

REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS' MEETING

in compliance with

**Art. 153, paragraph 1 of Legislative Decree No. 58 of 24th February 1998
and Art. 38, paragraph 1, letter h) of the Articles of Association**

Dear shareholders,

This report to the Shareholders' Meeting has been prepared in accordance with Art. 153 of Legislative Decree No. 58 of 24th February 1998 (Consolidated Finance Act) and Art. 38 paragraph 1, letter h) of the Articles of Association, in compliance with which, the Board is required to report to shareholders' meeting on the supervisory activities performed, on omissions and reprehensible actions observed, and in relation to matters within the scope of its responsibilities relating to the financial year ended 31st December 2015.

Financial year 2015 saw important changes in legislation, particularly in terms of the reforms of the banking industry with regard to "popular" co-operative banks. The new legislation (Decree Law No. 3 of 24th January 2015, converted into Law No. 33 of 25th March 2015) introduced a limit of €8 billion on the assets of "popular" co-operative banks and introduced the obligation, in the event of surpassing this limit, to call a Shareholders Meeting in order to transform the organisation into an ordinary joint-stock company (*società per azioni*). As the reader will be aware, UBI Banca decided to commence without delay the process to implement the provisions of the new legislation in order to immediately ensure the stability of the Bank and also with a view to prudent management.

In terms of regulations, 2015 was the first financial year of full implementation of the Single Supervisory Mechanism (introduced on 4th November 2014) by which, in accordance with Regulation EU No. 1024/2013, the European Central Bank took on specific duties of prudential supervision of banks in co-operation with the local authorities of the participating Member States. Also in 2015, legislative measures were introduced that transpose into Italian law the Single Resolution Mechanism of European Directive 2014/59/EU (the Bank Recovery and Resolution Directive, or BRRD), which came into full effect during the current financial year.

In the introduction to this Report, we provide both a summary of the composition of the Supervisory Board and of the steps taken to renew it which this Shareholders' Meeting is called upon to do, together with a number of facts that characterized the year 2015, particularly as concern:

- the European Single Supervisory Mechanism;
- the transformation of the organisation into a joint-stock company and the exercising of withdrawal rights;
- remuneration and incentive policies;
- the system of internal controls, the reporting system, and business continuity.

We then provide information that specifically concerns the supervisory activities carried out in 2015 in accordance with Art. 149, paragraph 1, of the Consolidated Finance Act and with the Articles of Association, the execution of which takes account of relevant CONSOB recommendations and of Communication no. 1025564 of 6th April 2001 and subsequent updates in particular.

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.

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 the 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 Articles of Association;
- the corporate **management functions**, assigned to the Management Board, which has exclusive authority to perform all ordinary and extraordinary operations necessary to the pursuit of the company objects, in compliance with the general guidelines and strategic policies approved by the Supervisory Board.

This division of functions identifies distinct features of the operational life of the Bank and assigns them to the corporate bodies just mentioned which, with their respective roles and responsibilities, give rise to a corporate governance model that is more appropriate to the

structure of the Bank and the Group in the context of a single business design, characterised by continuous dialogue and inter-functional co-operation.

The annual report on the Corporate Governance and Ownership Structure of UBI Banca S.p.A. - attached to the 2015 Annual Report - provides detailed information on the system of corporate governance adopted.

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The Supervisory Board is composed of 23 members, including a Chairman and a Senior Deputy Chairman, appointed by a Shareholders' Meeting in compliance with the Articles of Association and two Deputy Chairmen chosen by the Supervisory Board itself from among its members. The three-year term of office of the Supervisory Board, which was appointed at the Shareholders Meeting of 23rd April 2013, comes to a close at this Shareholders Meeting, which has been convened in accordance with Art. 2364-*bis*, paragraph 2, of the Italian civil code.

Furthermore, as per the Articles of Association approved at the Extraordinary Shareholders Meeting of 10th October 2015, in conjunction with the renewal of the Supervisory Board, it was established that the board is to consist of 15 members, including a Chairman and Senior Deputy Chairman, as appointed by the shareholders' meeting in accordance with Article 37 of the Articles of Association.

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

As specifically concerns the procedures for evaluating the requirement of independence, it should be noted that, prior to the approval of this report, the Supervisory Board conducted a revised verification of the requirement of independence, while also assessing, in compliance with Bank of Italy provisions on corporate governance, the lending positions held with the Group by each Member. All of the Members of the Board – based on declarations by each and on the information available to the Bank – have met the requirements of independence as defined by Art. 148, paragraph 3, of the Consolidated Finance Act.

As concerns the requirements of the Code of Corporate Governance, 20 of the 23 Members of the Supervisory Board are independent. Specifically, Members Andrea Moltrasio, Mario Cera and Lorenzo Renato Guerini are not independent, given that they were senior officers of subsidiaries of UBI Banca during the previous three financial years.

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

During the year, the Board also conducted a self-assessment of its size, composition and functioning, as well as of the committees established within it as part of the scheduled self-assessment process for 2013, 2014 and 2015. This was done with the help of Egon Zehnder International, a leading advisory firm specialised in corporate governance. On conclusion of the examinations and assessments, it was shown that, taken as a whole, the proceedings of Board and committee meetings, in terms of organisation, the level of diversity in terms of experience and the expertise of Board members, the level of analysis of the issues, the clarity and efficacy of the presentations and the timeliness of the receipt of information are key elements for the appropriate performance of the functions assigned to the Supervisory Board and its internal Committees.

With regard to the self-assessment for 2015, the end-of-term-of-office “board evaluation” carried out at the beginning of 2016 was also designed for the preparation of the document on the qualitative and quantitative composition considered optimal for the purposes of renewing the Board.

The process came to a close in February 2016 with the identification of the optimal quantitative and qualitative composition. This document has been made available to shareholders and to the public on the website www.ubibanca.it, at the same time as this Shareholders' Meeting was called, so that the choice of candidates and their appointment to

the position of member of the Supervisory Board may take account of the theoretical profiles described therein.

While it acknowledges the principle of collegial responsibility in performance of its duties, the Supervisory Board - in relation to its responsibilities, its composition and the characteristics of its members - established specific internal committees with the functions of fact finding and submitting proposals and advice.

More specifically, in implementation of supervisory regulations concerning the corporate governance of banks and in compliance with the provisions of the Articles of Association, in a meeting of 15th September 2015, the Supervisory Board of UBI Banca formed an internal Risk Committee, composed of four members, and drew up regulations for its proceedings.

The duty of the committee is to provide support to the Supervisory Board in carrying out its responsibilities in its capacity as the body responsible for strategic supervision on matters concerning risks and internal controls.

