

UBI BANCA SPA

**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 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 2016.

In the foreword, the report provides both a summary of the composition of the Supervisory Board and all activities arising from the renewal of the board as approved at the Shareholders' Meeting of 2nd April 2016 held to verify possession of the requirements established by law, by supervisory regulations, and by the articles of association and a summary description of certain aspects that characterised 2016, and in particular:

- the specific capital requirements called for by the European Central Bank
- the transformation of UBI Banca from a joint stock co-operative company into an ordinary joint stock company: conclusion of the procedure for the exercise of the right of withdrawal
- the 2019-2020 business plan and the Single Bank project
- the acquisition of the Target Bridge Institutions
- the remuneration and incentive policies.

We then provide information that specifically concerns the supervisory activities carried out in 2016 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.

Firstly, 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 main 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 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 2016 Annual Report - provides detailed information on the two-tier system of corporate governance adopted.

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The Supervisory Board appointed by a Shareholders' Meeting on 2nd April 2016 is composed of 15 members (compared with 23 previously), 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. Following the resignation of a member of the board on 22nd December 2016 for personal reasons, the shareholders today are called upon to appoint a new member of the board to replace the one who is outgoing. See the specific report for more information.

In February 2016, in view of the appointment of a new Supervisory Board, the outgoing Supervisory Board had prepared a report on the qualitative and quantitative composition of

the board itself which was deemed to be best. The results of this analysis have been provided to the shareholders. The document was prepared in a manner that took account of the outcome of the board evaluation conducted at the end of the term.

Following its appointment by the Shareholders' Meeting, in April 2016 the Supervisory Board proceeded - in the context of the process to verify the necessary qualities of integrity, professionalism and independence required by the legislation in force - to verify that the actual composition resulting from the appointment process complies with the quantitative and qualitative composition identified in the above report. In this regard the Supervisory Board, following a detailed analysis of the professional skills of its various members, evaluated and verified that the composition of the Supervisory Board complies with the qualitative and quantitative composition deemed to be best for the achievement of the objective of performing the functions assigned to it in a correct manner.

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

In this context, in compliance with, amongst other things, the Bank of Italy regulations concerning corporate governance, an analysis of the lending relationships between each board member and the Group was carried out when independence requirements were verified. In this regard it should be noted that all the members of the Supervisory Board - on the basis of a declaration made by each of them and the information available to the Bank - satisfy the requirements of independence pursuant to Art. 148, paragraph 3 of the Consolidated Finance Act and the Bank of Italy supervisory regulations concerning corporate governance in force (Circular No 285 of 17th December 2013).

With regard to the requirements set by the Corporate Governance Code and also in consideration of the specific nature of the Supervisory Board under a two tier governance system, 11 members of the Supervisory Board out of 15 were found to be independent with regard also to the requirements of the aforementioned code.

With regard to the application principles and criteria as defined by Art. 3.C.1 of the Corporate Governance Code, board members Andrea Moltrasio, Mario Cera, Pietro Gussalli Beretta, and Sergio Pivato do not qualify as independent given previous roles held within the UBI Banca Group.

The outcome of the verification of independence has been disclosed to the market in a press release.

It should also be noted that, following a European Central Bank request for clarification, a more in-depth verification was conducted for one of the members, and the independence of that member was confirmed.

The Board has conducted a self-assessment of the size, composition and functioning of both the Board and its various committees with the advisory support of the firm Korn Ferry after verifying the independence of the advisor concerned.

The self-assessment—conducted with the aid of questionnaires and individual interviews by the advisor—was conducted on the following factors: the quality and completeness of skills, experience and expertise within the Board; the degree of effectiveness of the functioning of the Board and each of the internal committees; the quality of meetings; the quality and promptness of reporting and presentations to the Board; the effectiveness and efficiency of decision-making processes within the Board; the clarity, agreement and satisfaction with regard to policies, performance and risk objectives, and the results achieved; relations with the Management Board and Senior Management.

The overall functioning of the Board and its committees, in terms of organization, clarity, and effectiveness of the presentations and the promptness of information, is a determinant factor in the proper performance of the duties of the Supervisory Board and its internal committees. The interrelationships among the members of the Board and with management has proven to be both efficient and effective, and the contribution of the individual committees to the Board's activities has been positive.

The Board has already taken steps to implement improvements in relation to the points that emerged from the analysis.

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.

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

During its first meeting on 14th April 2016, the Supervisory Board both appointed the two deputy chairmen and the members of the various committees and appointed the new Management Board composed of seven members in accordance with the Articles of Association. The members of the board include four members of senior management.

