

- appointment and removal of the Head of Internal Audit;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the Head of Internal Audit of the Company on the internal audit activity's performance related to its plan and other matters;
- approving the remuneration of the Head of Internal Audit;
- ensuring the Internal Audit function has sufficient and adequate resources to fulfil its remit.

According to the local Governance framework, the Audit Committee, if present, should be involved in the processes of the above-mentioned activities, as well as of the other duties included in this document.

Internal Audit determines the risk based audit plan in consultation with the Senior Management and submits it to the Board (or the Audit Committee) for discussion and approval. Additionally, in order to foster the independence of Internal Audit, the structure of its compensation policy must not expose Internal Audit to any conflict of interest and must be in accordance with the recommendations of the related Supervisory Authorities.

Internal Auditors must have an impartial, unbiased attitude and avoid any conflict of interest. Independence is ensured by a functional segregation of Internal Audit resources from any other function of the Company.

If independence is impaired, the Head of Internal Audit must report to the Board the details of the impairment.

The Head of Internal Audit of the Company must confirm to the Board, at least annually, the organizational independence of the internal audit activity.

## **2.5 RESPONSIBILITY**

Internal Audit is responsible for:

- the development and execution of a flexible annual audit plan using an appropriate forward-looking risk-based methodology, taking into account trends and emerging risks, any significant organizational changes and significant services, processes, operations and any risks or control concerns, special tasks or projects identified by Senior Management, Audit Committee and by the Board.
- the issuance of periodic reports to the Board, or via the Audit Committee, and to the Senior Management summarizing the results of audit activities and the status of implementation of Management action plans;
- the performance of special investigations, also on its own initiative, on potential frauds, on the occurrence of frauds and on other risk events within the Company, reporting the results to the Senior Management and to the Board, or via the Audit Committee;
- the maintenance of a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter;
- the reporting to the Board of elements aimed at evaluating the Internal Audit performance including emerging trends and successful practices in internal auditing;
- an adequate Audit coverage at a reasonable overall cost, taking into consideration the scope of work of the External Auditors and Regulators;
- a fair and transparent communication with Regulators with reference to audit activities;



- establishing a quality assurance and improvement program by which the Internal Audit assesses operations of internal audit activities and promotes professional development.

Internal Audit shall also be committed in coordination with other control functions in order to ensure an adequate approach to risk and control management at Group level and a systematic evaluation process of the Internal Control System; nevertheless such commitment and coordination must not jeopardize Internal Audit's independence.

## 2.6 AUTHORITY

Internal Audit is authorized to:

- have unrestricted access to all Company's functions, records, minutes of all consultative and decision making bodies, property and personnel of the Company. In case activities are outsourced to third parties, Internal Audit must be authorized to have access to such activities;
- have direct and unrestricted access to the Board, also via the Audit Committee, to the Board of Statutory Auditors, if present, and Senior Management;
- allocate resources, select subjects, set timing frequencies, determine scope of work and apply the techniques required to accomplish audit objectives;
- disclose engagement records and communicate audit results to the appropriate parties, not providing information without the necessary authority unless there is a legal or professional obligation to do so;
- obtain the necessary assistance of personnel of the Company where they perform audits as well as other specialized services within or outside the Company.

Internal Audit has to be informed of all Management's directives and resolutions that could be relevant to its activities. It has to be informed of any material changes to the risk management, controls and governance processes in a timely manner. Furthermore an obligation to inform Internal Audit does exist, if from a risk point of view, serious deficiencies have been identified by the departments, noteworthy losses have occurred or there is any possibility of preliminary concern.

Internal Audit is not allowed to:

- perform operational duties for any Company of the Group;
- direct the activities of any Company's employee not employed in Internal Audit, except to the extent such employees have been either assigned to auditing teams or assist the Internal Auditors;
- initiate or authorize transactions not relating to the activities of Internal Audit.

## 2.7 OUTSOURCING OF INTERNAL AUDIT ACTIVITIES

The Board subject to the limitations coming from external regulations must approve the outsourcing of the Internal Audit function. The Head of Internal Audit can approve the outsourcing of Internal Audit activities, but not of the Function, on a limited and targeted basis, when there is a need of a specialized expertise and knowledge<sup>8</sup>.

The Company should be able to explain the reasons for outsourcing either the Internal Audit function or audit activities.

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<sup>8</sup> It is not considered outsourcing the performance of audit activities carried out by the Holding Company, or the controlling Legal Entity, across the Group, acting in its role of supervision, steering and coordination.

## **2.8 QUALITY ASSURANCE**

In order to promote assurance of internal audit activities and support professional development, UniCredit Group employs an Audit Quality and Improvement Model which addresses the entire spectrum of audit activities including, among others, assurance and consulting services. The model is articulated in different activities<sup>9</sup> and it is aimed at evaluating the adherence to the Group Audit regulations in compliance with International Standards.

## **2.9 APPROVAL AND REVIEW**

The Head of Internal Audit shall periodically:

- assess whether the Internal Audit Group Charter needs to be updated, in order to enable the activities aimed at accomplishing its objectives, and present the related results to the Board for its approval;
- when any update is proposed by a Group Legal Entity, such proposal shall be supported by a request of non-binding opinion submitted to the Holding Company (through the directly controlling Entity, if any) before the related approval.

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<sup>9</sup> Ongoing Engagement Quality Assurance, Annual Self-Assessment and Quality Assessment Review compose the model. Other activities comprise Customer Satisfaction Survey, KPIs etc.