The Supervisory Board also passed resolutions revising the Regulations for the Internal Control Committee and eliminating the Accounts Committee, whose activities are now carried out by the new Risk Committee and the Internal Control Committee.

As concerns the composition of the Supervisory Board and the organisation and activities of the board's internal committees, see the report on the Corporate Governance and Ownership Structure of the Bank.

It should also be noted here that the Board has again assigned the supervisory functions specified under Art. 19 (regarding internal control and audit committee) of Legislative Decree No. 39 of 27th January 2010 to its Internal Control Committee. The Board has also again assigned the functions of a Supervisory Body in accordance with Legislative Decree 231/01 concerning the "administrative liability of entities" to this committee.

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The European Single Supervisory Mechanism

Specific capital requirements called for by the ECB

On 25th February 2015, upon completion of the first Supervisory Review and Evaluation Process (SREP) conducted by the Supervisory Authority following an in-depth analysis of the financials of the leading banks of the euro area, UBI Banca was given the consolidated capital requirements to meet for 2015, and specifically a Common Equity Tier 1 capital ratio of 9.5% and a total capital ratio of 11%.

On 27th November, the ECB issued its decision for the SREP 2015 financial year concerning the capital requirements to be met beginning on 1st January 2016, thereby lowering the common equity tier-1 capital ratio for the Group to 9.25% from the previous 9.50%.

Thematic review of governance and risk appetite

Following procedures already tried and tested with other national competitors as part of a "THEMATIC REVIEW OF RISK GOVERNANCE AND RISK APPETITE", in the period from 15th to 19th June 2015 senior managers from the ECB and the Bank of Italy Joint Supervisory Team visited UBI Banca to attend a meeting of the Supervisory Board and to meet senior managers of the Bank, members of the governing bodies and managers of organisational units.

Additional information was gathered by the Authorities on 25th and 26th November 2015 by way of meetings with senior management of the Bank.

On 13th January 2016, the ECB provided a specific communication with the subject "Thematic review on risk governance and appetite", which highlights a number of areas for improvement and concerning which the Supervisory Board conducted an in-depth assessment and replied with its own observations and a specification of the actions planned.

Further actions and meetings with the Supervisory Authority are mentioned in the specific section of the Management Report.

On 6th January, the ECB Banking Supervision unit published the priorities for 2016 regarding major credit institutions in the euro area. It identified the following five areas for attention: business model and profitability risk; credit risk; capital adequacy; data governance risk and data quality; liquidity.

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The transformation into an Ordinary Joint-Stock Company and the right of withdrawal

Art. 1 of Decree Law No. 3 of 24th January 2015 converted into Law No. 33 of 24th March 2015 amended some of the provisions of the Consolidated Banking Act (Legislative Decree No. 385/93, TUB) on the question of “popular” co-operative banks.

The reform of the law governing “popular” banks reserves the ability to adopt a “popular” co-operative bank model solely to banks with assets that do not exceed €8 billion.

In compliance with the provisions of the regulations to implement the law issued by the Bank of Italy, having verified that the Bank exceeded the capital threshold, on 10th October 2015 a shareholders’ meeting was held in second call, the extraordinary session of which approved a proposal to transform UBI Banca into an ordinary “joint stock company, with the consequent adoption of new articles of association. The new text submitted to an Extraordinary Shareholders’ Meeting for approval was drawn up following an approach that focuses specifically on the provisions no longer compatible with the new status of a joint stock company and on other changes that are in any case related to, connected with and a consequence of those amendments. In particular, as is permitted in the transition period by Law No. 33 of 24th March 2015, a limit is inserted on voting rights equal to 5% of the share capital for 24 months from the date of entry into force of the aforementioned law (until 26th March 2017).

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

In accordance with article 2437, paragraph 1 of the Italian Civil Code, the transformation involves the right of withdrawal from the company for shareholders who did not approve the resolution.

The right of withdrawal following the transformation of UBI Banca into a joint-stock company was validly exercised by the ultimate deadline of 27th October 2015 in relation to 35,409,477 shares of UBI Banca (approximately 3.927% of the current share capital subscribed and paid in to UBI Banca) for a total value of €258,064,268.38 at a settlement value of €7.2880 per share, which was set in accordance with Art. 2437-ter, paragraph 3, of the Italian civil code.

From 12th November 2015 until 12th January 2016, the shares were offered as an option right in accordance with Art. 2437-quater of the Italian Civil Code., at the price of €7.2880 per share and with a ratio of one share for every 24.4259 rights held. At the end of the period applications had been received under the option and pre-emption rights to purchase 58,322 UBI Banca shares at a price per share of €7.2880 for a total of €425,050.74.

In consideration of the results of the option and pre-emption right offering, UBI Banca took steps to offer the 35,351,155 shares subject to withdrawal not taken up under option and pre-emption rights on the *Mercato Telematico Azionario* (electronic stock exchange) organised and managed by Borsa Italiana S.p.A. (“MTA”) on the single day of 28th January 2016 at a price per share of €7.2880 (rounded up to €7.290 in compliance with the rules set by Borsa Italiana S.p.A.). On conclusion of the offering on the MTA, none of the above mentioned 35,351,155 UBI Banca shares had been purchased.

On 3rd February 2016 settlement of the sale and purchase of the 58,322 UBI Banca shares subject to the exercise of option and pre-emption rights took place on the basis of a share out of that number of shares among the withdrawing shareholders in proportion to the number of shares subject to withdrawal.

With regard to the 35,351,155 shares not purchased following the offer in option and pre-emption and the offering on the MTA procedures, the Supervisory Board had already decided that it wished, should it be the case, to exercise its right to limit the redemption of those shares on the basis of the criterion already illustrated in the Illustrative Report to the Shareholders’ Meeting published on 9th September 2015, which involves a threshold below which the “fully loaded” Common Equity Tier 1 ratio (“CET1 ratio”) must not fall as a consequence of the redemption of the shares subject to withdrawal. That threshold is the arithmetic average between (i) the CET1 ratio required of the UBI Group by the ECB on the basis of the latest decision taken on the matter (known as the “SREP decision”), plus 150 b.p.

and (ii) the latest CET1 ratio available recorded by the ECB as at 31st December 2014 with reference to banks subject to single European supervision.

The fully loaded CET1 threshold is 11.62%, calculated as follows:

$[(9.25\% \text{ (November 2015 SREP decision)} + 1.50\%) + 12.48\%]/2 = 11.62\%$

That threshold must be compared with a fully loaded CET1 ratio as at 31st December 2015 of 11.64%, down compared with the fully loaded CET1 ratio of 12.56% as at 30th September 2015, due primarily to the update of the credit-risk parameters included in the internal rating model up to the end of the whole of 2014 and the impact of the loan and extraordinary contributions to the Resolution Fund.