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The specific capital requirements called for by the European Central Bank

On 12th December 2016, upon completion of the Supervisory Review and Evaluation Process (SREP), UBI Banca received a communication from the ECB specifying the capital requirements to be met for 2017:

- a new minimum phased-in CET1 requirement of 7.5%, as compared to the 9.25% set for 2016;
- a Total SREP Capital Requirement of at least 9.75%.

Adding the 1.25% Capital Conservation Buffer, we have a minimum Supervisory Total Capital Ratio of 11%.

As at 31st December 2016, having posted a phased-in CET1 ratio of 11.48% and a phased-in Total Capital Ratio of 14.10%, the UBI Group is positioned well above the minimum requirements.

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Transformation of UBI Banca from a joint stock co-operative company into an ordinary joint stock company: conclusion of the procedure for the exercise of the right of withdrawal

The transformation of UBI Banca into an ordinary joint stock company which took effect on 12th October 2015 when a resolution of the Extraordinary General Meeting of the Shareholders held on 10th October was filed with the Company Registrar of Bergamo meant that those UBI Banca shareholders who did not approve the resolution and other holders of UBI Banca shares were able to exercise their right of withdrawal within the time limits and according to the procedures laid down by article 2437 *bis* of the Italian Civil Code and therefore before and not later than 27th October 2015.

At the end of the period set, the right of withdrawal was found to have been validly exercised on 35,409,477 shares, representing 3.927% of the paid-up and subscribed share capital of UBI Banca as at the date of the resolution (for a total amount, calculated on the basis of the liquidation value of €7.2880 per share, of €258,064,268.38);

at its meeting of 10th February 2016, the Management Board verified, on the basis of the criterion specified in the Illustrative Report to the Shareholders published on 9th September 2015, that the new fully loaded CET1 threshold to be observed when redeeming the shares subject to withdrawal stood at 11.62%, compared with a fully loaded CET1 ratio calculated as at 31st December 2015 of 11.64%. Therefore a proposal was submitted by the Management Board to the Supervisory Board, which voted in favour of it on 18th February 2016 after prior consultation with the Internal Control committee, to redeem 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 withdrawn shares) for a total consideration of €13,171,019.36 (calculated on the basis of the liquidation price of €7.2880 per share).

In accordance with articles 77 and 78 of Regulation (EU) No. 575/2013 on 31st March 2016 the European Central Bank issued an authorisation to proceed to the redemption of the 1,807,220 UBI Banca shares subject to the right of withdrawal.

The redemption was settled on 8th April 2016 with the same value date through Monte Titoli Spa and the respective depository intermediaries: on that same date the shares that were not redeemed were freed from the unavailability restriction existing on them.

The redeemed shares became part of UBI Banca's treasury share portfolio (for consideration of €13.17 million) and the relative purchase was carried out by drawing on available reserves.

When the redemption settlement took place, the 1,807,220 shares were recognised at the official market price of €3.0215, which led to the recognition of a negative reserve of €7.7 million in equity.

It should be noted that UBI Banca received a number of summonses from certain Bank shareholders (mainly funds) containing requests for compensation in relation to the redemption amount on withdrawn shares. Given that the position taken by the Bank in relation to the redemption of the shares of withdrawn shareholders is solid based, in part, on the opinion of legal counsel, the Bank has requested that the court reject the complaint submitted.

In conjunction with an appeal against the ruling of the court that had rejected the appeals filed by a number of consumer associations and members of a number of mutual banks, the Council of State subsequently deemed that certain doubts as to the constitutionality of the aforementioned legislation were not manifestly unfounded, in particular for the following reasons: (1) assumptions of need and urgency justifying the issuance of the law decree; (2) the possibility that the redemption for the withdrawing shareholders could be limited/excluded and not merely deferred in time with payment of interest; and (3) the assignment of regulatory power to the Bank of Italy as an exemption from the law. It is not known when the ruling of the Constitutional Court will be issued; however, we have taken note of a ruling of the Constitutional Court of 21st December 2016 (issued in relation to a different case filed by the Lombardy Region) rejecting the first motivating factor. Studies are being conducted in order to determine what may be the potential financial impact on UBI Banca of the decisions of the Council of State and of the Constitutional Court, while also taking account of applicable EU regulations.

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The 2019-2020 business plan and the Single Bank project

On 27th June 2016 the Supervisory Board of UBI Banca approved the Group's Business Plan proposed by the Management Board containing strategic guidelines and operational, cash-flow and capital objectives for the period 2016-2019/2020. On that same day the Business Plan was presented to the financial community.

The new Business Plan calls for the adoption of a Single Bank operating structure, an increase in the coverage of non-performing loans and consequent reabsorption of the shortfall, and development towards a distribution model in line with a revisitation of the commercial model based on the fundamental, post-crisis needs of private customers and on a greater ability to recognise changes in the various industry segments and value chains in which businesses operate. On that same day the Business Plan was presented to the financial community.

On 14th October 2016, based on the authorisation the Bank of Italy issued on 30th August 2016, UBI Banca held an extraordinary Shareholders' Meeting at which the plan for the merger of Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare Commercio e Industria, Banca Regionale Europea, Banca Popolare di Ancona, Banca Carime, and Banca di Valle Camonica into UBI Banca was approved with the favourable vote of 91.8% of the capital in attendance.

On 21st November 2016, the merger of Banca di Banca Popolare Commercio e Industria and Banca Regionale Europea into UBI Banca went into effect, whereas the mergers of Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare di Ancona, Banca Carime, and Banca di Valle Camonica went into effect on 20th February 2017.

In support of the project as a whole, share capital was increased by a total of €188,723,055, which brought total capital from €2,254,371,430 (with 901,748,572 shares) to €2,443,094,485 (with 977,237,794 shares), and Art. 5 of the UBI Banca Articles of Association was amended as a result.

As a result of the merger, Article nos. 1, 27, 28, 32, 33, 34, 35, 38, 40, 42, 43 and 44 of the UBI Banca Articles of Association were also amended, and all transitory regulations contained therein were repealed in accordance with the terms described in the related merger project pursuant to Art. 2501-*ter* of the Italian civil code.

Parallel to the implementation of the Single Bank project, the project to evolve UBI Banca's organisation was also launched.

The new organisational structure of the Parent was based on the following guidelines, which call for the progressive implementation of the target model:

- the simplification of decision-making units and processes, as a consequence (i) of a revision of the structure of geographical coverage (5 Geographical Macroareas and 36 local departments, as a development from the 7 network banks and the already existing 45 District Management Areas), (ii) rationalisation of local support units and (iii) the simplification of UBI Banca central units;
- the creation of focused and targeted business units in terms of accountability, for separate customer segments (e.g. "corporate" and "top private banking"), which came to sit alongside the new macro "wealth/welfare" unit, in operation since 1st August 2016 with the mission of creating a product and service centre in the asset management, insurance and social and health service sectors, as well as the reinforcement of specific business management areas (remote channels, global transaction banking, UBI Comunità);
- stronger credit management, as a consequence of an integrated vision of the loan grant process and this is achieved through a simplification of the loan approval process and centralised management of problem and bad loans;
- stronger control functions.

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The acquisition of Target Bridge Institutions

Over the last few months of 2016, UBI Banca conducted due diligence for the four bridge institutions (Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio, Nuova Cassa di Risparmio di Chieti, and Nuova Cassa di Risparmio di Ferrara) established following the work of the Resolution Fund in November 2015.

For three of these institutions, i.e. Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio, and Nuova Cassa di Risparmio di Chieti (the "Target Bridge Institutions"), an aggregation plan with an interesting industrial, financial and economic rationale was defined. Based on this plan, in a meeting of 11th January 2017, the Supervisory Board, upon recommendation of the Management Board, approved the submission of a bid to the Resolution Fund for the acquisition of 100% of the capital of the Target Bridge Institutions (i) subject to the without-recourse sale, to be completed prior to the closing, of roughly 2.2 billion in gross non-performing loans (of which around 1.7 billion in bad debt and 0.5 billion in unlikely-to-pay debt) and (ii) subordinate to verification of certain conditions and with a contractual limitation to risks incurred.

On 18th January 2017, the parties signed an agreement for the sale of the Target Bridge Institutions to UBI Banca. The conclusion of the transaction is indicatively expected for before the end of the first half of 2017, subject to the satisfaction of the suspensive conditions and obtaining the required authorisations.

In order to maintain the fully loaded CET1 ratio of the combined entity (i.e. UBI Banca in its new configuration following the acquisition of the Target Bridge Institutions) above 11%, which is in line with the current level set autonomously by management as the initial target of the UBI Business Plan approved in 2016, and to do so in 2017, UBI Banca has approved a capital increase of up to €400 million intended to handle, in particular, the temporary need resulting from negative goodwill not being fully eligible at the time of the acquisition.