At its session of 18th February 2016, based on a proposal of the Management Board and the opinion of the Internal Control Committee, the Supervisory Board approved the redemption of 1,807,217 shares, rounded up to 1,807,220 shares in order to ensure equal treatment of the withdrawing shareholders with the same number of shares involved in the withdrawal, subject to receipt of the necessary authorisation by the competent Supervisory Authority – in accordance with the provisions of Articles 77 and 78 of Regulation (EU) No. 575/2013 and Section 2 of the European Commission Delegated Regulation (EU) No. 241/2014 – to reduce capital.

Based on the settlement price of €7.288 per share, the total value of the 1,807,220 shares to be redeemed is €13,171,019.36. The total number of shares subject to settlement (the 58,322 shares subject to option and pre-emptive rights plus the 1,807,220 shares to be redeemed) is 5.268% of the total shares subject to withdrawal and 0.207% of the total number of shares that make up share capital. The amount of the share redemption commitment has already been incorporated in the phased-in CET1 ratio and in the fully loaded CET1 ratio as at 31st December 2015.

As mentioned in the illustrative report presented at the Shareholders Meeting of 10th October 2015, upon completion of this process, the excess shares beyond the amount available are to be released from the restriction of unavailability and so will again be available for sale by the their holder.

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Remuneration and incentives policies

In the meeting of 18th February 2016, as proposed by the Management Board and having heard the opinion of the Remuneration Committee, the Supervisory Board approved the update to the remuneration and incentives policies of the UBI Group for 2016 and the related update to the scope of application of “key personnel”.

The 2016 Policies have been based on the supervisory measures for banks with regard to remuneration and incentives policies and practices issued by the Bank of Italy in November 2014 in transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26th June 2013 (also known as “CRD IV”) on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. The Policies further take account of the new remuneration guidelines issued by the European Banking Authority (EBA) on 21st December 2015. As proposed by the Remuneration Committee, the Supervisory Board also moved to submit the remuneration and incentives policies for the new members of the Supervisory Board, in accordance with Art. 13, paragraph 2, letter a), of the Articles of Association, as well as the adoption of remuneration and incentives policies for the members of the Supervisory and Management Boards to the shareholders’ meeting for approval.

Based on the proposals of the Management Board and the observations of the Remuneration Committee, the Supervisory Board has also moved to submit the following for shareholders’ meeting approval:

- the employee stock-ownership plans as part of both the 2016 Incentive Scheme for “Key Personnel” and “Other Personnel” and the 2015 and 2016 Company Bonus;
- the criteria for the determination of remuneration to be agreed in the event of the early termination of an employment relationship or early retirement from corporate office;
- increasing the limit in the ratio of variable to fixed remuneration to no more than 2:1, which, in line with previous years, will concern only five positions of responsibility within the Investment Area of UBI Pramerica S.p.A., so as to ensure flexible, competitive, merit-based management that meets the specific needs of both the Italian and European marketplace.

As part of action taken nationally, on 3rd October 2014 the Bank of Italy notified the Group of the start of inspections designed to assess remuneration and incentive practices and policies in place in the UBI Banca Group. On 11th March 2015, the Bank of Italy issued its observations in favour of these practices and policies given the *“overall ability of the system to align the conduct of management with the company’s risk-adjusted targets and to avoid distorted incentives”*, while also noting potential areas for improvement. A letter of 10th April 2015 addressed to the supervisory authority contained details of specific initiatives programmed to implement the refinements desired.

The Supervisory Board verified the outcome of the work of the Internal Audit function regarding the consistency of remuneration and incentives practice with the policies approved by the Bank and with applicable laws and regulations related to 2015 as required by prevailing supervisory provisions. This audit has shown that operating procedures and practices are in line with the approved remuneration and incentives policies and that the control mechanisms adopted by those involved in the process are suited to covering the main risks inherent in the activities conducted.

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The system of internal controls, the reporting system and business continuity

The document “Report on the Corporate Governance and Ownership Structure of UBI Banca Spa” may be consulted for a description of the architecture, rules and organisational units of the system of internal controls. It also gives specific information required under article 123-*bis*, paragraph 2(b) of the Consolidated Finance Act (Legislative Decree No. 58/1998) concerning the risk management and internal control systems that govern the financial reporting process.

Of particular note during the year was the continuation of the actions needed to implement the new measures issued by the Bank of Italy on 2nd July 2013, effective as of 1st July 2014, concerning systems of internal controls, information systems and business continuity (Supervisory Regulations of Banks – Circular no. 263 of 27th December 2006 – update no. 15). These provisions, which were subsequently incorporated in Circular No. 285 of 17th December 2013 by means of the 11th update of 21st July 2015, introduced important changes with regard to the current regulatory framework in order to furnish banks with a complete, adequate, functional and reliable system of internal controls, by regulating, amongst other things, the following: the role of corporate bodies within the internal control system; the role of corporate control functions, the outsourcing of corporate functions, the IT system and operational continuity.

As noted in the previous report, in accordance with the first deadline set (1st July 2014), changes for compliance were made in 2014 relating to the internal control system, to the outsourcing of corporate functions, to the “Risk Appetite Framework” (RAF), to the co-ordination of control functions and to business continuity and the relative action needed to ensure operational implementation was taken.

Subsequently, the Group completed the required changes to its internal regulations regarding the IT system, with effect from 1st February 2015, with particular reference to:

- the IT function: formalisation of decision-making and authorisation processes designed to ensure strategic and operational control of the IT system;
- IT compliance: specification of roles, process responsibilities and lines of reporting to ensure compliance with IT regulations relating to the governance and organisation of the IT system;
- IT risk: identification of the methodological, organisational and procedural framework to employ for the analysis and management of IT risk and the definition of the relative levels of risk appetite;
- Logical security: update of the principles, the organisational model and the security requirements and measures needed to protect the Group’s tangible and intellectual assets and the security of its information and its IT resources;
- Data governance: formalisation of the principles, the components and the logical functioning of the data processing system with the identification of the roles and

responsibilities and functions involved in the use and processing of data for operational and management purposes;

- Change and incident management: identification of users responsible for IT resources and formalisation of procedures designed to guarantee control over changes, replacements or technological upgrades. Detailed procedures for identifying and responding promptly and effectively to IT incidents or malfunctions.

Following these regulatory changes the specific action plans were launched for the relative operational implementation.