The obligation to reach the formal acquisition of the Target Bridge Institutions is necessarily subject to the occurrence of determined suspensive events.

More specifically, in addition to the normal necessary conditions for similar transactions (authorisations from the Bank of Italy/European Central Bank, the Institute for the Supervision of Insurance and the Italian Competition Authority), certain specific necessary conditions have been set which include:

- (i) implementation and completion of the recapitalisation of the Target Bridge Institutions by the Seller for an estimated amount of €450 million;
- (ii) completion of the disposal of the non-performing loans not included in the perimeter of the acquisition (a total of approximately €2.2 billion gross, as reported above);
- (iii) approval by a shareholders' meeting of UBI Banca of the increase in the share capital for a maximum of €400 million.

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Remuneration and incentives policies

In our meeting of 7th March 2017, 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 2017 and related update to the scope of application of “identified staff”.

The 2017 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 (“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.

The remuneration and incentives policies for the UBI Group for 2017, as described in Section 1 of the Remuneration Report, call for the introduction of a long-term incentives system with goals and duration consistent with and supporting the Business Plan. Implementation of the long-term incentives system assumes the voluntary co-investment in UBI shares by the participating managers with the goal of increasing the alignment of the interests of management with those of the shareholders over the long-term and of enhancing the variable component of performance-based remuneration. The scheme concerns all Identified Staff on the basis of the key position occupied in policy terms over the governance of the Group and their impact on the main business areas.

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 shareholder approval:

- the following schemes based on financial instruments: the 2017 short-term incentive scheme; the 2017-2019/2020 long-term incentive scheme; the 2017 productivity bonus (known as the “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 Investments 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.

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 2016 as required by prevailing supervisory provisions. This audit has shown that operating procedures and practices are, on the whole, in line with the approved 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. Within this generally positive landscape, areas for further enhancement have been identified and targeted.

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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 2016 in the order of presentation recommended in that Consob communication.

1. The Board, by way of members of the Internal Control Committee both jointly and separately, has attended all meetings of the Management Board.

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 significance with respect to operations and capital 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 Shareholder 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, approval of the new Business Plan and related Single Bank project, and the acquisition of the Target Bridge Institutions, see the Management Report accompanying the 2016 consolidated financial statements.

With regard to the other projects connected with implementation of the Business Plan, the main activities that have begun as of the date of this Report concern:

- the merger of Banca di Banca Popolare Commercio e Industria and Banca Regionale Europea into UBI Banca, effective as of 21st November 2016, and of Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare di Ancona, Banca Carime, and Banca di Valle Camonica, effective as of 20th February 2017.
- in the commercial strategy field, the rationalisation of the product catalogue in relation, amongst other things, to the implementation of the Single Bank Project and the development of new innovative products (e.g. the digitalisation of loans to individuals);
- introduction of the new position specialised in managing problem loans and which reports directly to the Chief Lending Officer;
- the definition of an IT plan which contains details in strategic and operational terms of new technology initiatives contained in the Business Plan. More specifically the implementation of the project to create a “Big Data & Advanced Analytics” platform to support commercial strategies is at an advanced stage of implementation;
- implementation, within the scope of Strategy & Control, of the new commercial budget procedure based on which budget models for 2017 have been defined;
- the creation, within the scope of Wealth & Welfare, of the Healthcare Fund to support the upcoming launch of commercialisation of the offering of welfare products to Group customers.

Of note among the significant events for the 2016 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.

In particular, within the scope of the process of company rationalisation, the following integrations into the Parent (both of which authorised by the Supervisory Authority on 10th June) were carried out, along with the related merger projects, which followed the facilitated format allowed under Article 2505 of the Italian civil code for wholly-owned subsidiaries:

- UBI Fiduciaria: on 30th April 2015 the company sold its “static” fiduciary operations carried out under law No. 1966 of 23rd November 1939 to Unione Fiduciaria. Following that disposal, operations focused mainly on activities to facilitate and ensure the proper transfer of the business to the purchaser. Since

those activities have now ended and there is no intention to use the company for other purposes, it was decided to merge the company into the Parent. The operation, approved by the Supervisory Board on 5th August, went into effect on 28th September 2016;

- Società Bresciana Immobiliare Mobiliare (SBIM) S.p.A: continuing with the reorganisation of the real estate segment following the merger of SOLIMM into SBIM (effective as of 23rd October 2015), the real-estate firm SBIM was merged into the Parent. The company's main purpose was to manage the premises of UBI Banca's central management headquarters in Brescia (and it was also the owner of land, no longer of core operating interest, which is consequently to be sold). With this merger, the surviving entity took over direct management of the property, thereby nullifying the related lease agreement and consequent intragroup transactions. The merger, approved by the Supervisory Board on 5th August, was completed on 28th September 2016.

On 28th April 2016, UBI Banca announced that it had signed an agreement for the sale of 100% of the share capital of UBI Banca International Sa, located in Luxembourg, to EFG International AG, an international company located in Zurich that specialises in asset management and private banking services.

The operation forms part of a programme to progressively focus on UBI Banca's core banking business in order to concentrate available resources on the further development of high value-added services for the Group.

As part of possible strategies to realise the value of collateral backing bad loan positions, on 24th May 2016 the Management Board, on the basis of a favourable assessment by the Supervisory Board given on 13th May 2016, approved the formation of a Re.O.Co. (Real Estate Owned Company) named "Kedomus Srl" with headquarters in Brescia and share capital of €300 thousand fully owned by UBI Banca.

This property company is specialised in activities to repossess property collateral with a mission to preserve the value of residential properties mortgaged to back the bad loan positions (loans granted to private individuals by Group banks) by taking part directly in judicial auctions in order to support the price, stimulating the interest of third parties and consequently accelerating the credit recovery process. Kedomus Srl was formed on 15th June 2016, and subsequently registered with the Company Registrar on 21st June 2016.

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 the aforementioned measures, the "Regulations for UBI Banca related-party transactions" and "Regulations for operations with parties connected to the UBI Banca Group" were issued. It should be noted that both regulations, published on the Bank's website in the section "Corporate Governance", were updated in January 2017 to take account of the changes to the organisation, of past

experience, and of the desire to adopt more prudent measures for managing conflicts of interest.

In accordance with the provisions currently in force, a Related Parties Committee was established internal to the Supervisory Board, 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 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 2016, the UBI Banca Group always remained within the limits specified under supervisory regulations.

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, as already reported, in a meeting held on 27th June 2016 the Supervisory Board approved the 2019/2020 Business Plan as proposed by the Management Board and the draft terms of the merger (the text prepared by the Management Board) by acquisition into UBI Banca pursuant to Art. 2501 *ter* of the Italian Civil Code of the Group’s network banks.

On a prudent basis and interpreting the substance, which is of particular importance given the significance of the merger, UBI Banca has considered the Cassa di Risparmio di Cuneo Foundation and the Banca del Monte di Lombardia Foundation,

which are members of Banca Regionale Europea and Banca Popolare Commercio e Industria, respectively, to be related parties of UBI Banca, as they are holders of significant interest in the aforementioned network banks involved in the operation. In light of this, the provisions concerning transactions with related parties of greater importance as established by the “Regulations for UBI Banca related-party transactions” adopted in accordance with the aforementioned Consob Regulation have been applied to the operation.

On the basis of those regulations and within the scope of its remit, in view of the unifying nature of the operation, which, amongst other things, is designed to allow the UBI Banca Group to achieve significant synergies as indicated by management, the Related and Connected Parties Committee of UBI Banca has issued an opinion (i) in favour of the Operation and, in particular, with regard to UBI Banca’s interest in implementing the merger by acquisition of BRE and BPCI and to the purchase of the privileged shares and saving shares from the Fondazione Cassa di Risparmio di Cuneo under the terms and conditions laid down and also (ii) on the substantial fairness and advantageous nature of those conditions. That opinion was issued by the Committee also in accordance with supervisory provisions concerning related-party transactions pursuant to Bank of Italy Circular No. 263 of 27th December 2006.

4. On 30th April 2011, the Shareholders, 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, either directly or through internal committees, issued its reports on the 2016 separate and consolidated financial statements on 2nd March 2017. 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 2016, the Supervisory Board received no expressly qualified reports from the shareholders such as those envisaged under Article 2408 of the Italian civil code. The Supervisory Board has received no claims or other notifications directly. The companies of the Group have received claims 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 2016, 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 companies of the Group. No significant omissions or other irregularities in the overall process of claims management have emerged.