In the second quarter of 2015 the UBI Banca Group received an on-site inspection visit conducted by a team of senior managers from the Bank of Italy and the ECB into the question of **IT RISK**. On 18th November 2015, UBI Banca received the related report, which featured a highly satisfactory assessment of overall coverage of IT risk within the Group, although it also noted potential areas for refinement and improvement (e.g. with regard to service continuity and combating cyber attacks and computer fraud). In 2015, the Bank had already provided our preliminary feedback based on the observations received, and a more detailed reply was prepared in February 2016 containing indications of the plan to implement the measures requested and related timeframe for such implementation.

The 11th update to Circular No. 285 of 17th December 2013 also introduced internal systems for reporting violations (i.e. “whistleblowing”) and specific controls for risks connected with the degree of a bank’s asset encumbrance to be implemented by the end of 2015.

In line with the aforementioned provisions, UBI Banca has prepared the Group’s policies concerning our internal whistleblowing system with the goal of informing employees of Group companies of the steps to be taken in order to report facts or events that could be in violation of laws and regulations applicable to the financial services industry, as well as of facilitating the identification and prevention of risks and other situations that could compromise the company and the broader interests of all stakeholders.

Also in accordance with the provisions of Circular No. 285, the risk related to asset encumbrance has been included among the risks subject to assessment within the scope of the Risk Appetite Framework (RAF), which describes the process of defining the Group’s scope of risks to be assessed, the related drivers and identification procedures, and the techniques for measuring and assessing risk and of quantifying current/future internal capital for the measurable risks. More specifically, management of the adequacy of financial equilibrium also includes the assessment of risk related to asset encumbrance.

The Supervisory Board oversees issues concerning the overall system of internal controls and does so, in part, by way of the board’s internal committees.

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In compliance with **Consob Communication No. 1025564** of 6th April 2001 and subsequent amendments to it, specific information is given below on the supervisory activities performed by the Supervisory Board in 2015 in the order of presentation recommended in that Consob communication.

1. This Supervisory Board participated in all the meetings of the Management Board, authorising members of the Internal Control Committee to do so also individually on its behalf.

Within the scope of our activities, having noted the resignation of the General Manager, Francesco Iorio, and his consequent removal from the Management Board and having heard the opinion of the Appointments Committee, the Supervisory Board appointed the Deputy General Manager, Ettore Giuseppe Medda, to replace the outgoing board member in accordance with the Articles of Association, which require there to be two representatives of senior management on the Bank’s Board (not including the Chief Executive Officer).

The Supervisory Board supervised compliance with the law, the Articles of Association and proper management practices and acquired information on the activities of the Bank and its subsidiaries and also on major capital, financial and operating transactions.

Transactions of economic, financial and capital significance concluded by the Bank and its subsidiaries during the year were performed in compliance with law, the Articles of Association and exclusively and fully in the interests of the respective company. On the basis of information obtained by the Management Board pursuant to Art. 150 of the Consolidated Finance Act, those transactions were neither manifestly imprudent, risky, in conflict of interest, contrary to Shareholders' Meeting resolutions or such as to compromise the integrity of the Bank's assets.

For a more thorough analysis of the most significant operations for the year, including those described in the foreword to this report concerning the transformation of UBI Banca from a joint-stock co-operative company to an ordinary joint-stock company, see the Management Report accompanying the 2015 consolidated financial statements.

Of note among the significant events for the 2015 financial year was the completion of a series of activities aimed at simplifying and rationalising the Group's structure and business and at gradually freeing the Group from activities no longer strictly of strategic importance. The most important of these actions, which were, where applicable, approved by the UBI Banca Supervisory Board, may be summarised as follows:

- the sale, on 12th January 2015, to Corporate Family Office (CFO) SIM of 100% of the share capital of [UBI Gestioni Fiduciarie SIM Spa](#), a "dynamic" fiduciary company, a leader in its business segment, indirectly controlled by UBI Banca through UBI Fiduciaria Spa. Under the sale, the UBI Banca Group maintained all its commercial agreements in the "fiduciary asset management" sector;
- the conclusion, on 30th April, of the transfer to [Unione Fiduciaria Spa](#) of the UBI Fiduciaria Spa (a company 100% controlled by UBI Banca) line of business dedicated to the management of fiduciary services for Group customers. The transaction involved maintaining commercial arrangements with the acquirer for the provision of these services through the Group's distribution networks;
- the conclusion, on 25th May 2015, of the merger of [IW Bank](#) (the Group's internet bank) into [UBI Banca Private Investment](#) (the network of financial advisors). The resulting banking entity, headquartered in Milan, maintained the name [IW Bank](#), which is a recognised, well-received brand in the marketplace. In terms of the organisation, the model already in place within UBI Banca Private Investment has been adopted, thereby confirming the functions of governance (i.e. planning, fiscal and financial matters, and management control), control (i.e. risk management, anti-money laundering, and compliance), and auditing within the Parent;
- the completion, on 23rd October 2015, of the merger of [SOLIMM Srl](#) into [S.B.I.M. Spa](#). The company objects of both companies, 100% controlled by UBI Banca and both with headquarters in Brescia, are to carry out property transactions, necessary for the operations of the Group itself.

During the year, changes were also made to the Group's organisational model – on the back of numerous changes made in previous years, which concerned the Group's branch network – given the need to find new solutions aimed at simplifying and rationalising operating processes in order to promote further efficiency gains and to reduce costs.

2./3. The Consob approved a regulation regarding related-party transactions with Resolution No. 17221 of 12th March 2010 and subsequent amendments.

The requirement relates to the procedures to be followed for the approval of transactions concluded by listed companies with parties that could create a conflict of interest.

In implementation of article 53, paragraphs 4 *et seq.* of the Consolidated Banking Act and Inter-Ministerial Credit Committee Resolution No. 277 of 29th July 2008, the Bank of Italy also, on 12/12/2011, issued the ninth update of the New Regulations for the Prudential Supervision of Banks regarding risk assets and conflicts of interest concerning parties related to banks or banking groups. The purpose of these measures was to limit the risk that the proximity of certain "related parties" to a

bank's decision-making powers could compromise the objectivity and impartiality of decisions concerning the granting of financing or other transactions.

In implementation of such measures, the rules governing transactions with UBI Banca SpA related parties and those governing transactions of the UBI Group with related parties have been issued. It should be noted that both regulations – which are published on the Bank's web site in the Corporate Governance section – are to be updated in early 2016 in relation to the changes in the Bank's organisational structure and for other refinements based on past experience.

In this regard, the Related and Connected Parties Committee, established within the Supervisory Board, is called upon to express opinions on transactions to be conducted with the various types of related and connected parties.

The Supervisory Board oversees compliance with applicable laws and regulations and reports to the Shareholders' Meeting in accordance with article 153 of Legislative Decree No. 58 of 24th February 1998 (the Consolidated Finance Act).