With regard to the investigations launched in 2014 by the Public Prosecutor’s Office of Bergamo, on 17th November 2016 the Public Prosecutor issued a notice of completion of the preliminary investigation and notice of guarantee and right to defence (pursuant to Art. nos. 369, 369-bis, and 415 of the code of criminal procedures concerning current employees of the Bank concerning various instances of hindering the work of the supervisory authorities (Art. 2638 of the Italian civil code and Art. 170-bis of the Consolidated Finance Act) and of exerting undue influence in meetings of shareholders (Art. 2636 of the civil code) in relation to the meeting of April 2013. Furthermore, other parties have been accused of fraud (Art. 640 of the penal code) and of failure to comply with provisions concerning the obligations of bank employees (Art. 136 of the Consolidated Banking Act), in addition to certain fiscal infractions. On the whole, the measure was issued against 39 individuals, including 28 directors and *pro tem* senior managers of the UBI Banca Group and employees of UBI Leasing.

At the same time, the Public Prosecutor issued a notice to UBI Banca concerning completion of preliminary investigations pointing to potential “administrative” liability in accordance with Italian Legislative Decree no. 231/2001 in relation to the crime of hindering the work of the supervisory authorities (Art. 2638 of the Italian civil code) and of exerting undue influence in meetings of shareholders (Art. 2636 of the civil code).

With regard to the members of the Supervisory Board currently in office, the notice of completion of the investigation was submitted to the Board by the parties concerned. Having examined the matter without the presence of those concerned, having not found in the notice either new information or new crimes that could have a negative impact on the relationship of trust between the members of the board involved in the aforementioned measure and the UBI Group and deeming, therefore, that there is no reason to doubt the decision-making autonomy or allocative efficiency of the Banking Group, the Supervisory Board has decided not to take any steps at this time. A similar decision was made by the Management Board for the same reasons concerning the members of the board involved in the matter. In any event, the Supervisory Authority has been duly notified.

A report was made in an Ordinary General Meeting of 2nd April 2016 that, after the end of the year, and also in relation to articles in the press, the Supervisory Board and the Internal Control Committee of UBI Banca had examined questions concerning the position of the then Chairman of the Management Board and concerning in particular relations held with the Group by a company in which the latter held stakes. While formal violations did exist, on the basis of checks carried out and of the information available, it was concluded that no illicit activities had taken place, and also that no economic damage to the Bank had occurred. No shortcomings or insufficiencies were found in the procedures and controls of the Bank itself.

These formal violations were reported to the Bank of Italy in accordance with Art. 52, paragraph 1, of Italian Legislative Decree 385/93 (the Consolidated Banking Act) and to Consob in accordance with Art. 149, paragraph 3, of Italian Legislative Decree 58/98 (the Consolidated Finance Act) on 13th April 2016, communications which were then supplemented on 8th August 2016 for formal violations of the same sort.

7. The fees shown below were paid to the independent statutory auditors Deloitte & Touche Spa for the financial year 2016, 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 of the accounts	1,637	1,375
Certification services	1,399	27
Other services	415	-
<i>Due diligence carried out within the scope of the sale of Nuova Banca Marche Spa, Nuova Banca Etruria Spa, and Nuova Cassa di Risparmio di Chieti Spa.</i>	410	-
<i>Other</i>	5	-
Total	3,451	1,402

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 the financial year 2016, 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 of the accounts	-	356
Certification services	-	-
Other services	820	529
<i>Methodological support in the remote rating system for financial advisors.</i>	-	497
<i>Support in updating the internal rating system for measuring credit risk</i>	493	-
<i>Methodological support with the Recovery & Resolution Plan Directive</i>	319	-
<i>Other</i>	8	32
Total	820	885

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. The issue is being constantly monitored by the Internal Control Committee within the scope of the committee's responsibilities of overseeing the independence of auditors, particularly as concerns the performance of non-auditing services.

9. The Supervisory Board, acting on a recommendation of the Appointments Committee, 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 "Identified Staff" of a subsidiary with the Group's remuneration policies.
10. The Supervisory Board met 25 times in 2016. 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 instructions, 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 Risks Committee. 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.

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 in the first possible meeting. The Report on Corporate Governance and Ownership Structure may be consulted for details of the issues addressed by these Committees.

In 2016, the Appointments Committee met 8 times; the Remuneration Committee, 15 times; the Internal Control Committee, 26 times; the Risks Committee, 14 times, and the Related Parties Committee met 14 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 36 times in 2016.

11. Within the scope of its responsibilities, the Supervisory Board acquired information on and oversaw the adequacy of the administrative structure of the Bank and compliance with the law and proper principles of management through channels which included the Internal Control Committee and the Risks 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 the 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:
 - 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.
 - beginning on 30th June 2016, audits were conducted of the internal organisational configuration of the Chief Financial Officer and Chief Risk Officer, and the Compliance Area was further developed. The goal of the audit of the Compliance Area, in line with the new Compliance Regulation, is to:
 - optimise, in terms of standardisation of scope, the activities of the area in order to improve management of the risk of non-compliance and related reporting to senior management;
 - enhance the governance of specific areas and support units in accordance with the new compliance model;
 - structure maintenance over time of the approaches to assessing non-compliance risk, including the ICT component;
 - rationalise coordination with the second and third-level control functions.
 - also as of 30th June 2016, the Chief Risk Officer and the Compliance Area of UBI Banca now report to the body with the management function, and the model is to then be rolled out to subsidiaries in order to standardise organisation throughout the Group.

The Supervisory Board, by way of the Internal Control Committee, has also monitored the internal audits concerning the function's structure, workforce, and operating mechanisms. The trends of long-term planning and related factors for 2017 in terms of allocating effort throughout the Group by type of activity are in line with the Group's control needs.

13. The assessment of the adequacy of the system of internal controls is conducted annually 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. 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.

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 (*Vigilanza prudenziale delle Banche* – 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.

Within this context, in observance of the regulatory requirements established by way of Circular 285 of the Bank of Italy concerning supervisory measures for banks (Ch. 4, annex A, "*Documenti aziendali per la gestione e il controllo del sistema informativo*"), the documents concerning governance of the companies information system managed by UBI Sistema e Servizi were approved.

Risk management is well governed on the whole by way of the definition and periodic monitoring of the RAF indicators.

In addition, as established by prevailing law and supervisory measures, the Supervisory Board has approved a recovery plan for the Group, which envisages the preventive definition of measures and procedures aimed at restoring the Group's financial position in the event of any significant deterioration.

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 provided by the heads of the various 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 2016 in support of the Supervisory Committee 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;
- issues related to the system of powers, the definition and assignment of responsibilities, the management of resources (particularly concerning the remuneration and incentives systems), and the management of conflicts of interest, including verification of the limits of accumulation of positions, the interlocking prohibition, and the "fit & proper" verification efforts required by the Supervisory Authority;
- 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. Within this context, implementation of the Single Bank Project was the subject of specific attention and in relation to which the merger of the seven network banks into UBI Banca has begun and is expected to be completed in the first quarter of 2017. The process is being monitored constantly by the Internal Control Committee;
- the flow of information, with a particular emphasis on reporting by the various control functions, including in relation to coordinating the control functions of the various companies;
- issues related to the information system, with a particular emphasis on the controls of the Chief Information Officer concerning the adequacy of the Group's Business Continuity Plan and development of the IT Governance Development Project;
- assessment of the adequacy of the organisational structure and accounting systems of the Bank, taking into account information provided by the independent auditors and reports made by the Chief Financial Officer;
- issues relating to money laundering, transparency, usury, and anatocism;
- transactions with related and connected parties, while also verifying the transposition of legislative changes into company regulations;
- activities to prepare for the UBI Banca Shareholders' Meeting;
- the Group whistleblowing policies and the development of activities related to managing employee reports by way of the established procedures;

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

- oversight of adequacy of the system of risk management and control and of the process of measuring internal capital based on legal and regulatory requirements as concerns both the obligations of periodic reporting to the Bank of Italy and the ICAAP and ILAAP processes;
- evaluation of the activities plan of the various control functions and of their regular reports on the activities carried out (Internal Audit, Corporate Anti-Money Laundering Officer, Compliance, Risk Management, and Complaints), including those that concern the assessment of the internal control and risk management systems;
- guidance and coordination provided by the Parent, with a particular emphasis on subsidiaries, including by way of specific evaluations of the subsidiaries involved in particular operations or other significant issues;
- the provision of investment services;
- 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;
- reporting, both periodic and specific on the results of analyses conducted by the Internal Audit Function;
- relations with Supervisory Authorities, with specific regard to requests for self-analysis concerning specific operations and inspections carried out by the European Central Bank and the Bank of Italy at the Bank and at subsidiaries;
- an examination of the underlying causes of the main damaging events in the Group;
- the evolution of the Internal Audit function in terms of organisation, personnel involved in ongoing projects concerning the operating mechanisms of the function, including so as to monitor autonomy, adequacy, efficiency and effectiveness.

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 Risks Committee, 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 2016, was that no shortcomings in the system of internal accounting controls were found. Upon completion of its activities, the independent auditors issued a report that contained no observations of note.

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 2016.