- Related Parties

The Supervisory Board periodically reviewed lists of all the related party transactions concluded in the preceding quarter, contained in reports received from the Management Board. They included those not subject to a prior opinion from the Committee in accordance with the regulation adopted, with specification of the related party, the type of transaction and the amount and, if the transaction was not subject to prior examination by the Committee, the underlying grounds for the exemption.

With regard to transactions between companies in the Group and all of its related parties, no atypical and/or unusual transactions were performed during the year (as defined by Consob Communication No. DEM/1025564 of 6-4-2001 and subsequent amendments). Furthermore, no transactions of that type were even performed with counterparties that were not related parties.

Normal commercial and financial intragroup and related party transactions have been properly disclosed by the Management Board in Part H of the notes to the UBI Banca separate and consolidated financial statements.

The Management Report provides information pursuant to article 5, paragraph 8 of Consob Regulation No. 17221 of 12th March 2010.

The information provided by the Management Board in its report has been found to be sufficient.

- Connected Parties

During the year, as concerns transactions with "connected parties", the Supervisory Board has periodically examined the list – as provided by the Management Board – of all transactions executed within the Group, including those not subject to the prior opinion of the committee in accordance with the rules.

Specific information in this regard is provided in the Management Report.

In 2015, the UBI Banca Group always remained within the limits specified under supervisory regulations. In December 2015, in accordance with applicable provisions, the policies concerning internal control over risk assets and conflicts of interest with related parties were updated, as is required to be done every three years. These policies establish the guidelines and criteria for adoption, by the Group as a whole and by the individual banks and companies belonging to it, of organisational structures, control systems, and internal policies for managing specific risks within the two areas specified under supervisory regulations, namely limits on own funds aimed at limiting risk asset exposures towards related parties, differentiated on the base of their specific type and procedures to ensure the integrity of decision-making processes in transactions with connected parties in order to safeguard third parties and the allocation of funds from expropriation.

The Report on Corporate Governance and the Ownership Structure describes the main contents of the monitoring, reporting and decision-making regulations adopted for the performance of related party transactions by the Bank.

The transactions with senior managers of the bank, with senior managers of Group member companies, and with companies controlled by said parties are conducted under normal market conditions and the provisions of article 136 of the Consolidated Banking Act are carefully complied with for those transactions. The Supervisory

Board has also overseen the adequacy of the system for ensuring compliance with Art. 136 of the Consolidated Banking Act.

All the transactions performed by Group companies with their related and connected parties were carried out in compliance with correct principles both in substance and form under conditions analogous to those applied for transactions with independent parties and are considered as being consistent with and responding to the interests of the company. They were performed in accordance with the organisational structure adopted.

Finally, it should be noted that:

- on 13th May 2015, the Supervisory Board (in accordance with article 38 of the UBI Banca Articles of Association) approved the overall agreements with the Cassa di Risparmio di Cuneo Foundation relating to the stake held in Banca Regionale Europea, as resolved by the Management Board on 12th May 2015, and it also acknowledged the opinion in favour given by the Related and Connected Parties Committee of UBI Banca in a meeting of 13th May 2015 regarding the renewal of the agreements in question, which positively assessed the existence of an interest in concluding the operation and the substantially proper nature of the relative conditions;

- on 7th August 2015, the Supervisory Board (in accordance with article 38 of the UBI Banca Articles of Association) approved the overall agreements with the Banca del Monte di Lombardia Foundation relating to the stake held in Banca Popolare Commercio e Industria, as resolved by the Management Board on 7th August 2015, and it also acknowledged the opinion in favour given by the Related and Connected Parties Committee of UBI Banca in a meeting of 7th August 2015 regarding the renewal of the agreements in question, which positively assessed the existence of an interest in concluding the operation and the substantially proper nature of the relative conditions.

4. On 30th April 2011, the Shareholders' Meeting, as duly proposed by the Supervisory Board and based on the favourable opinion of the Internal Control Committee, approved the engagement of the auditing firm Deloitte & Touche S.p.A. for the statutory audits of the UBI Banca separate and consolidated financial statements and corporate accounts for the financial years from 2012 to 2020 and for the audit of the proper recognition of transactions in said accounts, as well as for the limited audit of the half-year interim consolidated financial statements of the UBI Group, while also establishing the related fees to be paid in accordance with the proposal of the Supervisory Board and in compliance with article 13 of Legislative Decree 39/2010. The independent statutory auditor, Deloitte & Touche S.p.A, with which the Supervisory Board had ongoing meetings, through internal committees, issued its reports on the 2015 separate and consolidated financial statements on 2nd March 2016. They contained the unqualified opinion with respect to the conformity of the accounting records and the consistency of the management report with the financial statements.

- 5./6. In 2015, the Supervisory Board received no expressly qualified reports from the shareholders such as those envisaged under Article 2408 of the Italian civil code. Having said that, on 18th July 2013, UBI Banca was served a writ of summons by Giorgio Jannone and other Shareholders demanding, essentially, that it be declared that (i) the only valid list for the appointment of members of the Bank's Supervisory Board be the one presented by Mr. Jannone himself after verifying the irregularity of the other two lists which received a greater number of votes at the meeting of 20th April 2013 and (ii) the shareholders' meeting resolution concerning the appointment of the corporate bodies be deemed invalid, or, subordinately, (iii) certain votes submitted within a particular period of time at the meeting of shareholders (i.e. upon opening the vote) be deemed invalid. The Bank has taken legal action in the belief that proper procedures were followed in preparing for the Shareholders' Meeting in order to verify all of the lists presented and that the Shareholders' Meeting itself was properly conducted. As such, the claims made in the summons are deemed to be without foundation. The dispute came to a conclusion with a definitive ruling filed on 20th February 2016 by the Business Division of the Court of Brescia, ruling against

the action brought by Giorgio Jannone and other shareholders to render null and void the resolution of 20th April 2013 appointing the Supervisory Board. With that same ruling, the Court of Brescia ruled against the claim for damages brought by the claimants and ordered them to pay the court costs of the defendant, UBI Banca.

The Supervisory Board has received no complaints or other notifications directly. The companies of the Group have received complaints from customers concerning the services provided. The strategic orientation of the Group, which sees the management of disputes as an essential means of pursuing the goal of ongoing improvement in the level of customer satisfaction, has been further consolidated. In 2015, work continued to solidify a constructive, proactive approach to managing complaints, including constant commitment to preventing disputes and to guiding and coordinating the efforts of the Parent as concern the network banks and product companies. No significant omissions or other irregularities in the overall process of claims management have emerged.

For the sake of completeness, it should also be noted that, during the year, a number of requests were received from the Consob in accordance with article 115, paragraph 1, of the Consolidated Finance Act, and replies to such requests have been provided in a timely manner.

With a letter of 30th April 2014, the **Consob** (Italian securities market authority) launched proceedings in accordance with article 195 of the Consolidated Finance Act relating to Members of the Supervisory Board – in office from 2009 until 30th April 2014, but excluding the Members Agliardi, Cividini, Gallarati, Resti and Zucchi – concerning a possible violation of article 149 of the Consolidated Finance Act in relation to aspects concerning information disclosed in the Corporate Governance Report. The relative defence documents, to which all the Supervisory Board members in receipt of the notification adhered, were submitted to the Consob within the time limits set.

In 2015 the Consob Administrative Penalties Office then delivered its report containing a reasoned proposal for penalties (the “Report”) to the senior officers of the Bank involved in the penalty procedure and to the Bank, as jointly and severally liable.

On conclusion of the procedure, in October 2015, Consob decided to impose administrative fines – in an amount equal to or close in percentage terms to the minimum penalty allowed – for only those members of the Supervisory Board who were in office from 2009 to April 2013 or who were appointed to the Supervisory Board in subsequent years and also from April 2013, if they had already been members of the Management Board in the year 2009.

The measure was based on an alleged omission of information and consequent failure to audit the Corporate Governance Report published from 2009 onward with regard to a change in the regulations of the Appointments Committee in 2009, which was in compliance with what were then the new provisions on corporate governance issued by the Bank of Italy in 2008.

It should be noted that this reasoning is entirely different from that which formed the basis for the complaint filed by the minority members of the Supervisory Board (i.e. Agliardi, Cividini, Gallarati, Resti, and Zucchi) as shown in the Consob ruling, which had led to the investigation and penalty proceedings.

An appeal seeking to have this ruling overturned has been filed both by the Bank, as the party obligated to pay the fines, and, together with the bank, by most of the parties involved, while a number of other parties have filed separate appeals.

The related proceedings remain pending with the Brescia Court of Appeals.

We report at the same time that, when the Consob made this ruling, it approved an application for non-publication (article 195, paragraph 3 of the Consolidated Finance Act) because it considered the relative conditions were satisfied.

As concerns investigations, commenced in 2014 by the Public Prosecutor’s Office of Bergamo, in the absence of new developments on the matter, full information is given in the 2014 Annual Report, which may be consulted. These relate in particular to activities initiated and still in progress as a result of different reports made at the time

(2012 and 2013 respectively) relating to alleged matters concerning UBI Leasing and UBI Factor and a supposed failure to communicate shareholders' agreements to the competent authorities and presumed influence exerted on the proceedings of shareholders' meetings in 2013. The Group had already provided answers and clarifications at the time to the competent supervisory authorities on the matters contained in the reports and no new events have occurred to report, nor is there any additional news. To the Bank's knowledge, the proceedings remain pending.

7. The fees shown below were paid to the independent statutory auditors Deloitte & Touche Spa for the financial year 2015, in accordance with the law.

Type of service (figures in thousands of euro)	Deloitte & Touche Spa	
	UBI Banca Spa	Other UBI Banca Group companies
Audit services	1,118	1,160
Certification services	881	30
Other services	-	-
Total	1,999	1,190

The fees shown include any index-based charges and do not include out-of-pocket expenses, security fees or VAT.

8. The fees reported below were paid to companies belonging to the network of the independent statutory auditors, Deloitte & Touche S.p.A, for financial year 2015, in accordance with the law.

Type of service (figures in thousands of euro)	Companies belonging to the same network as Deloitte & Touche Spa	
	UBI Banca Spa	Other UBI Banca Group companies
Audit services	-	330
Certification services	-	-
Other services	566	120
<i>Methodological support with the Recovery & Resolution Plan Directive</i>	500	-
<i>Methodological support for the development of a remote rating system for the commercial network</i>	-	120
<i>other</i>	66	-
Total	566	450

The fees shown include any index-based charges and do not include out-of-pocket expenses, security fees or VAT. Details of these fees are also given in an attachment to the financial reports as required by Art. 149-*duodecies* of the Issuers' Regulations.

The independent statutory auditors, Deloitte & Touche Spa, furnished the Internal Control Committee – which, in accordance with Art. 41 of the Articles of Association, performs supervisory functions pursuant to Art. 19 of Legislative Decree No. 39/2010 – with annual confirmation of its independence pursuant to article 17 of Legislative Decree No. 39/2010. No critical issues or risks regarding the statutory auditor's independence have come to light from contacts and discussions with the Committee.

9. The Supervisory Board, acting on a recommendation of the Appointments Committee, as required by Art 38 letter n) of the Articles of Association, expressed an opinion in favour of the Management Board's nominations for the positions of Board Member and Statutory Auditor of the subsidiaries listed under letter b) of Article 27 of the Articles of Association.

The Supervisory Board also examined the Management Board's proposed fees to be paid to the Boards of Directors and Statutory Auditors of Group companies that had been requested to set remuneration at the next Shareholders' Meetings. In agreement

with the Remuneration Committee in that regard, the Supervisory Board verified the consistency of the Management Board's proposals with Group remuneration policies. The Board also verified compliance of the conditions for termination of employment of a member of "Key Personnel" of a subsidiary with the Group's remuneration policies. With regard to the internal "*Regulations on limits to the number of positions held by senior officers of the bank*", the Supervisory Board has issued an opinion as to whether one representative of a Group company has surpassed these limits. The accumulation of positions within the Parent is in line with regulations. Finally, the Supervisory Board has expressed approval of a share trade by a senior officer of the company and concluded by the Bank in accordance with article 136 of the Consolidated Banking Act.