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 meetings and exchanges of information that occurred through the Risks Committee and Internal Control Committee with the independent statutory auditors, Deloitte & Touche S.p.A., pursuant to paragraphs 3 and 5 of Art. 150 of the Consolidated Finance Act. The Risks Committee and the Internal Control Committee also held meetings between the end of 2016 and the first months of 2017 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 2016.
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, in accordance with Art 41.6 of the Articles of Association, the Chairman and the Senior Deputy Chairman of the Supervisory Board are members of the Appointments Committee by rights. The former serves as chairman of the committee and neither qualify as independent as defined by Art. 3 of the Corporate Governance Code.

Furthermore, in consideration of his professional qualities, another member was selected, *dott.* Pietro Gussalli Beretta, who also does not qualify as independent within the meaning of Art. 3 of the Corporate Governance Code (having filled senior management positions in the UBI Banca Group over the last three years).

Therefore, due to statutory restrictions and so as to benefit from the professional experience of the appointed members of the Appointments Committee, the Supervisory Board has deemed it to be justified to deviate, on this specific point alone, from the indications of Art. 3 of the Corporate Governance Code of Borsa Italiana, which call for a majority of the members of the Appointments Committee to be independent. The remaining members of the Committee are in possession of the requirements of independence as required by the Corporate Governance 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 disputes and audits involving the Group during the year, see the Management Report for the 2016. Consolidated Financial Statements.

Furthermore, the Supervisory Board did not use its powers to convene a Shareholders' Meeting or a meeting of the Management Board.

* * *

The UBI Banca Group closed 2016 with a net loss of €830.2 million (vs. income of €116.8 million for the previous year) due both to non-recurring factors of an institutional nature (i.e. the writedown of the Atlante Fund, additional contributions to the Resolution Fund, and adjustments to the voluntary mechanism of the IDPF for CariCesena) and, above all, to total costs (as enabling factors) aimed at implementing the 2019-2020 Business Plan.

During the second quarter, costs were recognised for redundancy incentives, impairment losses on the trademarks of the network banks in anticipation of creating the Single Bank, optimisation of information systems, and increasing the coverage for non-performing loans for a total of roughly €840 million (net of tax effects and minority interests)—including in that amount only the loan provisions (€851 million gross) that led to a corresponding absorption of the shortfall as at 30th June.

Net of the aforementioned provision of adjustments €851 million, which was recognised in the second quarter in line with the forecasts of the 2019-2020 Business Plan, net loan provisions were lower by 11%, which incorporates the early effects of the improved risk profile of the loan portfolio, which saw the flow of loans from performing to non-performing nearly cut in half.

On 9th February 2017, the Management Board approved the draft separate and consolidated financial statements for the year ended 31st December 2016, which, together with the related Management Report, were then provided to the Supervisory Board.

In this regard, the Supervisory Board can report that:

- we verified, with the support of the competent internal committees and the information acquired from Deloitte & Touche S.p.A., observance of applicable laws and regulations concerning the formation, configuration and layout of these statements, which contain the information required by the competent Supervisory Authorities;

- we ascertained that the Management Reports for 2016, which accompany the draft financial statements, comply with applicable laws and regulations and provide a thorough illustration of the operating performance and standing of the Bank and of all consolidated companies;
- we examined this documentation, which has been prepared in a clear manner and represents the financial performance and standing of the Bank and of the Group and describes the main risks and uncertainties to which the Bank and the Group are exposed;
- on 9th February 2017, the Managing Director and the Senior Accounting Officer issued their statements as required by Art. 154-*bis*, paragraph 5, of the Consolidated Finance Act;
- on 2nd March 2017, the independent auditors issued their report as required by Art. 19 of Italian Legislative Decree 39/2010 regarding any fundamental issues arising during the audit of the accounts, the annual confirmation of the independence of the auditors pursuant to Art. 17, paragraph 9, letter a), of said decree, and the audit report of the separate and consolidated financial statements for the year ended 31st December 2016, for which no significant issues were found.

Finally, the Supervisory Board informs the shareholders that in a meeting held on 7th March 2017, having verified that they complied with the provisions of the law and having taken note of the documentation provided, it has unanimously approved the following resolutions:

- the consolidated financial statements and the separate financial statements as at and for the year ended 31st December 2016 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 to cover the loss for the year by charging it to the share premium reserve in the amount of €493,425,486.00;
- the proposal to the Shareholders' Meeting to distribute a dividend of €0.11 on each of the ordinary shares outstanding, excluding treasury shares held.

7th March 2017

The Supervisory Board