10. The Supervisory Board met 20 times in 2015. The Chief Executive Officer and the Senior Officer Responsible for the preparation of corporate accounting documents (the "Senior Officer Responsible") were invited to attend meetings where operating and financial results were reviewed and, within the scope of their responsibilities, and, in compliance with Art. 29 of the Articles of Association, the Chief Executive Officer reported on activities performed and on transactions of major operating, financial and capital importance carried out by the Parent and its subsidiaries. While observing 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 - in compliance with supervisory regulations, with the provisions of the Articles of Association and with the recommendations contained in the Corporate Governance Code of Borsa Italiana, decided to create specific committees with the functions of submitting proposals and advice and performing assessments: an Appointments Committee, a Remuneration Committee, an Internal Control Committee and a Risk Committee (created on 15th September 2015). In addition, in accordance with the provisions of Consob regulations concerning related parties and in implementing the new prudential supervisory provisions, a Related and Connected Parties Committee has been established. The Accounts Committee was also active until 15th September 2015. These Committees performed their activities as provided for by the Articles of Association and their respective regulations, reporting on their work to the Supervisory Board. The Report on Corporate Governance and Ownership Structure may be consulted for details of the issues addressed by these Committees. In 2015, the Appointments Committee met 5 times; the Remuneration Committee, 13 times; the Internal Control Committee, 27 times; the Risk Committee, 3 times; the Accounts Committee, 7 times; and the Related and Connected Parties Committee met 11 times. In order to provide constant reporting on operating events and as required by Art. 41 of the Articles of Association, at least one member of the Internal Control Committee attended meetings of the Management Board in compliance with regulations in force. The Management Board met 30 times in 2015.
11. Within the scope of its responsibilities, the Supervisory Board acquired information on and oversaw the adequacy of the organisational structure of the Bank and compliance with the law and proper principles of management through channels which included the Internal Control Committee, the Risk Committee, and the now-defunct Accounts Committee. This was performed by making direct observations, by acquiring information from the Senior Accounting Officer Responsible for preparing the corporate accounting documents and by holding periodic meetings with those functions in the Bank involved in the system of internal controls and with the independent auditors, during the course of regular exchanges of information. Based on these meetings, we feel that the principles of proper management have been consistently applied and respected.
12. The Supervisory Board acquired information through channels which included the Internal Control Committee and it oversaw, within the scope of its responsibilities, the adequacy of the organisational structure of the Bank, the functioning of which is governed by the regulations approved by the Board. As concerns the structure of the

control functions in particular, the following are the latest changes to have been made:

- The new organisational structure of units under the Chief Risk Officer came into effect from 1st November 2015. The new configuration, considered advisable in view of international best practices and to comply with supervisory provisions, has a new unit to supervise “data governance” activities in order to ensure an efficient process to aggregate these and to manage the reference framework for the production of reports. This unit has been placed directly on the staff of the Chief Risk Officer and has been named **Data Risk Management Service**. The Risk Governance Service, previously a staff unit, has been reallocated as a line function with the status of an area unit.

This action was accompanied by a renaming of all units in the English language in order to bring them into line with the terminology adopted by European supervisory authorities.

- On 1st February 2016 the organisation of the Compliance Area at the Parent was revised with the creation of a Compliance Operations Service into which all the activities previously carried out by the Compliance Sector at UBI.S were moved and that sector was discontinued.

The new configuration – designed to comply with the update to the “UBI Group compliance risk management policy” and with the revision of the compliance organisational model – complies with supervisory regulations on internal controls which make it compulsory to assign responsibility for IT compliance to the Compliance Function.

The Supervisory Board, by way of the Internal Control Committee, has also monitored the Internal Audit Function with regard to its structure, workforce and operating mechanisms. In 2015, a quality assurance review of the Internal Audit Function, conducted by PricewaterhouseCoopers Advisory, was completed, and the function was found to be generally compliant, thereby achieving the highest score in a three-tier scoring system. This audit verified compliance with international standards for the industry, the adoption of adequate rules and procedures, and the level of efficacy and efficiency of the Internal Audit Function.

13. The assessment of the adequacy of the system of internal controls is conducted by the Board based on the opinion of the Internal Control Committee and on the Internal Audit reports prepared, while also taking account of the observations of the other control functions of the various companies.

With regard to internal controls, the Supervisory Board has also made decisions concerning implementation of the measures of the Bank of Italy (see Circular 263/2006, 15th update, subsequently replaced by Circular 285/2013 by way of the 11th update of 21st July 2015) regarding systems of internal controls, information systems, and business continuity, as explained in the first section of this report.

The Board has also examined the outcome of the inspections of the Bank and its subsidiaries called for by the Supervisory Authority and has assessed the related plans for improvement.

With the support of its internal committees, the Supervisory Board has examined the periodic reports of the second and third-level internal control units, including on the basis of the presentations submitted directly by the heads of the single units, and has assessed the main points of focus that have emerged.

In addition, the Supervisory Board is a recipient of the annual report of the Supervisory Body pursuant to Legislative Decree 231/2001 for the year 2015.

When assessing the overall system of internal controls, the Supervisory Board was supported, in particular, by the Board’s Internal Control Committee.

The following are the primary activities conducted by this Committee in 2015 in support of the Supervisory Board and regarding the most significant issues concerning the Bank’s system of internal controls, which sought to assess the adequacy of this system and the related regulatory context, including:

- the main legislative and regulatory changes in areas relevant to the general architecture of the Group’s system of internal controls, including the supervisory review and evaluation process (SREP), in relation to the Single Supervisory

Mechanism and the regulations resulting from the implementation of Directive 2014/59/EU (BRRD);

- the completion of “Project 263”, with the purpose of updating the overall framework to implement the new regulations for prudential supervision pursuant to the 15th update to Bank of Italy Circular 263/06, in terms of the revision of the organisational units and the internal system of regulations (policy and regulations);
- the management of conflicts of interest and in particular situations when the limits on the accumulation of positions are exceeded in the network banks, with reference to the subject of interlocking directorships, annual verification that no causes of incompatibility exist in relation to the members of the Management Board and the Senior Officer responsible for the preparation of corporate accounting documents;
- the organisation and structure of the Bank and its subsidiaries, including reference to changes in the number of Group Companies and the information relating to the senior management of the Bank and its subsidiaries. The operation to transform UBI Banca from a joint stock co-operative company into an ordinary joint-stock company was of particular importance in this respect and the Internal Control Committee studied this matter in detail;
- matters relating to the system of powers, the definition and attribution of responsibilities and the management of resources, such as the remuneration and incentive schemes, changes in staff costs, the training activity carried out by UBI Academy and projects and initiatives regarding human resources;
- reporting flows, with particular regard to reporting from the control functions to senior management and the frequency of reporting required by the organisational units responsible for controls, also including the co-ordination of corporate control functions;
- the activities of the Supervisory Bodies of the Group member companies, including by means of specific meetings;
- matters regarding the IT system, with reference to which it oversaw the creation of a Chief Information Officer position and the implementation of the organisational units to manage IT risk and it examined the 2016-2018 strategic policy document for the IT system;
- matters relating to anti-money laundering, with a particular focus on the “Anti-money laundering - appropriate verification of customers and keeping of the AUI [single financial transactions database]” project, intended to ensure the compliance of procedures and internal systems with the regulations in force;
- compliance (using, among other things, the reports produced) to monitor the progress of the initiatives relating to the relative organisational and regulatory framework, especially with regard to the structuring and progressive co-ordination or specialist compliance units, and those designed to generally strengthen compliance processes;
- transparency, usury, privacy and the question of compounding of interest;
- matters concerning the complaints management process;
- activities to prepare for the UBI Banca Shareholders’ Meeting.

The Internal Control Committee also supported the Board in activities concerning:

- the supervision of the adequacy of the risk management and control system and of the regulatory compliance of the Internal Capital Adequacy Assessment Process (ICAAP), monitoring in particular activities to roll out the use of advanced methods in Group member companies, developments in the methodology of internal models and the new requirements for the Group to submit periodic reports;
- the evaluation of the activities plan of the corporate control functions and of their periodic reports on the activities carried out (Internal Audit, Corporate Anti-Money Laundering Officer, Compliance, Risk Management and Complaints), also with reference to those that concern the assessment of the internal control and risk management system;
- the policy-setting and co-ordination activities of the Parent, with particular attention to its subsidiaries;
- areas relating to covered bonds, analysing the results of internal audits carried out by the Internal Audit Function on the programme for issuing them, the

securitisations, and transactions with related parties - significant intragroup and “atypical” transactions;

- on aspects affected by legislation concerning external statutory audits of annual separate and consolidated financial statements, including specific meetings with the “Senior officer responsible for the preparation of corporate accounting documents” and with members of independent auditors;
- on relations with Supervisory Authorities, with specific regard to requests for self-analysis concerning specific operations and inspections carried out by the European Central Bank and the Bank of Italy at the Bank and at subsidiaries;
- an examination of the underlying causes of the main damaging events in the Group;
- changes to Internal Audit, in terms of the structure, staff numbers and projects in progress on the operational tools of the function, also for the purpose of monitoring its autonomy, adequacy, efficacy and efficiency.

14. The Supervisory Board assessed and oversaw the adequacy and efficiency of the administration and accounting system and its reliability in recording operating events faithfully, partly by means of internal committees of the Board. This was performed by holding specific meetings with the functions in the Bank involved in the internal control system and with the independent auditors, by acquiring adequate reports from other corporate bodies of the bank and from the heads of the respective functions, by examining corporate documents and by analysing the results of the work performed by those persons. Within the scope of evaluating the system of internal controls and based in part on the information provided by the Risk Committee and the previous Accounts Committee and the independent auditors, the Internal Control Committee has evaluated the adequacy of the systems of accounting and administration and has found them to be generally appropriate to the size and characteristics of the Group’s business.

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

As required by Art. 19, paragraph 3, of Legislative Decree No. 39/2010, the Supervisory Board was informed by the Internal Control Committee that it had received a report on fundamental issues found during the independent statutory audit and significant shortcomings of the system of internal controls relating to the financial reporting process. The conclusion of the report on the separate financial statements for UBI Banca and the consolidated financial statements for the UBI Group for the year ended 31st December 2015 was that no significant shortcomings in the system of internal accounting controls were found.

The Chief Executive Officer and the Senior Officer Responsible for preparing the corporate accounting documents have issued a declaration pursuant to Art.154-*bis* of the Consolidated Finance Act concerning the information contained in the separate and consolidated financial statements for 2015.

15. The Supervisory Board worked, both directly and through its internal committees and the corporate functions involved in the system of internal controls, to ensure that the conduct of subsidiaries was consistent with the objectives set by the Parent. No shortcomings were found concerning the adequacy of instructions given by the Parent to its subsidiaries pursuant to Art. 114, paragraph 2 of the Consolidated Finance Act nor on the reporting performed by subsidiaries to the Parent in order to comply with disclosure obligations required by law. The Supervisory Board, assisted by the Internal Control Committee, exchanged information with the corresponding bodies of the subsidiaries concerning the systems of control and accounting administration and the general performance of the companies.

16. No significant issues requiring specific investigation emerged from the periodic exchanges of information that occurred through the Risk Committee and the previous Accounts Committee and Internal Control Committee with the independent statutory auditors, Deloitte & Touche S.p.A, pursuant to paragraphs 3 and 5 of article 150 of the Consolidated Finance Act.
- The Risks Committee and the Internal Control Committee also held meetings between the end of 2015 and the first months of 2016 with the independent auditors and with the Senior Accounting Officer in preparation for approval by the Supervisory Board of the separate and consolidated financial statements as at and for the year ended 31st December 2015.
17. UBI Banca Spa complies with the Corporate Governance Code for listed companies of Borsa Italiana and it has prepared a Report on the Corporate Governance and Ownership Structure of UBI Banca Spa which is attached to the Annual Report. That report was prepared in compliance with Art. 123-*bis* of the Consolidated Finance Act and its purpose is to furnish Shareholders and the market with an analysis of the system of corporate governance adopted by UBI Banca Spa. It gives details of the procedures by which the Code itself has been complied with by the Bank and also provides an account of those principles with which the Bank has complied in full and those that it has chosen not to observe, even only partly, on the basis of the principle of either “comply or explain”, including in relation to the necessary respect of the specific characteristics of banks, which must strictly comply with the provisions of the Consolidated Banking Act and applicable supervisory provisions.
- In this regard, it should be noted that the current chairman of the Remuneration Committee is not independent as defined by the Code of Corporate Governance, given that, in previous years, he has been a senior officer of a subsidiary of strategic importance, although he has no personal interest in or relations of any kind with other senior officers of the organisation. With reference to the motives for this decision, as described in detail in the Report on Corporate Governance and Ownership Structure, it should be noted that it has been deemed appropriate to deviate, on this specific point alone, from the recommendations of the Code of Corporate Governance in order to ensure full and effective continuity in the Bank’s operations. Nonetheless, it should be underscored that the remaining four members of the committee are independent as defined by the Code.
18. In conclusion, we would refer the reader back to the information provided above for details of the supervisory activities carried out by the Supervisory Board. We can also confirm that no omissions, reprehensible actions or irregularities requiring mention to Shareholders emerged, other than as reported under points 5 and 6 above.
- For a full description of the litigation and inspections involving the Group during the year, see the Management Report for the 2015 Consolidated Financial Statements.
- Furthermore, the Supervisory Board did not use its powers to convene a Shareholders' Meeting or a meeting of the Management Board.

* * *

Finally, the Supervisory Board informs the Shareholders’ Meeting that in a meeting held on 8th March 2016, having verified that they complied with the provisions of the law and having taken note of the documentation provided, it has approved the following resolutions:

- the consolidated financial statements and the separate financial statements as at and for the year ended 31st December 2015 of Unione di Banche Italiane Spa, composed of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements;
- the proposal for the allocation of profit;
- the proposal to the Shareholders’ Meeting to distribute a dividend of €0.11 on each of the ordinary shares outstanding, excluding treasury shares held.

8th March 2016

The Supervisory Board